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The Low Cost Production Imperative
and Foreign Direct Investment Decision
by Small and Medium Sized Enterprises

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Submitted in fulfilment of the requirements for the
degree of doctor of philosophy

University of Glasgow
Faculty of Law, Business, and Social
Sciences
School of Business and Management

Glasgow
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Dedication

To my family
to my mother
to my little boy (5 years)
in memory of my father
and
to my friends

Abstract

Global production shifts in the form of foreign direct investments are reshaping the economic map: one of the outcomes is today's global production system. The firms in focus are confronted with the effects of the reshaped economic map, especially with the differences in production conditions of nations. The new situation, which has emerged, is summarised by the term 'low cost production imperative'. Consequently, the purpose of this dissertation is to empirically explore the notion of the 'low cost production imperative'; and to investigate the implications and consequences of the low cost production imperative for internationalisation decision-making.

Scholars of academic studies summarise that fairly little is known about companies' foreign direct investment decision-making processes and the combination of the determinants with location-specific variables with the strategic motivation of the investing firm. It is assumed even more rarely, that investigations combine the knowledge based on which firms identify important location-specific variables under an enforcing strategic motive and then have to decide a location choice in a low cost operation area.

The research is carried out with the eventual aim of generating theory and producing insights into the strategic management practices of the firms in focus and their position in relation to uncertainty, predictability, and preparedness for the outcome of their decision-making related to the phenomenon. The methodological conduct of this inquiry is framed within the qualitative paradigm. The methodological contribution lies in the combination of applied methodologies and modus operandi so that a rich and holistic insight into the phenomenon will be achieved.

The research results show a rich variety in outcomes and details from the cases regarding their examination with the determinants important for a successful foreign direct investment. It is evident in all the cases that decision makers behave according to different rules than those assumed much of in the international business literature. Further, the phenomenon is identified as a serious outside force that causes firms to consider a decision to look abroad or more detailed, to look for efficiency in distant regions. This dissertation identifies details of mentioned aspects and calls for applications in future research in international business.

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On a personal note, my thanks to my family and to all my friends in this world.

Author's declaration

The attached material is submitted in partial fulfilment of the requirements for the Degree of Doctor of Philosophy in Management Research in the University of Glasgow, and accords with the University Regulations on plagiarism as detailed in the Programme Handbook and University Calendar.

I declare that this document embodies the results of my own work and that it has been composed by myself. Following normal academic conventions, I have made due acknowledgement of the work of others.

The thesis is less than 90,000 words in length, exclusive of tables, figures, bibliographies and appendices, and complies with the stipulations set out for the degree of Doctor of Philosophy by the University of Glasgow and the Faculty of Law, Business and Social Sciences.

Signed *Roland Kuepfer*

Date *July 2010*

Definitions

BLS	Bureau of Labour Statistics
BOD	Board of Directors
BOI	Board of Investments
CHF	Confoederatio Helvetica Franc
CAPS	Convertible Adjustable Preferred Stock
CCC	Chinese Compulsory Certifications
CEM	Contract Electronic Manufacturer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CM	Contract Manufacturer
CPN	Cross-border Production Network
C&I	Constellation & Investment modes
DCF	Discounted Cash Flow Method
DM	Deutsche Mark
EBIT	Earnings Before Interest and Taxes
EC	European Community
EEA	European Economic Area
EJV	Equity Joint Ventures
EMC	Electro Magnetic Compatibility
EMS	Electronic Manufacturing Services
ENSR	European Network for SME Research
EUR	European Monetary Unit
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTEM	Gigahertz Transverse Electro Magnetic
ICT / IT	Information (and Communication) Technologies
INV	International New Venture
IP	Intellectual Property
IPN	International Production Network
ISO/TS	International Organisation for Standardisation / Technical Specifications
ITAR	International Traffic in Arms Regulations

LMD	Local Matador and Discoverer
LME	London Metal Exchange
MIL-STD	Military Standards
MNE	Multi National Enterprise
mMNE	micro Multi National Enterprise
NAFTA	North American Free Trade Agreement
NIE	Newly Industrialised Economy
OBM	Own Brand Manufacturing
ODM	Original Design Manufacturing
OECD	Organisation for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
PC	Personal Computer
PDA	Personal Digital Assistant
PhD	Doctor of Philosophy
POC	Power Of Competition
POS	Power Of Stakeholders
PQ	Power Quality
P&L	Profit & Loss
RBV	Resource-Based View
RMB	Ren Min Bi
RoHS	Reduction of certain Hazardous Substances
R&D	Research & Development
SAR	(Hong Kong) Special Administration Region
SME	Small- and Medium-sized Enterprise
TNC	Trans National Corporation
ULC	Unit Labour Cost
UNCTAD	United Nations Conference on Trade and Development
US	United States
USA	United States of America
USD	United States Dollar
WEEE	Waste Electrical and Electronic Equipment
WFOE	Wholly Foreign Owned Enterprises
WLAN	Wireless Local Area Network
WFOE	Wholly Owned Foreign Enterprise

WTO World Trade Organisation

ZVEI Zentral Verband Elektrotechnik- und Elektronik Industrie

1. INTRODUCTION

1.1 Background to the research

With an increased globalisation of markets, with new efficient communication infrastructures, with reduction of transport costs, cross-border location decisions are a strategic option for many firms, independent of their size. The increasing cross-border interdependence and integration of production and markets for goods, services, and capital, is defined as economic globalisation (Benito, 2002).

Globalisation has influenced both the nature of the comparative, or location-specific, advantages of countries and the competitive, or ownership-specific advantages of firms (Narula and Dunning, 2000). Fundamental changes in political ideologies and economic systems among a large number of developing countries have led to a dramatic shift in the way their governments have changed to investment friendly attitudes. The latter is a source for different production conditions and, related to that, responsible for today's massive production shifts towards countries providing excellent conditions for production. Offshoring is a component of an increased internationalised economy, with greater mobility of capital and a different and a more dispersed organisation of production. Consequently, firms search for the most convenient locations, depending on their branch of activity and key market features, including, notably, the main drivers of competition. Therefore, this results in massive production shifts into these countries as currently exemplified by huge Asian low cost production workshops (Ernst and Ravenhill, 1999; Felker, 2003). Such kinds of Foreign Direct Incvestments (FDIs) have always played an important role in the development of the global economy.

In relation to Asia, FDIs provided a combination of resources much needed in developing countries, such as technology, capital, management, and marketing techniques. As a further consequence, most of the Asian countries have replaced their traditional inward-oriented import-substitution policies with the export-oriented development strategies (Tahir and Larimo, 2004). Nevertheless, not only Asian countries provide excellent production conditions, but also other world regions such as Eastern Europe, Mexico, or Latin America do as well (World Investment Report, 2002). Taggart's research (2001) on the meaning of globalisation finds countries liberalisation into global trading systems and participation in International Production Networks (IPNs) has the effect of increasing interdependencies of

national economies and business structures. Rugman and Verbeke (2004) state that globalisation, in the sense of increased economic interdependence among nations, is a poorly understood phenomenon. Ernst and Ravenhill (1999) remark that a widespread consensus exists that globalisation acts as a powerful equaliser, both among nations and among firms.

Prominent motives for FDI relate to market seeking and factor seeking (Dunning, 1979; Root, 1994). The traditional view, especially with MNEs, is that firms engaging in FDI act with competitive advantages as sellers in new markets and/or expect to reduce their costs of production, due to lower factor costs. Academic literature describes various stimuli and reasons for using FDI for international expansion. They can be listed as follows:

- Market exploitation and expansion
- Response to the actions of competitors
- Reduction of production costs
- Access to better sourcing conditions
- Access to unique local assets
- Government incentives
- Proximity to customers, following customers
- Contribution to global networks of global players
- Exploitation of unique assets
- Avoiding trade and tariff barriers

Dunning (1998) suggests grouping motives for FDI into four main categories: 1) market seeking, 2) resource seeking, 3) efficiency seeking, and 4) strategic asset seeking.

Firms decide for the strategic option FDI either for a single reason or for a combination of reasons. Dickens (2003) describes several shifts of entire industry segments, which include massive FDIs executed by firms. These global shifts are reshaping the economic map: one of the outcomes is today's global production system. The firms in focus are confronted with the effects of the reshaped economic map, especially with the differences in production conditions of nations. The author's own daily experience of the forces which influence the situation of these firms and the decision-making process, which they must consider, provided the stimulus for this dissertation. Some of the reasons, which are listed

above, can be grouped into two main domains which are the forces driving the firms. (The labelling is inspired by Porter's (1979) terminology describing the forces governing industrial competition).

The first domain, which is later labelled as the “Power Of Competition” (POC), can be summarised as follows:

- Response to the actions of competitors
- Reduction of production costs
- Access to better sourcing conditions

The second domain, which is labelled as the “Power Of Stakeholders” (POS), can be summarised as follows:

- Proximity to customers, following customers
- Contribution to global networks of global players

1.1.1 Efficiency-seeking

The focus in this dissertation is solely on category 3), means efficiency seeking (Dunning, 1998). With this aim, firms take advantage of favourable cost conditions in other locations, i.e. due to wage differentials, scale economies, energy prices, local incentives, access to raw materials, or other factors. Consequently, the sum of efficiency seeking in the internationalisation process of firms would seem to be in the execution phase and the cause of an increased global price competition.

It is necessary to discuss and to explore the differences in the definition of location theory and relocation theory for a better understanding of the phenomenon and its analysis and investigation. Relocation does not necessarily affect the whole firm: the process may only affect a functional part of the firm. Brouwer et al. (2004) say that location theory focuses on the optimal location choice that is determined by the attractive quality of a site for firm's location (pull factors). In contrast, relocation theory takes into account the push out of the present location due to various stimuli (push factors). The “new economic geography” explanatory models (Krugman, 1995; Fujita, et al. 1999) define “location

factors” to be the main forces driving firm relocation. A firm moves from the current location to a new one when the firm is no longer inside the spatial margins to profitability (push factors). This notion suggests an “optimal” behaviour of the firm in economic terms, under the assumption of rationality and perfect information. This is similar to the neo-classical location theory, that builds on the premise of the rationale of firms that maximise profit in choosing the right location (Brouwer et al., 2004). Nowadays, firms are complex organisations: they are unique in characteristics, resources, and behaviours (Barney, 1991). The latter specifically leads to a discussion about a firm’s or indeed an entrepreneur’s decision-making process in the following chapter.

1.1.2 Decision-making

Decision-making is a cognitive process described by Simon (1960), which is accompanied by information processing. The information that decision makers have at their disposal is mostly insufficient and incomplete. In the case of strategic processes, in particular, it corresponds to complex situations. Efficiency seeking is a complex managerial task, which often does not allow remaining in a neighbouring environment, because of similar cost structures. The option of a FDI belongs to the strategic processes in firms. The strategic component can be explained from its origin in the theory of MNEs. It is widely recognised that the theory of FDI (i.e. international production) is primarily about the transfer of nonfinancial and ownership-specific intangible assets, which need to appropriate and control the rate of use of its internalised advantages (Dunning and Rugman, 1985).

The decision-making process itself seems, to a large extent, to be a process unique to the firm. Salles (2006) remarks that decision-making processes in Small- and Medium-sized Enterprises (SMEs) are generally little formalised, even for relatively repetitive decisions on a tactical or operational level. In smaller companies, the decision-makers constantly face a variety of different situations where they are required to make decisions in different domains and with different implications for the outcome. Distinguishing between small/medium sized companies and big companies, she identifies elements which show that in the problem solving process big companies solve new problems in a relatively codified or in a pre-determined way. In SMEs, problem solving is mostly done as problems arise and in a tacit way. Salles (2006) confirms the same principles in cases where larger companies use well established procedures to co-ordinate themselves with the environment, while, in her opinion, this is less the case with SMEs.

The methodological concept in this dissertation will consider that in the field of decision support system design, the decision-maker does not know how to describe his decision-making process before making a decision. This is particularly true in the case of the decisions, which Simon (1960) qualifies as “ill-structured” or “semi-structured” mainly for tactical and strategic decisions. Recent internationalisation theory (Acedo and Jones, 2007) and also behavioural location theory (Brouwer et al., 2004) seek to understand actual behaviour and influence of entrepreneurs and focus on the decision-making process, that may lead to relocation and takes path dependencies and relocation costs into account. Larimo (1995) summarises that fairly little is known about companies’ FDI decision-making processes. Buckley et al. (2007) state location decisions for FDI have received relatively little attention in the literature. Mudambi and Navarra (2003) consider location choice short-listing to be a lacuna in the literature. Larimo (1995) in his investigations, he used, as a framework, the general model of the strategic decision-making process developed by Mintzberg et al. (1976). Reasons explained for the usage of the model are the model’s fit for behaviouralistic and unstructured approaches. The methodology used in this dissertation will rely more on a questionnaire and detailed empirical work rather than on an explanatory model. The cognitive nature of the entrepreneur’s decision-making process and the elements of the process which cannot be foreseen are also considered in the methodology. The outcome of the decision-making related to FDI is valued as important for the findings and therefore will be considered too. Strategic decision-making, such as FDI represents, is by nature related to an expected outcome. Implementation theorists (inter alia Goggin et al., 1990; Winter, 1990; Hasenfeld and Brock, 1991) consider that measuring the outcome is mandatory for a research conclusion.

1.1.3 Behavioural aspect

As an input requirement, the behavioural aspect in this dissertation is important. Accordingly, the behavioural location theory explores “internal” factors (e.g. age, size, location, and entrepreneur) which are important in the decision-making process of the firm, and which lead to a particular location. Behavioural location theories regard “the location of factories as a decision-making process” (Hayter, 1997). Both neo-classical and behavioural theories have been subject to considerable criticism because they consider the firm as an active decision-making agent in a static environment (Brouwer et al., 2004). It

should be remembered that the neo-classical theory defines the “optimal” behaviour of the firm in economic terms, under the assumption of rationality and perfect information.

According to the cause and effect principle, the dynamic environment influences the firms in various perspectives. The effect is emphasised for this dissertation, when the firm is no longer inside the spatial margins to profitability (push factors!), resulting from the pressure a globalised production system exerts on firms in regard of cost competitiveness. Both the internationalisation theories of SMEs and MNEs will be considered in this dissertation. Academic internationalisation theories have distinguished the activities of SMEs and MNEs: it would seem they diverge as until recently, they operate in largely separate realms, each in its own competitive space and with markedly different characteristics (Etemad and Wright, 1999). The view, in this dissertation, is that globalisation has begun to dismantle the barriers which divided MNEs and SMEs and, as a result, local markets have become integral parts of the global market and, therefore, the various aspects of FDI tend to apply to both types of firms.

1.1.4 Influence on SMEs

Besides the macroeconomic effects, these changes have a significant impact on the business realities, structures, competencies and behaviours of enterprises, which have to participate in them to stay cost competitive. Value disciplines have to be fulfilled, ideally with combinations of product leadership, operational excellence, and customer intimacy (Treacy and Wiersema, 1995). Winch and McDonald (1999) confirm that the described global competitive forces have begun to impact more and more on small enterprises. SMEs find themselves more limited in the possible approaches. Undergoing fundamental transitions may pose a particular challenge to the small and medium enterprise. There is a consensus that the pace of change has increased significantly in the recent past as globalisation, new organisational philosophies and structures, participation in production networks, technological developments and Information and Communication Technologies (ICT) developments combine. There is a challenge in managing change with limited managerial skills: a similar challenge is managing the enterprise after change has taken place. Zucchella (2001, p.49) found that, in recent literature, there is increasing discussion of the control of labour costs as one of today’s needs in production. This leads to the growing spread of product de-localisation. Brown and Bell (2001, p.10) in their analysis of

industrial clusters and small firm internationalisation state: “Small firms must recognise and respond to an increasingly competitive global market place. SMEs must become internationally competitive to survive due to the fact that domestic markets are too limited and second that small sized companies may have the advantage because of their flexibility quickly to adjust to changing market conditions and consumer preferences”. They also state that inter-firm relationships and management style will need to be different to benefit from internationalisation and, (in their case study), from geographic clustering.

The global production system and, consequently the low cost production imperative, which increased cross border interdependence and the integration of production and markets for goods, services and capital, is referred to as economic globalisation (Benito, 2002). Liberalisation of markets and investment friendly attitudes, combined with global differences in production conditions (e.g. labour costs) and country specific incentive conditions (e.g. tax incentives), resulted in massive production shifts (e.g. Bronfenbrenner, 2001; Fleisch and Joost, 2004) towards low cost production workshops, such as, the Asian workshops (Ernst and Ravenhill, 1999; Felker, 2003). More over, exports from these regions influence global cost structures. Proof of this is easily given from the decrease in the price of hand power tools in the last decade: in Switzerland, ten years ago, a table circular saw could not be easily afforded at a price above “Confoederatio Helvetica Franc” (CHF) 2000, whereas, today, it costs CHF 220.

The effects of lower cost structures originate with the scale and the scope of MNEs, with FDI decisions and with location factors. Winch and McDonald (1999), Brown and Bell (2001), Zuchella (2001) confirm that the trend related to SMEs when the changed cost structures affected domestically operating firms. Market imperfection had an effect on the domestic markets of domestic production firms in Organisation for Economic Cooperation and Development (OECD) countries. Internationalisation theory predicts a switchover point (Rugman, 1986) as a possible condition of this. They may be led to their first production with a subsidiary abroad. For firms who started without a global focus, except for exports, this represents an efficiency seeking approach. These firms cannot avoid the effects of globalisation and must, in some way, act strategically to avoid decreasing profits or to guarantee their survival. The new situation, which has emerged, is summarised, in this dissertation, by the term “low cost production imperative”.

The low cost production imperative breaks down the currently used cost and price structures to guarantee the survival of these firms. Imports of goods (e.g. tools, electronic modules) from these low cost production workshops are offered on significantly lower price levels. Among the reasons for this are lower labour costs (see Table 2.2) and the ambition of Asian workers, in comparison with those in OECD countries, to achieve a higher standard of living. In this, an efficient labour force and the greater effect of incentive systems play a part. However, side effects, such as a request for global supplies and customer proximity, may aggravate the situation for these firms, especially when they form an element in the supply chain to MNEs.

Aspects, such as the classical market seeking, are not the main interest of this work. Moreover, the relocation of production should not be confused with expansion abroad which leaves existing sites unaffected in terms of production or employment levels. The low cost production imperative turns internationalisation into a firm-driven version of strategic decision-making.

1.1.5 The firms of interest

In pioneering studies, findings confirm that the FDI decision-making process is a very complicated social process. The firms of this analysis are latecomers to the international market or are committed to it with the lowest modal option in internationalisation: export activities. Scholars, in reviewing empirical literature related to FDI determinants, mention external factors affecting FDI decisions, but do not explicitly address effects, which the low cost production imperative exerts on the firms of interest. This is a phenomenon, identified as an external trigger point, which belongs to contemporary developments of firm's internationalisation. The low production cost imperative may change the reluctance and influence the speed with which FDI of these firms begun, and the cognition of the decision makers may alter in response to the importance of the issue.

The global production system (imperative) may enforce domestically operating SMEs to consider internationalisation of their production, which means relocation of the production or parts of the production, to stay cost competitive. A firm-driven strategic decision-making to internationalise the production with a modal commitment, may be of consequence. The mode of commitment is expected on a higher level than merely an exporting mode commitment because of cost structures. The export mode represents the

lowest modal commitment in the range of mode options of an internationalising firm. Such a decision must be viewed as related to the overall strategic posture of the firm. Barney (1991), in an inner view analysis on firms, found out that each firm is unique. This uniqueness derives from the resources the firm possesses. Resources play in the situation of the firms an eminently important role in the mentioned posture of the firms: under which circumstances do they matter? And in what ways? (Peng, 2001). Human capital elements, (e.g.: international business skills, international orientation, environmental perceptions and management expertise) will influence the outcomes in the internationalisation context. In addition, corporate culture processes and procedures are distinctive competencies and not easy tradeable (Dierickx and Cool, 1989). Firms are heterogeneous with respect to their resources, capabilities, and endowments (Teece et al., 2000).

Independent of the uniqueness of each firm, firms cannot exclude themselves from these globalisation effects and must act strategically to avoid decreasing profit levels or even to guarantee their survival. The strategic option which is the subject of this research, is efficiency seeking with the relocation of production, or relocation of a part of the production, in the form of a FDI. The decision-making aspect for FDI under the low cost production imperative appears to be one of the most distinctive features of the decision maker's behaviour, since creating new ventures, or, as in this dissertation, subsidiaries, by definition, is a risky business. Risk taking belongs to the important elements in the framework in this research, because failures in decision-making and in timing for foreign expansion can end in heavy losses, influence the well-being of the people involved, and may jeopardise the survival of the firm. The importance of the outcome of the decision-making is also mirrored in the definition of risk, which is defined as substantial variances in outcomes that are of consequence (MacCrimmon and Wehrung, 1986; Yates and Stone, 1992). How the firms assess the temporal attributes related to the risk horizon is of interest in their strategic option. Risk is intrinsically embedded in time, and yet the temporal context continues to suffer from neglect in the research literature (Das and Teng, 1997).

Indicated by Narula and Dunning (2000), there is an important interface between the micro-level (firm-specific) issues and the macro-level (country-specific) issues in a firm's internationalisation. Investigations in this dissertation will discuss the possible disadvantages of firms in a global perspective related to this interface: specifically, the

factors used by internationally active firms giving them competitive benefits in contrast to domestically operating firms and their increasing disadvantages related to global cost competitiveness. This dissertation was inspired by the influence this phenomenon has had on the executive life of the author to whom enquiries and demands were brought. Some of these concerned localisation assistance and the usage of existing facilities as starting hubs and some involved opinion and exchange of experience. These requests came mainly from small and medium sized firms, whose size is as defined by Kokalj et al. (2001) or Bassen et al. (2001).

1.2 Size definitions of firms

As has already been mentioned in this first chapter, the low cost production imperative as a globalisation effect has begun to dismantle the barriers which traditionally split the activities of the firms into SMEs and MNEs. Perhaps, the dilution of these activities are also connected with the difficulties in classifying firms according to size and because of classification difficulty, all firms, not identified as an MNE, are addressed. Vernon et al. (1996) describe MNEs as multinational enterprises that are made up of a parent firm located in a country and a cluster of affiliated firms located in a number of other countries. Enterprises of this sort commonly operate in a way that the affiliated firms, though located in different countries, nevertheless share some characteristics: they are linked by ties of common ownership, draw on a common pool of resources, and respond to a common strategy. On the other hand, there is no single agreed classified definition of an SME (OECD, 2005), or, according to the European Commission (2003/7), there is no unique, scientifically based definition of what constitutes an SME. Some different measures are used to classify the enterprises and these measures can vary significantly among countries. A popular measure is the number of employees. In the European Union, a most frequent limit is 250 (see below), others limit at 200 employees. The United States consider a small company to have fewer than 500 employees. Small firms are mostly considered to be firms with fewer than 50 employees, while micro-enterprises have, at most, 10, or in some cases 5 employees. The European Commission, in their observatory project, (European Commission, 2003/7) use the number of employees as the sole available classification criterion. The following size classification is used for all industries and countries:

- Micro enterprise 0-9 workers or employees, which can be further subdivided e.g. the entrepreneur is the sole employee

- Small enterprises, which employ 10–49 workers
- Medium sized enterprises, employing between 50 and 249 workers
- Large enterprises, providing work for 250 or more workers

There are other examples of enterprise classification: companies may be classified by balance sheet turnover or by the percentage share which it has in a particular industry (e.g. stock exchange).

In enterprise surveys carried out in Germany, medium sized companies are considered to be those who do not exceed an annual turnover of Deutsche Mark (DM) 100 million (Kokalj et al., 2001) and, in another study on the internationalisation of German medium sized enterprises, Bassen et al. (2001) surveyed 533 companies with an annual turnover between DM 25 million and DM 1,000 million.

In the European Union, a new definition applying to all Community acts and funding programmes came into force on January 1st, 2005. This provided an increase in the financial ceilings: the turnover of medium sized enterprises (50-249) employees should not exceed European Monetary Unit (EUR) 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million, while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively (OECD, 2005).

Stock exchanges have their own definitions: whereas firms trading as small and medium sized can have several thousand employees with more than EUR 200 million turnovers. These companies are traded and are evaluated under the terminology Convertible Aadjustable Preferred Stock (CAPS).

Operationally, domestically oriented firms are of interest in this dissertation where the phenomenon researched is the question of their immediate competitiveness. Many of these firms have established themselves in the domestic market. Some do export and, importantly, the firms possess tradition and history. To quote or to paraphrase Penrose's (1959) essay on the continued existence of small firms, these firms are not young and, later, the same firms will develop into medium-size or large firms. The firms of interest are

faced with the effects of globalisation, whereas decision taking on internationalisation has become a differentiated business strategy of crucial importance for them in order to stay competitive and in pace with the effects of globalisation. Bartlett and Ghoshal (2000, p.138) state in their lessons for late movers that, sooner or later, the world comes to them. They summarise "... in today's global market, either you go abroad or not, but you will anyway experience global competition"!

The firms in focus do not belong to the categories of new ventures defined by Oviatt and McDougall (1994) nor are they born global companies, according to the definition by Knight and Cavusgil (1996) (Both definitions are explained later in this paper). Neither do they belong to the category of MNEs with foreign productions, according to Dunning (1979).

The producing firms in focus are also the remaining ones which are now experiencing the impact on their competitiveness from the effects of the global production system.

1.3 Characterisation of the firms in focus

Some attributes of the firms in focus, such as domestically established, equipped with tradition and history, non-subsidiary organised, export mode, and latecomers to the broad global markets have already been mentioned. A more detailed discussion on the firms will contribute to a better understanding about the situation such firms find themselves in relation to the low cost production imperative.

The firms of interest belong to the category of producing firms with a domestic operation base in OECD countries. They either represent a firm itself, or they represent a unit (business unit, division, etc.) of a firm, with a high level of autonomy, consisting of an independent management structure with the authority to act decisively in their own business segment. In certain cases, they follow an export strategy. Globalisation effects, such as the low cost production imperative, confront a firm's profitability in a way that strategic decision taking to maintain a higher modal choice is a serious consideration. However, such a decision was not intended by such firms at their inception. Agarwal and Ramaswami (1992, p.1) noted, "...entry mode selection is a very important, if not critical, strategic decision for multinational firms". It can be imagined that such a decision for SMEs are even more critical. Lack of skilled resources, financial capabilities, and cultural

issues may all have an influence. The firms are not MNEs or do not belong to the categories of firms, which have, from inception, a global orientation such as the “global start-ups” (Oviatt and McDougall, 1994) or “born globals” (Knight and Cavusgil, 1996; Madsen and Servais, 1997). The firms in focus, and those participating in the empirical research, belong to the smaller and medium sized companies although with some larger exceptions. This statement is in comparison with the various existent classifications (OECD, 2005).

The phenomenon identified and, therefore, the stimuli for this dissertation came from smaller and medium sized companies. In conclusion, the firms of interest are SMEs up to the size of a smaller large company with a domestically oriented operation system, where a modal decision (of more importance than export) applies or has been recently executed.

1.4 The research questions

Scholars’ investigations in both realms of internationalisation theory (MNEs and SMEs) have discussed internationalisation of firms under various aspects, models, and empirical investigations. Little attention has been given to the effects of such internationalisation on firms, which have not yet participated with a higher modal commitment. In particular, the effects of the established global production system on the firms described and their possible FDI decision-making processes have not been examined fully.

The low cost production imperative can be described as follows: *The low cost production imperative limits the behaviours of firms in their control, autonomy, and alternatives to act freely to stay cost competitive.* The reason is the broad direction of cost structures which captures entire industrial segments. The survival of the firms can be at risk. The causes are the mentioned globalised production system and competitive production advantages of nations. Later in this research, this limiting behaviour is discussed under the term ‘free will’. Philosophers since Plato have discussed the term, which can be interpreted that it is of art for a particular sort of capacity of rationale agents to choose a course of action from among various alternatives. The research will highlight new aspects and differences to existent internationalisation and FDI theories and prevailing assumptions, such as enforced decision-making for FDI no longer under the free will opportunity seeking approach, different time patterns than traditional internationalisation models suggest, time as a

driving factor for FDI, the reach of SMEs with a domestic inception, and a dismantling approach that FDI aspects apply now for both type of companies, SMEs and MNEs.

In pioneering studies (e.g. Aharoni, 1966), research findings confirm that the FDI decision-making process is a very complicated social process. The firms under analysis are latecomers in utilising the benefits offered by the global factor market, which is now aware of the low cost production imperative. Scholars in reviewing empirical literature related to FDI determinants mention external factors affecting FDI decisions and do not discuss the factor low cost production imperative in depth. A phenomenon, identified as an external trigger point, which may belong to the consequences of firms' internationalisation in the coming decades. The consequences raise considerations about entry modes, including FDI decisions.

Three sets of research questions build the construct of the central research questions. Each set represents a phase, arranged in explanation phase, prediction phase, and the execution phase. The explanation phase updates the past until the present, based on current knowledge, while the prediction phase projects those updates into the future. The execution phase finally addresses the result, where extreme case(s) are considered as important (Eisenhardt, 1989) to extend the findings. Considerations in the construct are that decision-making processes (e.g. FDI) are influenced by the past and perception of the future as well as the present (Aharoni, 1966), and that outcomes are expected (inter alia Goggin et al., 1990; Winter, 1990; Hasenfeld and Brock, 1991).

The phenomenon of the low cost production imperative and its effects enhances the considerable body of literature which has led to a better understanding of the nature and the causes of the internationalisation of firms. While this development has occurred concurrently with the growing field of strategic management, there has been limited attention to the link between "internationalisation theory" and strategy issues at both the conceptual and practical levels.

The research questions are structured in three sets (A, B, C) of dual questions to explore the notion of the 'low cost production imperative'; and to investigate the implications and consequences of the low cost production imperative for internationalisation decision-making.

The first set of research questions (A: explanation phase) to be addressed:

A1) What are the existing opinions, and the cognitive and structural standpoints, related to the imperative in the case firms?

A2) How do the case firms assess their preparedness to conduct a foreign direct investment?

The overall situation of the firms as mentioned, opinions, cognitions and structure might influence the decision-making in a special way. Uncertainty, limited predictions, and limited readiness may impede effective decision-making. Various theories such as liability of foreignness (e.g. Zaheer, 1995; Lu and Beamish, 2001), organisational inertia (Milliken and Lant, 1991), and psychic distance (Vahlne and Wiedersheim-Paul, 1977) may play a role in the process. As some scholars' remark, the need to incorporate entrepreneurial behaviour into the process may be of importance (Acedo and Jones, 2007). The so-called 'myopic foresight' (Minniti and Bygrave, 2001), when the entrepreneurs examine previous experiences of success and failures, may have a significant impact. Proactive elements such as pro-activity itself, international orientation, and tolerance to ambiguity (Acedo and Jones, 2007) are attributes in the preparedness of such firms.

The second set of research questions (B: prediction phase):

B1) How do the case firms make predictions regarding the outcome and effects of the foreign direct investment decision?

B2) What factors are considered by the case firms regarding the foreign direct investment decision?

The prediction of the outcome is strongly related to risk-taking. This is a very interesting aspect considering that the decision-maker does not know how to describe the entire process before making a decision (Simon, 1960). How are the causal relationships perceived, and what is the knowledge base about necessary components to be considered to act intelligently and successfully?

The third set of research questions finally (C: execution phase):

C1) How is the decision made in the case firms?

C2) What are the arguments for the decision in the case firms?

This execution phase sums up the explanation phase and the prediction phase. The aim is to value the evidence of outcomes in a positive, but also in a negative sense.

1.5 Research design and methodology

Deduced from the uniqueness (Barney, 1991) of firms, empirical investigations about a firm's situation leads to a qualitative nature of the study about the researched phenomenon. Qualitative research builds social science constructs from members and focuses on the socially constructed nature of reality. Therefore, important is the use of the social actors' meanings in their environment to understand the phenomenon. This research is in line with the characteristics of qualitative research, which 1) requires "highly contextualised individual judgements" (Van Maanen, 1998) and 2) offers holistic depictions of realities that cannot be reduced to a few variables (Gephart, 2004). The research design and selected methodology highlight the actual human interactions, meanings, and processes that constitute the real-life organisational settings and changes. The chosen approach contributes to the concept and potential to rehumanise qualitative research and theory (Gephart, 2004) by analysing human interactions and meanings that underlie phenomena and relationships among variables which are often addressed in the field. This study has, therefore, an inherently humanistic focus, in comparison with quantitative research which is grounded in mathematical and statistical knowledge.

Complexity and context are placed at the centre of qualitative social scientific research on organisations (Miller and Dingwall, 1997). The methodology of active interviewing as the chosen communication approach will fit with its inquiry approach into the complex and contextual nature of human activities in organisational research. The respondents' comments are considered in the ways that they construct aspects of experiential reality in collaboration with the interviewer (Holstein and Gubrium, 2004). The arguments manifest the selection of a case study research, strongly linked to investigations about decision-making processes. Schramm (1971, cited in Yin, 2003, p.12) underlines the empirical investigations into a contemporary phenomenon with real-life context with his sentence: "The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result".

For the research design, framework considerations will help to limit the investigations. Evaluated tools will help to display the processes often not consciously apprehended in human (in this dissertation, executives') minds. Tools will be used as well to analyse the cases, within-case analysis, and cross-case analysis. Temporal dimension displays about dependent and independent variables will help to form knowledge about the decision processes.

1.6 Structure of the thesis

The introductory chapter has sought to present a broad overview of this study's research questions, the theoretical approach taken, the characterisation of the firms in focus described, and the main contribution sought to be made. This thesis is structured as follows:

- Chapter 1: Introduction
- Chapter 2: Global trends in economics of location advantages
- Chapter 3: Literature review
- Chapter 4: Problem statement and research questions
- Chapter 5: Research design and methodologies
- Chapter 6: Findings of the exploratory case studies
- Chapter 7: Triangulation
- Chapter 8: Conclusions

1.7 Summary (Introduction)

The aim of the introductory chapter is to inform the reader about the background of the study. An introduction to the phenomenon effecting a situation of market imperfection for firms described. One strategic option of interest, limited to efficiency seeking, is to investigate the internationalisation decision processes of described and selected firms. A concept of sets of central research questions was explained, structured in the stages of explanation, prediction, and execution. The nature of the study was highlighted with arguments describing the qualitative nature of this dissertation. Various theories involved were discussed to allow the framing of the work. The essence of the study is described in

this introductory chapter, allowing a dedicated focused reading. For example, market seeking aspects as a FDI motive is not in the interest of this study.

The next chapter provides an insight about the “low cost production imperative”.

2. GLOBAL TRENDS IN ECONOMICS OF LOCATION ADVANTAGES

2.1 Introduction

The search for low-cost production locations has long been an important factor explaining the growth of FDI, in particular, efficiency-seeking investment between countries. FDI has been inextricably linked to the rise of multinational companies in global business activity and their far-reaching influence at all levels on the social, political, and economic life of nations (Welch et al., 2007). Dickens (2003, p.198) regards the Trans National Corporations (TNCs) as the movers and shapers of the global economy, defining a TNC as a firm with the power to coordinate and control operations in more than one country. The significance of a TNC is defined by three basic characteristics: 1) Its ability to coordinate and control various processes and transactions within production networks, both within and between different countries, 2) Its potential ability to take advantage of geographical differences in the distribution of factors of production (for example, natural resources, capital, labour) and in state policies (for example, taxes, trade barriers, subsidies, etc.), 3) Its potential geographical flexibility, an ability to switch and to re-switch its resources and operations between locations on an international, or even global scale (Dickens, 2003, p.198).

Felker (2003, p.255) who focused particularly on Southeast Asian manufacturing and Southeast Asian industrialisation argues that the IPNs are orchestrated by the TNCs and that they transformed the region's resourced based economies into export dynamos in less than two decades. A survey done by Bartels and Freeman (2000) on multinationals planning investments in the same region indicated a "strong" or "very strong" investment commitment by 84% of the respondents. According to the survey, MNEs have a global perspective which prioritised (after China and Southeast Asia), in rank order: the European Union (55%), Northeast Asia (52%), North American Free Trade Agreement (NAFTA) (48%), and South Asia (45%). Latin America attracted a rating of 29%. Bartels and Freeman's (2000, p. 328) conclusions are in accordance with Dickens on MNEs as the movers and shapers of the economy: "It seems that for MNEs, the whole world – with the stark exception of Sub-Saharan Africa (6%) – is accorded a high priority, and this is the testament to the current forces of globalisation. Indeed, it is because of their global reach, and their access to mobile capital, that MNE investments will gravitate towards those regions providing the most conducive business environments". Some figures from the last decade will help to underline the development of the global production system and its

effects today. Bartlett and Ghoshal (1995, p.5) describe the TNCs influence on the global economy: about 85 percent of the world's automobiles, 70 percent of computers, 35 percent of toothpaste, and 65 percent of soft drinks are produced and marketed by TNCs. According to United Nations Conference on Trade and Development (UNCTAD) (World Investment Report, 2009) are some 82'000 TNCs worldwide, with 810'000 foreign affiliates in the world. Exports by foreign affiliates of TNCs are estimated to account for about one third of total world exports of goods and services. The number of people employed by them worldwide, which has increased about fourfold since 1982, amounted to about 77 million in 2008. It is remarked that over the past 15 years, the largest TNCs have undergone a steady process of internationalisation.

2.2 Low labour costs

Low labour costs are the important drivers of FDI decisions by firms to relocate production into such countries. Navaretti et al., (2001, p.451) in their survey on Italian MNEs who decided to invest in low-wage countries, found that: "The greater proportion of recent FDIs took place in traditional, labour-intensive sectors, and a large share is directed towards low-wage countries". The significance in labour cost differences is given in Table 2.1 in where wages and Unit Labour Costs (ULCs) from selected countries are compared with wages and unit labour costs from China. The personnel experiences of the author are in accordance with Larudee and Koechlin's (1999) findings that the value added per worker is probably substantially underreported by export-oriented MNEs in many low-wage countries through transfer pricing. The productivity gap is probably smaller and the ULC gap larger than reported. The use of transfer pricing in intra-firm transactions to the parent firm has an influence on the minimisation of tax liabilities. As a result, the reported value added by worker in many low-wage countries is likely to be less than their true value.

Larudee and Koechlin (1999), referring to rigorous studies of MNE affiliates in developing countries, have generally found that labour productivity is higher than in host country firms in the same sector (Fairchild and Sosin, 1986; Willmore 1986; Blomstroem, 1988, 1989; and Harrison, 1996). The author confirms this finding with his business experience in China, Hungary, Thailand, and Vietnam. The "hungriness" of the workers in these countries is high as they hope their performance improves their share of welfare. Viewed macro-economically, strong productivity and improvements in productivity form the basis

of establishing a broad domestic industrial base and of responding to development challenges. Rising salaries and an improvement in living standards are motivating forces. The shift away from an agrarian economy usually starts with technological breakthroughs, which leads to an acceleration of productivity growth and this is accompanied by the rise of new urban centres linked to commercial and financial activities (UNCTAD, 2003, p.92). As a surplus of industrialisation, the surplus of labour found in these agrarian societies turned East Asian countries into “workshop economies” which produced large quantities of labour-intensive goods for export. Capital accumulation and participation in international trade have an immense influence on the pace and the pattern of industrialisation.

The evolution, for example, of the East Asian Newly Industrialised Economies (NIEs) is found in the interaction of capital accumulation and intense export activities (UNCTAD 2003, p.99).

For the purpose of triangulating the argument that low labour costs belong to the main drivers for production relocation, a meeting took place at August 3rd, 2009, between Emil Strickler and the author in Singapore. Emil Strickler founded his first company ESCATEQ in 1974 in Singapore. His answer to the following question: “Why did you found a production facility in this city state in those days?” was, as follows:

“In those days, Singapore was an ideal low-wage country. The government recognised the signs of the time. A lot of support was given by the government with regard to assistance (allocated and dedicated supervisor from the city administration), tax incentives, and favourable labour conditions. Today, Singapore is no longer a low-wage country (see Table 2.2), but despite that, the development and the success of this city-state is impressive”.

The development of Singapore is truly impressive, and therefore today it is categorised as a first tier NIEs (see below). Other countries, such as Thailand and Vietnam, are slow developers with regard to labour costs due to the surplus of workers, the average level of education, and participation in global technological roadmaps (2nd tier NIEs, see below). In 2004, 57.9% (United Nations Statistics Division, 2010, accessed 29. 6. 2010) of the labour forces in Vietnam were employed in agriculture and the figure for agricultural employment in Thailand (2007) is 41.7% (United Nations Statistics Division, 2010, accessed 29. 6.

2010): in comparison, employment in agriculture in Singapore (2007) related to the proportion of GDP is listed as 1.1% (United Nations Statistics Division, 2010, accessed 29. 6. 2010).

Table 2.1: Wages and unit labour costs in manufacturing: comparison between China and selected developed and developing countries.

Economies	Ratio to Chinese level of	
	Wages	Unit Labour Costs
United States	47.8	1.3
Sweden	35.6	1.8
Japan	29.9	1.2
Singapore	23.4	1.3
Taiwan (1997)	20.6	2.3
Republic of Korea	12.9	0.8
Chile	12.5	0.8
Mexico	7.8	0.7
Turkey	7.5	0.9
Malaysia	5.2	1.1
Philippines	4.1	0.7
Bolivia	3.7	0.6
Egypt	2.8	1.5
Kenya	2.6	2.0
Indonesia (1996)	2.2	0.9
Zimbabwe	2.2	1.2
India	1.5	1.4

Source: UNCTAD Secretariat calculations, based on UNIDO Industrial Statistics Database and National Bureau of Statistics, China Statistical Yearbook 1999; calculations of unit labour costs average wages were divided by manufacturing value added.

Source: UNCTAD, Trade and Development Report (2002, p.158)

Effects from globalisation balance the world's cost structures and former agrarian societies are important in the developments. Resource endowments and the efficiency with which resources are utilised are the determining factors for a country's participation in international trade. In the recent history of Asian industrialisation, which started rapidly

1980, there is an obvious divergence between the fast accumulators of capital and the participators in international trade and others. Therefore, we find the so called “first tier NIEs” such as Hong Kong, (South) Korea, Taiwan, and Singapore, which reached maturity, and the “second tier NIEs” such as Indonesia, Malaysia, Philippines, and Thailand, which, owning natural bases such as agriculture, started to industrialise later (UNCTAD, 2003, p.94). China started with fast liberalisation into the international trading systems in the mid-1980s and participated in the World Trade Organisation (WTO) in 2001. For over a decade, China’s trade in goods and services has been growing at double-digit rates (more than twice the world’s average). China’s trade accounts for almost 4% of world merchandise export and 3.5% of imports. This strong performance is associated with growth in the share of chiefly labour-intensive manufactures amounting to 90% of China’s total exports. The assembly of technology-intensive products such as telecom products or computers, now account for a quarter of its total exports (UNCTAD 2002, p.141). However, China’s export profile also includes increasingly less labour intensive products such as Original Design Manufacturing (ODM) and Own Brand Manufacturing (OBM) in white goods, consumer electronics, and in high-technology sectors such as wafer fabrication. According to the United Nations classification, Chinese exports of high and new technology products rose from USD 7.7 billion in 1996 to over USD 37 billion in 2000, with foreign-invested enterprises accounting for 81% of the total (UNCTAD 2001, p.26). This ascendant China together with the first tier NIEs, squeezes some of the Southeast Asian economies, but, they still play a strong role in offering low labour costs (Felker, 2003, p.255). According to available data, the cumulative stock of FDI in China now amounts to over than USD 350 billion (greenfield projects), which has been mostly invested by industrialised countries like Japan, United States, members of the European Community (EC) and East Asian NIEs (UNCTAD, 2002, p.154).

A meeting took place with Peter Buerke, August 5th, 2009, in Anam, a suburb of Ho Chi Minh City. Peter Buerke acts as a Managing Director of Cicor Technologies / ESG in Vietnam (approx. 250 workers) and he lives since 1993 in Vietnam. This is his answer to the question of the height of nominal salaries:

“A worker earns, including social contributions, on average USD 130 – 150 per months. This is even more competitive these days compared with the monthly compensations actually paid in China in the regions along the Pacific Rim”.

Peter Buerke's statement was reviewed in a telephone conference with Eduard Hadorn, managing director of Schaffner China (approx. 600 workers), on August 15th, 2009.

“The monthly salary, including social contributions, is as of today, here in Pudong (suburb of Shanghai) 1500 Ren Min Bis (RMBs). That is the equivalent of USD 220 (exchange rate August 15th, 2009)”.

A question was raised with Beat Brotschi – Managing Director of Schaffner Thailand (approx. 1100 Schaffner workers in Chiang Mai) – over the salary development in the northern region of Thailand in the last 8 years on his visit in Switzerland, July 22nd, 2009:

“The salary level on average has not been raised more than 7% in the last 8 years. With the fluctuation rate and the process of steadily replacing leaving workers with new young workers, the salary level is balanced over that period within USD 120 – 150 a months”.

The statement of Beat Brotschi is line with the investigations done by the “Bureau of Labor Statistics” (BLS), Washington, dated March 2009. This statement is underlined by their data.

BLS compiled hourly compensation data for production workers in manufacturing (see Table 2.2).

From Table 2.2 the nominal hourly compensation cost growths is calculated in percentages between the years 2000 and 2007 (see Table 2.3). Surprisingly, there is one country Japan (-8.9%) showing a decrease in their hourly compensation costs. Europe (80.1%) shows a significant growth in hourly compensation costs, where countries such as Germany (66.2%) and Switzerland (55.1%) show an increase lower than the measured average of selected European countries. The United Kingdom (82.3%) is slightly over the Euro Area (80.7%) average. Eastern Europe (158.7%) roughly increased their hourly compensation costs by 1.5 times, but compare to the nominal hour values on a much lower level in comparison with the highly developed European countries.

The United States (23.7%) shows a significant lower increase in hourly compensation costs than Europe.

Table 2.2: Production workers: Hourly compensation costs in U.S. dollars in manufacturing, 34 countries or areas and selected economic groups, selected years, 1975 – 2007.

Country or Area	1975	1980	1985	1990	1995	2000	2004	2005	2006	2007
Americas										
United States	6.24	9.75	12.87	15.00	17.39	19.88	23.12	23.81	24.15	24.59
Brazil	-	-	-	-	-	3.50	3.14	4.16	5.01	5.96
Canada	6.40	9.02	11.39	16.62	16.80	16.78	22.25	24.40	26.28	28.91
Mexico	1.43	2.15	1.55	1.54	1.70	2.07	2.45	2.65	2.77	2.92
Asia and Oceania										
Australia	5.75	8.67	8.41	13.45	15.58	14.51	23.79	25.53	26.46	30.17
Hong Kong Sar (1)	0.75	1.50	1.73	3.22	4.81	5.45	5.51	5.65	5.78	5.78
Israel	1.99	3.34	3.59	7.65	9.23	11.16	11.85	12.13	12.45	13.91
Japan	2.95	5.43	6.24	12.52	23.34	21.69	21.65	21.31	19.99	19.75
Korea, Republic of	0.31	0.93	1.20	3.59	7.14	8.08	10.50	12.48	14.48	16.02
New Zealand	3.27	5.44	4.55	8.48	10.35	8.38	13.65	14.97	14.47	17.27
Philippines	-	-	-	-	0.94	0.73	0.78	0.85	0.98	1.10
Singapore	0.85	1.55	2.57	3.81	7.72	7.34	7.50	7.34	8.68	8.35
Sri Lanka	0.28	0.22	0.28	0.35	0.48	0.48	0.52	0.54	0.57	0.61
Taiwan	0.39	1.05	1.51	3.91	5.99	6.19	5.97	6.42	6.56	6.58
Europe										
Austria	4.59	9.03	7.71	18.04	25.67	20.13	29.19	30.20	31.30	35.33
Belgium	5.76	11.74	8.21	17.85	25.70	20.15	30.05	30.83	31.90	35.45
Czech Republic	-	-	-	-	2.54	2.85	5.48	6.08	6.83	8.20
Denmark	6.23	10.83	8.03	18.29	24.87	21.45	33.53	34.88	36.67	42.29
Finland	5.09	8.66	8.35	20.97	23.05	17.73	28.11	28.69	30.07	34.18
France	5.61	10.06	8.04	16.31	20.06	15.98	23.98	24.56	25.47	28.57
Germany	-	-	-	-	30.10	22.66	33.14	33.38	34.26	37.66
Greece	1.69	3.73	3.66	6.71	9.04	7.63	14.52	15.17	15.96	18.03
Hungary	-	-	-	-	2.98	2.78	5.69	6.13	6.30	7.91
Ireland	3.66	6.72	6.49	12.63	14.77	13.66	23.62	24.51	25.68	29.04
Italy	4.70	8.21	7.67	17.92	16.69	14.53	23.66	24.33	25.17	28.23
Luxembourg	6.23	11.52	7.45	15.94	23.54	17.49	26.30	27.36	27.83	30.60
Netherlands	6.58	12.05	8.73	17.98	24.02	18.68	29.58	30.02	30.64	34.07
Norway	7.20	12.32	10.93	22.71	25.95	23.50	36.97	39.34	41.69	48.56
Poland	-	-	-	-	-	2.81	3.85	4.53	5.05	6.17
Portugal	1.50	1.96	1.45	3.55	5.09	4.64	7.32	7.42	7.53	8.27
Spain	2.47	5.75	4.55	11.10	12.47	10.46	16.94	17.59	18.51	20.98
Sweden	7.12	12.41	9.58	20.75	21.63	20.70	30.12	30.50	31.85	36.03
Switzerland	6.09	11.09	9.66	20.85	29.23	21.20	30.57	30.86	31.03	32.88
United Kingdom	3.21	7.22	5.97	11.95	13.24	16.31	24.37	25.36	26.36	29.73
Trade weighted measures (2,3)										
All 33 foreign economies	4.01	6.69	6.74	12.08	15.11	13.62	18.18	19.03	19.77	21.66
OECD (4)	4.32	7.2	7.21	12.86	16.1	14.68	19.88	20.8	21.57	23.68
Europe	5.11	9.76	7.85	17.03	21.55	17.83	27.26	27.82	28.61	32.12
Euro Area (5)	5.33	10.07	8.01	17.63	23.08	18.1	27.96	28.4	29.12	32.71
Eastern Europe (6)	-	-	-	-	-	2.81	4.87	5.45	5.93	7.27
East Asia ex Japan (7)	0.5	1.16	1.64	3.69	6.2	6.56	7.37	8.17	9.17	9.65

Dash means data not available.

- (1) Hong Kong Special Administration Region (Sar) of China
- (2) For a description for trade-weighted measures and economic groups, see the Technical Notes following these tables.
- (3) The trade-weighted measures for production workers in this table are not directly comparable with those for all employees in the release of the Bureau of Labor Statistics; the country average may differ slightly.
- (4) Organisation of Economic Cooperation and Development.
- (5) Euro Area refers to European Union member countries in this release who have adopted the Euro as the common currency as of January 1st, 2009.
- (6) Eastern Europe refers to the Czech Republic, Hungary and Poland.
- (7) East Asia, ex-Japan, includes Hong Kong SAR, the Republic of Korea, the Philippines, Singapore and Taiwan.

Source: U.S. Department of Labour, Bureau of Labor Statistics, March 2009, p.23.

The hourly compensation costs include hourly direct pay and employer social insurance expenditures and other labour taxes. The trade weights used to compute the average compensation cost measures for selected economic groups are weights based on the relative dollar value of U.S. trade in manufactured commodities (export plus imports) with each country or area in 2007 shown in Table 2.2. The trade data are compiled by the U.S. Census Bureau.

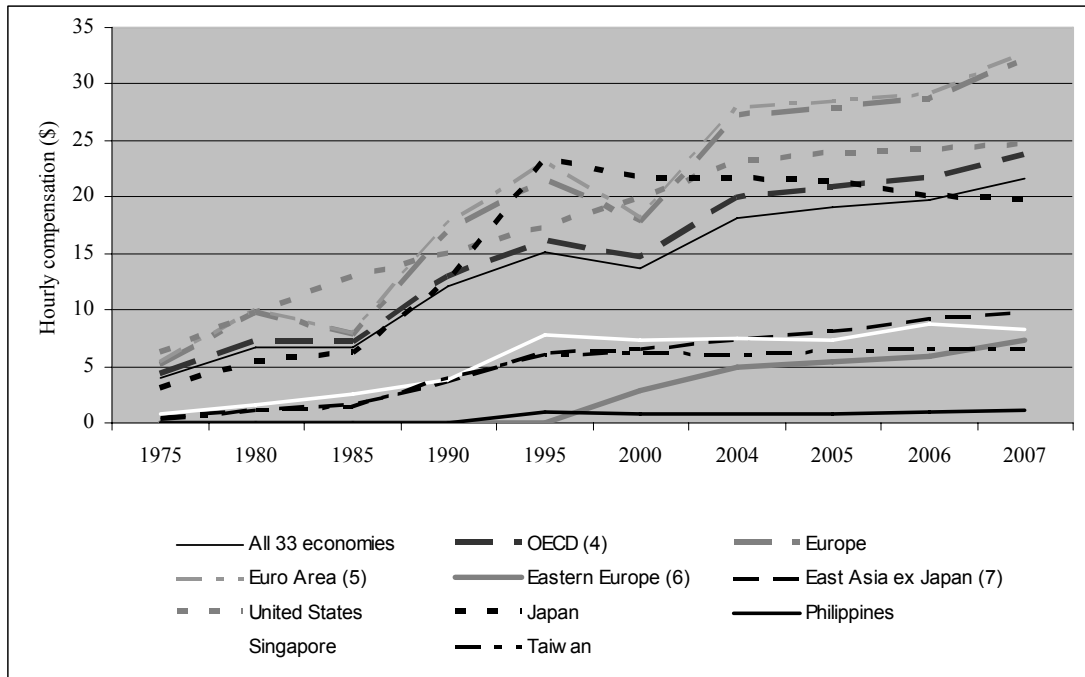
A selection of areas and countries regarding hourly compensations in U.S. Dollars from data in Table 2.2 is shown in Figure 2.1. Single trends are well illustrated over the period 1975 to 2007.

In Asia, the Republic of Korea (98.3%) almost doubled its costs. The Philippines (50.7%) show an increase close to the increase of Switzerland, but the nominal costs are on a very low level.

The “Tiger” states such as Hong Kong (6.1%), Taiwan (6.3%), and Singapore (13.8%) show low hourly cost increase and thereby underline their competitiveness. The cited calculation of Beat Brotschi (7%) is within the range of the “Tiger” states Hong Kong and Taiwan.

OECD countries raised their hourly compensation costs between 2000 and 2007 by 61.3% and the selected 33 foreign countries show a growth figure of 59%.

Figure 2.1: Trend analysis of hourly compensation costs in U.S. Dollars of selected areas and countries



Source: Data from Table 2.2; selection of areas and countries by the author

The overall picture illustrates how East Asia (47.1%) has a much less significant increase in the hourly cost compensations than Europe (80.1%). Countries such as Taiwan, Hong Kong Sar, and Singapore are able to keep a low increase in costs in comparison with countries such as the United Kingdom, Germany, and Switzerland, or even the United States. It is surprising that Japan a highly industrialised country, has a decreasing trend in hourly compensation costs.

The Asian nations kept or even increased their competitiveness in comparison with Europe and the United States. It can be interpreted that the Philippines (50.7%), despite their high increase of growth in percentage, show the effects of an agrarian economy with their very low nominal value of hourly compensation costs. This trend analysis is not the only factor to be interpreted in the process of decision-making to relocate production. The main purpose was to illustrate the competitiveness of areas or countries in the longitudinal development of hourly compensation costs.

Table 2.3: Hourly compensation cost growths in percentages in the period 2000 to 2007 of selected areas and countries

	2000	2007	Growths (%)
Asia			
Japan	21.69	19.75	-8.9%
Hong Kong Sar	5.45	5.78	6.1%
Taiwan	6.19	6.58	6.3%
Singapore	7.34	8.35	13.8%
Philippines	0.73	1.10	50.7%
Korea Rep of	8.08	16.02	98.3%
East Asia ex. Japan	6.56	9.65	47.1%
Europe			
Switzerland	21.20	32.88	55.1%
Germany	22.66	37.66	66.2%
United Kingdom	16.31	29.73	82.3%
Europe	17.83	32.12	80.1%
Euro Area	18.1	32.71	80.7%
Eastern Europe	2.81	7.27	158.7%
United States	19.88	24.59	23.7%
OECD	14.68	23.68	61.3%
All 33 foreign economies	13.62	21.66	59.0%

Source: Data's from Table 2.2; selection of areas and countries and calculation by the author

Additional factors play an important role in decision-making as well: nominal hourly compensation values, country risks, tax incentives, proximity, and control. The following explicit example compares a low wage region in a highly industrialised country (Switzerland) with selected low wage regions in two agrarian Asian economies (Thailand and China).

A meeting with the director of SYSTEL, Pierre Lanz, took place on August 28th, 2009. The company was founded in 1982 in the southern part of Switzerland (Canton Ticino). The salaries in this region are on average about 15% lower in comparison with German speaking part of Switzerland (Bundesamt fuer Statistik, Schweizerische Lohnstrukturerhebung, 2004). Many workers in this company are Italian citizens and live in the northern part of Italy, a region of low development in Italy's mountain area.

“The worker salary is quite low compared to other business segments in this region. I joined the company 2.5 years ago; one of my first tasks, I increased the salaries of the workers up to CHF 3000.- to be at least competitive with the salaries in grocery markets. The average today is CHF 3000.- (USD 2832) (exchange rate August 28th, 2009). Some of the Italian workers drive from their home villages, a two hour journey, to work with us. In times of short work as we are in today, I started to bundle their presence”.

The examples still illustrate a significant gap between the low wage region of Switzerland and the low wage regions of Asia. For example the ratio between the regions Ticino / Chiang Mai (2832/120 USD) is 22:1 or the ratio between the regions Ticino / Shen Zhen (2832/254 USD) is 11:1. The contribution of labour work in production processes may have a significant impact in the calculation for product cost; therefore, in cases of serial production, these calculations contributions are important in the production location decision process.

2.2.1 Low wages: a major factor responsible for production shifts

It can be argued that location advantages induced by low wages increase the prospect of low production costs and could stimulate taking advantage of such benefits. Governmental investigations provide the evidence that massive production relocations to low wage countries take place. The massive FDI flows from US, Europe, and Japan into these countries are mainly responsible for their significant economic growths. In the period from October 1st, 2000, until April 30th, 2001, the announced number of production shifts from the United States (US) to China, Mexico and other Latin American countries totalled 287 (Bronfenbrenner, 2001, p.11). In the same period, the number of production shifts from Asian countries and Mexico to China totalled 183 (Bronfenbrenner, 2001, p.12). Besides the shifts from US and Europe to China, it is also remarkable that in the same period, production shifts from Taiwan (60), Korea (20), and Japan (69) to China (Bronfenbrenner, 2001, p.12) took place. Tahir and Larimo (2004) refer to the record level of FDI inflows in Asia with \$ 143 billion in 2001 (World Investment Report, 2002). China developed itself as one of the most attractive low wage production countries, where the inward FDI in year 2008 increased by 23.6% in comparison with the previous year and amounted to a sum of USD 92.4 billion (Ministry of Commerce China, 2009).

An US industry segment analysis shows the ratios, for which of the business segments shifted to the industrial zones of China, such as Shanghai, Shenzhen, Dongguan, Wujiang, and Xian who were the most affected. They are listed as follows: electronics and electrical equipment (37%), chemicals and petroleum products (17%), household goods (11%), toys (8%), textiles (6%), plastics (6%), sporting goods (5%), and wood and paper products (Bronfenbrenner, 2001, p.21). Today, it is almost impossible to follow all these production relocations due to their number. Greissel (2003) investigated that according to a report produced for the US China Security Review Commission more than 760'000 US manufacturing jobs have been lost to China since 1992. Scholars in almost any OECD country can find examples of production shifts of firms from any segment into low wage countries. The firms Lee and Levi Strauss from Belgium serve as examples. In these cases, 480 employees were dismissed from Lee and 900 were laid off from Levi Strauss (Sleuwaegen and Pennings, 2006).

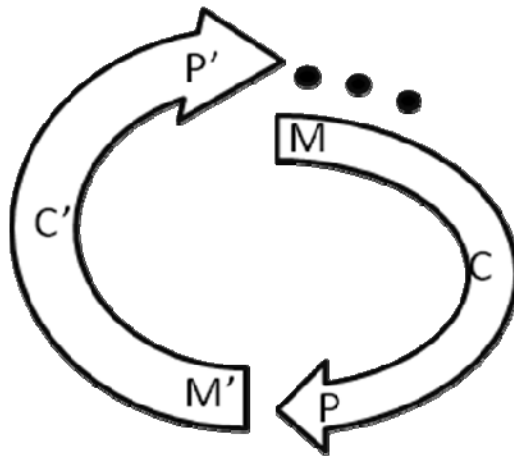
2.3 The circuit effect – the circuit of cost competitiveness

Derived from Dickens (2003) the basic circuit of capital, the circuit of cost competitiveness on a scale of global production system, can be explained as a distinct circuit. The process starts with a money (M) allocation attracted by the low labour costs. Commodities are bought in the form of labour and raw material (C). Intense export activities are broadening the size of the market and thus allow scale production (P). Revenues generate income, may attract additional money allocations, for monetary exchange, production technologies are purchased (M'). Scale production is increased and further markets reached to sell the outcomes (P').

The circuit: M - C - P - M' - C' - ... (see Figure 2.2)

Consequently, economies such as the NIEs become more and more competitive, because of favourable cost structures (see Table 2.1) and high productivity. Dickens (2003, p.201) emphasises that the major merit of the “circuits of capital” approach to the internationalisation of economic activity is “that it emphasises the totally interconnected nature of finance, production, and commodity trade”. The explanation of the circuit illustrated contributes to the explanation about the effects the low cost production

Figure 2.2: The circuit of cost competitiveness



Source: The author (derived from Dickens, 2003)

imperative may exert on firms related to cost structures, who do not yet participate in dedicated cross border activities. The roots, in macro economical terms, are the scale and scope ambitions of MNEs, FDI decisions, and location factors, which affected domestic operating firms. Labour costs are a major influencing factor in the decision-making process for production relocations as illustrated with the labour cost comparisons in Tables 2.1 and 2.2.

The focus of this dissertation is not multinationals and their activities, but is about the use of FDI as a strategic option for the firms under investigation to adapt their international operations so that they remain cost competitive.

2.4 FDI and SMEs

The European Network for SME Research (ENSR) 2003/4 affirms that FDI is an important form of internationalisation. One may observe that no statistical figures have been found about FDI by SMEs in particular. The general picture is that FDI in Europe increased continually during the 1990s and decreased in the period 2000 to 2002. It is assumed that considerations and implementations for production shifts towards low cost production areas may have influenced the slow down trend.

Observations in ENSR studies indicate that SMEs internationalisation is a much more diversified and complex business activity than export alone. One third of SMEs with subsidiaries abroad have no export. This is an indicator that exports may be no longer a logical inherent step, according to some internationalisation models (e.g. Johanson and Wiedersheim-Paul, 1975; Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982). The holistic view about the decision-making process in domestically operating firms is, therefore, of interest. Preparedness and uncertainty belong to the process and both attributes are related with the term ‘psychic distance’. According to Vahlne and Wiederheim-Paul (1975), or Nordstrom and Vahlne (1993), “psychic distance” is an important variable in understanding the dynamics of firms’ internationalisation process.

In 2005, the OECD found that FDI has been evolving rapidly in some countries. One example is Korean SMEs: their share in FDI rose from 16.0% in 2000 to 20.6% in 2001 and 37.6% in 2002 (Small and Medium Business Administration, Korea, 2004). In a survey by Fleisch and Joost (2004, p.15) who interviewed 112 Swiss companies, it was found that 25% of industrial firms decide to move production or parts of production overseas due to high operation costs, e.g. high labour costs. They differentiate the following four types of firms with regard to their stage of internationalisation and with regard to their intentions to internationalise (see Figure 2.3):

- 1) Local matador
- 2) Discoverer
- 3) Global player
- 4) Balanced player

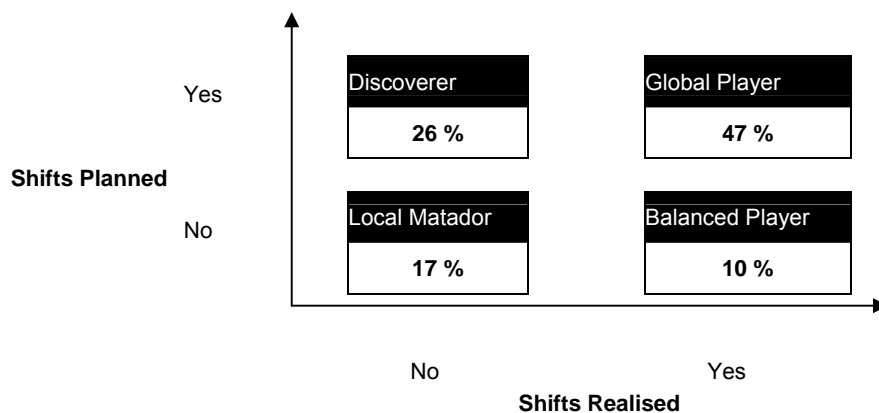
Local matadors are firms with no shifts of functions abroad and no planned function shifts abroad in the near future. In most cases, these are companies with under 500 employees and, according to the model by Johanson and Vahlne (1977), they earn, on average, 46% of their turnover in foreign countries by invading “neighbouring” markets (in the cultural sense), with their exports. Survival tasks for local matadors are innovative products, services, processes, and technologies.

Discoverers are companies, who are exclusively active in their home markets as in the research case described from Switzerland. Sales are not limited to their home markets: on

average, 61% of their turnover is earned abroad, where they plan to shift all levels of their production. 60% of these firms employ less than 500 employees.

Global players are firms who have already successfully shifted functions abroad and will shift more. Two thirds of them employ more than 500 employees and are quoted as medium or larger sized companies. They possess a particular knowledge of internationalisation and, as regards the optimisation process of their subsidiaries, 28% have begun this task and 37% will do so in the near future.

Figure 2.3: Four types of firms and their realised revenues abroad (112 interviewed Swiss companies)



Source: Fleisch and Joost (2004, p. 20)

Balanced players are those who have already shifted parts of their value chain abroad, but see no need to take additional steps. They are of similar size to the global players. It is now important for them to displace elements of the value chain and to achieve an optimised global footprint.

Research shows that the global players with 47% are most represented, followed by the discoverers, then the local matadors with 17% and finally the balanced players with 10%. This may be a classical result from a small country where firms have to maintain a global strategy, due to a saturated small home market.

In addition, 25% of the industrial firms surveyed, in Fleisch and Joost's (2004) study state that they decided to move production, or part of their production, abroad due to high operation costs (see Figure 2.4).

2.4.1 Frequency of different types of internationalisation

The ENSR (2003) identified the main types of form and frequency of SMEs engaged in internationalisation in the EC (see Table 2.4). According to this source, only 3% of SMEs maintain a subsidiary or a joint venture or a branch abroad. Therefore, the potential for this dissertation to contribute not only to academic thought, but also to managerial practices, is emphasised by this low percentage and by "the low cost production imperative" previously explained.

Table 2.4: Frequency of different types of internationalisation

Type of internationalisation	Percentage of total SMEs (%)
Foreign supplier (importing only)	30
Exporting only	18
Collaboration, primarily with foreign SMEs	3
Subsidiary, branch or joint venture abroad	3

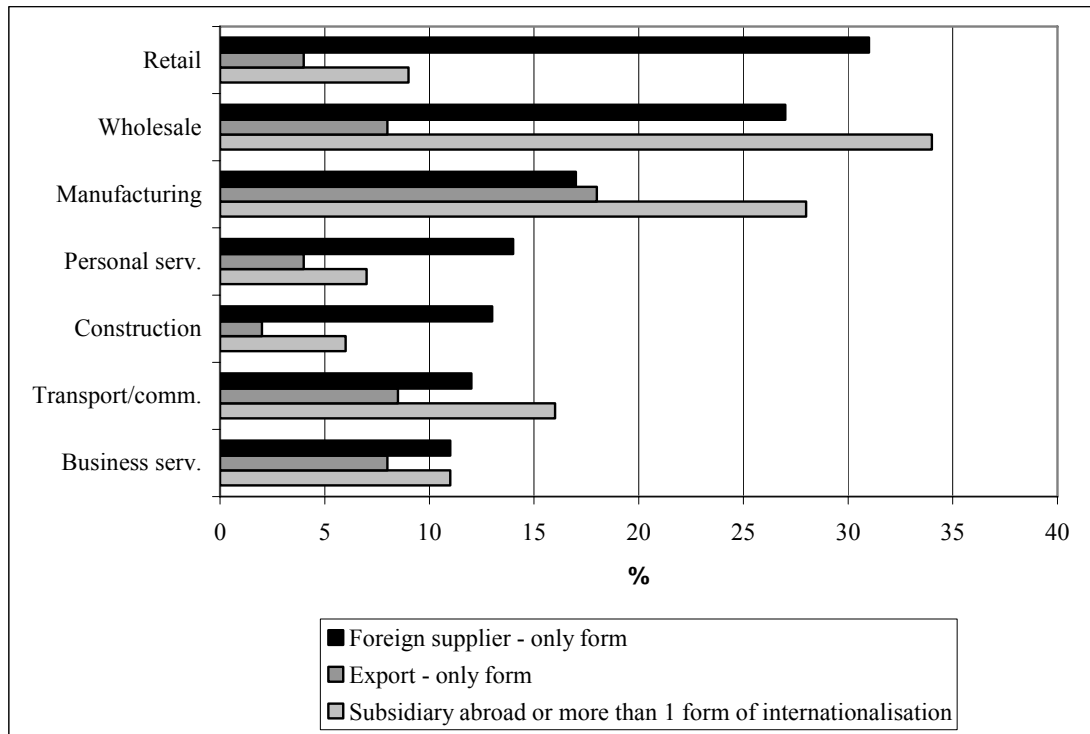
Note: The above percentages cannot be calculated, since individual companies may figure in several categories

Source: ENSR Enterprise Survey, 2003, p.14

The 2003/4 ENSR survey (2003 – 04) indicated that one third of SMEs with subsidiaries abroad have no exports. It is assumed therefore that having a subsidiary abroad is not merely a question of establishing a sales platform; it may well be that the platform is to gain access to better production conditions. In most European countries, the number of firms with a subsidiary abroad ranges from 1 – 4%. In only three countries (Switzerland 7%, Denmark 9%, and Iceland 11%) do the figures exceed the average. Open economies and the size of the economies are the reasons for this.

Analysis of the different business sectors (see Figure 2.4) shows that manufacturing which has a subsidiary abroad or more than one form of internationalisation is ranked second. However, in this sector, 17% are only using foreign suppliers as the sole internationalisation form while 18% maintain the export only form.

Figure 2.4: Internationalisation in different sectors

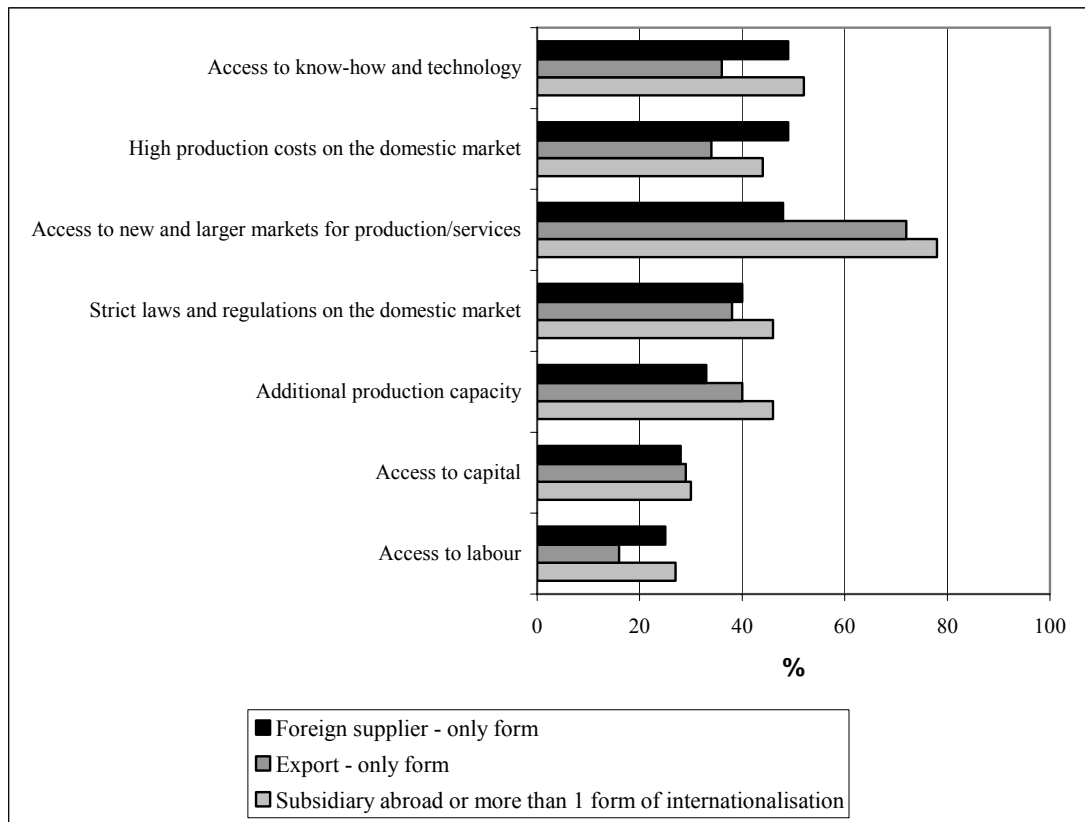


Source: ENSR Enterprise Survey, 2003, p.19

2.4.2 Motives for SMEs internationalisation

The motives for SMEs internationalisation are listed in Figure 2.5 (ENSR Enterprise Survey, 2003). Related to efficiency seeking, the motive “High production costs on the domestic market” is an important one. It can be expected, that based on the characteristics of motives, the choice of internationalisation modes are related to the strategic goals of the firms. The survey does not explicitly only discuss the efficiency-seeking aspect. Listed motives such as “Access to know-how and technology”, “Strict laws and regulations on the domestic market”, “Additional production capacity”, “Access to capital”, and “Access to labour” may also contribute to the efficiency-seeking aspect.

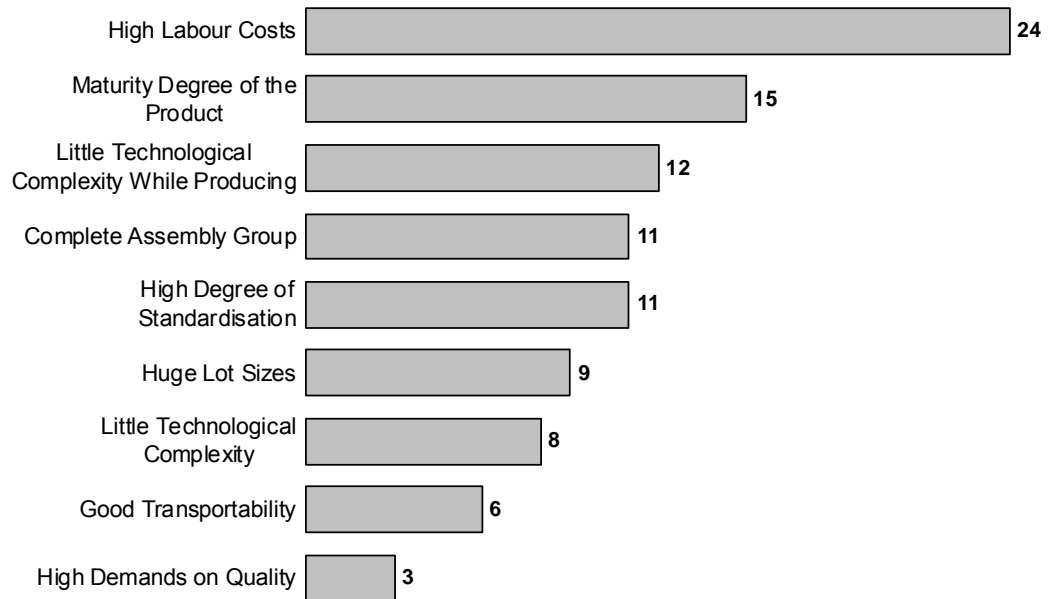
Figure 2.5: Motives for internationalisation



Source: ENSR Enterprise Survey, 2003, p.28

Fleisch and Joost’s survey (2004) on 112 Swiss companies shows a ranking of motives with product related criteria for a production shift (see Figure 2.6). It is self-explanatory that in a high wage cost country, such as Switzerland is, the motive “High labour costs” is ranked top.

Figure 2.6: Product related motives for internationalisation
(Interviewed 112 Swiss companies)



Source: Fleisch and Joost (2004, p.15)

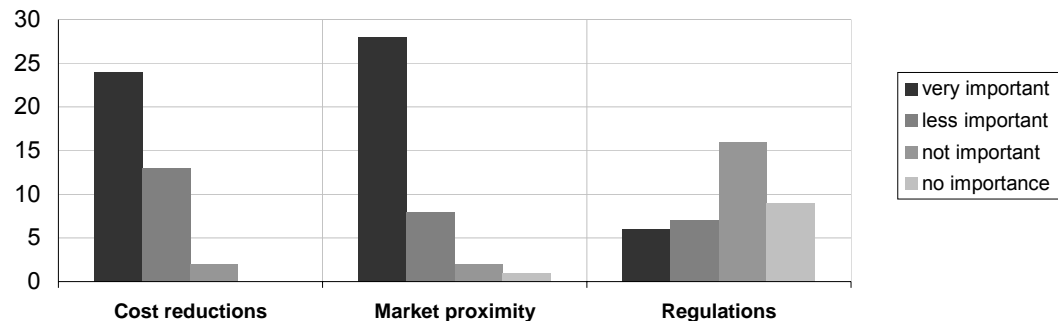
2.4.3 Cost reductions and other important motives

In a survey carried out in 2004 and published in December of that year, Swissmem (Schweizer Maschinen-, Elektro- und Metallindustrie), the Swiss Mechanical and Electrical Engineering Industries Association, asked their SME members to name their reasons for production abroad. The result of the survey emphasise cost reductions as a motive (see Figure 2.7). “Market proximity”, named 28 times, is also important. Although “Regulations” are named by a number of firms, it is not considered as important as “Cost reductions” and “Market proximity”. Both these motives play a part in the author’s business life: proximity is an important factor when deliveries to mass assembly lines have to be absolutely on time or when product agreements are applied for production worldwide.

An example of the latter is the splitting of orders: the first batch is produced in Europe and a subsequent batch(es) abroad. Siemens order for around 100 “Velaro“ trains demonstrates

this: Siemens produced the first third in Europe and their Chinese partner Tangshan Railway Vehicles produced the remaining two thirds of the trains in Tangshan, China, 2005.

Figure 2.7: Reasons for production abroad (Nominations)



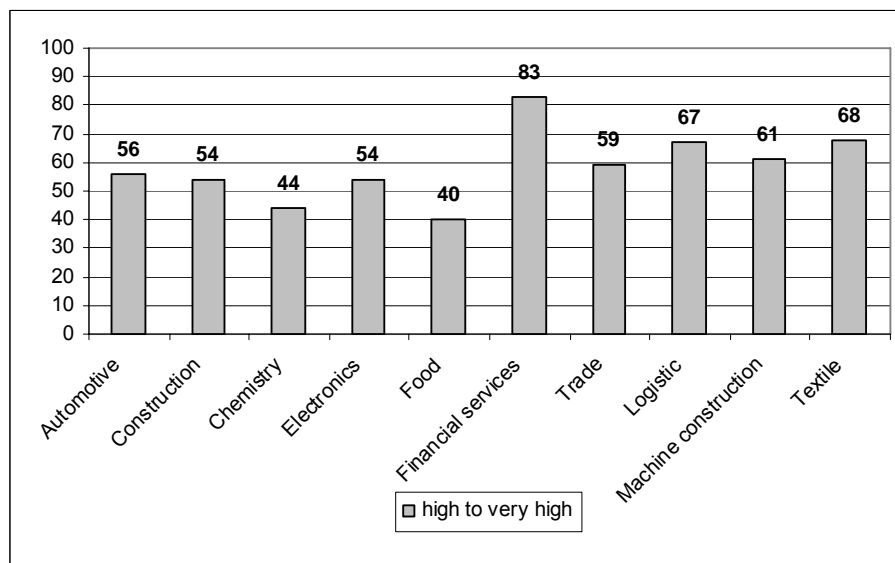
Source: Swissmem / Der Bund, accessed 18. December 2004, p. 17

2.4.4 Stimuli in countries of empirical research

As empirical investigations will take place in Germany and Switzerland, this chapter will examine evidence from Germany. Bassen et al. (2001) studied the stage of internationalisation on medium sized companies in German industries. 533 firms from various business sectors responded. (As the survey took place before the changeover to the Euro on January 1st 2002, turnover is measured in Deutsche Mark). Medium sized firms were considered to be those with a turnover between DM 25 million and DM 1,000 million. Almost all medium sized firms interviewed were convinced that globalisation effects would have an influence on their business activities but not all felt that they were prepared for these needs. Figure 2.8 illustrates the preparedness rated on a scale with “high to very high”. Preparedness defined by the authors Bassen et al. (2001) refers to the state of being prepared for the internationalisation process, means, avoiding and mitigating negative outcomes by planning, estimation, resourcing, educating, etc. Manufacturing firms in the automotive, chemistry, electronics, machine construction, and textile sectors reached preparedness percentages between 44% and 68%.

Almost all of the medium sized firms interviewed (none of the 533 failed to respond) were convinced that the influence of globalisation would increase and, even more, would affect their business activities. Surprisingly, despite the belief, that globalisation will affect the firm’s business more and more, planning activities to prepare the companies were considered as fairly low, at least until the stage of definite decision-making. None of the sample firms mentioned dedicated and significant preparation activities, such as the consequential hiring of people with experiential knowledge or executing major educational efforts.

Figure 2.8: Preparedness of medium sizes companies concerning globalisation (%)



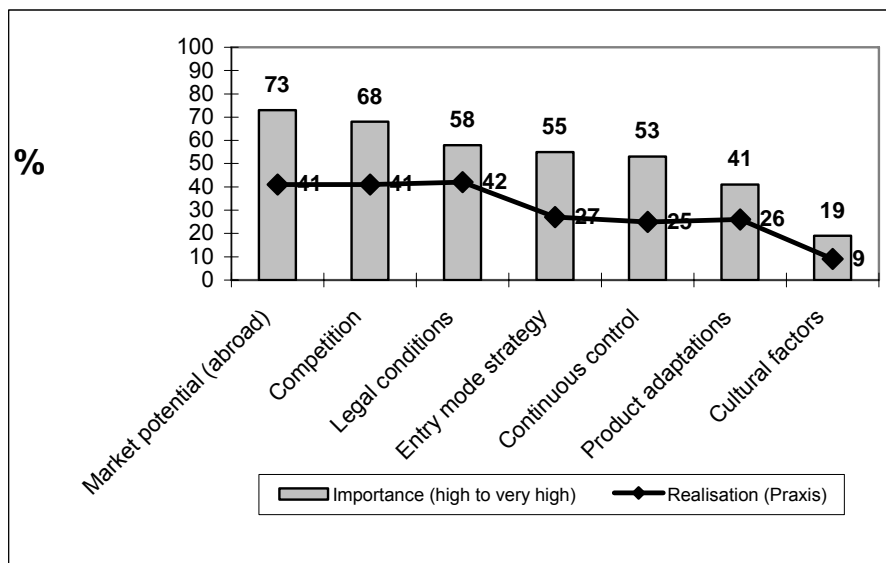
Source: Internationalisierung des Mittelstands. Ergebnisse einer empirischen Studie zum Internationalisierungsverhalten deutscher mittelständischer Unternehmen (Bassen et al., 2001, p.417)

Bassen et al. (2001) analysed in their study the importance of planning domains with respect to internationalisation, and the effective realisation of the activities by the surveyed firms. Figure 2.9 illustrates their findings.

With the focus on factor seeking (Dunning, 1979; Root, 1994) planning activities such as legal conditions (58%), entry mode (55%), control (53%), product adaptations (market and procurement wise)(41%) and cultural aspects (19%) differ in realisation from the following values: legal conditions (42%), entry mode strategy (27%), continuous control (25%),

product adaptations (market and procurement wise)(26%) and cultural aspects (9%). Even competitor analysis with a realised 41% differs from the necessary 68% which is mentioned. It is assumed that the liability of foreignness (Zaheer, 1995) and the shock effect (Pedersen and Petersen, 2004) may play a role in the realisation. Important strategic decisions such as choice of entry mode (average 55%) vary among the size of the firms.

Figure 2.9: Domains of analysis



Source: Internationalisierung des Mittelstands. Ergebnisse einer empirischen Studie zum Internationalisierungsverhalten deutscher mittelständischer Unternehmen (Bassen et al., 2001, p. 423).

The deviation varies between companies with DM 99 million (50%) up to companies DM 500 million (70%) turnover; this low valuation is surprising in that control over activities is implied in certain modes of entry. It is remarkable that realisation in respect to the value of importance is quite low. The low realisation identified for production adaptations can be costly, as the author knows from experience. In a market seeking approach, products need local certifications of any kind, possible changed layouts or designs, and technical adaptations (Voltage etc.). In a factor seeking approach, utilisation of the important benefits from local procurements, liability tests, and new certifications is mandatory. All these necessary fulfilments are cost and times related, and therefore influence the success of the firms.

The planning domains mentioned are important strategic considerations, which may decide the success of the firms in their internationalisation tasks. Often, these tasks are neglected due to the daily operational business absorption of the decision makers (Bassen et al., 2001).

2.5 Power of competition and power of stakeholders

2.5.1 Power of competition

The search for low-cost production locations contributes to the general growth of FDI. The phenomenon is mainly driven by the differences in labour costs. Gijsbert van Liemt (1992) concludes that economic globalisation has intensified competitive pressure. He describes the high labour cost countries located in North America and Western Europe, plagued with unemployment and faced with intense competition from areas from productive, low cost labour on the one hand, and from Japanese producers, who have reached high levels of quality, flexibility, and productivity on the other. Measures such as trade barriers or production automation could not avoid the mass production shift into these low labour cost countries and with it the intensified cost competition.

The first Asian nation to attack the Western economies of North America and Western Europe on a global base was Japan. Rationalisation as an important topic was widely discussed in literature: the sensitivity of unit costs to scale of production was a core part of diagnosis to find a competitive solution. Doz (1978, p.83) argues that for mature industries, rationalisation must be seriously considered. Multinationals face more and more competition from Japan, and from developing countries, which have low labour and energy costs. A statement from Doz (1978, p.83) underlines the evolutionary change to today's reality: "Given the extreme concern that governments show toward maintaining employment, a multinational enterprise can hardly shrink its activities in developed countries and move them to lower cost countries without social upheavals that can damage its prospects permanently"! What a difference to today's reality.

Zou and Cavusgil (1996, p.52) write that studies of industries, strategies, and organisations in a global context have to be regarded as the norm. A global strategy must not only incorporate broad, strategic direction, but also specify how activities like sourcing, Research and Development (R&D), manufacturing and marketing must be coordinated worldwide. A major source of competitive advantage is the ability to produce high-quality

products at the lowest cost. Global customers will sacrifice their idiosyncratic preferences for high quality but low-priced products. Yip (1988, p.38; 1989, p.31) argues that to survive and to prosper in the global market place, businesses must respond to the industry imperative. He defines global strategy in five dimensions:

- 1) Global market participation
- 2) Product standardisation
- 3) Concentration on value-adding activities
- 4) Uniform marketing
- 5) Integrative competitive moves across countries

He contends that a global strategy must match the globalisation potential of the industry as defined by the cost, market, government, and competitive environment.

Scholars such as Ernst and Ravenhill (1999) or Bartlett and Ghoshal (2000) no longer distinguish between MNCs and SMEs and confirm that competition now cuts across national borders. A firm's position in one country is no longer independent of its position in other countries; it must be present in all major growth markets. Luo (2000, p.356) is convinced that international expansion has become a prominent strategic response to global economic dynamics for a large array of companies. In an overall literature review O'Gorman and McTiernan (2000) describe the internationalisation of SMEs that they found a lack of definite conclusions. This suggests that SMEs are limited in international and managerial experiences and in financial resources. Nowadays, the low cost production imperative may change the lack of conclusions. The emerging price competition has reached a level seldom experienced before. This statement can be easily proven by visiting a supermarket and comparing the prices of tools made in China and of tools which are not yet made in China. The result shows half the price with almost same level of quality, which was not always the case. A printed statement (Works Management, 2003) states: "SMEs are blind to real cost of products!" Sir Graham Hall, the chairperson of Yorkshire Forward, remarks on competitiveness: "The world's economy is developing at an extraordinary pace and the research in the global economy shows that this revolution could leave many of our companies behind".

Another source of competition comes from firms who have a global mindset from foundation, which they use to gain benefits from global behaviour. The number of born

global firms is growing steadily and they will be significantly important as they will provide new competition for firms hesitating over internationalisation (Born global firms will be discussed in depth in the literature review).

In their studies on international start-ups, McDougall and Oviatt (1995) identify the following six factors or needs as the drivers for firms' internationalisation:

- 1) To obtain resources at a lower cost
- 2) To obtain foreign financing
- 3) To achieve economies of scale
- 4) To pre-empt competitors worldwide
- 5) To establish a worldwide technological standard
- 6) To preclude domestic inertia

These widen Dunning's (1979, p.287) localisation factors, which are focused on country specific items to select production location:

- 1) Production costs
- 2) Movement costs
- 3) Government intervention
- 4) Risk factors

Japan has been mentioned as the first Asian nation to compete with the economies of North America and Europe. The success of Taiwanese firms is another force to be reckoned with and of course, all the re-imports from the low cost operation countries. This evolutionary process centred on the global production system can hardly be stopped. Responding to the actions of competitors is wise, pro-activity would be even wiser. Authors such as Markides and Berg (1988) who promoted "To stay competitive, stay at home" may be discredited. They argue that long-term competitive advantages require a new way of doing business and not merely a short sighted attack on labour costs. Workers abroad are less productive, wages abroad will rise, technology is given away and the labour cost counts for 15% of the entire costs of production. The globalised production system today, low cost operation countries (e.g. Ernst and Ravenhill, 1999; Felker, 2003), global production shifts (e.g.

Bronfenbrenner, 2001), and the trends in hourly compensation costs, discussed in this main chapter, provide different evidence.

2.5.2 Power of stakeholders

In practice, global presence means that supplies of product and services are expected worldwide at competitive costs, at the expected time, and with global standard quality conditions. The split of orders (e.g. “Velaro“ trains) is discussed. Not to follow the clients in their global moves puts a high risk on the relationship, and on associated international market growth possibilities. The power of stakeholders in such relationships necessitates various managerial capabilities to fulfil the demands of such clients in decision-making, institutional directives, quality systems (e.g. TS 16949), and in general in the skills to participate in such networks. Proximity on a global base is seen more and more as essential for the successful continuation of relationships. The findings illustrated in Figure 2.7 confirm the importance of labour cost and proximity in firms’ considerations.

2.6 The importance of SMEs

2.6.1 A European view

The role of SMEs in Europe is an important one. This dissertation focuses on domestically manufacturing SMEs in the OECD, as one industrial domain among others, which face increasing competition because of globalisation. There are various factors worthy of attention, but those which relate to this thesis, are the global differences conditions (e.g. labour costs, tax incentives, etc.). In Western Europe, SMEs involved in manufacturing may be motivated to internationalise their production from various signals and pressures they receive and to do so in a limited time, rather than remaining as mere exporters.

According to the ENSR 2003/7 statistics, most of the European enterprises are small, but they count for a significant amount of European work experience and economic activity. In 2003, there were more than 19 million enterprises in Europe. Of these, 40’000 were large companies which amounted to 0.2% of all enterprises. Therefore, 99.8% of all European enterprises, in 2003, were SMEs. Of the 19 million, 2.25 million were manufacturers with an average of 16 employees per enterprise. SMEs, therefore, dominate. These findings are complemented by the OECD survey of 2005 which confirms that enterprises with 100 or

more employees account for only 1 to 4% of all manufacturing enterprises in OECD countries.

2.6.2 An Asian view - at the example of Taiwan

SMEs in Taiwan are regarded as the engines for growth and industrial transformation. In 1993, SMEs accounted for 96 percent of the total number of companies in the country, 69 percent for total employment countrywide and 55 percent for Taiwan's entire manufactured exports (Chen et al., 1995). Why have Taiwanese firms succeeded in the electronics and computer industries? Why have these firms beaten their much larger and resource-rich Korean counterparts, which are acting in a "chaebol" (conglomerate) structured industry? The reason lies in the fundamental characteristic of the Taiwanese industry in which high volatility and uncertainty put a premium on flexibility and on adjustability. These fast-changing demands in volume and technology could best be managed by these utterly flexible and fast SMEs. Taiwanese firms have been able to establish, from the beginning, a strong international market position, combined with high flexibility and an incredibly fast speed-to-market. These achievements are realised early in their product life cycles. Flexibility is explained by high specialisation. The firms concentrate on single tasks, producing, purchasing and selling in small lots and, therefore, avoid heavy fixed costs. As a result, a change to shift for other goods to be produced, at relatively short notice, is easy and with a minimum of costs.

The second feature is a certain network structure of multiple, volatile and short-term links that involve only limited financial and technological transfers. They are called "spider web" arrangements which are assembled for the duration of a particular job (Borras et al., 2000, p.114). Taiwan's governmental policy of supporting SMEs helps for firms' success. An aggressive program was introduced, in 1960, to encourage investments into domestic as well as foreign companies. The development and modernisation of Taiwan's SME sector was promulgated in 1967 with the policy: "The rule for promotion of small and medium enterprises". Governmental assistance for the SMEs has included loans, management rationalisations, market promotions, co-operations, and promoting strategic alliances, upgrading technology and labour training. A significant characteristic of this program has been that there are no limitations of firms in numbers within an industry group; all enjoyed the same tax and other privileges and there was no discrimination against smaller firms within the SME category. Any firm, irrespective of its size, was allowed to participate at

the program and was treated equally. This neutral policy was the foundation for the development of Taiwan's entrepreneurial SMEs, which are now the cornerstone of the country's industrial success. This supportive approach, directed by the Taiwanese government, allowed the firms to gain competitive advantages, which then helped in their fast international expansion (Borras et al., 2000).

2.6.3 Importance and existence of SMEs in contradiction to Penrose

The success of Taiwanese SMEs and the statistics (ENSR 2003/7) that most of the European enterprises are small contradicts Penrose's (1959) interpretation of the existence of small firms. Her explanations deal with economies, or diseconomies, of size, related competitive disadvantages, and that a fair number of firms exist only because they are young. It is remarked that, at a later date, the same firm would have developed into medium-size or large firm in the latter case.

Penrose (1959, p.220) groups explanations into four general categories:

- 1) Some kind of activity unsuited to large firms such as quick adaptations to changing conditions, close personal attention to detail, or those where small plants are required.

- 2) Under some circumstances, large firms, for the sake of public relations, permit and protect the existence of small firms sometimes under a price umbrella.

- 3) In some industries, entry is very easy and many a hopeful manager can set up a firm every year, which leads to the existence of many small firms, which could fail at any time.

- 4) Finally, in the development of some industries, some small firms get a start, because the bigger firms have not yet mopped them up, but at the appropriate time, they will do so.

These general explanations can be questioned. The example of Taiwan's governmental policies which support their SMEs with financial resources, allows a wide choice of

activities without changing the spirit, size and structure of such firms and they are able to maintain flexibility and timely fast access to markets. Entrepreneurs with ability and original ideas can realise their firms' possibilities even more with such support. Penrose's explanations have a slight implication that large firms permit small firms to exist. She summarises that small firms may have permission to become large, especially if they have their own particular place of operations where large firms would be disadvantaged, because of their size. The ability of small firms for profitable opportunities will be destroyed if barriers are established against their entry and their growth and in areas where they can enter they may be displaced by acquisition. However, the same rules also apply to large firms. Size does not prevent this. The premise that large firms are imperfect is underlined by examples the best of which is the subprime crisis of 2008 and which caused large firms to struggle.

Statistics from both Taiwan (Chen et al., 1995) and Europe (ENSR 2003/7) confirm that most of the enterprises in these economies are small and they also confirm the economic importance of SMEs. In 2003, there were about 19.5 million enterprises in the European Economic Area (EEA) and Switzerland which provided employment for almost 140 million people, two thirds of whom were employed in SMEs. Developments in the period, 1988-2003, show an increasing employment rate in SMEs, whereas employments in MNCs decreased (European Commission, 2003/8).

It cannot be ignored that today's global production system with its low cost operation areas has a significant influence for manufacturing SMEs. Location decisions globally, proximity to customers, participation in value chains, and global availability of the same technology are demands on which supplying SMEs have to base their correct strategic decisions. MNEs play an essential role in promoting and shaping the patterns of such economic developments and this role is affected by means of their FDI decisions. Such forces will be discussed in the following chapters. There may be a fifth point, which can be added to Penrose's four-point explanation: a small firm may exist when such a firm fulfils the need for global participation.

2.7 Outsourcing – dominant in today's global production system

FDI growth has been accentuated by the global outsourcing boom of the last two decades. Consequently, latecomers to global business will be given a hard time from Contract Electronic Manufacturers (CEMs) (Hobday, 1987). Contract Manufacturers (CMs), in general, run large scale, highly automated manufacturing production systems and owing to their power, maintain a tight control over the supply chain of materials, components, and equipment suppliers. Felker (2003, p.269) describes a systematic outsourcing trend in Asia. Leading companies in electronics (and other sectors, to a lesser extent) have started outsourcing a growing range of functions, including entire manufacturing processes. This conceptualisation is labelled as “Wintelism” (Borras, 2000, p.58). This strategy has been adopted by US multinationals such as Dell, Cisco, Qualcomm, Sun Microsystems to out-compete Japanese rivals with low-cost manufacturing expertise throughout developing Asia. However, Japanese companies are fast learners: in 2000, Sony sold two of its plants to Solectron, in 2001, NEC followed by selling three of its telecommunication factories to Solectron and Celestica. European manufacturers then followed this trend; Ericsson, which assigned Flextronics to be their outsourcing partner for hand phone production, is an example. Table 2.5 shows the top ten CEM companies 2000 with their growth figures for 1999 - 2000.

Table 2.5: Top 10 CEMs 2000 (USD billion)

CEM Companies	2000	1999-2000 / Growths (%)
Solectron Corp	16.9	83
Flextronics International	10.1	199
Celestica	9.7	84
SCI Systems Inc	9.1	27
Sanmina Corp	4.2	202
Jabil Circuit Inc	4.0	78
Elcoteq Inc	2.1	173
Manufacturing Services Ltd	1.8	91
Benchmark Electronics Inc	1.7	94
C-MACIndustries Inc	1.7	110

Source: Technology Forecasters Inc.

Roberts (2003) describes the challenging business of CMs. During 2000 (see Table 2.5), 2001, and 2002, Flextronics International was ranked second and, in 2003, climbed with a turnover of USD 12.9 billion to the top, while Solectron fell into second place with a turnover of USD 12.3 billion from USD 16.1 billion in 2002. Analysts stated that compared with Solectron, Flextronics International also lost money but not momentum. From 1997 until 2002, both Solectron and Flextronics International, made 75 acquisitions! This is even hard for giants to manage. While Flextronics acted aggressively, but carefully, by acquiring companies which were culturally compatible and geographically diverse to broaden its competencies for vertical integration, Solectron tended to acquire raw capacity and revenue. At a time when the telecommunications sector was weak and when downturn began in 2001, Flextronics was able to leverage its capabilities, whereas Solectron ended up with a great deal of excess capacity. Solectron also made other strange acquisitions at the wrong time: in 2001, it bought two large competitors, ranked in the top CMs by turnover: NatSteel Electronics Ltd. *¹, Singapore was acquired for USD 2.4 billion and C-MAC Electronic Systems Inc.*², Montreal for USD 2.7 billion.

In addition, Solectron acquired, also in 2001, a call centre company unrelated to the core business, Stream International *³, Canton, Massachusetts. The goal was to service a repair business. There was only one logical outcome: a merger and acquisition manager stated: “Doing large acquisitions requires a carefully thought-out integration strategy and flawless execution; the bigger the acquisition, the bigger the distractions”. Solectron’s two acquisitions of the two competitors were so costly that, in the quarter ended May 31st, its long-term deposit was on USD 1.9 billion and shareholder equity was just over USD 1.6 billion. Flextronics’ acquisitions have been smaller, strategic, and therefore easier to integrate.

In the context of this research topic it is worth, demonstrating the dimensions of production services and to imagining the power and influence CEMs can develop, especially in the Electronics Manufacturing Services (EMS). It is also important to balance views,

*¹ NatSteel Ltd. (2.3 million square feet; 11 sites in Asia; 12,000 employees)

*² C-MAC Electronic Systems Inc. (no figure for capacity; 9,000 employees)

*³ Stream International (22 sites; 10’000 employees)

influenced by the culture, and education and the origins of people. In the Western business hemisphere, Original Equipment Manufacturers (OEMs) such as Intel, Microsoft, Nokia and Sony are well known but little is known, for example, about Hon Hai Precision Industry. This obscure Taiwanese company, under its slightly better known trade name Foxconn produces motherboards for Intel, play station consoles for Sony, PCs for HP and mobile phone components for Motorola. However, these companies are reluctant to admit this while Hon Hai does not boast about it. Founder and chairperson, Terry Gou, is not seen often in public, giving only the necessary financial statement disclosures based on the rules and laws of the Taiwan Stock Exchange. Normile's (2004) research showed that Hon Hai's sales grew from USD 2.9 billion in 2000, to USD 4.6 billion in 2001, to USD 7.7 billion in 2002. It is estimated that sales may have topped USD 10 billion in 2003. In our current statistics, Hon Hai must ranked third after Solectron and industry leader Flextronics. Mr. Gou's company organised in military style, in 1993, with its first production facility in China and operates today out of five industrial parks, which house not only Hon Hai factories, but those of suppliers as well. Hon Hai maintains R&D centres in the United States and Japan, and smaller production facilities in Scotland, in Ireland, and in the Czech Republic.

However, the make/buy decision for OEMs to outsource their manufacturing to an EMS is becoming more complicated. This is due to the growing demand for ODMs who not only build the product, but also design it for an OEM.

According to the industry market researcher, Technology Forecasters Inc., the ODM revenue in 2001 was USD 24.5 billion and, by 2005, the revenue is expected to reach USD 77.8 billion. Classical ODMs grew from the motherboard companies in Taiwan, such as Hon Hai, Inventec, Compaq, Delta Electronics Industrial and Gigabyte. They then moved into computer systems: most laptops today are built by ODMs. The decision to use an EMS or an ODM has to be evaluated carefully: pros and cons have to be compared and valued. ODMs often have a limited product scope, searching for product niches where they can grow and sell to multiple OEMs. Compared to EMS, ODMs do not have a global manufacturing footprint but they are often chosen by an OEM because they offer quick market access by through their design expertise.

“Wintelism” is the code word, defined as the structural dominance of OEMs over component providers or over assemblers. The term originated from the teaming of Microsoft and Intel, its best exponents, and represents the combined power of Microsoft’s operating systems and Intel’s microprocessors in the architectural standards of personal computers (Borrus and Zysman, 1997, p.141). Borrus and Zysman (1997, p.162) explain: “Wintelism is the code word, to reflect the shift in competition away from final assembly and vertical control of markets by final assemblers. Competition in the Wintelism era, by contrast, is struggle over settings and evolving de facto product market standards, with market power lodged anywhere in the value chain, including product architectures, components, and software”. Borrus (2000, p.58) characterises Wintelism by several major elements. The first element is the vertical disintegration of the industry’s value chain which has the effect of shifting market power from traditional, vertically integrated system assemblers to suppliers of hardware and software technologies, product definition and producer services. This is one explanation for the success of Taiwan’s SMEs. The second element is increased specialisation by independent producers in each segment of the value chain to achieve an accepted market standard. One of the best examples is the shift of market power from assemblers such as HP (formerly Compaq), Gateway, IBM, or Toshiba, to the key producer of components i.e. to Intel.

The spectacular promotion offensive “Intel Inside” is still remembered. The logo was displayed at each Personal Computer (PC) sold with their chip inside. Scholars remember the credo of Douglas Macbeth (formerly Professor at University of Glasgow): “Innovation, Quality, Deliveries, and Costs – in that order”. The companies mentioned follow a strategy of continuous innovation with an incremental increase in functionality, performance, features and quality within generations, and radical increases between generations, to maintain and to grow its customer base by achieving customer retention guaranteeing best value for their customers. They did not stop with their core business. They often entered value-adding opportunities in neighbouring parts of the value chain or in related industries. Microsoft, which moved from PC operating systems to applications, server operating systems, network services, information services, and transactions, is an example. Another important element listed by Borrus (2000, p.59), and interpreted by Dickens (2003, p.433), is that Wintelism could not have succeeded without the extensive inter-firm relationship with Asian-based producers, which comprised Cross-border Production Networks (CPNs) of the firms following Wintelism as the new industrial paradigm.

Wintelism started with US-owned firms to compete against the growing dominance in production perfection of Japanese companies. The process started already in the 1960s where Matsushita and Hitachi began to overrun established American positions in the consumer electronics market. By the early 1980s, Japanese firms were established in all electronics product markets. Consequently, large scale producers such as Matsushita, NEC and Toshiba, but also IBM and Siemens, dominated these markets. This era of proprietary systems, built to open or closed standards lasted until the early 1980s. IBM, with its proprietary mainframe computers with a closed system, is a major example. Anti-trust constraints prevented IBM from a monopoly of technological application until myriads of new entrants and also significant policy interventions began to undermine the logic of competition which was rooted in ownership and the vertical control of technology. These firms created the ground from which Wintelism would emerge. Borrus (2000, p.62) puts it best when he says that there was a dramatic shift from the previous era of proprietary systems, built to fully open or closed standards, to the era of Wintelism with “open-but-owned” systems.

Hart and Kim (2002, p.10) explain the resurgence of US competitiveness and the linked rise of Wintelism was the transformation of the computer industry from vertical integration towards horizontal integration. This new industrial paradigm will become widespread: it is not only a unique American institution but one which will diffuse to other nations too.

2.8 Interplay TNC/SME

In the interplay TNC/SME, Shrader et al. (2000, p.1228) say that scholars believe that the rapid internationalisation of new and small ventures is either an unimportant anomaly or a worldwide expansion of the Japanese Keiretsu model (Brown, 1996, p.254; Ernst and Ravenhill, 1999, p.42; Felker, 2003, p.262). It is stated, in a negative sense, that this kind of internationalisation of SMEs is a very dependent approach, i.e. dependent on TNCs decisions and activities. The statement that this approach makes the role of the SMEs less important, is wrong. In a positive sense, it is an opportunity for SMEs to explore the given platform in low operating cost countries, to gain experience, to create new networks and to learn from supply chain experience. In their presentation, Ruffing and Ferriere (2003)

summarise the benefits and the risks of the interplay between TNCs and SMEs. The benefits are:

- 1) Technological and managerial upgrading
- 2) Facilitation of other business alliances/transformation into internationalised SMEs
- 3) Market access, guaranteed outlet for production/information on market trends for SME strategic positioning
- 4) Facilitated access to credit or other financial support, and
- 5) Dynamic entrepreneurship, and specialisation by SMEs

The risks are:

- 1) Overly dependent on the TNC customer/caught in “cost down” market cycles imposed by TNC global players
- 2) Exposure to constantly increasing non-trade barriers such as high corporate and international quality standards

The example Taiwan which rebuts the scholars’ statements, mentioned by Shrader et al. (2000) is Taiwan, where SMEs have been, and still are, the main carriers of the country’s rapid development in electronics and computer industries. Stopford (1996, cited in Borrus et al., 2000, p.110) can be paraphrased: “Innovations in strategy and organisation can change the rule of competition and overturn many scale advantages to permit David to grow in the shadow of Goliath”.

2.9 Other costly barriers important to be mentioned

This chapter will illustrate other production related barriers to be considered in the participation of the global production system. Competitiveness on a global base is expected and this includes steady annual cost reductions. The automotive sector, as a leading cost reduction driver, expects annual cost reductions of at least 3%. A sentence in contracts runs: “The supplier agrees upon an annual productivity of 3% to be reflected completely in

the piece price” (e.g. Siemens VDO or Valeo, 2000 - 2009). Beside cost issues, another barrier can be the conformity with the necessary certifications for acceptance as a valued supplier. Remaining with the automotive industry, another example may be given by the standard ISO/TS 16949 (International Organisation for Standardisation / Technical Specifications), where practical and effective methods for reducing costs, streamlining business and industrial processes and strengthening customer/supplier relationships are systemised. There is a huge variety of such certifications, beginning with the quality standard ISO 9000, the environmental standard ISO 14000, the automotive standard ISO/TS 16949 already mentioned, or Military Standards such as the MIL-STD or International Traffic in Arms Regulations (ITAR). Governmental directives such as the EC directive on Waste Electrical and Electronic Equipment (WEEE) and the directive on the Reduction of certain Hazardous Substances (RoHS) in electrical and electronic equipment (beginning from July 1st, 2006), are other cost drivers. The annual waste of each European citizen on electrical and electronic equipment has to be reduced down to 4kg. In 1998, waste of 915,000 tons of electrical and electronic items was generated in Europe. New electrical and electronic equipment is no longer allowed to contain lead (e.g. in solder), or cadmium (e.g. in coloured plastics), or poly-promenaded biphenyl (e.g. cable isolations), or chrome (e.g. screws) and mercury (e.g. relay). This positive idea to protect the environment generates an enormous cost for SMEs as suppliers to MNEs for controlling the materials and for allocating production infrastructure purely for lead free productions, for example, some business sectors, such as the aircraft or the aerospace industries are exempted from the RoHS regulations for reasons of security.

2.10 Summary (Global trends in the economics of location advantages)

The chapter emphasises the importance of SMEs with their value creation in the economics described. Examples are given, such as Taiwan, where SMEs belong to the pillars of this nation’s global economic success and are backed by the subventions of their government. In the circuit of cost competitiveness, the increasing capacity to compete on the scale of global production system of economies such as NIEs (e.g. Taiwan) is explained. It can be imagined how the effects in the form of low cost production imperative may be exerted on firms, which do not yet participate in dedicated cross boarder activities. The low cost of tools which may be bought in general stores is given as an example. The reasons for this are illustrated by comparison of recent hourly compensation costs in countries such as

Thailand, Vietnam, and China. Trend analyses are demonstrated by the hourly compensations in certain areas and countries.

The search for low labour costs, in particular between countries, is identified as an important reason for the general growths of FDI, which is, in turn, linked to the rise of multinational companies. Other motives for internationalisation, such as proximity, are related by empirical researches. A selection of barriers (based on author's business life experience) which are not to be underestimated for a successful internationalisation are mentioned, where necessary certifications may play a costly role, or where outsourcing history may give newcomers to cross-border activities great difficulties.

FDI as a strategic option, in the decision-making process of SMEs, is illuminated by statistics as a rarely used option for many firms. This underlines the importance of this dissertation, which will contribute to filling gaps in the academic perspectives and also gaps in managerial considerations: both are also related to the perspective of the future new internationalisation behaviour of SMEs. Various rich examples highlight the dynamics, the complexity, and the trends in today's globalised manufacturing world. The variety emphasises also that the situation cannot be reduced to a simple theoretical model. Preparedness, uncertainty, identified importance and its effective realisation point to a lack of knowledge in the transformation after decision-making for internationalisation.

This chapter, dedicated to the world-market situation, is now followed by the "Literature Review" chapter. Both the world market situation and the academic literature related to the topic provide the framework for the research questions and methodology. The aim is to achieve a more holistic view on internationalisation in response to strategic goals and to underpin the relatively unresearched decision processes on internationalisation with the focus on FDI decisions.

3. LITERATURE REVIEW

3.1 Introduction

“Globalisation” here refers to economic globalisation, which is defined as the increasing cross-border interdependence and integration of production and markets for goods, services, and capital (Benito, 2002). An important interface exists between the micro-level (firm-specific) issues and the macro-level (country-specific) issues in the application of firms’ internationalisation. The positive benefits used by internationally active firms to increase competitiveness in contrast to the non-use of the benefits by domestically operating firms are of interest in the interplay between micro-level and macro-level. The phenomenon’s cause and effects, exercised on firms, and their strategic option in the form of FDIs is the research focus in this dissertation. The low cost production imperative has its causes which are described in the literature of MNEs internationalisation, whereas the effects and the gaps identified in academic literature belong to the realm of SMEs internationalisation. Therefore, in the structure of this chapter, it is important to discuss theoretical strands, both MNEs’ internationalisation and SMEs’ internationalisation in relation to the firms in focus. The aim is to build a robust theoretical base. The approach has an opportunity to hold an umbrella above the separated academic realms, for the reason that global cost competitiveness reached both type of firms, independent of their characters.

At the beginning of the twenty-first century, Dunning’s eclectic paradigm (1998) became the leading conceptual framework for the analysis of international expansion patterns of business firms (Rugman and Verbeke, 2001). This paradigm builds upon the interactions among ownership specific variables, location specific variables, and internationalisation incentives. Adapted to this research, the search for the benefits in the interaction of the variables and incentives is triggered by the low cost production imperative; limited to the FDI strategic motive of efficiency seeking among the other FDI key location advantages. Dunning (1998) identified three more key location advantages of international production: natural resource seeking; market seeking; and strategic asset seeking. Rugman and Verbeke (2001) further emphasise the eclectic model’s great strength is that it highlights the complexity of determining the practical implications for managers.

The framework designed for this dissertation will address the complexity, in which the outcome, based on the decisions made by the firms, is of great importance. Investigations

at the location advantages level appear to include further theories such as a firm's experience with foreign involvement, psychic distance, and attitude to risk diversification, entrepreneur's influence, and dynamic capabilities.

This study differs from previous research in three important aspects. First, little FDI research has been undertaken for the empirical analysis of the decision-making process of the firms described firms along with an enforcing external trigger – low cost production imperative – which itself has its roots in the global location advantage evolution. In academic literature, cognition underpinning internationalisation decisions is relatively unresearched (Acedo and Jones, 2007). Secondly, this study focuses on SMEs based in the German speaking part of Europe, which focused in their strategic orientation on domestic operations, a significant difference from the behaviour of MNEs who have dominated attention in the past. According to Tahir and Larimo (2004), studies on the determinants of FDI rarely combine location-specific variables with the strategic motivations of investing firms in Asian markets. Thirdly, it is assumed even more rarely, that investigations combine the knowledge based on which the firms described identify important location-specific variables under an enforcing strategic motive and then have to decide a location choice in a low cost operation area.

The aim is to achieve a more holistic view about firms' internationalisation aroused by the trigger low cost production imperative. Internal and external barriers, as well as timing aspects are of interest. Empirical analysis of the decision-making process as a strategic task together with the location-specific variables will not only add to our understanding about the eclectic paradigm (focus efficiency seeking), but also enrich our knowledge about FDI in general. Beside the contribution to literature, the aim of the findings is to offer a structured approach to management decision-making to assist manufacturing SMEs with domestic operations to adapt successfully to a changed and competitive, internationalised environment.

3.2 Internationalisation theory, switchover point, and the low cost production imperative

Rugman (1986) argued that internationalisation theory can be seen as an approach rather than a theory and the predictive power can be discussed as derived from the theory. Buckley and Casson (1985) conclude that there is confusion about the general, abstract,

non-productive, and non-testable general theory of internationalisation, and the special application of internationalisation theory, which is predictive and testable. Perhaps the internationalisation of firms triggered by the low cost production imperative belongs to a special application which will deliver predictable results. The prediction that the low cost production imperative breaks down the currently used cost structures which formerly guaranteed the survival of the firms in focus, is obvious in the warehouses today. Prices for such items as tools, clothes and electronic devices are offered at significantly lower price levels than years ago. Market imperfection has reached firms in their domestic markets, which may lead them to a strategic decision to invest into a low cost production subsidiary abroad to achieve competitive efficiency. Various switchover points for foreign direct investments have been mentioned in internationalisation literature. The low cost production imperative may be a recent switchover point where internationalisation theory predicts this as a valuable switchover point to a foreign entry mode. This postulates that the low cost production imperative would position itself into a frame of existing switchover points that turn internationalisation into a firm-driven version of strategic decision-making (Boddewyn, 1985; Rugman, 1986).

According to Kulkarni (2001), for many researchers, the primary means of entering a foreign market are exporting, licensing, joint ventures, and wholly owned subsidiaries. The latter is the focus of this dissertation with the assumption that the firm's intention is to continue its existence with a one hundred percent equity control and the best possible intellectual property protection. Another reason for this approach is the author's knowledge accumulated during 25 years of international business activities as an executive. The firms in focus vary in size from small to large and in accordance with Ghoshal (1987) and Teece et al. (1987), the author is aware of the difficulties a firm face in knowledge transfer, as well as learning difficulties. This is supported by academic analysis that knowledge creation and expertise are embedded in tacit organisational "routines" of firms (Winter, 1990) where the transfer of such routines are difficult. Empirical evidence later discussed in this chapter will underline the tendency towards wholly owned subsidiaries in favour over joint ventures. In consequence, such firms prefer full-ownership modes of international entry modes to others (e.g. Dunning, 1980; Cohen and Levinthal, 1990). By definition, a wholly owned subsidiary is one in which the parent company owns one hundred percent of the equity. Control is of importance and therefore two alternatives are open: the setting up of a completely new operation in a country (greenfield approach); or,

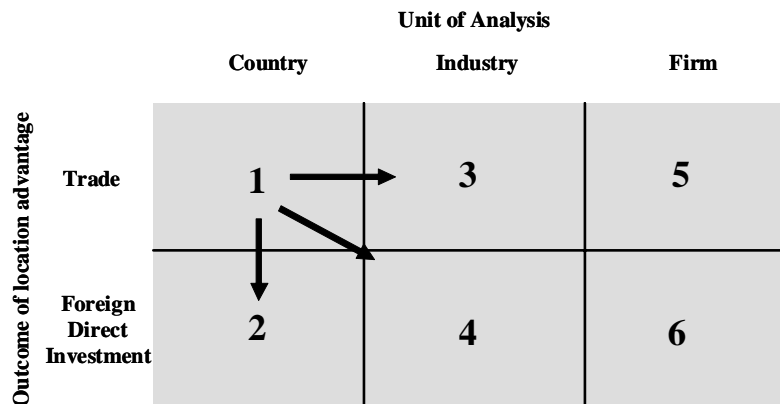
the full equity acquisition of a company in the host country. The latter can have a wide range of purposes such as faster time to volume, the use of existing start-up infrastructure, a local knowledge base, existing certifications, allowances, and an existing supplier base. The challenges are unique for each single firm requiring a demanding organisational capability approach, which underlines the importance for holistic investigations about any single firm’s conditions for restrictions on internationalisation.

3.3 The low cost production imperative and its position in academic literature

3.3.1 The use of Rugman and Verbeke’s framework

The classification of the international economics perspectives on location advantages from Rugman and Verbeke (2001) is used, adapted, and enhanced to position this dissertation (see Figure 3.1). The simple framework developed by them operates with two parameters. The first parameter is related to the unit of analysis. The focus is on the location advantages at the levels of country, industry, and firm. The second parameter distinguishes between trade and foreign direct investments as the outcome of specific location advantages. This is a critical distinction, because location advantages, instrumental to exports or import, may be significantly different from the location advantages conducive to outward or inward FDI. The authors remark that it is possible that FDI itself influences trade flows.

Figure 3.1: A classification of the international economics perspectives on location advantages



Source: Rugman and Verbeke (2001, p.152)

The use of the framework will attempt to get a better understanding of the causal mechanism by which FDI investment choice is made. Or, according to Buckley et al. (2007, p.1086), that “just as Dunning (1981) showed that one could not understand trade without understanding the multinational enterprise, it is the case that we cannot understand FDI location choice without understanding the process used to make such choices at the level of the individual manager”. A perspective on regional and global strategies of multinational enterprises is done by Rugman and Verbeke (2004). The authors argue that MNEs add value primarily through arbitrage – that is exploiting differences across nations and regions. Means, that successful integration thus reflects locational specificities, and entails a process of internalisation arbitrage. In detail, it refers essentially to the combination of MNEs specific advantages, deployed in host countries, with these countries’ location advantages.

3.3.2 Trade parameter (Effect parameter)

In the interpretation of the simple framework (Figure 3.1) and related to the phenomenon of the low cost production imperative, the outcome of cells 1, 3, and 5 can be seen as the effects coming from the second parameter foreign direct investments, which is represented with cells 2, 4, and 6 as the units’ of analysis – the cause.

Using the parameter trade in the perspective of today’s global production system, the trade reaching domestically operating firms in OECD countries demands high competitiveness regarding costs. In cell 1, in Figure 3.1, the trade from low cost operation workshops in Asia or Eastern Europe can be easily allocated into it. Allocations to cell 3 represents trade from single industries, which, to a very high percentage, moved to the areas mentioned before such as the electronics, computer, and telecom industries (Dickens, 2003). In cell 5, trade from MNEs such as Nokia, Ericsson, Motorola, Siemens, HP, Delta Electronics, Sony, Yaskawa, etc. can be allocated. One of the significant denominators for cells 1, 3, and 5 is identified by the labour factor. It can be concluded that a labour abundant country will export labour intensive products, which is the reason for today’s intense production workshops in certain Asian countries. According to Rugman and Verbeke (2001), an increase of a specific production factor will not lead to a homogeneous expansion of the country’s output. It will shift production and trade towards products that make the most intense use of the expanding factor. This is a reality in industrial zones, where there is an

unbelievable variety of industries entirely changing from door to door, such as from chemicals to food to clothing to electronics etc.

3.3.3 Foreign direct investment parameter (Cause parameter)

In economics theory, the motives for the location of FDI have been explained by the concept of cost minimisation which implies that a company will choose the least cost location for its production activities (e.g. Tahir and Larimo, 2004). Many scholars (inter alia Buckley and Casson, 1976, 1985; Rugman, 1981; Teece, 1985; Anderson and Gatignon, 1986; Erramilli and Rao, 1993) use the transaction cost paradigm as a motive for international production or choice of international entry mode. Other scholars (e.g. Kulkarni, 2001) point to certain weaknesses of transaction cost economics, explained by isolated decisions with each entry (to have a joint venture or not; to have a wholly owned subsidiary or not) or the opportunistic nature of the parties which is taken as given in transaction cost economics (Ghoshal and Moran, 1996). Kulkarni summarises that transaction cost economics may not offer a complete explanation of a firm's decision to enter a foreign market. Related to the phenomenon, cell 2 can be interpreted that in that cell the cost minimisation efforts and the inward FDI into these countries resulted in low cost production workshops (e.g. Ernst and Ravenhill, 1999; Felker, 2003). Cell 4 can be interpreted as combining all the industries (e.g. electronic industries) which shifted a majority of their production into low cost production countries. Finally, firms which decide to compete in today's global production system, where cost competitiveness, proximity, and a global footprint are mandatory selling propositions, can be allocated in cell 6.

3.3.4 The enhancement of the framework (Impact from the six cells)

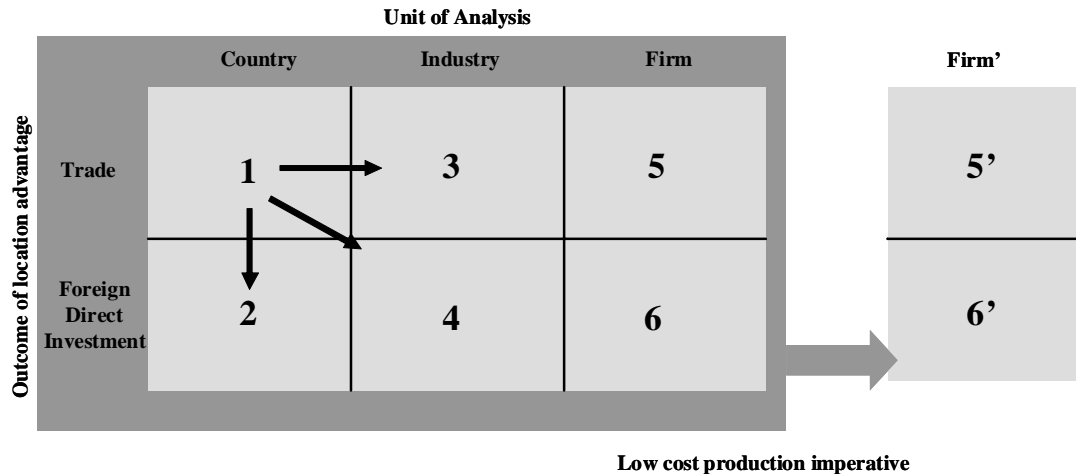
Rugman and Verbeke (2001) also remark that international economics literature on comparative advantage has evolved from a very narrow discipline, largely positioned in cell 1, to a much broader research, which spans now the six cells of Figure 3.1. They think that cells 4 and 6 are perhaps the most promising for future research.

With this in mind, the writer enhances their framework, because of the phenomenon. The unit firm is in the foreground and its perspectives with location advantages. The framework is enhanced (see Figure 3.2) not only to give priority to position the work but also to illustrate the effects in international economics perspectives with location advantages.

Therefore, the framework is enhanced with two cells, 5' and 6', still representing the unit firm. This means that the location advantages described in cells 1 - 6 result in the low cost production imperative, which exerts competitive pressures on cost base onto the firms in focus. Do these firms themselves consider that they are taking location advantage opportunities in the form of foreign direct investments in a low cost location and how is their decision-making process construed? The investigations in this dissertation are originated in cell 6. It is assumed for trade in cell 5' that trade is increased as the competitiveness of the firm increases. The nature of location advantages for firms is complex. The firms' standpoint, related to internationalising operations, influence by the entrepreneur, dynamic capabilities, and the entire knowledge base of the firm, has to be considered. With the enhancement of the framework to cell 6' (and 5'), the author is following up holistic investigations within the unit firm. A recent increasing tendency, recognised in the internationalisation literature (inter alia Young et al., 1989; Andersen, 1993; Vahlne and Nordstrom, 1993; Bell and Young, 1998; Jones, 1999; Andersson, 2000; Jones and Dimitratos, 2004; Jones and Coviello, 2005) is towards the more complex reality and towards the unique behaviours of firms, and away from simplified models. Rugman and Verbeke (2001) confirm for MNE's that Dunning's (1988, 1992, 1999) eclectic paradigm as well as the modern internationalisation perspective on the functioning of MNE's (Rugman 1981, 1986; Rugman and Verbeke 1992, 1998) start from the premise that location advantages may be very different for each firm.

The aim is to position the conceptual perspectives of this dissertation in international economics, wherein a specific type of firms is the unit of analysis.

Figure 3.2: A classification of the international economics perspectives on location advantages / enhanced with the positioning of this dissertation



Source: Enhanced framework by the author from Rugman and Verbeke (2001)

3.3.5 The static nature of the frameworks combined with a dynamic dimension

The enhanced eight cells framework, in addition to the original six cells framework, shows the perspectives on location advantages in a two dimensional – static – way. The frameworks increase in explanatory power when a third dimension is added in the form of the circuit of cost competitiveness described in chapter 2 - (M) – (C) – (P) – (M') – (C') – (P'), derived from Dickens (2003) basic circuit of capital. The macro-level realities related to the global production system have been illustrated with some examples in chapter 2 on production shifts (e.g. Bronfenbrenner, 2001), or low cost production areas (e.g. Ernst and Ravenhill, 1999; Felker, 2003), or the development of specific countries (e.g. Taiwan). It can be imagined that with a globalised production system, pressure on cost competitiveness reached firms independent of their size. When it has been decided to use FDI as a means of participation in this global system, the efficiency seeking type of FDI focused on in this work, leads to a high complexity, because it involves the location advantages of countries. The international exposure of a firm inexperienced in FDI may be quite demanding for the firm.

Both frameworks and the reasons for the enhancement of the original framework allow a clear positioning of the low cost production imperative in the classification of the international economics perspectives on location advantages.

With this derivation, the identified phenomenon and the strategic decision-making process (micro-level/firm specific) can be addressed from an explained cause and effect position.

3.4 Location advantages and MNEs international business theory

The pattern and form of international production, in the first fifteen years after the Second World War, were unique. Foreign production was dominated by US firms and this reflected the first stage in the evolution of modern MNEs. The reasons have been the huge lead built up by the US in technological capacity and management and organisational expertise, advances in international transport and communications, and the world shortage of dollars which made it both possible and desirable to exploit these advantages by foreign production (Dunning, 1979). From that time, MNEs played an essential role in promoting and shaping the patterns of economic development: a role which is affected by means of their FDI decisions. The quest for scale, scope and learning economies has tended to motivate corporations to become even larger through international mergers and acquisitions (Ghoshal, 1987; Yip, 1989; Kozul et al., 1998).

Dunning and Rugman (1985) acknowledge the influence of Hymer's dissertation on the theory of FDI, in which the process of FDI as an international extension of industrial organisation theory was articulated. They mention, that today, it is widely recognised that the theory of FDI (i.e. international production) is primarily about the transfer of non-financial and ownership specific intangible assets by the MNE, which needs to appropriate and control the rate of use of its internationalised advantage(s), see Rugman (1981), Teece (1981), Caves (1982), and Buckley and Casson (1984). It is may be noted, for the purpose of this research, that Dunning and Rugman (1985) remark that Hymer paid little attention to the location issues and activities, which is an important cog in the eclectic theory of international production (Dunning, 1981). Hymer neglects the importance of geographic and spatial dimensions, which obtained, in the age of "globalisation", an extremely important status, e.g. in regard of location specific factors. Hymer (1960, published 1976) was the first author to focus on foreign direct investment as a tool used by MNEs to transfer and to exploit proprietary resources abroad (Rugman and Verbeke, 2001). Vernon

followed Hymer with the well-known product life cycle symbiosis (Vernon, 1966) between the location advantages of the home country in technical innovation and the resulting proprietary assets at the MNE level. As a conclusion, MNEs were then capable of linking their firms' specific advantages with the specific location advantages of the host country.

The prominent motives for FDI are those related to market seeking and factor seeking (Dunning, 1979; Root, 1994). The traditional view, especially with MNEs, is that firms engaging in FDI have competitive advantages as sellers in new markets and/or expect to reduce their costs of production, due to lower factor costs. The latter is based on location specifics of the foreign country. These location specific advantages were further explored and evidence emerged to support this over the last two decades. Dunning's eclectic paradigm has become the leading conceptual framework for the analysis of international expansion patterns of business firms. In the context of this dissertation, it is worth remarking that the framework considers location specific advantages which vary for different countries, industrial sectors, and firms (Dunning, 1992). In addition, it is important that the eclectic paradigm spans FDI type efficiency seeking of firms and the location advantages of countries. The decision to internationalise in the eclectic model involves the identification of the advantages that the firm can transfer to international markets. Such ownership advantages may be specific income generating assets which the firm possesses or has privileged access to. According to the resource-based perspective of strategic management, these ownership advantages represent resources, or capabilities, which may translate into sustainable competitive advantage (Barney, 1986; Dierickx and Cool, 1989). Kindleberger's arguments (1969) highlight aspects such as asset power and the monopolistic advantages of MNEs for internationalisation and their erection of barriers to entry. This was the focus of the work written by Hymer (1976), but as noted by Dunning and Rugman (1985), Hymer did not consider transaction cost-type reasons for internationalisation. Scholars such as Hood and Young (1979), Caves (1982), Buckley (1983), and many others have debated the role of internationalisation as a general theory of FDI.

Fundamental changes in political ideologies and economic systems in a large number of developing countries have led to a dramatic shift in the way governments changed attitudes to become investment friendly. The two primary determinants of globalisation have been the rapid and widespread implementation of new technologies, particularly, information

and computer technologies, the consequential fall in cross-border communication and organisational costs and the renaissance of democratic capitalism and the liberalisation of many domestic and international markets (Narula and Dunning, 2000).

3.5 Location advantages and the basic principles of transaction cost theory

This dissertation concentrates on a phenomenon, which has an impact on the survival of smaller or mid sized firms. Today's cost competitiveness perhaps has its origin in the evolutionary continuity, explained by the principle of cost minimisation: that a company will choose the least cost location for its production activities abroad – the motive for the location of FDI.

In addition, today's cost competitiveness may have its origin in the continuity and steady improvements of cost minimisation which was carried out in the development and existence of MNEs. Efficiency seeking as one element in the economic theory of MNEs and location advantages of host countries are in a constant interplay with internationalisation decisions thus providing an explanation for the existence of international production (Buckley, 1987). The transaction cost paradigm is used by some scholars as a motive for international production.

The transaction cost theory was first developed by Ronald Coase, in 1932, as a part of a series of lectures given to students at the School of Economics and Commerce in Dundee, Scotland. His core notion was “when a company tries to determine whether to outsource or to produce goods or services on its own, market prices aren't the sole factor”. There are also significant transaction costs, contracting costs, search costs, and coordination costs in existence. The theory began with Coase (1937), and was followed up by Williamson (1975), and McManus (1972) with later contributions such as those from Buckley and Casson (1976), Casson (1979), Rugman (1981) to Dunning (1981). According to Rugman (1986), Williamson has not made serious efforts to extent his analysis to the realm of MNEs. Applications which are more direct have been offered by Teece (1981, 1985) and Hennart (1982). Williamson's discussion (1975) on the limitation of humans to understand more and more complex phenomena is related to this dissertation. This limitation generates uncertainty due to complexity in the interaction with the environment.

3.6 Location advantages and global cost competitiveness

The globalisation of manufacturing was dominated by US firms in the period after the Second World War until today's low cost operation centres mainly located in Southeast Asia, China, Mexico, and Eastern Europe. This reads as an impressive development shaped by MNEs and their FDIs. Boom eras in the late 1980s and early 1990s transformed Southeast Asia and China into export dynamos (Felker, 2003). Since the early 1960s, the relative position of the US as a source of international direct investments has declined. First, the UK and then the Western European countries followed by the Japanese increased their propensity to engage in foreign production. Then, some of the less developed countries followed, which explains their increased international competitiveness. The United States' initial position in FDIs is similar to the position currently taken by US firms in their massive production shifts to Asia, Mexico, and Latin America (Bronfenbrenner, 2001).

Hymer's theory on the existence of MNEs, which is based on monopolistic reasons to separate markets and to prevent competition between the units, has not examined other important aspects of FDI investments which are considered in other theories. The eclectic theory (Dunning, 1981) is an example. Considerations of location of MNEs activities are neglected in Hymer's theory as well as the way in which location-specific factors are determined interdependently with ownership-specific factors in the process of FDI.

It is important to distinguish the policy implications and opportunities toward a more MNEs friendly attitude since Hymer's theory than it has been for many years (Dunning, 1998). The difference in speed of occupation and possession location specific advantages utilised by the MNEs of the past and the more MNE friendly attitudes of today is remarkable. This trust towards MNE-friendly attitudes dates back to the early 1980s, and corresponds to a variety of changes in the world economy that have been generically described as "globalisation" (Narula and Dunning, 2000). Globalisation has influenced both the nature of the competitive or ownership specific advantages of corporations and the comparative and the location-specific advantages of countries. The latter is a source for different production conditions. That is why today's massive production shifts are to countries providing excellent production conditions. Foreign direct investments are now commonplace and there is increasing and continuous competition among those countries

offering various incentives to attract decision makers to their region. The liberalisation of many domestic and international markets, global connections and therefore lowered transport costs and the implementation of new technologies, particularly in the information and computer industries, are the enablers for these developments. In summary, many of the government imposed barriers and structural impediments to protect domestic markets are falling rapidly. In both ways, these falling barriers together with the technology advances in production, transportations, and communications not only allow firms access to customers worldwide, but also to face competition in their domestic market.

3.7 Location advantages reached SMEs

The search for the lowest production cost opportunities over decades and the growing tendency for location investment friendly attitudes of many governments supported a globalised and competitive production system. This system does not distinguish between MNEs and SMEs. SMEs in OECD countries may face a similar evolving situation to that described in the MNE internationalisation literature as the “eclectic paradigm” (Dunning, 1979). The firm as a unit – now larger or medium to small sized firms – are confronted with a growing domestic market imperfection due to newly imported similar products with lower cost structures. Cell 6’ in the enhanced framework, perhaps represents the strategic decision-making opportunity for the domestically producing firms considered here to stay competitive by making a foreign direct investment.

Global competition in the manufacturing sector affects the majority of firms independent of their size and geographic location. Scholars such as Ernst and Ravenhill (1999) or Bartlett and Ghoshal (2000) no longer distinguish MNEs and SMEs. This conclusion merits a review on the traditional internationalisation literature of SMEs, especially when “born global” companies from this realm now have input to the new competitive situation (e.g. Knight and Cavusgil, 1996; Madsen and Servais, 1997; Ernst and Ravenhill, 1999; Borrus et al., 2000; Dickens, 2003; Ruffing and Ferriere, 2003). Cost and time pressures are facts which affected various types of SMEs in a new dimension of a globalised business.

Another important point, related to the discussion above, addresses experiential knowledge in international activities. Empirical research has adopted international experiences as an

indicator for managerial capabilities. Pennings et al. (1994) mentioned that managers with entry experience execute FDI tasks more efficiently and effectively, for the reason that their already acquired knowledge in dealing with governments, suppliers, etc. is positively related to performance.

A motive in favour of FDI decisions is emerging: efficiency seeking is not a proactive strategic task of firms, but instead it is a reactive task enforced from a changed environment to act against a market imperfection. This is an addition to the paradigm on internationalisation motives, where firms in focus have to decide against their original global orientation because of new cost pressures. The evidence is given in Table 2.4 that just 3% of SMEs maintain a subsidiary, joint venture, or branch abroad. Therefore, it is assumed that the process is at the beginning of its life cycle. How many SMEs and larger firms are affected by the same phenomenon may be an interesting macro-economic investigation in further research.

The research investigation here addresses a very contemporary phenomenon with a strong relevance to the field of SMEs internationalisation. A contribution will also be to the economics of location advantages, which are beginning to be used by SMEs and larger firms.

3.8 SMEs and internationalisation

3.8.1 Location advantages and SMEs internationalisation

The first two strands of mainstream internationalisation literature, trade theory and foreign direct investment theory, have been discussed, using the framework of Rugman and Verbeke (2001). Others are internationalisation theory, stages theory, network theory, transaction cost theory and new venture theory. Here, the focus is on location advantages and the related actual position of SMEs stage of internationalisation. In doing so, it still covers all the key aspects in internationalisation literature that a study of this nature must take into account. Many studies use this selective approach (e.g. Autio et al., 2000). An approach to bundle on the essence is explained in the following context. Often in academic literature it is stated that little is known about small firms internationalisation (inter alia Oviatt and McDougall, 1994, p.45; Zucchella, 2001, p.47; Liao et al., 2003, p.64). The process is more based on observations of large firms' behaviours and therefore described. However, due to the importance of SMEs in contributing to economic growth, social

cohesion, employment and regional development, more and more can be found in recent literature on the internationalisation process of small firms (inter alia Brown and Bell, 2001; Moen and Servais, 2002; Liao et al. 2003; Fleisch and Joost, 2004; Jones and Coviello, 2005; Acedo and Jones, 2007). A comparable process is described by Dickens (2003, p.7) referring to a count of books and academic papers with “global” or “globalisation” in their titles. Between 1980 – 1984, there were only 13 titles, between 1985 – 1989 the number had grown to 78, and then exploded between 1992 – 1996 with almost 600 titles. Since then, the number of globalisation titles has grown by several hundred each year. A similar evolutionary process is expected in mainstream literature on the internationalisation process of SMEs.

3.8.2 Traditional stage models, holistic, strategic, and timing aspects

A firm’s international involvement is described as a gradual development process (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1980). This process evolves in the interplay between the development of knowledge of foreign markets and operations on one hand and the increasing commitment of resources to foreign markets on the other. Johanson and Wiedersheim-Paul (1975, p.307-308) describe two patterns: the first explains a stage process, where, if there are no regular export activities to a market, exporting is carried out by an independent representative and then later via a sales subsidiary and then, perhaps, production will begin there later. In the first stage, the primary focus is on preferable similarities to the home market and on location at a short psychic distance. The second pattern explains the more firms accumulate experiential knowledge, the enter markets with a physically greater distance. Psychic distance is defined in terms of factors such as differences in language, culture, political system, etc., which complicate the flow of information between the firm and the market. These two patterns manifest the internationalisation of firms. The processes and patterns mentioned have a model character. Various real time factors such as time and competition (Vahlne and Nordstrom, 1993, p.531) have not been considered. Andersen (1993) in assessing the stage models acknowledges general acceptance in the literature. On the other hand, Andersen (1993, p.17) in his critical assessment of the stage models says that little attention is given to the time dimension. Even Vahlne and Nordstrom (1993, p.530) discussed the slow sequential process of a firm’s internationalisation based on the Johanson and Vahlne (1977) model. They further state that some reports indicate an increased tendency to jump immediately to

psychically distant markets. In summary, the founding ideas of internationalisation stem from Sweden, from the work of Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977) – which is called the stage model (also named Uppsala model (U-model)). From North America (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; and Reid, 1983), responded to Sweden with an oriented model where managers in these firms have an important role to play and it is their innovative response to international opportunities facilitating their firm's internationalisation, which is named the innovation model (I-model).

Moen and Servais (2002) summarise that the Uppsala internationalisation model and the innovative-related internationalisation models are closely related. Both the Uppsala model and the innovation-related internationalisation models describe a gradual development pattern, based on lack of knowledge and uncertainty (Andersen, 1993). Table 3.1 illustrates an overview on the stages in the models from authors from Swedish and North American authors.

Critique: The stages models are widely cited, but they are also plagued with criticism on various fronts. Their oversimplification (Bell and Young, 1998) is for a business executive, of course, obvious: their conceptual validity (Andersen, 1993), the want of integrative approach and the lack of a holistic view on the firms mean that discussion on the internationalisation of firms only scratches at the surface. Young et al. (1989) rejected this theory and sought to replace it with a strategic oriented approach. Jones and Dimitratos (2004) acknowledge that it is generally accepted that firms do not necessarily follow the incremental, linear pattern of internationalisation, espoused by early studies of small firm internationalisation. Recent evidence suggests that firms may follow much more complex patterns involving a range of entry modes and countries. Jones (1999) found little explicit support for stage models; instead, she discovered that the accumulation of experiential knowledge is significant in determining the rate and scope of the international expansion of SMEs. A recent development in internationalisation theory considered the importance of the entrepreneur's role in a firm. Andersson (2000) regards this role as crucial for a firm's international strategies and for explaining a firm's international behaviour. Jones and Coviello (2005) noted that while contemporary understandings of internationalisation are informed by integrating multiple theoretical aspects there is a need to incorporate entrepreneurial behaviour into models of internationalisation. In brief, there are various

examples regarding a more realistic assessment about the complexity involved in the internationalisation of firms. A statement by Turnbull (1987) fits best into this study that a firm's internationalisation process is largely determined by the operating environment, industry structure, and its own marketing strategy. The conclusion may be that the stage processes are more valid in the early stages of research on the internationalisation processes done by companies.

Table 3.1: Stage models – an overview

Stages	Johanson and Wiedersheim- Paul (1975)	Bilkey and Tesar (1977)	Cavusgil (1980)	Czinkota (1982)
Stage 1	No regular export activities	Management is not interested in exporting	Domestic marketing: The firm sells only to the home market	The completely uninterested firm
Stage 2	Export via independent representatives (agents)	Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting	Pre-export stage: The firm searches for information and evaluate the feasibility of undertaking exporting	The partially interested firm
Stage 3	Establishment of an overseas sales subsidiary	Management actively explores the feasibility of active exporting	Experimental involvement: The firm starts exporting on a limited basis to some close country	The exploring firm
Stage 4	Overseas production/manufacturing units	The firm exports on an experimental basis to some psychologically close country	Active involvement: Exporting to more new countries - direct exporting- increase in sales volume	The experimental firm
Stage 5		The firm is an experienced exporter	Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets	The experienced firm
Stage 7		Management explores the feasibility of exports to other more psychologically distant markets		The experienced large exporter

Source: Summarised from Andersen (1993)

Studies from scholars (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Cavusgil, 1980; and Czinkota, 1982) focus on a gradual development which takes place in distinct stages (Melin, 1992). Internationalisation literature began a new chapter, initiated by McDougall et al. (1994), and Oviatt and

McDougall (1994) when they concluded that a model such as the I-model is not valid for firms, which are international from inception, i.e. “born global” firm which has been previously mentioned.

3.8.3 Born global firms, participants in a globalised system

Academic studies have described the international involvement of a firm as a gradual development process (inter alia Johanson and Wiedersheim-Paul, 1975; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1980; and Czinkota, 1982). The process is dominated, on the one hand, by interplay between developed knowledge on the foreign market and increased commitment of resources on the other. Recent studies pointed to the inconsistency between the stage theory which has been mentioned and the empirical reality of a growing number of firms, which have adopted a global focus since their conception; the so-called “born globals” (Knight and Cavusgil, 1996). The critique regarding the concept of a gradual internationalisation process has been discussed.

In the past two decades, studies have focused on what have been termed ‘international new ventures’ (McDougall et al. (1994), ‘global start-ups’ (Oviatt and McDougall, 1994), ‘born globals’ (Knight and Cavusgil, 1996; Madsen and Servais, 1997), or ‘instant internationals’ (Preece et al., 1999).

Oviatt and McDougall (1994, p.49) define an international new venture as “a business organisation that, from inception, seeks to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries”. Another definition is given by Knight (1997, p.1), who define a born global company as “a company which, from or near its founding, seeks to derive a substantial proportion of its revenue from the sale of its product in international markets”. It is obvious by analysing the definitions that the firms in focus do not belong from inception to the broad category of ‘international new ventures’.

Moen and Servais (2002) suggest that the period between foundation and beginning of internationalisation is important. The attention paid by individuals towards internationalisation is correlated to the speed to internationalise a firm.

Scholars surveying the emerging phenomenon of micro Multi National Enterprises (mMNEs) attest certain ignorance in literature about SMEs which progressively service international customers through Constellation & Ivestment modes (C&I). Modes, such as licensing, franchising, joint ventures, strategic alliances, and subsidiaries are listed under C&I. The international business literature, as it seems, has traditionally restricted the term “multinational” to the internationalisation activities of large firms. Researchers (Dimitratos et al., 2003, p.165) propose the following definition for mMNE: “A micromultinational is a small and medium-sized firm that controls and manages value-added activities through constellation and investment modes in more than one country”. Following this definition, Dimitratos and his colleagues (2003) view the aspect of owning value-added activities to be of lesser importance for mMNEs. This means that mMNEs have a smaller degree of international value-added activities, represented by physical assets. This is because mMNEs mainly operate in business segments such as software, telecommunication, and computer-related services. In conclusion, mMNEs possess a higher degree of international-added activities by “knowledge intensive assets” that the multinational index of foreign to total (physical) assets fails to capture.

Ibeh et al. (2004) found that recent research, however, suggests that firms might be less concerned about the risk of sharing their proprietary knowledge. This finding contradicts Tang and Yu (1990), Wang et al. (1999), and Deng (2001, 2003) on historical and current procedures by governments, partners of joint ventures, and firms in absorbing Intellectual Property (IP). Luo (2001) in his studies on “Determinants of entry in an emerging economy” concluded, that if perceived property rights protection is weak, firms are more likely to employ the Wholly Owned Foreign Enterprise (WOFE) entry mode. Ibeh et al. (2004) thinking is in opposition to the traditional views on entrepreneurs, where unique selling propositions, pride, and ownership playing an important role.

3.8.4 Firms in focus and SMEs internationalisation

The firms in focus are firms, which have just recently been affected by the phenomenon. A classification of the firms into the process stages, for example, in the stage model of Johanson and Wiedersheim-Paul (1975) or Cavusgil (1980) is possible, where, in both models, the firms can be allocated to stages 1 to 3 (Johanson and Wiedersheim-Paul) or stages 1 to 4 (Cavusgil). Strategic decision-making by the firms is now under challenge to

maintain the next significant step under possible time constraints so that enough reasonable margins may be preserved in the cost battle to fund the outcome of decision-making, such as FDI.

Another important difference is that born globals have a weak domestic base. The founders of born globals recognise the limited importance of the domestic market from the firm's inception, but perceive the world as one market and thus do not confine themselves to a single country (Chetty and Campell-Hunt, 2004). Operating firms may have a different origin as, often, the root of their existence is grounded in their domestic market. Therefore, the domestic market is important (roots, culture, supplier base, customer base, etc.) for these firms, and is therefore associated with different and less positive attitudes on internationalisation and interconnected risks (Cavusgil, 1996; Eriksson et al., 1997; Autio et al., 2000). Knight and Cavusgil (1996) conclude that firms, which internationalise early, develop a positive attitude towards internationalisation.

There are other terminologies on firms' orientation and attitudes in the existing literature. The first is given by Fleisch and Joost (2004), and another by Sear et al. (2004), who use

- 1) "Not interested" for companies, who are simply not interested in internationalising
- 2) "Curious" for companies where interest stemmed more from a reaction to the interest of their existing customers, who might themselves have opened new branches abroad and therefore required services or products in those countries
- 3) "Tentative" for companies with less than a defined percentage (15%) in international sales

Both the stage theory and the born global theory may be too rigid and may even lose relevance over time. The low cost production imperative will urge firms to a different form of internationalisation rather more in response to different strategic goals than as stages in a gradual process. For manufacturing SMEs, it may be a more pertinent strategy to decide for FDIs rather than to pass stage by stage (process model!). The timing factor is worthy of

consideration in response to the strategic goal to be profitable and to guarantee the survival of the firm in the near future.

Following the principle of selectivity, in Table 3.2 some significant literature related to the phenomenon and to the cause and effect is listed. To date, academic literature separates MNEs and SMEs into the realms. The table includes free will expression and opportunity seeking approaches made by the firms, which are both implicitly accepted in many academic studies (in both realms). The effects from the realms are responsible for today's phenomenon: the low cost production imperative. To a major extent, the causes provoked by the MNEs are symbolised in the structure of the table, but also, although to a minor extent, the competition which comes from born global firms. FDI decision-making as a possible consequence is also arranged in the table. In general, implicitly expressed in Table 3.2, global cost competition has reached both kinds of firms from the two academic realms.

Table 3.2: Internationalisation theories (MNEs and SMES) and the positioning of the low cost production imperative (Source: The author)

MNEs Internationalisation Theories		SMEs Internationalisation Theories		
Transaction costs, Market imperfections	e.g. Coase (1937), Teece (1981), Rugman (1981), Dunning (1981), Hennart (1982)	Gradual development in distinct stages U-models	Johanson and Wiedersheim-Paul (1975); Johanson and Vahlne (1977)	Free will and opportunity seeking approaches
Product life cycle model	Vernon (1966)	I-models, (limited to export)	Cavusgil (1980) (e.g. Bilkey and Tesar (1977), and Czinkota (1982))	
Market closing, entry barriers	Hymer (1976)	Born globals (Internationalisation from inception)	e.g. McDougall, Shane and Oviatt (1994), Oviatt and McDougall (1994), Knight and Cavusgil, 1996; Madsen and Servais, 1997	
Eclectic Model	Dunning (1981)	Integration of entrepreneurial behaviour	Andersson (2000), Jones and Coviello (2005)	
Conditions required by the theory	Rugman (1981), Boddewyn (1985)			
Strategic management, entry and exit barriers	Porter (1980)			
FDI process	e.g. Caves (1982), Casson (1983)			
	Low cost operation workshops (Ernst and Ravenhill, 1999; Felker, 2003)			FDI decisions by SMEs
	Low cost production imperative			

3.9 Entry mode preferences and theories involved

3.9.1 Entry mode preferences discussed with the example of trends in China

According to statistics (Table 3.3), by 1999, half of all foreign investments in China used the form of Wholly Foreign-Owned Enterprises (WFOEs). Deng (2001) uses the term WFOE where, in other academic literature, the term WOFE is often found. China launched its open door policy in 1979 and since then China has attracted massive inward FDIs. In 1992, China achieved the position of the second largest FDI recipient in the world, just behind the United States. Cumulatively, by the end of February 2002, contracted FDI in China achieved \$756.74 billion covering 393,900 investment ventures and with actually utilised investment of \$401.10 billion (The People's Daily, 2002). After its formal entry into the WTO on December 11th, 2001, China continued to keep up the momentum to attract massive foreign investment.

A historic review by Deng (2001, 2003) explains that, during the 1980s, foreign firms used the Equity Joint Ventures (EJV) entry mode, largely because of government pressure. According to Wang et al. (1999), the Chinese government preferred EJVs over other types of FDI, because the officials believed that it best served Chinese interests in absorbing foreign capital, technology and management expertise. During the 1990s, an evolution in Chinese government's way of thinking took place and WFOEs were permitted. The door was now open for foreign firms to align their equity shares with their objectives in the Chinese market. A corresponding law was introduced in 1991. Chinese officials, at that time, were much more concerned in what foreign investors brought to the country in terms of jobs, technology, and foreign exchange, than in how they were structured. This positive development was also reflected in the lower rated country risk factor. The Chinese government committed itself wholeheartedly, irrevocably and unambiguously in several steps, to an open market economy. A brief historical summary about these steps follows.

In 1992, Deng Xiao-Ping's southern tour reiterated China's priority of an open door policy and market economy. In autumn 1997, the 15th Communist Party Congress marked the start of a new phase of reform and promised a wholesale transformation of the country's economic and business structures, including privatisation. In spring 1998, for the first time, official guarantees in the state constitution acknowledged the private sector where FDI was

widely accepted as a crucial part of the economy. Finally, after years of procrastination, China joined the WTO in 2001.

China's political evolution towards a market economy contributes to today's preferences in operating with WFOEs. However, it must be remarked that in some industries, such as transportation, real estate and development WFOEs, still are restricted (Deng, 2001). This business reality is experienced by the author in discussions with companies and authorities during his business activities in Shanghai, Suzhou, and Nanjing (2005).

Table 3.3: FDI in China
(In millions of US\$ except for the number of approved investments projects in parentheses)

Year	Pledged FDI	Pledged EJVs	Pledged WFOEs	Pledged CJVs	Pledged Others	Used FDI	Used EJVs	Used WFOEs	Used CJVs	Used Others
1991	11,977 (12,978)	5,749 (8,395)	3,483 (2,795)	2,582 (1,778)	163 (10)	4,366	2,299	1,135	763	169
1992	58,124 (48,764)	29,128 (34,354)	15,696 (8,692)	1,330 (5,711)	72 (7)	11,007	6,115	2,520	2,122	250
1993	111,436 (83,437)	55,175 (54,003)	30,456 (18,975)	25,499 (10,445)	304 (14)	27,515	15,348	6,506	5,237	424
1994	82,680 (47,549)	39,665 (27,890)	21,572 (13,007)	20,547 (6,634)	341 (18)	33,767	17,933	8,036	7,120	678
1995	91,282 (37,011)	39,742 (20,455)	33,658 (11,761)	17,825 (4,787)	57 (8)	37,521	19,078	10,317	7,536	590
1996	73,277 (24,556)	31,877 (12,628)	26,810 (9,062)	14,297 (2,849)	293 (17)	41,725	20,755	12,606	8,109	256
1997	51,004 (21,001)	20,726 (9,001)	17,658 (9,602)	12,066 (2,373)	554 (25)	45,257	19,495	16,188	8,930	644
1998	52,132 (19,799)	17,286 (8,107)	21,753 (9,676)	11,656 (2,003)	1407 (16)	45,463	18,348	16,470	9,719	926
1999	41,238 (17,101)	123,289 (7,066)	20,936 (87,370)	6,814 (1,654)	199 (11)	40,398	15,844	15,627	8,215	713
2000	62,657 (22,532)	20,030 (8,560)	34,011 (12,199)	8,051 (1,755)	564 (18)	40,722	14,558	19,139	6,501	544
2001*	69,191 (26,139)	13,773 (7,033)	34,369 (12,237)	6,702 (1,267)	356 (12)	46,846	11,745	19,980	4,751	877

Sources: *Almanac of China's Foreign Economic Relations and Trade* (various issues). The figures for 2000 and 2001 are from the MOFTEC, *Statistics on Foreign Investment in China*, www.moftec.gov.cn, [accessed March 22, 2002]

Note: *First ten months, except for the figures in the columns of pledged FDI and used FDI, which are adopted from *The People's Daily* (Overseas Edition), February 2, 2002, p. 2.

Deng (2001) lists three reasons which underlie the popularity of WFOEs:

- 1) The disappointing performance of too many EJVs
- 2) The inherent advantages of WFOEs
- 3) Changes in government regulations and a less uncertain environment

Geringer and Herbert (1991) reported that estimates of unsatisfactory EJV performance ranged from 37% to more than 70%. Various factors contribute to EJV problems. In almost all aspects, venture disagreements can occur thereby paralysing decision-making. In detail, these are divergent objectives, disparate expectations, incompatible business practices, and social and cultural differences. A Chinese company who enters an EJV is chiefly motivated by the wish to obtain technology, capital, management expertise, and short-term success (Deng, 2001, p.67). A foreign investor may have various aims. One main reason for foreign investors' to enter an EJV is their fear of leaking proprietary technology and knowledge to Chinese partners and thus losing long-term competitive advantages. As WFOEs have the highest level of control over operations and strategies (e.g. Tang and Yu, 1990; Deng, 2001, 2003), this gives them the best advantage.

Singh and Kogut (1989, p.119) and also Palenzuela and Bobillo (1999, p.62) highlight the control of operations as the central factor in the entry mode choice. The choice of ownership structure (control mode) for a foreign subsidiary depends, in their view, on two different, but interactive factors. One set of factors determines what the firm wants; in other words, the preferred ownership structure for the subsidiary. Included in these factors are the capabilities of the firms, their strategic needs, and the transaction costs of different ways of transferring capabilities. The second group of factors determine what the firm can achieve. In their framework, Palenzuela and Bobillo (1999, p.66) developed a hierarchy on the axis of level of control. On this axis, "WFOEs" lead arose from "shared owned subsidiaries", then "licences" and, finally "agents". Their publication is particularly noteworthy because of their considerations of cultural attributes which refer to cultural distance (psychic distance between home and host country) (Vahlne and Wiedersheim-Paul, 1975), and to avoidable uncertainty (cultural mechanisms which confront uncertainty) (Hofstede, 1980).

The second major advantage of WFOEs is the lower dissemination risk – the risk of a partner expropriating a firm’s specific advantage in expertise. Luo and Chen (1995) found that WFOEs in China are more profitable than EJV’s in terms of higher profit margins and fixed asset turnover. A natural, and major, reason is that investors have less reservations in their 100% controlled and owned subsidiary, e.g. in China.

In this research, these asymmetric interests are not a topic of discussions. The focus is on analysing the determinants to be considered for the entry mode WFOE for a SME. In China – despite entry to the WTO – the systems which are in place to protect property are ineffective. A SME would have serious difficulties in defending its rights, in terms of costs, for legal measures and in the identifying of a knowledgeable source to litigate, to take time and to influence. Disclosure of proprietary knowledge to a Chinese partner would seriously compromise a foreign firm’s competitive position, not only in the local marketplace, but also on the global markets. Dunning’s theory (1977) already confirmed the controversy between WFOEs and EJV and the general tendency of today to prefer WFOEs instead of EJV. Andersson and Svensson (1994, p. 552) interpret Dunning: “When separate units have to exchange a considerable amount of diverse information, it is impossible to construct contracts which make interaction at arm’s lengths identical to interactions internalised within firms”. Much is written and discussed on entry modes, and much is overruled by the latest developments which focus on opening operations in China. Andersson and Svensson (1994) hypothesise that when acquisitions are the more desirable, the greater the organisational skill needed by the company and when greenfield operations are to be preferred, the greater the technological skill required. This accords with many SMEs who are in possession of firm-specific advantages. Possession of firm-specific monopolistic advantages is the primary reason to enter a foreign market through WFOEs (Dunning, 1979).

Svensson (1996, p.201), in analysing empirical models for entry mode choices, states: “acquiring an already existing firm sometimes incorporates the acquisition of the whole distribution chain. Furthermore, a greenfield investment adds a new manufacturing unit, meaning that the industry’s capacity and competition are increased or has to be increased in the market”. The latter contributes to the macro economic effects on competitiveness aroused by the low cost production centres of the world.

3.9.2 Entry mode and theories involved

There are two rather contradictory views on a firm's foreign market entry decisions; namely, the internationalisation (gradual involvement) view and the contingency (strategy/selective choice) view. Singh and Kogut's (1989, p.116) opinion is that predominant explanations, used in the multinational management literature, to address entry into foreign markets are based on internationalisation theory and on transaction cost analysis. Kwon and Konopa (1993, p.60) argue that the gradual internationalisation model is too general to explain the internationalisation patterns of firms. They further remark that the rationale of the gradual internationalisation model is based on a firm's desire to minimise risk. Foreign market involvement is inherently risky, owing to various reasons, such as country risk, cultural differences, unknown market situations, local competitors, and managerial experiences. A few authors (inter alia Singh and Kogut, 1989; Kwon and Konopa, 1993; Brouthers and Nakos, 2002) agree that the decision to establish a foreign production is a high-risk entry mode and a high-resource commitment entry mode. A major finding of Kwon and Konopa (1993, p.73), in comparing entry modes such as foreign production and exporting, is that those companies choosing the mode of foreign production are faced with a higher level of competition. Earlier researchers considering the importance of FDI, such as Horst (1974) discussed profits that in a long run to optimise profits, companies will establish a production subsidiary in the foreign country to achieve maximum profits.

Some of the previous research tends to rely on transaction cost theory to explain international mode choice decisions in the era of opportunity seeking and free will (e.g. Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Hennart, 1991; Erramilli and Rao, 1993; Zou et al., 1998; Makino and Neupert, 2000). Transaction cost variables are concerned with the costs of integrating an operation within the firm as compared with the costs of using an external party to act for the firm in a foreign market (Williamson, 1985). They include the costs of finding and negotiating with an appropriate partner, and the costs of monitoring the performance of the partner firm (e.g. Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Hill et al., 1990; Hennart, 1991; Agarwal and Ramaswami, 1992; Erramilli and Rao, 1993; Makino and Neupert, 2000). Such costs influence entry mode choices (Williamson, 1985; Hill et al., 1990; Hennart, 1991;

Erramilli and Rao, 1993; Agarwal and Ramaswami, 1992; Zou et al., 1998). Some previous studies have extensively relied on transaction cost theory to explain the choice between EJV and WFOEs entry modes only (Anderson and Gatignon, 1986; Hennart, 1991; Buckley and Casson, 1998; Hennart and Larimo, 1998; Makino and Neupert, 2000). Scholars, such as Delios and Beamish (1999) and Brouthers and Brouthers (2000) extended transaction cost theory by including cultural context and institutional context variables.

Researchers (Kogut and Singh, 1988; North, 1990; Roberts and Greenwood, 1997) have suggested that adding both institutional and cultural context variables to transaction cost theory enhances our understanding of international entry mode choice in two ways. First, according to Delios and Beamish (1999, p.917), institutional context variables provide a valuable extension to transaction cost theory because they “refer to conditions that undermine property rights and increase risks in exchange”. Secondly, Brouthers and Brouthers (2000) suggest that cultural context variables need to be added to transaction cost entry mode models, because they tend to influence managerial cost and uncertainty evaluation in target markets.

The importance of the cultural impact is missed in the beginning of internationalisation theory (e.g. Vahlne and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Cultural contexts reached in today’s global world have such significance in influencing the outcome that, in serious research, they cannot be any longer dismissed in the internationalisation theory of firms as well as in the entry mode theory.

In literature, a vast majority of publications have concentrated on large firms or MNEs entry mode behaviours. One of the few publications on entry mode choices and their impact on performance by SMEs is written by Choo and Mazzarol (2001). The purpose of their study is to examine the impact on performance on the choice of market entry modes by SMEs from Australia and Singapore. One of the reasons that these authors have selected these two countries is that the prosperity of both depends heavily on international trade. Choo and Mazzarol (2001) confirm the gap, which exists in the investigations on foreign market entry choices made by SMEs which differ from the mode of export. They refer to Agarwal and Ramaswami (1992), who declared the most common modes of foreign market entry studied are exporting, licensing, joint venture and sole venture.

Agarwal and Ramaswami (1992) state, that smaller and less multinational firms prefer no entry or joint venture mode in high potential markets to reduce costs and risks. However the tendencies in China (Deng, 2001) in comparison with Agarwal and Ramaswami's statement show a changing trend towards WFOE's in just a decade. Choo and Mazzarol (2001) confirm performance favours WFOEs and say that firm using licensing, franchising, manufacturing, and acquisition as principal market entry modes, outperformed firms who used direct exporting, strategic alliances, foreign distributor, independent overseas agent, and joint venture.

3.10 Theory of decision-making

3.10.1 Decision-making

As an introduction, two definitions of decision-making according to Harris (2008):

- 1) Decision-making is the study of identifying and choosing alternatives based on the values and preferences of the decision maker.

- 2) Decision-making is the process of sufficiently reducing uncertainty and doubt about alternatives to allow a reasonable choice to be made from among them.

Both definitions imply that, from the alternatives, the most promising one to guarantee the highest probability of success or effectiveness and the best fit for goals and values, is to be chosen. The second definition stresses the information gathering functions and, naturally, the quality of information. The aim is as described to reduce uncertainty to a best possible minimum. Decisions can be made very seldom without a certain risk being involved.

Decision-making is a cognitive process: in this study, the decision-making process must be regarded as a process integrated into the interaction - or not - with the environment.

The decision-making theory discussions will be limited to this study's aims. An important finding (Harris, 2008) is that a decision is not made in isolation. A decision is often made in a context with other decisions. A given decision has a history, many decisions made earlier have led to this decision and made it both possible and limited. On the other hand, many decisions will follow from this decision. The research design and methodology is the

best possible way to illustrate the processes and deliberations made in the firm's decision-making as well their standpoint on the opportunity to utilise location advantages.

3.10.2 Uncertainty and preparedness related to decision-making

The economic theory of the multinational enterprise revolves around the two main aspects of international production: the ownership of assets used in overseas production and the location of such production activities (Tahir and Larimo, 2004). The low cost production imperative represents, with its cost competitiveness, an unintentional motive for the SMEs in focusing on internationalising their production. The decision-making process for such firms may be deficient in preparedness and, consequently, a high uncertainty may exist. The awareness based on a logical mindset for location-specific variables, as it is included in Dunning's (1980, 1988, and 1993) concept of the eclectic paradigm of international production, is of interest in this dissertation, i.e.: the assessment of preparedness and the prediction of the outcome. The location-specific variables are not the only set of variables to be considered. A second set exists with a range of environmental variables such as the politics, the economics, and the law and the infrastructure of a host country. Strategic motivations to engage in FDI are perhaps given by the described "power of stakeholders", which represents a third set of variables to be considered.

In the formation of products, cultures and values play an important role. This has to be considered and, to a certain stage, has to be understood. Kluckhohn (1951, p.86) defines culture as follows: "Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artefacts. The essential core of culture consists of tradition (i.e. historically derived and selected) ideas and especially their attached values". The word "culture" is most commonly reserved for societies, or for ethnic or regional groups, but it can also be applied to other human collectives or categories such as an organisation or a profession, or a family (Hofstede, 1981, p.24). In the modern world, the word "culture" can also be replaced by the word "nation". The cultural component in all kinds of behaviour is difficult to grasp for people who remain embedded in the same cultural environment. An FDI to lower operational cost countries will possibly surprise the responsible manager confronted with subtle differences in working behaviours because society has programmed people differently. Preciseness in

working execution, working together, and informal hierarchies are some such differences. Hofstede (1981, p.27) says that institutional behaviours, such as we meet in business, are even clearer than cultural differences. The cultural and institutional behaviours of local people will influence FDI and its forthcoming operations, especially in the interplay with other key variables such as quality measures, recruitment policies, and network management. Hofstede (1981, p.33) in his survey on culture and organisation found out that the factor “culture” received some attention, but the notions of “culture” used have been vague: “A general theory of the components of culture and their impact on organisations has been missing”. He means that research has usually been done without an a priori hypothesis about the kind of cultural effects expected – culture has been treated as the variable “x” that should account for the variance left unexplained by other factors. Adler (1983, p.8) raised the question what is the impact, if any, of culture on the behaviour of people within organisations. To what extent, if at all, must managerial styles be altered when working with people from different cultures? She is interpreting in the massive 40-country study conducted by Hofstede (1981), who found out that highly significant differences appeared in the behaviour of employees from different cultures working in the same company. The study implies that these differences have to be considered for a common future success in an international organisation or a future international organisation. Behaviours of people, based upon different cultural backgrounds, may represent the fourth set of variables to be considered.

The set of variables discussed may challenge newcomers considering about their preparedness.

Tahir and Larimo (2004) remark that, surprisingly, just a few studies have been undertaken to analyse the location specific variables empirically, with the strategic motives in order to understand the FDI choices of the investing firms. The low cost production imperative is perhaps one of the strategic motives for the SMEs to decide for FDI. Preparedness and uncertainty may play a crucial role in the decision-making process, because of the demography of the firms and their history. Aharoni (1966) in his pioneering study found out that the FDI decision-making process is a very complicated social process. It is influenced by the past and perception of the future as well as the present. The need to incorporate entrepreneurial behaviour into processes of internationalisation is important (Jones and Coviello, 2005) and this tendency increases the smaller the company is.

In this literature review, four sets of variables have been identified, which play a role in considering for the strategic FDI step. This study will provide new insights which are based on a prime strategic motivation to stay cost competitive in the global production system. Two strategic types of FDIs, among others, mentioned by Dunning (1993) play a crucial role in the firm's decision to enter a host country. These two are efficiency seeking and risk reduction.

After a considered literature review Tahir and Larimo (2004) mention that there is a widespread interest in international business research on the multinational firm's rationale for seeking a particular host country. In addition, very little research exists on how these location-specific variables and strategic motives vary with the nature of the investment. Assuming that the low cost production imperative is a valid strategic motive, this dissertation seeks to provide new insights on how particular SMEs deal in their decision process with their preparedness and uncertainty, and their rationale in considering which host country factors are important and, with that, the host country.

In literature, little help is given to SMEs for analysing the impact and the interdependencies of key determinants (set of factors) or forces to be considered. Their daily changing intensities of accelerating, reinforcing, exacerbating or delaying the impact of the others means, therefore, that planning becomes more challenging, management becomes more difficult and success more elusive. A rich body of literature shows that firm behaviour and organisation is shaped by a highly complex combination of factors. Ernst and Ravenhill (1999) includes geographical scope, product range and diversity, market segmentation and pricing, size, degree of integration versus outsourcing, and types of distribution channels. Others, e.g. Dunning (1979), rank ownership and location specific advantages with high priorities. Some models abstract principles of internationalisation and do not include real life determinants such as time and/or competition, e.g. Johanson and Vahlne (1977). Other arguments in recent literature are on overall firms' behaviours and attitudes regarding production shifts (e.g. Bronfenbrenner, 2001; Dickens, 2003; Fleisch and Joost, 2004).

Furthermore, some scholars (e.g. Ernst and Ravenhill, 1999; Felker, 2003) describe the impact of the shifts for the relevant regions, and activities undertaken by local governments to attract companies to invest in their countries. Dramatic reductions of costs for

transportation and communication facilitated the growth of an increasingly complex international division of labour. A major factor for lowest production costs is the handwork done every day by millions of workers in emerging regions such as Eastern Europe and Asia. This is a transformation of the old geographic pattern of specialisation, in which the industrialised countries produced goods and the non-industrialised countries supplied raw materials to the industrialised countries and acted as markets for some of these produced goods (Dickens, 2003, p, 9).

Today's global economy is genuinely borderless (Ernst and Ravenhill, 1999). Information, capital and innovation flows all over the world at top speed, enabled by technology and fuelled by consumers' desires to have access to the best and least expensive products (Ohmae, 1985; Zou and Cavusgil, 1996). All these implications, moves, and the knowledge of them may have different impact on the decision-making firm and its assessment of uncertainty and preparedness.

3.10.3 Model of a strategic decision-making process used by scholars – an example

Larimo comments (1995, p.53) that fairly little is known about company foreign-decision-making processes. In his analysis of foreign direct manufacturing decision processes in five Finnish firms, Larimo used the general model of the strategic decision-making process developed by Mintzberg et al. (1976) as a framework. There are various reasons for the choice. A major choice for Larimo is that the FDI phenomenon at this time was quite new to Finnish firms. Obviously, it was expected that no predetermined and explicit set of ordered responses existed, and the Mintzberg et al. model was developed for such kind of unstructured decision processes. Another reason is that, in most cases, FDI is seen as a strategic decision. An important additional reason is that Larimo's study viewpoint is behaviouristic as is the model, which is different to many other models, which are normative.

The general model of strategic decision process developed by Mintzberg et al. (1976, p.266) uses the three main terms "identification", "development", and "selection". The aim of this dissertation is to analyse what the low cost imperative exerts on SMEs regarding FDI decision taking. In Larimo's (1987) study, among other features, he found out that the stimuli to FDI came from outside the firm in the case of first time investors. In the phase

'identification' of this work, the recognition of the problem, or crisis, is already questioned, and the outcome or the prediction for the outcome related to the recognition is of importance. The low cost production imperative generates a competitive situation on costs where the survival of these SMEs with domestic operations is questioned. Other features mentioned by Larimo (1987) indicate that the trigger for FDI came from opportunity seeking or market expansion with FDI. This can be considered as the free will approach, whereas the decision for FDI under the low cost production imperative is no longer seen as a free will approach. There is an increased use and importance of FDI in the operation of firms of different origin and the strategic nature of FDI make them an interesting and important target for analysis (Larimo, 1995). Statistics such as those from Bassen et al. (2001) show still a low percentage for the use of FDI so far from firms with a middle or lower size. It is expected that the global production system will increase the ratio for FDI. The preparedness of such firms for the situation in operation and the pending decision is of interest, as is the opinions, cognitions and structure influencing the decision as mentioned by Aharoni (1966).

Strategic decisions are by nature related to an expected outcome. In the general model of the strategic decision process developed by Mintzberg et al. (1976), the prediction of the outcome is assumed to be implied in the term 'selection' with the three sub-routines of screening, evaluation-choice, and authorisation. The evaluation-choice routine is used to investigate the feasible alternatives and to select the course of outcome. Zou and Cavusgil (1996) remark that a company strategy must not only incorporate broad, strategic direction, but also, specifically, how single functions worldwide have to be coordinated, analysed in detail and how they impact on the organisation, structures and behaviours. Preparedness, prediction of the outcome and the components considered in the decision-making process will be the major elements to formulate the research questions for this dissertation. In addition, how is the decision made and what are the arguments for it?

3.10.4 FDI decisions

Real-world trends have led to substantial recent interest in the international economics literature for investigation of the fundamental factors driving FDI behaviour. Arguments are drawn, to a significant extent, from the MNE literature. Intangible assets such as technologies, local behaviour, cultural aspects, managerial skills, are reasons why firms

would choose to service a foreign market through a local production, rather than through other options. Associated with the intangible assets are governmental interventions, such as taxation and trade policies. Blonigen (2005), in his review on empirical literature on FDI determinants, mentioned additional external factors affecting FDI decisions. These are exchange rate effects, institutions, trade protection and trade effects. A large body of literature takes the partial predictions of a MNE's FDI decision and examines how factors, such as taxes and exchange rates, affect the firm-level decisions. Regardless of the approach, the interconnectedness of FDI behaviour with trade flows and the underlying motivation for MNE behaviour complicates analysis. Blonigen mentioned that many strands of the partial FDI literature have largely ignored this issue. MNEs play an essential role in promoting and shaping the patterns of economic development and this role is affected by means of their FDIs.

The dimension of FDIs by SMEs has an entirely different significance, compared to MNEs in reality, but also in the newer academic literature. Buckley (1989) and Acs et al. (1997) have concluded that smaller companies are sensitive to the inherent risk involved in international activities and particularly FDI. Mariotti and Piscitello (2001) analysed various publications and statistics in the recent era of globalisation. They concluded that the majority of international literature has mainly been interested in international trade and export. Less attention has been devoted to the internationalisation of production, i.e. FDIs in production facilities abroad. One reason may be the lack of satisfactory data. Neither the MNE FDI decision aspects nor the aggregated locations of FDI across the world – the macro economic aspects - are in the foreground of interest. FDI decision taking aspects of SMEs under pressure of circumstances are at the heart of the investigations. With regards to investigations on competitiveness and survival, Mariotti and Piscitello (2001) rate competitiveness of SMEs and the interactions with local factor advantages (Dunning, 1979; Root, 1994) which is a high priority in the future research agenda. SMEs FDI decisions belong to the broad chapter of FDI, with an impact which is perhaps less important today for the global economy, but which is growing in importance according to their number, employment rate, etc. as already discussed.

3.10.5 Liability of foreignness and decision-making

At the beginning of this section, it is worth explaining the origin of ‘liability’. The label of ‘liability’ stems from Stichcombe’s (1965) apt term ‘liability of newness’ used to refer to challenges to new firms. Stichcombe’s work has several followers in the literature following liabilities tracks; one of them is the ‘liability of foreignness’.

“Liability of foreignness” refers to a variety of costs that international business scholars (e.g. Zaheer, 1995; Lu and Beamish, 2001) have hypothesised multinational companies face in conducting business abroad (Hymer, 1976). These include costs that can stem from unfamiliarity of the environment and from political, cultural, and economic differences (Zaheer, 1995). There is also cost for the coordination of subsidiaries across geographic distance. The various costs mentioned by Zaheer can vary by industry, firm, host country and home country. Whatever the source of costs, the liability of foreignness implies that foreign firms will produce at a lower profitability than local firms will do, all else being equal, and perhaps have even a lower probability of survival. Some of the costs mentioned by Zaheer (1995, p.343) have their relevance only if a market-seeking approach is relevant. The liability of foreignness may be less if the firm is capable of bringing its resources and capabilities specifically to the firm abroad (Barney, 1991; Winter, 1991) or to attempt to mimic the advantages of successful local firms. In general, firm-specific advantages can be derived from traditional sources of competitive advantages, such as cost savings derived from economies of scale and scope (Porter, 1986), or exploiting location-based cost advantages (Dunning, 1979). Zaheer (1995) hypothesises that if local firms are generally more profitable than foreign firms in an industry are, the pressures of mimetic isomorphism would lead subsidiaries to mimic the organisational practices of local firms and that those that do so, will be more successful. Consequently, they show less evidence of the liability of foreignness than those which do not. This hypothesis coming from the MNEs perspective may also have its relevance for SMEs facing global competition. The prominent motives related to market seeking and factor seeking (Dunning, 1979; Root, 1994), especially the latter for this dissertation, will stay the same. It is perhaps a combination of various factors such as utilisation of low labour costs, procurement benefits, etc. in combination with the mimicking of local behaviours of firms in low operation costs areas, for example.

Liability of foreignness exists in competitive industries (Zaheer, 1995). It is assumed that cost related decision-making in an environment of uncertainty would impede effective decision-making and lead to difficulties in dealing with any kind of stakeholders involved in the process. The more uncertain the management of a firm is on how it should conduct business in a foreign market, the less inclined that management will be to undertake high-commitment operation modes (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). The perception of liability of foreignness has implications for both resource commitment to foreign markets and performance of business activities. Experiential knowledge by decision makers may have an influence. Autio et al. (2000, p.910) repeat that in process theory, foreign experiential knowledge is the key regulator for resource commitments to foreign markets, and that in the new venture theory, entrepreneurial knowledge and vision are seen as the keys to international opportunity seeking. The interpretation of Autio et al. (2000) suggest that the term ‘opportunity seeking’ is an expression of free will to act, because of a variety of possibilities, to achieve profitable business with enough existing and addressable market potentials. A situation which may be different to the competitive situation in producing industries – vertically organised value adding systems – may be described under liability of foreignness where opportunities to stay cost competitive demand various activities (e.g. mimicking of local firms or localised firms) to stay cost competitive in a given limited timeframe which is given to act and to learn.

Eriksson et al. (1997) researched the interdependency between experiential knowledge and the internationalisation process. As a conclusion, they argue that experiential knowledge is a driving force in the internationalisation process. In their literature overview, they state that the stage models (e.g. Johanson and Wiedersheim-Paul, 1975; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1980; and Czinkota, 1982) played a significant role in explaining firms’ internationalisation process. Evidence in literature confirms that SMEs have limited financial resources. Uncertainty, lack of experiential knowledge and limited financial resources may be a baleful combination for SMEs confronted with a globalised production system and its consequences. Lack of knowledge of the host country factors and cultural aspects may increase the odds that firms will make costly errors, encounter substantial delays, or otherwise struggle with their attempts to establish operations abroad.

The internationalisation model (Penrose, 1959) postulates that as the psychic distance between markets increases, the more difficult it becomes for firms to collect and interpret incoming information properly. The costs and consequences expressed in the term “liabilities of foreignness” (Zaheer, 1995) add issues to the entire complexity of today’s real-life internationalisation.

3.10.6 Psychic distance, uncertainty, and decision-making

Scholars (O’Grady and Lane, 1996; Child et al., 2002) agree that Beckerman (1956) was first to use the term “psychic distance” in his study on the distribution of international trade. The definition of psychic distance has changed over time and varies greatly within the literature, depending upon the way in which the concept is interpreted and used. The concept of psychic distance is defined as factors such as language, culture, political systems, level of industrial development, and educational differences, which prevent or disturb the flows of information between the firm and the market. Psychic distance is an important variable in understanding the dynamics of the internationalisation process. The concept of psychic distance in the extension of activities to new markets may prove useful, in the view of Johanson and Wiedersheim-Paul (1975, p.307). The integration of the concept by Johanson and Wiedersheim-Paul into their study was intended to increase the understanding of localisation patterns of Swedish exporters and foreign subsidiaries, and to complement existing explanations which relied on economic concepts and psychological distance. For obvious reasons, psychic distance is correlated to geographic distance. Some countries, e.g. British Commonwealth countries can be far in geographic distance (England and Australia) but close in psychic distance; others, such as the United States and Cuba and Venezuela are near to each other geographically, but far apart in political thinking. The scholars mentioned state that different forces such as transport costs, tariffs, and non-tariffs influence production establishment. As a result, it is hard to observe any correlation between psychic distance and production establishments.

Evans and Mavondo (2002, p.516) encapsulate the two most important elements: psychic and distance. “Psychic” is derived from the term “psyche”, which refers to the soul or mind (Pearsall, 1998). They argue that the determination of the degree of psychic distance is mind processing, in terms of the cultural and business difference perceptions that form the basis of psychic distance. It becomes evident that it is not the simple presence of external

environmental factors. Perception is also included in Lee's (1998) and Swift's (1999) definitions of cultural distance. Lee (1998, p.9) defines cultural distance as "...international marketer's perceived socio-cultural distance between the home and target country in terms of language, business practices, legal and political systems and marketing infrastructure". Moreover, Swift (1999, p.182) argues, "...psychic distance is a consequence of a number of inter-related factors, of which, perception is a major determinant". Before Lee (1998) and Swift (1999), in earlier studies (e.g. Kogut and Singh, 1988; Benito and Gripsrud, 1992) "cultural distance" was commonly used as a proxy for "psychic distance". Nordstrom and Vahlne (1992), cited in O'Grady and Lane (1996), suggest that cultural distance and psychic distance captured "different but overlapping phenomena", and that psychic distance included a component of business difficulty, as well as cultural distance. Psychic distance, in their view, is comprised of "cultural (such as those dimensions of Hofstede, 1981), structural (such as legal and administrative systems) and language differences". Luostarinen (1980, p.131-132) defines cultural distance as "the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to the knowledge flow of hence also for other flows between the home and target country".

O'Grady and Lane (1996, p.330) note: "...a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there". Researchers suggest that those physically close countries are more easily understood than distant ones. The study done by O'Grady and Lane (1996) is one example of the contradictory nature of existing research. They found that many Canadian retail companies did not function successfully in the culturally close environment of the United States; and they concluded that there was a "psychic distance paradox".

The concept of psychic distance has found widespread recognition in the export literature and has been incorporated as a moderating variable in a number of export behaviour models (e.g. Bilkey and Tesar, 1977; Cavusgil 1980; Andersen 1993). Stottinger and Schlegelmilch's (2000) objective was to analyse the scope for generalisation on psychic distance. Their basis was that theory building in a field relies on three cornerstones: empirical generalisations, generalised explanations and a process of extension, revision, and updating (Bass, 1993; Hubbard and Armstrong, 1994; Hubbard and Vetter, 1996). In

an earlier study, they found that collective evidence remains contradictory (Stottinger and Schlegelmilch, 1998). However, it is evident that empirical research does not conclusively support either a positive or a negative relationship between psychic distance and internationalisation of firms. Despite this, the intuitively appealing assumption that psychic distance is negatively related to internationalisation performance is often accepted. Evans and Mavondo (2002) argue based on the “psychic distance paradox” that firms operating in psychically close markets may find it difficult to establish a clear basis for differentiation, but, perhaps, important differences are overlooked or underestimated. Another statement of Evans and Mavondo (2002, p.518) is important for this research: “...where firms are faced entering a psychically distant market they are likely to perceive a high level of uncertainty. As a means of reducing this uncertainty, firms will undertake more extensive research and planning, which will improve their strategic decision-making and, ultimately organisational performance”. Keegan (1989) argues that going abroad requires immense company learning efforts, which increase with psychic distance to the target market. Thus, setting off by tackling psychically more distant markets would lead to higher learning needs and reduce the pace of globalisation for the firm. Evans and Mavondo (2002, p.518) are convinced that psychic distance has substantial explanatory power, but the construct and its consequences need to be more accurately operationalised for robust findings to be observed. They continue that previous studies did not measure both cultural and business differences. Thus, it can be concluded that incorporating cultural and business differences enhances the explanatory power of psychic distance as a summary construct. O’Grady and Lane (1996, p.328) have suggested that “business factors, such as legal and competitive environments, need to be included when conceptualising distance”.

Psychic distance, with its components, business difficulty as well as cultural distance, has an impact on the entry mode of firms. Kogut and Singh (1988) showed in a large-sample study that entry mode choice varied upon the cultural distance between countries. Gatignon and Anderson (1988) state that socio-cultural distance (the difference between the home and host cultures) causes uncertainty for firms, which make them avoid foreign ownership involvement. As Benito and Gripsrud (1992, p.464) found, in their study, their findings do not support the notion that FDIs are, in general, initially made in foreign countries close to the home country and at a later stage are spread to more distant markets. There was only a slight tendency in the firms observed to make their first investment in countries which are culturally closer than those are where later investment were made.

Recent research from Child et al. (2002, p.54) in a study of psychic distance and internationalisation on Hong Kong firms, concluded, that national culture has been previously over-emphasised as a determinant of psychic distance. Factors other than culture also carry weight in the perception of psychic distance. These include local skill level, social and political stability, host government policy, and if there has been existing previous experience with that country. A limitation of this research can be listed: the same Chinese cultural background applies, as is also mentioned in the limitations of the research of O'Grady and Lane (1996) on the psychic distance paradox, where the response came primarily from central Canada and, therefore, English and French cultural differences were not examined.

The environment has changed considerably the last decades: government, businesses, and industries have internationalised and become global. It is reasonable to believe that these changes have affected the internationalisation process (Vahlne and Nordstrom, 1993, p.532). But the early 1990s, fewer and fewer industries were nationally structured (Porter, 1996). The attempts of the operationalisation of psychic distance as well as the testing of its relevance empirically remain remarkably limited (Stottinger and Schlegelmilch, 1998). Despite that, it may be remarked that the acquisition of local-market knowledge is critical for successful planning and implementation of entry (Lord and Ranft, 2000).

The discussion about psychic distance has a strong relevance in this study. Two explanations come to the fore: 1) Cost structures are most likely similar in neighbouring countries, provided that there are not some remaining historical and political differences as exist, for example, between Western and Eastern European countries. A FDI solution therefore may be searched in a more distant region; 2) the mind processing related to psychic distance and therefore its perceptions about culture and business may be significantly different between the domestic and the host country.

Both explanations may play a strong role in the decision-making process.

3.10.7 Inertia, risk, and decision-making

The principal tenet of organisational ecology is that organisations, once founded, are subject to strong inertial pressures, and alterations in organisational populations are largely

due to the organisational foundings and dissolutions (Singh and Lumsden, 1990, p.162). The implication is that inertia significantly limits changes within organisations and the subsequent emergence of new organisation forms. Milliken and Lant (1991) describe organisational inertia as the limitation of organisations to adapt their strategies quickly due to environmental changes and influences. Entrepreneurs often operate in a context that is characterised by organisational and psychological pressure to persist with the present strategies.

Colombo and Delmastro (2002, p.596) conclude that organisational changes could only overcome conservative forces preventing firms from implementing organisational changes when a crisis threatened the very survival of the firms. The described effects of the globalised production structures (with e.g. cost pressures, new entrants into domestic markets, global footprint expectations, and proximity) may negatively affect a firm's profitability and will evoke a crisis in manufacturing SMEs. This may challenge organisational inertia (Hannan and Freeman, 1989, p.70) in domestically operating firms. Thus, the internationalising firm faces the dual challenge of overcoming rigidities and taking on novel knowledge. SMEs have to acquire new foreign knowledge involving new ways of thinking in the face of strong inertial forces to continue in old patterns. Intense and repeated processing is required if the firm is to assimilate new knowledge (Autio et al., 2000, p.911). Hannan and Freeman (1989) note, however, that to claim the presence of inertial forces on organisational structures is not to deny that organisation change. It is rather that different degrees of inertia may result in the difference between how quickly and how completely organisations can change.

Risk assessment under uncertainty and uncertain preparedness are another two factors supporting organisational inertia in a decision-making process. How much risk can be taken if it is predictable? FDI is a major risk and involves human and technical resources, time, opportunity costs, and capital. Process theory (Johanson and Vahlne, 1977, 1990) assumes that managers are risk averse in their decisions about internationalisation steps and therefore also about resource commitment. However, other scholars have presented a firm internationalisation as an innovation process, in which the managers are considered entrepreneurs (Andersen 1993; Andersson, 2000). In the stream of literature which addresses the phenomenon of accelerated internationalisation, such as "born-global" firms (Knight and Cavusgil, 1996) or "international new ventures" (Oviatt and McDougall, 1994), it is even more obvious that the risk profile of entrepreneurs is one of risk. Firms in

focus are not characterised as “international proactive” or equipped with a “culture for exploring opportunities”. With respect to these firms, it is a relatively high commitment for the responsible managers to shift operations abroad for the first time. Ad hoc solutions must be applied to unexpected contingencies which may occur: managers have to be prepared for “contingency strategies” (Lawrence and Lorsch, 1967). How much pressure the low production cost imperative needs to exert on the inertial forces in sample organisations to cause them to change will be a part of the analysis in this dissertation?

3.11 Implementation theory

3.11.1 Implementation as a result of decision-making

A research framework explains the main issues to be researched. It also assumes some relationships, either graphically or in narrative form, depending on the methodology chosen. Larimo (1995) used the general model of strategic decision process developed by Mintzberg et al. (1976) as the main framework. The three-term model starts with the routine ‘recognition’ and ends with the routine ‘authorisation’. The prediction for outcome is important because the low production imperative exerts effects where the survival of the firm can be questioned. Pearl (2000) remarks the ability to predict the consequences of actions that have not yet been performed, derives from the knowledge of causal relationships and understanding of a system. Frameworks, or models, help to summarise knowledge about a phenomenon expressed in terms of causation (Sangüesa and Cortés, 1997). Approaches can be made with the use of belief networks, which have generally dominated developments in probabilistic temporal reasoning. Tawfik and Neufeld (1997) mention that probabilistic causal update of the probabilistic belief performs belief updates in two phases: an explanation phase and a prediction phase. In principle, the explanation phase updates the past based on current knowledge, while the prediction phase projects those updates onto the future.

Implementation researchers such as Goggin et al. (1990), Winter (1990), and Hasenfeld and Brock (1991) all emphasise that implementation is a process in which decisions, or actions, are directed toward putting policies into effect. According to these theorists, research on implementation which does not include measures of outcomes is incomplete. Larimo (1995) used the model of strategic decision-making process developed by Mintzberg et al. (1976) as its framework. His viewpoint is behaviouristic as is the model. Implementation theorists, such as Schultz and Slevin (1982), in the same vein, focus as

well on a behavioural view: implementation includes using a decision model to make a positive change in organisational effectiveness and operational success. Implementation theory offering a synthesis of different partial perspectives offers raw material for possible practical use, although there are important barriers to confront.

The most fundamental impediment derives from theoretical complexity and dealing with this complexity is a key theme (O'Toole, 2004). Theoretical complexity requires efforts to adapt substantively to the needs of active decision makers with limited time and information. Sinclair's (2001) approach is that researchers can make reasonable assumptions about which of the sets of variables, or elements thereof, to build into a research design. These variables form a necessary construct to explain the implementation and to show practitioners what to look for and where potential roadblocks to desired outcomes might be raised. Similarly, as Sinclair (2001), Miles and Huberman (1994) mention that any study, no matter how inductive in approach, knows which factors, constructs, or variables are likely to be in play. In this dissertation, the preparedness of the described SMEs is of interest. Research questions will ask about the preparedness of the firms and what kinds of factors or variables have been considered.

The framework developed later in this dissertation has a strong behavioural viewpoint. This includes measuring the success of the outcome. A phenomenon analysed in an era of low cost manufacturing locations, differs from the former era of opportunity seeking and free will! The methodology developed later begins questioning the recognition of the phenomenon, whereas the espousal for the "recognition" and "diagnosis" routines of Mintzberg et al. (1976) is already measured. To use the same example, the framework ends beyond Mintzberg et al.'s (1976) routine of "authorisation" where the implementation theorist's approach of measuring outputs applies. Sinclair (2001) concluded, in an early assertion in the top-down implementation literature, that a good causal theory and statutes with clearly defined objectives were preconditions of successful implementation. "Top-down" implementation models, such as those developed by Mazmanian and Sabatier (1980), or Edwards (1980) show independent variables that were believed to affect implementation in their domain of investigation. The aim in this dissertation is to illustrate various types of firms, their considerations about variables and constructs to create the desired outcome.

3.12 Knowledge and the internationalisation of firms

3.12.1 Debate about knowledge acquisition

Knowledge and learning have a great impact on international growth in that the internationalising firm must apprehend, share, and assimilate new knowledge. The early theory of internationalisation (e.g. Johanson and Vahlne, 1977) with its tendency to operate in the vicinity of existing knowledge unless provoked, pushed or pulled by an event, will proceed incrementally, regulated by the experienced-based accumulation of “foreign organising knowledge” (e.g. Johanson and Vahlne, 1990; Autio et al., 2000, p.909). Pedersen and Petersen (2004) argue that influential scholars among the internationalisation process theorists (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 1977) have advanced the idea that primarily people who work in a specific foreign market discover the problems and opportunities intrinsic to that market. The experiential and context-specific character of local-market knowledge implies that learning needs to take place post-entry, and opportunities for pre-entry learning are correspondingly low. These internationalisation process theorists belong to the Uppsala school of internationalisation. Some theorists, such as Bilkey and Tesar (1977), Luostarinen (1979) and Cavusgil (1984) appear to be of the same vein as the Uppsala scholars in arguing that managers of entrant firms defer high-resource commitments until their perceived familiarity has reached a minimum tolerable level with the local business environment. The same theorists further predict that managers of entrant firms lack knowledge when they enter foreign markets and that this local business knowledge can only be acquired after initial entry.

Following Penrose (1959), experiential knowledge and objective knowledge are the two elements of knowledge. Objective knowledge is acquired through standardised methods of collecting and transmitting information; therefore, it can be transferred to other countries and can be replicated by other firms. In comparison, experiential knowledge is country-specific and cannot be transferred between firms (Eriksson et al., 1997). Johanson and colleagues (Johanson and Vahlne, 1977, 1990; Eriksson et al., 1997) developed a model linking knowledge, foreign market knowledge, and international expansion. As they conclude, experiential foreign knowledge can only be acquired from operating abroad. The consequence is that the higher the foreign knowledge the less the uncertainty of operating abroad. Therefore, the lowered uncertainty will increase the speed of commitments to foreign markets, because it increases the ability to detect opportunities. Buckley and

Casson (1983) argue that increased knowledge of a foreign country reduces both the costs and the uncertainty of operating in a foreign market.

The low cost production imperative will imply specific circumstances for SMEs facing internationalisation decisions and where foreign market knowledge is related to cost and timing efficiency.

In literature, it is recognised that experience may influence the level of uncertainty and the level of costs of operating in foreign markets. The process theory in internationalisation predicts a movement from “close” markets to markets that are more “distant”.

3.12.2 Knowledge absorption, transfer, and utilisation

Any internationalisation process entails risks and investments. Ghoshal (1987) declares that when a company internationalises, it must take on completely new knowledge, of specific foreign business practices and institutional norms. Internationalisation for a firm means overcoming rigidities (organisational inertia!) and taking on novel knowledge. The formula is to protect the past while building the future (Bartlett and Ghoshal, 2000, p.140). They analysed the fast-food chain Jollibee. After remarkable success in internationalisation, they started to reinvent their business, and differentiated systematically their operating system, logos, and advertisements, and isolated their activities from their home market. Sales dropped and they began to struggle. They gained back momentum after they remembered, among other tasks, their key strengths and competitive advantages from the past, acknowledged the respect from the home market experience, and established a dynamic and mutual learning. The example of the fast-food chain paradigm is not to unlearn the past, but to have an open commitment for the future e.g. for going abroad.

Pedersen and Petersen (2004) in their study “Learning about foreign markets” posited several questions about how firms perceive familiarity in markets and how firms learn about local markets. Their key question is: are (some) firms capable of engaging in extensive pre-entry learning (e.g., using knowledge from similar, existing markets; conducting market research; making pre-entry visits) which remedies their inadequacies with respect to local business knowledge. Their question is followed by a sequence of other questions, which are difficult to answer. Do managers make realistic assessments

about how knowledgeable they are in terms of doing business in the targeted foreign markets? Do managers of entrant firms tend to overestimate their preparedness to conduct business in the foreign market? Pedersen and Petersen (2004) conclude that in the case of an overestimation, managers of entrant firms will experience a "shock effect" in the period following foreign-market entry. In their recent study, Petersen et al. (2008) summarise: "Entering foreign markets requires a knowledge development process, and the entering firm may realise a considerable market discrepancy, that is, the firm identifies a gap between the knowledge *possessed* and the knowledge *needed* for accomplishing the foreign business venture". Internationalisation theorists, unaffiliated with the Uppsala school, have also pointed to the possibility of pre-entry learning. Casson (1994) remarks, that it is difficult to conceive psychic-distance patterns of firms without assuming some sort of learning about foreign-market environments. Work by Eriksson et al. (1997) points out that an organisation can gain access to the knowledge of other firms through their business network without having to follow exactly the same experiences as the firms. Perhaps the firms in focus in this dissertation will have limited possibilities in gaining certain knowledge through their business network. Based on the author's personal experiences, global firms already expect a global footprint or, at least, their suppliers have some experience to be a part of their cluster – power of stakeholders! It is evident that scholars do not completely rule out the possibility of pre-entry learning and the Uppsala school theorists implicitly suggest that pre-entry learning takes place to some extent.

Many difficulties that entrant firms face arise from not knowing how business is done in foreign countries. Some of the rules, customs, and practices are explicit and sometimes easier to comprehend and adopt. At a deeper level, how the game is played is influenced by the values of each foreign country and by its basic cultural assumptions. Entering firms find differences in values and cultural assumptions in physically distant markets much more difficult to accept than differences in practices (Schein 1985). Values and cultural assumptions are more difficult to uncover and are often socially imprinted in people.

The Uppsala internationalisation process theorists (Johanson and Vahlne, 1977; Forsgren and Johanson, 1992) distinguish between two broad categories of knowledge that entrant firms need. On the one hand, there is knowledge which can be acquired quickly and with relative ease because it is explicit (e.g., market statistics, competition laws, product approval requirements, technical standards, import regulations) and knowledge on the other hand which is characterised by its tacitness and therefore can be acquired through

learning by doing. According to the Uppsala theorists, the acquisition of the latter type of knowledge is the most indispensable and critical in the internationalisation process for achieving local-market familiarity.

In any case, when entering a new country, knowledge of any kind has to be absorbed. Cohen and Levinthal (1990, p.131-132) describe absorptive capacity not only as the acquisition and assimilation of information by an organisation, but also the organisation to exploit it. Chen (2004) in his document on determinants of knowledge transfer, notes that a firm's successful exploitation of knowledge is a necessary condition for the persistent development of a firm. Firms with a high level of absorptive capacity are likely to have a better understanding of new knowledge and to harness new knowledge from other firms to help their innovative activities. This concerns the transfer and utilisation of knowledge across and within the organisation and this is, in general, efficiently done in SMEs (Pelham, 2000, p.13). The capability to manage absorptive capacity is a very important aspect of SMEs' organisational responsiveness and which moderates the effects of environmental turbulences and strategic proactiveness.

Organisational responsiveness in the strategic dimension of internationalisation is increasingly important for SMEs due to the dimension described such as internationalised production system, competition by born global companies and cluster building for supplies by global companies. A macro economic comparison can be drawn by the success of first tier NIEs, which showed responsiveness and openness towards the changing environment, and adapted very quickly in international trade, capital accumulation, information interpretation, knowledge utilisation, and constant learning. The industrial success, as a result, is obvious from the examples of integrated efforts made by firms in the economies of Taiwan and South Korea. Cavusgil (1991, p.92) argues that the scale of manufacturing, especially technology, has grown to the point where national markets are too small to support efficient operations. Internationalisation of business has taken on many facets. Competitive activity has assumed an international dimension in trade, investment and ownership, manufacturing and sourcing, markets and customers, finance and technology and R&D. Cavusgil (1991) continues that firms and their managers need a sharp increase in knowledge. He questions how the education community responds to these changes. What kinds of expertise do university graduates need to help prepare companies to compete globally? Organisational knowledge is reinforced in all activities of a firm and,

over time, becomes increasingly calcified in organisational practices (Cohen and Levinthal, 1990).

Literature confirms (e.g. Pelham, 2000) that transfer and utilisation of knowledge across and within the organisation is better performed in smaller companies than in larger companies. In comparison with the large players, SMEs often are more flexible and more innovative. Information performs much better through the organisation and fundamental changes could therefore be managed more efficiently (Pelham, 2000, p.13). How proactive do SMEs have to be to face the new situation of mass production of all kinds of products in Asia? How do they deal with the new cost situation, a situation where they have to prove willingness and capacity to act. These are two key determinants, in addition to a company's knowledge and information, described in the knowledge chain (Spinello, 1998) which has two main components, awareness and responsiveness. Organisational responsiveness is related to performance and reflects the speed and coordination with which actions are implemented and, of course, periodically reviewed. An interesting model is drawn by Liao et al. (2003, p.63) where SMEs' responsiveness represents the dependent variable and the absorptive capacities and their components – external knowledge acquisition and intrafirm knowledge acquisition and dissemination – are the predictors. Size and age are the controlling variables in the model. It is hypothesised that the relationship between SMEs organisational responsiveness and absorptive capacity is moderated by the environmental dynamism and SMEs strategic orientation.

Luo (2000) argues that dynamic capability with its three essential ingredients – capability possession (distinctive resources), capability deployment (resource allocation), and capability upgrading (dynamic learning) – have become increasingly fundamental to international expansion and global operations. He further states that the importance of ownership-specific resources in international production (Dunning, 1988, 1993) has been addressed, but the significance of capability deployment and upgrading has not been systematically explored. He interpreted the reasons to be that large companies could build up on economies of scale or scope and monopolistic market power by generating high returns. Today's situation is different with intensified competitive threats, with shorter product life cycles and increasing cost competitiveness, and the imperative, to develop dynamic capabilities and deploy distinctive resources efficiently, is lacking. Luo (2000) argues that distinctive resources are critical assets. To gain cost advantages and to stay

competitive in home markets production shifts for SMEs are essential with the difference that distinctive resources exist, but not broadly. Capability deployment (i.e. allocating distinctive resources), and capability upgrading (i.e. dynamic learning and building new capability) is the situation of SMEs who are forced to participate in massive production shifts with all its risks to stay competitive and with an openness to transfer and to utilise quickly the knowledge gained from experience across and within the organisation. It is a challenge for SMEs to integrate and to synthesise internal resources and external learning and apply both to the competitive environment. These capabilities are the basis for the evolution of structures in a SME as it continues to learn about its international competitive environment. Kogut and Zander (1993, p.391) call this “combinative capability”.

In discussing experiential knowledge and costs, Eriksson et al. (1997) hypothesise that the costs of the internationalisation process are perceived as higher, the greater the lack of firm’s foreign business knowledge, foreign institutional knowledge and internationalisation knowledge is. With “foreign business knowledge”, they include experiential knowledge of clients, markets, and competitors. With “foreign institutional knowledge”, they refer to experiential knowledge with governments, institutional frameworks, rules, norms, and values. With the term ‘internationalisation knowledge’, they describe a firm’s capability and resources to engage in international operations. Internationalisation processes, such as FDIs, are difficult to overview and to plan in detail. The planning of internationalisation efforts must allow space for considerable adjustments, use of slack resources, and restructuring. Organisations evolve as they accumulate experiences, incrementally adjusting their reactions to similar problems while absorbing feedback about past decisions (Pennings et al., 1994, p.609). Barkema and Nadolska (2003) underline the importance of iterations in internationalisation processes: multiple iterations are useful, because they help companies to compare similar business processes in internationalisation. The majority of European SMEs (European Commission, 2003/4) are not internationalised. The low cost production imperative may urge producing firms in the population to internationalise their operations. Iterations, therefore, are difficult to realise internally. The aim of this dissertation is to analyse the success factors and constructs of FDIs demonstrated by sample firms, which had a positive outcome. The propositions developed, as a result, will help SMEs in their decision-making process for their FDIs and will help to compensate for not having had feedbacks based on iteration processes. This can keep the costs arising from liability of foreignness as low as possible.

3.13 Summary (Literature review)

In this chapter, with the application and modification of Rugman and Verbeke's framework, this dissertation is positioned in the subject areas of international business and international economics. Cause and effects have been discussed, where it was necessary to bridge internationalisation literature from the realms of MNE and SME internationalisation. The intention was to identify the gap in literature, where firms may follow FDI decisions enforced by the low cost production imperative. The evolution of the low cost production imperative over time has been discussed. Preparedness and uncertainty (major elements in the decision-making process) have been examined under various aspects including psychic distance, liability of foreignness, inertia, and knowledge absorption. Furthermore, it was noted that little is known about the determinants of FDI combined with location-specific variables and strategic motivations of the investing firm. It is assumed even more rarely, that investigations combine the knowledge based on which the firms described identify important location-specific variables under an enforcing strategic motive for deciding for a location choice in a low cost operation area. Decision-making and aspects of implementation theory have been integrated into this chapter which serves as a cornerstone for the formulation of the research questions in the following chapter.

4. PROBLEM STATEMENT AND RESEARCH QUESTIONS

4.1 Introduction

Globalisation has influenced both the nature of the comparative or location-specific advantages of countries and the competitive or ownership-specific advantages of firms (Narula and Dunning, 2000). A substantial literature exists on international competition, because the subject is far from new (Porter, 1986). There is also a considerable literature, dating from the early 1980s, on multinational firms, reflecting their growing importance and MNE-friendly attitudes by governments. Strategies attracting FDI are now commonplace among developing countries, which, in turn, accelerated the general growth in global FDIs.

Changed cost structures for products, as explained earlier in this dissertation, are a logical consequence. The firms in focus are challenged in a way that they can hardly compete with the new cost situation due to their higher current cost structures including labour, energy, rent, tax, transportation and packaging. The demand to become more international in operations (van Liemt, 1992; Ernst and Ravenhill, 1999; Winch and McDonald, 1999; Bartlett and Ghoshal, 2000; Brown and Bell, 2001; Zuchella 2001) seems to become an inescapable strategic option for the firms, an option to be considered with a variety of uncertainties for these internationally inexperienced firms (except, perhaps, for those experienced in export activities). According to Prahalad (1990) and Kim and Mauborgne (1996), the question on how firms strive to manage and cope with the complexity arising from the internationalisation of their operations, remains one of the most pressing issues in the field of international management.

The author envisaged the general objective of this dissertation, because he received many requests from SMEs for assistance in their battle for cost competitiveness and the probable internationalisation of their production through foreign direct investments. He also wished to contribute to the literature and, possibly, with this research findings, to offer a structured approach to management decision-making.

4.2 Problem statement

4.2.1 Low cost production imperative, decision-making, and human capital

The low cost production imperative as a cause of decision-making for internationalising operations, as an effect described in this dissertation, is an internationalisation process that distinguishes itself from a majority of process descriptions in existing literature on SMEs internationalisation. The explanation lies in the circumstances under which decision-making is made. The low cost production imperative forces a decision to internationalise operations - or not -, which is no longer taken under the aspect of free will and free choice by the authorised decision takers of a firm. The distinguishing factor is free will. It implies, of course, the intention to continue in a profitable manner with the firm and to survive with the firm.

As the aspect of decisions to internationalise is no longer based on free will, this dissertation contributes to a new chapter in the internationalisation theory of SMEs. Efficiency seeking under the influence of the low cost production imperative is being forced on firms, which, intentionally, are not equipped with a global vision. In addition, they have not developed a collection of capabilities at the strategy and organisational culture levels that would give a confidence level for the firm to be prepared to internationalise successfully. Most of the discussion about competitiveness in the literature is considered under the free will and opportunity seeking aspect. Wright and Ricks (1994) admonished SMEs to be internationally competitive to help to ensure their long-term viability and success. The firms in focus belong to the latecomers to the globalised production system and to the internationalisation process. Perhaps, also the process to internationalise will be slow, according to Autio et al. (2000) who mention that if a firm internationalise early in its history, it will internationalise more rapidly.

The low cost production imperative forces the question of how the organisation maximises its alignment of strategy with its environment to achieve a performance outcome. Lu and Beamish (2001) remark strategic fit in an international context takes on additional complexities. They continue that theoretical precepts in a contingency model for SMEs' international expansion therefore must consider the unique issues associated with resource commitment, as well as the relevant external factors associated with foreign markets. Rasheed (2005) mentions that most previous studies examining the effects of the

environment on SMEs foreign market entry have focused on exporting, which does not require foreign investments of assets.

The focus in this dissertation is on the FDI decision-making process, to allow the firms to continue their operations under competitive circumstances in a global context. Hill et al. (1990, p.117) argue that such entry decisions cannot be viewed in isolation. The decision must be related to the overall strategic posture of the firm. The characterisation of the firms in focus described in the introductory chapter helps to identify the firms' position in their strategic posture. Positioning and the inner view of the firms are important considerations to illuminate the complexity they are confronted with in their strategic decision-making for going abroad with their operations. Every firm is unique and this uniqueness derives from the resources firms possess (Barney, 1991). The importance of resources in the form of human capital elements (dimensions: international business skills, international orientation, environmental perceptions, and management expertise) will influence the outcomes in the context of successful internationalisation. Under which circumstances do they matter and in what ways was discussed by Peng (2001).

Brush et al. (2002) conclude that human resources were found to be the most important resources associated with internationalised firms compared with their non-internationalised counterparts. Human capital, the behaviour of employees, the rules and the evolution of a firm form corporate culture. Their processes and procedures are distinctive competencies and not easily tradeable (Dierickx and Cool, 1989). Firms become stuck in what they have, and are heterogeneous with respect to their resources, capabilities, and endowments (Teece et al., 2000).

4.2.2 Low cost production imperative, decision-making, and entrepreneur's influence

Uncertainty, liability of foreignness (Zaheer, 1995), and path dependencies (Minnity and Bygrave, 2001) affect decisions on investments, such as decisions to internationalise. Internationalisation of operations is a major risk since it involves scarce human and technical resources, time, opportunity cost, and capital. Traditional internationalisation theories exclusively focus on the firm as the unit of analysis. Many of the SMEs are shaped by the profile of the entrepreneur. This dissertation is concerned with decision-making for

going abroad, where the influence of the entrepreneur might have an important role, e.g. in risk considerations and opportunity evaluation.

Jones and Coviello (2005) noted that while contemporary understanding of internationalisation is informed by integrating multiple theoretical aspects, there is a need to incorporate entrepreneurial behaviour into models of internationalisation. Andersson (2000) regards the role of an entrepreneur as crucial for firm's international strategies and for explaining a firm's international behaviour. The entrepreneur's personal factors can have strong influences on the internationalisation of SMEs. Human capital refers to a range of valuable skills and knowledge a person has accumulated over time (Burt, 1992). This dissertation uses Andersson's (2000) definition of the term "entrepreneur" which can also be used in this paper for "key decision maker". The explanation is that the paper focuses on individuals who act in accordance with the criteria for entrepreneurship.

The firms analysed are latecomers to the international market; awakened by the low cost production imperative. The profile of the entrepreneur may have a strong influence on the internationalisation stage. Minniti and Bygrave (2001) describe the conditions of myopic "foresight" in their entrepreneurial learning model where the entrepreneurs become locked into previous experiences of success and failures, which create path dependencies. Uncertainty, limited predictions, and limited readiness may impede effective decision-making, caused by the liability of foreignness (Zaheer, 1995) and organisational inertia (Hannan and Freeman, 1989; Milliken and Lant, 1991).

The newcomer SME, and evidently the entrepreneur, concerned with risk and uncertainty, will face additional resource-based barriers to internationalise its business; these are important aspects to be considered in the research framework as a condition that might explain arguments in decision-making, in the actions, and in the outcomes. Under what timing circumstances such SMEs will invest in external knowledge to ensure that appropriate resources, knowledge, and learning are accumulated to provide a positive platform to internationalise are also of interest. In our case, FDI decisions demand a higher resources access mode.

4.2.3 Low cost production imperative, decision-making, and firm's uniqueness

Resource-Based View (RBV) theorists (e.g. Barney 1991, 2001) point to the uniqueness of firms: as a consequence, it is difficult to acquire resources exactly similar to the existing ones. One consequence of such uniqueness is that it is more effective to transfer existing resources to the foreign market than to develop new ones (Kogut and Zander, 1993; Hu, 1995; Madhok, 1997; Erramilli et al., 2002). Dilution of scarce resources may be a consequence. Evidence suggests that many SMEs want to remain independent and in control of their operations. Real world behaviour and evidence in behaviours and statistics (e.g. Tang and Yu, 1990; Deng, 2001, 2003) support that aspect, especially for IP protection purposes. Consequently, networking to share resources may be not in the interest of the firms discussed.

4.2.4 Low cost production imperative, decision-making, and dynamic capabilities

Availability of resources for planned international operations, as a static aspect, is important, but so also is the dynamic aspect (e.g. Luo, 2000; Wright et al., 2001) to deploy available resources efficiently. The dynamic capabilities are an additional theoretical aspect integrated in the research framework. Nelson and Winter (1982) argue that capabilities are configurations of routines and resources that allow an organisation to achieve its goals, whereas dynamic capabilities reflect a firm's capacity to reconfigure its capabilities and to adapt rapidly to its environment (Teece et al., 1997). The basic assumption behind the latter is that today's fast changing markets force firms to respond quickly and to be innovative. Organisations and their employees need the capability to learn quickly and to build strategic assets. In relation to this dissertation, the possible transformation and the reconfiguration of capabilities in low cost operation locations have to be maintained and have to be integrated into the organisation.

4.2.5 Low cost production imperative, decision-making, and risk taking aspects

Risk is intrinsically embedded in time and the temporal context still continues to suffer from neglect in the research literature (Das and Teng, 1997). The scholars mentioned discuss the temporal attributes related to the risk horizon, or the span of time for assessing the risk, and the future orientation of the entrepreneur (owner, or decision maker). Fisch

(2008) in his analysis of international investments recognises that the need to investigate the time dimension, some scholars such as Gatignon and Anderson (1988), Agarwal and Ramaswami (1992) and Mudambi and Mudambi (2002) postpone it to future research. The decision-making aspect for FDI under the low cost production imperative appears to be one of the most distinctive features of the decision maker's behaviour, since creating new ventures is by definition a risky business. Risk is conventionally defined as substantial variances in outcomes that are of consequence (MacCrimmon and Wehrung, 1986; Yates and Stone, 1992).

Risk taking is an important element in the framework of this research, because failures in decision-making and the wrong timing for going abroad can end in heavy losses, influence the well-being of the people involved, and jeopardise the survival of the firm. Risk-taking in this research is illuminated from a very specific angle. Since the entrepreneurial function involves primarily risk measurement and risk taking (Palmer, 1971, p.38), it seems to make sense to assume that entrepreneurs are inherently risk takers. This assumption is of interest, because of the behaviour of the decision-makers confronted with an FDI decision to regain cost competitiveness, involving limited international experience, limited managerial and financial capacities, political naiveté, and possible difficulties in transition to a new, internationally oriented management style.

Acedo and Jones (2007) examined cognition in relation to speed of internationalisation as relevant to international entrepreneurship. Three proactive elements - proactivity, international orientation, and tolerance of ambiguity together with risk perception - when managers are confronted with internationalisation, were examined in relation to internationalisation speed. Three groups of firms, 1) international entrepreneurs, 2) exporters, and 3) non-exporters, were analysed. The conclusion, which is important to this research, was that the non-exporters level of proactivity is increased by their tolerance of ambiguity. It is not extended to internationalisation suggesting that factors other than ambiguity and cognition may be of more significance to these groups 2) and 3) as regards their reluctance to internationalise (except export mode). The low production cost imperative is an external factor, which may change the reluctance and influence the speed with which internationalisation is began, and how the cognition of decision takers may alter in response to the importance of the issue. Possible reasons for the position of reluctance are variables for investigation in this dissertation.

The questions are what has been considered (e.g. variables, advisors, information, and materials) to decide to go to a distant market? Acedo and Jones (2007) refer to the literature: cognition underpinning internationalisation decisions and processes is relatively unresearched, although some ideas can be gathered from the extant literature.

The findings may provide insights on the character and reflection of the decision maker regarding innovation, proactivity, and risk-taking behaviour (McDougall and Oviatt, 2000). A number of studies have already proposed and analysed different entrepreneurial typologies (e.g. Webster, 1977; Woo et al., 1991). Das and Teng (1997) in their analysis on the risk propensity of entrepreneurs found inconsistent results. One possible explanation is that many of these empirical studies are not directly comparable, since they use different definitions of entrepreneurs (Gartner, 1988; Begley, 1995). Thus, a manager in one study may have been identified and assigned as an entrepreneur in another study. These different definitions of entrepreneurs exist, but it is not the intention of this study to elaborate in detail on the typology of the decision-makers and about their characters in particular.

4.2.6 Low cost production imperative, decision-making, and the holistic view

Etemad and Wright (1999) summarise that processes and strategies in regard of small entrepreneurial SMEs internationalisation vary widely, depending on the characteristics of each firm and its management. They conclude that no single established model adequately explains the success of small firms. Their behaviour rather must be regarded as a holistic process in which insights are drawn from a variety of theoretical models.

Mental processes are always present in decision-making, and an individual's perception is an influential determinant when it comes to the decision. Consequently under the aspect of uncertainty, what information, which variables, and which resources were considered in the decision?

4.2.7 Low cost production imperative, decision-making, and localisation variables

A variety of localisation variables have to be considered in processes such as FDIs. In what ways do described firms consider variables important to them in the decision-making process? In addition, in what spectrum do they identify variables important to them? The

level of international experience of the decision-makers may have an influence and may influence resource commitments and work against “foreignness” and ambiguity.

4.3 The low cost production imperative and existing theories

The holistic process concerning decision-making by the firms described, who wish to stay cost competitive in operations with FDIs is of research interest. Insights are given from a variety of theoretical models. Human capital, the entrepreneur’s influence, the firm’s uniqueness, dynamic capabilities, risk taking, and which localisation variables are considered are all theories which may play an important role for success or for failure in the outcome of the process. Low commitment to internationalisation by the firms results in lack of experience and there may be a time limit for the firm and the firm may have limited time to adapt to a changed environment. The latter is important and may illuminate different insights not only in respect of the stage theories but also the FDI theories.

Internationalisation through an orderly growth process in incremental stages (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil 1980) is time consuming. Surprisingly, FDI theories do not invoke time as a driving factor in either stimulating or deterring FDI (Etemad and Wright, 1999).

This dissertation is concerned with at least two of the three prominent schools of scholarship on the process of internationalisation of SMEs. Etemad and Wright (1999) refer to them as the stage models theories, foreign direct investments theories, and the network theories. The latter contrasts with the core tenet of FDI theories, namely, that firm internationalise by internally leveraging their competitive advantages to offset their disadvantages, while network theories assume sharing respective complementary, competitive advantages with other firms. The research framework will involve two of these: the stage models theories and the foreign direct investment theories. Both theories are amended with theories such as the resource based view, absorptive capacity, foreignness, organisational inertia, and dynamic capabilities. The holistic view will be illuminated in the decision-making aspect under uncertainty, where uncertainty is a key variable that explains organisational behaviour (e.g. March and Simon, 1958).

The low cost production imperative results in new aspects to the internationalisation and foreign direct investment theories of SMEs. The listed arguments which follow, explain the differences between existent theories and prevailing assumptions:

The low cost production imperative...

- ...enforces decision-making for FDI which is no longer under the free will opportunity seeking approach driven by the global profit opportunities
- ...gives timing aspects different time patterns than these ones in stage models, whereas, in incremental stages, international expertise and skills are developed based on a extended time horizon
- ...invokes time as a driving factor in stimulating FDI
- ...reached SMEs, which, from inception do not belong to International New Ventures (INVs), and which seek to derive significant competitive advantages from the use of resources and from the sale of outputs in multiple countries
- ...dismantled the different competitive spaces between MNEs and SMEs, whereas FDI aspects apply now for both types of enterprises

4.4 Research Questions

The arguments listed above identify that existent theories do not offer feasible answers to the various effects aroused by the low cost production imperative. Answers supporting strategic decision-making are crucial for organisations working to survive when decision-making for FDI is not made under the free will and opportunity seeking approach. The latter belongs to an entirely new chapter in SMEs internationalisation theory since most of the studies, even recent ones, have not addressed internationalisation issues under these aspects.

Referring to Ernst and Ravenhill (1999, p.38), arriving late or being uncompetitive in the market may force a company out of business. It sounds menacing, but Bronfenbrenner's

(2001) figures and other national statistics show the evidence. The firms in focus do not start with a global vision and do not devise a collection of capabilities at the strategic, organisational, and cultural levels of the firm which would prepare them to internationalise. It is even more important that a specific set of single determinants and their interdependencies have to be analysed and tested in detail (Zou and Cavusgil, 1996). In addition, cultural considerations may be a part of the uncertainty to act in global environments. Kulkarni (2001) identifies this type of uncertainty as “primary uncertainty” when the firms make a commitment to country-specific resources and strategies. The importance of cultural influences has been disregarded in academic literature (Hofstede, 1981). However, Hofstede’s statement has steadily been given more attention: evidence can be found, for example, in the use of the term “psychic distance” (Vahlne and Wiedersheim-Paul, 1977). The massive demands imposed by time compression and the need for the utmost cost competitiveness will force SMEs to find creative ways to design and implement new organisational architectures in the shortest time, without sacrificing the benefits traditionally associated with deliberate planning and appropriate participation. The rapidly increasing velocity of change warps organisational time and space, bending the very shape of these firms.

The phenomenon-driven research questions, intentionally, are broadly scoped to give more flexibility to the research. Flexibility is inevitable for gathering the highly contextualised judgements needed from individuals to explore the holistic depictions of the researched realities. Explanations in the methodology chapter will highlight the chosen communication approach, which will use the principle of active interviewing (Holstein and Gubrium, 2004).

The research questions are structured in three sets (A, B, C) of dual questions to explore the notion of the ‘low cost production imperative’; and to investigate the implications and consequences of the low cost production imperative for internationalisation decision-making.

The first question in the sets investigates the broader aspect, opinion, and situation in regard of the phenomenon. The second question in the sets inquires about information, linked to the first question but, with more detail on “preparedness”, “outcome”, and “decision”. As already explained in the introductory chapter, the sets of questions are

arranged in a logical sequence with the phases: explanation phase (A), the prediction phase (B), and the execution phase (C).

The A-set scrutinises the preparedness of the firm in assessing and valuating the situation related to the phenomenon. The set investigates into the initial position of the firm, which is pressured by the low cost production imperative, while the firm's strategic posture is indirectly questioned.

A1: What are the existing opinions, and the cognitive and structural standpoints, related to the imperative in the case firms?

A2: How do the case firms assess their preparedness to conduct a foreign direct investment?

For the B-set, the prediction for the outcome is of interest. Prediction can be understood as the description of a future plausible situation or an outcome, which can result from strategic decision-making such as FDI, which is often linked with risk taking. Limited predictions and limited preparedness may impede effective decision-making. Causes may come from the unfamiliarity of the host environment, from cultural, political, and economical differences, and the need to coordinate across geographic distance. In principal, it is about how the deciding firm reduces its liability of foreignness (e.g. Zaheer, 1995; Lu and Beamish, 2001). The prediction of the outcome may also be interlinked with the willingness of the firm to make local adaptations and become familiar with local circumstances. What is the stage of knowledge about the local circumstances and what are components considered in the process.

B1: How do the case firms make predictions regarding the outcome and effects of the foreign direct investment decision?

B2: What factors are considered by the case firms regarding the foreign direct investment decision?

C-set questions deal with the essence of case study research, which is to illuminate decisions or a set of decisions (Schramm, 1971); what kind of mechanism can be identified behind a decision, and secondly what kind of arguments have been considered? The future of the firms in focus is addressed, based on their strategic decision-making to adapt the

firm to a changed environment. Theories combine in this set of questions such as the entrepreneur's future orientation, risk considerations, and the capabilities of the firm.

C1: *How is the decision made in the case firms?*

C2: *What are the arguments for the decision in the case firms?*

4.5 Summary (Problem Statement and Research Questions)

The low cost production imperative heralds a new era of internationalisation, where conventional views, regarding the stage models and foreign direct investments, are questioned for firms, such as the firms in focus. Five arguments are listed in this chapter, which illuminate the differences between existing theories and prevailing assumptions. The leading one may be mentioned: decision-making for FDI is enforced no longer under the free will opportunity seeking approach driven by the global profit opportunities. The research is in line with inquiries to explain a firm's internationalisation. Multiple additional theoretical aspects are noted and integrated in the framework of this research: an important one, the role of entrepreneurial behaviour, which may influence decision-making in many ways, may be mentioned.

Investigations related to the insights about the decision-making process by firms in focus are in the foreground. To a large extent, the details have priority in recent research agendas on a firm's internationalisation. Mariotti and Piscitello (2001) underline the investigations needed to rate the competitiveness of manufacturing SMEs and their interactions with local factor advantages. Entry modes decisions, other than exporting decisions, are now of interest, and are related to the effects a changing environment exerts on firms (Rasheed, 2005). Zou and Cavusgil (1996) mention that it is important that sets of single determinants and their interdependencies have to be analysed and tested in the internationalisation processes. This phenomenon driven research investigates the internationalisation process of particular firms, under the special five mentioned arguments aspect, where the low cost production imperative is the driving force.

The research is embedded in the era of massive production shifts, a new age in internationalisation and, therefore, at the edge of today's published academic papers in that field. The problem statement addresses a very contemporary topic. The sets of dual

questions will help to investigate deeply into the phase's explanation, prediction, and execution of a firm's decision-making process to internationalise operations.

The next chapter will give answers on how the research design was developed and which methodologies were applied to be successful with the investigations.

5. RESEARCH DESIGN AND METHODOLOGIES

5.1 Introduction

The main purpose of this chapter is to plan and to structure the investigations so conceived as to obtain answers to the research questions. The plan is to design the overall programme of the research. The study of the researched phenomenon is of a qualitative nature. Qualitative research builds social science constructs from the members of a group and focuses on the socially constructed nature of reality (Shutz, 1962). Therefore, the use of the social actors' meanings in their environment is important to understand the phenomenon (Denzin and Lincoln, 1994). This research is in line with the characteristics of qualitative research, which 1) requires "highly contextualised individual judgements" (Van Maanen, 1998) and 2) offers holistic depictions of realities that cannot be reduced to a few variables (Gephart, 2004). The research design and selected methodology highlight the actual human interactions, meanings, and processes which constitute the real-life organisational settings and changes. The chosen approach is in line with the concept and potential (Gephart, 2004) to rehumanise qualitative research and theory by analysing human interactions and meanings that underlie phenomena and relationships among variables that are often addressed in the field. This study has, therefore, an inherently humanistic focus, in comparison with quantitative research which is grounded in mathematical and statistical knowledge.

5.2 Orientation of the research

5.2.1 Inductive or deductive orientation of the research

Two major methodological orientations are distinguished: the inductive and the deductive orientation (e.g. Bryman 2001; Easterby-Smith et al., 2008). The main difference is related to what comes first, theory or data; or, expressed by Wolcott's (1992) approach "theory-first" or "theory-later". Derived from the descriptions in the "Introduction" (5.1) section, a vital interest in the social actors' meaning is in the foreground to investigate the true sense of the phenomenon. According to Easterby-Smith et al. (2008), social constructivism leads researchers "to try to understand and to explain why people have different experiences, rather than search for external causes and fundamental laws to explain their behaviour". Despite that, external causes may be the trigger point for the social actors' decision-making based on different experiences made in their past. "Theory-first" or "theory-later"

differentiates the research process by the sequence of the activities in inductive (phenomenological) and deductive (positivist) studies.

The low cost production imperative acts as a trigger where, along with various variables considered in a process, a decision-making process may follow as the effect. In a broader sense, this study is a causal study, where the holistic insight in firms related to decision-making is explored, including the results of the outcome. The latter is an important part of the nature of qualitative research (Miller et al., 2004) or as a requirement for implementation theorists (inter alia Goggin et al., 1990; Winter, 1990; Hasenfeld and Brock, 1991). Decision-making which affects the organisation involving human activity, is a central issue for organisational research. Exploratory components exist in this research, combined with a specific interest in internationalisation of the firms described.

The following Table 5.1 will illuminate, with a focus for this research, the differences between the inductive phenomenology versus the deductive positivist paradigms.

Table 5.1: Paradigms: Inductive (phenomenological) versus Deductive (positivist)

Characteristics	Inductive Research	Deductive Research
Nature	Constructive or generative	Enumerative or conceptual
Intention	To produce a causal map	To test orienting constructs and propositions
Acceptance	Theory acceptance allows further theories to suggest themselves by observations	Revision of a theory in light of falsification creates a theory with higher predictive power
	Phenomenological Paradigm	Positivist Paradigm
Epistemology	The researcher interacts with the researched; the phenomenologist attempts to see things from that person's point of view	The researcher is independent; science must be conducted that it is value free
Ontology	Social phenomena is dependent on social actors (subjective)	Social phenomena is independent and separate from social actors (objective)
Methodology	Inductive, research design emerges, research is contextual and historically bound, looks for verification	Deductive, embedded within propositions, reality is context free, looks for validation
Axiology (Values)	The research is value laden	The research is value free

Source: The author (derived from the literature)

5.2.2 Distinguishing factors between qualitative or quantitative research

In a similar approach, Table 5.2 is used to distinguish between qualitative and quantitative research. To simplify, quantitative research employs measurement and qualitative research does not.

Table 5.2: Distinguishing characteristics between qualitative or quantitative research

Characteristics	Qualitative research	Quantitative research
Epistemological orientation	Interpretivism	Natural science model, in particular positivism
Ontological orientation	Constructionism	Objectivism
Orientation to the role of theory in relation to research	Inductive; generation of theory	Deductive; testing of theory
Strategy	Construed as a research strategy that usually emphasises words rather than quantification in the collection and analysis of data	Construed as a research strategy that emphasises quantification in the collection and analysis of data
Reality	Individual's creation and interpretation of social reality	Social reality as external, objective reality

Source: The author adapted from Bryman (2001)

5.2.3 Research design options

At the very start of the research idea, it was obvious to the researcher that empirical investigations would have to be done with social actors, who have the necessary experience. The reasons are simple: on the one hand, in-depth insights into the complexity given by human interactions would be gained. On the other hand, to frame the complexity with all the dependent and independent determinants needs to involve the social actors' meanings, experiences, and judgements. Cause and effects related to the phenomenon have to be experienced in broad perspectives, because the reality cannot be reduced to certain variables or explained by simplified models, which was the case in early stages of academic investigations for SMEs internationalisation, for example.

The researcher had in mind the uniqueness of firms as an important consideration and one which is based on his own personal experience, although personal experience is less emphasised in traditional academic perspectives (e.g. Barney, 1991).

Perhaps, the subconscious thoughts based on one's own experience are distinguishing factors in a design evaluation by a Doctor of Philosophy (Ph.D.) candidate with 25 years of

business experience and one by a Ph.D. candidate starting his business career with a Ph.D. from university. Therefore, the following Table 5.3 is characterised with the design option preference for a case study listed at the top. The researcher's considered opinions find their equivalents in academic thought, which reinforces the discussion in the introduction. Such are the importance of the social actor's meaning (Denzin and Lincoln, 1994), highly contextualised individual judgements (Van Maanen, 1998), and the holistic depictions of realities which cannot be reduced to a few variables (Gephart, 2004). Ideas and consideration of the study envisaged are independent of induction and exist as a result of experience and theory (Miles and Huberman, 1994).

In comparing the range of options, indicated in Table 5.3, the most appropriate method for the present study remains the case study design which was carefully evaluated against the other options. The case studies have the potential to achieve good access to a holistic view on the decision-making processes of described firms. The chosen design method also has the advantage that the mass of data can be managed, but this also depends on the issue of reasonable sample sizes, which is discussed later. This leads to the following chapters, which will explain the chosen research design in more detail.

Table 5.3: Research design options

Design Option / Method	Brief Description	Merit / Demerit	Fit
Case study	Involves a distinct form of empirical enquiry about a particular participant or small group. "How" and "Why" research questions.	- Provides in-depth and a holistic insights related to the phenomena - Emphasis is placed on exploration and description	- Holistic view about decision-making processes is mandatory - Uniqueness of firms and small sample sizes
Survey	Comprises a cross-sectional design in relation to which data are collected, predominantly by questionnaire or by structured interviews, usually in quite more than a few cases.	- Large samples, difficult for in-depth descriptions about each case (time consuming!); - useful for hypothesis-testing - Anonymity possible but not desired	- The phenomenon offers limited respondents with experience and in-depth knowledge - Description of many cases tend to have an asymptotic end due to the small size of sampling frame of businesses affected by the phenomenon
Action research	Action research is a comparative research on the conditions and effects of various forms of social actions and research to social actions that uses a spiral of steps, each of which is composed of a circle of planning, action, and fact-finding about the result of an action.	- Findings have direct practical implications - Provide unique insights into activities under study	- Improving practice - Spiral steps in the actions - Difficulties in getting access
Grounded theory	Grounded theory refers to theory that is developed inductively from a corpus of data; no need for any reference to extant theory.	- Intentionally, consist of a set of steps whose careful execution is thought to "guarantee" a good theory - One dataset fits at least the theory perfectly	- Iteration processes, skilled approach needed - Does not attach on e.g. the internationalisation theory of firms
Experiment	An experiment is a method of investigating causal relationships among variables. It is a cornerstone of the empirical approach of acquiring data about the world.	- Causality - High control of variables	- Type of quantitative research under controlled circumstances
Quasi Experiment	Research undertaken when a true experiment is not possible; lacks control of variables of a true experiment.	- Improved practicability compared to the experiment	- Even more controlled circumstances
Ethnography	A methodological strategy used to provide descriptions of human societies.	- Does not describe any particular method, but instead prescribes the nature of the study (i.e. to describe people through writing)	- Human issue in the forefront of the strategy

Source: The author, derived from literature.

5.3 Qualitative research

Qualitative research requires qualitative methods by definition (Gephart, 2004). There are various academic discussions on the use and possible mix of qualitative and quantitative data (e.g. Eisenhardt, 1989; Silverman, 2006; Eisenhardt and Graebner, 2007), and Yin (1984) where case study research can involve qualitative data only, quantitative data only, or both. The focus of this research will not be involved in this academic debate on the varied opinions using mixed data. Qualitative analysis is a very powerful method for assessing causality (Miles and Huberman, 1994), which is, of essence, in the sequence and analysis of decision processes in organisations, often illuminated in case studies.

The consistency, between qualitative methodologies and theoretical views adopted and the specific problems which are explored in this research, is, in many ways, important. The human meanings and, with them, the decision-making related to the phenomenon are influenced by various variables which change in importance over time. The methodologies used in the research process have to be capable of producing the kinds of data and analyses necessitated by the theory in use and the goals of the research, to achieve the consistency in the related paradigm.

A selection of the recurring features in qualitative research, adapted to this study, in the style of Miles and Huberman (1994, p.5) is summarised:

- 1) This qualitative research is conducted through an intense contact with a “field” or life situation.
- 2) The role of the researcher will be a “holistic” one (systemic, encompassing, and integrated) to gain an overview of the context under study.
- 3) Data will be captured from local actors “from the inside”, through a process of deep attentiveness and empathetic understanding.
- 4) Certain themes will be isolated by the researcher and questioned with the informant.

- 5) A main task is to explicate how particular settings are interpreted and understood, and account for decisions.

- 6) Many interpretations are possible but some are more compelling for theoretical or consistency reasons.

- 7) The researcher is essentially the main “measurement device” in the study, which means little is standardised instrumentation, and finally and according to principles of qualitative research.

- 8) The analysis will be done in words.

The aim is to examine contributions that qualitative research, based in social science, can make to informing debates among stakeholders (including, in this study, the interacting researcher) on the most efficient, effective, equitable and human means of achieving various goals. A particular part is how outcomes are achieved – or not, as the case may be. Qualitative research can clarify such social, cultural, and structural contexts associated with organisational problems or dilemmas (Miller et al., 2004).

5.4 Case study research

The phenomenon researched can be described as a case of some sort occurring in a bounded context. By definition, a case study as a research strategy covers the logic of design, data collection techniques, and finally specific approaches to data analysis. Yin (2003, p.12) emphatically cites a definition from Schramm (1971) which expresses the substance of a case study: “The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result”.

A case study is an empirical enquiry that investigates in a contemporary phenomenon within its real-life context, especially when boundaries between phenomenon and context are not exactly evident (Yin, 1981, p.59; 2003, p.13). Many more variables of interest will appear. The use of a case study method is appropriate to cover contextual conditions – believing that they might be highly pertinent to the phenomenon of study. The author

therefore decided to use the method of case study research. This allowed the retention of holistic and meaningful characterisation of real-life events in which settings influence the decision-making process for FDI decisions which may shift production abroad to a distant market or may not. Silverman (2006, p.351) argues that a case study fits the qualitative strategy.

Three arguments are highlighted: “1) Qualitative research’s greatest strength is its ability to analyse what actually happens in naturally occurring settings (unlike quantitative research which often turns the phenomenon into a ‘black box’, defined by the researcher at the outset; 2) By refusing to allow their research topics to be defined in terms of the conceptions of ‘social problems’ as recognised by either professional or community groups and by beginning from a clearly defined academic perspective, qualitative researchers can address such social problems with considerable force and persuasiveness; 3) Qualitative research is not, however, competitive with quantitative work; the proper relationship is a division of labour in which qualitative researchers seek to answer ‘how’ and ‘what’ questions and then pass on their findings so that the causes and outputs of the phenomena identified (‘why’ questions) can be studied by their quantitative colleagues”.

This study is embedded in a new stage of evolving internationalisation processes due to the independent variables of time and utmost cost competitiveness and challenges former theories of internationalisation and challenges the management of firms such as described firms.

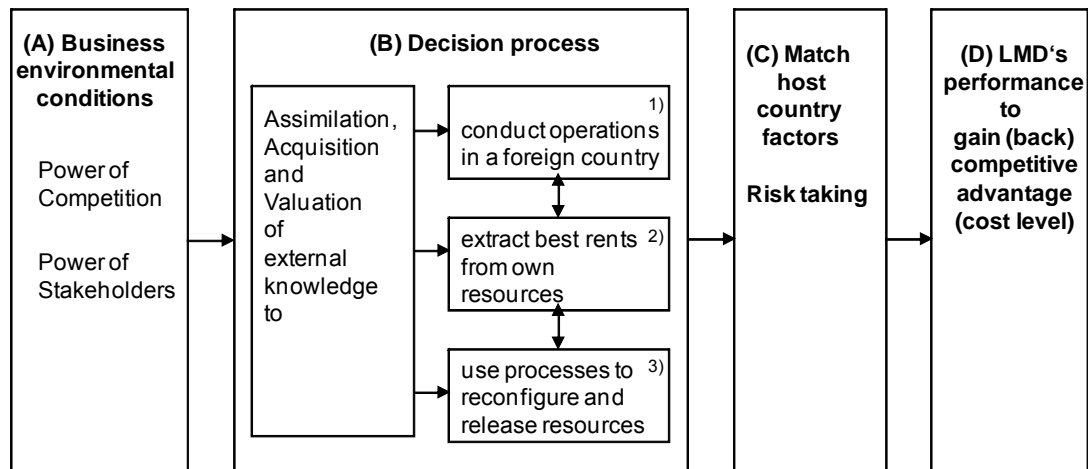
5.5 Conceptual framework

A conceptual framework in the form of a process model has been developed. The aim of this macro concept is to demonstrate the main issues to be researched. First, the macro concept specifies what will and what will not be studied. Secondly, the framework assumes some relationships, as indicated by the arrows. Miles and Huberman (1994) state that a conceptual framework explains, either graphically or in narrative form, the main things to be studied – the key factors, constructs or variables – and the presumed relationship among them. Figure 5.1 show the graphical design developed for this research. Any study, no matter how inductive in approach knows which bins are likely to be in play in the study

and what is likely to be in them. Bins come from theory and experiences and (often) from the general objective of the study envisioned (Miles and Huberman, 1994).

The author's practical experience, arising from requests from cost-trapped SMEs who asked for his help to escape their dilemma, resulted in the objective for this dissertation. Involvement of corresponding theories and filling gaps in extant theories are the logical consequences for contributing to academic work. The sentence from Miles and Huberman, therefore, finds its contribution in the execution of this dissertation.

Figure 5.1: Conceptual framework



Source: The author

This research work will illuminate the decision taking of SMEs, located in German speaking post-industrial regions, for the internationalisation of their production. A review of significant literature, relevant to the topic of this research, was an important process in this qualitative research as it provided content and limits of prior research in the apposite field and pointing to a lacuna in the literature when this study can address. Siggelkow (2007) and Eisenhardt and Graebner (2007) are convinced that cases can also help sharpen existing theory by pointing to gaps and beginning to fill them. In the process of data collection, questions in the previous subchapters addressing theories from the relevant literature will be considered in the case study questions.

5.5.1 Framework – The structure and allocation of themes to the four main bins

The structure of the framework is organised in four main bins. The context in each of these main bins represents an important theme in the process phenomenon identification and set possible values underlying management issues and concepts which enrich academic research in the field of internationalisation and FDI decisions. Bin A) contains the phenomenon researched, principally, cost competition among manufacturing SMEs in German speaking post-industrial regions; Bin B) represents the decision-making process in these firms and therefore the essence described in case studies described by Schramm (1971); Bin C) is reserved for the findings and contributions to academic research; and finally Bin D) finally explains the contributions and values to management issues.

5.5.2 Framework – theories allocated to the bins

On a layer other than the theme layer for the research, important theories are allocated to the bins A) and B); Bin B) is organised in a substructure with themes “Assimilation, acquisition and valuation of external knowledge”; 1) To “conduct operations in a foreign country”; 2) To “extract best rents from own resources”, and 3) To “use processes to reconfigure and release resources”. Figure 5.2 shows the allocation of theories to the bins mentioned in the framework.

Welch and Welch (1996) remark that resource availability has not been a particular focus of much of the research of internationalisation: it has, nevertheless, been shown to be an important issue facing companies at various stages when operating mode decisions are being contemplated.

Areas in academic literature, relevant for this research, are summarised and assigned to the subsections. The themes listed in the substructure of bin B) with numerics 1), 2), and 3) consider various human and human resource aspects, which are important for the firms to arrive at a more or less “optimal” mode of entry into a particular foreign market at a given point in time.

Furthermore, the aim is to synthesize the literature related to how the literature informs the framework of the study, later shown in Table 5.4. The literature illustrated in Table 3.2

forms a fundamental argument in the synthesis with the explanation how MNEs and SMEs internationalisation theories are related to the low cost production imperative and the free will. For the positioning of the research, the classification from Rugman and Verbeke (2001) about the international perspectives on location advantages is used, including the enhancement by the author. This as well contributes to the synthesis, especially regarding the causes and effects on the firms. The research focuses on behavioural decision-making for FDIs, where rational behaviour in the classical economic sense is assumed, yet, clearly, but managers behave according to different rules than those assumed in much of the international business literature, and under considerable uncertainty (Aharoni, 2010). The same scholar, without mentioning the low cost production imperative, said that the decision process starts because of an outside force that causes a decision to look abroad (Aharoni, 2010). Aharoni focuses on MNEs and assumes that decision makers start the decision process because of an outside force, whereas the firms in focus are different in their set-up and may be in their rationality.

This leads to the investigations about the holistic insights of the decision-making process of the firms in focus, where the process may be started or not. A reason in the development of the framework is to consider literature discussing the behavioural aspects of firms and their internationalisation; on the one hand capacities, capabilities, and standpoints such as absorptive capacity (Cohen and Levinthal, 1990), RBV (e.g. Barney, 1991, 2001), dynamic capabilities (e.g. Luo, 2000; Wright et al., 2001), organisational inertia (e.g. Hannan and Freeman, 1989; Milliken and Lant, 1991) are of interest. Knowledge, decision-making, and psychic distance (Vahlne and Wiedersheim-Paul, 1975) stand at the core of the incremental process by Johanson and Vahlne (1977), where these constructs are considered at the firm – not the individual – level (Aharoni et al., 2010).

On the other hand the individual level in the decision-making process is of interest, in specific, entrepreneur's influence on the process. The FDI process is "a dynamic social process of mutual influence among various members of an organisation, constrained by the organisation's strategy, its resources and the limited capacity, goals, and needs of its members, throughout which choice emerge" (Aharoni, 1966a, p.15). How the evidence of the force - the low cost production imperative - is valued in the possible FDI process to minimise the risk. The interpretation and valuation of risk is balanced with decision-maker's perception of uncertainty. The perception may change as a result of knowledge

and experience. The firms in focus have been described in an earlier section in this research. Any choice made by a firm depends on the social system. The social elements focus on decision maker's relations with other individuals both within and outside the firm. The holistic investigations in this research aim to highlight some of the social elements involved. Risk assessment is an important value in the framework, where beside decision-maker's perception and social embeddings also timing aspects and costs are involved, and the latter is labelled under the term liability of foreignness (e.g. Zaheer, 1995; Lu and Beamish, 2001).

Scholars such as Larimo (1995), Mudambi and Navarra (2003), Buckley et al. (2007) remark that in the literature fairly little is known about companies' decision-making process and their examination with location choice and pro's and con's of prevailing location factors. The successful outcome of a FDI decision-making process may rely to a high extent on the match with the host country factors, which presents an important element in the framework. International business research ignored in the past and the present the rich evidences of psychological aspects of decision-making, the complexity of decision-making under uncertainty and the accumulation of commitments (Aharoni, 2010). Expectations in the holistic compilation of elements considered in the framework may result in findings which rationality as defined by classical economists may not be hold. In the sense, that the decision to invest is not necessarily the last part of the decision-making process (Aharoni, 2010). In the forefront, the interest in managerial aspects is of course a successful outcome, or in other words, what is the return on investments. In literature, as earlier discussed, scholars argue that the outcome of the decision-making is mirrored in the definition of risk (MacCrimmon and Wehrung, 1986; Yates and Stone, 1992). Others, Das and Teng, (1997), state that risk is intrinsically embedded in time. Decision-making is a cognitive process, in which timely interdependencies of elements may be of strong influence. The strong interest of managers in the return of investments can be equated with the implementation theorists Goggin et al. (1990), Winter (1990), and Hasenfeld and Brock (1991) that research on implementation which does not include measures of outcomes is incomplete.

Behavioural elements in foreign direct investments were ignored in the past and the present and, hopefully, future researchers would quickly and professionally do the desired work (Aharoni, 2010). Tahir and Larimo (2004) summarise that information to confirm whether

the same variables and motives as in USA and in other OECD countries have also been the key influencing variables and motives in Asian countries is extremely limited. Krugman (1995) and Fujita, et al. (1999) define “location factors” to be the main forces driving firm relocation. The importance of the discussion about the low cost production imperative and therewith the relocation of production to distant markets is underlined and up to date. Larimo (1995) states that according to many researchers, fairly little is known about company foreign investment decision-making processes. Comparing the years of the statements by Larimo (1995) and by Aharoni (2010), behavioural elements in foreign direct investments are still ignored to the present. This research aims to contribute to the corrections of this lacuna.

Table 5.4: Literature synthesising the conceptual framework (Source: The author)

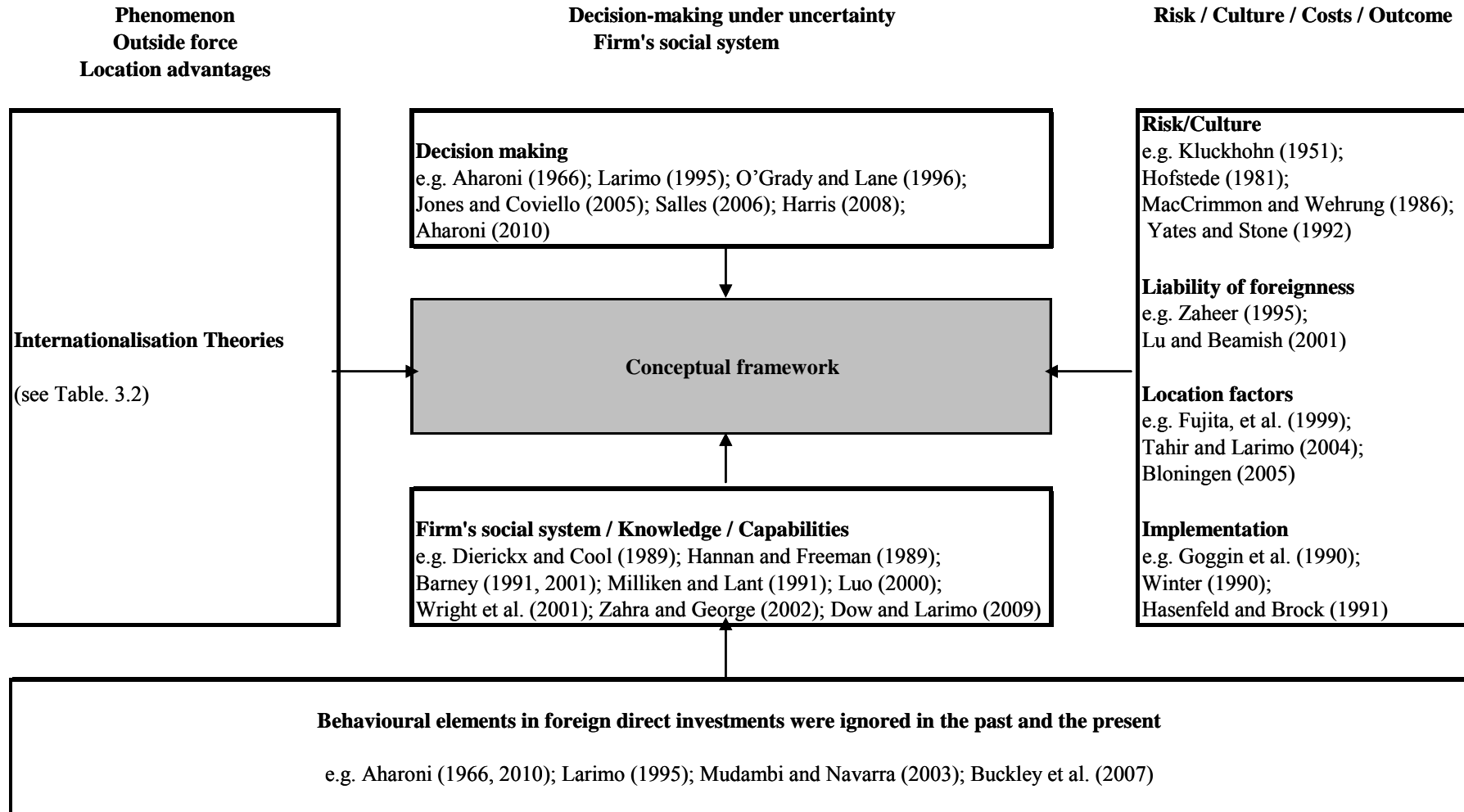
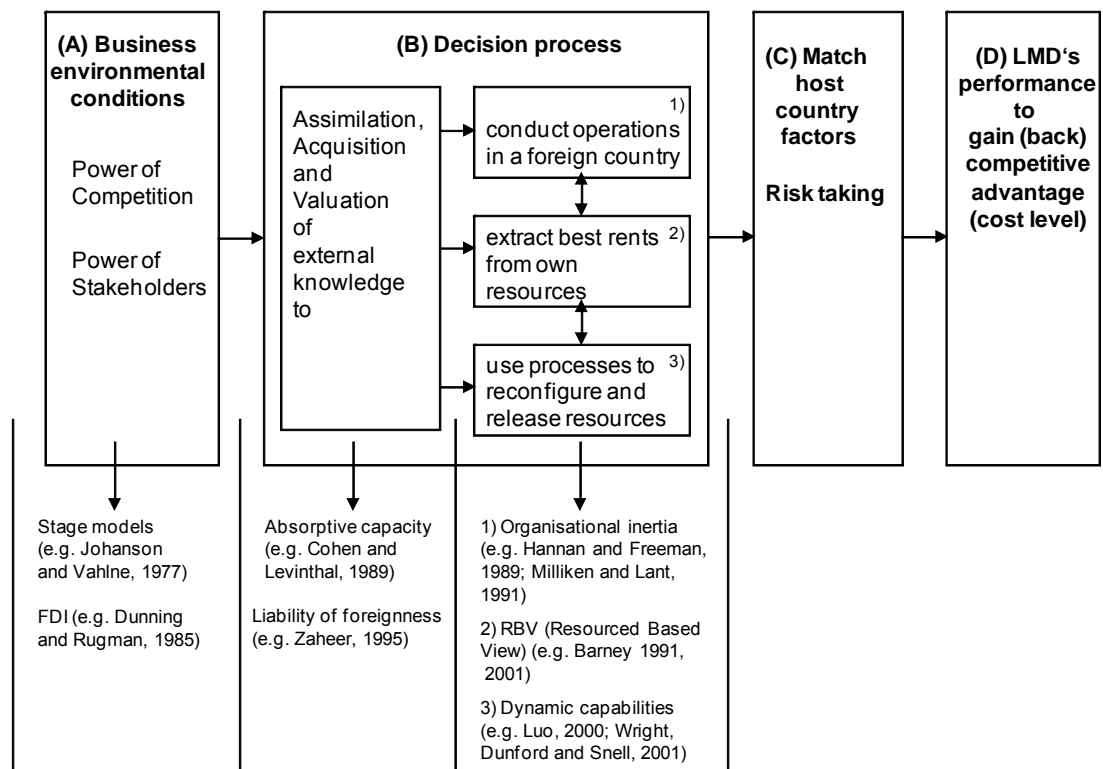


Figure 5.2: Conceptual framework and theories involved



Source: The author

1) Liability of foreignness (e.g. Zaheer, 1995) and organisational inertia (e.g. Hannan and Freeman, 1989; Milliken and Lant, 1991); refers to the uncertainty inside these companies which impedes effective decision-making and limits quick adaptations of their strategies to conduct operations in a foreign country. The learning readiness in these firms is in parallels the literature on “the liability of senescence in older firms (Hannan, 1998), where capabilities become increasingly unfit and resistant to change over time”. This hesitancy over a change in general and, in this case, for new production organisation may arise from cognitive, structural, and positional causes. As the firm matures, managerial roles become increasingly differentiated and may reduce shared knowledge content, and the intensity of communication across roles. The propensity of managers to seek new knowledge also becomes hampered over time, as the knowledge becomes calcified and stored in increasingly specialised bins (Autio et al., 2000). Minniti and Bygrave (2001) describe the

conditions of myopic “foresight” in their entrepreneurial learning model where the entrepreneurs become locked into previous experiences of success and failures, which create path dependencies. Sapienza et al. (2006) summarise inertial constraints with age which acts as disincentive to reconfigure routines for pursuing growth opportunities. The idea that firms and other kinds of organisations tend to be imprinted by their founding conditions comes from Stinchcombe’s (1965) insight that social and economic structures have their maximum impact on new organisations. Imprinting refers to a process in which events occurring at certain key development stages have enduring – possibly lifelong – consequences. The question is how these business environmental pressures in the form of Asian production cost levels, promote the firm’s organisational adaptations. Some studies (e.g. Kraatz and Zajac, 2001) have shown that the ability of organisations to shift resources is important to their responsiveness to environmental pressures.

2) RBV (e.g. Barney, 1991, 2001). There is a school of thought within the RBV literature on how resources are used within the firm. The concept of immobility suggests that firms are relatively immobile. Consequently, uniqueness of a firm makes it difficult to acquire a bundle of resources exactly similar to its own. Researchers, such as Kogut and Zander (1993), Hu, (1995), Madhok (1997), and Erramilli et al. (2002), are convinced that a consequence of such uniqueness occurs when firms enter a foreign market and find that it is generally more effective to transfer existing resources to it than to develop the foreign market than to develop new ones from scratch. The reason for this is that resources which are developed over the long-term are not easily tradeable in the strategic factor market (Dierickx and Cool, 1989).

3) Dynamic capabilities (e.g. Luo, 2000; Wright et al., 2001); Are firms capable of efficiently deploying their established resources and creating bundles of new resources and knowledge relevant for successful production operations abroad? Zahra and George (2002) suggest that absorptive capacity has two general states: “potential” (the external knowledge that a firm could acquire and utilise) and “realised” (the external knowledge that a firm has acquired and utilised). They propose that absorptive capacity should be defined as a dynamic capability: “a set of organisational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge”. Capabilities are configurations of routines and resources that allow an organisation to achieve its goals (Nelson and Winter, 1982),

whereas dynamic capabilities reflect a firm's capacity to reconfigure its capabilities to adapt to its environment.

5.6 Within case analysis to cross patterns

Eisenhardt (1989) argues that in theory building case studies are a research strategy which involves using one or more cases to create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence. A further elaboration of case studies as a research strategy focuses on understanding of the dynamics present within case settings. In within-case analysis, each case serves as a distinct experiment which stands on its own as an analytic unit. Case studies can involve either single or multiple cases. Yin (1994) compares multiple cases to a series of related laboratory experiments that serve as replications, contrasts, and extensions to the emerging theory. Contrasts and extensions are expected from the various cases allocated in the four-group taxonomy of Fleisch and Joost (2004). As a further consequence, multiple cases also create more deeply grounded results based on varied empirical evidence (Eisenhardt and Graebner, 2007). Yin (1984) argues that multiple-case studies typically provide a stronger base for theory building. The aim is to see relationships and outcomes across certain cases, to understand how they are qualified by conditions and thus to develop more sophisticated descriptions and more powerful explanations.

Eisenhardt and Graebner (2007) point out the richness of qualitative data and that, in the pattern search within multiple cases, theory can easily get lost. The challenge in multiple-case research is to stay within spatial constraints. Various cross-case search tactics are proposed (Eisenhardt, 1989). One reason for cross-case analysis is also to enhance "generalisability". Merely adding cases will not help to solve the problem. Multiple cases, adequately sampled and analysed carefully, will help to answer the research question (Miles and Huberman, 1994). In this regard, the taxonomy used from scholars Fleisch and Joost (2004) will help to identify and position the cases, will allocate them into a clear described frame in their stage of internationalisation and will help to describe the findings.

A key step is within-case analysis. The key objective is to become intimately familiar with each case as a stand-alone entity. Within-case analysis typically involves detailed write-ups for each site (Eisenhardt, 1989). As discussed earlier, the essence of a case study is the

illumination of a decision or a set of decisions: what kind of mechanism can be identified behind a decision, and, secondly, what kind of variables have been considered? The latter involves strenuous discussion on the confidence and the belief in quality and importance of variables in the decision-making process. Miles and Huberman (1994) are convinced that cases include underlying variables, and that variables in the cases are not disembodied, but have connections over time. They further consider qualitative analysis to be a very powerful method for assessing causality, and in this regard, factor time has its importance.

5.7 Causal mapping for analysis

The methods for analysis have to sort out the important temporal dimension, showing clearly what preceded what. The method of causal networking is a display of the most important and dependent variables in the field study and the relationships among them (Miles and Huberman, 1994). The plot of these relationships is directional. It is assumed that some factors exert an influence on others. In real-life business behaviours, causal mapping is quite widespread, but often not a consciously apprehended process in a person's mind. It is, in fact, an intrinsic procedure in an evaluation process about the pros and cons of influencing variables in a case, and is embedded in a temporal dimension. The intent to develop a causal map to answer the research question can therefore be deduced from this human behaviour right at the beginning of data collection.

No initial propositions or orienting constructs will be tested as it is done in a deductive research strategy. Since the "constructivist" approach is in the foreground, this will end in a causal network for each case. Wolcott (1992) calls the approaches "theory-first" and "theory-later". It can be amplified that a personal conceptual universe, which refers back to the cause and the bins already mentioned were employed to write this dissertation and this informs the constructivist's induction.

Various causal mapping techniques do exist. Typically, only specialists such as physical or social scientists and operations researchers know about causal mapping and the tool is therefore not widely known or its broad applicability understood. Causal mapping is therefore important, because inferring cause-effect relationships is difficult because causal relations cannot be observed directly and instead have to be inferred from observable cues (Steyvers et al., 2003). Time plays a pivotal role in causal inference. Buehner and May

(2003), in rethinking temporal contiguity and the judgment of causality, predict that delays generally hinder reasoning performance. Causal mapping in general is a tool that enables one to make sense of challenging situations and to extract more from them for theory enhancement or to develop effective business responses.

Mind mapping (Buzan, 1982), for example, emphasises the use of keywords and images to build a diagram around a single key issue. This technique is fairly widespread in engineering sciences. The fishbone diagram is an existing tool which has been widely applied by managers to study the cause and effect relationships of a problem situation, usually for a small problem within a clear boundary. However, for modelling the complex, interfering and influencing variables, the fishbone diagram may not be suitable. The “Why/Why” diagram serves the same purpose, generating a hierarchy of causes and sub causes by continually asking the question “Why”. Influence diagram and cognitive mapping both show causality and direction. A distinguishing factor is that cognitive mapping uses only text to build complex networks, which may have several foci. With influence diagrams, quantitative analysis can be performed and causal relationships of a phenomenon can be represented in a manner that is non ambiguous and probabilistic. A helpful overview about the comparison of causal mapping techniques is given by Tan and Platts (2003, p.573). Causal mapping is used to elicit and represent domain knowledge and perceptions of individuals in the form of a causal map. Figure 5.3 shows a causal mapping technique comparison, according to Tan and Platts (2003), but with a focused critique of strengths and weaknesses as applied to this research.

Figure 5.3: Comparison causal mapping techniques

Mapping Techniques	Characteristics	Strengths	Weakness	Useful Software
Cognitive Mapping	Uses text to build complex networks; allows focus on outcome; analysis of sub-streams; multiple foci	Qualitative analysis; network building from any focus; overview page size; structuring of inter-dependencies possible;	No limits for complexity	Decision Explorer
Fishbone	Root and cause of a problem by breaking it down into components	Analysis of narrow problems; engineering science	Narrow focus; difficult to analyse inter-dependencies among components	SmartDraw
Why/Why	Generates a hierarchy of causes and sub causes by continually asking the question "Why?"	Simple to apply	Demultiplexing character	Autocad; Microsoft office
Influence Diagram	Represents all causal relationships of a phenomenon in a manner that is non-ambiguous and probabilistic	Quantitative analysis	Analysis of complex problems with qualitative nature	Analytica
Mind Mapping	Images and keywords are used as an aid to memory and making intuitive associations	Personalised diagram	Personalised diagram; temporal related illustration difficult	InfoMap

Source: The author, derived from literature.

5.8 Sampling

The rationale of sampling is to set boundaries. Qualitative researchers usually work with small samples of people, nested in their context and studied in-depth, unlike quantitative researchers, who aim for larger numbers of cases and seek statistical significance (Miles and Huberman (1994, p.27). An argument often levied against a qualitative case-based research study is that it is not representative or that its sample size is too small. Siggelkow (2007) concludes that case data can usually get much closer to theoretical constructs and provide a much more persuasive argument about causal forces than broad empirical research can. He emphasises the importance of the conceptual argument more than the interest in a particular case or cases. The interest in the argument is given by its possibility to shape readers' future thought and allow them to see the world in a slightly different light.

Qualitative samples tend to be purposive, rather than random (Morse and Field, 1989; Kuzel, 1992). A first boundary for sample selection in this research is set with the people responsible in the manufacturing SMEs, whereas the companies can be allocated to one of the quadrants according to the terminology developed by Fleisch and Joost (2004) – see Figure 2.3. The pre-specification for an allocation into one of the quadrants is not precisely done at the beginning of the process, but it can evolve once the fieldwork begins. The selection of respondents has a purposive character before data collection in this research. This is because this research is embedded in the topic of internationalising operations, which is highly complex (Prahalad, 1990; Kim and Mauborgne, 1996). The demand for people in this purposive sampling process with practical experiences, quasi “expert” or “key informant status”, is indispensable for sound research. This focus on such respondents conforms to notes made by Mintzberg (1979, p.585): “No matter how small your sample or what our interest, we have always tried to go into organisations with a well defined focus – to collect specific kinds of data systematically”.

The importance of quasi ‘key informant status’, real respondents in real situations, and focusing on specific data collection forced the definition of a frame of characteristics and experiences shown by the respondents. The respondents needed to be experienced managers (Considering the insight by Penrose, 1959, that experience is a prime source of learning in organisations) for discussion on a mature managerial level. This does not mean that all of the respondents needed experiential knowledge (Eriksson et al., 1997). Controversy and different expectations will then enrich the outcomes. (One example underlining this is that foreign experiential knowledge is the key regulator for resource commitments to foreign markets, Autio et al., 2000).

Beside the demand for respondents with managerial experience, further points are listed below. Eisenhardt (1989, p.537) arguing on case selection cites Pettigrew (1988). In the limited number of cases which can be studied, it makes sense to choose cases as extreme situations and polar types in which the process of interest is “transparently observable”. Miles and Huberman (1994) note that for searching extreme cases, conceptual and/or empirical knowledge of the variables involved is necessary. The aim is to weigh the evidence of outcomes in a positive, but also in a negative sense. Once again, it is important to conceptualise what “extreme” means in the complex business world these SMEs inhabit and to capitalise on the data found. It will be challenging to find respondents for such cases

because first, they disappeared from the market and secondly, no one wishes to identify himself as the executive responsible for breakdown.

The elements of population characterised, are listed:

- Respondents experienced in cost competitive pressures, which made them decide to open a production plant in one of these low cost operating countries, such as the Czech Republic, or Hungary, or China, or Thailand, etc., which fulfil the meaning of the term “psychic distance” (Vahlne and Wiedersheim-Paul, 1975, p.308).
- Psychic distance leads to the importance of cultural influences. It is necessary that respondents were experienced in managing operations in another cultural area. The cultural component, in all kinds of behaviour, is difficult to grasp for people who remain embedded in their original cultural environment. They have to value the impact of an element, such as the difference in culture, which can significantly contribute to the success of a newly opened production facility abroad. This contribution is a reaction to Ernst and Ravenhill (1999, p.36) who state that literature rarely looks at how specific elements of the globalisation process exert an impact on corporate structures and behaviours. Adler (1983, p.8), in interpreting Hofstede (1981), concluded, that significant differences appear in the behaviour of employees from different cultures working for the same company.
- The size of the companies, from which those senior managers come, is important. The reason is best explained in the statement of Shuman and Seeger (1986, p.8) in interpreting Welsh and White (1981, p.18), and is worth repeating here from the earlier literature review chapter: “Smaller businesses are not smaller versions of big businesses. Although both sizes of companies deal with many of the same issues, smaller businesses also deal with unique size related issues as well, and they behave differently in their analysis of, and interaction with, their environment”. Welsh and White (1981, p.18) underline that the size of SMEs creates special conditions which can be referred to as resource poverty which distinguishes them from their larger counterparts, and therefore requires some very different approaches. Capability possession (distinctive resources), capability deployment (resource allocation), and capability upgrading (dynamic learning) as ingredients of

dynamic capability become increasingly fundamental to international expansion and global operations (Luo, 2000). These ingredients are size related issues (Welsh and White, 1981, p.18) and much more difficult to manage in smaller businesses owing to the mentioned resource poverty which has been mentioned. Managers with purely internationalisation experience limited to MNEs might lack the experience explained by Welsh and White (1981), and therefore do not possess the sample characteristics searched for this research design.

The size definition of companies can vary across statistical systems. The decision for this research was to choose senior managers, for the interviews, who were working for companies traded and described under the term medium and small CAPS. This is a size where the entire organisation is involved and has influence in the acquisition and assimilation of information and its use, exploitation and acceptance.

- The interview partners desired must have practical experience in single function tasks such as procurement and operations to mention some regarding the research. Difficulties as a natural habit occur in details. The author refers to the statement of Zou and Cavusgil (1996) that a company strategy must not only incorporate broad, strategic direction but also specify how single functions worldwide have to be coordinated, analysed in detail and how they impact upon the organisation, structures and behaviours.
- Practical experiences also mean real world settings, in contradiction to early research on internationalisation processes, where the models have not foreseen competition or paid special attention to this dimension (Vahlne and Nordstrom, 1993, p.531).

The characteristics described above guided the search for the “expert” respondents. To achieve a balance in numbers between pre- and post-cases was the aim; in addition, to identify at least one extreme case. Further on, triangulation of the findings in the same paradigm with additional “expert” respondents developed during the process, and, in the consequence, will support expected authenticity and trustworthiness.

In the strategic response to the low cost production imperative to maintain cost competitiveness, consideration for foreign direct investments into distant markets or at least cost wise distant markets is a valuable option. For example, Tahir and Larimo (2004) remark there is very little research done on the FDI behaviour of non-Asian firms in Asian countries. Most previous studies focusing on the FDI behaviour have analysed the situation in the USA or in the OECD countries. Other scholars (e.g. Larimo, 1995; Mudambi and Navarra, 2003; Buckley et al., 2007; Aharoni, 2010) support that behavioural elements in the FDI process were ignored in the past to the present. As a conclusion, “expert” respondents were searched in the pre- and post- phases of decision-making, and “expert” respondents were searched with localisation experiences in the implementation and execution phase of foreign direct investments. The search for extreme cases was challenging and needed an incentive in form of a consultancy mandate to convince one to talk about the less successful past.

It is obvious, that the researcher scanned respondents in his daily business environment, which at least is a global one. Twenty-eight possible candidates were identified, half of them for the “decision-making process”, and half of them for “triangulation” purposes.

Prior to further explanations regarding the selection process, an effect in the affirmation for the interviews has to be explained, which applied for both focal groups (“decision-making” and “triangulation”). The effect is named by the researcher as the “power of the business card”. The researcher’s status, as a very well networked business executive working in a stock quoted company, opened the door for the interviews and avoided rejections. The candidates finally approached, agreed immediately to participate in the research; the special treatment to convince the “expert” from the extreme case is already explained.

The number of cases selected in both focal groups is influenced by various issues such as scholars’ often mentioned data overload after the fieldwork in qualitative research, the well defined focus (Mintzberg, 1979) achieved with “expert” respondents, and the already discussed standpoints regarding case research from Siggelkow (2007) and Eisenhardt and Graebner (2007).

Finally, seven interviews were conducted in Switzerland and Germany for the focal group “decision-making”; based on the characteristics describing an “expert” written down in this

section; two pre-cases, four post-cases and one extreme case. No difference was made by the researcher in the selection of the cases between candidates from the economies of Switzerland and Germany due to the interconnectedness and similarities in behaviour of the firms. In the subconscious mind, the language and their similarities, as the fundamental tool in qualitative research (Hennink, 2008), may have influenced the search of suitable candidates in both countries mentioned.

The same number of cases was determined for the focal group “triangulation”. Due to the search for “experts” in distant countries or cost wise distant countries, in many informal and formal meetings at various occasions, telephone conversations, and business tasks, the suitability of the candidates was analysed. As a consequence, in the execution of the interviews for the two focal groups, a significant time lag resulted (February/March 2007 (“decision-making”) and December 2009 (“triangulation”). The search for candidates in the focus group “triangulation” resulted in a broad geographic coverage due to the final selection of candidates from different Asian and two Eastern European countries. As a consequence, a rich variety of important location-specific variables is offered to answer the lack of lacuna mentioned by Tahir and Larimo’s (2004) to support firms in their future consideration about important determinants in the FDI process. The “expert” status of the candidates in this focal group for the selection had priority, followed by the good labour cost conditions, discussed earlier in this dissertation, offered by selected countries and the personnel experience done in these countries by the researcher.

Table 5.4 illustrates the case selection process basically in the three stages “identification”, followed by the split into the two “focal groups”, and last “affirmation and execution”. The numbers in brackets inform about the number of cases in the actual stage of the process.

Table 5.5: Case selection process

SELECTION OF CASES (NUMBER OF CASES)									
IDENTIFICATION (28) total cases identified 14 for each focal group									
Decision-making (14) selection for 7 cases pre-/post-/extreme cases					FOCAL GROUPS Triangulation (14) selection for 7 cases cases with implementation experience				
Decision-making (7) interview execution pre post extreme Germany/Switzerland					AFFIRMATION AND EXECUTION Triangulation (7) interview execution Eastern Europe Asia				
(2)	total (4)	(1)	Hungary (1)	Romania (1)	China (1)	Indonesia (1)	Thailand (1)	Singapore (1)	Vietnam (1)

Source: The author

5.9 Active interviewing

The aim is to generate useful information about the phenomenon of interest. Baker (2002) emphasizes that the focus on analysis, and a focus on the researcher's expertise in the analysis of the *interactional* data as much as in the generation of it, changes significantly on how interviewing may be understood and pursued within social science. Interviews with the characterised respondents are less to contaminate data, than to generate meanings and constructions with all in the interview-involved persons. This is one of the key points in the work done by Holstein and Gubrium (2004) about active interviewing. The author of this dissertation is, as a practitioner, intimately aware of details of interview interactions but also of principal behaviours in organisations. The respondents' comments are considered for the ways that they construct aspects of experiential reality in collaboration with the interviewer. Construing the interview as active, then, provides a much wider, more richly variegated field of inquiry than ever before (Holstein and Gubrium, 2004). In that sense, interviewing is a form of interpretive practice involving respondent and interviewer as they articulate their orientations and understandings in terms of a reality continually under construction.

Complexity and context are placed at the centre of qualitative social scientific research on organisations (Miller and Dingwall, 1997). Active interviewing fits with the inquiring approach of this research into the complex and contextual nature of human activities in organisational research. The concept of the active interview casts interview "bias" in a new light. Some interpretations in this regard will be given in the following chapter.

5.10 Communication approach

The communication approach will be executed as face-to-face interviews. The two obligations, one for the firm (belonging with the SME status into the four-quadrant frame of Fleisch and Joost, 2004), and one for the respondent (described characteristics) will support the aim described by Silverman, (2001, p.87): "The primary issue is to generate data which give an authentic insight into people's experiences". The greatest value lies in the depth of information demonstrated in opinions, experiences, social considerations, etc. in their decision process related to the research topic. This approach aims to create a "pure" interview (Miller and Glassner, 2004) in such a way, that it comes as closely as possible to

providing a “mirror reflection” of the reality that exists. Miller and Glassner (2004) suggest that knowledge of social worlds emerges from the inter-subjective depth and mutual understanding. Establishing trust and immediate familiarity for the real world situation are other important elements in the interview process. All these elements mentioned are given by the interviewer: in this research, the researcher himself, who has been involved in international business for more than 25 years. The current position of the researcher as a business executive with his own experience significantly contributed to the motivation of the respondents. It also allowed him to reach representatives of senior management and to convince them to agree to an active interview. The inter-subjective depth and the mutual understanding of the research topic and its survey questions are mandatory in such a complex and experience based real world to achieve the necessary basic findings. Immediate concerns about distortions created by the knowledge of the interviewer occur, especially in those who are oriented in standard interviews. Nevertheless, what will happen, if the interview is not held between conversation partners who share a certain equal experience in regard of the research topic? The interview will be a potential source of bias, error, misunderstanding, and misdirection. Holstein and Gubrium (2004) in their support for “active interviews” have a simple corrective that if the interviewer asks questions properly and the interview situation is propitious, the respondent will automatically convey the desired information. In this conventional view, the interview conversation is a pipeline for transporting knowledge. It is about the assembly of knowledge. Holstein and Gubrium (2004) suggest that the researchers embrace the view of the interview as unavoidably active and begin to acknowledge, and capitalise upon, interviewers and respondents constituent contributions to the production of interview data.

The respondents’ answers will be considered for the ways in which they construct aspects of experiential reality in collaboration with the researcher. The aim is to show how what is being said relates to the experience and lives being studied in the circumstances at hand. Of course, analysing active interview data requires discipline, methodical procedures, and sensitivity to both process and substance. The designed framework designed will help to stay focused within the frame of the envisioned research, correlated theory and chosen methodology. The sensitivity to both process and substance can be explained with following arguments:

- Causal mapping is widespread and is often not a consciously apprehended process in an executive's mind. A decision-making process is embedded in a temporal dimension.
- One person, the researcher himself, will hold the interviews. Falsifications of individual answers, or the whole interview, due to other interviewees' with different training, experience, or deviations from instructions, will be eliminated.
- The interviews will take place on a professional, managerial senior level. The applied principle of active interviewing with the characterised respondents will generate meanings and constructions by both the respondent and interviewer.
- With certain experience, the interview partners do not encounter the risk of potential source of bias, error, misunderstanding, and misdirection.
- The complexity and the actuality of the research topic will be a motivator as well. The interview partners will both benefit from the contributions to the production of the interview data.
- Cooper and Schindler (2001, p.301) state that an interviewer can influence respondents in many ways. Influences by the physical presence of the interviewer in unperceived ways are considered as minimal. Factors, such as the age of the interviewer, as an authority figure, social distance, or other demographic influences, will play a minor role with the chosen interview method and the characterised respondents.

A detailed comment on the points stated above will be made in the analysis of the interviews.

5.11 Questionnaire

The investigation in this doctoral research about SMEs in their cost trap is a focused analysis in the strategic management of such firms under the construct of absorptive capacity. It is important how firms assimilate, acquire and value knowledge for their decision process. The works of Cohen and Levinthal (1990), which have offered the most widely cited definition of absorptive capacity, are significant in this research. An important element of Cohen and Levinthal's (1990) definition of absorptive capacity is how organisational and behavioural structures of firms facilitate knowledge absorption and its transfer throughout the organisation. An important element in their 1990 study is that organisational absorptive capacity is a function of absorptive capacity at the individual level. Absorptive capacity depends on processes that enable the firm to share, and to transfer individual level learning to the organisational level.

An open structured questionnaire has been developed. The open questions fit to the methodology of active interviewing. The questions are all the same for all respondents. The context of questioning is for all the same, but the questions are more general in their frame of reference from those typically found in a structured interview schedule (Bryman, 2001, p.110). Latitude is given by asking further questions in response to what are seen as significant replies and to construct the experiential reality in collaboration with the respondent.

The aim of the questions is to investigate how, and if, knowledge acquisition overcomes various existing opinions and cognitive and structural causes existing in the firm to facilitate the firm to conduct production operations in a foreign country. The possible influence of knowledge acquisition describes the time period of the so-called "pre-birth" internationalisation phase of the firm. In the retrospect analysis together with respondents with first experiences, investigations target exactly the same period, where respondents are asked for a critical assessment about their achievements in internationalisation, about considerations which were missed and about possible considerations and possible recommendations. Certain surprises, or special findings, are expected because companies who are neophytes on the international scene usually start with an ethnocentric attitude (Tsang, 1999, p.92). This research considers the learning needs of managers in organisations, which are operating internationally for the first time. If it is found that the

early internationalisation processes are driven by individual actors and entrepreneurs (Barkema et al., 1996), the development of managers of newly internationalising companies is an important issue for academics and practitioners involved in international business and organisation development.

In the appointment for the interview, time and duration of approx. 1.5h were agreed with each executive. In the same way, the structure of the interview with its sections and the active nature are explained as well. The “questionnaire” is organised in three sections:

5.11.1 The first section

The first part starts with the identification of the company, the respondent and his position, and the date and place where the interview took place. The number of employees is an additional question to estimate the dimension of the company. Exact financial figures are *prohibited* and are not accessible in companies which not quoted on stock exchanges, which typical for companies such as privately or family owned SMEs. The number of employees allows at least an estimate about financial capabilities, which will then be an unavoidable topic in the active interview. The details in this section will contribute to the capability that this study can be replicated. Details about firm and respondent will allow someone else to replicate the procedures at the starting point which constitute the measures.

5.11.2 The second section

The second section starts with the question about the production shift realised, the shift planned, or the shift not yet considered (3 stages) thus classifying the sample firms. This classification at the beginning of this section is important in the design and continuation of the interview. The following questions raised in this section allow both achieving answers from experience and achieving answers in a hypothetical manner. Expectations, preparedness and, with them, the quality of chosen processes and selected information will be measured on the one hand against the retrospect analysis and, on the other hand, against prevalent conceivability and its outcomes. Principally, all raised questions will be raised also in hypothetical form based on the result of the classification. Only questions reviewing retrospective analysis and learning results are excluded from this approach.

Questions 2-3:

These two questions address the causes for an executed, planned or not executed production shift abroad. Place and time are important to analyse, as especially the latter will allow findings and comparisons on the time axis of the firm's internationalisation. In addition, valuable clues are further expected about recognition of the phenomenon and the capabilities to act or react in sufficient time.

Questions 4-5:

Both questions scrutinise the personal involvement of the respondent in a leading functional task in regard of the investigations. The inter-subjective depth and the mutual understanding of the research topic and its survey questions is mandatory in such complex and experienced based real world phenomenon to achieve the necessary basic findings. Therefore, it is important to understand the role of the respondent in the process of guiding the active interview. Again, the interview will be a potential source of bias, error, misunderstanding, and misdirection. It is also a proof, after the interview appointment, that the respondents fulfil the points of characterisation in the list for the elements of population.

The possible information behind the second question, "How the decision has been approached?" contains a broad and rich spectrum in many ways. Valuable clues such as leadership structures, ownerships, decision-making, organisational issues or consulting approaches are possible. Implicitly, findings about preparedness and company internal standpoints are expected.

Questions 6-7:

If the lack of fit between an organisation and its environment becomes too great, the organisation either fails to survive or undergoes costly transformation (Miller and Friesen, 1980; Tushman and Romanelli, 1985). In recognition of this, organisations scan their environments for information about changes (Wilensky, 1967). What kind of information have the sample members used in the period of decision-making? From which designations, primary, secondary or tertiary, does the information come from? Was a concept behind the search for information? For example, was there a focused search for information or a focused search for a solution? The distinction might be useful, as various forms of search might have different antecedents or might have been carried out by

different internal or external organisations and with different types of search processes. Some support for this idea is given by Fredrickson's (1985) finding that preferred search processes varied according to whether the stimulus was a problem or an opportunity, and also Dutton and Jackson's (1987) opinion on how the labelling of a situation as a threat or opportunity might affect organisational actions. One of the actions could be the choice of channels for acquiring information: consultants, professional meetings, trade shows, publications, vendors, suppliers, and networks of professionals provide examples. Huber (1991) structured knowledge acquisition into five distinct processes: 1) congenital learning, 2) experiential learning, 3) vicarious learning, 4) grafting, and 5) searching. It is a critical learning period in this "pre-birth" phase and rarely executed successfully. Cavusgil and Godiwalla (1981) point out that such time of business development is often characterised by unsystematic, unstructured and informal operations. A major interest is what was the knowledge acquisition approach the sample members have chosen?

Question 8-9:

How is the time factor integrated into the explanations? Is there time left to build the essential knowledge and skills needed to carry out the international operation of the production shift? The factor of time and the considerations of host country factors are related and important indications for the preparedness and success for the execution of the foreign direct investment. Companies in early stages of internationalisation face special knowledge difficulties because of their limited exposure to the demands on international operations. In addition, Welch and Welch (1996) mention the tendencies that knowledge for foreign markets is seen in narrow terms, rather than broader operating aspects, such as the ability of individual staff members to function effectively abroad. Both knowledge about foreign markets and broader operating aspects are important. Questions 8-9 together with questions in section 3 address foreign market knowledge and operating aspects. In the words of Welch and Welch (1996, p.15): "Knowledge, experience, skills and resources internal to the organisation, usually inherent in existing staff, can be just as, if not more, critical to successful international operations – that which connects formulation and implementation".

Question 10:

The aim of the question is: have the executives matched their preparedness with local conditions. Alternatively, have they experienced a "shock effect" in the period following

foreign-market entry (Pedersen and Petersen, 2004)? This effect may be explained in an overestimation of their preparedness.

Question 11:

Question 11 is an important question to be posed in today's fast changing business world. A question in a business environment, where knowing more and knowing it faster than the competition is often the difference between surviving and not surviving. Organisational learning is more and more being recognised as a crucial organisational function. For this reason, organisational learning has become a subject of study by management researchers and a subject of considerable interest to corporate leaders (Huber, 1991). Findings here will contribute to academia and to the vicarious learning of firms. In the fast-changing business world, organisations and, especially, organisations such as SMEs cannot gain through their own experience, nearly enough of the information and knowledge they need. They learn from others who already know (Huber, 1991).

Question 12:

This final question in the second section asks if circumstances differ from other businesses. Unlimited variations for possible answers do exist, such as addressing topics such as company behaviours, company idiosyncrasies, business segments idiosyncrasies, path dependencies, business environmental conditions, and, perhaps, historical issues. These details will contribute either to generalisation issues, or in the identification of a unique situation related to one of the sample firms.

5.11.3 The third section

In field research with open questions a multiplicity of data sources and forms will appear. Conceptual frameworks and research questions are the best defence against overload (Miles and Huberman, 1994). The data collection process in the form of active interviews expressed in questions section three are focus on human and human resource aspects. Context and related academic theories important for this research are summarised under numeric 1), 2) and 3) in the framework. The questions in this section combine envisioned important objectives: experiences from real life situations, allocated academic theories, and in summery a concentration on key themes important for this research. It follows Miles and Huberman's (1994) notion, that no one can do everything.

Questions A) – D):

These questions analyse common or unique hurdles which each sample member had to overcome in the decision-making process. Organisational inertia, or myopic foresights, are possible themes. The resource situation is another important matter of fact to be analysed. Deployment of capable resources, availability of such resources, and achievement of highest rents from these resources will be themes for investigation. Experiences abroad, cultural awareness, and communication skills are related to a successful implementation. The investigations are about dynamic capabilities, capabilities which allow the firms to achieve their goals.

Question E):

The choice for entry mode, and its source, is of interest in this last question. A rich variety of answers is expected. Have the sample members capitalised on all the relevant knowledge coming from their dynamic environment? Are they aware of the possibilities and consequences related to the entry mode? Have they followed trends, summarised by Deng (2001), in China on the latest preference for specific entry modes? In short, the answers will reveal the firms' preparation, experiences and perhaps matters which are of no concern to them.

The "Questionnaire" is enclosed in annex A. Table 6.1 will give details on with whom, when, and from which company the interview took place.

5.12 Coding

Codes are tags or labels for assigning units of meanings to the descriptive or inferential information compiled during the investigations (Miles and Huberman, 1994).

A provisional start list of codes was created before the fieldwork when construing the interview as active, some helpful orientations and reminders during the execution in form of predefined codes are an important element. First level coding is a task demanding attention not to bias important elements, codified for investigations about opinions, orientations, experiential issues, and understanding. Various scholars often mention data overload after the fieldwork in qualitative research. The conceptual lenses and the researcher's international business experience for 25 years enable the focus noted by

Mintzberg (1979). A data overload is therefore confined and will not allow the researcher to be open to and be re-educated by what he did not know nor expected to find.

A major orientation is already laid down in the conceptual framework, research questions, and key variables brought to the research. Besides orientation, the conceptual framework in regard of the coding process inherently offers other effects: 1) the categorisation of codes and 2) the categories are meaningfully interrelated at some point.

The initial start list of codes will change: there will be more to be detected than the initial frame will cover. Some codes will flourish and some will decay.

In the analysis of decision-making by the sample firms, it is important to understand their patterns and plausibility. What led them to be convinced about their preparedness for a production shift, and what has been in the outcome, the indicators for success or failure? How are the findings for overview and analysis to be displayed? One of the four important functions in regard of pattern coding, mentioned by Miles and Huberman (1994, p.69), is the elaboration of cognitive maps. Pattern codes are, by definition, bigger bites of data, and become candidates for inclusion in causal networks. Coded data from the interviews are pulled into “Causal network variable list”. The structure of this list is organised in three columns with leading titles and a time structure. The aim is to generate the full set of network variables. In this process, the pattern codes are translated into variables, which can be rated (high, moderate, low) according to the process mentioned by Miles and Huberman (1994, p.156). Variable are assigned into the three columns mentioned, with first, the “initial variables”, secondly, the “mediating variables” and thirdly, the “outcomes”. Distinctive specific local determinants decide the success of a production shift into a distant market. Sample members may have certain determinants in common, but some are unique to each of the firms. In this research, special attention is given to these variables. They are registered and rated in an additional list named “Detailed host country variable list”.

The ratings of each variable in mentioned lists represent in the sum the success of the outcome. The rating of each variable is valued a first time in the conversation with the interview partner. The focus on external validity by Liefeld (2003) discussed with Wells and Mithun (2003) in regard of academic consumer research can be applied in this research case as well. Liefeld’s (2003) recommends to pay more attention to real behaviour of real

respondents in real situations. Wells and Mithun (2003) state that a student's samples, questionnaires, and experiments are not necessarily wrong, but they are always in need of real-world verification. This verification in the form of a causal network review with the interview partner is a mandatory task for a second time validation of the developed causal structure, evidential chain and ratings of variables. Corrective responses are important for an integrated understanding of the cases.

A second important function, mentioned by Miles and Huberman (1994), out of four, is that pattern coding in multi case studies lays the groundwork for cross-case analysis by surfacing common themes and directional processes. Cross-case analysis itself can hold validity for success in numbers of recurrent important patterns.

5.13 Causation and discovery: Within case displays

A next important step in the sequence of analysis following field notes, write-ups, and coding is displaying, conclusion drawing and reporting. The human meaning and, with it, the decision-making related to the phenomenon is of interest. The core of human knowledge and experience is the causal relationship among things. Regopoulos (1966) in his rehabilitation of causality in history identified the complete statement of causation as a scientific principle by the Greek philosopher Lefkipos (450 B.C.). He defined all phenomena as derived from existing causes. Aristotle (384-325 B.C.) who originated the classification of causes, according to their special structure and nature, further developed the principle of causation.

The ability to infer causal relationships is crucial for scientific reasoning and, more generally, forms the basis for learning how to act intelligently in the world (Steyvers et al., 2003). Knowledge of causal relationships gives us a sense of deep understanding of a system and a sense of potential control over the system's states, stemming from the ability to predict the consequences of actions that have not yet been performed (Pearl, 2000). Similarly, prediction can be understood as the description of a future plausible situation where observed effects will be in accordance with the known causal structures of the phenomenon being studied. Causal models are a summary of the knowledge of a phenomenon expressed in terms of causation (Sangüesa and Cortés, 1997). In this research, inductive causal reasoning is in the forefront to build a causal model of the phenomenon being observed. Further specialisations are deductive or abductive causal reasoning.

For the purpose of this research, causal discovery is equated to a learning process. The items of a causal discovery system are:

- a) Pattern coding transformed variables, involved in the phenomenon with a causal relation. Data originated from summarisation from syntactical description of the respondent's in-depth understanding owing to personnel involvement.
- b) From causation theory according to the notion of (Sangüesa and Cortés, 1997) that a causal relationship between the variables exists.
- c) From that knowledge, taking the learning process as a search process which forms the basis of the model to be built.
- d) Because of the learning process, as a result a causal model of the phenomenon under study is the result.

The causal model can be seen as a theory of the phenomenon being modelled.

The procedure is reclined to the identification done by (Sangüesa and Cortés, 1997) in discussing causation and the discovery process. The later usage of the developed theory to fulfil predictive or explanatory tasks is important. Based on the background obligations described on sample firms, respondents, interview natures and processes, a resulting model for generalisation can be the result. For that purpose, cross-case analysis is a consequent task.

5.14 Graphical representation: Causal networks

A very general definition is that a causal network is a graph where nodes represent variables and links stand for causal associations. In this research, according to Miles and Huberman (1994), the variables are related and the links are directional. When associations between variables receive a given direction and the strength of associations corresponds to conditional probability distributions, the resulting representation is called a "Bayesian belief network" (Sangüesa and Cortés, 1997). Many definitions, with different precision, can be found in literature about "Bayesian network or belief network". For the purpose of this research, the following definition is adequate: "A Bayesian network (or a belief

network) is a probabilistic graphical model that represents a set of variables and their probabilistic interdependencies. Formally, Bayesian networks are directed acyclic graphs whose nodes represent variables, and whose arcs encode conditional independencies between the variables. Nodes can represent any kind of variable, be it a measured parameter, a latent variable or a hypothesis. They are not restricted to representing random variables, which represent another “Bayesian” aspect of a Bayesian network. Efficient algorithms exist that perform inference and learning in Bayesian networks. Bayesian networks that model sequences of variables are called dynamic Bayesian networks. Generalisations of Bayesian networks that can represent and solve decision problems under uncertainty are called influence diagrams” (a summary from various definitions).

The generalisation statement in the last sentences of the definition above and, with it, the chosen graphical representation is an important and logical element in the chain of elements for this research design and chosen methodology. Referring to Schramm’s (1971) statement, case study research tries to illuminate decision-making and, in line with decision-making and case study research is that generalised Bayesian networks represent and solve decision problems under uncertainty.

With the “causal network variable list” the causal network can be drawn. This is an incremental process where individual paths are tested, and at the same time, for each case, the cognitively meaningful, integrated causal map is built. The drawing of the variable stream, with sub-streams, leads to the dependent variables and to the outcome of each single case. It is possible to say something about each case. It is of interest in consequential analysis, whether some of the other cases show the same, or similar, patterns. Do retrospect recommendations complete the patterns afterwards and did they contribute to a successful outcome?

In the process of building up the causal map, it is important that a causal network narrative accompanies it. A drawn causal network is not self-explanatory, as it in software science or in finance: illustrations, codes and figures need structured accompanying explanations for understanding it. Many benefits are obvious, such as honest and explicit thinking in originating the process about what is causing what and opportunities for expansion in explaining why variables are related, and why they are rated differently. Exploring causation is an iterative process. Narrative and causal map build a unit, in the context is important in the reviewing process together with the respondent. The exact repetition of the

outcome based on the active interview, the intersubjective depth and the mutual understanding of the case have to be mirrored in both the causal map and the narrative, then again revised finally for a last possible corrective review. Another step to be implemented is the real-world results checked with the sample members who have already executed the production shift. The predicted outcome of some sample members can be verified with the outcomes from sample members with an executed production shift. The “outcome-predictor-matrix” will be an overview among the cases help to identify commonalities and uniqueness among the sample firms. A coherent form of causal map and narrative is important to generate a more general explanation on the multicase level.

To draw the causal maps, the software “Banxia Decision Explorer – Version 3.2.6.Student” was chosen. There are various benefits in using “Decision Explorer”. It is worth mentioning that the software can handle a multiplicity of variables, which normally will reach limitation if the variables overrun 50 to be displayed and cannot be easily organised on a single page. Another important function is the isolation and proper listing of sub-chains to be analysed, without missing one. After evaluation and a decision to use the Banxia Decision Explorer software, the author later found his decision confirmed in the table developed by Tan and Platts (2003, p.573).

To summarise the within-case analysis, the following type of descriptions have been used to describe and complete, in various ways, the situation of each single case related to the researched phenomenon:

- a) Transcript
- b) Variable list
- c) Detailed host country variable list
- d) Causal Network
- e) Narrative

5.15 Cross-case analysis and outcome

An implementation theory analyst, such as Sinclair (2001, p.78), formulates in a similar vein, that theory and research must show practitioners what to look for and where potential roadblocks to desired outcomes might be raised. Ideally, practitioner-oriented articles or

researches, while making use of good theory, will also push theories to advance. A symbiotic relationship between theory and practice is the objective.

The general aim is a more predictable approach to increase the opportunity for a successful implementation. As an example, Vermeulen and Barkema (2001) found that a firm going international experienced more trial-and-error learning with regard to its choice of entry mode (greenfield versus acquisitions). The current considerable body of literature has led to a better understanding of the nature and of some of the causes of firm internationalisation. While this development has occurred with the growth of strategic management, there has been limited attention to the link between “internationalisation theory” and strategy issues at both the conceptual and practical levels (Melin, 1992).

To study the phenomenon and to increase the level for generalisation, the researcher combined the single cases to a multiple case study as a primary source of empirical evidence. This approach was adopted with the intention of theory building and extension, rather than theory testing, to gain a richer understanding of the complex issues in which firms decide on and predict the operation field in a new environment. Each embedded single case in the cross-case analysis will represent a significant contribution to knowledge and theory building. The intention of theory building will refocus further investigations in the internationalisation processes of SMEs, especially in the transition from “eras of opportunity seeking and free will“ to the “eras of low cost manufacturing locations”.

Cross-case causal networking is a comparative analysis of all cases in a sample, using variables estimated to be the most influential in accounting for the outcome criterion (Miles and Huberman, 1994). A six-matrix concept was chosen based on the rich data obtained from the outcome of the active interviewing on how specific variables or sub-streams influence and perform across all cases. Realisation and prediction have been valued based from the interview and from reviewing data with the respondents. The outcome, or dependent variable “competitive production site”, orders the antecedent matrix from beginning. Successfully established production sites were rated with a “High” and further on in the scale with “Moderate” down to “Low”, and intermediary ratings such as “H-M” were also accepted.

Each single variable (rated) from all the cases are listed in x-axis direction to the status “decision shift abroad”. Much help in the isolation of the major streams was given by the

“Banxia Decision Explorer” software function “explanations“. Sub-streams leading back from the dependent outcome variable (“Competitive production site”) to the decision variable (“Decision shift abroad”) could be examined with the procedure “stop at tails” pointed from “x” to “y”. As a result, all streams per case were listed entirely. The result is an “Outcome-predictor matrix / Competitive production site”. The content of this matrix allows case-by-case comparisons across columns, looking for similar patterns among the cases. The creation of this antecedent matrix shows the immediate and remote causal variables of all possible sub networks for each of the cases.

The host country factors considered are of specific interest in this research. The degree of a firm’s familiarity or unfamiliarity with the local business environment, mentioned already as the “liability of foreignness” (Zaheer, 1995), is investigated in the active interviewing process with the respondents. Diverse local preferences, cultures, and business systems increase the odds that entrants will make costly errors, encounter substantial delays, or otherwise struggle with their attempts to establish operations abroad. How firms perceive their liability of foreignness has implications also for their resource commitment to the foreign market and their performance of business activities (Pedersen and Petersen, 2004). In a practical perspective, “time to volume” is essential to fulfil the expectations of various stakeholders. Thus, an understanding of the country factors gives an indication about perceived preparedness of respondents before the market entry. Cross-case analysis will, in addition, extend the range of host country factors considered. The same analysis allows a comparison among sample member about their preparedness and, in retrospect, analysis allows conclusions about the achieved success. Pedersen and Petersen (2004) discuss the exposure of firms to a shock effect in managers’ inclinations to underestimate differences between the home and host countries in terms of business environment. Various aspects are illuminated in their discussion such as manager’s risk-taking approach to international expansion (Andersson, 2000; Moen and Servais, 2002), or pre-entry lack of preparation in industries characterised by strong, competitive pressure (Vahlne and Nordström, 1993), or the imperative need to follow customers abroad (Erramilli and Rao, 1993). A timing issue, possibly accompanied by tendencies, such as for entrepreneurs to be locked into previously successful patterns of activity, (Minniti and Bygrave, 2001), are explained under the term path dependencies. The investigations inherently aim to measure the knowledge base of the interviewees in regard of local circumstances such as the operational, cultural, and administrative issues considered. A simple way to measure the preparedness of the firm

is related to cause and effect relationships, where at the “effect” side, stakeholders’ expectations are present in regard to “time to volume”. The content of matrix “Influence phase: standpoints cases” lists considered host country factors by each sample member.

The third matrix summarised the recommendations from the respondents that reflects their interpretation of the new environment after the shift and what they perceived to be inappropriate. This is a learning contribution for firms, which are neophytes on the international scene and which usually began with an ethnocentric attitude (Tsang, 1999, p.92), or for entrepreneurs, who were locked into previous patterns of activity (Minniti and Bygrave, 2001), or for managers in newly internationalising companies in their development process (Sundaram and Black, 1995). The name of the matrix is: “Retrospect analysis: Respondents recommendations”.

Three additional matrixes are developed with the same structural principles to support the findings. The matrixes are “Data reduction: Variables clustered and related to the low cost production imperative”, “Data reduction: Small series, high costs”, and “Considered host country factors”.

To summarise the preparation for cross-case analysis, following six matrixes have been developed:

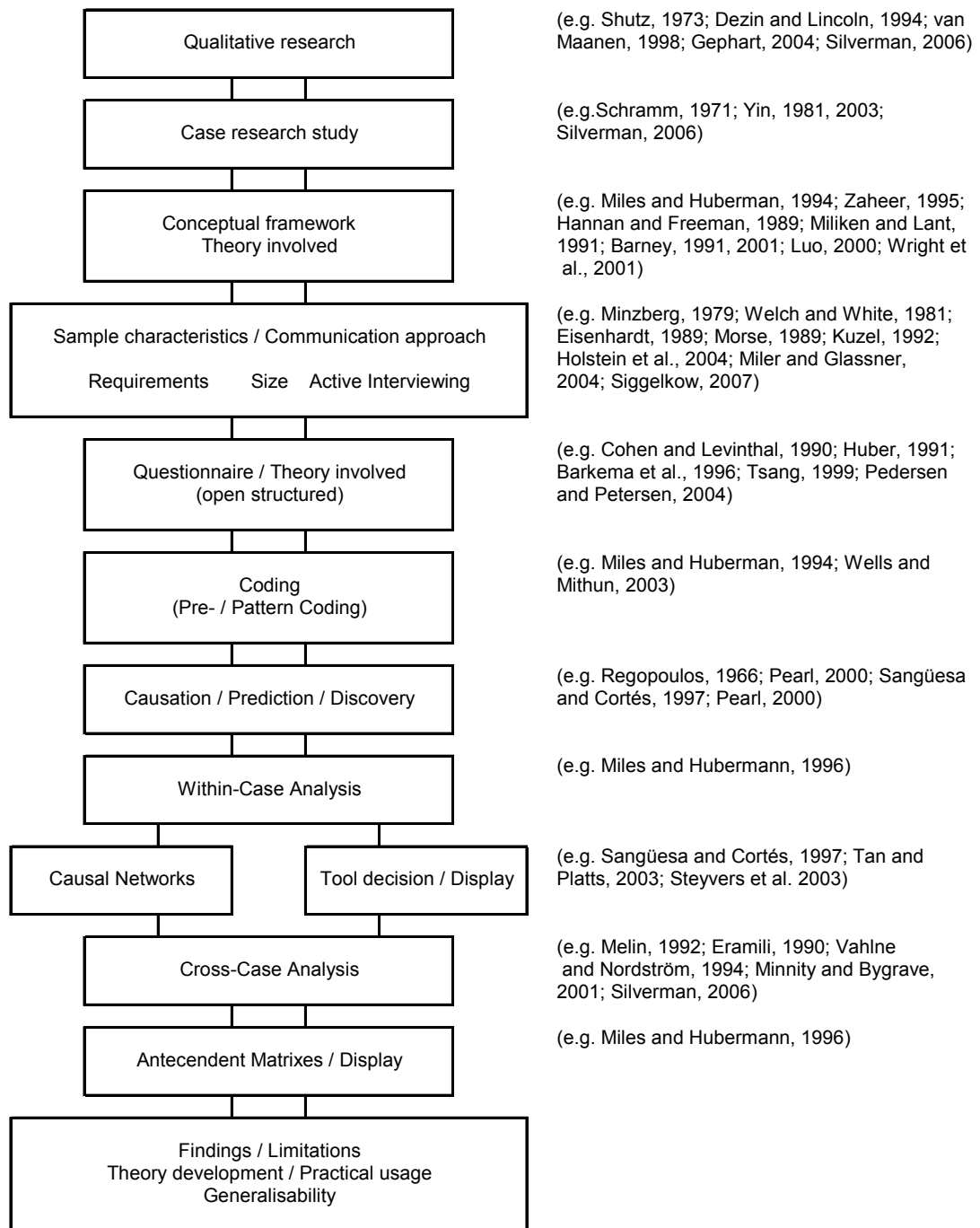
- a) Outcome-predictor matrix: “Competitive production site”
- b) Influence phase: standpoints cases
- c) Retrospect analysis: Respondents recommendations
- d) Data reduction: variables clustered and related to the low cost production imperative
- e) Data reduction: small series, high costs
- f) Considered host country factors

5.16 Overview research design

The business world is not as unique as is often demonstrated in simplified models in various literatures. Human affairs are involved and as they are not monolithic, this means a complex network of conditions and effects is a consequence. Figure 5.4 explains the

consequential steps developed for the research design and applied methodologies. Selected scholars, according to the topic, are listed next to each step in the process.

Figure 5.4: Research design



Source: The author

5.17 Summary (Research Design and Methodologies)

The phenomenon researched demands statements and practical experiences from the respondents involved, therefore qualitative data are in the forefront of this research. Qualitative data are a source of well-grounded, rich descriptions and explanations of situations in identifiable local contexts. The qualitative enquiry is embedded in the topic to internationalise operations, which is associated with high complexity (Prahalad, 1990; Kim and Mauborgne, 1996). The daily involvement of the author as a business executive in internationalised operations is important in this research environment. The concept of active interviewing applied in this research (Holstein and Gubrium, 2004) fits with its inquiry approach into the complex and contextual nature of human activities in organisational research. In addition, the active interview set-up brought interview “bias” into a new light.

The developed conceptual framework in form of a process model illuminates the main issues of the research, in particular, decision taking made by SMEs to possibly internationalise their production. To identify the decision processes used, the requirement for a case study or multiple case studies is recognised (Schramm, 1971). Case studies also sharpen existing theory (Eisenhardt and Graebner, 2007; Siggelkow, 2007) by pointing to gaps and beginning to fill them. Corresponding theories have been carefully integrated and described in the framework concept.

Causal relationships are crucial for scientific reasoning and give a deep understanding of the situation. Inductive causal reasoning especially is in the forefront to build causal models of the phenomenon being observed. Causation and discovery form the basis for learning to act intelligently in the world (Steyvers et al., 2003). Evaluation of the most appropriate causal mapping techniques was made and was applied to analyse temporal dimensions, important and dependent variables in the field of study and the relationship between them. Based on the specified characteristics for respondents and firms and a structured questionnaire with open questions, rich data which was gathered from sample members for within-case analysis, is available for detailed description in the form of transcripts, variable lists, host country variable lists, causal networks and narratives for each single case.

The approach seeks to deliver an output, which is precisely demanded by “users” seeking immediate practical payoffs from social science research. Therefore, a multiple case analysis was prepared, listing all variables for selection which would be the most influential in accounting for the outcome criterion. Six matrixes have been developed.

The entire research design and methodologies are summarised in a one-page diagram at the end of this chapter. The tools for analysis, the characterisation of sample members, and the nature of this research are described. The next chapter will now draw and verify conclusions based on the rich data, gathered in an active interview process with seven (7) sample members.

6. FINDINGS OF THE EXPLORATORY CASE STUDIES

6.1 Introduction

One of the objectives in this dissertation is to achieve a holistic view on the decision-making process of firms characterised and in focus in this work. A seven case exploratory study with domestically producing smaller to larger firms, is executed, according to the research design described in the previous chapter.

The interviews are the primary source for data collection, supported by the concept of active interviewing (Holstein and Gubrium, 2004), allowing an in-depth inquiry into the nature of the subject issues. The author of this dissertation himself has established operations abroad: one automotive production centre in Chiang Mai (Thailand), two production plants in Pudong, Shanghai (China), and one in Kecskemet (Hungary). In his career to date, the author is also responsible for various subsidiaries of different kinds around the world. His experiential knowledge, the open structured questions, and the active concept allowed a conversation which could develop freely. Respondents and interviewer interactions articulated the orientations and understandings of the reality. The concept of active interviewing fitted the senior management level of the respondents and considered, with its inquiry approach, the complex and contextual nature of human activities in this research. Real-life experience of the phenomenon for both, respondent and interviewer, was mandatory in many ways. Senior managers act differently in standard interviews than in interviews, where the interviewer signals his acknowledgments, his own experience and his understanding of the situation within the complex reality of the research topic. Standard interviews may not achieve the in-deep inquiry necessary for corresponding research: a potential source of bias, error, and misunderstanding may occur. To measure bias and misunderstanding may be difficult. The interviews needed discipline in many ways. The interviewer actively contributed to the interview only on respondents' points addressed, and their thoughts, and their experiences which were mentioned. As an example, the inquiry for considered host country factors was not extended or completed by arguments from and by the experience of the interviewer. In this case, the result would have been diluted and the finding about the firm's preparedness and considerations for going abroad would be wrong. A proof is easily given by the results on host country factors which the respondents mentioned. The range of considered host country factors is considerably

limited. This will be different in the process triangulation of findings, where a selection of localisation factors will be presented for valuing their importance.

6.2 Appraisal of the investigation approach

The approach to finding information on firms which, on the one hand represent the majority of European SMEs (63% non-internationalised) and, on the other, represent a minority (3% with a subsidiary abroad) (European Commission (2003-2004, p.14 and p.15) show valid and important ratios which are worth investigating for the internationalisation of such firms. Achieving the truth from investigation is attained by the selection and the character of the firms, from the respondents and from the researcher himself. He directs the focus of the investigations in the conceptual framework which was developed according to the study envisaged and its relevant bins (Miles and Huberman, 1994). In the chapter “Research design and methodologies” a first layout of the research design was done. It is important to emphasise the emergent nature of qualitative research design. According to Patton (1990) the researcher seeks to observe and to interpret meanings in the context. It is neither possible nor appropriate to finalise research strategies before data collection has begun.

As regards disputes on sample sizes, Patton also argues that there are no strict criteria. “Qualitative studies typically employ multiple forms of evidence ...(and) there is no statistical test of significance to determine if results count” (Eisner, 1991, p.39).

The interviews took place in a very professional manner. All interviews took, on average, a quarter of an hour longer than the appointed 1.5 hours. One interview (FRA) took 2 hours and a quarter. Each of the interviewees is unique: he is his own man and holds a leading position in the firm under investigation (see Table 6.1). Flexibility was required in the interrelationship in each combination between interviewer and interviewees to guide them through the principles and structure of the questionnaire. It took approximately a quarter of an hour to establish a certain familiarity on senior management level with each of the respondents and with the themes of investigations. This quarter of an hour was necessary to achieve the breakthrough point, to socialise and then to capitalise on the active contributions of the respondents in achieving the interview data. In accordance with the concept of active interviewing (Holstein and Gubrium, 2004), the interviewer tried to bring

discipline and sensitivity to both process and substance, and collaboration to the interviews to explore the experiential reality. Flexibility, which has already been mentioned, is of equal importance as it enables the quality of results to be improved, because of the “controlled opportunism in which researchers take advantage of the uniqueness of a specific case and the emergence of new themes” (Eisenhardt, 1989, p.539). Real world evidence in form of the uniqueness of the cases interviewed, including the identified extreme case, which is important, according to Pettigrew, 1988; Miles and Huberman, 1994), demanded flexibility and sensitivity in achieving the true interview data.

Table 6.1: Case firms and interviewee’s position in the firms

Case	Industry	Interviewee's Position	Place	Date
"CEA"	Electronics	CFO	Germany / Tenningen	21.03.2007
"FEI"	Mechanical supplies	CEO	Switzerland / Lyss	08.03.2007
"FRA"	Tools	CEO	Switzerland / Bellach	19.06.2007
"JAC"	Electronics	CEO	Germany / Bueren	13.02.2007
"SCH"	Electronics	CEO	Germany / Warstein	13.02.2007
"TES"	Test equipment	CEO	Switzerland / Luterbach	16.02.2007
"WAN"	Mechanical supplies	BOD	Switzerland / Frutigen	19.03.2007

Source: The author

The field notes were taken into the space room below each formulated question in the prepared questionnaire. In purpose, any devices, such as laptop, was dispensed with, so that the communication process between two senior managers was not disturbed. Typing the interview data disturbs an active interview process, at least in German speaking cultures: it would have annoyed the respondents. A comparable situation occurs in business meetings when translators are used, as in Poland and in Russia. The translators guarantee a frequent flow of conversation, but the speakers constantly address and talk to the translator, instead of the person to whom the conversation should be directed.

Beside the primary source data, several data sources from the interviews are used to improve the dissertation’s construct validity (Yin, 1984). Preparation work has been done with second source data such as company websites, press releases, ownership statements if available, newspapers including financial newspapers, and local magazines. Investigations progressed to such an extent that the political affiliation of one company owner (WAN)

showed that this had an influence on the decision to internationalise the company's operations.

Familiarisation with each company's business purpose prior to the interview appointments is a mandatory process to be prepared, at least, with publicly available data. Familiarisation with the company and the company's environment is a courtesy which effectively bridges the way to socialisation at the beginning of the interview. This can result in confidence and trust, interest and, possibly, mutual understanding. This has been achieved in the interviews for this dissertation. Some harsh statements on predecessors (in case CEA, and to a certain extent in case FEI) proved the level of course achieved in the interviews and brought some real world verifications to the table. In addition, a very open statement from one senior manager (FRA) on his anxiety for going abroad, surprised the author. The consequences from this outspoken uncertainty will be explain later in this dissertation how this firm has chosen a very careful approach to establish a part of its operation abroad.

The Chief Financial Officer (CFO) (CEA), among the executives interviewed, still showed anger over the stubbornness of the Chief Executive Officer (CEO) who did not consider the signals from the environment. If he had, a significant change could have been made to guarantee the firm's future independence. A wide range of emotions, from tension to relief and from anger to humour, was experienced in the interviews. Situation rooted in the complexity of today's business were explained. It seemed that the researcher fulfilled what Glaser and Strauss (1967) and Strauss and Corbin (1990) define under "theoretical sensitivity". "Theoretical sensitivity refers to a personal quality of the researcher. It indicates an awareness of the subtleties of meaning of data. ... "(It) refers to the attribute of having insight, the ability to give meaning to data, the capacity to understand, and capability to separate the pertinent from that, which is not" (Strauss and Corbin, 1990, p.42).

The ability of qualitative data to describe more fully a phenomenon is an important consideration, both from the researcher's perspective as well as from the reader's. Qualitative research reports, typically rich in detail and insights into participants' experiences of the world, "may be epistemologically in harmony with the reader's experience" (Stake, 1978, p.5).

6.2.1 Trustworthiness of qualitative research

In discussing the criteria for assessing research, Bryman (2001) suggests that qualitative researchers tend to employ the terms reliability and validity in very similar ways to quantitative researchers. The goal of qualitative research is to enhance understanding of phenomena and the findings in qualitative research have to be assessed for plausibility and believability. The naturalistic approach used in qualitative research seeks to understand the context-specific settings, such as “real world settings where the researcher does not attempt to manipulate the phenomenon of interest” (Patton, 2002, p.39). Patton (2002, p.14) further states that quantitative research depends on instrument construction; whereas in qualitative research “the researcher is the instrument”. Consequently, the credibility of qualitative research depends on the ability and effort of the researcher, while quantitative research refers to research that is credible using reliability and validity. The importance of the researcher’s experiential knowledge contributes significantly to the credibility of this research.

One stance is therefore to assimilate reliability and validity into qualitative research with little change of meaning. To reveal the congruence of reliability and validity, Lincoln and Guba (1985, p.316) state that “there can be no validity without reliability. A demonstration of the former (validity) is sufficient to establish the latter (reliability)”. They argue that sustaining the trustworthiness of a research study depends on the issues, quantitatively, discussed as validity and reliability. Mishler (2000) replaces the measuring of truth by the idea of trustworthiness over reliability and validity. Lincoln and Guba (1985) and Guba and Lincoln (1994) propose two primary criteria for assessing a qualitative study: trustworthiness and authenticity. Trustworthiness is made up of four criteria, *credibility*, *transferability*, *dependability*, and *conformability*. Guba and Lincoln’s presuppose with these criteria that a single respondent interpretation of the real world is feasible. They imply also that more than one absolute truth exists with more than one respondent. Lincoln and Guba (1985, p.300) summarised the judgement of qualitative work as shown in Table 6.2.

Credibility refers to the way in which the research is performed and which will determine its acceptability to others. For the researcher, a business executive, with understanding of this social milieu, who is actively confronted with the phenomena, the applied method of

active interviewing and the selection criteria for respondents enhanced credibility. Face to face interviews conducted by the researcher, interviewee's involvement with the phenomenon and dialogue based on similar experiences limited bias or misinterpretations, during discussions, to a minor extent. Moreover, announcing that the result would be reviewed, provided additional interest and motivation for the respondents. As human beings differ, so interest in the review differed: the CEO of FEI was particularly interested in the acquisition of knowledge, whereas the CFO of CEA, by occupation a consultant,

Table 6.2: Comparison of criteria for judging the quality of quantitative and qualitative research

Conventional terms	Naturalistic terms
Internal validity	Credibility
External validity	Transferability
Reliability	Dependability
Objectivity	Confirmability

Source: Lincoln and Guba (1985, p.300)

was more interested in the methodology. The CEO of FEI, who was more of a practitioner, showed least interest, whereas the CEO of TES was interested in the results as regards future possibilities.

Criteria *transferability* mediates best the characteristics of a qualitative study. As a characteristic example, there is intensive study of a small group of cases, sharing certain characteristics; the findings tend to be oriented to contextual uniqueness. Transferability is evaluated by third parties. The social scientist can only provide a rich description, from which others can judge on the possible transferability of the findings to other analyses or domains. Transferability is a qualitative form of the quantitative opposite: Maxwell's (1992) believe that the degree of which findings are believed to be generalisable is a factor that clearly distinguishes quantitative from qualitative research. The ability to generalise findings to wider groups is one of the most common test on validity for quantitative research.

Dependability parallels reliability in quantitative research. Essentially, it is concerned with whether researchers obtain the same results: for example, if things are observed twice. This is challenging, but the idea is to emphasise the need for the researcher to account for the ever-changing context within research and to be responsible for keeping complete records of its every phase.

Conformability refers to the degree to which the results could be confirmed or corroborated by others. In this dissertation, the researcher has provided a so called “audit trail” (Guba and Lincoln, 1994) in form of a research design and methodologies, which contains the instruments used in this research in addition to materials such as questionnaires, interview results coding, and qualitative influence maps.

In brief, the researcher has enhanced the trustworthiness of this research and two more additional methods contribute further to this. The first is responded validation and the second is triangulation, a methodological issue in naturalistic and qualitative approaches. Both methods and their applications are discussed in the following two sections.

6.2.2 Respondent validation

Respondent validation or, member validation as it is also called, is a process where findings are presented to the respondents to seek corroboration. In qualitative research, this is particularly popular to ensure that there is good correspondence between the findings and the perspectives and experience of the research participant (Bryman, 2001). The aim is to establish credibility for findings, ensuring that research is carried out according to good practice, and that the findings submitted are understood correctly.

The second meeting with the respondents followed the same attempt, as described under active interviewing, to gain honest and accurate responses. This time, however, the review concentrated on the cognitive map developed for each firm. The review round took place between September and December, in 2007, again with a face to face approach between respondents and the researcher. Contact with the respondents was not lost in between the period’s interviews and reviews. Various informal meetings during business occasions,

seminars, or working together took place. Therefore, the atmosphere for the review was relaxed and easy, and respondents were aware of the process.

Reviews as well as the interviews were conducted in German, which helped to avoid ambiguity and misinterpretations. Principally, language is a fundamental tool through which qualitative researchers seek to understand human behaviour, social processes, and the cultural meanings which inscribe human behaviour (Hennink, 2008, “Doing cross-cultural research”). It is important that awareness be created in cross-cultural qualitative research where language and communication can affect rigour and may have an impact on the reliability of the research. The difference between Swiss German and standard German exists, but, in Swiss schools, the majority of lessons are held in standard German. The interviews therefore took place in a German speaking environment where an identical interpretation of the dialogue can be assumed. Three interviews were held in standard German and four interviews in Swiss German (see Table 6.1).

The professional knowledge explored within the interviews provided the qualitative causal structure for assessing the phenomenon and possible outcomes. The use of graphical models to discover causal structures with raw data (Pearl et al., 1991; Sprites et al., 1993; Pearl, 2000) has been one of the most exciting prospects in recent years. Perhaps, the most important aspect of Bayesian networks is that they are direct representations of the world, not of reasoning processes (Pearl, 2000). The cause and effect relationship illustrated in the graphical networks, as introduced in the research design chapter, cannot be observed directly (Steyvers et al., 2003). Therefore, the review of the drawn causal networks together with the respondents was an important step to make the research successful by providing trustworthiness. The one-page illustration offered review discussions based on the inferential principles of optimal Bayesian decision-making and maximising expected information gain. The review of the interviews with cognitive maps (the representation of decision problems under uncertainty) was new to all of the respondents.

The findings illustrated with and based on the developed cognitive maps have been reviewed with the respondents and verified as regards correctness. The aim is to achieve the highest possible compliance, especially in the transition of context to illustration and interpretation of the context. Therefore, discussed corrections are integrated in the findings presented in this chapter. Corrections in regard of the rating (low, medium, high) of the

variables were predominant. The success of the outcome in validation and characterisation was generally accepted, expressed in the outcome variable “*competitive production site*” (low, medium, high). Some of the respondents (CEA, FRA, and TES) were surprised by the tool of causal mapping and its benefits. The benefits have already been discussed in the evaluation process for causal mapping and now confirmed by a certain extent by the respondents.

6.2.3 Triangulation challenges

Respondent validation as a first technique is used to validate the correctness of the findings evident in the trustworthiness criterion of credibility. Respondent validation is done in each case with the respective interviewee, as described in the previous section. Triangulation is used as a second technique to cross-check the findings from the interviews. The researcher struggled with what could be an adequate source, or method, for triangulation of findings. Patton (2002, p.247) advocates the use of triangulation by stating, “Triangulation strengthens a study by combining methods. This can mean using several kinds of methods or data, including using several kinds of methods or data, including using both quantitative and qualitative approaches”. The researcher follows a principle discussed in the previous chapter that qualitative research requires qualitative methods by definition according to Gephart (2004). Therefore, he did not consider a mix of approaches. Barbour (1998) provided support for the researcher. She argues that while mixing methods within one paradigm, such as quantitative methods, is problematic because each method within the qualitative paradigm has its own assumptions in the terms of the theoretical framework we bring to bear on each research. The paradigm prevalent in this research in where cited statements of van Mannen (1998) and Gephart (2004) have a strong influence, is supported by Crotty (1998, p.42) who defines constructivism from social perspectives. He defines “the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and development and transmitted within an essential social context”. The researcher finally concluded that triangulation has to come from the same social context: other approaches such as quantitative methods, survey, or secondary data collection from conferences have limitations in providing deep insight and the experience necessary. Mathison (1988, p.13) elaborates that “triangulation has risen as an important methodological issue in naturalistic and qualitative approaches to evaluation in order to

control bias and establishing valid propositions because traditional scientific techniques are incompatible with this alternate epistemology”. The process of triangulation of findings in this research is described in the subsequent chapter.

6.3 Exploratory case studies (February - June, 2007)

In the following section, prediction, preparedness, decision-making, outcome, and retrospect analysis will be presented for each sample firm. The powerful tool of within case analysis, described in the methodology chapter, is used to describe and complete the situation of each single case related to the researched phenomenon. The main features of the situation, developments, and main tasks which affected the process of each sample firm will be presented. Transcripts, causal maps showing variables (including retrospect recommendations), and narratives for each case are summarised in following sub-sections. Host country variables build an integral part in each causal network and corresponding narrative.

To list the variables functions of the program “decision explorer” is used as follows:

The functions “List” and then “all concepts” (terminology “decision explorer”, otherwise in this research and with Miles and Huberman (1994) labelled as “variables”) will list all the variables of each single case.

The entire approach of investigation and illustration is designed in three phases (influence, consideration, and recommendation). The phases represent process stages as described below:

Influence phase: A summary of influencing variables contributing to decision-making until the final decision is taken – or not.

Consideration phase: An overview about the variables considered from decision taking to the outcome with expressed valuated success.

Recommendation phase: Which variables not considered are recommended as important in a retrospective analysis on the process?

A hypothetical continuation in the case of a decision not taken applies to further investigations on an assessment of possible outcome, such as the analysis of the extreme case discussed by Eisenhardt (1989) to gain sound insights about the phenomenon. Such an approach is important to extend the findings and to illuminate the dimension of impact related to the low cost production imperative.

6.3.1 CEA

CEA was founded in 1906 with the purpose of producing explosion-proven lamps and glows for mining. In the company's long history, there were several transfers of ownership. In 1925, it was transferred to Q Group and, in 1978, to the B Group. In 1997, just the business segment "power supplies" remained. On June 1st 1999, it was taken over by A Energy System GmbH, but, remarkably, has never lost its independent character. Interviews date from that time, when it had 700 – 800 employees under contract and the respondent acted as CFO.

CEA represents an extreme case among the sample members. The firm operated in the business sector of power supplies where the majority of the worldwide production has been shifted to low cost operations regions, mainly in Asia. A second change occurred when the production of power supplies (with the exception of some special applications) was transformed to commodities. The resulted in productions at the lowest cost and with a high standardisation ready for volume delivery. Prices, i.e. costs per unit for power supplies have dropped significantly in the last decade. The story of CEA is then also a story of failed trend analysis in the business sector, missed corrective actions taken at strategic level, lack of foresight by the management and lack of an internationalisation orientation.

During the period of investigation, the company was developing, constructing, and producing power supplies and systems for telecom and computer industries, as well as some sophisticated customised applications. According to the CFO, the philosophy of the firm was to maintain a high customer orientation, guaranteeing flexibility of any kind, high maintenance, and service availability, supported by the benefits from the internal laboratory, certified to homologate various standards. These attributes of CEA's value performance turned into disadvantages for the firm, which will be discussed later.

CEA suffered other disadvantages in their business environment: in 2001, the European telecom crisis slowed down investments in that business sector from which it has never properly recovered. New entrants, such as the Chinese company Huawei, brought additional price competition. To be competitive, many of the telecom base-station providers such as Siemens, Ericsson, and Nokia shifted production to China to be competitive with their Chinese counterparts on cost levels.

The CEO of CEA was a passionate technocrat with a patriarchal management style and with little knowledge of internationalisation. He did not react to the changing business environment. The CFO claimed: *“Any strategic view in the leadership obligations of the CEO was missing, a pure technocrat. A major hurdle against any change was the CEO himself”*. *“No trend analysis at all, the philosophy of high flexibility and customisation directed our company into annual loss situations until to the final takeover”*.

The engineering costs were not covered by those realised from small and medium sized series. The intention to reduce fixed costs accordingly was not undertaken in time to adapt the firm to its decreasing turnover. It may be concluded that the CEO was enthralled by his technology and by his previous successes. CEA was embedded in a group where the firm did not belong to the core business, which meant reduced attention from group management. The respondent sarcastically remarked: *“The CEO will be carried out feet first before any change will take place”*.

CEA missed the point at which it could have faced the changes in the business environment and avoided the effects the low cost production imperative has on firms such as it was. The consequences were, lack of resources necessary for such a change, a lack of general expertise, and shrinking financial capabilities.

Finally, the firm was sold to Delta Electronics (Taiwan) on July 1st, 2003. A new management style entered CEA, and the firm was used as a hub to penetrate European markets. Financial losses were no longer acceptable. Delta’s main aim was to establish themselves in Europe, which had been difficult in the past as networking approaches had not worked well. Despite that, their power supplies were more competitive in costs and almost equal in technology to many of the competitors in the European market place. The existing CEA European customer base was small compared to the worldwide customer

base of the MNE Delta, but it guaranteed proximity for customers such as Nokia (whose development headquarters for base stations was in Oulu) in Europe. The Taiwanese made a clean sweep of the management, employees, and the product range and carefully selected only those managers and employees who were of value to them and replaced the others with their own managers and specialists from Taiwan. With CEA as a hub, Delta had suddenly gained access to the European “power supply” market. For the first time ever, the culture and ethos of CEA was changed to such an extent that the company was transformed to a new non-reversible company. The entrepreneur, who had managed CEA for two decades, by his performance, character and lack of internationalisation orientation, had an enormous impact on the decline of the firm. It was finally reduced to be only a hub for a new owner to penetrate the targeted markets with his products.

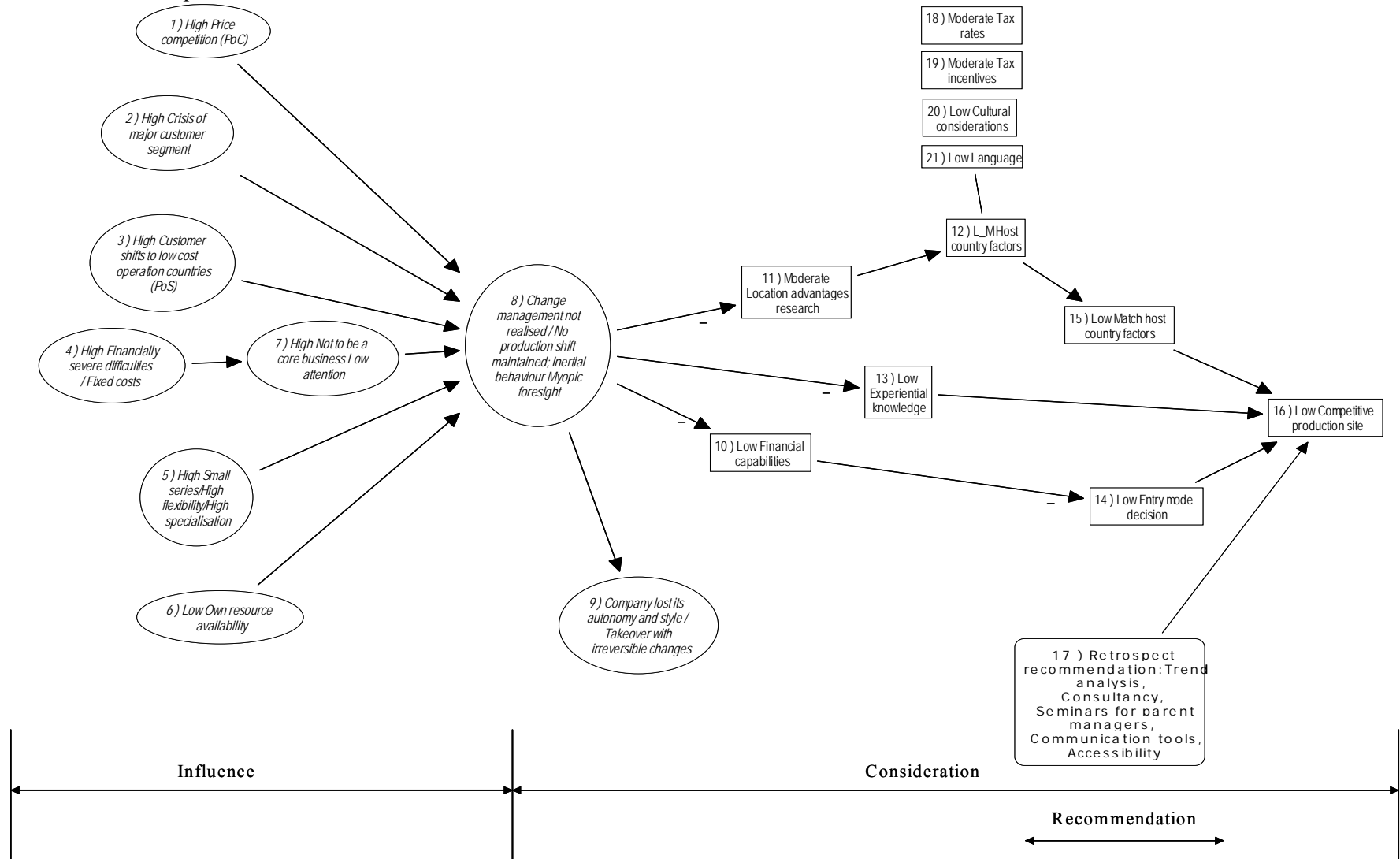
The CFO was asked how he would have approached production relocation to a low cost operation country to stay cost competitive. He acknowledged he lacked the experiential knowledge for doing this and therefore he thought of support in the form of consultancy. Consultants services would be engaged to prepare the construct for decision-making and for consideration of the variables. The consultants would also train the inexperienced managers in the firm for future international engagement. Secondly, he recommends that more detailed information on the customs and behaviour of the host country selected should be given and advised seminars on cultural idiosyncrasies and business behaviour. Surprisingly for a CEO, he did not say that tax considerations were highly important.

He used the wordings “*make or buy*” as a key decision for going abroad. As an experienced chief financial officer, he was aware of difficulties in entry modes such as joint ventures. He mentioned “*ownership issues, decision-making, legal aspects, dividend aspects, etc.*” as variables which would be difficult to handle between the equity parties. He was in favour of either a Greenfield approach or a 100% takeover of an existing firm. In the interplay with the firm’s own subsidiary abroad, he emphasised, control support set-ups, devices and mechanisms such as videoconferencing, standard reporting tools, but as important also easy accessibility of the site in terms of time and costs. He gave a very pragmatic answer in considering cultural aspects. The answer reflected the frustration which emerged in the review of CEA and the outcome of the firm as he cited the CEO: “*Hope, everyone can work with anyone*”.

Causal map CEA displayed in Table 6.3 (Source: The author).

Table 6.3

Causal map CEA



Narrative for Causal Network (CEA):

CEA followed its traditional path of doing business, without any awareness of a changing environment or any intention of changing the business model. Price competition (1) for power supplies in the last decade increased to a level, whereas a wide range of power supplies (e.g. household equipment, PCs, cellular phones) degraded to commodities. CEA served two main industries, telecom, and computer (2). The first industry is in major crisis since 2001 where the European telecom industry (e.g. base stations from Nokia, Ericsson) faced intense price competition from Chinese telecom providers such as Huawei and ZTE. Other industry sectors, such as computers, are in a similar situation; most of them are built now in low cost operation countries. The trend for massive shifts of productions to low cost countries is continuous: some of the examples are described in this dissertation. Important customers from CEA followed the trend and shifted their production into such regions (3). A creeping aggravation of cost structures occurred in the company not in the favour of low fixed costs (4). High specialisation and high flexibility has its price (5), and is even more difficult when margins from high volume production can cover the fixed costs. The distinct domestic orientation, culture, and behaviour of the company did not produce human resources with a certain global mindset, nor the capability to act efficiently on a global level (6). The acceptance of repeated losses in recent years can hardly be traced to a particular source nor can be it understood. One possible explanation is that the company always kept its autonomy and identity in any conglomerate and was not in focus, because of its status as a non-core business (7). This case is exemplary as it is illustrative of inertial behaviour and of lack of foresight (8). The situation identifies patterns which have a major reliance on past successes which fits the character of effects arising from path dependencies.

A decision to shift production, to follow their customers, and to escape the business crisis was never considered by the managing director, nor by the majority of his senior management. As a final consequence, the company was sold to the world's number one player in power supplies: Delta Electronics Systems. The well-known Taiwanese company immediately established its own management, adapted business strategies, reconfigured product ranges, and used CEA as their beachhead in the European power supply landscape. For the first time in its history, the company lost forever its autonomy and its identity. CEA was restructured in a way that any endeavours to reverse the company of any kind will be impossible (9).

The hypothetical continuation of considering a FDI would have failed with the financial capabilities the company possessed to make them available to undertake entry mode (10). “Make or buy” was the statement by the interviewee in regard of entry mode decision (14); whereas the possibilities are limited based on the described financial elbowroom. The identification to engage with location advantages research was, of course, very moderate (11). Scenarios, or other strategic concepts, to improve operations to a competitive stage have not been conducted. The result corresponds with the applied strategic options. Expressed host country factors (12) were only four: tax rates (18), tax incentives (19), cultural considerations (20), and language (21). The hypothetical ratings on the host country factors were, without exception, either low or moderate (see also transcript CEA). The outcome mirrors the strategic standpoint of the firm and its barrier to change management. The knowledge necessary to internationalise, and, as a consequence, to achieve a successful and timely adequate implementation of FDI abroad is characterised by low financial capabilities (10), by low experiential knowledge (13), and an incomplete picture for matching host country factors successfully (15).

Recommendations are given by the interviewee in the retrospect analysis (17), to improve the status of the outcome “low” for a competitive production site (16) to at least the level “moderate”. After all the negative experiences and disappointments the interviewee experienced in the company, trend recognition (17) was mentioned as a first recommendation. It is assumed that intrinsically change management is integrated to follow the trend and strategically to adapt the firm successfully to the demands of a changed environment.

Other aspects in the retrospect recommendations (17) were intended to compensate for the lack of knowledge related to FDI. With the support of a consultancy company, the interviewee would be helped to prepare a sound construct for decision-making, and, as a consequence, the risk of bad decisions is reduced. He insisted that the consultant company has to accompany the FDI process during the implementation phase. As for the firm internally, the respondent suggested seminars for parent company managers so that a better understanding of the variety and complexity of the issues in an internationalisation process might be created.

Effective communication tools are important for the interviewee such as videoconferencing. Communication, control, and active management are also expressed in the recommendation of an easy physical accessibility to the plant in reasonable time.

6.3.2 FEI

FEI was founded in 1959 by three people in Switzerland, and is regionally close to the capital. Today, the company employs approximately 600 employees. The main business of the company is blanking. The company established itself very well in the automotive industry, where the high precision system parts of FEI are used in various platforms of automotive programs from different OEMs. FEI made its excellent name with the fabricated precision parts that are ready for assembly with cutting surfaces free of ton or chipped edges. The CEO of FEI mentioned the following major services the company provides: *“Our daily efforts aim at 1) Working together with customers to explore process limitations, 2) Improving processes, 3) Optimising design, 4) Defining materials that meet specifications and perform flawlessly when they are used in production”*.

The industry sector in focus is the automotive industry. FEI’s parts are produced for the power train, seat systems, chain links, security systems, and brake segments. A quality strategy to maintain “zero defects” is mandatory in a business segment with an overall target of 6ppm external failure rate.

FEI maintains engineering centres in Europe, in the United States, and in Japan. These technology centres are linked with each other over a modern videoconferencing system and, of course, Intranet, so that ideas and locally existing knowledge can be exchanged easily.

A close cooperation has been established with M AG to deliver combined components of metal/plastic. This working together allows the creation of qualitative-tested assemblies on a complex level for listed industries. The applied knowledge for producing such parts is available in both of the companies.

The engineering centres, close to the customer hubs, were soon followed by the demand from Japanese automotive suppliers to be close to production infrastructure. In 2006, FEI

had to bow to that demand and maintain a production allocation close to the city of Nagoya (Japan). The reasons for such a decision were, in brief:

- 1) To fulfil the customer proximity demanded
- 2) To allow better access to local raw materials
- 3) To save transportation costs

Therefore, there was a significant improvement in competitive position: an important customer request was granted and cost competitiveness was increased.

In the interview with the CEO of FEI, interest lay in who made the decision and what were the variables considered which cause the decision to be made confidently.

According to the CEO interviewed, the following variables were first investigated and considered:

- 1) The infrastructure available for operating production systems with a force of up to 30 tons power
- 2) The availability and capability of workers for operating such processes and for maintaining the tools required
- 3) The efficiency rate of the workers
- 4) The loyalty of people to the firm (which would mean a low fluctuation rate)

Compensation of employees was a minor consideration as the highly automated production processes involve a minimum of workers. The CEO considered the labour cost ratio calculated at production cost per product to be between 10% - 15%.

The move by FEI to establish operations abroad for the first time and in a country with an entirely different culture from that of the parent country was complex and significant. Japan is a dominant industrial nation where salaries for workers are significantly lower in comparison with German speaking Europe (see Table 2.2). A 10 year time frame was calculated for depreciation with investment payback in a time frame of 3-4 years.

Despite all the considerations listed, the decision for the move was not made from a very sophisticated decision-making process. It was triggered by the request for production proximity. Based on existing knowledge, the chairman and majority owner of FEI made his decision in quite an ad-hoc style and also one which is patriarchal and derived from former successes. To quote the CEO, *“In deciding to locate operations in Japan, there was a high degree of hope, brief estimates and an element of “me too” in comparison with direct competitors.*

There was no study specially commissioned to be specifically adapted for FEI or any consultancy mandated specifically for importing the knowledge base. The decision was made by the chairman guided by the management’s own “in-house” analysis.

The CEO said that country risk, as well as the industry risk of downturn, was rated as low.

The request for proximity had tax disadvantages for FEI as corporate taxes in Japan , the host country, are 40.7% which is significantly higher than those of 21.3% in Switzerland, the parent country (KPMG, 2007 (Initials of founders of said company)).

FEI paid little attention to cultural aspects. The interviewee focused on common sense understanding: his approach in a first time analysis is always: *“Why are they doing it like this”?* If actions and processes do not result as expected, corrective actions will be put in place immediately. This approach is fairly tolerant, but is risky, is reactive, and demands much freedom and space in execution.

On the basis of his recent experience, the CEO claimed, slightly controversially, that market intelligence was missing from the preparation prior entry and mentioned lack of information on market potential, decision-making processes and supplier hierarchies in Japan.

In terms of decision-making, the owner and chairman of FEI who is very patriarchal and very domineering is well known for his behaviour throughout the region. His decisions sometimes lack objectivity. His strong belief in his own judgement, nourished by power and past success often overruled concerns on matters related to psychic distance. Using the greenfield approach, he was unsuccessful when he approached another company to establish a production plant in Thailand. Blinded by previous successful activities, his approach was made with minimum preparation: the location was wrong, the people were

wrong and the site was far away from customers clusters and, therefore, from the customer potential to be addressed. Two years later, the subsidiary was given up and the building was sold to another company.

As the CEO of FEI made similar minimal preparations for going abroad to Japan, this can be identified as a major hurdle. The shift to Japan was accomplished with his own team to whom it was entrusted entirely. Language issues were handled by a team member's spouse, who is Japanese by birth. This was a fortunate coincidence but very inadequate for such a major step as the establishment of a production plant in Japan.

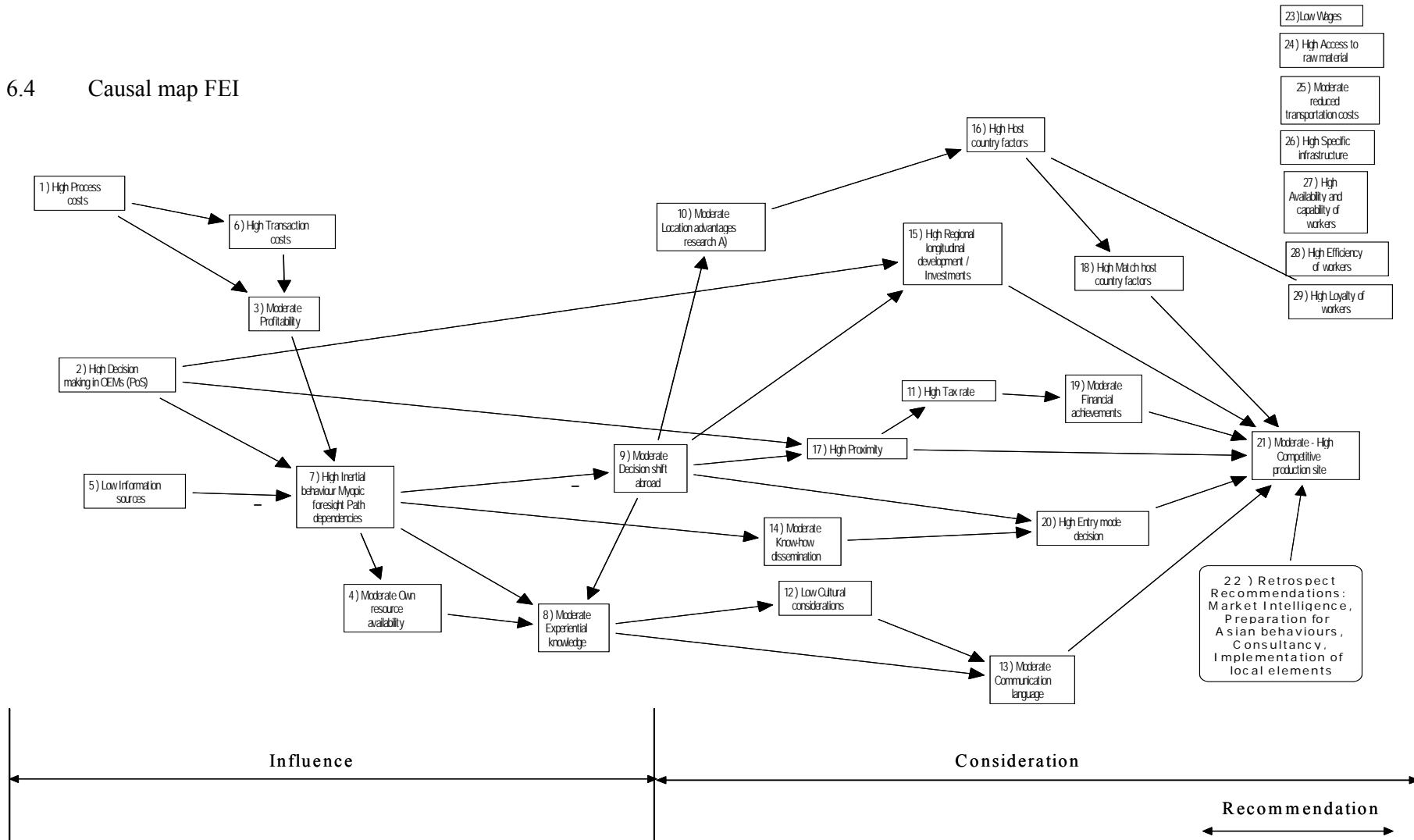
In the retrospective analysis, the interviewee mentioned that the engagement of external specialists would have contributed much towards a smarter, less costly, and less time consuming process. Help was required, especially for legal and financial matters, as well as for bridging cultural differences. The interviewee complained bitterly that the behaviour of FEI's newly hired Japanese managers was not easy to interpret. The realities of a situation were not directly expressed: the lack of directness is normal in Japanese behaviour. The Swiss team, unfamiliar with this classical Japanese style, had difficulties in interpreting and in putting the correct measures and tasks in place as "clear direct dialog" was expected by those responsible from the company. This inscrutability is not only inherent in the Japanese, but also in other Asian cultures.

In the review analysis, the interviewee said he would have been better to have considered the host country behaviour during the process. Consequently, there would have been a better implementation of the local people in the execution of the process and an intense and constructive dialogue between host and parent country members would have accompanied it. It was remarked by the interviewer that language issues remain a challenge. One idea would be to invite local operators to work and to be educated for a defined period in the parent company. Japan and its culture are unique. Even for experienced western managers, it is almost impossible to understand the true behaviour of Japanese co-workers, partners, suppliers, and customers.

The CEO expressed his dissatisfaction with the financial result achieved: there were misunderstandings in communication, and therefore delays in execution, mistakes and misunderstandings in the processes and productions reduced positive contributions in the Profit & Loss (P&L), which were aggravated by the high company tax rates.

As regards the choice of entry mode, the interviewee stated strongly: “*Never a joint venture, I am in favour of either a greenfield approach or a 100% acquisition*”. Reasons which the CEO listed are knowledge dissemination, difficulties in controlling the joint venture in working together and, of course, in decision-making related to subject and time. Causal map FEI displayed in Table 6.4 (Source: The author).

Table 6.4 Causal map FEI



Narrative for Causal Network (FEI):

The process costs (1) are rated high due to a highly automated standard in the business segment which includes depreciations of necessary machinery to maintain efficient serial productions. Transaction costs (6) for FEI include the physical transportation of the goods from the firm to the buyers. The parts produced are metallic components, and their transportation cost value is related to competitiveness. Cost related disadvantages may influence success, especially in FEI's core segment, the automotive industry and industries assembly concepts. In addition, travelling expenses from the parent country to the decision-making centres (automotive industries) in Japan and the United States of America (USA), are relatively high. The efforts of convincing the customer are even greater if the firm does not belong to a local supplier. The described process costs (1) and transaction costs (6) are both responsible for a moderate profitability (3), which is, to a certain extent, common for suppliers in the automotive branch. The driving factor for the company to internationalise has been the decision-making process of OEMs (2) for necessary local productions, means proximity (17). Plant control purposes, emergency handlings, supplier developments, and a steady search for process improvements are inherent in proximity to customers. FEI experienced these pressures from their important Japanese automotive OEM customers. These pressures for proximity and, at best, cost deliveries have been so strong that even the charismatic and independent owner of the company had to overcome his path dependencies and inertial behaviour (7), to allow a shift of a part of the production abroad (9). Decision-making in OEMs (2) as was the main influence, but also the moderate profitability (3) has been the main force influencing the owner's standpoint and allowing the shift (9). The decision-making of the owner who is in many ways, out of pocket has not supported any systematic preparation in regard of a careful evaluation for sound information sources (5) or a training of his own resources (4) for any operations abroad. The latter and the path dependencies of the owner limited the experiential knowledge (8) to a moderate level only. Some employees may have their own experience from former companies. The knowledge base of the company concerning internationalisation including location advantages research (10) does not overcome the rating of moderate. This cognition is also mirrored in the retrospective recommendations (22) for more market intelligence, consultancy and studies of Asian behaviour. The shift of production to Japan to achieve proximity and cost savings for Asian and especially Japanese customers fulfilled the demand for proximity (17). An obvious disadvantage is the high tax rates (11) in this country. The results are moderate financial achievements (19). In the same way are low

wage benefits (23) considered in the list of host country factors (16). The wages are compensated to a certain extent by a high availability and the high capabilities of skilled workers (27), definitely with a higher efficiency (28) compared to other Asian countries. Loyalty to the employing firm is as well high (29). Access to raw materials (24) at favourable cost levels are given by host countries volume package deals. Transportation costs (25) are reduced due to the localisation decision: a drawback is that local transports in Japan are highly priced compared to other countries, especially emerging countries in Asia. As a result and based on the reasons discussed to achieve e.g. proximity, the chosen country location in regard of matched host country factors (18) for a highly industrialised production is rated with high, demanding in cases for a specific infrastructure (26).

Moderate experiential knowledge (8) lead to cultural considerations (12), which are rated low. Considerations of cultural idiosyncrasies are not in the company's style. It is more a straightforward approach rooted in the owner's self confidence and his colleagues to behave as they are used to behaving. The interviewee claimed that Asians seldom say what they think and feel. Surprises are programmed. An improvement for better understanding of Asian behaviours to avoid disagreeable surprises is mentioned in the retrospective recommendations (22) to prepare the appropriate employees better for working together in harmony. A major hurdle, of course, is the language (13), especially in the case of FEI with its localisation decision for Japan. It is surprising how only a few well educated Japanese speak English fluently. It is a lucky coincidence the spouse of an employee was of Japanese origin and helped to bridge the major communication issues (13) in the start phase when FEI established its production facility in Japan. The investments into these operations in Japan are valued as low risk investments with financially acceptable depreciation procedures. The Japanese automotive industry is a solid and successful business segment, which will be sustainable. The region's longitudinal development in this business domain (15) will guarantee FEI a solid payback for its investments. In the discussion on the choice of entry mode (20) the response was in favour of a wholly owned approach. Other forms such as joint ventures have been vehemently rejected. Management issues such as conflicts in regard of strategic directions, operation issues, but also financial and legal points are the reasons. Any kind of joint venture would also not fit the company's management style. Know-how dissemination (14) therefore plays a moderate role. FEI established a moderate to high valued production site (21) in Japan to accomplish with the proximity demands for key customers. The host country factors which were encountered fit

very well to achieve efficient production; whereas financial issues such as tax, living costs, wages, and high costs locally for services, detract from the result. The engagement of FEI in Japan is a long-term investment embedded in a solid and sustainable business environment.

The retrospective recommendations (22) show an ideal for a better preparation, integration, and implementation with the host country, its uniqueness, and a better utilisation of local elements to enhance the benefits offered by them. Consultancy by a third party is desired to improve the so-called market intelligence.

6.3.3 FRA

The Swiss company FRA was founded in 1934 by JS and started with the production of milling cutters for the watch making industry. Since its foundation, FRA has manufactured milling cutters with the best possible performance quality for a wide range of applications in various business domains. Tools are manufactured for medical technology, mechanical engineering, the food industry, the automobile industry, motor sports, the watch and clock industry, casting and moulding, the chemical industry, and the aviation and space industry. The service vision of FRA is defined as “optimal products and services for maximum customer value”. The son (HS) of JS managed the company from 1950 throughout the 1990s. Under HS, the company expanded its sales structures into international markets. Its own subsidiaries were founded, for example, a service company in France (1984), in Germany (1988) and today’s main sales centre, the Italian sales subsidiary, in Milan (1993), followed by a sales hub in the United States (2001). All these sales subsidiaries act as centres with various functions such as sales, services for tool-preparation and modification, customer storage, rent-a-tool, and recycling.

In 2005, JM, the CEO of FRA, since 1995, acquired the majority of shares by the family’s transfer of the equity majority to the company representative. This seldom happens. The objective was to safeguard FRA’s long-term future as an independent company. On average, 420 employees work for FRA.

The production of the tools was done exclusively in Switzerland until 2002. In that year, the company acquired the company SKC in Sarospatak in Hungary. The entry mode

process for the acquisition and the success of the outcome is of interest to this dissertation. The relocation of a part of the production began nine years ago. Competitors such as the H group started with an acquisition policy. Tool manufacturers and direct distributors were taken over by the H group. Volume effects and thereby price erosions had distribution consequences. There was an increasing tendency to lower the margins in the business. The excellent margins realised by FRA started to shrink down to a moderate level. To counter this, FRA decided to evaluate a second production site in a low cost operation country. This process was accompanied by increased raw material purchases from China together with additional efforts undertaken in the service centres to achieve higher customer retention. JM mentioned “*We established a new working philosophy for FRA: Low cost – high quality*”.

A frame work for the decision process was established by the board of directors. There was a top down approach, where basic strategic guidelines accompanied the process. One major input by the board was that the first production operations abroad should be located either in Europe or in Asia. In a second round, the board decided for Europe, due to the strategic decision to focus on customers from Europe and USA. There were no plans to expand to Asia. The board of directors and the management are very confident about the addressable market potential in selected regions and its growth rates. In addition to the guidelines deriving from strategic considerations, information sources used were solely the internet and written public materials.

Uncertainty for making the right decision was uppermost. A lack of experiential knowledge for shifting operations abroad led to engaging for KPMG to assist the company. In the specifications for KPMG, the following key variables for detailed investigations were given to them: 1) analysis of consequences because of changed rules in FRA’s business segment, 2) sourcing issues, 3) cultural aspects, 4) entry mode preferences, 5) country risk, 6) tax issues, 7) workforces, and 8) general local issues and benefits. The selection procedure ended with two locations which best suited FRA: the Czech Republic or Hungary. The final choice made by FRA ended in a preference for Hungary. Both countries were equal in wages, land prices, general costs for infrastructure, accessibility, and double taxation agreements were similar between the countries and with Switzerland. Winning factors in the preference for Hungary were cultural aspects. Apart from the complexity in handling such a shift and the need to maintain operations, the deal was made

by cultural aspects in the form of common understanding, language, quality behaviour, and correctness. The caution for legal and cultural fit was emphasised several times by JM. The common language was one of the most decisive factors for the choice of location. The intention to execute a harmonious implementation and efficient use of the new production site had one underlying factor in management's opinion: interference-free communication, which means in FRA's case, communication in the same language. Most Hungarians speak German, a heritage from the Danube Monarchy, 1867 – 1918. The Hungarian trade law developed a long with that of the German speaking nations in Europe (Germany, Austria, and Switzerland). Hungary's taxation is quite low. As Hungary had applied for full membership of the EC, many laws, obligations, etc. according to EC standards had to be fulfilled already in the application period. Hungary finally joined the EC in 2004.

The next major step in the process arose with the question on the choice of entry mode. In the mind of JM and the entire management, there was a prevalent strong preference for a greenfield approach. *“But how are we going to do that?”* JM mentioned that he had no idea how to approach such a complex task. Dissemination of know-how with modes such as joint ventures was a major concern of the management of FRA. In the analysis and search process related to the entry mode, the company SKC emerged as a possible acquisition project. SKC is a small Hungarian company with 12 employees, whose business is the regrinding of tools. The willingness of the SKC owner to sell his company and to remain in the company as a managing director was a lucky opportunity for FRA taking the firm over 100%. JM speaking proudly about the achievements with the first production subsidiary abroad, identifies the following variables with major benefits:

“ 1) Salary ratio on production level Hungary – Switzerland 1:6; 2) availability of workers and technicians; 3) overall assessment of lower operational cost between the countries 30% - 35%; 4) building and land reserves – cost comparison: Switzerland 3000m² = CHF 6 – 8 million, Hungary 1600m² = CHF 1.05 million (actually compared figures by FRA to extent their operations)”.

The retrospective analysis ended with interesting answers. The major hurdle for the company was absolutely no experiential knowledge in-house on how to maintain such a task. The company was concerned that the shift would dilute their continuing performance and jeopardise deliveries as regards time and quality for their customers in Europe and in the United States. It was well understood that none of the employees had sufficient

experience of such an operation. Well understood, none of the employees has former experiences for such an operation. The company made a wise decision to mandate KPMG for clarification, evaluations, and recommendations. JM mentioned several time China for location due to the actuality for shifting productions to that country. JM argued that the basic procedures would have been the same, that China experts hired for the process would have been included. He mentioned one major difference: with a shift to China, there would have been redundancies in the parent operations. Despite the strategic orientation in favour of European and US markets, JM continues to consider possible China operations. A major factor is the ratio for material related to cost calculation of each product: material quota due to higher labour and other costs is 25% in Europe, but material quota following the same principles is 80% in China (low labour and other costs). Effects from the low cost production imperative are a concern of the CEO of FRA.

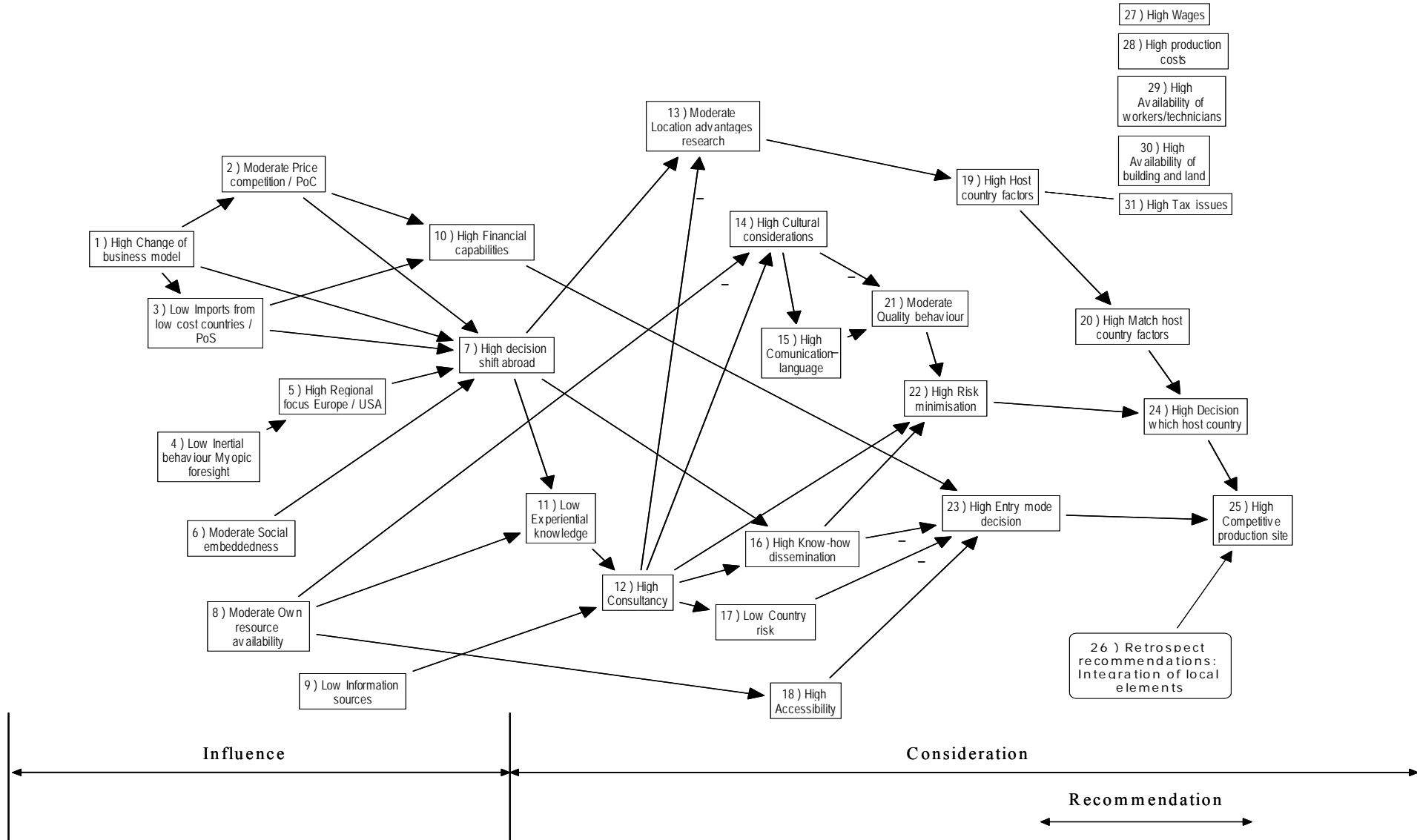
Tremendous time constraints have not influenced the decision and implementation process. Major production volumes are still allocated to Swiss production. The addressable market potential in Europe and the States, as well as the current margin has not yet accelerated the process. Despite that, the CEO of FRA is aware of the ongoing cost battle, which underlies his considerations on efficiency seeking in China. The financial situation of the company remains healthy for the moment. The niche strategy, milling cutters for professional applications, still generates good margins. Risk minimisation and getting it right first time are in the forefront of management thinking. Accessibility of the site at reasonable times was mentioned by the interviewee as important, and cost, control, and fast actions in case of necessary interventions are noted. FRA's leadership style has been forged through sound medium and long term plans and measures as their analysis of the task for going abroad and their farsighted succession planning proves.

The technological leadership of FRA kept them to their business model until purchase and distribution structures were changed in their industry. The trend for size, consolidation, and cost competition on a global basis began to reduce their profit margin and therefore their competitiveness over time will be challenged. The power of competitiveness knocks at FRA's door. The tool industry has experienced tremendous production shifts to Asia and is now dominated by products from there. Price drops are the consequences. The question for FRA is raised how long tools for professional applications can withstand these global tendencies. FRA has maintained a first step, by allocating a part of their production in a

low cost operation country. The step took time, but inertial behaviour is not a characteristic of FRA. It is, rather, hesitant behaviour while trends are observed (China thoughts!). The firm needed a trigger to activate it, such as the instance when FRA's margin came under pressure. The firm has now gained experiential knowledge and when they next go abroad, they have a base of experience.

Causal map FRA is displayed in Table 6.5 (Source: The author).

Table 6.5 Causal map FRA



Narrative for Causal Network (FRA):

A change of business model (1) in the industry (distributors were also transformed to manufacturers) triggered the decision to shift a part of the production abroad for the first time (7). A consequence of this was intensified price competition as well as volume effects, due to the concentration and reduction processes of distributors. As a result, the improved sourcing activities of the empowered distributors remaining who first imported from low cost countries created a new effect (3). Both variables (2) and (3) influence the financial capabilities (10) of the firm, which is still on an excellent level. Room to manoeuvre exists especially regarding any decision on the choice of an appropriated entry mode (23). Inertial behaviour or myopia (4) regarding shifting production abroad is less of a case for management and owners, may the more the social embeddedness (6). A high level of uncertainty is perceived on entering a psychically distant market. To date, the concentration on medium to high-end industrial customers focused on Europe and the USA (5) delayed production shift questions until the business model changed (1). This change caused the board of the company to decide to establish a production site abroad (7). Psychic distance with its components of complexity and cultural distance, had a significant impact on the firm's information collection. Information sources (9) were based on current publications and on Internet searches. In addition, the company lacked in-house resources (8) which would have been available, had any experiential knowledge existed. A preliminary decision to remain in Europe in regard of location advantages research (13) was made by the board. This decision is based on their strategic sales focus for the European market. Market data and trends analysis gave the decision-makers confidence that the addressable market potential with its growth rates fits strategically within their plans. To reduce the uncertainty, the firm gave a mandate to a consultancy firm to reduce uncertainty and, in a sense, to compensate for lack of experiential knowledge. As a result, the consultants' opinion improved knowledge for the firm's strategic decision-making, which implied a better outcome would result. The company understood the importance of having a broad knowledge base to make the correct decisions for their first internationalisation efforts. Beside the location advantages research (13), done by the consultancy firm, cultural considerations (14) as well played an extremely important role in their evaluation process. The final decision for the location (country) was mainly influenced by the communication/language variable (15). Information collection, preparation and adaptation, by the firm included the variables location advantages research (13), cultural considerations (14), knowledge dissemination (16), country risk (17), and

general risk minimisation (22). Know-how dissemination, a very important variable for the firm, had an important influence on the entry mode decision (23). Plant accessibility (18) for control purposes, low transport costs, delivery time considerations supported the firm's preference to stay in Europe.

To match host country factors (20) the variables wages (27), production costs (28), availability of workers (29), availability of building and land (30), and tax issues (31) were rated as highly important by the consultancy firm. Reasons and benefits are listed in the corresponding transcript. Beside the local host country variables, the valuation of cultural aspects (14), and, with that, communication and language issues (15), have been considered as important. Quality behaviour (21), and quality understanding are combined in the variable risk minimisation (22), and the aim of achieving expected product quality outcomes by the plant similar to the output of the parent company. The variable is rated moderate in comparison with the top level of post-industrial countries.

Accessibility (18) by their own resources available (8) for technological, organisational and also for control reasons also play a role in the entry mode decision. The latter is especially important for the management, a consequence of their uncertainty. In contrast, variable financial capabilities (10), played a minor role for the choice of entry mode. The entire task was run under a coverage strategy: the firm's first pilot was therefore within a manageable dimension. The decision to shift abroad (7) caused by the changed business model (1) and concern to disseminate technological and customer relationship knowledge (16) fined the discussion on entry mode (23). The management were in favour of a greenfield approach, because of the classic example of (1) competitive situation, low country risk (17) and anxiety to disseminate knowledge (17). With reference to the variable experiential knowledge (11), the firm did not have the knowledge to start from scratch. Market research by the consultancy company (12) under the consideration of the variable know-how dissemination (16) identified an adequate company for acquisition. The entry mode decision (23) acquisition of a selected host country firm (100% equity) finally won out over a greenfield approach. Anxiety on know-how dissemination was therefore at a minimum. The match of selected host country factors (19), risk minimisation (22) in general and, in consideration of cultural considerations, (14), communication and language issues (15), and inherently quality behaviour (21) decided a final selection (24) between two Eastern European countries. The final selection (24) favoured Hungary as the host country. Together with the entry mode decision (23) a competitive production site (25) was

begun. The management was pleased with their chosen procedure, information collection, assistance by a consultancy firm, and data reduction.

In the retrospect analysis (26) by the firm, it was remarked only that there could have been a better integration of local elements such as raw material sourcing, infrastructure supplies and services in general.

6.3.4 JAC

JAC is one of the leading medium-sized companies in the production of power magnetic components. Its office and production site is located in northern Germany. The company was founded in 1982, and taken over in 1998 by the two leading managers FB and GJ. There are 90 employees. There is an annual achieved turnover between EUR 8 - 15 million in recent years. Their modern production facility and profound expertise in fine-tuning their products enabled them to produce magnetic components in a compact, low noise, and low stray loss power construction for tailor made customer applications, as well as for standard products. Some factors such as the drive for technology, the production of small series and a strong focus (35%) on the railway industry led the company more and more into severe financial difficulties, especially from 2002 – 2006. A comparable company N (Germany) with a similar business approach went bankrupt in 2004, but was saved from insolvency by the company R, based in Berlin. The situation was aggravated by the rapid price increases in raw materials and their shortages, e.g. steel and copper (USD/ton: July 03: < 2000 – October 06 > 7000 // Source: LME (London Metal Exchange)). World “hunger” for raw materials, especially the Chinese, drove prices of noble metals into astronomic heights (see above). Companies like JAC reacted slowly in taking measures to limit damages in the profit and loss statement, but it is acknowledged that with the size of the company, the power of purchase was limited anyhow.

Of the total number in turnover, 68.9% of the entire sales (figures dated from year 2005) are generated in Germany. An explanation for the high percentage, apart from being the home market, is found in the weight of the products. The higher the current, the higher the weight is for iron laminated line reactors. A line reactor for 70 Ampere already weights 120kg. Costs of transport define the competitiveness of a firm, and competing in distant markets demand unique selling propositions.

In June 1993, JAC's predecessors bought equity in a small production site in a duty-free zone in the Czech Republic, close to the German border. They bought 45% of the shares; the remainder were divided between two other private parties in the ratio 45% and 10%. Time constraints were not a driving force, basic infrastructure, and human resources existed in the production which was ready to expand the business further. Small transformers were built in these facilities until 2006. The joint venture did not work out very well; different opinions on how to develop the business further, and necessary investments slowed down growth targets. FB, the respondent of the two owners, described the situation in briefly: "*No interest, to invest and to make the partners rich*". The opening of this subsidiary was pure coincidence; no proper investigations were done regarding the location and the development of the region in the future. A "kolkhoz" type of working behaviour still existed as the fall of the wall in 1989 in Germany and the political changes in Eastern Europe were recent. Human beings need more time to adjust to changes in cultural. At the start of JAC's participation, a VAT rate of almost 90% applied, but, to some extent, this was compensated by extremely low labour costs. As the region developed, OEMs, such as Toyota, entered it. The consequences of this were massive salary increases, the detachment of skilled young workers and a type of new barracking began. JAC had difficulties in hiring younger workers who were more efficient and language challenges aggravated the situation. Loyalty to the firms was very low and salary levels fluctuated. A major benefit was the proximity to the parent facilities which were only a lone-day car journey away.

In those days, the Czech government had no intention of allocating businesses to the region and therefore no governmental support was expected. A though statement from the respondents: "*They are all jerks*". IT is assumed that the history of the command economies still dominated the behaviour and the knowledge of the local government. The government was may be just overstrained.

The country risk was rated with low. Czech efforts to join the EC supported the legal background necessary for defined operations in the Republic.

The outcome of JAC's first going abroad venture abroad was not successful. In retrospect, the respondent remarked that a regional development analysis by an external expert ought

to have been a necessity. A mid to long term analysis of the region's development with regard to salaries, infrastructure and business cluster was needed. The entry of major MNEs into the region, however, could have hardly been foreseen.

Trust is the base for joint working and in sharing benefits as well as sharing deficits. The mistrust in the joint equity ownership, financial limitations by the private partners, and therefore the unwillingness to invest has frozen the operations to a minimal output of special transformers produced by an average of 12 employees. The firm's lack of experience in going abroad with its operations and its inability to deal with unforeseen circumstances resulted in a less than successful outcome.

The effects of globalisation faced JAC with new management challenges. Although their technological skills were excellent, relatively major difficulties in operating a profitable business brought the company to near collapse. An Earnings before Interest and Tax (EBIT) far below 1% and an utilised gearing limited the firm. A vicious circle started: creditor's payments which funded the purchase of raw materials were delayed and credit-worthiness decreased while raw material prices increased. The consequences were loss of preferred customer status and, as prices increased, prepayments were requested prior to deliveries. The firm's limitations, not only in human but also financial resources, made it more and more difficult for them to manoeuvre.

Lucrative orders, such as that for the Velaro CRH4 trains from China need a supplier with a global footprint. As an example of this, Alstom Belgium won the order for 222 twin locomotives (Project "Locochin") where the first 84 will be built in Europe and the remainder in China. Not only quality in the form of reliability with a 25 year guarantee was requested, but also a guarantee for production at the locations of seller and buyer. JAC's competitiveness was limited by the cost trap in which they found themselves: no further credit was possible and there was also the weight of the products to deliver to distant markets.

The two owners dominate the company structure. Apart from a freelance sales agent, none of the other employees has the skills nor the will to work abroad for a time. Employees are recruited from an extremely rural countryside. No responsible individual with experience of working abroad exists in the firm. As demand from Siemens and from Alstom came as a

surprise, no forward planning had been undertaken to prepare local staff for work in distant markets nor to hire experienced people. The respondent was clearly aware of the necessity of relocating a part of the production at least, but he expressed concern that the process of going abroad would challenge a firm with a lean staff and would jeopardise performance to existing customers.

It is typical of the region that both owners are socially integrated in it. However, a significant reduction in employees would have limited social impact upon them. Temporary production workers would be the first to be laid off. A certain risk exists that anxiety over the job losses could activate certain reactions in the form of delivery delays, quality issues, and depending on the numbers of layoffs: difficulties with the German “*Betriebsrat*”.

The two owners cannot be blamed for inertial behaviour as they recognised the signs of change for their enterprise. The financial situation does not allow any high-risk operation, as this is by definition, the case with shifting operations abroad. The power of stakeholders and their requirements is well identified. Both owners are prepared to sell the firm under acceptable conditions to a strong European partner but company valuation is a serious problem. The low EBITs over the years have not resulted in a company value, which would satisfy new owners. The Discounted Cash Flow Method (DCF_M) may be a method to apply. A contemporary rule of thumb in acquiring companies in German speaking Europe for a price paid for, are values resulting from 6 to 7 times EBIT, or 0.7 – 0.8 of an annual turnover.

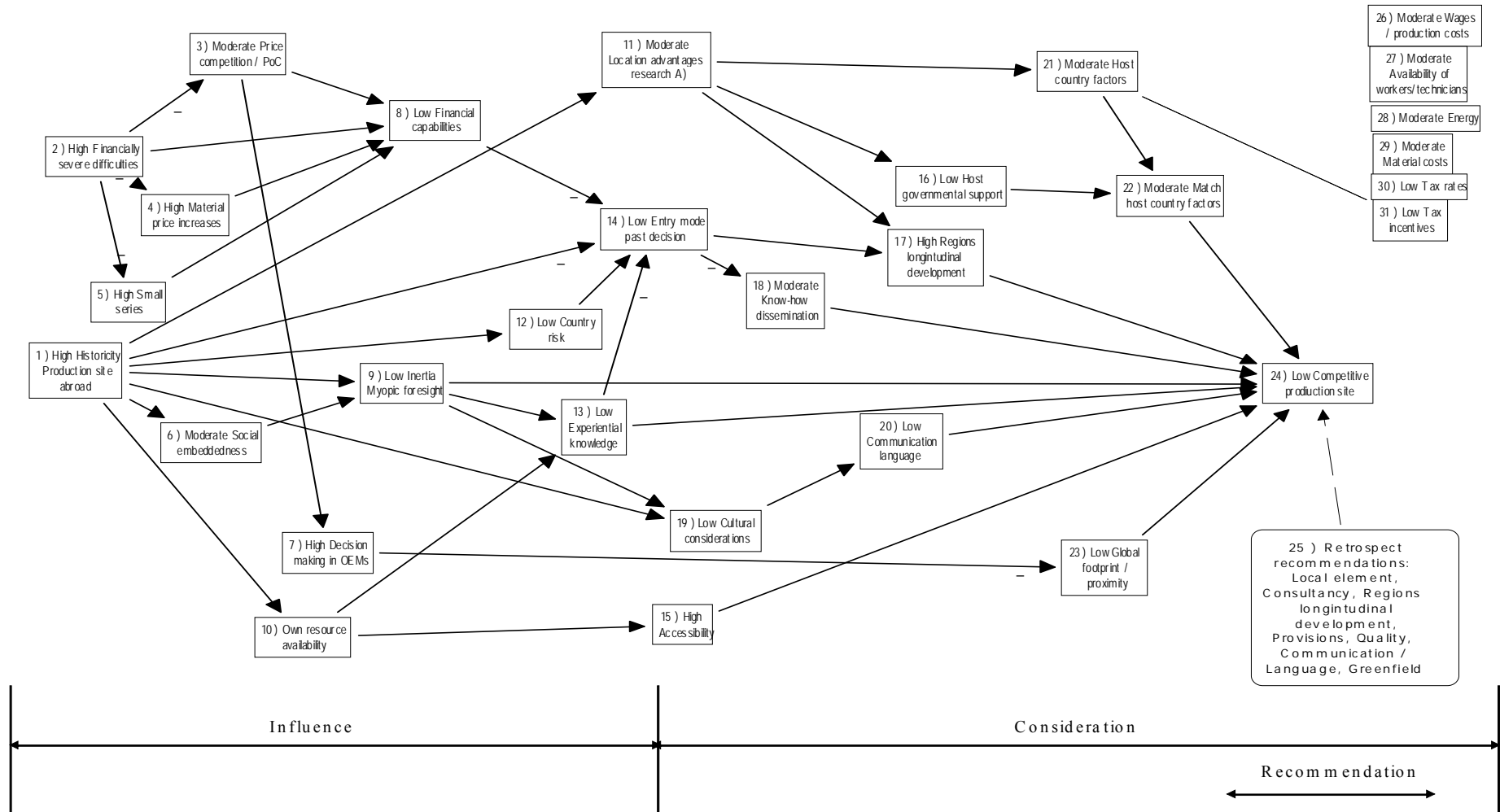
During the history of the company no detailed preparation of any kind has been done by the entrepreneurs in the past and currently. The financial situation and the experiential knowledge do not lessen the owners’ uncertainty. Some of the host country factors the respondent would consider are sourcing, wages, and easy access. Various other factors are still not considered. It may be assumed that much has been changed since the first venture with the first site established in the Czech Republic. In the retrospective analysis, the respondent mentioned the following variables, which he would consider more when going abroad for the second time: “1) a better implementation of local elements such as local supplies (raw material) and services; 2) better investigations in cultural aspect such as quality understanding; 3) higher provisions (financially) for unforeseen events and issues;

4) more attention to implications caused by different interpretations due to language difficulties and misunderstandings”.

Finally, the question on the preferred entry mode was answered by the CEO of JAC who confessed to a preference for a greenfield approach. There, the major concern would be anxiety that “know-how” might be dismissed.

Causal map JAC displayed in Table 6.6 (Source: The author).

Table 6.6 Causal map JAC



Narrative for Causal Network (JAC):

The first three variables (1), (2), and (7) sign for a non-utilised production site, the almost bankrupt situation the company is in, and burdening globalisation effects. Additionally, a change in order behaviour took place in global OEMs. In 1993 the firm founded a joint venture to operate a small production site in Czech Republic (1). The motives to do so are based on a retrospect analysis which is not so obvious, and difficult to track (mindset of the decision maker responsible at this time), and a not identifiable consequent and structured approach for a proper implementation of the site into the organisational processes of the firm. The entry mode decision (14) bears heavily on the realisation for a prosperous and growing utilisation of the site. The non-willingness to participate financially by the local joint-venture partner (8), the anxiety of disseminations too much knowledge (18) to the partner, and the longitudinal development in regard of the region (17) destroyed most of the efforts for a successful outcome to the decision. Financial capabilities (8) shrank tremendously in recent years. A reason therefore is the product range specialisation for high end applications, with the consequence of badly paid engineering work not pay-backed by the small series (5). Other reasons are tremendous material price increases (4) (global material crises 2006 upwards, e.g. copper – high content in the products), and a moderate price competition (3) in significant projects (e.g. Siemens or Bombardier). The combination of described variables ended in a vicious circle with severe financial difficulties (2). A certain mass production for a basic load, also named in the jargon as the “*bread and butter income*” is missing. Decision-making in OEMs changed (7), globalisation effects and the opening of the giant market China changed order rules. The split of giant orders (remember the “Velaro” trains for China) demand for a global footprint, means proximity (23). Obligations for local material content and local workforce value creation in the delivery, and one product homologation (cost savings, quality expectations independent of the producing site) for deliveries from different sites worldwide illustrate further interlinked consequences.

The two actual owners cannot be reproached for inertial behaviour or even lack of foresight (9), may be social embeddedness (6). They are willing to sell or combine their company with another one, but not because of the firm’s financial situation. Sound liquidity is the aim of financing operations effectively. Liability of foreignness is obviously the case, cost related uncertainty that impedes effective decision-making and quick adaptations of their strategies to improve operations abroad. The management has been

rolled over by the speed of environmental changes. The focus was too much dedication to the technology, to the disadvantage of managing the economics of the firm properly, and of adapting quickly with to the changing environment.

The neighbouring situation of the country (Germany – Czech Republic) guarantees the preferred and easy accessibility (15) to the site within one day. Another pro is the low country risk (12) with a changed political situation since the fall of the Berlin wall 1989, and the changes in Eastern Europe. The Czech Republic is now a member of the EC.

The true knowledge base by the former owners of the company is impossible to reconstruct (age issue) were the decision-making relied on (1). The same is valid for their entry mode decision (14). It can be estimated that foreign market research has not been a part of the firm's formal planning activities. Only basic location advantages (11) such as wages and production costs in general (26), availability of workers/technicians (27), energy (28), and material costs (29) have been considered on a level rated moderate, regarding host country factors (21).

Networking skills with the region, especially interactions with the regional government (16) are not identified to e.g. work out better tax rates (30), and other tax incentives (31). The entire approach and implementation over the years was very passive. Trust in all perspectives as the motor to generate excellent business has been missing between the joint venture partners (14). The ethnocentric, or home country, orientation was too dominant hindering a dedicated transfer of physical technologies and organisational capabilities to the foreign operation. A very-low resource commitment was obvious, and thus was expressed in the interview. Processes, which enable the firm to absorb individual level learning, have not been in place to support a better understanding for behaviours in the joint venture and also in the Czech culture. In-house resources (10) available to support the decision did rarely exist, neither were dedicated processes in place best explained by learning organisation, where the firm acquires, assimilates, transforms, and exploits knowledge during the process. It can be concluded that no access or utilisation of any form experiential knowledge existed (13) to benefit from various aspects in establishing a competitive production site (23). This aspect is even more important for a firm such as JAC where the reliance on what “individuals” know is high, in companies like these.

The importance of cultural context variables (19) in particular, communication/language (20) and quality behaviour issues have been treated on a very low level. It appears even more in combination with the variable “regions longitudinal development” (17). The entrance of global OEMs with the entry mode FDI into the region changed important local advantage variables, such as wage structure, image, and accessibility to skilled workers. There are classical realities in an unfolding internationalisation process where firms are confronted with unforeseen challenges, where well rethought strategic options have to be executed. The detailed consequences are that the global player absorbed younger skilled workers with higher capacities, and wage increases in the region resulted. Such events can hardly be foreseen and entirely anticipated in an early strategy formulation process. Nevertheless, it is important that scenarios consider such a type of occurrence and, consequently, a contingency scenario is developed.

Host country factors (22) have been matched moderately by choosing a low cost operation country in a neighbouring region. The host region’s longitudinal development (17) has not been anticipated with its consequences, and localisation advantages are diminished. Cultural issues (19) and especially language skills (20) turned out to be a higher barrier than expected. A changing environment and also decision-making in OEMs searching for proximity and a global footprint are not fulfilled by the site in the Czech Republic. The company failed to establish a competitive production site (24) guaranteeing survival for the future (see also the firm’s financial difficulties).

Regarding financial capabilities (8), credit frames were all utilised up to the maximum, strategic manoeuvres demanding any investments were therefore impossible. A strong limitation to act occurred faster than thought by the two entrepreneurs, any business response too slow to overcome the situation. Lack of foresight (9) is less the case than the speed the situation for the company evolved.

In the retrospective analysis (25), the respondent gave the following recommendations: A better integration of local elements such as sourcing, networking, governmental relationships is absolutely necessary to improve conditions and to achieve better cost structures. There must be a professional evaluation process executed for the best production site with the assistance of an experienced consultancy firm. Possible longitudinal developments in target regions at least must be discussed on a hypothetical

level. Soft factors must be considered, such as cultural differences, communication issues, language barriers, and quality behaviours.

The experiences with the joint venture ended in a clear statement by the respondent: *“The only entry modes which I will consider on a future occasion for going abroad with operations, is a greenfield or wholly owned foreign enterprise approach (means 100 % equity acquisition)”*.

6.3.5 SCH

The term “Power Quality” (PQ) refers to a variety of electromagnetic phenomenon, which describes voltage and current at a specific point in time and at a specific position in a current environment. With an increased usage of electronic circuits, which cause in each of them electromagnetic interferences, the interest for qualitative and efficient use of energy in the form of electric current has increased rapidly in recent times. The entire topic of regenerative energy sources is addressed, such as wind, solar, water, etc. The annual market potentials, according to the ZVEI (Zentral Verband Elektrotechnik- und Elektronik Industrie, 2006), for PQ products alone are Europe CHF 150 million (£ 62.5 million), Far East CHF 315 million (£ 131.2 million), USA CHF 135 million (£ 56.3 million), and in total a sum of CHF 600 million (£ 250 million). If inductivities such as transformers and chokes are added, the annual potential increases to CHF 4,000 million (£ 1,666 million).

In 1962, SCH was founded by HS, a pioneer in electromagnetic compatibility. SCH is, today, a leader in the development and production of solutions, which ensure the efficient and reliable operation of electronic systems in compliance with all major quality and performance standards. In the development, manufacture, and distribution of high-performance products, customers benefit from technical expertise of the firm in guaranteeing the Electro Magnetic Compatibility (EMC) for their products. SCH employs c. 2100 employees. The turnover achieved in 2006/07 was CHF 186 million. Products are: sinusoidal filters, dv/dt chokes and filters, line reactors, regenerative filters, harmonic filters, etc.

The respondents said that two major strategic considerations emerged for SCH: *“1)the growing demand for power quality products on the one hand, and, on the other hand, SCH*

limitations with a small German supplier (B&S) providing the power quality manufacturing to SCH; and 2) various decisions in OEMs demanding local productions means proximity”.

In negotiations with B&S, the company approached denied any participation in equity or takeover. The company also neglected any investments for enhancing production capabilities. In turnover, the ceiling for PQ deliveries is reached in turnover terms with CHF 5 million (£ 2.1 million). B&S is a family owned firm, which is more focused on electro-installations in their region.

SCH's major concerns are 1) know-how dissemination (the development of products need a close working together, which means disclosure of key technical information); 2) OEMs ultimatums to localise identical productions in key regions due to one off homologation of the products worldwide, local content, local purchase decisions, and cost savings; 3) impact of transport costs (products contain massive copper bars and iron laminations / weights range of the products between 8kg to 3'000kg); and 4) a global position is not yet established.

The weight of products stamped the identity of firms such as B&S, witch has a turnover of about CHF 10 million (£ 4.1 million), 80 – 100 employees and single plant operations.

The strategic task of SCH was to multiply its PQ technology and to locate the technology into its own local production subsidiaries in key markets. The gap in SCH was detailed know-how for qualitative production of PQ products.

In intense and long lasting discussions with the decision makers in SCH, the German company TW was acquired in 2006. TW is a company similar to B&S, with manufacturing know-how for PQ products. With TW, SCH was able to proceed with its technology multiplication strategy and therefore to open a first PQ production subsidiary abroad. China was selected for a first subsidiary abroad for PQ product production. In fact a consequence, to follow main PQ customers such as Nokia, Ericsson, Schindler, Otis, Vacon, Bombardier, Siemens, etc. and to fulfil proximity and the demands coming from this huge economy. The respondent expressed no doubts about the choice of entry mode. Anything other than a Greenfield was not contemplated because of the risk of know how

dissemination. SCH opened the first PQ production abroad in 2006 in Pudong, a suburb of Shanghai.

To bridge communication, behavioural, and cultural differences (e.g. quality understanding) a joint resource approach, or dual management approach, was established. For each of the key functions, a host and a parent responsible were jointly responsible for establishing their department. The host was in charge and the parent performed as a coach. Much was bridged with this approach such as the host's pride and authority, the implementation of the parent firm's behaviours, quality assurance, deliveries in time, and, of course, learning by doing by the host people. None of the parent company managers had any experience of working in China. The dual management introduced was a learning approach for both sides. A possible dilution of the parent operations was minimised, due to intense travelling to and from China within reasonable periods. In addition, the coaching system compensated the lack of working knowledge and behaviour with the Chinese or, in general, the entire lack of experiential knowledge. The respondent mentioned, *"Beside all processes in place including the dual management system, the language difference in words, but also in interpretations, was a great challenge"*.

Prior to the acquisition, the respondent investigated personnel who could identify sources for guaranteed raw material supplies, a go or no go criterion for planning the establishment of a production plant in that region of China. The respondent mentioned a very important aspect regarding sourcing: *"Material deliveries for qualification purposes often differ significantly from afterwards the material for serial deliveries, which differentiates from the former with quite lower quality. To find reliable and trustworthy suppliers is a master stroke in China"*. A strategy discussed and often applied by MNEs is to challenge the suppliers with purchase allocations such as 60% for the first, 30% for the second, and 10% for a new qualifying supplier. Among other reasons, the choice of Pudong was strongly influenced by the high volume of solid suppliers following Western principles, such as high quality deliveries in time.

The respondent addressed that, besides the host country factors already mentioned, they considered in their decision-making process, tax, tax incentives, and quality behaviour of workers. Later, of course, they also considered the wage levels for Chinese workers.

A risk management system in SCH evaluates quarterly risks. China's country risk therefore is assessed regularly by aspects such as political stability and opportunities in regulation.

“With the opening of the plant, we achieved proximity, competitive transport cost, and easy site access for stakeholders worldwide for homologation purposes, discussions, inspections, and product process stage surveillance,” remarked the respondent.

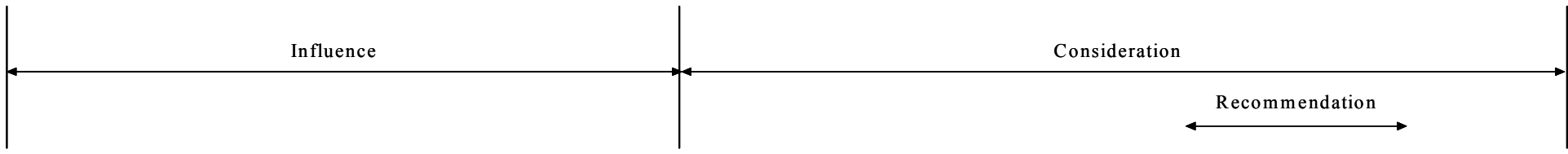
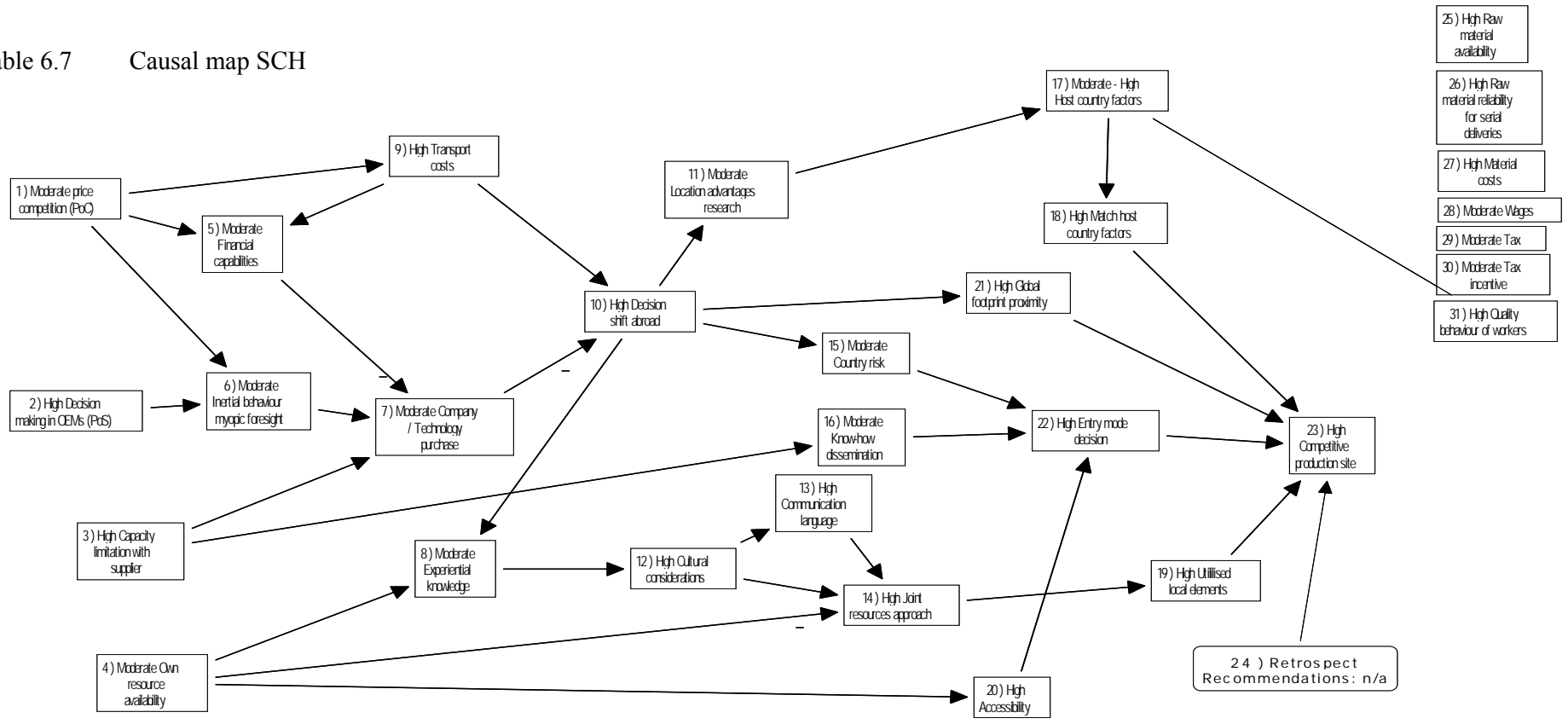
With the subsidiary in Pudong, SCH heralded a new epoch in the demography of Power Quality firms, where the first time a “global” provider for PQ products was established.

“Global players prefer to buy with global suppliers to achieve benefits such as worldwide standards and one-off homologation costs” (the respondent).

To approve the strategic tasks, a year and a half and five board meetings were necessary to convince the decision makers first to acquire a company with production expertise in PQ products and, second, to invest to execute the strategy for multiplying the technology and localising the production close to the main customers.

Causal map SCH displayed in Table 6.7 (Source: The author).

Table 6.7 Causal map SCH



Narrative for Causal Network (SCH):

SCH is in moderate price competition (1) with its PQ products. In detail, the firm develops the products but production is outsourced to a firm, which has a detailed knowledge of the production of reliable PQ products. A tremendous bottleneck exists between the supplier and the outsourcing partner (3). There are limitations caused by the by supplier's production capacity and its unwillingness to increase the capacity with some investments in human resources and also in infrastructure. The business is not the core business of the family owned firm. The products are extremely heavy due to their iron and copper content. Transport costs (9) are limiting competitiveness and, with that, the competitive radius of such firms. Consequently, the described effect generated a multiplicity of small firms in this business segment with a very domestic oriented field of activity. The principles in the products are pure natural laws explained in the domain of physics. Therefore, differentiation against competition is difficult with the product itself, more with certain design specialities (smaller size), reliability in quality, and deliveries in time. The companies operate in circles around their production centres with a decreasing competitiveness the more distant the application of the product is planned (transport costs!). A new trend in OEMs decision-making (2) demands a more global approach in competitive deliveries of the products. The reasons are split orders (the first batch produced in supplier's origin country, the second batch produced in customer's application country) by customers such as state owned organisation as in China. The aim of the organisations is to get access to knowledge about any kind of sophisticated technology – product based or processes based, to mention two. OEMs are choosing suppliers owning a sound technology with identical production structures in Europe as well as in China. One-off homologation costs and one partner for a globally guaranteed technology with flawless deliveries are the reasons. Intense arguments between the board of directors and the executive management of SCH took one and a half years prior to the final decision to eliminate the bottleneck with the third party supplier by an acquisition of a power-quality product manufacturer (6). The moderate financial capabilities of SCH (5) combined with excellent price negotiations allowed the purchase of a power-quality production company with its own available free cash flow. Transport costs (9) and a moderate price competition (1) both have an influence on the financial capabilities (5) of SCH, and (5) have an influence on the decision-making to shift production (10) close to the region of application. The acquisition decision (7) is directly linked with the decision to shift productions abroad

10). In SCH's case, the chosen location in the decision-making process ended in a production plant in China – Pudong.

The acquisition of power-quality production know-how (7) allows SCH now to provide its customers with this technology competitively in at least two geographically dispersed regions of the world. This strategic approach is in accordance with the expectations of major OEMs (2) for proximity and a global footprint (21) already described. SCH's available resources (4) are rated moderate as well as their experiential knowledge (8) for operating in China. Most of the managers have international experience, but not experience in China with Chinese behaviours. Today, there exists a shortage in the availability of resources, i.e. engineers, due to a reduced "sexiness" of the technology. This contradicts the worldwide growing demand to invest in the technology for an improved and more efficient energy generation. The decision for a production shift abroad (10) based on a moderate experiential knowledge (8) respected, however, a high awareness of cultural considerations (12). The challenges to bridge different interpretations arising from cultural heritages, language barriers to express themselves (13), their own moderate resource availability and their awareness of cultural considerations (12) ended with a decision to allocated functionally experienced counterparts from the parent company to coach local Chinese managers (14) - a kind of dual principle. Although they received mentors, as it were, to undertake their work, responsibilities remained with the Chinese managers. This approach was very wise as the dual principle was appreciated by the parent and host country managers. Local factors 19) such as raw material supplier identification and local negotiation behaviours were best dealt with by host country managers, whereas the parent country managers were responsible for coaching and supervising internal processes and quality standards. This was fruitful working together with flair to guarantee a highly competitive production site 23).

Reasonable accessibility (20) of the plant plays a role in controlling but also convincing parent country managers spend a time at the site. Accessibility in this case is linked with the urban development of the region where the plant is, and is therefore an important element in the decision-making about entry mode choice (22). The preference for a Greenfield approach was never in the forefront of the discussion. IP protection was more important and a moderate awareness of know-how dissemination (16) as well as accessibility. The moderate country risk (15) contributed to the decision for a greenfield

approach. The location advantages research (11) was triggered by the decision to shift production abroad (10). In the evaluation process for the location but also in the continuing process to access lower cost raw material, the company finally found their way to establish themselves in China. Questions on the availability of raw material (25), the quality of suppliers in serial deliveries (26) and, naturally, the corresponding costs (27) were clarified in a successful pre-evaluation. The decision to establish the site in Pudong, a suburb of Shanghai, achieved a moderate level in achieving the best possible wages (28). Wages in the surroundings of Shanghai are already significantly higher than those in the remote countryside. There was a compromise between labour cost savings and availability of skilled and more experienced workers in the region chosen (31). Similarly, investigations on tax (29) and tax incentives (30) are subordinate to the other host country factors(17), already discussed. Location in the countryside would have resulted in better wage conditions. There is continuous and intense competition among regions, districts and towns in offering incentives, such as tax holidays, to attract investors to settle in their particular location. An overall assessment and the majority of high ratings qualifies the match of host country factors (18) with high. This variable with the achieved proximity (21) and therefore the increased competitiveness due to local transport availabilities (21), the greenfield approach with its benefits (22), and the utilised local elements (19) altogether achieve the result of a competitive production site (23) rated as high.

No retrospective recommendations (24) were given by the interviewee. The impression of the achievements of the firm is that it is very up-to-date and this agrees positively with its predictions.

6.3.6 TES

The company was founded in 1962 and has 130 employees under contract. In the last five years, turnover achievement has ranged from CHF 45 – 55 million. Its first products were heat dissipaters, electronic relays and flow metering devices for filling stations. TES is the new name of the Test Systems Division which belonged to the Swiss-based S Group until it became an independent company in the wake of a management buyout on November 27th, 2006. TES develops, produces, markets and implements test systems for emission and immunity measuring of devices, such as pulse-, burst-, surge-, power quality test generators, measuring receivers, power amplifiers, GTEM cells (Gigahertz Traverse

Electro Magnetic), and current sensing probes. As pioneers in their field, the company is rich in market experience. Unique selling propositions are modular test system architectures which allow building comprehensive, integrated, and expandable test systems with lasting value. The systems can adapt and integrate customers' software to a real customised solution. In this business, it is important to have representation on the influential organisations which govern global standards. TES takes an active part in these committees, not only to have an influence on decisions on standards, but also to be compliant instantly. TES focuses on following industries: Automotive, industrial electronics, consumer electronics, telecommunications, medical, and aerospace/defence. Their clientele are independent test laboratories, in-house test laboratories, development laboratories, educational institutions, rental companies, and system integrators. Some product highlights are: Touch screen for superior friendliness, mobile PDA (Personal Digital Assistant) and WI FI (Technology that uses radio waves to allow devices to exchange information without wires; synonym for "WLAN" (Wireless Local Area Network) operation, automatic robotic test solutions, customer specific, configurable lab automation software, "Windows XP based instruments", and modular system architecture. TES maintains small sales subsidiaries in Switzerland, China, France, Germany, Japan, Singapore, UK, and USA. The devices are entirely produced in Switzerland. TES has no plans to date to relocate production or a part of to a distant market. The CEO mentioned following reasons: *"1) Our products are at the high end of the scale, high precise in technique and small in volumes (annually sold units in the range of 300 – 400 pieces); 2) Major competition are firms from Switzerland, Japan, and the USA, countries with a equivalent cost structure; 3) Our competition is finding difficulty in opening distribution channels in Europe which is our home market geographically and 4) Competitors from low cost countries or emerging countries have still to arrive in our home market area"*. The power of competition with the other reasons mentioned does not yet justify a production shift to a distant market. Concerns were expressed by the respondent with regard to know-how dissemination. Companies, such as N AG who are comparable with TES, being similar in size, market niche approach and export behaviour and who have a number of sales subsidiaries abroad strictly protect their software know-how in highly secured centres. The developers are under strict obligations so that programs are not copied. Even customers' parameters are programmed only in such a centres before shipping to them or to the sales hubs.

How would he approach production relocation to a distant market if TES should arrive at such a decision-making process? As regards information sources, he answered that he would utilise his network from the supply and delivery chain to gather information about such a process, in fact, a search for real-life experience. He mentioned additionally: *“It is important to me to hire a consultant, first to guide us by consultant’s experience, and second not to dilute my scarce resources”*. As for important host country factors, he addressed only the sourcing potential in low cost operation countries and lower tax rates than at the parent site.

On cultural aspects, he indicated that his knowledge base was *“pocket knowledge”*, which was a nice expression to use, and he assumed the same of his staff. He further emphasised the importance of a plant manager’s character and stressed the attributes of integrity, loyalty, cultural understanding of both parent and host country and transparency in intense and regular communication. The latter is often underestimated: managers who are far removed from headquarters may not understand the importance of informing it what is happening in the business. There is a tendency for them to act independently, sometimes even despite from directives from the top.

The respondent expressed concerns on how the existing parent staff would judge such production relocation. He thought of job jealousy, which can challenge the firm’s performance. In the discussion, he concluded that a proper communication concept has to inform of reasons, consequences, benefits, risk, and the importance for the firm for such action.

Another topic addressed was the lack of experience of his own managers in supervising the operations abroad. *“Guanxi”* came into his mind, *“The Chinese think differently”* he said. (During the interview period, the annual Chinese gross national product was in every manager’s mind). It is assumed that the respondent implicitly meant *“connection”*: this word comes closest to the meaning of *“guanxi”*, which defines mutual obligations and reciprocity of relationship with others in Chinese society. The efforts and time spend to cultivate *“guanxi”* with necessary host stakeholders will be a part of success or failure to establish a plant, but will definitely influence the time factor.

The interviewee did not intend to make such a production shift with the actual resources he had. The first reason he mentioned was not to jeopardise the actual operations with scarce resources. Secondly, he acknowledged the lack of experiential knowledge in his firm and therefore there was uncertainty on how to behave correctly in the management of local behaviours. He emphasised language issues as critical, means interpretations even in simple communication tasks, document reading, and interpretations of legal issues. He proposed: *“I would hire a Singaporean manager with a Chinese family background with a modern education, fluent in both English and Mandarin, and culturally adapted to both worlds”*.

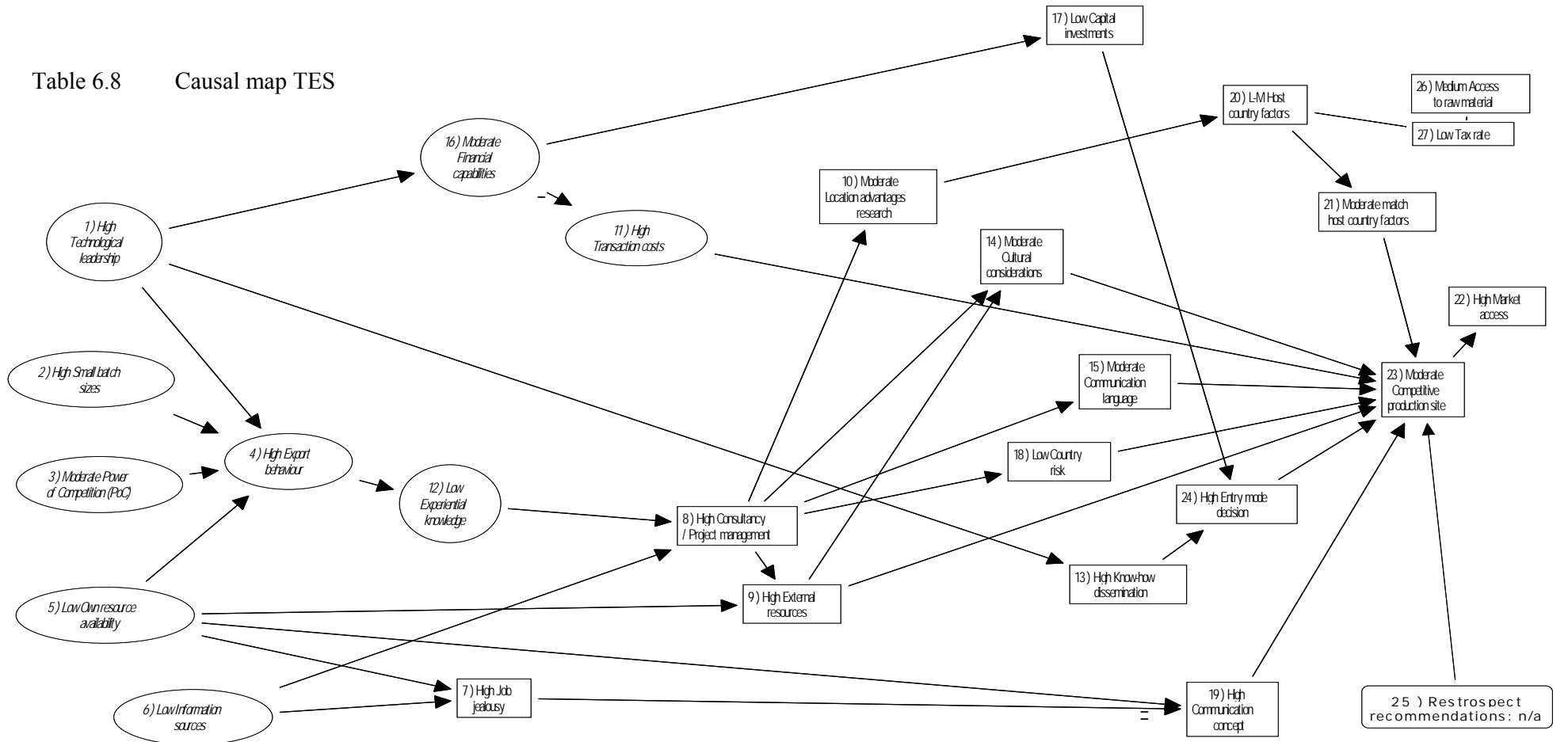
Host country factors such as country risk and tax including tax incentives were not mentioned by the respondent. In more detail, he elaborated on the risks for the company in opening a production plant in a distant market. He stated *“An amount of CHF 250’000. - (£ 104’000.-) initial capital is enough in our business to establish a production site”*. In his risk assessment, he said, that initial capital investments are low, labour costs are low, and if the factory had to be closed, only one month’s additional salary has to be paid. Capital expenses in the worst case scenario are manageable.

In answering the question about the choice of entry mode, the CEO of TES clearly favoured without doubt a greenfield approach. His reasons were knowledge dissemination (software!), the size of the company, and the uniqueness of the firm related to the business (measuring instruments). The CEO did not identify obvious reasons for a joint venture, which today could support him in his kind of business. The respondent is convinced that with a producing subsidiary abroad, existing processes would have to be adapted to fulfil requirements from the host country.

To summarise, efficiency seeking is not in the forefront of TES. Margins today are on a satisfying level for the firm. Batch sizes are small as previously discussed. The benefits for TES are too small, assuming that 50% of the entire costs are the costs of goods manufactured. With a second plant, the low cost operations cost benefits would not profitably compensate the additional costs in administration, organisation, travelling, and infrastructure. Proximity demand does not yet exist in TES’ business.

Causal map TES displayed in Table 6.8 (Source: The author).

Table 6.8 Causal map TES



Influence

Consideration

Recommendation

Narrative for Causal Network (TES):

TES is a player in a niche market, which has been stamped by sophisticated technologies in their domain. The company may claim its position as a technology leader (1) within the top three in the world. The customer base using the provided measuring equipment is limited in number, due to the very specific application field, which, of course, affects annual volumes. Additionally, as a consequence, batch sizes are quite small (2) (see transcript TES). Often the effect that fixed costs (e.g. engineering) in combination with small batch sizes are over proportional, resulting in low margin and limits the company with their financial capabilities (16). The power of competition (3) is moderate, there are no Chinese competitors yet and there are only a few serious competitors worldwide. Own resource availability (5) and up-to-date information sources (6) for any strategic tasks are therefore on a low respectively limited level. The sum of the variables (1), (2), (3), (5) and (6) result in the classic export behaviour (4) with TES.

A major strategic task of the company relates to their technological leadership (1) and concerns the protection of the firm from any knowledge dissemination (13). Measures against know-how disseminations (13) together with necessarily low capital investments (17) means that if the company were to invest in a site, they would prefer a greenfield as the entry mode (24).

As a consequence of the firm's export behaviour, the lack experiential knowledge (12) for such a complex operation as opening their own production site in a distant market. Attempting to scan information sources (6) is marginal and within the firm's scope. The nature of the business involves high transaction costs (11) which are a negative influence on TES's capabilities (16). Some examples of this are: the high-tech devices need certain explanations (start-up phase), excellent customer treatment, regular visits, high packaging costs (effective protection), calibration services (paid, but with various clarifications beforehand), conformity at all times with various regional regulations, surveillance of standards and participations in committees for new standards. These costs caused by the nature of business will, in one way or another, influence the competitiveness of the production site positively or negatively; positively, for instance, if some of the above mentioned services or compliances are well managed, and negatively, if efforts cannot be directly remunerated by the customers.

The interviewee felt strongly that if a production site in a distant market were to open in future, he would hire consultants (8) and external managers for the duration of the entire project.

Details for a Chinese task are written down in the transcript TES. The lean structure of the company together with the resource capabilities does not allow the deployment of its own resources (5). He would arrange the execution and implementation of the site with external resources (9). With this approach, he would bypass possible interferences with directly involved parent country employees due to job jealousy (7) and fear of losing their jobs. A second aspect is that the parent company employees' information standard (6) is low and it is of the utmost importance to create a communication concept (19) for everyone in the firm. The aim is a clear and simple message on how to utilise location advantages with their own production site abroad. A trusted and clearly communicated concept will significantly contribute to the successful establishment of the site (23). The decision to work with consultancy (8) will help to clarify issues such as location advantages research (10), cultural considerations (14), communication and language issues (15), and the country risk (18). The low to moderate stage and preparation for making a production shift is reflected in the answers of the interviewee, who focuses actually the export mode. The host country factors (20) mentioned were only two in number: Access to raw material (26) and tax rate (27) without any further explanations in more detail. The level to match host country factors (21) will be moderate and is dependent to a major extent on the knowledge and experience the consultants will bring to the process (8). An important contribution to cultural (14) and communication and language (15) considerations was mentioned in the intention to hire host country managers and other local resources. At very least, the managers experienced to work in two different cultures were needed.

The decision for entry mode (13) greenfield approach has two denominators as discussed: the first one is low capital investments (17) necessary for TES to establish a site and the second one is the fear of know-how dissemination (13).

The knowledge base of the firm and its experiential knowledge would not match the level of preparedness for the best possible opening of a competitive production site (23). The nature of TES's business with the limitation of possible annual volumes relies less on the ultimate efficiency of a competitive mass volume production. Definitely, a site in an

emerging market, such as China, will extend market access. This is explained by the increasing regulations in such markets; for example, CCC (Chinese Compulsory Certifications) which are beginning to regulate EMC issues for specific applications.

Retrospect recommendations (25) do not apply in this case, market access means entry barriers are high (22).

6.3.7 WAN

WAN is a traditional Swiss company, founded in 1922 by RW in a mountain region. In 1954, the company employed 10 people, and since then, the number of employees has grown to approximately 300 today. The company develops and produces hydraulic valves and systems for worldwide applications. Proportional technology, miniature hydraulic, seat valves, and individual solutions are their speciality. WAN is highly specialised and its focus is on specific business segments. This differentiates WAN from its competitors. The specialisation can be explained as follows: the marine industry request corrosion protection, explosion protection, low leakage rate, high power density, and high reliability. The oil and gas industry requires hydraulic valves up to 350 bar / 120 l/min, explosion protection, corrosion protection, spool valves with low leakage rate, and individual customer-specific adaptations. The mobile industry demands hydraulic valves up to 350 bar / 230 l/min, digital driving electronics, and hydraulic valves with integrated electronics and field bus, to mention three examples the industries served.

In 1983, the son of the founder HW took over WAN. Besides his career as an entrepreneur, HW was elected to the Swiss parliament as National Councillor. As an entrepreneur, he is concerned with improving the prevailing general conditions for industries and companies in Switzerland. It can be imagined how his role as National Councillor and his wish to improve conditions for the companies in Switzerland influence his internationalisation orientation of his own firm as regards production. Social links are tremendously important for the owner and affect the company in various ways, such as his recognition as an important local employer and one who has a Swiss orientation, committed to local production. This strong link and its consequences emerged in the interview with the respondent (Member of the Board of Directors (BoD) of WAN).

Beside political influence on the strategic matters of the firm, WAN's technology leadership differentiates the firm from competitors. The respondent did not remark that Asian competitors threatened WAN's business: the emphasis was more on the strength in the leadership which gave freedom against possible competitors. It was impossible to have access to figures for analysis purposes, but it is assumed, based on the market leadership position, that reasonable margins are achieved.

Answering the questions, the member of the BoD said, *"There is no production relocation planned at least for the next three years. We do not have any time constraints for doing so. No advocate exists in the company to push such a decision. The owners are anxious to lose control over the IP, if the developments and productions are not done in the familiar facilities. Further and in a fair assessment, there are no internal resources with at least international experience to support such a relocation task – operations wise."*

A different situation exists in the sales structure of the firm where its own sales subsidiaries were established instead of value added retailers. Internationalisation started with sales subsidiaries in Germany (1984), followed by USA (1984), UK (1992), France (2001), and finally the first hub was established in China (2005). The respondent was asked "why a China hub"? *"We recognised that more and more of our customers are relocating parts of their entire production to China. We assess the request for proximity as important. To follow that trend we thought that is important to establish first a representative office to observe what was ongoing, but also to analyse our addressable market potential in China in the oil industry. Low cost sourcing, of course, joined the agenda, especially for raw materials and we use a lot of copper coils"*.

The respondent in his direct business has a long history in opening production sites in distant markets. He formulated his reasons concisely: *"My personnel ranking of considered host country factors is as follows: 1) sourcing, 2) market potential, 3) tax incentives, 4) long-term financing aspects of the project, 5) quality behaviours (permanently), 6) accessibility of the site, 7) logistic costs, and 8) fluctuation rate of employees"*. He added: *"Chinese suppliers are not yet capable of continuous deliveries on the same agreed quality level. Sometimes a costly and image damaging situation has to be considered and measures have to be taken"*.

The respondent expressed concern on the massive fluctuation rates especially in China. The poor living standard of the workers leads to massive fluctuation rates if offers differ

slightly from the actual conditions. The researcher is aware of this phenomenon, which he experienced in Eastern European countries such as Hungary. There are seasonal effects: hourly wages in agriculture during harvest time exceed hourly wages in industries. The workers change immediately to farming. Timely observations and consequent adaptations of hourly wages may be combined with attendance bonuses to help overcome this obstacle.

Approaching the location of production abroad hypothetically, the respondent focused on China. He would first employ Chinese specialists, and gives them a period at the parent's production site. As regards this period's duration, he proposed 3 months length for initial training. First of all, the member of the BoD emphasized the importance of bringing corporate culture closer to the host subsidiary members, which meant trainings in business, business behaviour and quality understanding. This initial training would be followed by a more technical training on machinery and materials with the aim of training them in flawless production. Language difficulties for both parties, parent and host subsidiary members, are not to be underestimated. International languages in Swiss mountain regions are not so widespread.

A financial package with some obligations is indispensable. Foreign education, even for the period described, has an extremely high value in low cost operation countries. Without provisions in form of a "stay bonus", for example, the chance of losing the newly educated employees is very high. The demand for well-trained technicians in China is great in order to maintain the country's huge growth rate. The respondent remarked that such training is costly, especially for SMEs, whose employees have to lead such training and also do their own work. Such trainings is, even to a standard level, intense and absorbs much time and resources.

The respondents denied that processes would be undertaken abroad in a production subsidiary. He emphasized a more real time management with ad hoc decisions and intense travelling between parent and host locations for control purposes and to accompany the operations.

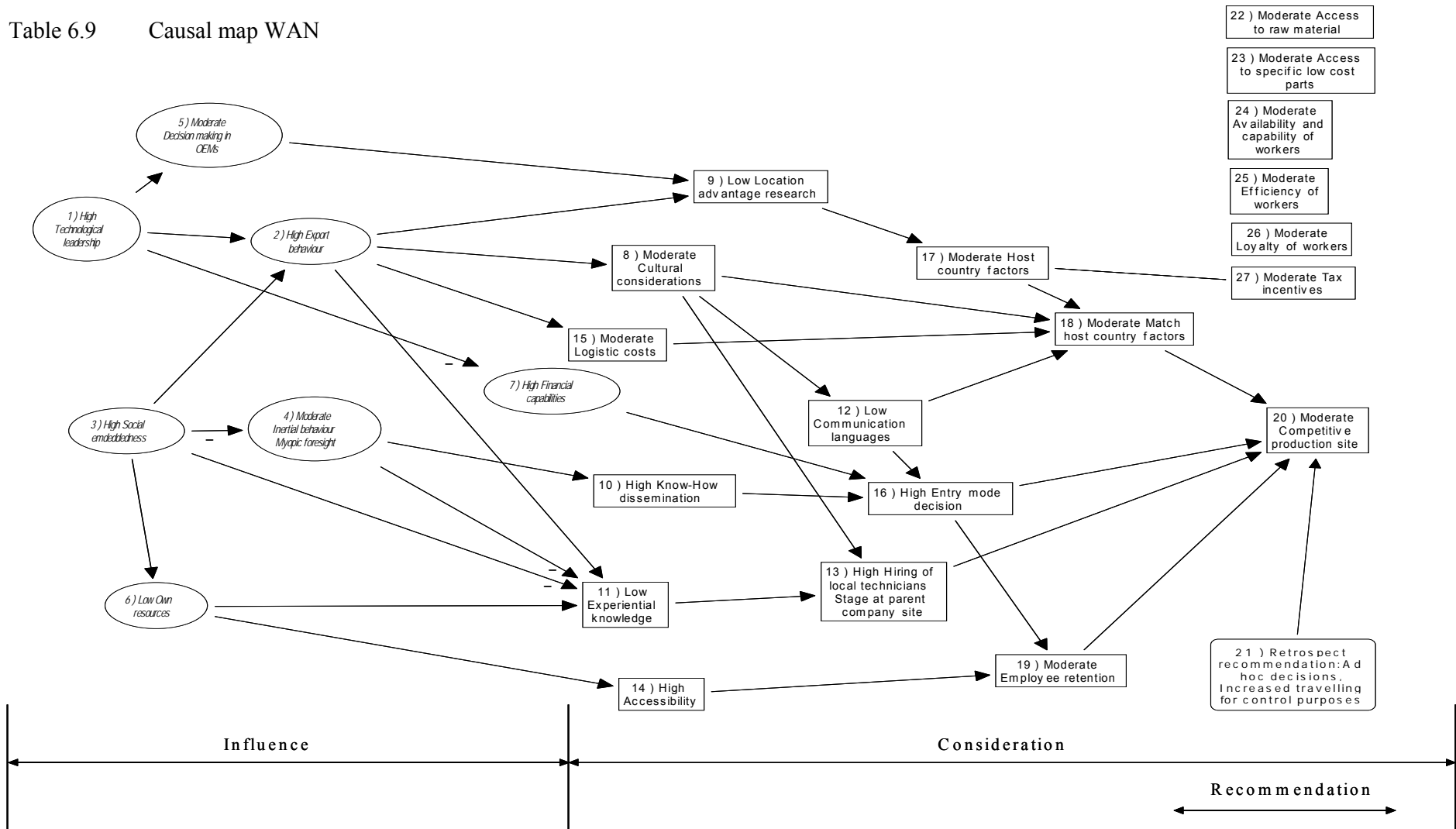
When reviewing the respondent's international experience with the establishment of production centres in the United States, in Germany and in China, he refused to consider any entry mode decision other than a greenfield. His reasons were: 1) Know-how

dissemination, 2) Multiple opinions delaying necessary tasks, 3) Difficult discussions about financial issues such as investments.

Summary: WAN is well positioned in their niche market. The indicated average market growth rate is between 3 – 5%. The firm has experienced no significant up- and downturns in its workload in the past ten years. The company is a state-of-art one, equipped with process centres, such as Mori-Seiki's ZT 1000Y, which allow efficient productions.

Causal map WAN displayed in Table 6.9 (Source: The author).

Table 6.9 Causal map WAN



Narrative for Causal Network (WAN):

WAN has the technological leadership (1) with sophisticated products in their business domain. Export behaviours (2) forge the sales structures in addition to some very small sales offices in Europe, USA, and a representative office in China. A very important variable is the social link (3) of the company in the region of its origin. The reason is the political engagement of the owner in the Swiss parliament and in the Swiss labour party. Influenced by this reality is therefore a moderate inertial behaviour (4), in which a shift of the production abroad would discredit the owner with his outspoken political comment and his way of thinking. The firm's own (6), capable of organising and implementing a shift do not exist. The financial capabilities (7) of the firm measured in relation with its size are very sound (Insider information from a director of the board). Operating in a niche market allows the achievements of very good margins, moderate decision making in OEMs considered (5). Social links (3) and export behaviour (2) have logical consequences in regard of low location advantage research (9), moderate cultural considerations (8), and low experiential knowledge (11). It suits the firm's strategy, to remain in Switzerland and not – yet - to shift any production abroad. The hypothetical discussion with the interviewee brought some interesting aspects to the firm's narrative of a possible causal network for a production shift. Know-how dissemination (10) is a major concern of the firm. It would be challenging to copy the products, but it is possible. Out of this concern, a strong opinion on the choice of entry mode clearly favours for a greenfield approach. This is typical of the characters and business behaviours of Swiss entrepreneurs from mountain regions. The healthy financial situation (7) would allow such a task in an equitable and necessary frame.

Cultural considerations (8) and the important variable accessibility (14) of a plant abroad to undertake control and leadership tasks combine in causality the extremely important issue of managing local employee retention (19). Scarce resources (6) and lack of experiential knowledge (11) demand the assignment of local technicians (13). Before operations start, a planned period for the technicians at the parent's site for training purposes is seen as worthwhile. Prior adaptations to the parent company's behaviours and rules for work processes, quality understanding, and communication style will be the result.

Any individual from an emerging country trained abroad changes his (her) status significantly after successfully finishing the training. The risk of losing them through

poaching is very high and is very common in China. Therefore, a mechanism with monetary stay incentives is of absolute necessity to keep educated technicians in the company (19). Communication and languages barriers (12) will be a critical issue. The hiring of local technicians (13) and the period at parent site will help to bridge linguistic hurdles to a certain extent. The discussion on which host country factors (17) have to be considered resulted with the following variables, all valued with at moderate level: Access to raw material (22), access to specific low cost parts (23), availability and capability of workers (24), efficiency of workers (25), loyalty of workers (26), and tax incentives (27). The intensity of the argument on host country factors is based on the interviewee's knowledge on a logical level, but not on an in-depth analysis which relates to the firm. The average status of matched host country factors (18), the approach of hiring and educating local technicians at the parent site (13), and the employee retention and the dedicated choice of entry mode (16), all these variables together give the company an opportunity to establish a moderate competitive production site (20), considering also logistic costs (15). Based on the knowledge, which the company has, surprises and challenges will happen. The interviewee deals with these aspects, based on his knowledge and associated tacit and explicit learning, in the retrospective recommendations (21). These two recommendations have more of the character of rules of conduct.

6.4 Data analysis

The analysis of data is carried out by an inductive approach, i.e. the critical themes emerge out of the data (Patton, 1990). The questions rose for the cases: Why have they decided for a FDI, why they have decided against a FDI, and what are possible consequences? The challenge is to place the raw material into logical, meaningful categories. Some creativity is required in qualitative analysis. Some pre-work therefore has been done in the design of the outcome in the single-case analysis. The causal maps are structured for all cases in phases "influence", "consideration", and "recommendation". A very holistic view is offered, related to the standpoint of the firms ("influence"), which variables have been considered ("consideration"), and what are the recommendations ("recommendation") of the respondents based on the experiences they have had.

Data analysis consists of three concurrent flows of activity, starting with data reduction, data display, and conclusion drawing (Miles and Huberman, 1994, p.10). *Data reduction* is

an important process of selecting, simplifying, focusing, and transforming the data. By *data reduction*, Miles and Huberman do not necessarily mean quantification. *Data display* refers generically to *display*, which is an organised, compressed assembly of data that permits conclusions drawing and action. The cognitive maps drawn for each case are of complexity. The cognitive tendency applied, is to reduce the complex information into selective and simplified gestalts to draw justified conclusions. Each phase mentioned at the beginning will be put into rows and columns of a matrix for analytical activities.

The software “decision explorer” offers various tools for analysis. The key aspect is that the use of the tools guarantees, for example, that all variables are considered in a structured manner. At the beginning of each section “data analysis – *corresponding phase*”, the tool(s) used in the program “decision explorer” will be listed and explained. The heart of the process in the analysis is the matrix format, which captures the constructs (extant and emergent), whereas the “influence” phase refers to the extant situation of each case and the phases “consideration” and “recommendation” more to the emergent situation. This method of data analysis by matrixes is quite definitely still qualitative (Easterby-Smith et al., 2008). Miles and Huberman (1994) argue that display of this type (matrix format) can help in combination with another objective of the analysis, which is looking ahead to the consequences. Single-case analysis, cross-cases analysis, and the emphasised attention for the outcome created a sound analysis of the data. Themes will emerge from the raw data, a process sometimes referred to as “open coding” (Strauss and Corbin, 1990).

6.4.1 Data analysis - Influence phase

Two functions are used: First, the function “List” “all concepts” (terminology “decision explorer”, otherwise in this research and with Miles and Huberman (1994) labelled as “variables”), which will list all the variables; therefore supports as a control list. Second, the dialogue function “explanations” executed with the selection of the radio button “stop at tails“, which lists the explanations from decision-making backwards to the standpoints of the firm in the phase “influence” by choosing the edit boxes “from”(decision-making) in fact backwards to “to” (standpoints). With this approach, all the routes are captured which may derive from different standpoints.

In Table 6.10 the findings are listed – cross-cases analysis - in matrix format. On the x-axis, all the variables are listed mentioned by the respondents, which relates to their business environment and their stage of entry mode. On the y-axis, the cases are listed in a way so that the outcome is measured by success or by split into FDI and export behaviour.

A logical chain of evidence is built (Miles and Huberman, 1994), coming from the single case analysis, where the variables lead to the decision point for shifting operations abroad or not. Parallel with the chain of evidence, in Table 6.10 clustering is done according to Easterby-Smith et al. (2008) where variables were allocated to following cluster structure:

ETR: Variables, measuring the involvement of the entrepreneur for doing decision-making, and describing characteristics such as trend analysis, path dependencies, openness for going abroad, etc.

IMP: Variables, where signs for the source lie in the low cost production imperative

DOM: Variables, explaining reasons why cases operate domestically

FIN: Variables, measuring the financial capabilities and financial situation of the cases

VAR: Variables, miscellaneous but may be also unique

Entrepreneurs influence (*ETR*):

All the cases show an influence that the entrepreneur takes an active role in the decision-making process, and therefore his influence is relevant. This finding contributes to the statement of Acedo and Jones (2007) that the entrepreneur has to be considered in the process of a firm's internationalisation. The range varies from the CEO of CEA, who has not interpreted the signs of change to the CEO of FRA, who thought of going abroad, but supported the process of detailed analysis to prepare the firm for decision-making. A third character is the decision maker in FEI, where the decisions are only made by his command with minor clarifications in advance for possible negative and positive consequences. A fourth character is given in combination with the *DOM*-variable "social embeddedness", where the entrepreneur from WAN is a leading politician in the Swiss labour party, therefore going abroad does not fit his national ethos. TES is managed by a CEO, who focuses on export behaviour due to their small batch sizes and specialisation, and JAC has a decision maker with a traditional openness in maintaining operations abroad. In SCH, such decisions are made with great hesitation, derived from uncertainty and non-familiarity with the global production shift process.

Financial analysis (*FIN*):

Three firms, CEA, JAC, and TES show financial limitations or even difficulties. The reasons are small series combined with high fixed costs for all three listed firms. Ratings about the critical financial situation are done with “high” for CEA and JAC, whereas rating “medium” applies for TES. The latter firm’s reason for limited financial capabilities is grounded in the short history of the firm. Banks operate with loans where covenants to be fulfilled for young firms do not allow much elbowroom, which means, in fact, strict control. FEI’s profitability is rated “medium”. On the one hand, the firm has high process costs, due to high infrastructure costs of the production equipment and therefore depreciation costs which have to be covered against the margins (rated with “medium”), and on the other hand “high” transportation costs to the geographic location of the customers (metallic parts – weight!). Depreciation of infrastructure and transportation costs does not contribute to a good margin. SCH financial capabilities are rated “medium”, means available financial capabilities for strategic tasks is in the range of CHF 10 million (this data was personally available to the researcher at this time). WAN gives the impression of a financially healthy company, therefore rated with “H”. The reasons may be the high specialisation of the firm in their business domain with a solid customer base. In general, financial figures are almost impossible to obtain, especially for the privately owned firms. This is typical for German or Swiss firms. Insider knowledge in SCH and JAC allows a better description on the financial situation of the firms. It is assumed that the more the cases show the commodity character of their products (CEA, JAC, SCH, and to a certain extent FEI and FRA), the more the globalised cost structures influence negatively the profitability of these firms. The case CEA is significant, where the lowest cost production of power supplies of any kind in Asia, overran manufacturers such as CEA with their high price structures and their low efficiency because of small series. As a consequence, CEA was enforced to give up and to sell its shares.

The low cost production imperative (*IMP*):

The case CEA points to the existence of the low cost production imperative and the shifts done to low cost operation region by supply chain customers in the business domain (manufacturing related) in which the firm was. The world’s dominating firms in power supply manufacturing are Taiwanese companies such as Delta Electronics, Lite-On, and Foxconn.

The academic debate about generalisability is brought back with this case. Maxwell (1992) observes that generalisability is the factor distinguishing quantitative and qualitative research approaches. The ability to generalise findings to a wider group is one of the most common tests of validity, but Patton (2002) states that generalisability is one of the quality case studies depending on the cases selected and analysed. This statement is supported by the statement from Guba and Lincoln (1994) – discussed in an earlier section in this chapter – that single respondent interpretation about the real world is feasible.

With the exception of WAN, as this company seems quite independent of global production influences, as it maintains technological leadership and is in a good financial situation, all the other cases show signs that the low cost production imperative influences the welfare of the firms. CEA is facing “high” customer shifts towards Asia, due to low cost productions of power supplies there. “Medium” price competitions apply in cases such as FRA, JAC, and SCH, together with CEA where price competition is rated “high”. The change of the business model affected FRA badly: the bundling of distribution organisation by their major distributor combined with the vertical integration of suppliers into the distribution lowered the prices significantly and bundled the purchasing power of FRA’s main distributor. It may be assumed that the distribution organisation positioned them better to be cost competitive in a global environment. Imports of competitive products are surprisingly not mentioned as a variable enforced by the low cost production imperative, just FRA mentioned it with the rating “low”. “High” transaction costs are identified by FEI, SCH, and TES, which weakens the competitiveness of the firms in a global perspective. Decision-making in OEMs demands a global footprint and FEI and SCH face that issue. The supplies expected, identical to those from Europe, Asia or the Americas, are taken for granted in the supply business in the value chain to major MNEs. JAC is confronted by high material prices, in comparison with competitors in the Far East, because of the high content of copper and steel in their products, but their purchase power is low because their production quantities are small. This is a significant disadvantage in being competitive in a global economy. JAC faced additional challenges when major MNEs penetrated the region, where it had located, at a later stage, and has failed to develop its subsidiary as an attractive employer as the MNEs increased the salary level in the region and attracted its skilled and efficient workers to join them. SCH faced another issue: one of their key technology suppliers had no interest in participating neither in the

global production system nor in enhancing production capabilities. This bottleneck is rated with importance “high”. SCH had to find its own strategic answer to counter this dilemma. Another disadvantage identified by SCH, were transportation costs rated as “high” which lowered competitive advantages.

Domestic variables (*DOM*):

For WAN, social embed is rated “high”: FRA and JAC are also linked to this variable which is rated as “medium” for them. In FRA’s case, the firm is strongly embedded in the region and since 1934 counts as a stable employer for its residents. JAC is a German company in a region where traditional gun clubs have a long history. Such clubs dominate the social life of the region. The CEO of JAC is an important member of the gun club board in the region where JAC is based. Any changes such as production shifts influence the social life of the decision maker, especially when the decision involves layoffs of local employees. FRA explicitly stated that they follow a regional focus, which means, in their definition, a European focus. WAN and TES confirm that their technological leadership allows them to operate domestically.

Miscellaneous and special (*VAR*):

CEA, a firm, legally and organisationally independently managed, shows a lack of dedicated leadership in change management in following the latest market trends and in avoiding the break-up of the firm. FEI and TES both mention that structured information on the opportunity for going abroad is not a structured process in their firms and is therefore rated with “low”. FEI depends strongly on the autonomous decision-making by the owner where path dependencies i.e. former successes prevent proper analysis of a new situation. TES is an opposite case: the entrepreneur who recently took over the firm accepted the knowledge base and the experience needed for internationalisation was low. Understanding this, the CEO will use a consultant’s services, should the decision for another entry mode be taken. Therefore, the rating is “high”.

Outcome analysis:

In the execution of this research and as discussed in the design research chapter, a purposive sampling applies. The expert status and the similar characteristics of the respondents were in the forefront to limit the variation, to focus, and to maximise core experiences related to the phenomenon. The outcome of the analysis in the influence phase leads back to the statements about the uniqueness of firms (Barney, 1991). Another approach in the strategy for naturalistic approaches is according to Lincoln and Guba (1985), maximum variation sampling. It may be assumed by the researcher that, despite the strategy of purposive sampling with the intent to focus, the uniqueness of the firms create remarkable variations in the outcome. According to this conclusion, the researcher adapted the following logic from maximum variation strategy (Patton, 1990): *Common patterns that emerge from great variation – in this research from the uniqueness of firms - are of particular interest and value in capturing core experiences and trends in the environment of the firms in focus.*

The effects from the low cost production imperative do not have a black and white character or in other words a digital character. The effects are not open and to find the right timing for change is critical. CEA is one case where the management missed the trigger point for change. WAN is at the other end of the scale: the firm seems to be stable due to their technological advantages, and the prices they request, to date, are paid.

Utilising the principle of data reduction, Table 6.11 shows a reduced Table 6.10 just with the variables clustered directly with the phenomenon low cost production imperative. It is remarked that all the cases, except WAN, show at least one variable, which points to the phenomenon of the low cost production imperative. The list appears thus: CEA with “customer proximity”/”high” and “price competition”/”high”; FRA with “change of business model”/”high” to their disadvantage; FEI with “transaction costs”/”high” and demanded “proximity”/”high”; JAC with “decision-making in OEM”/”high” for proximity and global footprint, and “material prices”/”high” against their power of purchase; SCH with “transaction costs”/”high” and “decision-making in OEMs”/”high” as well as a “bottleneck with supplier”/”high” situation against their growth strategy for participating globally; and, finally, TES with “transaction costs”/”high” and “power of competition”/”medium”, due to their high specialisation in the business segment where they have few competitors.

Table 6.11: Data reduction: variables clustered and related to the low cost production imperative

	Own resource availability	Customer proximity / Shifts	Crisis in major business sgmt.	Price competition	Change of business model	Imports / competitive products	Transaction costs	Experiential knowledge	Decision making in OEMs	Historicity	Material prices	Country risk / Trends	Power of competition	Company/Techn. purchase	Bottleneck with supplier	Transport costs	FDI decision	Export behaviour
Coding	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP	IMP		
CEA (8 Routes)																	X	X
																	X	X
	L																X	X
		H															X	X
			H														X	X
				H													X	X
FRA (5 Routes)																	H	H
																	H	H
																	H	H
				M													H	H
FEI (4 Routes)																	M	M
																	M	M
																	M	M
JAC (9 Routes)	L																L	L
																	L	L
																	L	L
																	L	L
																	L	L
																	L	L
																	L	L
																	L	L
SCH (6 Routes)																	M	M
																	M	M
																	M	M
																	M	M
																	M	M
TES (5+1 Routes)	L																	H
																		H
																		H
																		H
																		H
WAN (2+1+1+1 Routes)																		H
																		H
																		H
																		H
	L																	H

Source: The author

The influences of the low cost production imperative on the cases related to their competitive or ownership-specific advantages (Narula and Duning, 2000) are obvious. The aim for the lowest costs reflects the borderless search of customers for best benefits,

identified also in the term “economic globalisation” (Benito, 2002). A similar paradigm seems to apply, which Tahir and Larimo (2004) describe: a company will choose the least cost location for its production activities. The same seems to apply for the participation of firms in supply chains to search for the least cost for products, modules, parts, or services. The researcher’s enhanced framework of Rugman and Verbeke (2001) to position his work seems to find its confirmation in the context. The location advantages described in cells 1 to 6, in turn, exert with their cost and additional effects these various borderless pressures on the case firms, Table 6.11 gives the list. However, the richness of the data found in the interviews affects other even more, as is given in the example of JAC where the variety of real world occurrences is shown. The entrance of a MNE, (in this case Toyota), into the region of JAC’s established subsidiary reshaped the existing cost structures entirely. This is an example of an MNE, whose entrance shaped the regional economic map, as described by Dickens (2003), and is further explained in this research in the consequences for the case JAC.

Economics of scale are cost advantages that a business obtains, due to expansion. They are factors that cause a producer’s average cost per unit to fall as the size of a facility, or scale, increases. It seems that diseconomies of scale exist in certain cases because of the relation between small series and high costs which is not in line with the volume productions, standardisations, and, last, but not least, is caused by the low cost production imperative. This has a direct impact on the financial situation of firms: bottom line in profit lost statement, but also in the access to a greater range of financial instruments and lower-interest charges when borrowing from banks if that is possible.

The findings show that the financial situations of the firms (JAC, SCH, and TES) are tight, and, in retrospect analysis, CEA as well. There is possible vicious circle (CEA!) from which it is difficult to escape, where customer trust, investments into efficient production systems, costly product redesigns, better purchase conditions, and limited bank support may work against the situation.

Table 6.12 lists variables on the x-axis reduced to variables finance, production, and profitability. CEA and JAC show severe financial difficulties related to small batch sizes and related high costs. Cost drivers derive from high material costs, high development costs, and set-up costs. SCH is limited in volume because the bottleneck situation with an

Table 6.12: Data reduction: small series, high costs

	Financial difficulties / Fix costs	Small series / High costs	Price competition	Financial capabilities	Bottleneck with supplier	FDI decision	Export behaviour
Coding	FIN	FIN	IMP	FIN	IMP		
CEA						X	X
8 (Routes)						X	X
	H					X	X
		H				X	X
			H			X	X
						X	X
FRA						X	X
(5 Routes)						H	
						H	
			M			H	
FEI						M	
(4 Routes)						M	
						M	
JAC						L	
(9 Routes)						L	
	H			L		L	
	H	H		L		L	
	H			L		L	
	H		M	L		L	
						L	
SCH					H	L	
(6 Routes)			M	M		H	
			M	M		H	
						H	
			M			H	
TES			M			H	
(5+1 Routes)		H					H
							H
							H
				M			H
WAN							H
(2+1+1+1 Routes)				H			H
							H
							H

Source: The author

important supplier, described earlier in this work. The limitations of TES, among other reasons, also derive from high development costs, due to the complexity of the products for high technology applications and the related small batches due to a limited addressable market volume. In fact, is there a high risk for TES due to competitors, such as Rohde & Schwarz, who may subsidise their domain, where TES is active by accepting lower margins?

Volume productions, at best, costs, are attributes, which can be allocated to the low cost production imperative. The interconnected nature of finance, production, and commodity trade discussed in the developed circuit of cost competitiveness (Figure 2.2) is compliant with the cases under investigation. Statistics on the engagement of SMEs abroad (discussed in chapter 2: “Global trends in economics of location advantages”) prove that only a very low percentage of the firms mentioned act with their own subsidiary abroad (to benefit in competitiveness from lower cost structures).

The data analysis concerning the “influence” phase addresses the research questions in the A-set, in where the preparedness of the firm is requested as well as the opinions, and the cognitive and structural causes related to the imperative and the preparedness.

In the following chapter, the cross-case analysis addresses the B-set questions. The intention is to investigate the firm’s prediction for the outcomes in the decision-making process as well as which variables will be considered to feel confident in making the decision. The consideration of which variables considered in turn allows again conclusions to be drawn about the preparedness and the knowledge base of the firm, as already investigated in research question set A.

6.4.2 Data analysis – Consideration phase

Two functions are used: First, the function “List” “all concepts” (terminology “decision explorer”, otherwise in this research and with Miles and Huberman (1994) labelled as “variables”), which will list all the variables; therefore supports as a control list. Secondly, the dialogue function “explanations” executed with the selection of the radio button “stop at tails“, which lists the explanations from competitive production site backwards to the decision-making of the firm in the phase “consideration” by choosing the edit boxes “from”(competitive production site) in fact backwards to “to” (decision-making). With this approach, all the routes are captured which may derive from different standpoints.

The matrix format used for the phase “consideration” uses the dependent variables as a very qualitatively derived terminology. For example, the variables identified in this phase, in turn, are the predictors named by the respondents for the consequences of the outcome. The cognitive maps order the variables against the dimension of time, whereas in the matrix format, the variables are only listed according to the procedure explained below. To

cover a majority of variables on the x-axis by the first case, a complex map was selected such as the chosen one from SCH. Any new variable, which is not in common with cases already processed, is then listed additionally, enhancing the X-axis. The cases are processed top-down as listed in the matrix in Table 6.13. The matrix format in Table 6.13 lists the routes with the variables (not in a time sequence, but complete in each route) or labelled as predictors in the “consideration” phase from the decision-making standpoint to the construct of a competitive production site abroad.

The outcome-predictor matrix (Table 6.13) is structured by cases where the outcome in the single-case analysis was rated as a “competitive production site”, followed by the less highly rated ones and by the hypothetical continuation of the cases actually focussing on export behaviour. Table 6.14 supports the outcome-predictor matrix with the details on how the host country factors mentioned have been matched by each case.

In an overview, the “outcome-predictor matrix” confirms the individual key aspects the cases follow, in the phase “consideration” (see also phase “introduction”) based on their uniqueness. Condensed commitment in meanings about variables among the cases may be consolidated with the following ones: “Location advantages research” is rated with “medium” by all cases, except “WAN” with “low”. The examination of the local advantages is fairly low, and gives the impression that either ad hoc management (with certain risk) is going to take place or, secondly, that the knowledge base is quite low. The latter leads to a next variable “experiential knowledge” – rated with “medium” (SCH, FEI) and “low” (FRA, JAC, WAN, and CEA) as well as “low” (TES, from Table 6.10), which may be the reason for the medium rated location advantages research, because of lack of important knowledge, relating to experience and the location. A strong unified argument was advanced by five of the seven cases (except JAC and CEA) on the “entry mode” (decision) of preference: a wholly owned foreign enterprise. A correlation exists that the majority of the cases are concerned about what is expressed in the variable “know-how dissemination”; rated as “high” (FRA, TES, and WAN), “medium” (SCH, FEI, JAC), and a lost know-how protection in CEA. The finding about IP protection confirms logically the preferences for WOFEs as discussed earlier with Tang any Yu (1990), Wang et al. (1999), Deng (2001), and Luo (2001).

FEI is concerned about “high” “tax rates”, because of their engagement in Japan. Otherwise, and surprisingly for the researcher, considerations on “*tax rate*” and “*tax incentives*” (see also Table 6.14) have been rated - if rated - with just “medium” and “low”. The only exception was FRA with “*tax incentive*” “high”. The researcher has experience of achieving enormous savings based on tax incentives such as those from the Board of Investment (BOI) of Thailand. On average, tax holidays were achieved for five years per different business domain.

The “*Host country factors*” considered and the “*match host country factors*” to a great extent influence the successful outcome for a production subsidiary abroad. The findings are surprising insofar that the examination by the respondents with the resource worker respectively its quality and performance is considered with quite low to moderate efforts. Low wage costs are a main driver for relocations, as discussed earlier in this work. The “*availability and capability of workers*” (FRA and FEI “high”, JAC and WAN “medium”), the “*efficiency of workers*” (FEI “high” and WAN “M”), the “*loyalty of workers*” (FEI “high” and WAN “M”), and the “*quality behaviour of workers*” (SCH and FRA) are just as important as the wage benefits.

SCH made an excellent approach in combining the parent and, the host country in a coaching system by clever handling of the responsibilities – “*joint resource approach*”. “*Wages*” was only mentioned as a predictor by the cases, which made the shift. Different ratings applied: for FEI (“low”) the proximity to customers was more to the fore, the others rated the importance of the wages as “high” (FRA) and “medium” (SCH and JAC).

The “low” examination identified with the important resource “labour” is confirmed by the examination of the cases with the variables “*communication language*” and “*cultural considerations*”. Just SCH and FRA emphasised with a “high” rated attention. FEI discussed “low” rated considerations with costly consequences in the transition of the expected performance. Language issues rated with “medium” was managed only adequately by the spouse of an FEI employee. “*Communication language*” and “*cultural considerations*” were rated either with “low” and “low”, “medium” and “medium”, or “low” and “medium” by the cases JAC, TES, WAN, and CEA. In the transformation of corporate culture processes and procedures which are not easily adaptable (Dierickx and

Table 6.14: Considered host country factors

	Considered Host Country Factors																		
	Match host country factors	Raw material availability	Raw material reliability for serial deliveries	Material costs	Access for specific low cost parts	Wages	Quality behaviour of workers	Availability and capability of workers	Efficiency of workers	Loyalty of workers	Energy costs	Reduced transportation costs	Specific infrastructure available	Building and land reserves	Tax	Tax incentives	Production costs	Cultural considerations	Languages
SCH	M-H	H	H	H		M	H								M	M			
FRA	H			H		H		H						H		H	H		
FEI	H	H				L		H	H	H		M	H						
JAC	M			M		M		M			M				L	L	M		
TES	L-M	M													L				
WAN	M	M			M			M	M	M						M			
CEA	L-M														M	M		L	L

Source: The author

Cool, 1989), it is assumed that that cultural understanding, adaptation and communication are important. Quality understanding and expectations are concomitants of the language and culture (Kluckhohn, 1951; Hofstede, 1981) and, with these, the correct flow of information as discussed. It is further assumed that the findings show that the psychic distance (Vahlne and Wiedersheim-Paul, 1977) and within this term, defined differences are not proactively bridged to improve the success of the outcome. SCH and FRA are exceptions.

Material considerations are rated “high” by the cases SCH, FRA, and FEI and rated “medium” by JAC, TES and WAN. Material costs concerns are mentioned by SCH, FRA, and JAC, whereas availability is requested by SCH, FEI, TES, and WAN. In SCH’s case, there is a fine difference: the continuous “*raw material reliability for serial deliveries*” is rated as “high” by SCH. This is often a major concern in Asian regions: the materials for qualification processes are perfect, but the serial deliveries lack quality.

“*Global footprint/proximity*” was mentioned by SCH; FEI rated it “high” which means a high demand from the customers, JAC rated it as “low”, and it is assumed that JAC and CEA have both not fulfilled their customer demand.

The clustering approach to structure the explanations concerning the outcome-predictor matrixes (Tables 6.13 and 6.14) found commonalities: there was an aggregation of the same variables identified, by the clusters: “*location advantages research*” with “*host country factors*”; “*experiential knowledge*”; “*entry mode*”; “*know-how dissemination*”; “*tax rates*” and “*tax incentives*”; a low examination of the resource labour; “*communication language*” and “*cultural considerations*”; material considerations; and finally “*global footprint/proximity*”.

In the following paragraphs, a selection of case specific variables is listed. These are mentioned only by one or by a few cases. It is assumed that the variables have a unique importance for each case.

“Country risk” is only assessed by SCH, FRA, and TES. This is an important factor to be assessed and one which is perhaps considered more by MNEs, than by SMEs, in minimising risks in countries where there may be political or social instability. Nevertheless, consequences for both types of companies will be similar. In a recent discussion (December 2nd, 2009) with Emil Strickler, the CEO of the ESG Group, located in Singapore, he said: “***Bosch Australia is allocating more production load to the ESG Group to produce for them in Vietnam, due to their country risk valuation on China. The purchase volume from China exceeded 50% of the entire purchase volume of Bosch Australia. Internal rules regulate that, in such a case, it is mandatory to move to other low cost operation countries to minimise the country risk***”.

“Accessibility” is rated as with “high” by SCH, FRA, and JAC. The reason behind this is control, but there are also issues such as travel cost, time requested for travelling, transportation costs and easy access to goods dispatching hubs.

“Regional longitudinal development” is rated as “high” by FEI owing to the considerable investments they have to maintain for production purposes, which are related to engineers,

operators, infrastructure, and machinery. JAC rated it as “high”, because, as discussed earlier, they did not consider regional development before MNEs entered and began to change the region by offering better conditions for labour resources. JAC also rated governmental support as “low” because it was non-existent. The other cases did not mention this important variable. Allowances, export licences, taxation and employment regulations may be influenced by closely working together with the local authorities.

The CEO of TES is the only respondent concerned about the workload in the implementation phase, and about the aspects of communication related to the strategic orientations, the commitment of the parent employees is supporting the task, and the commitment from the host subsidiary to and working behaviour. Details are described in the narrative of the single-case analysis of TES.

In the cross-case comparison, only FRA expressed concern about going abroad, because of uncertainty. The variable “*risk minimisation*” represents FRA’s concern. There is clear strategic orientation by the same firm in regarding their geographic focus – inhibited in variable “*decision which host country*”.

6.4.3 Data analysis – Retrospective phase

The retrospective analysis (see Table 6.15) confirms to the accumulation of experiential knowledge (Eriksson et al., 1997) by the respondents. The aim in the cross-case analysis for the retrospective phase attempts to identify common patterns among the cases. An obvious one is listed with the variable “*integration of local elements*”, mentioned by the cases FRA, FEI, and JAC. FEI is identified as one case, which suffered significantly from lack of preparedness. Similar variables are mentioned by this case firm, such as “*market intelligence*”, “*preparedness for Asian behaviours*” and from another case (CEA) in the search for training sessions to prepare better for Asian behaviours with variable “*seminars for parent managers*”.

JAC in their retrospect analysis experienced the negative side of joint ventures. Therefore, in the recommendation, the respondent clearly expressed his favour for entry mode WOFE, in agreement with the cases SCH, FRA, FEI, and TES. WAN was of the same opinion.

Table 6.15: Retrospect analysis: respondents recommendations

	Respondents recommendations (Retrospect)															
		Integration of local elements	Market intelligence	Preparation for Asian behaviours	Consultancy	Regions longitudinal development	Provisions	Quality	Communication / Language	Greenfield	Ad hoc decisions	Increased travelling for control purposes	Trend analysis	Seminars for parent managers	Communication tools	Accessibility
SCH	NA															
FRA		X														
FEI		X	X	X	X											
JAC		X			X	X	X	X	X							
TES	NA															
WAN										X	X					
CEA					X							X	X	X	X	

Source: The author

6.5 Summary (Findings of the exploratory case studies)

This chapter has reported the findings with aim to achieve a holistic view on the decision-making process of the firms in focus. The methods applied are qualitative influence diagrams in combination with matrix format as repertory grids (Easterby-Smith et al., 2008) to analyse and to order the findings. Behavioural specificity is important. The active interview process in which the researcher was the instrument (Patton, 2002) and insider helped to achieve trust and identification with the meaning of the respondent’s words. In addition, in the respondent validation, a careful consideration of the ratings the respondent wanted to use to position the variables on the entire construct of their decision-making was undertaken. The main objective in this chapter was to obtain empirical settings to carry out the research effectively. The aim in the framework and in the forefront of this research was to answer the research questions, which were indicated in sections of this chapter. First of all, the A- and B-set research questions on the “explanation” phase and the “prediction” phase were posed, whereas the C-set question “execution” phase needs to be answered in summary of the final conclusions. The inductive data analysis approach confirmed the

variety and complexity of real world settings in combination with individual human beings. Sometimes the researcher felt that the analysis of data would reveal high variation for the purposive sampling related to the phenomenon, despite the strong character of the respondents and the firms. There was some relaxation as a result of the uniqueness of the firms (Barney, 1991). Common patterns which emerge from great variation are the particular interest and value in capturing core experiences and trends in the environment of firms (Patton, 1990). The display of matrix data leads to the next chapter, where the matrix format is to link triangulation to the methods.

7. TRIANGULATION

7.1 Introduction

Triangulation of qualitative data is a form of comparative analysis (Patton, 1990). In this dissertation, the triangulation of interview data is to cross check the information derived from the responses. In addition to checking the consistency of the evidence, it is also aimed at the identification of possible gaps within the strategic decision-making in combination with the location-specific variables of the FDI process before, during and after the execution of the process. The combination of multiple observers with the phenomenon supports the researcher's best efforts to overcome single-observer intrinsic bias (Denzin, 1970). The researcher as the instrument in this qualitative research is in his executive life confronted with the phenomenon daily as already discussed in a former chapter. It is assumed that his steady involvement with the phenomenon establishes his credibility as an investigator with limited bias regarding misinterpretation. In addition to the seven cases investigated and the seven cases explored in the triangulation process, various other discussions were held with companies such as Reinhardt (August, 2009), RHe (September, 2009), Vipon (December, 2009), and OCE (March, 2010). These companies are relocating or have relocated a part of their production to low operation cost countries. A common theme in the discussions is the focus on efficiency seeking especially in the search for low labour costs to stay cost competitive. In March 2010, the researcher himself, together with his board of directors, decided, to shift a production entity entirely from Switzerland to Romania, a low cost operation country.

The various examples in this dissertation show the deep involvement of the researcher with the phenomenon, which leads to discussion on the researcher's credibility. The thread running through this discussion is on the importance of intellectual rigor and professional integrity (Patton, 1990). With the intangibles, creativity, intellectual rigor, perseverance and insight investigations this research went beyond the routine application of scientific procedures. It is evident that in the investigations on the variables considered by the case firms, the researcher did not indicate nor mention, from his perspective, those which were missing or not addressed so that the findings would not be influenced. In the development of the questionnaire to triangulate the findings, there was a difference: he utilised his knowledge and the knowledge which was gathered recently from representatives of the firms mentioned above. In fact, there are no simple formulas or clear-cut rules on how to

do a credible, high quality analysis (Patton, 1990). Triangulation in this dissertation is used as a comparative analysis in a true sense, as cited from Patton in the first sentence of this chapter. The questionnaire is enclosed in annex B.

Moreover, the researcher would refer again to Crotty's (1998) statement that all meaningful reality is construed in the interaction between human beings and their world. Therefore, the question arises, "What is true"? The idea that what is true depends on one's perspective, and is, therefore, inherently definitional, situational, internal, and is associated with phenomenology. Qualitative data tend to make the most sense to people who are comfortable with the idea of generating multiple perspectives rather than absolute truth. Tolerance for ambiguity seems to be associated with comfort in dealing with perspective rather than expecting absolute certainty and truth (Patton, 1990). Kvale (1987) uses, in a practical approach to concerns about objectivity and truth, the term "pragmatic validation". Pragmatic validation means that the perspective presented is judged by its relevance and use by those to whom it is presented. Perhaps, a basic point is that triangulation is not so much a tactic as a way of life (Miles and Huberman, 1994). The use of multiple sources and by hearing multiple instances is a way to get to the findings.

7.2 Interview purpose to triangulate the findings

Within the same method as previously discussed, the researcher developed for the purpose of triangulation of the findings a structured interview with pre-coded answers for the majority of questions. Some of the questions allow open answers for the purpose of gathering specific insights to keep possibilities open: the use of offered incentive utilised by the respondent is an example.

During the period of writing this dissertation, a relationship to the seven respondents was built up. All of them have operated a manufacturing plant in a low cost operation country for at least three years. After various discussions with the respondents during visits or telephone conversations, the interview was sent out to each of them in March 2009. At the beginning of the questionnaire a scenario is described which aims to position the respondents into the strategic decision-making process for a FDI. The aim is to gain inside knowledge of these respondents' consideration by reviewing their experience of such a

complex process. The focus was to triangulate the findings specifically to find answers to the research questions in regard of preparedness, considered components, and prediction for the outcome.

In addition, it was expected that, with the triangulation process, a comparison of the knowledge base of the firms in the decision-making process for a FDI and the knowledge base of responsible and experienced managers executing the FDI would be possible.

7.3 Respondents for triangulation

Table 7.1 gives a detailed overview on the industry, the interviewee's position, the low cost operation country, and how long the respondent has been in charge of plant operation. The scenario includes the direction to focus on efficiency seeking (and not on market seeking) which is in line with the FDI motive in focus in this dissertation. The respondents were asked to answer the questionnaire within fourteen days by e-mail exchange which they all did. In summary, the respondents were prepared individually by the author about the aim of the dissertation and about the "why" for their contribution.

Table 7.1: Case firms and interviewee's position in the firms

Person	Industry	Interviewee's Position	Country / Place	Since
BEBR	Electronics	MD / Plant Manager	Thailand / Lamphun	1989
EDHA	Industry	MD / Plant Manager	China / Pudong	2004
EMST	Electronics/Tools	CEO / Plant Manager	Singapore	1974
PEBU	Electronics	MD / Plant Manager	Vietnam / Anam	1993
MAAN	Electronics	Plant Manager	Indonesia / Battam	2006
COPO	Electronics	Plant Manager	Romania / Arad	2006
MOLA	Electronics	Plant Manager	Hungary / Kecskemet	2003

Source: The author

To gain answers from plant managers in different low cost operation countries, the best possible geographic spread was desired. This would allow conclusions to be drawn about commonalities and trend recognition, but would perhaps also identify a unique quality in these countries with similar cost structures. Therefore, a selection of five Asian countries,

China, Indonesia, Thailand, Singapore and Vietnam, and two European countries, Hungary and Romania, was made. At the beginning of the decision-making process, the decision to choose a specific country may not be definite.

7.4 Triangulation details

The following main topics were addressed with a set of detailed questions. The questions related to “labour“, to “culture”, to “soft infrastructure factors”, to “hard infrastructure factors”, to “infrastructure factors for spouse, children etc.”, to “politics”, to “value chain”, to “IT considerations”, to “headquarters”. Finally, the respondents’ opinions regarding the major barriers for a greenfield approach, were ranked.

The detailed findings in each of the following sections are qualitatively described: the majority of respondents find the result of the question “not important” or “important”, or the consideration as important “to no extent” or “to a very high extent”. The search for identicalness is in the foreground as well as the exploration for a widespread of the answer to specific questions.

7.4.1 Triangulation “labour”

Table 7.2 gives an overview on how the respondents rated the questions from “not important” to “very important”. It can be summarised that, by trend, the importance of labour is reflected with answers in the majority starting with “important” to “very important”. Only answers from questions 9 and 12 indicate that “English skills of workers?” and that “worker lending organisation available?” tend to be “not important” or with two exceptions (MAAN and MOLA) “less important”. Otherwise, the opening question on “access to low wage workers?” is rated as “very important”, with one surprising exception, (PEBU). Consequently, the following five questions “competitive lowest costs?”, “trained low wage workers available?”, “capabilities of works versus costs?”, “loyalty of workers?”, and “efficiency of workers?” show a rating similar to the first question with a trend that, in the context, an efficient realisation of the work is expected and therefore rated by the majority as “important” to “very important”. “Speed of workers?” and “industrial trained workers?” these two qualities of workers tend to be “important” for the respondents but with one exception (MOLA, “industrial trained

workers?") "not very important". The question about the "availability of technicians / supervisors?" achieved a very high consensus as "very important" among the respondents. The experience of the responding plant managers shows here that one key for successful performance is that workers have to be supervised in reasonably groups to achieve the industrial results demanded. Many of the workers in China, and Thailand, and also in Hungary are farmers who achieve an additional income with their work in the industry. Therefore supervision is of utmost importance to train them to the precision necessary for industrial production.

The question about the "ratio of handwork versus automation?" is a very important one because of how the plant is to be handled in times of low but also high workload. With the exception of EDHA, two of the respondents (BEBR and EMST) value the ratio as "very important", the others at least as "important" and higher. It concerns the adaptation of the number of workers to the workload. When the workload is low, for example, they can be released back to their farms and hired back again, if available, in times of high workload. Often firms struggle with a highly automated infrastructure due to high depreciation costs in times of crisis. Therefore, it is important to discuss the issue about the "ratio of handwork versus automation" especially in regions with workers available at low labour costs.

The answers given by the respondents regarding labour do not identify a significant difference between the low cost labour regions of Eastern Europe and Asia. A slight tendency can be identified in that the respondents from Eastern European countries have higher expectations of their workers related to their skills, reflected in the questions 3, 4, 5, 6, and 7. In addition, it is obvious that both representatives from Eastern Europe rate the "availability of technicians/supervisors?" as "very important".

The respondents confirm the importance of gaining access to low wage workers which results in low labour costs as previously discussed. With triangulating "labour", evidence is given that, in the decision-making process of the case firms, some of them (e.g. FEI and JAC) did not pay enough attention to the characteristics of available workers. In another case, (FRA), much attention was given in harmonising the future joint tasks between the subsidiary and the parent company. The next section complements the discussion on

Table 7.2: Triangulation “labour” (Source: The author)

Labour		1 = not important / 7 = very important						
		1	2	3	4	5	6	7
1 Access to low wage workers	BEBR							•
	EDHA						•	•
	EMST							•
	PEBU			•				
	MAAN						•	
	COPO							•
2 Competitive lowest cost wages	MOLA							•
	BEBR					•		
	EDHA					•		
	EMST							•
	PEBU			•				
	MAAN						•	
3 Trained low wage workers available (area)	COPO				•			
	MOLA					•		
	BEBR						•	
	EDHA							•
	EMST				•			
	PEBU			•				
4 Capabilities of workers versus costs	MAAN				•			
	COPO						•	
	MOLA							•
	BEBR				•			
	EDHA						•	
	EMST					•		
5 Loyalty of workers	PEBU					•		
	MAAN			•				
	COPO					•		
	MOLA						•	
	BEBR					•		
	EDHA					•		
6 Efficency of workers	EMST							•
	PEBU			•				•
	MAAN					•		
	COPO						•	
	MOLA							•
	BEBR					•		
7 Speed of workers	EDHA		•		•			
	EMST				•			
	PEBU			•				
	MAAN					•		
	COPO						•	
	MOLA							•
8 Industrial trained workers	BEBR			•				
	EDHA						•	
	EMST				•			
	PEBU		•					
	MAAN			•				
	COPO						•	
9 English skills of workers	MOLA			•				•
	BEBR				•			
	EDHA	•						
	EMST			•				
	PEBU	•						
	MAAN			•				
10 Availability of technicians / supervisors	COPO				•			
	MOLA						•	
	BEBR							•
	EDHA						•	
	EMST					•		
	PEBU						•	
11 Ratio of handwork versus automation	MAAN					•		
	COPO						•	
	MOLA							•
	BEBR							•
	EDHA		•					
	EMST							•
12 Worker lending organisation available (third party hiring)	PEBU	•			•			
	MAAN						•	
	COPO	•						
	MOLA							•
	BEBR			•				
	EDHA		•		•			

this importance resource “labour” with discussions on the influence of culture for the outcome of the complex process of FDI.

7.4.2 Triangulation “culture”

The basic question in that section was: Has existent culture (heritage) an influence in your decision-making process for a greenfield approach (see Table 7.3)? The aim was not to discuss single cultural behaviours, but rather that in the decision-making process, the

Table 7.3: Triangulation “culture”

Culture		1 = to no extent / = to a very high extent							
		1	2	3	4	5	6	7	
1	Do you consider cultural differences as important?	BEBR						•	
		EDHA						•	
		EMST	•						
		PEBU			•				
		MAAN				•			
		COPO							•
		MOLA						•	
2	Does culture influence production efficiency?	BEBR					•		
		EDHA					•		
		EMST	•						
		PEBU					•		
		MAAN						•	
		COPO							•
		MOLA			•				
3	Are cultural differences cost related?	BEBR				•			
		EDHA			•				
		EMST	•						
		PEBU				•			
		MAAN				•			
		COPO						•	
		MOLA		•					
4	Is quality influenced by cultural heritage?	BEBR						•	
		EDHA						•	
		EMST				•			
		PEBU				•			
		MAAN					•		
		COPO						•	
		MOLA						•	
5	Contribute language skills to production efficiency?	BEBR					•		
		EDHA		•					
		EMST			•				
		PEBU			•				
		MAAN			•				
		COPO				•			
		MOLA				•			
6	Does culture influence your production infrastructure?	BEBR			•				
		EDHA	•						
		EMST				•			
		PEBU				•			
		MAAN					•		
		COPO		•					
		MOLA		•					

Source: The author

culture which predominates at the preferred location is judged by its relevance as described under the term pragmatic validation (Kvale, 1987). EMST, who has, by far, the longest

experience of plant operation abroad, shows a slightly different valuation in comparison with the other respondents. For EMST culture has “to no extent” an influence in “importance”, in “efficiency”, in “costs”, and in “production infrastructure”. The majority of the other respondents report that “culture” has an influence “to a high extent” in the decision-making process. Five of the seven respondents are also convinced that culture related to heritage influences production efficiency significantly up “to a very high extent” with one nomination for the last rating. On the cost influences related to culture, the trend in the answers is more “to a lesser extent”. On the question that quality is influenced by cultural heritage, the answers suggest that it is to “a high extent”. Language skills based on cultural heritage “to a lesser extent” do take responsibility for production efficiency. There is a similar picture for the last question on cultural influence on the production infrastructure: only MAAN answered this question with “to a higher extent”. MAAN operates in a Muslim country and therefore it is mandatory that in the infrastructure a small mosque be provided.

7.4.3 Triangulation “soft infrastructure factors”

Under the term “soft infrastructure factors” (see Table 7.4) themes such as tax, tax incentives, labour laws, etc. are gathered together, in contrast to the next section where “hard infrastructure factors” such as airports, roads, energy supplies etc. are discussed.

The rating of the questions by the respondents resulted in a significant difference from the author’s personnel rating based on his experience in his executive life. Surprisingly thoughts in the decision-making process regarding tax and tax systems are rated with a tendency higher than “to a normal extent”. In fact, the results are in line with the considerations made by the case firms. The author’s opinion is that tax and tax systems should be given more attention. A similar but more widespread, answer with a rating that tends to slightly “above normal” is given to the question on the consideration of tax incentives. The respondents from China (EDHA) and from Thailand (BEBR) and Hungary (MOLA) rate the importance of tax incentives higher because of the various incentive systems in place in their host countries. BEBR made use of seven tax incentive projects (BOI projects) were four out of the seven have already expired. EDHA mentioned that by establishing a new subsidiary a number of year’s tax holidays is up for negotiations. COPO answered that he used tax holidays for reinvested earnings until the end of 2009.

Table 7.4: Triangulation “soft infrastructure factors”

"Soft" infrastructure factors		1 = to no extent / = to a very high extent						
		1	2	3	4	5	6	7
1 Tax / Tax system?	BEBR			•				
	EDHA						•	
	EMST				•			
	PEBU				•			
	MAAN				•			
	COPO					•		
2 How do you consider tax incentive?	MOLA						•	
	BEBR						•	
	EDHA						•	
	EMST					•		
	PEBU				•			
	MAAN			•				
3 Are labour laws considered?	COPO			•				
	MOLA			•				
	BEBR					•		
	EDHA			•				
	EMST							•
	PEBU					•		
4 General governmental framework?	MAAN							•
	COPO						•	
	MOLA						•	
	BEBR						•	
	EDHA				•			
	EMST				•			
5 Are weekly working hours considered?	PEBU					•		
	MAAN						•	
	COPO						•	
	MOLA					•		
	BEBR				•			
	EDHA			•				
6 Are obligations considered, such as nurse, etc?	EMST			•				
	PEBU		•					
	MAAN			•				
	COPO					•		
	MOLA					•		
	BEBR		•					
7 Are social fees considered?	EDHA					•		
	EMST					•		
	PEBU			•				
	MAAN						•	
	COPO						•	
	MOLA					•		
8 Others:	BEBR							
	EDHA							
	EMST							
	PEBU							
	MAAN							
	COPO						•	
9 Others:	MOLA							
	BEBR							
	EDHA							
	EMST							
	PEBU							
	MAAN							
Union frame and power	COPO						•	
	MOLA							

Source: The author

Significant tax saving may be achieved by using incentives such as tax holidays for a defined period. (The author has detailed experiences with the BOI system of Thailand). There are interesting answers for the question “Are labour laws considered?”.

The question about the framework provided by government is considered as “to a normal extent”. BEBR from Thailand pay much attention to a conjoint relationship with government. Working hours are considered as well “to a slightly higher extent” than “normal”. Other obligations are considered “to a lesser extent”, whereas social fees are considered as “to a higher extent” except by BEBR and by PEBU. Under other soft factors, the respondent COPO from Romania emphasised the importance of “custom formalities” and also “union power” which was considered as “to a high extent”.

Much is identified in the “soft infrastructures” section of the triangulation: some important features such as “tax” or “tax incentives”, “labour laws”, “governmental framework”, and “weekly working hours” were not given detailed attention by the case firms. All of these mentioned may contribute significantly to the financial result of the subsidiary.

7.4.4 Triangulation of “hard infrastructure factors”

To what extent is public infrastructure considered in the decision-making process as well as to what extent are resources available such as energy and water (see Table 7.5). EDHA from China give some surprising answers by considering that “public infrastructure”, “energy availability”, and “low pollution” as “to a low extent”. In China, especially in fast growing regions, the energy supplies often are insufficient and therefore splits among firms including Saturday and Sunday work are frequent. (The author experienced this in Pudong from 2005 to 2007). It can be summarised that public infrastructure, especially transport infrastructure, is considered with “to a normal extent” towards a “higher extent”. Energy availability, except in the example already discussed, is rated with “to a high extent” by the respondents PEBU, MAAN, and MOLA as well as “to a very high extent” by the respondents BEBR, EMST, and COPO. In comparison with the case firms, where energy is only discussed in relation to costs and therefore suggests that energy availability is given, the experiences here show the opposite and therefore emphasise its importance in the decision-making process. The availability of usable water, a natural resource, is considered

as by the majority of respondents as “to a higher extent”. Two respondents show opposite opinions, EDHA from China who rated the availability of water “to a very high extent”,

Table 7.5: Triangulation “hard infrastructure factors”

"Hard" infrastructure factors		1 = to no extent / = to a very high extent							
		1	2	3	4	5	6	7	
1	Is public infrastructure (airports, railways) considered?	BEBR				•			
		EDHA		•					
		EMST				•			
		PEBU							•
		MAAN				•			
		COPO						•	
		MOLA						•	•
2	Are transport infrastructures considered?	BEBR							•
		EDHA				•			
		EMST					•		
		PEBU						•	
		MAAN						•	
		COPO							•
		MOLA							•
3	Energy availability (enough)?	BEBR							•
		EDHA		•					
		EMST							•
		PEBU						•	
		MAAN						•	
		COPO							•
		MOLA						•	
4	Water availability (enough?)	BEBR					•		
		EDHA				•			•
		EMST				•			
		PEBU		•					
		MAAN					•		
		COPO						•	
		MOLA						•	
5	Low traffic?	BEBR				•			
		EDHA			•				
		EMST				•			
		PEBU				•			
		MAAN				•			
		COPO					•		
		MOLA				•			
6	Low pollution?	BEBR		•					
		EDHA		•					
		EMST			•				
		PEBU				•			
		MAAN				•			
		COPO					•		
		MOLA					•		
7	Closeness to universities?	BEBR						•	
		EDHA							•
		EMST	•						
		PEBU				•			
		MAAN		•					
		COPO						•	
		MOLA				•			

Source: The author

whereas PEBU from Vietnam considered water “to a minor extent”. The water contamination in China is of public concern. A further two questions “low traffic?” and “low pollution?” are rated “to a normal extent” by the respondents in a decision-making process. Answer to the question “closeness to universities”, were it is suggested that the personnel’s closeness to university may place a role, were widespread.

7.4.5 Triangulation of “infrastructure factors”

In Table 7.6, “infrastructure factors” the questions were raised with regard to the consideration of spouses and children in the decision-making. In isolated regions where there are the lowest wage costs, the task of convincing a capable plant manager to live there should not be underestimated. The case firms did not indicate the importance of technicians and supervisors under “labour” was rated “to a high extent”, the triangulation of this topic showed on average, that it was considered “to a normal extent” in the decision-making process. “International schools/Universities accessible?” was given higher attention by respondents BEBR, EDHA, and MOLA, whereas “shopping facilities?” and “sports and cultural facilities?” resulted as “to a normal extent”. “Life science: e.g. Hospitals, etc.?” was given more consideration than “job opportunities for spouse?” and “quality of living?”. PEBU added two additional points to be considered: the “proximity of living quarters for employees” and the “availability of public transports” to be considered “to a normal up to a higher extent”.

The business decision makers do not often have this topic in mind. A manager’s decision to maintain a plant in a remote region is often made under the influence of a spouse and by the situation of the family.

Table 7.6: Triangulation “infrastructure factors”

Infrastructure factors		1 = to no extent / = to a very high extent							
		1	2	3	4	5	6	7	
1	International schools/Universities accessible?	BEBR						•	
		EDHA						•	
		EMST				•			
		PEBU			•				
		MAAN				•			
		COPO		•					
2	Shopping facilities?	MOLA						•	
		BEBR			•				
		EDHA				•			
		EMST				•			
		PEBU	•						
		MAAN				•			
3	Sports and cultural facilities?	COPO			•				
		MOLA				•			
		BEBR			•				
		EDHA				•			
		EMST		•					
		PEBU	•						
4	Life science: e.g. hospitals, etc.	MAAN				•			
		COPO			•				
		MOLA				•			
		BEBR						•	
		EDHA					•		
		EMST				•			
5	Job opportunities for spouse?	PEBU				•			
		MAAN				•			
		COPO			•				
		MOLA				•			
		BEBR		•					
		EDHA		•					
6	Quality of living?	EMST		•					
		PEBU			•				
		MAAN				•			
		COPO					•		
		MOLA				•			
		BEBR					•		
7	Others: Proximity of living quarters for employees	EDHA							
		EMST							
		PEBU					•		
		MAAN							
		COPO							
		MOLA				•			
8	Others: Availability of public transports	BEBR							
		EDHA							
		EMST							
		PEBU				•			
		MAAN							
		COPO							
		MOLA							

Source: The author

7.4.6 Triangulation “politics”

More importance in the decision-making process (see Table 7.7) is devoted to topics under the label “politics”. Compared to the case firms, the experienced respondents value the impact of the “country risk?” “to a high extent” or even, with two nomination, “to a highest

Table 7.7: Triangulation “politics”

Politics		1 = to no extent / = to a very great extent							
		1	2	3	4	5	6	7	
1	Country risk?	BEBR						•	
		EDHA							•
		EMST					•		
		PEBU						•	
		MAAN						•	
		COPO					•		
2	Political stability?	MOLA							•
		BEBR							•
		EDHA						•	
		EMST				•			
		PEBU						•	
		MAAN						•	
3	Investment friendly attitudes (e.g. working permits)?	COPO				•			
		MOLA							•
		BEBR				•			
		EDHA						•	
		EMST							•
		PEBU				•			
4	dedicated support by local government?	MAAN					•		
		COPO					•		
		MOLA						•	
		BEBR					•		
		EDHA					•		
		EMST					•		
5	Other incentives than tax, e.g. industrial buildings?	PEBU		•					
		MAAN						•	
		COPO						•	
		MOLA						•	
		BEBR						•	
		EDHA						•	
6	Political restrictions, e.g. material deliveries, etc.	EMST				•			
		PEBU						•	
		MAAN						•	
		COPO						•	
		MOLA						•	
		BEBR							•
7	Society at large / Non-governmental organisations?	EDHA		•					
		EMST			•				
		PEBU				•			
		MAAN					•		
		COPO						•	
		MOLA							•

Source: The author

extent”! “Political stability?” is given a similar weighting to “investment friendly attitudes?”. The case firms gave less attention to these factors, despite JAC’s bad experience. “Dedicated support by local government?” had a rating slightly higher than “to

a normal extent". The explanation by Emil Strickler, in a former chapter, on the tremendous support given by the Singaporean government in the 1970s should be remembered. "Other incentives than tax e.g. industrial buildings?" received similar attention in the decision-making process from the respondents as did governmental support. Regarding operations, the next question on "political restrictions, e.g. material, deliveries, etc.?" achieved "high" and "to a very great extent". A multiplicity of restrictions do exists, based on various reasons, which may be political or technological or logistical or a combination of these. Finally, "society at large" received less attention than "to a normal extent". This topic "politics" is a very interesting one, particularly when the decision-making process is concerned with a long term significant investment engagement.

7.4.7 Triangulation "value chain"

The supportive value chain to enable manufacturing is, of course, essential for cost efficiency. In an overview of the topic "value chain" (see Table 7.8), the following two questions, "access to raw material?" and "quality culture of local suppliers?" received the highest importance ratings from the respondents from the other questions. Both factors are mandatory to enable the production at the desired quality level and at the desired cost level. The "access to semi finished products?" may depend on the nature of the manufacturing process. As for the questions "access to supporting industries?" and "cluster structures in your business domain?" the first question of the two received higher attention by the respondents with the trend "to a normal up to a higher extent", with the exception of PEBU. The discussion on the cluster structure shows, by trend, attention "to a lesser up to a normal attention" with the exception of the respondent MOLA from Hungary with his answer "to a high extent". The question "easy transport access for suppliers?" achieved higher attention. The reason may perhaps lie in the transport cost structures and time issues. Surprisingly, only PEBU mentioned "to a lesser extent". "Tax rules for raw-, semi-, and finished supplies?" had by trend higher considerations, except from EDHA (China). The final question about "bonded warehouse?" is answered with "to a high extent" by the respondents from Thailand (BEBR) and Singapore (EMST) who practice the bonded warehouse for third party manufacturing. The others answered from "to a normal extent" with "to no extent".

Table 7.8: Triangulation “value chain”

Value chain		1 = to no extent / = to a very high extent						
		1	2	3	4	5	6	7
1 Access to raw material?	BEBR							•
	EDHA				•			•
	EMST				•			
	PEBU						•	
	MAAN						•	
	COPO					•		
	MOLA						•	
2 Local availability of supporting materials?	BEBR						•	
	EDHA							•
	EMST				•			
	PEBU				•			
	MAAN						•	
	COPO						•	
	MOLA						•	
3 Access to semi finished products?	BEBR				•			
	EDHA						•	
	EMST		•					
	PEBU		•					
	MAAN				•			
	COPO						•	
	MOLA						•	
4 Access to supporting industries?	BEBR				•			
	EDHA					•		
	EMST						•	
	PEBU		•					
	MAAN					•		
	COPO				•			
	MOLA						•	
5 Cluster structures in your business domain?	BEBR			•				
	EDHA		•					
	EMST				•			
	PEBU				•			
	MAAN				•			
	COPO		•					
	MOLA						•	
6 Easy transport access for suppliers?	BEBR						•	
	EDHA					•		
	EMST				•			
	PEBU		•					
	MAAN						•	
	COPO						•	
	MOLA						•	
7 Quality culture of local suppliers?	BEBR							•
	EDHA						•	
	EMST						•	
	PEBU						•	
	MAAN					•		
	COPO					•		
	MOLA							•
8 Tax rules for raw, semi-, and finished supplies?	BEBR					•		
	EDHA		•					
	EMST				•			
	PEBU				•			
	MAAN						•	
	COPO							•
	MOLA						•	
9 Bonded warehouse?	BEBR						•	
	EDHA		•					
	EMST						•	
	PEBU	•						
	MAAN				•			
	COPO	•						
	MOLA				•			

Source: The author

7.4.8 Triangulation “IT considerations”

Connectivity, and, with it, the implementation of new technology, particularly the information and computer technologies, belongs to the enablers of the development of the liberalisation of domestic and international markets, as this dissertation discussed earlier. It is not surprising that the questions “availability of IT structures?” and “availability of IT skilled employees?” resulted in this consideration being rated with “to a normal up to highest” attention (see Table 7.9). Much is linked with this connectivity such as the stock list, quality procedures, and supplier lists. The importance of IT considerations was not expressed by the case firms. BEBR from Thailand mentioned, in addition with “to highest extent”, the proper “availability of network connections”. The reasons are the daily check of the situation of the orders to optimise production planning (and to anticipate pitfalls) and also the continuing available bandwidth for communications. In isolated regions, this is sometimes not available. MAAN mention the importance of “good ERP support and implementation “to high extent”, because of similar reasons.

Table 7.9: Triangulation “IT considerations”

IT considerations		1 = to no extent / = to a very high extent							
		1	2	3	4	5	6	7	
1	Availability of IT structure?	BEBR						•	
		EDHA						•	
		EMST							•
		PEBU				•			
		MAAN						•	
		COPO							•
2	Availability of IT skilled employees?	MOLA							•
		BEBR						•	
		EDHA				•			
		EMST					•		
		PEBU				•			
		MAAN						•	
3	Others: Availability of network connections	COPO							•
		MOLA						•	
		BEBR							•
		EDHA							
		EMST							
		PEBU							
Good ERP support / implementation	MAAN						•		
	COPO								
	MOLA								

Source: The author

7.4.9 Triangulation “link to headquarters”

Perhaps, in this topic, “link to headquarters” (see Table 7.10) the autonomy-procedural justice framework discussed by Taggart (1999) plays a role. The framework characterises the affiliates with militant, partner, vassal, and collaborator. EDHA’s answers to the questions give the impression of a militant subsidiary, which tends to be highly locally responsive and it is clearly correlated with its level of decision-making authority. The other respondents see the “relatedness/connectness to headquarters?” and “easy access by headquarters representative?” as important “to a normal up to highest extent”. The “infrastructure closeness to headquarters?” is rated with “to high” to “highest extent” by the respondents BEBR, COPO, and MOLA.

Table 7.10: Triangulation “link to headquarters”

Link to headquarters		1 = to no extent / = to a very high extent							
		1	2	3	4	5	6	7	
1	Relatedness/connectness to headquarters?	BEBR							•
		EDHA	•						
		EMST				•			
		PEBU				•			
		MAAN					•		
		COPO							•
2	Easy access by headquarters representative?	MOLA						•	
		BEBR					•		
		EDHA	•						
		EMST				•			
		PEBU				•			
		MAAN					•		
3	Infrastructure closeness to headquarters?	COPO						•	
		MOLA						•	
		BEBR							•
		EDHA	•						
		EMST				•			
		PEBU		•					
4	Geographic diversification?	MAAN				•			
		COPO				•			
		MOLA						•	
		BEBR				•			
		EDHA							•
		EMST				•			
5	Others:	PEBU		•					
		MAAN				•			
		COPO					•		
		MOLA						•	
		BEBR							•
		EDHA							
Strong corporate governance set-up	EMST								
	PEBU								
	MAAN						•		
		COPO							
		MOLA							

Source: The author

Perhaps the reasons here are maybe the benefits experienced by the respondents with a complete integration of the ERP system between headquarters and subsidiary. EMST and MAAN rated the importance “to a normal extent”, whereas PEBU from Vietnam answered “to a lesser extent”. The latter’s experiences are based on managing a system which is not integrated with ERP. The importance for “geographic diversification?” is answered by the majority with “to a normal extent” to “highest extent” which underlines the demand for a global footprint by firms in a globalised production system, discussed earlier in this dissertation. MAAN mentioned the importance of a “strong corporate governance set-up”.

7.4.10 Five major barriers to a greenfield approach

At the end of the questionnaire, the respondents were asked about their opinion regarding the ranking of the five major barriers to a successful greenfield approach and the reasons for this.

BEER, an experienced plant manager, ranked (1) access to low wage workers, (2) access to transport infrastructure, (3) availability of energy, (4) political stability, and (5) access to raw materials. He emphasised the labour work force was the principal resource. On time delivery guaranteed by a working transport infrastructure is mandatory; otherwise, a greenfield approach would fail. He mentioned adequate energy availability as the second principal resource as mandatory; otherwise, product quality and delivery of products would become unpredictable. Political instability leads to turmoil and, in this opinion, would negatively influence the availability and costs of all basic resources (work force, energy, transport, and raw materials). Without adequate raw material availability of raw materials, product quality and quantity, as well as targeted cost structures for deliveries to customers, would be at risk and would, therefore, not support a greenfield process.

EDHA emphasised the learning curve at location more and the prevailing lack of understanding from headquarters. He stated without becoming more precise, “It does not work as in Switzerland”. Thirdly and finally, he mentioned the difficulties in identifying a suitable supplier base. It needs time and knowledge to develop the supplier base and, with it, working behaviours and common expectations.

EMST only pointed to the barriers of bureaucracy, corruption, and proper legal systems in place, which were often lacking.

PEBU did not answer these final questions.

MAAN identified the following five points: (1) identification of trusted project leaders and plant managers, (2) hidden costs, (3) understanding of investment criteria and investment processes, (4) ability to recover investments/capital/dividends, and (5) customer acceptance for location. Once more, trusted project leaders are mandatory were essential as already confirmed in the questionnaire under the topic “labour”. His experiences identified business behaviours prone to corruption, which also relates to the hidden costs. If such circumstances are dealt with in the wrong way, this may delay or hinder a successful greenfield approach. He also indicated that if those trying to establish a greenfield operation lack the information necessary, a country expert would be required. Finally, some customers may not care for their products to be produced in certain countries for various reasons, such as the country’s image or IP protection or quality perception.

COPO’s ranking reads as follows: (1) finding appropriate personnel, (2) understanding of culture, (3) company infrastructure, (4) local laws and regulations and (5) communication. He emphasises the importance for good trained people necessary for the start-up to implement the processes and to create structures. Furthermore, the ability to be aware of the local culture and to understand it, and for business behaviour to correspond with it, is essential. If not, major challenges, which relate to deadlines, or commitment or responsibilities, may arise. The identification for the right location with the appropriate “hard infrastructure” in certain areas may be challenging. Building a new site may demand detailed knowledge of the application of rules and regulations, accompanied by detailed knowledge of the local laws which are to be observed How to register a company, how to hire the personnel, combined with the reports necessary issued by various governmental institutions, may require an external consultant if an internal one is not available. Finally, COPO pointed out how possible misunderstandings could arise, because of different language interpretations and lower communication skills of the people involved.

MOLA as the final respondent defined his ranking as follows: (1) well skilled workers, (2) tax stability, (3) corruption, (4) foreign exchange rates, and (5) wage cost increases. As other respondents did, MOLA also points to the importance of the availability of highly skilled workers as a basis for successful operations. He complained of the second barrier: every year, in the country where he was located, a new tax law was passed which carried the risk of not remaining cost competitive. MOLA is the third respondent who mentioned corruption as an important barrier, and he pointed out the importance of official statistics and the country's ranking. Foreign exchange rate was a further factor influencing competitiveness and, finally, increasing labour costs. Most probably, in this case, this was related to the approximation of the country to EC standards.

7.5 Summary (Triangulation)

With this comparative analysis of the findings, the richness of occurrences and detail for an FDI process is strongly emphasised. Not only is the respondents' insight and knowledge explored, but also gaps have identified what may be lacking in the decision-making process for inexperienced decision makers. Findings are triangulated to find the answers to the research questions. The theory of pragmatic validation (Kvale, 1987) applies in that relevance and use is judged by those who may use it.

8. CONCLUSIONS

8.1 The main findings

The main purpose of this dissertation was to empirically explore the notion of the ‘low cost production imperative’; and to investigate the implications and consequences of the low cost production imperative for internationalisation decision-making. The understanding of this work was accumulated by studying the internal situation qualitatively: the very holistic view of the sample firms, with the focus on decision-making as well as the external situation, i.e. the environmental drivers responsible for the situation in which the sample firms are. The process was carried out with the eventual aim of generating theory and producing insights into the strategic management practice of the firms in focus and their related position to uncertainty, predictability, and preparedness for the outcome of their decision-making related to the phenomenon. The methodological conduct of this inquiry was framed within the qualitative paradigm, as the intention was to allow for a much better understanding of the various issues of interest expressed by respondents with practical experiences and therefore with a well defined focus (Mintzberg, 1979). The research design involved multiple case firms selected for the purpose of comparative analysis and for gathering perspectives from extreme cases (Pettigrew, 1988; Eisenhardt, 1989) weight the evidence of the outcome in a positive, but also in a negative sense (Miles and Hubermann, 1994).

An “optimal” behaviour is suggested by the idea that a firm moves from its current location to a new one when it is no longer inside the spatial margins to profitability (Brouwer et al., 2004). The research questions addressed the challenges for the firms in focus, which do not have an international orientation for their operations from inception. Consequently, the researched phenomenon as a major globalisation effect in economics (global cost competitiveness) contributes the firm’s increased home market imperfection by lowering their margins.

The results of the findings imply that the preparedness of the firms in focus, based on their actual knowledge and experiences, does not allow them a sound and comprehensive preparation by themselves alone for launching a competitive production site abroad successfully from the beginning. Consequences may be additional costs, delivery delays, quality issues, customer penalties, and reputation damages.

The entrepreneur's influence is remarkable with regard to how, in what manner and in what timeframe the following is done: how the decision-making is made; secondly, how the risk is assessed; thirdly, how the time for the process is influenced; and, finally, what the personal reasons are for going abroad or not. The findings contribute to the under researched chapter in literature about cognitions underpinning internationalisation decisions addressed by Acedo and Jones (2007). The findings confirm the strong influence by the entrepreneur in the process of decision-making is also related to the entrepreneur's view of internationalisation. The result supports the suggestion by Acedo and Jones (2007) that the incorporation of the entrepreneur's behaviour in academic internationalisation literature is perhaps of importance. This is confirmed by detailed findings, such as the political patriotic engagement of one entrepreneur, the very risk adverse approach by another, or the overruling decision-making based on path dependencies by a third.

In the chapter "Global trends in economics of location advantages", the importance of the labour costs factor among the other location advantage factors has been highlighted by referring to statistics but also by up to date cost comparisons with executives operating in low cost operations areas.

The findings address Tahir and Larimo's (2004) belief that determinants of FDI rarely combine location-specific variables with the strategic motivations of the investing firm. The strategic motivation is given by the decreasing margins and by the impact of the low cost production imperative on the firms in focus. A structured approach to identify the important location-specific variable has not been discovered in most of the cases. Uncertainty was overruled, in some cases, by ad hoc decisions. The importance and the impact of location specific variables, as well as the number of possible location specific variables have been identified in the triangulation process. The gap is identified with how little is known and how little attention is dedicated to these variables. It is noted that the triangulation was executed in the same paradigm (Barbour, 1998) and construed in the same social context (Crotty, 1998).

None of the case firms referred to standard procedures which may exist in theory or in practice. The case firms have not used academic literature to begin, such as Dunning's (1979) eclectic paradigm. Nor has a standard process from practice been identified: in

some cases, consultants' help has been sought and applied. This dissertation contributes to closing gaps by combining FDI determinants in relation to a strategically important motive in combination with location-specific variables. The importance of the findings is underlined with continuous economic globalisation. The search for the lowest costs by customers (Benito, 2002) will continue as economic globalisation acts as a powerful equaliser, both among nations and among firms (Ernst and Ravenhill, 1999), which may further increase cost competition.

The questions in the A-set of research questions are (A1) *what are the existing opinions, and the cognitive and structural standpoints, related to the imperative in the case firms?* and (A2) *how do the case firms assess their preparedness to conduct a foreign direct investment?*

These questions represent the "explanation phase" in the structure of the research questions, as explained in chapter one. The results imply that the firms in focus do not use or identify any references to how they can measure their preparedness related to the decision to maintain an FDI to counter the phenomenon. The limited readiness may be explained in the analysis of the position of the firm: internal resources do not comply with the requirements to maintain a FDI easily. The complexity of the task is not identified by the firms. The knowledge base and their daily orientation, which includes timing aspects, limit them in capturing the scope of the undertaking. Perhaps, the gradual influence of the phenomenon's effects on the firms is responsible for assessing their preparation and structure, which is best described as half-hearted or displaced by operational daily business challenges or by organisational inertia, and it is also responsible for their failure to launch a strategy to analyse the opportunity which FDI would have for them. Some of the firms' analysed show limited financial capabilities which are, perhaps, effects from the phenomenon. These shrinking financial capabilities are distinguished by the classic financial limitation SMEs have, which is discussed and summarised by O'Gorman and McTiernan (2000). The phenomenon may limit necessary margins to stem costs described under the term "liability of foreignness" (Zaheer, 1995; Lu and Beamish, 2001).

Dow and Larimo (2009) cite recent authors (e.g. Stottinger and Schlegelmilch, 1998; Evans and Mavondo, 2002; Sousa and Bradley, 2006) who have proposed revised

definitions of psychic distance. Their key argument is that psychic distance should be measured, as it is perceived, by the individual person. The decision makers have already been discussed, but also any other individual who is possibly involved in the FDI process is addressed. Dow and Larimo (2009) discuss the issue of conceptualisation of international experience. They draw a distinction between general (i.e. non-culture-specific) international experience and culture-specific international experience, where, in their opinion, the latter is a substantially stronger predictor variable. Results in this research show that the preparedness of the firms considers culture-specific features influencing the success of the outcome positively. Furthermore, since the low cost production imperative demands significant cost reductions to be cost competitive, this means that the labour cost analysis, done in chapter two, tends to show that countries with a significantly different culture from OECD countries provide these cost advantages.

The second set (B-set) of research questions analysed (B1) *how do the case firms make predictions regarding the outcome and effects of the foreign direct investment decision?* and (B2) *what factors are considered by the case firms regarding the foreign direct investment decision?*

These questions were answered in chapter 6, which described the combination of the knowledge base from which firms identify location-specific variables triggered by the strategic motive low cost production imperative. The triangulation of the findings, where the respondents utilised location-specific findings over the years, identified the gap in such a way that the prediction for the outcome is vague. The reason is that the framework for success is not executed in a structured manner, adapted to the needs of each firm. The advantage of a wider range of location specific advantages and their value to the firm is not systematically identified. The trend is to underestimate the consideration of cultural attributes and their implications. In some of the cases (triangulation cases), experiences related to cultural differences are expressed. Culture may have a greater impact for success, which is supported by the results of triangulation, and cultural heritage can influence performance and location decisions. Dow and Larimo (2009) discuss the problem of measuring perceived distance as a summary construct and, in essence, they conclude (2009, p.78): “A summary construct approach may provide a statistically stronger predictor variable, but researchers are not necessarily better informed as to why the person made the

decision". Distance is a multidimensional construct as has been suggested for more than three decades (Johanson and Wiedersheim-Paul, 1975; Boyacigiller, 1990; Shenkar 2001). Dow and Larimo (2009) discuss the difficulties in measuring actual perceptions of distance. Benefits and limitations are opposed such as infrequency, predictability when decisions are made, and the measurement of post hoc experiences of managers influencing their perceptions. The low cost production imperative is used as a trigger for the decision-making process of the respondents to measure their perception of distance in form what do the decision makers consider in their perception as important variables. To minimise concerns about influencing perceptions related to post hoc experienced discussed by Dow and Larimo (2009, p.78) has been foreseen in the research design which has also been the findings with other respondents to eliminate respondents prior and post causality concerns.

The prediction of the outcome for the firms in focus is difficult. The knowledge and information on location specific factors and their variety is limited by the firms in focus. According to Johanson and Wiedersheim-Paul (1975, p.308) differences in culture, language, religion, education, politics, and industrial development may "disturb the flow between firm and market". Deeper and comprehensive knowledge about these differences do not exist in the case firms. Using the nomenclature from Dow and Larimo (2009, p.76) the results show that "national cultural distance", "language distance", "institutional distance", and "other forms of distance" are analysed and differently implemented in the execution of the FDI entry mode process by the firms under investigation. The result of this research emphasises despite the firms, limited knowledge about psychic distance stimuli, the perceived psychic distance is individual for each firm. Consequently, in the implementation of the decision, cultural variables are weighted differently in importance for the individual firm as the results show.

The results confirm suggestions from Buckley et al. (2007) in their research "Do managers behave the way theory suggest?" that "the effect of experience may make managerial decision-making more 'rational' from the point of view of firm's best interest" (p.1072) or "the fact that more experience managers do indeed make different decisions" (p. 1085).

The results further identified that beside the psychic distance, changes in the development of the location may have significant influence post-entry on the cost structures, and in

some cases, even negatively for certain firms. It is assumed that smaller firms may be less able to react by re-locating again because of the complexity and costs involved.

Finally, the third set (C-set) of research questions was (C1) *how is the decision made in the case firms?* and (C2) *what are the arguments for the decision in the case firms?*

The decisive role of the entrepreneur in the execution phase has been discussed in this section. The variety of view points in the firms reflects the real world in the arguments on how the decision is made – or not. It is obvious that only a minority of the cases analysed resist cost pressures with their unique selling propositions at the current time. It may be assumed that economic globalisation will continue to build up competitive pressures on such firms, due to cross-border interdependence and integration of markets (Benito, 2002). The cases used in the triangulation underline the decision-making executed in favour of a FDI to optimise costs and to be competitive. According to statistics (Bassen et al., 2001; ENSR, 2003) these are still in a minority. The total of cases (except the cases with unique selling propositions) deliver strong evidence that on the one hand, a FDI for the firms in focus is an argument to stay cost competitive in a globalised production world, and on the other hand that the effects of the low cost production imperative reached the firms in focus. The dynamic dimension is explained with the circuit of cost competitiveness (derived from Dicken's basic circuit of cost competitiveness, 2003). The positioning work is done with the use of the six cell framework (Rugman and Verbeke, 2001), where the causes from the context in the six cells deliver the effects for the firms in focus allocated to the cells which the author has enhanced. Finally, the stimulus for the topic of this dissertation, described in chapter one, should not be forgotten.

The globalised production system is identified as a changing environment with increasing market imperfection for the firms in focus, which allows them to consider FDI as a strategic option. How the decision is made is illustrated by the unique firm's behaviour, which ranges from ignorance of the changing environment, reliance on unique selling propositions, and ad hoc decision-making towards a structured process, including third party opinions. The result underlines firms' individual perception of the changing environment and their different modus operandi which confirms their uniqueness (Barney,

1991). This may be similar to the individual perception of distance (e.g. Dow and Larimo, 2009).

8.2 Academic contribution

The research contributes to the literature on the internationalisation and strategic decision-making by SMEs related to the phenomenon low cost production imperative. In focus are the economic perspectives on location advantages for the purposively chosen group of firms, where efficiency seeking by production relocation may be the solution to stay cost competitive. The research offers a comprehensive understanding for the entry mode FDI in combination with the firms' knowledge base, important location-specific variables, and an enforcing strategic motive. In similar set-ups, such combinations are identified as a rare combination (Tahir and Larimo, 2004) as previously discussed, but are less related to the low cost production imperative. To position the work in academic literature, the framework on the classification of international economics perspectives on location advantages by Rugman and Verbeke (2001) is used and enhanced by two cells pertaining to the low cost production imperative (Figure 3.2). For the sake of completeness, the context interpreted in the original six cells represents the cause with the effects on the unit firm in the enhanced cells.

The researcher therefore distinguishes the internationalisation and strategic decision-making approach by the firms with a *free will* and opportunity seeking approach. In other words, the low cost production imperative basically does not allow a *free will* approach to stay cost competitive, which may be simply explained: economic globalisation acts as an equalizer among firms as previously discussed. The firms in focus affected by the effects of the low cost production imperative do not have a *free will* and opportunity seeking approach in their attitudes for internationalising production with a FDI. In Table 3.2, internationalisation theories from MNEs and SMEs are listed and allocated to *free will* and opportunity seeking. Nothing is black and white in complex real life situations; time factors may play a role as well. It is assumed that *free will* and opportunity seeking may be diluted in situations where, for example, MNEs have to match competitors for market position. SMEs provide another example: at the time academic writing was concerned with the stage models, the barriers against internationalisation were higher. In matching other

firms or to overcome barriers to internationalisation, the *free will* dominated the decision-making. A *free will* is also assumed by the born globals (Table 3.2) who have an international mindset from inception.

A major contribution to academic findings is those effects discussed in internationalisation theory and those effects from the economics of location advantages in circular force firms who have a domestic orientation in considering the economics of low cost location advantages with the focus on FDI. The process of FDI is affected negatively where is no *free will* approach. This does not tend to support uncertainty, preparedness, and prediction for the outcome. The longitudinal tendency that market imperfections for the firms will continue is highlighted with the circuit of cost competitiveness, discussed.

In section 4.3, further aspects entailing the low cost production imperative are listed and their differences to existing internationalisation, foreign direct investments theories and prevailing assumptions are explained.

An academic contribution is also made in the more holistic analysis of each firm's internationalisation behaviour, which is dependent on each firm's characteristics and management. This also means a contribution to recent theory that no single established model explains the success of small firms (Etemad and Wright, 1999) and that factors, such as the entrepreneur, are seen to be important when considering the process of a firm's internationalisation (Acedo and Jones, 2007). In the same vein, Buckley et al. (2007), the choice of actual foreign direct investments appears less aligned to traditional models and that many empirical examinations of foreign direct investment location choice have relied of the use of secondary data. The findings also contribute to Buckley's et al. (2007, p. 1070) question: "We do not know to what extent the choices (location!) are idiosyncratic to the firm or managers are making them"? Some cases indicate that the final decision is highly idiosyncratic, and subject to biases that they might not be aware of themselves when making those decisions. The research has analysed in a holistic manner the decision-making process in which insights are drawn from a variety of theories such as stage theory, transaction cost theory, entry mode theory, decision-making theory, psychic distance theory, and implementation theory.

In the view of this dissertation, a further contribution belongs to the dismantling process, whereby SMEs and MNEs internationalisation theories operate in largely separated realms (Etemad and Wright, 1999). Explanations therefore have been that local markets become integral parts of global markets, and that the various FDI aspects tend to apply for both types of firms.

Overall, this research concluded that internationalisation was a multidimensional process and, at the same time, uncovered significant gaps in the literature with regards to the latest developments in the internationalisation theory of smaller to larger firms focusing on the causes and effects from the economics of location advantages. Causes originating in the economics of location advantages are discussed within the units country, industry, and firm, and are identified as the phenomenon of the low cost production imperative, with effects for the majority of producing firms in focus. Strategic decision-making in the firms mentioned on FDI as the solution to stay cost competitive, differ from their view of domestically oriented operations. The low cost production imperative also contributes to the suggestion by Jones and Dimitratos (2004) that firms may follow much more complex patterns involving entry modes and countries. The variety of reasons mirrored in the cases of why firms internationalise their operations may reflect or not reflect how many more reasons may exist, which can not be explained in a simplified model. Principal academic contributions are summarised in Table 8.1.

Table 8.1: Academic contributions (Source: The author)

Academic contributions

The low cost production imperative...

- ...itself as a force and switchover point in a globalised production system
- ...basically does not allow a *free will* approach to stay cost competitive, which may be simply explained: economic globalisation acts as an equalizer among firms as previously discussed
- ...gives timing aspects different time patterns than these ones in stage models
- ...reached SMEs, which, from inception do not belong to International New Ventures (INVs)
- ...dismantled the different competitive spaces between MNEs and SMEs, whereas FDI aspects apply now for both types of enterprises
- ...contributes to the suggestion by Jones and Dimitratos (2004) that firms may follow much more complex patterns involving entry modes and countries
- ...contributes to recent theory that no single established model explains the success of small firms (Etemad and Wright, 1999) and that factors, such as the entrepreneur, are seen to be important when considering the process of a firm's internationalisation (Acedo and Jones, 2007)
- The research contributes to a comprehensive understanding for the entry mode FDI in combination with the firms' knowledge base, important location-specific variables, and an enforcing strategic motive.
- To position the work in academic literature, the framework on the classification of international economics perspectives on location advantages by Rugman and Verbeke (2001) is used and enhanced by two cells. The context interpreted in the origin six cells represents the cause with the effects on the unit firm in the enhanced cells.
- A major contribution to academic findings is those effects discussed in internationalisation theory and those effects from the economics of location advantages in circular force firms who have a domestic orientation in considering the economics of low cost location advantages with the focus on FDI.

8.3 Managerial contribution

The managerial contribution of this research is evident. It is assumed that the global production system will increase the ratio in favour for FDIs among types of market entries. Statistically, still a very low percentage of small to middle in size firms use the strategic option of a FDI. The statistics listed from Bassen et al. (2001) and ENSR (2003) show the evidence. This huge potential was used to fill the gaps in academic perspectives but also this potential for managerial considerations is approached, based on the continuation of the trends combined with the low percentages of the firms in focus using FDI.

Larimo (1995) remarked the increased use and importance of FDIs. Thus, the topic is of importance for analysing different origins and strategic natures, such as the low cost production imperative as the strategic nature in this dissertation. A major contribution to managerial consideration is that, despite the focus for domestic operations, the trends related to the globalised production system and its effects such as changing cost structures have to be observed carefully by each single management of a firm. The comparative or location-specific advantages or disadvantages of countries may also change rapidly also in the interplay with competitive or ownership-specific advantages of the firms.

The qualitative nature of the research, research design, and methodologies considered individual standpoints, cognitions, and structures influencing the decision-making process and also it assessed trustworthiness and authenticity. This is in line with Guba and Lincoln's (1994) statement that a single respondent interpretation is feasible and that more than one absolute truth exists. In summary, the managerial contribution is based on fourteen cases where pre-, post-, and extreme cases were methodically investigated by active interviewing of respondents with "expert" status by a researcher who had "insider" status and where the findings were reviewed with the respondents and triangulated. The research is, therefore, worthy of trust. The success of the outcome is analysed in taking into account what kind of factors have been considered and under what circumstances the decision for a FDI was made. The triangulation process highlighted in detail which local factors are of importance for success and, therefore, are to be integrated into the decision process. The suitability of the present research for managerial value is that it offers a more

nuanced understanding of the complexity of the process of maintaining FDI and maintaining it successfully.

The research findings allow the reduction of uncertainty and the opportunity to increase preparedness in a structured manner. This supports the decision-making process significantly, which is common when the origin of the firms is considered. It should not be forgotten that the stimulus for this dissertation came from its author's executive life as he was for localisation assistance by various firms from his business environment. With the contributions to academia and practice, a special application of the general theory of internationalisation is examined, which is, according to Buckley and Casson (1985) more predictive and testable. This, in turn, contributes much to theory and to application. The principal managerial contributions are listed in an overview in Table 8.2.

Table 8.2: Principal managerial contributions (Source: The author)

Managerial Contributions

General situation

- the low cost production imperative is identified as an external force to consider FDI
- just a low percentage of small to medium sized firms use FDI as a strategic option
- the trend towards a globalised production system continues
- FDI is confirmed as a complex social process
- a rich variety of location factors to be considered in general but also individually by the investing firm
- the preparedness of the case firms for the FDI process to a distant or culturally distant market is insufficient
- the knowledge base about location factors such as cultural implication is very low in the time of decision-making
- ad hoc FDI decisions offer significant disadvantages in the execution phase

Reduction of uncertainty

- the findings offer a more nuanced understanding of the complexity of the process of maintaining FDI successfully
- the findings show temporal interdependencies of variables and which ones to be considered as important for a successful outcome
- a broad range of important variables are offered in the findings ready to be considered by firms

Recommendation

- changing cost structures due to the low cost production imperative have to be observed carefully by each single management
- integration of local elements and behaviours is elementary for success
- the comparative or location-specific advantages or disadvantages of countries may change rapidly also in the interplay with competitive or ownership-specific advantages of the firms
- diseconomies of scale aggravate the competitiveness because of the relation between small series and high costs, which is not in line with the volume productions, standardisations, which is caused by the low cost production imperative
- the trend in favour of greenfield approach or a 100% takeover is underlined by the cases; reason are the control of strategic directions and IP

The research findings allow the reduction of uncertainty and the opportunity to increase preparedness in a structured manner.

8.4 Methodological contributions

An important methodological contribution has been made in the combination of applied methodologies and modus operandi so that a rich and holistic insight into the phenomenon could be achieved. Mental processes are always present in decision-making, and individual perception is an influential determinant when it comes to the decision.

The communication approach with “expert” respondents on the highest managerial levels combined with the use of the researcher as an “insider” instrument (Patton, 2002) contributed much to the understanding of what the individual respondent meant. In addition, the aim for the highest authenticity and trustworthiness was supported by the review of the findings and, later, in the triangulation of the findings in the same paradigm with additional “expert” respondents.

The pre-, post-, and extreme case construct allowed the framing of the decision-making process, which was also constructed in phases *explanation*, *prediction*, and *execution* in the research questions. Great importance was attached to the outcome, which is of essence for the implementation theorists (Goggin et al., 1990; Winter, 1990; Hasenfeld and Brock, 1991) as well as, of course, for the practitioners.

As already stated, the essence of methodological contributions in this research lies in the combination of applications where the cognitive mapping of the findings contributed a good deal. The one-page review process with the respondents surprised them. The display of the variables mentioned, their relatedness embedded in a temporal dimension where these causal relationships cannot be observed directly pleased the decision makers in its simplicity, in the ease of discussion, and in consideration of the outcome or result.

The entire design and methodology in the dissertation is dedicated to qualitative research in which the holistic depictions of the realities showed the variety of variables to be considered and the individual “expert” judgements were considered. Main contributions are summarised in Table 8.3.

Table 8.3: Methodological contributions: The essence lies in the combination of applications (Source: The author)

Methodological contributions
<ul style="list-style-type: none"> ● use of primary data; applied in combination of methodologies and modus operandi ● qualitative research; use of "highly contextualised judgements" (Van Maanen, 1998); means in this research "expert respondents" ● use of the researcher as an "insider" instrument (Patton, 2002) ● application of active interviewing in the communication approach (Holstein and Gubrium, 2004) ● the aim for the highest authenticity and trustworthiness supported by the review of the findings and, later, in the triangulation of the findings in the same paradigm with additional "expert" respondents ● the pre-, post-, and extreme cases construct allowed the framing of the decision-making process, which was also constructed in phases explanation, prediction, and execution in the research questions ● importance attached to the outcome, which is of essence for the implementation theorists (Goggin et al., 1990; Winter, 1990; Hasenfeld and Brock, 1991) as well as, of course, for the practitioners ● cognitive mapping of the findings; one page review process

8.5 The limitations of the study

Following its exploratory orientation and its subsequent research design, the findings may have limitations to the extent to which they can be applied to a wider population. However, the intention of the research was to generate a substantive understanding of the phenomenon's influence on the firms in focus and a holistic view on the decision-making process with purposive samples of respondents' expertise.

One limitation relates to the fact that the interviews were done with cases from two German speaking OECD countries. A refinement following the expert approach integrating specific business segments or only firms from one country may have relevance in the accentuation of the variables and therefore may hamper their relevance and applicability. The results may be not strictly applicable to other OECD countries of geographic location, where other national tendencies and temporal trends prevail. Otherwise, the experience

construct in the triangulation process refers to the experiences of managers located in China, Thailand, Singapore, Indonesia, Vietnam, Hungary and Rumania.

The results were achieved with manufacturing firms and any application of the results to service firms needs to be done with caution.

A further limitation relates to the fact that the decision-making process could have been underlined by a deeper psychological analysis of the decision makers. Concerns why the character of the respondent has not been included are manifold. The interview process, the preparation, and the bias of realities would have been different, and would have gone beyond the scope of a dissertation into a complexity with a different time schedule, a different number of cases and with the addition of various different theories to be considered.

The readiness to answer the personnel questions in relation to success or failure would also have been limited. With the discussion on path dependencies of some of the entrepreneurs, some events in the past which may have influenced the actual entrepreneur's mindset have been addressed.

Despite the preceding limitations, it is assumed that the general effects discussed with the phenomenon low cost production imperative stays the same for firms in focus in OECD countries. This is an era, as the statistics underline, at the beginning. The cross border effects are described in this dissertation also named as today's globalised production system in which the results achieved with respect to international experience and trends are robust.

8.6 Future research avenues

The research generated new research questions for future research. Evidence is given from literature, statistics, and practitioners' proof that the search for the lowest costs (Benito, 2002) is continuous. Liberalisation of many domestic and international markets (Narula and Dunning, 2000) allows a borderless global cost competition in which the firms of interest in this dissertation were involved. It is assumed that the firms described will

become more and more involved in cost competitiveness when they are confronted with competing products produced in different markets and which will be offered to their customers and offered in their own domestic markets. Recent publications indicate this trend, for example, the first study about FDI from Iceland (Oladottir, 2009), or the study about firms from Taiwan and the impact of global configuration in terms of entry timing, entry location, and completeness of value chain activities (Hsu and Chen, 2009). The actuality of growing cost competitiveness in domestic markets arising from low-cost countries is discussed by Kaufmann and Koerte (2010), underlining the growing interest in this topic.

More research is needed from the perspective that the trend is towards production where the best local costs and local conditions are offered in relation to the strategic options of the firms in focus. Neighbouring countries seldom qualify themselves for FDI because of similar cost structures, so that they may remain competitive domestically and internationally. Table 2.2 shows labour cost differences between OECD countries and countries with lowest labour costs. As a conclusion, more research needs to be done in regard of cultural distance (e.g. Vahlne and Wiedersheim-Paul, 1975) and cultural influences related to phenomenon such as the low cost production imperative. The findings from triangulation identified evidence that differences in working behaviour exist. This is perhaps the direction addressed by Buckley and Casson (1985) on special applications of internationalisation theory, which is, and needs to be, more predictable and testable.

More longitudinal case studies are needed in order to obtain a more comprehensive understanding of how and in what way the value of unique selling propositions protect the margin of a domestically operating firm in the global landscape. The recent financial crises (2008 onwards) forced case firms such as WAN and TES, (purely domestic operations defending their position with their unique selling propositions), to layoff significant numbers of employees for the first time in their history. Reduced demand is a major reason, but it may also be the first signs of the global cost competition for the firms mentioned, e.g. compensation products etc.

More research is needed on how the firms addressed can achieve an internal readiness to maintain entry mode operations by considering their daily operations and the time spent

upon them and also achieving a stage of readiness fit for successful international operations by efficient use of their financial capabilities. In line with the argument of Buckley et al. (2007, p.1087) that “the domain of management decision-making is an underutilised domain in which to discover, validate and test existing and new international business theories and phenomena”. Growing interest is found in recent studies about understanding decisions to internationalise by SMEs located in an emerging market (Fabian et al., 2009), or, about organising foreign market activities: From entry mode choice to configuration decisions (Asmussen et al., 2009).

A proposal for the future would be to extend the analysis to other key strategic decisions other than focussing solely on FDI. Other forms of investment to be analysed might be greenfield or acquisitions.

Finally, latest developments in China highlight the seriousness to discuss all aspects of the low cost production imperative and its further development. The quick succession of nine suicide cases in Hon Hai factories is unusual and puts the firm under scrutiny by its customers (The Wall Street Journal, Thursday, May 27th, 2010). Immediate reaction is a salary increase by 70%, beginning October 2010, for the Hon Hai workers (Internet: <http://bluewin.ch>, accessed 10:59, June 7th, 2010). The role of the government is an interesting one in setting and manipulating the wage rates. Interestingly, at the same time 1’800 workers in the Honda factory in Foshan (China) have gone on strike, demanding higher wages (Financial Times, Friday, May 28th, 2010).

8.7 Chapter summary (Conclusions)

This chapter summarised the main findings and contributions of this thesis in the light of existing literature. Various implications for practitioners are discussed, based on the findings. In the context, the limitations of the study are highlighted and are ended by proposing directions for further research. Based on the results and the author’s daily practical experience, a new chapter is addressed in which the firms described have to comply with an advancing globalised production system.

ANNEX A

Questionnaire

Roland Küpfer / University of Glasgow

Date:

Name:

Given Name:

Position:

Company:

Active Interview:

Time 1.5 – 2.5 hours

I assure that all information will be kept strictly confidential and will only be used for the purpose of this project. Thank you very much for your support.

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Questionnaire / "Open ended" structure / Production Shifts Company: Name / Position: Date: Place: Number of Employees:

Pre-Entry Learning

1) Have you already realised a production shift to a low cost operation country? Shift realised: Shift planned: Shift not yet considered: (Discussion about) (Target country):
2) What have been the reasons for the decision (for a production shift)?
3) When and where was this?

4) Your personnel involvement in regard of the process?

5) How have you approached the decision?

6) What kind of information was sought, where did it come from?

7) How was it used in the decision making and/or implementation process?

8) Time constraints in regard of the decision?

9) What kind of host country factors have you considered?

10) In retrospect, have you matched these factors? (Preparedness, Assessment)

11) What have you learned from the process and what would you recommend other firms to do?

12) Further remarks / Special Events/Hurdles/Experiences

Organisational Inertia, Resource Based View (RBV), Dynamic Capabilities

A) What have been the major hurdles you/the company had to overcome internally?

B) Will you/Have you realise/realised the shift with your own (scarce) resources? Why or why not?

C) Have you undertaken any special tasks to achieve highest rents and efficiency out of your resources?

D) What kind of processes will you(have you) change(d), now with the shifts?

E) Entry mode – what is the source for the entry mode decision?

ANNEX B

LOCATION ADVANTAGES USED BY A FIRM

Roland Küpfer / University of Glasgow

Dear

Name: **Given Name:**

Position:

Company:

Responsible for the firms since:

In my research, I am analysing what kind of variables have to be considered by SMEs (Small and Medium sized Enterprises) to be successful in establishing and continuing a firm in a low cost operation area.

Your valuable feedback is very important to me and I would greatly appreciate if you could complete this questionnaire latest by **December 10th, 2009**.

The questionnaire will need approximately 45 minutes.

I assure that all information will be kept strictly confidential and will only be used for the purpose of this project. Thank you very much for your support.

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Scenario:

Based on your sound experience in managing a firm/subsidiary in a low production cost region, how would you value following questions in a decision-making process to establish a new plant (greenfield) in such an area. The focus shall be on efficiency seeking and not on market seeking.

Focus "labour":

How do you rate the importance of following factors related to labour?

1 = Not important 7 = Very important

		1	2	3	4	5	6	7
1	Access to low wage workers?							
2	Competitive lowest cost wages?							
3	Trained low wage workers available (in the region)?							
4	Capabilities of workers versus costs?							
5	Loyalty of workers?							
6	Efficiency of workers?							
7	Speed of workers?							
8	Industrial trained workers?							
9	English skills of workers?							
10	Availability of technicians / supervisors?							
11	Ratio of handwork versus automation?							
12	Worker lending organisation available (third party hiring)?							

Focus "culture":

How do you consider existent culture(s) (heritage(s)) in your decision-making process for a greenfield approach?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Do you consider cultural differences as important?							
2	Does culture influence production efficiency?							
3	Are cultural differences cost related?							
4	Is quality influenced by cultural heritage?							
5	Contribute language skills to production efficiency?							
6	Does culture influence your production infrastructure?							

Focus “soft infrastructure factors” such as tax, labour, and regulations:

To what extent “soft infrastructure factors” do you consider as important in your decision-making process?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Tax / Tax - system?							
2	How do you consider tax incentives?							
3	Are labour laws considered?							
4	General governmental frameworks?							
5	Are weekly working hours considered?							
6	Are obligations considered, such as nurse, etc?							
7	Are social fees considered?							
8	Others:							
9	Others:							

Do you apply actually tax incentives such as e.g. BOI (Board of Investments / Thailand), tax holidays, etc?

If yes, which ones:

- 1)
- 2)
- 3)

Focus “hard infrastructure factors” such as airports, roads, energy:

To what extent do you consider “hard infrastructure factors” as important in your decision-making process?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Is public infrastructure (airports, railways) considered?							
2	Are transport infrastructures considered?							
3	Energy availability (enough and steady)?							
4	Water availability (enough and steady)?							
5	Low traffic?							
6	Low pollution?							
7	Closeness to universities?							

Others?

- 1)
- 2)
- 3)

Focus “soft infrastructure factors” for spouse, children, etc.:

To what extent do you consider “soft infrastructure factors” as important in your decision-making process?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	International schools/universities availability?							
2	Shopping facilities?							
3	Sports and cultural facilities?							
4	Life science: e.g. Hospitals, etc?							
5	Job opportunities for spouse?							
6	Quality of living?							
7	Others:							
8	Others:							

Focus “politics”:

To what extent do you consider “political factors” as important?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Country risk?							
2	Political stability?							
3	Investment friendly attitudes (e.g. working permits)?							
4	Dedicated support by local government?							
5	Other incentives than tax, e.g. industrial buildings?							
6	Political restrictions, e.g. material deliveries, etc?							
7	Society at large / Non-governmental organisations?							
8	Developing (long term) trends?							
9	Others:							

Focus “value chain” considerations:

To what extent do you consider necessities in the value chain as important?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Access to raw materials?							
2	Local availability of supporting materials?							
3	Access to semi finished products?							
4	Access to supporting industries?							
5	Cluster structures in your business domain?							
6	Easy transport access for suppliers?							
7	Quality culture of local suppliers?							
8	Tax rules for raw, semi-, and finished supplies?							
9	Bonded warehouse?							
10	Others:							
11	Others:							

Focus “IT” considerations:

To what extent do you consider IT infrastructure as important?

= to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Availability of IT structure?							
2	Availability of IT skilled employees?							
3	Others:							
4	Others:							

Focus “headquarters”:

To what extent do you value the link to headquarters as important?

1 = to no extent 7 = to a very great extent

		1	2	3	4	5	6	7
1	Relatedness/connectedness to headquarters?							
2	Easy access by headquarters representatives?							
3	Infrastructure closeness to headquarters?							
4	Geographic diversification?							
5	Other:							
6	Other:							

If you rank the barriers for a greenfield approach, what are the major 5 barriers in your mind and why (brief)?

	Major barriers	Why?
1		
2		
3		
4		
5		

Thank you very much for completing this questionnaire and therewith supporting me in my research.

Roland Küpfer

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