The International Market Selection Process of Multinational Enterprises Expanding to Transition Economy Markets

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Abstract

The International Market Selection (IMS) process, where firms choose which new market(s) to expand to, is highly important as choosing the right market is paramount to the internationalizing firm’s success. There are benefits in understanding how firms evaluate and select new markets, both for firms with less international experience looking for guidance in their IMS process, as well as for external stakeholders with an interest in attracting companies to a certain market. Despite its importance, there is a lack of empirical research within the field of IMS research, in particular which selection criteria firms take into account in their decisions, thus becoming the focus of this paper – delimited to multinational enterprises in transition economies. The IMS process has been suggested to either follow a systematic approach, where the process is formalized and objective, or an unsystematic approach which allows for subjectivity to influence the decision. However, it is argued that elements from both approaches will be included in the IMS process for any given firm. As such, this study aims to explore how elements of respectively the systematic and unsystematic approach to IMS act as selection criteria in multinational enterprises’ choice of transition economy market.

In order to circumvent the IMS research gap, literature on Foreign Direct Investment location theory, where the market itself is the unit of analysis rather than the firm, was instead studied in order to hypothesize which formal criteria impact the market decision. This was complemented with articles on the topic of psychic distance and firm network to cover the unsystematic approach to IMS. To test these hypotheses, multinational enterprises active in the region of focus were interviewed to collect primary data.

The findings of this study provide strong support that firms move toward an increasingly formalized, systematic approach to IMS as their international experience increases. However, even larger firms with more formal processes do at times diverge from these in order to make use of opportunities stemming from their network. In regards to the formal process, it is found that firms mostly focus on the pure economic aspects of the transition economy markets, rather than evaluating institutional factors closely. These institutional aspects instead appear to act as hygiene factors, required to reach some minimum level for international firms to consider the market in the first place. However, the institutional and economic aspects are believed to be interrelated. As such, when considering one, the other is also implicitly evaluated. Which specific elements that are evaluated in the IMS process is found to depend on several variables. First, the motive of the firm is one of the main determinants, with market-seeking firms looking at the market potential and competitive situation on the market, whereas resource-seeking firms instead are interested in the best trade-off between availability and cost of the resource in question. Secondly, whether or not the firm has a strong focus on import and/or export for its business, relevant for firms of both motives, also impact which criteria are evaluated more closely in the process. Lastly, additional, industry-specific elements may be added to the evaluation process to account for the specific circumstances of said industry. Mapping out these industry-specific factors is a suggested topic for further research, as is exploring what constitutes the minimum levels required by the firms with regards to institutional factors.
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Martin Håkansson Modin & Gustaf Olofsson
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Table of Contents

1. INTRODUCTION .......................................................................................................................... 1
   1.1 UNDERSTANDING THE INTERNATIONAL MARKET SELECTION PROCESS PROVIDES INSIGHT FOR BOTH FIRMS AND EXTERNAL STAKEHOLDERS .................................................................................................................. 1
   1.2 FOCUSING ON MARKET SELECTION CRITERIA FOR MNEs .......................................................................................... 2
   1.3 FOCUSING ON TRANSITION ECONOMY MARKETS ........................................................................................................ 2
   1.4 OVERALL PURPOSE OF THE PAPER ............................................................................................................................... 3
   1.5 AN OVERVIEW OF THE SYSTEMATIC AND UNSYSTEMATIC APPROACH TO IMS .......................................................................................................................... 4
   1.6 COMBINING THE SYSTEMATIC AND UNSYSTEMATIC APPROACH TO IMS TO CREATE THE FOUNDATION FOR A MODEL OF ANALYSIS .................................................................................................................. 5
   1.7 DETAILED PURPOSE OF THE STUDY .............................................................................................................................. 6
   1.8 THESIS STRUCTURE ...................................................................................................................................................... 6

2. LITERATURE REVIEW ...................................................................................................................... 7
   2.1 DEFINING INTERNATIONAL MARKET SELECTION ........................................................................................................ 7
   2.2 ESTABLISHING A LINK BETWEEN FIRM-FOCUSED IMS RESEARCH AND MARKET-FOCUSED FDI LOCATION THEORY TO OVERCOME RESEARCH GAP .................................................................................. 8
   2.3 THE SYSTEMATIC APPROACH TO IMS .......................................................................................................................... 9
      2.3.1 Pure economic FDI determinants ............................................................................................................................. 9
      2.3.2 Institutional FDI determinants ............................................................................................................................... 15
   2.4 THE UNSYSTEMATIC APPROACH TO IMS ..................................................................................................................... 18
      2.4.1 Perceived psychic and cultural distance ................................................................................................................ 18
      2.4.2 The firm’s network ............................................................................................................................................... 19

3. MODEL OF ANALYSIS AND RESEARCH QUESTIONS ........................................................................ 22

4. HOW THE STUDY WAS CONDUCTED ............................................................................................ 24
   4.1 SCIENTIFIC POINT OF DEPARTURE - A SYSTEM APPROACH .......................................................................................... 24
   4.2 THE APPROACH OF THE THESIS .................................................................................................................................. 25
      4.2.1 Work characterized by a deductive approach with inductive aspects ........................................................................ 25
      4.2.2 An explanatory approach - answering the how and why of the study ........................................................................ 25
      4.2.3 A qualitative research strategy to tackle the complexity of the research problem ................................................ 26
      4.2.4 Case approach allowing for a holistic view of the problem ....................................................................................... 26
   4.3 MAINTAINING A STRUCTURED THESIS PROCESS ........................................................................................................ 26
   4.4 PROBLEMATIZING - DEFINING THE PROBLEM, ITS RESEARCH VALUE AND THE PURPOSE OF THE THESIS .................................................................................................................. 28
   4.5 THE UNIT OF ANALYSIS IS THE FIRM, WHILE TAKING INDIVIDUALS INTO CONSIDERATION ............................................................................................................................... 28
   4.6 LITERATURE REVIEW - THE BASIS OF THE ONGOING STUDY .................................................................................... 28
   4.7 DATA COLLECTION METHOD ........................................................................................................................................ 29
      4.7.1 Using interviews to collect primary data on the IMS criteria used by MNEs ............................................................ 29
      4.7.2 Selection of respondents ........................................................................................................................................ 29
      4.7.3 Designing an interview guide from the introduced research questions ................................................................ 30
      4.7.4 Conducting the interviews .................................................................................................................................... 31
   4.8 THE ANALYSIS TACTICS AND PROCESS ..................................................................................................................... 32
   4.9 ETHICAL ASPECTS WITH THE GUIDELINES OF ESOMAR AND ICC .......................................................................................... 33
   4.10 METHODOLOGY CRITICISM AND ASSESSMENT OF THESIS QUALITY ................................................................................ 34
      4.10.1 Validity - actually measuring IMS factors for MNEs .............................................................................................. 34
      4.10.2 Reliability - repeatability with similar results ........................................................................................................... 37

5. FINDINGS – INTERVIEWS WITH THE CASE FIRMS ......................................................................... 39
   5.1 AN OVERVIEW OF THE CASE COMPANIES .................................................................................................................... 39
   5.2 FIBERBOARDCorp ................................................................................................................................................... 40
   5.3 AGRICorp .......................................................................................................................................................... 42
   5.4 SALESCorp ........................................................................................................................................................ 44
   5.5 TRADECorp ..................................................................................................................................................... 46
   5.6 MACHINECorp ............................................................................................................................................... 48
   5.7 ITCorp .......................................................................................................................................................... 50
5.8 SYNTHESIS OF FINDINGS ........................................................................................................ 52

6. ANALYSIS OF THE IMS PROCESS OF STUDIED CASE FIRMS ............................................ 53

6.1 THE SYSTEMATIC APPROACH TO IMS ........................................................................... 53
   6.1.1 Pure economic factors .................................................................................................. 53
   6.1.2 Institutional economic factors .................................................................................. 58
   6.1.3 Emergence of an additional factor relevant to the IMS process for MNEs ............... 60

6.2 THE UNSYSTEMATIC APPROACH TO IMS ................................................................... 61
   6.2.1 Psychic distance ........................................................................................................ 61
   6.2.2 The firm’s network .................................................................................................... 64

6.3 SYNTHESIS OF ANALYSIS .............................................................................................. 65

7. CONCLUSIONS .................................................................................................................... 67

   7.1 ANSWERING THE PURPOSE OF THE THESIS — HOW ELEMENTS FROM THE SYSTEMATIC AND UNSYSTEMATIC APPROACH INFLUENCE THE IMS PROCESS FOR MNEs ON A TRANSITION ECONOMY MARKET ........................................ 67
   7.2 REVISITING THE MODEL OF ANALYSIS ................................................................... 68
   7.3 SUGGESTIONS FOR FURTHER RESEARCH ................................................................ 69

LIST OF REFERENCES ............................................................................................................... 70
Table of Figures

FIGURE 1: EMBRYO OF MODEL OF ANALYSIS ................................................................. 5
FIGURE 2: ILLUSTRATION OF THE TIES A NETWORK CAN HAVE ACCORDING TO SHARMA AND BLOMSTERMO (2003) ................................. 20
FIGURE 3: MODEL OF ANALYSIS .................................................................................. 23
FIGURE 4: THE THREE METHODOLOGICAL APPROACHES BY ARBNOR AND BJERKE (2009) ................................................................. 25
FIGURE 5: STRUCTURAL THESIS APPROACH BASED ON THE METHODOLOGY PRESENTED BY LEKVALL AND WAHLBIN (2001) ............ 27
FIGURE 6: REVISED MODEL OF ANALYSIS ................................................................. 69

Table of Tables

TABLE 1: SYNTHESIS OF PURE ECONOMIC DETERMINANTS AND RESEARCHERS’ FINDINGS ON FDI IMPACT ............................................. 14
TABLE 2: SYNTHESIS OF INSTITUTIONAL DETERMINANTS AND RESEARCHERS FINDINGS ON FDI IMPACT ........................................ 17
TABLE 3: THESIS CODING SYSTEM ............................................................................. 33
TABLE 4: OVERVIEW OF THE INTERVIEW FIRMS ....................................................... 39
TABLE 5: IMPACT OF DETERMINANTS ON FiberCorp’s IMS PROCESS ......................... 42
TABLE 6: IMPACT OF DETERMINANTS ON AgriCorp’s IMS PROCESS .......................... 44
TABLE 7: IMPACT OF DETERMINANTS ON SalesCorp’s IMS PROCESS .......................... 46
TABLE 8: IMPACT OF DETERMINANTS ON TradeCorp’s IMS PROCESS ......................... 48
TABLE 9: IMPACT OF DETERMINANTS ON MachineCorp’s IMS PROCESS .................... 50
TABLE 10: IMPACT OF DETERMINANTS ON ITCorp’s IMS PROCESS .......................... 52
TABLE 11: IMPACT OF DETERMINANTS ON ALL CASE COMPANIES ............................ 52
Commonly used abbreviations

FDI – Foreign Direct Investment
Investment made by an individual or organization from one country to gain substantial influence in business operations in another country. Examples are establishing a new subsidiary on the market, or purchasing existing assets on the market.

IMS – International Market Selection:
The process by which a company determines which foreign market to expand operations to.

MNE – MultiNational Enterprise:
A corporate organization that has a direct presence in one or more countries outside of the home market.
1. Introduction

An important step in the internationalization strategy of the firm is to select which market to expand to, and the choice of market will affect firm performance. However, empirical research on the International Market Selection process is limited, in particular for economically underdeveloped markets. By studying elements of both the systematic and unsystematic approach to International Market Selection and how they affect the choice of market, actionable insight can be found that is useful both for firms looking to internationalize and external stakeholders that wish to attract firms to a specific market.

1.1 Understanding the International Market Selection process provides insight for both firms and external stakeholders

Internationalization can be seen as part of the firm’s strategy process (Andersen and Buvik, 2002), and is today by many firm managers viewed as a critical part of sustaining growth as well as making a profit (Ozturk, Joiner, and Cavusgil, 2015). The motive behind the decision to expand abroad can vary (Koch, 2001). For example, the firm may choose to enter the new market because it is looking for new customers to serve with its goods, to gain access to higher quality resources, or to in other ways increase the efficiency of its operations (Dunning, 1993). Regardless of the underlying motive, the firm has to make choices both regarding which market to enter, and the entry mode on said market (Koch, 2001). The former process is called International Market Selection (IMS), and making the “correct” choice of which market to enter is paramount for the internationalizing firm’s success (Buerki et al., 2014; Ozturk et al., 2015; Papadopoulos and Martín Martín, 2011; Papadopoulos, Chen and Thomas, 2002). It is also highly important for external stakeholders, such as government bodies that are interested in attracting firms to a given market, to understand the IMS process, as this will help the stakeholders to make better decisions regarding which aspects of the market to focus on improving to promote the market to firms. By attracting firms to the market, it is hoped that economic growth can be stimulated as new jobs are created and the firms contribute to tax revenues (Borensztein, De Gregorio, and Lee, 1998; Mencinger, 2003), given that the firm reinvests some winnings in the region to create a long-term sustainable growth instead of exploiting the market and its population for short term gains which unfortunately is not unheard of. Through efforts to improve these aspects that firms value, a better business environment may be formed, which can contribute to the firms having improved productivity, with an increase in satisfaction and retention on the market.

Despite its importance, Papadopoulos et al. (2002) state that research in the area is too limited with a lack of empirical research testing models that researchers have proposed. This seems to have been a known limitation for some time; already in the work by Papadopoulos and Denis (1988) there was a call for more empirical research. Almost three decades later, Ozturk et al. (2015), as well as Papadopoulos and Martín Martín (2011), conclude that there is still a shortage of empirical research on which criteria firms use to select new markets. Similarly, Andersen and Buvik (2002) state that while the research on international entry modes has received plentiful attention, the market selection research is still lacking. Subsequently, this paper aims to contribute to this body of research. This is attempted by a study of the selection criteria that are used by the firms when evaluating markets, as there is no general agreement in the current research which these criteria are, or their relative importance (Buerki et al., 2014). The paper also aims to contribute with a practical use for
both firms and other external stakeholders. For firms, in particular those with little to no international operations, guidance in the IMS process can be found by understanding how other firms in a similar context have previously evaluated and selected markets that have proved to be successful strategic choices. It should be noted, however, that blindly following the successful processes of other firms may not be beneficial, as different strategic objectives or differences in the context albeit similar, may affect what the best way to approach IMS is. Again, the results should therefore be seen as helpful guidance, not as normative models. For external stakeholders, as highlighted in the previous paragraph, understanding the criteria that firms use allows for well-informed decisions regarding policies and focus areas of strategies to attract new companies in order to stimulate the economy of the market. The following two subchapters will outline how the study is narrowed down to focus on the selection criteria for Multinational Enterprises (MNEs), on transition economy markets before the overall purpose is introduced.

1.2 Focusing on market selection criteria for MNEs

As mentioned, the research body is more extensive on market entry mode than on IMS (Andersen and Buvik, 2002), and according to Papadopoulos and Denis (1988) it is important to distinguish the IMS process from the preceding and succeeding internationalization stages respectively - the preceding stage normally being the initial decision to increase the international presence of the firm, and the succeeding stage being the final planning and in-depth assessment of the market in connection to entering the market (Papadopoulos and Denis, 1988). As such, they mean that IMS process is focused on selecting between markets, not making choices regarding the operations on the specific market. Similarly, Brouthers et al. (2009) explicitly state that IMS is separate from the choice of entry mode. However, Koch (2001) argues that it is not possible to separate the firm’s choices of which market to target and how to enter said market. Andersen and Buvik (2002) more carefully propose that this is indeed likely even though the nature of this relationship is not established. It is indeed reasonable that different selection criteria may be used to, for example, evaluate a market that the firm is considering exporting goods to, as opposed to one where it wishes to establish a subsidiary. Furthermore, Papadopoulos and Martín Martín (2011) state that sometimes the mode of entry decision is made prior to the market selection decision, which would thus affect the market choice. To reduce the risk of receiving conflicting data because of differences in entry mode, this paper focuses on investigating the market selection criteria for firms that choose to establish a direct presence on the target market, through for example subsidiaries, mergers, acquisitions, or joint ventures, as opposed to indirect presences in the form of irregular exports, external distributors and agents. In other words, focus lies on firms involved in foreign direct investment (FDI) that own or control operations in more than one country, which per the definition of Dunning (1993) are the multinational enterprises (MNEs).

The reasons for focusing on the firms that establish a direct presence on the selected market are as follows. It is here believed that that the firm that only indirectly targets foreign markets will not evaluate the market as extensively as the firm that aims to establish operations there. This is because, as stated by Ruane (2008), FDI is a longer-term commitment where the MNE is much more exposed to the market risks, and it should thus be more prone to investigate the market with more care. Further support is found in Cavusgil (1985), who notes that companies can bypass researching a market if they are only responding to a new order from a customer, and use more simple methods to analyze a market where the investment is small, such as when distributing via agents. In the case of export or the use of
external distributors, pulling out of the market is also a relatively easy process, which further allows for a less extensive market evaluation. The focus on MNEs should thus provide more valuable insight into the problem at hand, giving firms looking to internationalize a more thorough understanding of previous successes. As MNEs will stimulate local economic growth through job opportunities and tax revenues in a way that indirect presence of the firms will not, this focus will also provide more valuable and actionable insight to the external stakeholders interested in attracting MNEs to a given market.

1.3 Focusing on transition economy markets

Several authors propose that the criteria for market selection will differ between economically developed and underdeveloped markets (Cavusgil, 1997; Khanna, Palepu, and Sinha, 2005; Sakarya, Eckman and Hyllegard, 2007). Furthermore, international business research in general (Peng, Wang, and Jiang, 2008) and IMS research in particular (Ragland, Widmier, and Brouthers, 2015) has traditionally focused on economically developed markets. Buerki et al. (2014) adds that when it comes to IMS research, there is a severe lack of focus on economically underdeveloped markets. However, there is an argument to be made for the importance of understanding the selection process of firms on these markets. The biggest economic growth is not found on mature markets, but on the economically underdeveloped markets, especially those popularly referred to as emerging markets. To exemplify, the revision and advisory firm EY (2014) predicts that in the market of consumer goods, Asia, Latin America, Eastern Europe, the Middle East, and Africa, will account for 81 percent of growth by 2017, compared to 8 and 9 percent for Europe and North America respectively. Similarly, Parpandel, Gheordunescu and Gust (2013) estimate that among the fastest growing emerging markets, the annual GDP growth will surpass 5 percent annually for the next 25 years, in contrast to forecasted growth of less than 1.5 percent annually on the mature markets of Japan and Germany. Due to this shift in growth, more firms are looking to expand to these economically underdeveloped markets. Buerki et al. (2014) found that firm managers believe that the market selection criteria should be given different importance depending on whether an economically developed or underdeveloped market is evaluated. Clearly, there is therefore a value in understanding the selection process of firms expanding to economically underdeveloped markets, as this will provide more context-specific insight for both the internationalizing firm and the external stakeholders. Thus, this study will focus on the market selection of MNEs expanding to economically underdeveloped markets. However, given that this category has seen limited research, while consisting of a large amount of heterogeneous markets in different regions globally, a first step will be to narrow the focus down to a subset of these markets. This subset will be the transition economies of Central and Eastern Europe and Central Asia, as they are grouped together by their shared history of being either former members or satellite states of the Soviet Union, and as such are believed to exhibit some common characteristics that makes this a valid delimitation.

1.4 Overall purpose of the paper

To summarize: understanding the International Market Selection (IMS) process provides insight that can be used as guidance for international strategy decisions of firms with little experience of international operations. Additionally, external stakeholders representing a given market can, by understanding how firms evaluate new markets, find which key aspects...
need to be improved in order to increase their market’s attractiveness for firms. However, there is a need for more empirical research on the topic of IMS (Ozturk et al., 2015; Papadopoulos and Denis, 1988; Papadopoulos et al., 2002), and this paper aims to contribute to this body of research through a study of the selection criteria used by firms, as this is an area with a lack of consensus (Buerki et al., 2014). Following the thoughts of Koch (2001), the study is limited to the IMS process of MNEs that establish a direct presence on the target market. Lastly, the study is further limited to transition economy markets, as the market selection criteria used by firms are likely to differ between economically developed and underdeveloped markets (Buerki et al., 2014; Cavusgil, 1997; Khanna et al., 2005; Sakarya et al., 2007), and there is a lack of research on the latter (Buerki et al., 2014; Peng et al., 2008; Ragland et al., 2015). This leads to the overall purpose of this thesis:

This study aims to analyze the International Market Selection process of MNEs and establish the selection criteria used when evaluating transition economy markets.

1.5 An overview of the systematic and unsystematic approach to IMS

What form does IMS take for firms? Papadopoulos and Denis (1988), assessing previous research, propose that the firm can take either a systematic, or an unsystematic approach to the IMS process. The systematic approach is a structured, formalized and unbiased way of IMS (Papadopoulos and Denis, 1988). The firm identifies all the relevant criteria for market evaluation and gives them a weight based on their importance, and each market in the condition set is then rated on each criteria (Andersen and Buvik, 2002). From this, the optimal market choice can then be made, through the use of various statistical methods (Ozturk et al., 2015). As mentioned, which these selection criteria are, however, is not agreed upon (Buerki et al., 2014; Papadopoulos and Denis, 1988), but they are prescribed to consist of hard data in order to remain unbiased. What is evaluated to be the optimal market will depend on the model used. For instance if the model allows a low level of one criteria to be compensated by the high level of another, or if each criteria must meet some minimum requirement regardless of how the market is rated on other factors will affect the result (Andersen and Buvik, 2002). While this approach seems to be a both sound and rational way to form an unbiased view of the “best” market to expand to, and indeed has been concluded to improve firm performance in the new market (Brouthers and Nakos, 2005; He, Lin, and Wei, 2016; Ozturk et al., 2015), this is not how firms always select their markets. Instead, many firms take an unsystematic approach to IMS (Andersen and Strandskov, 1998; Cavusgil, 1985; Ozturk et al., 2015; Papadopoulos and Denis, 1988).

The unsystematic approach, as the name implies, does not follow the same formalized and structured method as the systematic approach. Instead of using hard data, decisions are influenced by factors such as the perceived psychic distance of the manager (Andersen and Buvik, 2002; Papadopoulos and Denis, 1988) and managers deciding on new markets through judgement calls (Cavusgil, 1985), intuition (Dane and Pratt, 2007), or on an opportunistic basis (Bradley, 1995). That firms choose this unsystematic approach may for example stem from factors such as limited experience of firm managers, or the difficulties in gathering information that is not only accurate but also relevant, as many secondary sources of information may be too general to be useful in predicting for example sales potential for the company (Cavusgil, 1985; Papadopoulos and Martín Martín, 2011). It may also be that the systematic approach is too complex and costly to be understood and properly used, especially by smaller firms (Papadopoulos and Denis, 1988).
1.6 Combining the systematic and unsystematic approach to IMS to create the foundation for a model of analysis

Papadopoulos and Denis (1988) propose that firms subscribe to either the systematic, or the unsystematic approach. Here it is argued, however, that reality is likely to be more complex than this, with firms not simply subscribing to either a fully systematic or unsystematic approach exclusively. This is supported by Cavusgil (1985) who states that quantitative data is supplemented by the subjective judgement of the firm managers, with similar thoughts aired by Andersen and Buvik (2002). As such, it is believed in this paper that in attempting to understand the IMS process of MNEs and establish the selection criteria used, elements from both the systematic and the unsystematic approach to IMS must be incorporated. The former will consist of “hard”, measurable variables, and the latter of the “soft” variables that are difficult to measure but may still affect the firm choice of market. This creates the foundation of a model of analysis on which the data collection and analysis will be based. This initial model can be seen below in Figure 1.

![Figure 1: Embryo of model of analysis](image-url)
1.7 Detailing the purpose of the study

With the previous delimitations of MNEs with a direct involvement in transition economy markets, the study is focused towards the interplay between elements of the systematic and unsystematic approach. Thus, the purpose of this paper can be detailed as follows:

*This study aims to explore how elements of respectively the systematic and unsystematic approach to IMS act as selection criteria in MNEs’ choice of transition economy market.*

1.8 Thesis structure

The thesis is structured as follows. In Chapter 2, previous academic work related to the IMS process is explored in order to create a framework with which to tackle the problem at hand, which is synthesized into a model of analysis and research questions presented in Chapter 3. Next, Chapter 4 describes the methodology applied during the study and explains which choices were made and why. How these methodological choices impacts the quality of the study is assessed in Chapter 5. As can be seen, these initial chapters deal with gaining an understanding of the problem and structuring how the authors aim to approach it. As such, these parts are most suited for the reader with an interest in gaining a deeper understanding of the problem at hand, or who wishes to ensure that the study has been performed in a satisfactory manner. The time-pressed reader interested mainly in the results of the study may instead find it suitable to skip these chapters. A presentation of the interviewed MNEs and the relevant information regarding their IMS process follows in Chapter 6. Thereafter, Chapter 7 is focused on analyzing the collected data, contrasting it with the previously reviewed literature to show the reasoning of the authors on which conclusions are drawn. These conclusions are presented in Chapter 8 from which the model of analysis is also updated.
2. Literature review

The following chapter provides a review of literature related to the IMS process. To bridge the research gap in firm-focused IMS literature, the related market-focused literature on FDI location theory is studied for hypotheses. Regarding factors related to the systematic approach to IMS, there is little consensus on the pure economic factors’ respective impacts on FDI inflows, whereas the opinion on institutional factors is more converged, although there, too, opinions differ to some extent. Looking to the unsystematic approach, the impact that psychic distance plays in the internationalization of MNEs is difficult to establish due to being impossible to measure objectively, but is expected to decrease as firms expand to more markets. Similarly, the impact of the firm’s network is difficult to measure, being a social construct, but here too, it is expected that smaller firms will rely more heavily on this resource than larger firms.

2.1 Defining International Market Selection

With the purpose of this paper to explore how elements from both the systematic and unsystematic approach to International Market Selection act as selection criteria in the choice of market for MNEs, an important first step is to define the concept of International Market Selection (IMS). This creates clarity both for the authors in the continued study, and also for the readers in understanding the reasoning of - and conclusions drawn by - the authors.

One definition that is used in both the works of Andersen and Strandskov (1998, p. 67) and Ozturk et al. (2015, p. 4) is that IMS is “the process of establishing criteria for selecting (country) markets, investigating market potentials, classifying them according to the agreed criteria and selecting which markets should be addressed first and those suitable for later development”.

This definition has the benefit of clearly establishing where the IMS process begins, namely after the decision to internationalize has been made and criteria has to be determined to evaluate markets, and where it ends, with some type of prioritized list of all considered markets. According to Buerki et al. (2014), establishing these boundaries is an important aspect of defining the IMS concept, as it otherwise leaves room for interpretation and is a source of potential misunderstanding in researching the topic. It further establishes that the IMS process is separated from the decision to internationalize, and from the entry mode choice - even if authors such as Koch (2001) and Andersen and Buvik (2002) propose that this may not be the case, which is what lead to the delimitation of this study’s focus to direct investments by MNEs. However, this definition takes a formal view of the IMS process, as can be seen by the criteria being established through a process and then classifying the markets according to the criteria. This resonates mainly with the systematic approach to IMS, and illustrates that at least some of the previous research within this field focuses on this aspect of the firm’s process. Following the reasoning in the introductory chapter of this paper, that firms will likely incorporate elements of both the systematic and unsystematic approach to IMS, it is here argued that the latter must also be included in the definition of IMS. In other words, all factors that affect the choice should be included, not only the formally established ones.

Papadopoulos and Martín Martín (2011, p. 133), instead, refer loosely to IMS as “the decision by which firms choose the markets, whether defined geographically or otherwise,
in which to be present”. Here it is not specified what leads to the decision, which allows for including both formal and informal elements in the process. It does not, however, establish the boundaries of where IMS begins and ends as clearly as the previously mentioned definition, as called for by Buerki et al. (2014). What is interesting about this view of IMS is that it clearly states that markets can be defined in different ways, not only geographically as is done by Andersen and Strandskov (1998) and Ozturk et al. (2015). This is another aspect brought up by Buerki et al. (2014) as important to establish when discussing IMS. Swoboda et al. (2007) mean that selection can be focused either on countries, i.e. deciding to service a country, or by finding customer segments that are homogenous in different countries, and choosing to service these segments across multiple countries. Both Buerki et al. (2014) and Papadopoulos and Denis (1988) state, however, that the majority of work within IMS define market at a country level, which subsequently will be the view of markets for this paper. Combining the thoughts of this subchapter, IMS will for this paper be seen as the formal and informal processes included in a firm’s decision on which target (country) market(s) to expand to, beginning after the choice has been made to internationalize, and ending with a selection of which market(s) to enter.

2.2 Establishing a link between firm-focused IMS research and market-focused FDI location theory to overcome research gap

As mentioned, there is a lack of empirical research on the IMS process from which theory has been developed (Andersen and Buvik, 2002; Ozturk et al., 2015; Papadopoulos and Martín Martín, 2011; Papadopoulos et al., 2002). However, when it comes to the field of determinants for FDI location, there is a larger body of research (cf. Assunção, Forte, and Teixeira 2011; Nielsen et al., 2017). Here it is important to clarify the distinction between these two concepts used in this paper. Following the IMS definition in the former subchapter, IMS is viewed as being focused on the firm - how the firm comes to a decision of which market to expand to and what impacts this decision, i.e. taking internal factors into account. The FDI location research, on the other hand, takes the market as the unit of analysis, disregarding the individual firm. In the articles studied for this paper, the cited researchers measure total FDI inflows to the market, and attempt to come up with models based on measurable proxies for external market factors to capture the most variance of the data.

If firms were homogenous and acted fully rationally, this approach would likely indeed explain the market selection of firms. However, by disregarding the heterogeneity, or “personality” of the firm, this FDI location research omits that firms may actually value factors differently and thus have conflicting interpretations of markets, an insight provided by the resource-based view of the firm (Andersen and Strandskov, 1998) that argues for the relevance of considering market selection from the firm-perspective. Additionally, firms do not necessarily act fully rationally. Papadopoulos and Martín Martín (2011) describe IMS as a boundedly rational decision, which means that the rationality of the decision is constrained by several limitations. Examples are firm managers’ experience, availability of accurate market information, and limited time and resources to come to a decision (Cavusgil, 1985; Papadopoulos and Martín Martín, 2011; Papadopoulos and Denis, 1988). As previously stated, this is likely what causes firms to incorporate unsystematic elements in their IMS process, which makes it difficult to determine where MNEs choose to invest through FDI solely by looking at external factors.
Despite the existing differences between IMS and FDI location research, Papadopoulos and Martín Martín (2011) argue that both topics are parts of the same, fragmented category of research and would benefit from further integration. As such, having this extensive body of research is helpful to overcome the IMS research gap and establish hypotheses for this study as to which criteria firms use in their IMS process, despite its limitations. This substitute is further argued to be suitable as this study focuses on MNEs, and Papadopoulos and Martín Martín (2011) state that FDI location research has per definition focused on MNEs, which the IMS research to a larger extent has neglected. Based on these hypotheses, this paper can investigate whether it is plausible that the selection criteria used by firms in their IMS process are the same as the FDI determinants suggested by FDI location research. However, these external market factors suggested by the FDI location literature are the “hard” variables that can be measured in a formal, structured and rational process, and as such they relate to the systematic approach to IMS. It is in this context the FDI location research will be applied to expand on the basic model of analysis presented in Figure 1. This is done in subchapter 2.3. Next, in subchapter 2.4, elements of the unsystematic approach to IMS is explored to contribute with further research questions for this study. The literature review chapter concludes with a synthesis of the findings.

2.3 The systematic approach to IMS

Following the reasoning of subchapter 2.2, which elements of the systematic approach that act as selection criteria in the firms’ IMS process will be hypothesized from the FDI location literature. The factors are here divided into two categories, namely pure economic FDI determinants and institutional FDI determinants, the latter not having been explored to the same extent in research (Assunção et al., 2011; Nielsen et al., 2017), although they have been given progressively more attention as explanatory variables for FDI inflows (Bénassy-Quéré et al. 2007). This categorization is inspired both by the work of Schneider and Frey (1985) who divide factors into economic and political, and by Nielsen et al. (2017) who separate pure economic factors from institutions. The reason for this categorization is twofold. First, it improves the structure and improves readability. Secondly, according to both Peng et al. (2008) and Buerki et al. (2014), institutions are particularly important to study in the case of economically underdeveloped markets. Given this paper’s focus on transition economy markets, it is here seen as important to clearly distinguish between the two categories of factors to understand their respective impact on the IMS process of firms, even if some of the explored factors potentially could be argued to fall in either category.

2.3.1 Pure economic FDI determinants

The pure economic FDI determinants are the more traditional variables of FDI research (Peng et al., 2008) that have been in focus of FDI research when the topic was highly centered solely around economically developed countries. Six different categories are explored below, and the subchapter is concluded with a synthesis of the findings in table format in Table 1.

Market size and growth

One of the most frequently mentioned determinants for FDI inflow is market size. Nielsen et al. (2017) surveyed 152 studies on FDI determinants, in which 74 percent found the absolute market size to be a significant determinant for FDI inflows. The factor also seems to have stood the test of time; Schneider and Frey (1985) concluded that market size is the
most important economic factor FDI inflows, and both the works of Cleeve (2008) and Mhlanga, Blalock, and Christy (2010) found the factor important. Additionally, looking at transition economies, Bevan and Estrin (2004) also found the factor to be significant and robust.

However, while 74 percent is a clear majority, there are still a large portion of scholars, one in four from Nielsen et al.’s (2017) survey, that find the determinant insignificant or even as having a negative impact on FDI. In addition, Kinoshita and Campos (2003) find that the significance of market size is removed when including institutional variables. This begs the question of what causes these opposing findings. One possibility is that different proxies are being used for market size, yielding different results. Commonly used proxies are absolute values of GDP and GNP, as well as on a per capita basis, and in all the above examples one of these proxies are utilized. In addition to these proxies, total population size is a frequently used measurement for market size (Nielsen et al., 2017), utilized for example by Mohamed and Sidiropoulos (2010) and Wilhelms and Witter (1998). Another possibility is that it depends on the classification and segmentation of studied markets. Kinoshita and Campos (2003) find that market size is a significant determinant when studying their entire data-set of transition economies. However, dividing the markets into two groups, the Central and Eastern Europe and Baltic (CEEB) markets and Commonwealth of Independent states (CIS) markets, the size of market turned insignificant during data analysis. They attributed this result to a heterogenous mix of firm motives for FDI. Mhlanga et al. (2010), on the other hand, controlled for investment source, investment sector and type, and project size, and found the market size to positively impact the FDI inflows for all cases. Still, as with the choice of proxy, from Kinoshita and Campos (2003) there is support for the idea of sample segmentation affecting the results.

While the study of Nielsen et al. (2017) surveys a huge amount of previous work on determinants, the authors do not discuss the effect of market growth as a determinant for FDI inflow. It is possible that the authors are implicitly agreeing with for example Bevan and Estrin (2004), who claim that the absolute market size is a proxy for both the current demand and the growth potential of a market. Several authors, however, do in fact separate market growth from market size, discussing the importance of both the former and latter. Unsurprisingly, the general view is that market growth affects FDI positively (Assunção et al., 2011; Chakrabarti, 2001), a view that have stood the test of time. Schneider and Frey (1985) state that it exerts a positive influence, although it is much less important than the absolute size of the market. This view is supported by Mhlanga et al. (2010) who find it positive but not significant. Cleeve (2008) however, finds the relationship to be both positive and significant.

Resource availability - natural resources and human capital

Resources come in different forms. According to Root and Ahmed (1978), the availability of natural resources is one of the most important determinants for FDI. Noorbakhsh, Paloni, and Youssef (2001), mean however, that while traditionally the availability of natural resources have been seen as one of the most important determinants for FDI, its relative importance has declined, which Gobinda Goswami and Haider (2014) support. However, in the work of Mohamed and Sidiropoulos (2010) they found natural resource availability to still be highly significant. However, their study was on the Middle Eastern and North African (MENA) countries, known for their large quantities of oil, and it is thus risky to attempt to generalize this result to other regions. Similarly, Kinoshita and Campos (2003) found natural
resources to be an important factor in the studied Commonwealth of Independent states (CIS) countries, but not in the studied non-CIS-countries. Looking instead at the origin of the firms rather than the target market, Golubeva (2016) found that FDI outflows from Sweden did not significantly correlate with the host market natural resource availability. Unsurprisingly, Root and Ahmed (1978) propose that natural resource availability is a determinant that is highly dependant on the firm motives, with resource-seeking MNEs (cf. Dunning, 1988), as the name implies, finding this factor more important than market seekers (cf. Dunning, 1988).

The role that another type of resource, namely human capital, or the skill of the local workforce, plays in attracting FDI to underdeveloped markets has been the subject of much discussion. In earlier works of FDI determinants, its importance was deemed as low. For example, Root and Ahmed (1978) found that human capital has an insignificant effect on FDI, as did Wilhelms and Witter (1998). Instead, the latter found that what they call governmental and market fitness prove to correlate stronger with the inflows. This is in line with the findings of Kinoshita and Campos (2003) who argue that institutions and economic factors shadows the importance of education - often used as a proxy for human capital - as determinants. Hanson (1996), however, states that human capital is indeed significant, but agrees that the rule of law and political stability plays a bigger part in determining FDI inflows.

Other studies however, in general more recent ones, seem to favor the view that the skill and education of the market work force can affect the FDI inflows. Already in the article by Schneider and Frey (1985), it is proposed that the skill of workers does have an effect on FDI inflows, albeit limited. Noorbakhsh et al. (2001) on the other hand, claim that human capital is not only significant, but one of the most important variables in explaining FDI inflows. In contrast to the aforementioned Wilhelms and Witter (1998) who measure primary school enrollment and finds it insignificant, Noorbakhsh et al. (2001) as well as Schneider and Frey (1985), measure secondary school enrollment. This highlights the difficulty in measuring more non-traditional determinants, as the proxies that are used in different studies may vary and thus give conflicting results. Noorbakhsh et al. (2001), however, also use the proxy of accumulated years of studies in the existing workforce, similar to Nunnenkamp (2002) who also concludes the significance of human capital. More than a decade later, Kheng, Sun, and Anwar (2016) provide empirical data that supports the view of Noorbakhsh et al. (2001) as human capital being a very strong determinant for FDI inflows. Both studies furthermore agree on the continuously increasing importance of human capital as a determinant over the years, which Noorbakhsh et al. (2001) accredite to the fact that MNEs have, to a higher degree, shifted its focus from entering developing markets solely to look for low-cost, low-skill manufacturing.

Taking a more qualitative approach by interviewing managers of French MNEs on their formal IMS process, Buerki et al. (2014) did not find the skill and availability of the host market workforce to be a factor that managers looked at when evaluating markets. However, they did not specifically ask any questions regarding the human capital, or indeed mention it at all in the resulting paper. Even though the interviewees were given the opportunity to suggest other determinants, it is here believed that there is still a reasonable chance that this affected the results. Regardless, it does raise the question of why this was not ever brought up as important. The study does not reveal the motives of the interviewed firms - it is possible that these were resource-seeking firms (cf. Dunning, 1988) looking for low-skill labour and thus less concerned with the human capital. Another possibility is that the level of human
Labor costs

In the literature not only the availability of skilled labor is discussed, but also the labor costs. As with human capital, the views of the effect labor costs has on FDI inflows varies. Bellak, Leibrecht, and Riedl (2008) surveyed 26 studies on labor costs in Central and Eastern Europe. In 17 of these studies, the authors found a significant negative correlation between increased wages and FDI inflow. In contrast, three other studies found a positive correlation, with FDI levels actually increasing as wages rose. In a similar but expanded fashion, Nielsen et al. (2017) studied 153 earlier quantitative studies on FDI determinants on a wider range of markets, with similar findings regarding labor costs. Noorbakhsh et al. (2001) argue that a positive correlation between high labor costs and FDI inflows may be because of higher wages being associated with a skilled workforce. Nielsen et al. (2017) propose that a high infrastructure level and developed market institutions will be closely related to the skill level of the workforce, and by controlling for these variables they find support for the views of Noorbakhsh et al. (2001). This brings up the value of a holistic view, i.e. not viewing each criteria in complete isolation, but instead putting the importance that a firm places on a selection criteria in the context of that same firm to gain an understanding.

Infrastructure

Numerous studies have emphasized the importance of fundamental facilities and systems necessary for serving the economy, including but not restricted to: roads, water supply, electrical grids, tele- and internet communications (more commonly referred to as infrastructure variables), as an important determinant for FDIs (Asiedu, 2002; Dollar et al., 2005; Kok and Acikgoz Eroşoy, 2009; Mohamed and Sidiropoulos, 2010). Dollar et al. (2005) and Asiedu (2002) find that particularly electricity, transport, water and telecommunications have major influence on attracting FDI. Kinoshita and Campos (2003) find that infrastructure plays a bigger role in the CIS-region of transition economies than in the non-CIS-region. It is here argued that this may be because the infrastructure levels may act as a form of hygiene factor, and having lower quality of infrastructure in the region overall may incite firms to take this factor into account. This is somewhat supported by Gobinda Goswami and Haider (2014) who state that underdeveloped markets have to focus on the removal of infrastructural bottlenecks, which is here interpreted as a hygiene factor. However, given the findings in the literature review of Assunção et al. (2011) it is difficult to draw any conclusions as to the relative significance of infrastructure. Furthermore, in the empirical study of Golubeva (2016) no significant evidence of the impact of infrastructure variables on Swedish outward FDIs was found. Also Buerki et al. (2014) seem to dismiss the importance of physical infrastructure.

Taxes and tariffs

Using taxation as an incentive for FDI has been studied extensively, but as is the case of several other determinants, the results are mixed (Radulescu, Banica and Druică, 2016). Looking at corporate tax, Root and Ahmed (1978) found a negative and significant relationship between taxation levels and FDI inflows, thus labelling it an important determinant, as did both Wilhelms and Witter (1998), and Bellak, Leibrecht, and Damijan
Contrary to these findings, neither Cleeve (2008) nor Golubeva (2016) found a significant relationship between the two. Nielsen et al. (2017) in their survey of previous studies, found an equal number of studies who found a respectively positive and negative correlation between tax rates and FDI inflows. It is reasonable to initially find these results surprising, as it is hard to imagine any firm actively searching for ways to increase their costs. However, it is not unlikely that measuring tax rates will also capture elements of other determinants. A high tax rate may for example be connected to the market having good infrastructure (Bellak et al., 2009), a high technological development, a highly skilled workforce, or other factors along similar lines. This line of thought is supported by Nielsen et al. (2017), who find studies supporting that, all else being equal, lower taxes and wages will both have a positive impact on FDI inflows. Nunnenkamp (2002) and Miyamoto (2003) both also argue for that taxes are relevant, but not vital to attracting FDI, as the MNEs focus on other aspects than solely tax incentives. Still, with transition economies often being used as low-cost alternatives to the home market, it is here expected to find that this will be a somewhat relevant selection criteria for the MNEs locational choices.

One special case of taxes are import and export taxes, more commonly known as tariffs. The effect that tariffs have on FDI seems, as proposed by Chakrabarti (2010), to be dependant on other factors and sensitive to alterations in this information set. Ruane (2008) proposes that increased tariffs may incite to tariff-jumping, establishing a local presence to avoid fees, thus increasing FDI inflow. Kinoshita and Campos (2003) mean that this is contingent on the MNE motives, but agrees that for market-seeking FDI this is the case. Kok and Acikgoz Ersoy (2009) find that tariffs affect FDI positively if combined with an otherwise high openness to trade and market growth, but negatively when combined with high labor costs. Here it is reasoned that this is not a surprising finding. If trade is promoted and the market is growing, companies will be attracted to the market, and establish local subsidiaries to avoid the added cost, whereas if a market is difficult to export to and it is expensive to produce wares in the country, the companies may choose other markets for expansion. However, due to increased globalization, i.e. an increased economic interdependence between countries, many authors believe that tariffs play a more limited role today than previously as an FDI determinant (Nunnenkamp, 2002; Peng et al., 2008; Ruane, 2008).

Geographic distance

The final market-focused determinant for FDI brought up in this review is the geographic distance between the firm’s home country and the host country. O’Farrell and Wood (1994) argue that the main reason for geographical proximity acting as an FDI determinant is the transaction costs of managing a foreign subsidiary. They further state, as do Buerki et al. (2014), that these costs are increased with a larger geographical distance and correspondingly, reduced with proximity to the host country. Consequently geographical distance to host country could be argued to act as a trade barrier. Additionally, the geographic distance may be an indicator of how culturally alike the home market of the firm and the host market are, which O’Farrell and Wood (1994) mean further adds to the effect of geographic distance on FDI stocks. Bénassy-Quéré, Coupet, and Mayer (2007) also include this factor, finding a correlation between short distance and FDI inflows. Kinoshita and Campos (2003) measure the distance from the host market to Brussels as a proxy, reaching similar conclusions, as does Golubeva (2016) between the host market and Sweden. Contradicting these results is the study of Buerki et al. (2014), which as previously mentioned focused on interviews with firm managers of MNEs. Among these managers, geographic distance was the factor rated as by far the least important out of all the
determinants brought up, significantly unimportant at a significance level of 1 percent. This is in direct contrast with the other researchers, inevitably begging the question why. It could be that firm managers do not actively think about the geographic distance, but still being influenced by it through the perceived psychic distance mentioned as an influential factor in the unsystematic approach to the IMS process. This concept of psychic distance is explored further in subchapter 2.4.1. Regardless, Buerki et al. (2014) further state that the managers consider the distance slightly more important for underdeveloped markets than for developed markets, even if it is still deemed as unimportant in absolute terms. Another interesting observation is made by Nielsen et al. (2017), who conclude that less than a third of their reviewed studies of FDI even test for the effect that geographic distance has on FDI, which is considered notable as this factor has been brought up in classic theories on international business.

In Table 1 below, a summary is presented of which pure economic determinants have been discussed, and how different researchers find that they affect FDI inflows.

Table 1: Synthesis of pure economic determinants and researchers’ findings on FDI impact

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Positive impact</th>
<th>No significant impact</th>
<th>Negative impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market size</strong></td>
<td>Bevan and Estrin (2004); Cleeve (2008); Mhlanga et al. (2010); Mohamed and Sidropoulos (2010); Scheider and Frey (1985)</td>
<td>Kinoshita and Campos (2003)1; Wilhelms and Witter (1998)2</td>
<td></td>
</tr>
<tr>
<td><strong>Market growth</strong></td>
<td>Chakrabarti (2001); Cleeve (2008); Schneider and Frey (1985)</td>
<td>Mhlanga et al. (2010)</td>
<td></td>
</tr>
<tr>
<td><strong>Human capital</strong></td>
<td>Hanson (1996); Kheng et al. (2016); Noorbakhsh et al. (2016); Nunnenkamp (2002); Schneider and Frey (1985)</td>
<td>Buerki et al. (2014); Kinoshita and Campos (2003); Root and Ahmed (1978); Wilhelms and Witter (1998)</td>
<td></td>
</tr>
</tbody>
</table>

1 When including institutional factors in their models
2 The authors found a weak but slight positive correlation, but refute that the market size is as impactful as some suggest
3 The authors found conflicting results depending on which region that was studied with the natural resource availability being more impactful in CIS-countries than on non-CIS markets
Labor costs

Bellak et al. (2008); Nielsen et al. (2017)

Infrastructure

Asiedu (2002); Dollar et al. (2005); Kok and Acikgoz Ersoy (2009); Mohamed and Sidiropoulos (2010)

Buerki et al. (2014); Golubeva (2016)

Taxes

Nielsen et al. (2017)

Cleeve (2008); Golubeva (2016)

Tariffs

Kinoshita and Campos (2003); Kok and Acikgoz Ersoy (2009); Ruane (2008)

Kok and Acikgoz Ersoy (2009)

Geographic distance

Buerki et al. (2014)

Bénassy-Quéré et al. (2007); Golubeva (2016); Kinoshita and Campos (2007)

2.3.2 Institutional FDI determinants

Institutions, the “rules of the game in a society” North (1990, p. 3), are the formal and informal structures that shape the context in which interactions take place (North, 1990), in this case the business environment of a given market. In this paper, the formal institutional determinants for market selection have been grouped into three categories: i) Political stability, ii) Legal system and corruption, and iii) Ease of doing business. The informal institutions consist of the norms and culture, which are included in the concept of psychic and cultural distance, explored in subchapter 2.4.1. This subchapter concludes with a synthesis of the findings of the three categories in Table 2.

Political stability

Political stability could be described as the integrity and durability of the national or sub-national government bodies in a country. Many studies on market determinants that look at political factors find that political instability correlates negatively with FDI inflows (Assunção et al. 2011; Golubeva, 2016; Hansson, 1996; Radulescu et al., 2016), with some even placing it as one of the primary determinants (Busse and Hefeker, 2005; Miyamoto,

4 In their literature study, the authors listed research finding both positive and negative impact respectively, some findings significant and others non-significant, on FDI inflows
5 The authors had similar findings as Bellak et al. (2008), with different articles finding a positive and negative impact respectively on FDI inflows
6 Regarding taxes, the authors found an equal number of surveys where FDI inflows were found to be affected positively and negatively respectively as taxes on the market increased
7 For firms with a market-seeking motive
8 When combined with an otherwise openness to trade and high growth rate of the market
9 When combined with high wages on the target market
2003; Nunnenkamp, 2002). However, there are also several studies finding no significant relationship (Alam, Zulfiqar, and Shah, 2013; Cleeve, 2008; Mhlanga et al., 2010). As such there are several contradicting works on the importance of political stability for attracting FDI. Again, it is here argued that there are several possibilities for these contradictory results. How one can measure political stability is not obvious, and there are several indices, which may yield different results. For example, the studies of Mhlanga et al. (2010), and Cleeve (2008) both combined the data from watchdog organization Freedom House, using indices for political rights and civil liberties. They found no significant relationship between stability and FDI inflows, whereas Radulescu et al. (2016) instead used the World Bank political stability index, and did find a significant correlation. Another possibility is that political stability should be considered a hygiene factor - consistent political problems that paralyze the entire market will surely deter FDI, but once the stability has reached a level that is “good enough”, any further improvements will not significantly affect FDI inflows. A third possibility is the motive of the firms. This thought is supported by Pan and Chi (1999), who suggest that as market-seeking FDIs are more dependent on stability on the inward market than resource-seeking FDIs, they are potentially more sensitive to political instability.

Legal system and corruption

The quality of the legal system of the market includes aspect such as rule of law, a legal principle that the act of law, rather than arbitrary decisions of individual government officials, should govern a nation, as well as property rights. Naturally the enforcement of the included legal aspects is also needed. There is a general consensus that a higher quality legal system will indeed positively influence FDI inflows, (Asiedu, 2006; Bénassy-Quéré et al., 2007; Busse and Hefeker, 2005; Dollar et al., 2005; Hansson, 1996; Mohamed and Sidiropoulos, 2010; Nielsen et al., 2017; Radulescu et al., 2016). According to Bénassy-Quéré et al. (2007) FDI is especially vulnerable to uncertainty, and it is natural to assume that a legal system that can be trusted reduces this uncertainty, contributing to more investments. It is thus expected in this study to find that MNEs value this aspect highly.

Closely related to both the political stability and the legal system is the issue of corruption on the market. As with the legal system, there is little disagreement among research on the negative effect that corruption has on FDI inflows (Bénassy-Quéré et al., 2007; Kok and Acikgoz Ersoy, 2009; Mohamed and Sidiropoulos, 2010). Bénassy-Quéré et al. (2007) and Cleeve (2008) share the opinion that lower levels of corruptions are linked to greater prosperity, as institutional reforms for reducing corruption lead to higher transparency and security to investors - i.e a reduced uncertainty, which as mentioned is important to MNEs. Kurtzman, Yago, and Phumiwasana (2004) agree with the negative impact of corruption, arguing that it creates an additional cost of doing business for companies. As this cost will have to be covered, this cost will be reflected in an increased price of the firm’s goods and services, resulting in a reduced demand, less market penetration for the firm, thus reducing the market’s attractiveness (Brothters, Gao, and McNicol, 2008). Accordingly, it is expected to find this aspect being an important selection criteria for the MNEs, especially when evaluating transition economy markets as opposed to developed ones.

Ease of doing business

The ease of doing business here relates to the bureaucracy, or red tape, of the market. Here based on the elements of the Ease of Doing Business Ranking by the World Bank, it involves the delays and costs of getting necessary permits for starting a business, and interruptions
whilst doing business in the form of excessive state inspections, demands of new permits, how difficult the tax procedures are, etc. Using a cross-country analysis, Busse and Hefeker (2005) found the quality of bureaucracy to be closely associated with FDI inflows, as one of only three political factors, the others being the government stability and the quality of the legal system. Furthermore, Bénassy-Quéré et al. (2007) mean that it is one of the most important institutional factors in attracting FDI, as do Mohamed and Sidiropoulos (2010). A higher ease of business will mean a more transparent system that reduces uncertainty. As such, it will of course relate to other factors such as corruption and the quality of the legal system. However, this factor measures not only whether there exists a system that can be trusted, but also how the efficiency of said system - in terms of delays for permits and unnecessarily complicated procedures, that directly adds additional costs of operation - affects MNE perception of a market.

In Table 2 below, a summary is presented of which institutional determinants have been discussed, and how different researchers find that they affect FDI inflows. Names marked in italics are articles that are not discussed in the text above, but have been added to illustrate the statement that there is no general consensus on the respective impact of the determinants.

Table 2: Synthesis of institutional determinants and researchers findings on FDI impact

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Positive impact</th>
<th>No significant impact</th>
<th>Negative impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of legal system</td>
<td>Asiedu (2006); Bénassy-Quéré et al. (2007); Busse and Hefeker (2005); Dollar et al. (2005); Hansson (1996); Mohamed and Sidiropoulos (2010); Nielsen et al. (2017); Radulescu et al. (2016)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption</td>
<td></td>
<td></td>
<td>Bénassy-Quéré et al. (2007); Mohamed and Sidiropoulos (2010); Cleeve (2008); Kok and Acikgoz Erosy (2009); Kurtzman (2004)</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>Mohamed and Sidiropoulos (2010); Bénassy-Quéré et al. (2007); Busse and Hefeker (2005)</td>
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</tr>
</tbody>
</table>

10 The author found that longer duration regimes correlated negatively with FDI inflows.
2.4 The unsystematic approach to IMS

As mentioned, many firms take an unsystematic approach to IMS (Andersen and Strandskov, 1998; Cavusgil, 1985; Ozturk et al., 2015; Papadopoulos and Denis, 1988). According to He et al. (2016), the key influential factor among these “soft” influencing factors is the psychic or cultural distance, which stems from the seminal work of Johanson and Vahlne (1977) who suggest that firms will expand to markets with successively increased psychic distance. Their model on internationalization, commonly referred to as the Uppsala model, based on the successive learning and increased experience of the firm, was later modified to also include the business network (Johanson and Vahlne, 2009). As such, in addition to exploring the literature on psychic and cultural distance in the next subchapter, literature on firm network theory will thereafter be explored for additional hypothesis.

2.4.1 Perceived psychic and cultural distance

Again, one of the key influential factors in an unsystematic approach to IMS is the so called psychic distance (Andersen and Buvik, 2002; He et al., 2016; Papadopoulos and Denis, 1988). What this is, however, is not unanimously agreed upon, which according to Sousa and Bradley (2006) stems from that the concept is poorly understood. The concept of psychic distance is often used synonymously with cultural distance (Sousa and Bradley, 2006), for example implicitly in Shenkar (2001) and explicitly in Buerki et al. (2014). However, there are works, such as Nebus and Chai (2014) and Sousa and Bradley (2006), who mean that these are different concepts and should be treated as such.

One of the early users of the term psychic distance is Johanson and Vahlne (1977, p. 24), who refer to it as “[...] the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development”. As can be seen, the notion of difference in culture is brought up already here, and as Sousa and Bradley (2006) state, these two concepts are closely related despite being separate. Additionally, Johanson and Vahlne (1977) talk about the psychic distance between the home and the host country, and this is the main source of confusion in the research. Sousa and Bradley (2006), supported by Nebus and Chai (2014) firmly state that the primary difference between psychic and cultural distance is the unit of analysis. The cultural distance is on the cultural level between two markets. The psychic distance, instead, is the perceived distance that an individual sees to a market. Why this is important is, because as stated by Nebus and Chai (2014), decisions are not made by firms, but by individuals. The managers that take the decision will be affected by their own, subjective view of how the markets differ. Similar thoughts are brought up by Shenkar (2001), who speaks of the heterogeneity of firms, even if he focuses on a firm-level and not individual level. With the individual as the unit of analysis, the psychic distance becomes impossible to measure through objective indicators (Sousa and Bradley, 2006). To further complicate matters, Nebus and Chai (2014) mean that the psychic decision will also be different for different types of decisions, even if the decision involves the same host market.

However, even measuring cultural distance between two countries is difficult. First, as the distance will vary regarding the type of decision that is being made (Nebus and Chai, 2014), it is difficult to catch the entire concept with the use of a number, although this is attempted, through for example the index of Hofstede (1983) that has been used in several studies on FDI determinants (Nielsen et al., 2017). Secondly, Shenkar (2001) brings up several faulty assumptions, or what he calls illusions, that are made when people attempt to measure cultural distance. The previously mentioned firm heterogeneity is one such illusion, but there
is also market heterogeneity, i.e. a difference in culture in different intra-national locations, as most studies seem to implicitly or explicitly equate markets and countries, for example the above mentioned works of Johanson and Vahlne (1977), Sousa and Bradley (2006), Buerki et al. (2014). Nebus and Chai (2014) agree that the distance is not always measured country to country, but sometimes between locations inside a country, or two locations from two different countries. Other illusions brought up by Shenkar (2001) are for example the assumption that the cultural distance is constant over time, that the distance is the same from market A to B as from market B to A, and that every difference in culture is a negative thing. Lastly, Shenkar (2001) also mentions that the cultural distance will not be the only determinant for the decision made, which is in line with the approach of this paper and the focus on several different aspects.

The exact effect that psychic and cultural difference plays in a firm’s choice of market is not established, which here is argued may in part stem from the difficulty in measuring it. In the traditional Uppsala Model, Johanson and Vahlne (1977) mean that firms expand to markets with successively larger psychic distance. This is similar to the thoughts of Shenkar (2001), who proposes that how a firm reacts to cultural distance depends on a multitude of factors which includes the firm’s experience. Furthermore, Shenkar (2001) notes that a larger cultural distance can in some cases mean that the firm wishes to establish more control, for example through a wholly-owned subsidiary, whereas it may in other cases lead to the firm looking for less control, instead using independent agents for distribution. More recently, the theory on so called Born Globals have challenged some of the assumptions in the Uppsala model, with these firms not displaying the same characteristics in their internationalization as the traditional companies. Born Globals are firms that from its start or early years of operations begin their international operations and international sales quickly constitutes a large share of firm revenue (Hennart, 2014; Knight and Liesch, 2016). Some argue that this among other things is a result of founder characteristics, having more international experience (Knight and Liesch, 2016), or that it stems from differences in the business model itself, with new technologies allowing for reduced costs of transportation and communication, allowing firms to deliver to customers globally in a more efficient manner (Hennart, 2014). More international experience among new firm founder is argued to follow naturally from the increased globalization that allows for individuals to explore more of the world, which may thus reduce perceived psychic distances between markets for individuals in these newer, Born Global firms.

In conclusion, it seems almost impossible to objectively measure the impact of cultural distance between markets, and it is even harder to measure psychic distance as it takes the subjective perspective of the individual into account. Thus, in understanding the effects that this plays on IMS, it is critical to understand the firm managers involved in the market selection choice, and how much they allow their subjective view of the potential host country to affect the decision.

2.4.2 The firm’s network

As mentioned, the Uppsala model by Johanson and Vahlne (1977), based on psychic distance, was later modified to include the firm’s network (Johanson and Vahlne, 2009). The network theory, as is inferred by the name, views internationalization as a results of interactions with the firm’s network, where opportunities are created and followed up on (Johanson and Vahlne, 2009). One example of this is highlighted by Cavusgil (1985), namely that firms can expand because they are following their customer to a new market.
Other than customers, the network can according to Zain and Ng (2006) exist of relationships with for example suppliers, governments, banks, competitors, and family, who create new opportunities. They additionally found that networks play a highly impactful role in the choice of market for smaller, internationalizing firm.

According to Sharma and Blomstermo (2003), network ties can have consequences in three separate ways, as illustrated in Figure 2 below. First, the network will act as an information source about the market for the firm, which Cavusgil (1985) and Andersen and Buvik (2002) also state. This can be related to Zain and Ng (2006), who mean that the network allows firms to externalize activities of the internationalization process, such as the market choice, where internal resources are limited. The firm can make use of the already available information in the network, without having to use its own resources to gather the same data, i.e. an information source as mentioned by Sharma and Blomstermo (2003). Secondly, the network ties will affect the timing, or when information will reach the firm, with better placed firms receiving more information at an earlier time. Thirdly, the network actors can help the firm through referrals, such as connecting the firm to other networks, which is also brought up by Chen and Chen (1998). All of this can influence the firm’s internationalization process, an argument for its importance. This is in line with Johanson and Vahlne (2009), who mean that being established in a relevant network - a so-called insider - is a vital condition to achieving success. As such, the network is a crucial resource (Dyer and Singh, 1998).

![Figure 2: Illustration of the ties a network can have according to Sharma and Blomstermo (2003)](image)

Evidently there is a lot of support for the thought that the network plays a large role in the market selection of the firm. Yet, in the articles on FDI determinants explored in previous sub-chapters, the network has not been brought up as a relevant factor. One possibility regards the collection of data. Whereas factors such as market size, educational levels, and policies are relatively simple to measure through available secondary data, a firm’s network is, according to Johanson and Vahlne (2009), an informal social construct with an almost impossible to measure value, particularly from an external point of view. This has a lot of similarities with the previously mentioned difficulty in measuring the psychic distance (Sousa and Bradley, 2006). As such, it is difficult to incorporate this factor in models that do not consider the individual firm.
Another possibility has to do with the size of the studied firms. A lot of network scholars focus on the role of networks for smaller firms. For example, Sharma and Blomstermo (2003) focus on the born global companies, internationalizing when they are still young and small firms. Similarly, Covielo (2006) looks at so-called international new ventures. Zain and Ng (2006) focus on SMEs, as do Hilmersson and Jansson (2012). These are just a few examples but the majority of well-cited works within network theory appears to look at the same types of companies.

Here it is reasoned that as a company grows into a large, multinational player, its dependency on the business network to find and establish themselves on new markets is reduced, and more formal processes of investigating new markets are developed with the firm having a larger resource pool of its own. This would then follow the reasoning with the systematic versus unsystematic approach, where as stated by Papadopoulos and Denis (1988), the smaller firms have a less structured and formal process as this is more resource-intense and complicated to use. However, whether this is the case is not discussed in the above mentioned articles, as they take their starting point directly in the smaller firms. One article that does touch upon this subject, however, is that of Chen and Chen (1998). They find that mainly the smaller firms are dependant on local connections to establish themselves in a local network, and that larger firms have relationships which to a larger extent are global instead of location-specific. How the role of the existing network in initially selecting the market differs between MNEs and smaller firms, however, is not clear from the article. Thus, this further calls for exploring the significance the network plays for MNEs in the IMS process.

Furthermore, in line with the previous argument that a firm most likely does not subscribe fully to a systematic or a unsystematic approach to IMS, the dependency on networks cannot be expected to be a discrete variable. In other words, the firm will most likely not be either fully dependant, or not at all, on its business network. It is therefore here, again, viewed as a valuable contribution, to take steps towards establishing the role that networks play for MNEs in determining their choice of market to expand to, in interrelation with other factors. As noted by Johanson and Vahlne (2009) networks are difficult to measure. By making use of qualitative interviews and allowing for human interpretation, it is hoped that this paper can contribute to the understanding of the role of the network in IMS for MNEs.
3. Model of analysis and research questions

In this chapter, the findings from the literature review are synthesized into a hypothesized model of analysis from which research questions are formulated. These research questions will then form the basis of the continued study.

As presented in Table 1 and Table 2, there is a lack of consensus on the proposed effects of most factors related to the systematic approach to IMS reviewed in the previous chapter on FDI inflow. While for some factors, for example human capital and infrastructure, the diverging opinions are mainly on whether it has a significant (positive) effect on FDI inflow or if the impact is insignificant for MNEs in their market choice. For other factors such as taxes and labor costs, there are studies showing respectively positive and negative correlation with FDI inflows. The authors of those articles do sometimes reason as to why their results look the way they do, for example as Bellak et al. (2009) reason that higher taxes may lead to increased FDI as it is interrelated with a more developed infrastructure. However, as most of this research is based on the market, rather than the firm, as the unit of analysis, this reasoning lacks empirical support. As such, in focusing on the firms themselves, an understanding can be gained not only as to which factors are impactful in the IMS process, but also why.

Looking at the unsystematic approach to IMS, psychic distance and firm network were explored. Regarding psychic distance, given the thoughts that firms expand to markets with successively larger distances (Johanson and Vahlne, 1977; Shenkar, 2001), it is likely that for the larger MNEs, this will not impact the IMS process to the same extent as firms who have fewer subsidiaries and less global presence, and as such it is expected to here find that this plays a small role in the IMS process today of studied firms, but a larger role if looking at historic expansions. To some extent, similar findings are expected regarding the firm’s network, as the firm with larger resources may be less dependent on external resources. However, given the different ways the network can impact the firm (Sharma and Blomstermo, 2003), both as an information source and smoothing entry via referrals, this may still play an impactful role for large MNEs.

As stated several times, it is not clear whether these factors are what the MNEs actually evaluate in their IMS process. In the hypothesized model of analysis for this paper, however, the initial assumption is made that all of these factors are impactful criteria that MNEs and their managers study in the selection process. This model can then be tested and modified in accordance to the findings. Thus, the hypothesized model of analysis contains the categories of pure economic factors as well as institutional factors from the systematic approach to IMS, and psychic distance and firm network the related to the unsystematic approach. The model is presented in Figure 3 below.
From the literature review and the resulting model of analysis above, three main research questions are formulated.

Q1: How do the pure economic factors affect the MNE’s choice of which transition economy market to expand to?

Q2: How do institutional factors affect the MNE’s choice of which transition economy market to expand to?

Q3: How do the factors related to the unsystematic approach to IMS affect the MNE’s choice of which transition economy market to expand to?
4. How the study was conducted

This chapter aims to describe the methodology, procedures and implementations the authors have chosen to find answers to the thesis purpose. This enables the reader to judge the reliability of the results. By making use of methodological literature support is found to legitimize the choices made and to show that the thesis research follow a scientific method. The chapter is concluded by an assessment of the methodology used in the study. Limitations that impacted the study are highlighted, and the consequences they have on the result and discussed.

4.1 Scientific point of departure - a system approach

According to researchers such as Arbnor and Bjerke (2009) and Bryman and Bell (2015) it is important to discuss researcher’s scientific point of view, as the researcher’s values and beliefs might impact how the study is carried out, and what type of conclusions the study aims to draw. As such, methodological literature was used to determine the scientific point of view for this paper in order to predict how it might impact the thesis. Arbnor and Bjerke (2009) further state that any scientific research is conducted within different conceptual frameworks - describing the interrelation between the researchers and the world the researchers study. These frameworks are often categorized into two distinct attitudes: a hermeneutic or a positivistic paradigm. Generally the difference between the two paradigms originates from whether the researchers look to explain or to understand a formulated problem (Abnor and Bjerke, 2009). Before determining the scientific point of view for this paper a brief introduction of the definitions of the two paradigms will follow.

With the hermeneutic paradigm researchers use a personal, interpretative process to understand and draw conclusions from reality, having the focus on “reading” data or sources in a way that brings an understanding (Arbnor and Bjerke 2009; Gummesson, 2000). Patel and Tebelius (2000) underline that no general conclusions can be drawn about the entirety of a system by studying its elements separately, and as such it is important, while using this paradigm, to differentiate the wholeness from the sum of components. The positivistic paradigm, on the other hand, builds on traditional scientific research methodology applied on social studies under the assumption that science is verifiable and objective, through for example quantifiable measures of variables and hypothesis testing (Denscombe, 2016; Patel and Tebelius, 2000). Given the engineering backgrounds of the authors of this paper, there is a tendency to be biased towards the positivistic paradigm, although the additional studies within business topics has given the authors a more nuanced view of how problems can be approached and understood. Consequently, the scientific view of the authors is best described as positivistic but with hermeneutic elements – which according to Gummesson (2000) is not necessarily paradoxical even though many view these paradigms as antitheses.

Arbnor and Bjerke (2009) refine their research theory by introducing three methodological approaches with different degrees of influence of a hermeneutic or positivistic paradigm: the actor-, the analytical-, and the system approach. These are illustrated in Figure 4 below. The actor approach is a hermeneutic approach, proposing that reality is understood and influenced by the insight of the individual. As a counterpart, the analytical approach build on the positivistic paradigm and aims to find causal relations that can describe and explain any effects objectively, independently of who is studying the problem at hand. As the analytical approach regards reality to be additive and does not consider interaction and correlation between different parts, the approach has been criticized for being too rigid and
for overly simplifying reality (Arnbor and Bjerke, 2009; Gummeson, 2000). Furthermore, as the positivistic paradigm which the analytic approach is based on, searches for objective, measurable data, “soft” explanatory variables may be excluded, although these are often prominent especially in social studies (Arnbor and Bjerke, 2009; Bryman and Bell 2015). To compensate for the faults of this approach, the system approach builds on the development of explanatory models and covers both the hermeneutic and positivistic paradigm, although emphasizing the latter. While overlapping with the analytical approach, the system approach argues that the whole is more than just the sum of the parts; recognizing that reality is complex and that interaction between the elements can add synergies to the system (Arnbor and Bjerke, 2009), which as mentioned Patel and Tebelius (2000) bring up as an important aspect to consider. This system approach describes the point of departure of this study, with the authors’ tendencies towards a positivistic view of science but tackling a highly context-dependent problem where the entirety must be understood, not just the individual elements.

![Hermeneutic paradigm](image.png)

**Figure 4:** The three methodological approaches by Arnbor and Bjerke (2009)

### 4.2 The approach of the thesis

In this subchapter the different perspectives of the approach of the thesis are explored in regards to course of action, type of study and research design, with the intention of providing transparency for the readers.

#### 4.2.1 Work characterized by a deductive approach with inductive aspects

In the literature review, different perspectives on IMS and related subjects were explored, and from this existing body of knowledge a model of analysis was hypothesized and research questions formulated. This type of approach, collecting and sampling theory to construct a hypothesis which is tested against empirical findings, is similar to that described by Bryman and Bell (2015) as a deductive approach. Due to the limited experience on the topic at hand from this paper’s authors, the deductive approach was reasoned to be well suited in order to rely on previous studies to form an understanding. However, where the hypothesized model was shown to have flaws, modifications were done, resulting in the presentation of a new model, created from the collected data. This is similar to what Bryman and Bell (2015) call an inductive approach. Thus, while the thesis is mainly characterized by a deductive approach, inductive elements can also be found.

#### 4.2.2 An explanatory approach - answering the *how* and *why* of the study

According to Lekvall and Wahlbin (2011), determining the research orientation is important as it builds the basic study design which helps specifying the types of results that are hoped to be found and clarify what conclusions are to be drawn from the study. This thesis aims to examine the causation between the identified selection criteria, i.e. the “how” and “why” of these variables, and their overall influence on MNEs’ IMS process, and as such an
explanatory research approach is suitable. (Lekvall and Wahlbin, 2011; Saunders, Lewis and Thornhill, 2009; Yin, 2009). This is because the underlying purpose of the report has a degree of explanation ambition, which is not found in e.g. a pure descriptive study (Lekvall and Wahlbin, 2011). Furthermore, the study aims to gain basic knowledge and understanding of the subject area of IMS and examining a smaller number of possible explanatory variables, two aspects which Lekvall and Wahlbin (2011) argue constitute the purpose of an explanatory approach.

4.2.3 A qualitative research strategy to tackle the complexity of the research problem

Bryman and Bell (2015) state that a positivistic perspective with a deductive approach generally tends to have more of a quantitative research strategy. However, despite the predominant deduction and positivism of this study, the qualitative approach was chosen as the primarily focus of the thesis research strategy. In part, this was due to expectations that there would not be sufficient quantifiable data to answer the complex research questions posed. Furthermore, given the problem of understanding the impact of different criteria in the IMS process and how they relate to the context, a qualitative approach was believed to allow for less fragmented knowledge, as proposed by Patel and Davidson (2011). Further support is found in Mariampolski (2001) who state that a qualitative approach is appropriate when a study is meant to examine the underlying cause of a behavior – as is the case here in understanding why MNEs select new markets in the way they do – with a similar reasoning by Gephart (2004). Examples such as the difficulty in measuring psychic distance (Sousa and Bradley, 2006), and firm network impact (Johanson and Vahlne, 2009) further calls for a qualitative as well as interpretative approach.

4.2.4 Case approach allowing for a holistic view of the problem

The most common research approaches for a qualitative strategy are case studies or cross-sectional studies (Lekvall and Wahlbin, 2011). However there are similarities between them and no clear distinction. Lekvall and Wahlbin (2011) mean that the aim of the latter is to compare each questions in detail between a large number of respondents. In comparison, a case study is described as having a more holistic view to give a deeper understanding of the topic at hand, where comparisons are made between cases through qualitative methods and with fewer respondents. This is similar to what Miles et al. (2014) refer to as a case-oriented cross-sectional study, which highlights the difficulties in distinguishing between the two approaches. Regardless of which name is used, as it has here been argued the importance of analyzing the IMS process and the criteria used in the context of each firm, this case-based approach was believed to be the most suitable approach for this study. Given the explanatory nature of the thesis – i.e. researching questions of “how” and “why” – further support for choosing this case approach can be found in Yin (2009). This allowed the authors to both compare and contrast cases to understand what was specific to each case and what was likely to be generalizable, while at the same time, according to Denscombe (2014), to delve deeper into a detailed investigation of the studied phenomenon.

4.3 Maintaining a structured thesis process

In order to tackle the research problem in an efficient manner, and promote transparency and replicability, a structured approach to the work at hand was seen as necessary. The chosen starting point of the work structure of this thesis was inspired by the twelve step framework
presented by Lekvall and Wahlbin (2011) for conducting market research. Figure 4 illustrates the framework of Lekvall and Wahlbin (2011) and the relatedness of the steps. It can be likened to a more detailed version of Yin's (2009) linear-analytical structure of a case study, which includes similar steps. However, both of these frameworks are of a mainly deductive nature, and this thesis has some inductive elements (see subchapter 4.2.1) in regards to revising the hypothesized model of analysis which is not tested anew with a new data sample. Despite this, however, the authors would argue that the proposed steps in the framework of Figure 5 match the approach taken here, besides the somewhat suggested iterative element of the model. In the following subchapters, how the initial steps of problematizing and the literature review were conducted are detailed more closely, as well as how the data was collected and analyzed. Subchapter 4.10, subsequently, assesses these choices made and how they impacted the results of the study.

![Figure 5: Structural thesis approach based on the methodology presented by Lekvall and Wahlbin (2001)](image)

This study was carried out in collaboration with the Primăria Municipiului Chişinău, or City Hall of Chisinau Municipality (hereafter PMC), the main subnational government body of Chisinau municipality, which is the largest region and capital of Moldova. As a result of this a part of the study was conducted in Chisinau. Due to language barriers between the authors of this thesis and employees at PMC pre-study interviews and defining a purpose of the thesis provided a challenge, that resulted in a slight alteration from the presented framework. Instead of the linear process of the four first steps presented in the model, these steps were undertaken simultaneously (parallel to each other) in an iterative process. The language barriers were once again somewhat of an issue in the data collection phase - providing a challenge both when contacting firms as well as during interviews.
4.4 Problematizing - defining the problem, its research value and the purpose of the thesis

In accordance with the framework of Lekvall and Wahlbin (2001), the thesis began with identifying and formulating the research problem. This is also the first activity of a case study distinguished by Yin (2009). While formulating the research question, the aim was to elaborate a clear purpose of the research, which is later expanded upon in the first chapter; allowing the reader to understand the purpose. As such, the problem statement is an important device to keep track of the research, a view shared by several scholars (Andrew and Hildebrand 1982; Lekvall and Wahlbin, 2011; Yin, 2009). For this paper, formulating the research problem was an extensive process that, as mentioned in the previous subchapter, went through several iterations in combination with the subsequent steps of the framework in Figure 5 in order to clearly define what was – and what was not – to be researched.

The included activities of this iterative process was; an initial review of international market selection literature, determining an appropriate scope of the research study as well as the feasibility of different plausible investigation inputs, two important aspect of a research project according to Andrew and Hildebrand (1982). Furthermore, a pre-study interview was conducted with a Chisinau PMC representative. The authors identified both a lack of consensus among previous works, with several researchers pointing to the differences of IMS determinants depending on the markets economic development, and actionable value for both internationalizing firms (as a critical part of sustaining growth and making profit) and external stakeholders such as government bodies (by stimulating economic growth and jobs being created as well as contributing to tax revenues), as the basis of the research questions – hoping to contribute to the IMS literature and thus, the purpose of the report could be formulated.

4.5 The unit of analysis is the firm, while taking individuals into consideration

According to Pratt (2009) qualitative researchers should explain the nature of the context they are examining - i.e. choose a unit of analysis, what entity is being analyzed in the study. Yin (2009) argues that the unit of analysis defines a helpful preliminary and general guideline of the research. Furthermore, the unit of analysis justify the context from a sampling perspective (Pratt, 2009). As this paper is explicitly focused on understanding the decisions made by the individual firm in their IMS process, the main unit of analysis is the firm. However, as this paper also attempts to understand the influence of psychic distance and the firm’s network, the individual may to some extent also have to be taken into consideration, as the psychic distance may vary between individuals in a firm, and the network can include personal contacts that an individual in the firm has to a new market.

4.6 Literature review - the basis of the ongoing study

In each iteration of attempting to formulate the problem at hand, relevant literature on the problem topic was reviewed to collect what material already existed on the topic and to avoid attempting to answer a question that already had answers. This is in accordance with Yin (2009), who states that developing a theory as part of the research design is essential,
regardless of the nature of the thesis’s purpose. Another aspect that was taken into consideration was how the study relates to previous research (Denscombe, 2014), mainly by attempting to connect market-focused FDI location theory to the firm-focused IMS literature. In contrast to the view of Yin (2009) and Denscombe (2014), Eisenhardt (1989) opposes the use of theory as to avoid bias analyses of the findings. However, as the thesis authors have limited experience in the field, starting from scratch was believed to lead to a situation where little valuable results or insight could be obtained. As such, the authors of this thesis chose to proceed in accordance with the view of Yin (2009) and Denscombe (2014) and the chosen deductive approach. Primarily, journal articles relating to FDI for MNEs was used, with an additional interest for articles dealing with developing-, emerging-, or transition economies.

4.7 Data collection method

The subchapters under this heading explain the process of collecting the data used in this study, from the choice of data collection format to how the respondents were selected.

4.7.1 Using interviews to collect primary data on the IMS criteria used by MNEs

With the starting point of the explored literature and in line with the objectives of the study, to investigate the market selection criteria used by firms, primary data was collected through interviews of a qualitative nature. This format is advocated by Bryman and Bell (2015) when a study’s interest is on obtaining rich and detailed information about what the respondent perceive as relevant and important. Interviews with the same or similar purpose is mentioned by Mariampolski (2001) as individual depth interviews, which is the intensive study of respondents’ explanations for their preferences without interference from other respondents. It is also probably the most common method for collecting data in a qualitative study (Bryman and Bell, 2015). Additionally, Yin (2013) states that interviews provide data in the form of an explanation of another person’s or organization’s behaviour and actions, and as this study was focused on understanding how and why firms make decisions on IMS the way they do, interviews were believed to be the most suitable alternative to create the holistic view required.

4.7.2 Selection of respondents

Lekvall and Wahlbin (2011) state that one of the most important things when sampling the respondents are their accurate representation of the target population, and Bryman and Bell (2015) note the importance of deciding on sampling criteria before identifying candidate respondents to contact. As such, before contacting companies criteria were set up to ensure an accurate representation:

i) The company must be engaged in direct operations in two or more countries, i.e. be an MNE engaging in FDI in accordance with the definition of Dunning (1993)

ii) The company should be represented on a transition economy market, for example Moldova, other CIS- and/or Eastern European countries.

The sampling technique used in this thesis is by scholars often referred to as purposive sampling (Bryman and Bell, 2015; Denscombe, 2014; Lekvall and Wahlbin, 2011). Denscombe (2014) describes the sampling method as hand-picking the respondents and that
they are chosen because they should produce valuable data. Bryman and Bell (2015) state that the purposive sampling is the most common sampling method for qualitative investigations, and Lekvall and Wahlbin (2011) mean that this is suitable for case-based explanatory research. As this thesis falls under this category, it is here believed to be a suitable sampling strategy.

There are no existing rules for the number of respondents to ensure significant results (Yin, 2009). For a study with a purposive, non-random sample, Wilmot (2005) mean that the number of respondents is less important, as long as the sample reflects the diversity of the population. Kvale and Brinkmann (2014) further argue that a larger number of interviews will not make a research “more scientific”, and that a lot of interview studies would gain from lowering the number of respondents and instead focusing on the preparation and analysis of the interviews. Although Eisenhardt and Graebner (2007) argue that one single case may be sufficient if it is a perfect fit for the study, they mean that striving for multiple cases can both provide contrast and increase the reliability of the study. Here, as the focus is on MNEs, which is quite a large population even if limited to those active in transition economies, it was believed that the study had a lot to gain from making use of several cases and interviews, in order to find the contrast noted by Eisenhardt and Graebner (2007) when putting the different firms in their respective context. With more cases, the underlying cause of why a given factor may act as a selection criteria for some MNEs but not for others was believed to be more easily identifiable. However, reaching an adequate selection provided a challenge, due to a low frequency of replies to the authors’ many attempts at contacting firms that fulfilled the sampling criteria, the end result was eight interviews, out of which six provided enough data to be useful in the analysis.

4.7.3 Designing an interview guide from the introduced research questions

When interviews is the chosen method for data collection, it is suitable to design an interview guide to work as a form of script during the interview (Kvale and Brinkmann, 2014; Lekvall and Wahlbin, 2011). This was done for this study, and the interview guide can be found in Appendix A. The format chosen was a semi-structured approach; by having a few major subject areas that the respondent could talk freely about rather than detailed questions, the authors could get a better understanding of the context and a holistic view of the firms’ IMS processes, in accordance with Bryman and Bell (2015).

The interview questions were developed with the recommendations of Kvale and Brinkmann (2014) in mind, who advocate that the questions should be short and easy to understand, without using excessive academic language or complicated formulations that can lead to misunderstandings. For this study this is extra important, as many of the interviews were held in English that was not the first language for either the authors or the respondents. To reduce the risk of ambiguity, the interviewers sought to both clarify what was meant when a question was asked, and what the respondent was referring to when discussing a potentially ambiguous aspect. Furthermore, care was taken to ensure that each question focused on only one subject, and were not leading in the way they were formulated, following the recommendations of Lekvall and Wahlbin (2011)

The initial part of the interview guide consisted of questions of a general nature, gaining an understanding of the organization and person being interviewed. For MNEs it also covered their international presence. Questions of this nature are recommended by Bryman and Bell (2015) in order to begin the interview in a calm and relaxing manner. Next the focus was
placed on the IMS process of the company. Here, the starting point was to ask open-ended questions regarding the selection of a specific transition market that the company had previously expanded to, rather than to ask about how markets in general are selected. The reason for this was to understand the impact of “soft” variables such as the network, as it was believed that asking for the general case would have the respondent focus more on the systematic, formal, or official method employed by the company. After the open discussion on this subject, the specific identified market selection criteria from the literature review were brought up and the respondent asked about those aspects specifically. This was done after the open-ended question was asked in order not to steer the respondent into certain areas from the start. Lastly, as this study was performed in cooperation with PMC, there was a block of questions regarding Moldova specifically, to understand how the MNE views this market with regards to the previously discussed criteria. The results of these questions, however, are not presented in this paper as they deal with applying the findings of the study, rather than the study itself.

To conclude the interview two aspects mentioned by Kvale and Brinkmann (2014) were followed. Firstly, a last open question of whether the respondents wanted to add, clarify or change anything they mentioned during the interview were asked. Finally the interviews concluded the most important insights the interview gave, in order for the respondent to give the opportunity for them to present any feedback on this.

4.7.4 Conducting the interviews

The initial contact was through email. Lekvall and Wahlbin (2011) argue that this is suitable compared to telephone contact, since contact through phone gives people a short time to come to a decision, which increases the risk that the candidate refrains from participating due to choosing the more “comfortable” option when giving short notice. After contact was established, the candidate was informed on the thesis subject, and a date and time could be set. When the respondent and the authors were found to be in the same or nearby cities the interview was conducted in person, and in other cases the interview was held over telephone or video conference for reasons of efficiency. This is in line with Lekvall and Wahlbin (2011) who describe flexibility and speed to be beneficial when a relatively large sample of data is required in a short time. Where possible, the interviews were conducted in Swedish, and in the remaining cases in English, with a time-frame of between 40 and 90 minutes. Both authors were present at the interviews. While both were involved in both interviewing and taking notes, one person was responsible for leading the interview and the other on taking more detailed notes.

As previously mentioned, semi-structured interviews were used to allow the respondent to talk freely and to give the authors a holistic view of the topic, in line with Bryman and Bell (2015) and following the objectives of the study. The interviews began with a short orientation explaining the thesis work and its purpose as recommended by Kvale and Brinkmann (2014), and informing the respondents on their rights to at any time revise their answers or exit the interview, in accordance with Bryman and Bell (2015) and the ICC/ESOMAR ethical guidelines presented in subchapter 4.9, as well as asking for permission to record the interview. Next, the interview continued through the use of the semi-structured interview, concluded with the above mentioned recommendations by Kvale and Brinkmann (2014). Immediately following the interviews, the authors individually summarized their notes, which were then compared to see that there was agreement as to the
findings. In cases where it proved necessary, the results from the interview was later complemented through email contact with clarifying questions.

4.8 The analysis tactics and process

When it comes to qualitative research, both Bryman and Bell (2015) and Lekvall and Wahlbin (2011) state that there is no best practice, nor any widely accepted methods for analyzing the collected data, as is the case for quantitative studies. Particularly for case studies, Lekvall and Wahlbin (2011) note that each case needs to be individually presented, and that is is not possible to propose a general method on how to do this, as the context of the case company will influence how to best present this in order to gain an understanding. However, it is here believed that forming and presenting a structured process for analyzing the data will be helpful both to the authors of this paper to reach valid conclusions, and to the readers in understanding how said conclusions were drawn.

While there are no well-established methods to qualitative research, Bryman and Bell (2015) propose that it is common for qualitative analysis to take an iterative approach, i.e. be performed in parallel with the data collection phase, instead of collecting all the data from all interviews and then analyzing the full data set. This allows researchers to adapt the interview questions for future interviews in case new insight is found that the researchers wish to explore further. For similar reasons, Lekvall and Wahlbin (2011) recommend performing analysis of qualitative research in this fashion. Following these thoughts, this thesis adopted the continuous analysis of collected data. Given that the research problem at hand required an approach that incorporated interpretative elements, it is here believed that the continuous analysis of data had the added benefit of better catching the details and nuances of the interviews while these were still fresh in the researchers’ minds. Had the analysis been held off, these details may have been lost, or incurred a large additional time cost from having to listen through interview recordings multiple times.

Analyzing the data collected from any given interview with an MNE was a process in three steps. First, immediately following the interview, the authors went through their notes and wrote a separate rough draft of an “interview story”, a text aiming to capture the context of the interviewed organization and the answers given regarding the IMS process. Secondly, the authors compared the interview stories, to ensure that both had obtained similar results, and if not discussing the differences until agreement was reached. From this discussion, based on the hypothesized model of analysis, the impact of each factor in each category of the model was rated according to a coding system presented in the next paragraph, and summarized in a table format. The table aims to give an overview of the obtained results from each interview. However, as it is important to not lose track of the context of the studied case (Bell and Bryman, 2015), and not mistake the sum of the parts for the whole (Patel and Tebelius, 2000), conclusions cannot be drawn solely from this table. Therefore, the third step of analyzing the data from one interview, was to write a final version of the interview story to be presented in the paper and from which further analysis could be made, establishing the impact of each tangible or intangible factor on the IMS process for each interviewed MNE. This was done for every interview, and as more interviews were collected these were compared and conclusions were drawn.

The coding system used to summarize the impact of each factor was a simple numerical scale, giving each factor a rating between 1 and 4, with 4 representing a highly significant criteria. This range was believed to be an adequate size; a larger scale would give an
unfavorable trade-off between reliability and additional insight, as having the authors interpret the interview results along a larger numerical scale would likely lead to the results being more affected by subjectivity, thus reducing the reliability of the results. A smaller scale, on the other hand, would not allow for illustrating the nuances between the different factors studied. Lastly, by having an even-numbered scale, the authors could not place a factor in the middle of the scale for comfort or uncertainty reasons, but instead had to analyze the problem more extensively and make an informed choice for the rating. Before conducting the interviews with the firms, in order to provide reliable results and not solely base the ratings on the authors’ gut feelings, several criteria were set up that were used to determine which rating a candidate market selection criteria received. These were based on whether the factor was explicitly mentioned without being suggested by the interviewer, the emphasis the interviewee places on it, and how it is evaluated in comparison to other factors. The criteria related to the respective rating is illustrated in Table 3 below. However, for the “soft” variables, namely psychic distance and network, these criteria are difficult to use. Therefore, for these factors the authors had to, without explicit rating criteria, interpret the responses and ensuing discussions to open-ended questions on the IMS process in previous market choices. How this may affect the results is discussed in chapter 5.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Rating description</th>
<th>Criteria for rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Critical for IMS. cannot be compensated for by other factors.</td>
<td>Mentioned by interviewee in response to an open-ended question on the IMS process and market selection criteria. Emphasized as highly important, even when put in relation to other factors.</td>
</tr>
<tr>
<td>3</td>
<td>Important criteria for IMS. However, can be compensated for if other criteria are at a good enough level.</td>
<td>Should be mentioned by interviewee in response to an open-ended question on the IMS process and market selection criteria. Emphasized as important, but not more so than selection criteria deemed as critical. Discussed in a way that shows that the criteria in itself does not constitute a “go/no go”-decision.</td>
</tr>
<tr>
<td>2</td>
<td>Low importance for IMS. Can be regarded if two or more markets are similar in more important aspects.</td>
<td>Does not have to be mentioned by interviewee in response to an open-ended question on the IMS process and market selection criteria. When asked explicitly about the factor, does not immediately dismiss as unimportant, but discussed in a way that shows that it is not among the main factors evaluated. When put in relation with other factors, explicitly deeming this factor as less important.</td>
</tr>
<tr>
<td>1</td>
<td>No measurable impact on IMS.</td>
<td>Not mentioned by interviewee in response to an open-ended question on the IMS process and market selection criteria. When interviewee is asked explicitly about the factor, dismisses it as unimportant without major hesitation.</td>
</tr>
</tbody>
</table>

4.9 Ethical aspects with the guidelines of ESOMAR and ICC

In the work with this thesis, the authors have aimed to follow certain ethical principles throughout the work, striving to maintain an honest approach characterized by transparency and minimizing the effect that the authors’ personal beliefs may have on the study. Additionally, no commercial activities have at any stage been direct either towards the respondents of the case firms, nor towards the authors of the thesis. Both the ethical rules and guidelines by the European Society for Opinion and Marketing Research (ESOMAR)
and the International Chamber of Commerce (ICC) have been studied to provide guidance in considering the ethical aspects of market research.

In order to create transparency, as well as trust in the authors, in any initial external contacts – such as with the respondents of the case firm – the thesis was introduced to the given contact. This included information about the authors, the purpose of the thesis, and that it was conducted in cooperation with the PMC. Furthermore, the authors were clear that any participation from the respondent was completely voluntary, and that the respondent could at any time choose not to answer the questions asked by the authors. Additionally, the respondent could at any time during or after the interview change their answer if they so wished, which was explained at the beginning of the interview – however, no respondents chose to change their answer post-interview. At the start of each interview that was conducted in person, permission was also asked to record the interview for use solely by the authors in the data analysis. These steps are all in line with ESOMAR and ICC, as well as the ethical principles of conducting market research suggested by Lekvall and Wahlbin (2011), Bryman and Bell (2015), Yin (2009) and Kvale and Brinkmann (2009). For interviews that were not conducted in person, no recordings were made.

Another aspect that was considered was the potential risk of harm by participation that could come to the respondents and their respective firms. To minimize this risk, all respondents were given anonymity by each interviewed firm being assigned a code name, with solely the authors knowing which firm was associated with any given code name. Furthermore, the authors have done their utmost to exclude any information given during the interview that would make the firm easily identifiable. Additionally, keeping all information on password-protected storage unit accessible only by the authors helped maintain the confidentiality – i.e. that only permitted users can access the data. Lastly, the data collected was only used – and will only ever be used – in this study and nowhere else.

4.10 Methodology criticism and assessment of thesis quality

Several researchers emphasize the importance of using methods to ensure a high quality of any qualitative research study (Bryman and Bell; 2015; Kvale and Brinkmann, 2014; Lekvall and Wahlbin 2011; Yin, 2009). In order to test the quality of the methodology of this thesis, four tests commonly used for empirical social research have been used, namely construct validity, external validity, internal validity and reliability (Lekvall and Wahlbin, 2011; Yin, 2009). Furthermore, the thesis paper has been examined by both the thesis opponents and supervisor at several occasions. Finally, the authors have tried to maintain an objective approach and clearly separate between what has been said in previous research, what is mentioned by the interviewees during data collection, and the authors’ own reflections.

4.10.1 Validity - actually measuring IMS factors for MNEs

To meet the purpose of the study and reach the actionable and valuable results raised in the introduction in this thesis, the validity of the study was assessed. Validity, according to Kvale and Brinkmann (2009), refers to how well a study examines the phenomena it set out to research. Applied to this study this refers to how well the thesis captures the complexity of systematic and unsystematic IMS factors respectively for MNEs to transition economies. In order to do so, the three different types of validity – internal, external and construct validity – described by Yin (2009) to be relevant in the context of a case study were assessed. Gibbert, Ruigrok and Wicki (2008) mention that these are not entirely independent of each
other as strong construct validity and internal validity are necessary requirements to achieve external validity that could be considered sound, and as such the process of assessing them were intertwined. However, they are presented independently in the following three subchapters.

Construct Validity – consistency with previous IMS- and FDI research

According to Lekvall and Wahlbin (2011) and Yin (2009), construct validity covers two areas. First, it is a measurement of the study’s consistency with the results of previous research. As was identified early on in this paper, there is a lack of consensus among which factors are most impactful on FDI inflows (Assunção et al., 2011; Nielsen et al., 2017), and a lack of empirical evidence on the IMS process of firms (Ozturk et al., 2015; Papadopoulos and Denis, 1988; Papadopoulos et al., 2002). Therefore, it is difficult to state with full certainty whether or not the results are consistent with previous research. However, of the numerous factors identified in the literature review as possible influences on the IMS process, all but two were found to be somewhat to highly impactful in multiple cases, and only one additional factor was recurring during the findings. Considering this paper’s attempt at linking FDI location theory with IMS research, this result is here argued to be in line with previous research to a satisfactory level.

The second area covered by construct validity is how well the concepts of the study are operationalized (Lekvall and Wahlbin, 2011; Yin, 2009). In other words, it deals with how well the problem has been broken down into manageable parts using a sufficient operational method rather than relying on the subjective judgement of the authors. As such, it answers to the criticism of subjectivisim in case studies (Lekvall and Wahlbin, 2011; Yin, 2009). In order to increase the construct validity in this regard, the use of multiple sources during the literature review ensured that there are in fact several previous works supporting a given proposition or argument – for this thesis mainly that a given factor is indeed impactful in determining FDI inflows – as well as illustrating different perspectives where applicable. This is in accordance with what Yin (2009), Denscombe (2016) and Bryman and Bell (2015) refer to as triangulation. Furthermore, the authors have strived to explicitly and clearly show each step of operationalization in a transparent manner, from finding the initial research question to eventually drawing conclusions, thus in the terminology of – and in accordance with – Yin (2009) establishing a chain of evidence for anyone interesting in examining how the research was conducted. This is both part of the construct validity and also the reliability of the study, as is further explored in subchapter 4.10.2 below. The noted deviation from this chain of evidence is the anonymization of the the firms and respondents interviewed during the study, which somewhat prevents others from performing the exact same study again. This choice was made as the ethical principles were seen as outweighing the repeatability for this case, which somewhat lowers the validity. However, by noting the firm industry and giving the context of the firm in Chapter 5, it is believed that a similar study could still be performed that covers the same industries and firm motives, although with different firms.

Internal Validity – Credibility

As this paper intends to answer how and why factors affect the IMS process of MNEs, i.e. find causal relationships, the internal validity is important to consider. According to for example Bryman and Bell (2015) and Yin (2009), internal validity is a measure of the extent to which causal relations may be concluded from the study, and whether they are viable and correctly inferred. For example, a causal relation between X and Y may be inferred, even
though it really is an unknown factor Z that impacts Y. The main tools the authors aimed to utilize to tackle this issue were to conduct semi-structured interviews, make use of multiple interviews, and to base the reasoning in the analysis chapter in previous works rather than resorting to speculation with no basis. By conducting semi-structured interviews, the authors did not force the respondents to focus only on the hypothesized factors as impactful in the IMS process. With the respondent being allowed to talk freely about the IMS process, the risk of missing unknown factors was reduced, which in fact allowed for the discovery of factors not brought up during the literature review. As such, this tool had a positive influence on the internal validity of the study.

Regarding the second aspect, making use of multiple interviews, this was somewhat successful. When categorizing firms according to suggestions from reviewed works, the findings between the firms within any given category coincided well with each other, a positive sign for the internal validity. However, the sample size was, as mentioned, relatively small; only eight interviews were secured, and of those only six were determined usable in the continued analysis due to insufficient data received from the remaining two interviews. This smaller sample size will understandably affect the possibility of drawing general conclusions in a negative manner, and thus also the internal validity. Additionally, with qualitative interviews as the primary data collection method there are other risk factors to consider. Kvale and Brinkmann (2009) suggest that the analysis and interpretation of qualitative interviews might be dependent on the researcher’s point of view and beliefs, leading to bias. This was tackled through the previously mentioned operationalization of the process to minimize this negative impact, as well as the predetermined rating criteria described in subchapter 4.8 to reduce bias. Of course, given the interpretative nature of the problem and of qualitative interviews, it cannot fully be excluded that it has been impactful, but the utilized tools are still believed to have reduced this risk greatly. Furthermore, interviewing firms of different industries showed to have an impact on the findings, with variations of how the factors were prioritized dependent on the firm’s motive. This led to including the firm motive in the revised model of analysis. Considering the relatively small sample size, and that the firms are in different industries, there is a risk of another study achieving different results if looking at different industries, which affects the credibility negatively.

Lastly, the authors avoided speculating freely as this was believed to bring a high risk of making false inferences, in particular given the small data sample available. Instead, by basing the reasoning in previous works, such as when categorizing firms, it is believed that the conclusions drawn are more robust against the potential of false causalities, as one or more previous works had already drawn related conclusions. However, given the interpretative and complex character of the problem at hand, the possibility of false causality finding its way into some part of the paper naturally cannot with full certainty be excluded, despite the efforts of the authors.

**External Validity – Transferability**

External validity is the possibility to transfer and apply the findings of a study on another, similar situation (Denscombe, 2009), or the ability of generalization of the results (Yin, 2009). According to Bryman and Bell (2015), generalizing results is difficult in particular for qualitative studies, as the sample size is normally smaller than for a quantitative study. Given the relatively small sample size (even for a qualitative study) and the aforementioned issues with interviewed firms belonging to different industries, this effect is naturally
enhanced on this study, affecting the external validity negatively. Yin (2009) sees this so-called analytical generalization for case studies as based in theory rather than in the target population, and as such this type of generalization requires testing multiple times through additional cases. Due to the format of this study, it has not been possible to test this model iteratively. Instead, only one hypothesized model has been tested and updated in accordance with the findings. It is thus difficult to with certainty speak as to the transferability of the resulting model until further cases are studied that conform with it. However, given the mainly deductive approach the elements of the model are based in previously tested theories, and as will be seen in the upcoming chapters the findings conform to previous propositions in for example the effect that firm motive plays on the relative impact of certain determinants for FDI inflows. This speaks in favor of satisfactory external validity of this study. Nevertheless, as this study is based on the fact that there is a lack of consensus in previous research, with the resulting inductive elements in the approach and suggested revisions to the model that are not tested with new cases, it is not possible to confirm the generalizability in this study alone.

4.10.2 Reliability - repeatability with similar results

A study has high reliability if it could be repeated with similar results if given similar conditions (Bryman and Bell, 2015; Kvale and Brinkmann, 2014; Lekvall and Wahlbin, 2011; Yin, 2009). Thus, it is a measure of a study’s overall ability to withstand contingency factors. By extension, if a study when repeated gives scattered results, the reliability is low. Naturally, striving for high reliability is preferable, and in pursuit of this goal together with the aim for transparency, as previously mentioned this paper includes a written account of the steps taken for this study, and explicitly describing and explaining the choices made where required. Through this, replicability and thus a higher reliability is ensured.

According to Lekvall and Wahlbin (2011), qualitative case studies often have a lower degree of reliability than quantitative studies. They argue that this is because the interviewee’s answer will be contingent on many factors that impact the variation of the responses. Denscombe (2016) promotes standardized interviews with structured observations to counter this and gain a higher degree of reliability in the qualitative study. For this study, however, semi-structured interviews were used, in order to improve the validity as discussed in the previous subchapters. Consequently, the data may be more difficult to replicate, lowering the reliability. However, as a countermeasure for this Lekvall and Wahlbin (2011) propose conducting several interviews, which as previously mentioned also improves the validity, and was done here, albeit with a relatively small sample size. As was discussed in subchapter 4.7.2, there is no one correct number of how many interviews should be used, and as such it is difficult to clearly state how well these eight interviews – of which six were used – tackle the issue of contingency factors influencing the study.

While standardized interviews were not used, another recommendation by Denscombe (2016) was followed to promote higher reliability, namely making use of the fact that there are two authors for this paper. Both authors were present at the interviews, and therefore for any given interview, one author acted as the main interviewer and the other as an observer both of the responses and behavior, in order to better capture the interview in its entirety and thus lead to a better analysis. Moreover, the rating system described in subchapter 4.8 was used to search for “objective” indicators, which both reduces the impact of the authors personal beliefs and increases replicability and transparency. Furthermore, following the recommendations of LeCompte and Goetz (1982), as described in subchapter 4.8, the
interviews were individually coded and a draft of an interview story written, before comparing to discover any eventual disagreements. This concept was followed with every interview, and reduced the individual bias of the authors, resulting in an increasing reliability.
5. Findings – interviews with the case firms

In the following chapter the empirical data is presented. The data is based primarily on the interviews with the case firms but has been complemented by company press-releases and other available information through each firm's respective website. Each respective interview is presented as a narrative, beginning with a short description of the company’s background in regards to industry and markets of operation and international expansion history, before going into the firm's international market selection process - presenting the regarded factors and their respective influence. Each narrative is concluded with a synthesis of the findings from each interview in a table where each factor of the model of analysis has been rated according to the method presented in subchapter 4.8.

5.1 An overview of the case companies

As mentioned, out of the eight interviews with firms, six provided enough data to be included in the study. These firms were interviewed regarding their IMS process, each firm originating from a mature market in Western Europe and currently present in the studied region of transition economies in Central- and Eastern Europe and Central Asia (in future references to the studied region, this area is what is referred to). Before going into depth with the each respective interview story, the firms are presented in Table 4 below. The intention behind this is to provide an overview of how the firms in the data sample vary in terms of firm industry and size. In regards to size, in order to preserve the anonymity of the firms while still indicating their relative size the firms have been categorized as Small, Medium-Sized or Large. The categorization follows the EU definition (European Commission, 2017), where a small firm has less than 10-49 employees and a turnover of less than €10 million, a medium-sized firm has between 50-249 employees and a turnover of less than €50 million, the large firm exceeding these numbers. For reasons of anonymity, the firms have also been given fictitious names, related to their respective industry in order to make it easier to relate this presentation of data to the analysis in the following subchapter.

<table>
<thead>
<tr>
<th>Case firm</th>
<th>Industry</th>
<th>Size</th>
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<tbody>
<tr>
<td>FiberboardCorp</td>
<td>Fiberboard products</td>
<td>Large</td>
</tr>
<tr>
<td>AgriCorp</td>
<td>Solutions for agricultural industry</td>
<td>Medium-sized</td>
</tr>
<tr>
<td>SalesCorp</td>
<td>Consumer products (direct sales)</td>
<td>Large</td>
</tr>
<tr>
<td>TradeCorp</td>
<td>Wholesale and retail</td>
<td>Large</td>
</tr>
<tr>
<td>MachineCorp</td>
<td>Heavy machinery for agricultural industry</td>
<td>Large</td>
</tr>
<tr>
<td>ITCorp</td>
<td>IT Outsourcing</td>
<td>Small</td>
</tr>
</tbody>
</table>

As mentioned, it is deemed important to understand the context of the firm in understanding their IMS process. For this reason, the presentation of the data has been divided into
subchapters for each interviewed case firm, through which this paper aims to communicate said context for each case.

5.2 FiberboardCorp

FiberboardCorp is a manufacturer of simple fiberboard products, represented on different markets through the firm’s few, large production facilities from which goods are exported to their customer base - consisting of few but very large customers. Having been present in the region of this study’s focus for around a decade, the company is now in discussions of further expansion in this or an adjacent region.

For FiberboardCorp, when entering the Eastern European region, the IMS process was closely related to the decision to increase its international presence. This was because the expansion was requested by the firm’s largest customer, specifically to this region because of a desire for sourcing options closer to the end destination of the products. Exactly which country within this region to expand to was less important to the customer. The firm therefore studied certain aspects of the possible countries, but there was no formalized process that resulted in a rating between the markets. As such, one factor that ended up playing an important role in the final choice was that the customer had trustworthy contacts in one of the markets that could facilitate the entire establishment process, such as finding suitable intra-national locations to set up operations. FiberboardCorp entered the market as a subsidiary of the company on the home market.

However, as mentioned, certain aspects were indeed taken into consideration. The first and foremost requirement of the new market was an availability of fiberboard suppliers. While at least one large supplier was necessary, having several ones available near the operations was preferred in order to decrease dependence and reduce supplier opportunism. As the firm is export-oriented, finding a market with relatively low salaries was also very important, more so than the skill of the workforce as the products are quite simple and require little technical competence. However, the CEO of the new subsidiary in the Eastern European country was from FiberboardCorp’s home market, and subsequently the language skills of the market were also considered, albeit given less importance than the above mentioned aspects. The export-focus of the firm also entailed that the size and growth of the chosen market in itself was seen as irrelevant - it was only the larger region as a whole that was interesting as that is where FiberboardCorp was to export its goods to, through its largest customer. Lastly, the interviewee mentions that there were indications that the chosen country would join the EU in a near future of the planned international expansion, which was also seen as a positive determinant, mainly because of the resulting reduced trade barriers. From the ensuing discussion, it became clear that the firm also believed that an EU-membership would have additional impact on the transparency in the legal and bureaucratic system, which was seen as a positive aspect but not having a large influence in the market choice itself.

While not initially stated explicitly by the interviewee when asked about the aspects taken into consideration for this market choice specifically, in the following discussions it became clear that some other aspects have deterred the firm from expansion, both regarding transition economies and more mature markets. One example is that the firm decided to not evaluate Turkey further due to the political climate, where the market was seen as too unstable and unpredictable for the firm. Another example is a more mature market, namely France, which by most indicators looked like a suitable market. However, due to cultural differences between the home market and France, the firm felt like there would be a poor fit.
between the local employees and the firm culture. As such, the market was dropped from
the list of alternatives.

As mentioned in the introduction of the case, FiberboardCorp is currently considering
another international expansion. Since the expansion into the Eastern European region, the
firm and its managers have gained more insight and experience and as such when asked if
the process of evaluating new markets today would differ today the interviewee affirms this.
The market having high availability of fiberboard suppliers is still the first and foremost
concern, but a larger focus today is also on the price that the fiberboard costs on the market.
Labor costs also remain highly important as the core business has not changed. However,
the firm has found that something extremely important is to be located nearby good harbors
and airports, which can affect the choice between countries but also the intra-national
locations. The interviewee states that he would never choose to locate anywhere that is
several hours away from an airport with good international connections; it has to be closer
as it allows for more efficient travels both for the employees of the firm but also to bring in
customers, suppliers, and other stakeholders. Having smooth access to harbors is important
for the export opportunities via sea when shipping large containers to distant markets where
the customer base is located. This access to harbors and airports, together with the supplier
availability act as the first criteria to reduce the sample of candidate countries, from which
other aspects are taken into account.

In line with the example of how the firm chose not to follow through with an expansion to
France mainly due to cultural differences, FiberboardCorp today explicitly places
importance on this factor. The EU-membership if expanding in Central- or Eastern Europe
is also interesting, but it does not appear to be a critical factor. Similarly, incentives in the
form of free economic zones or reduced taxes from hiring local personnel is taken into
account, but this, neither, appears to be a critical factor. An aspect that was not mentioned
during the discussion of the first expansion into the region but that is now given quite high
importance is tariffs, which follows from the firm’s export focus, and as this export reaches
to many regions globally it is important to study how the tariffs in the export destination
countries vary depending on country of origin.

When discussing the firm’s experience in the region, the biggest challenge brought up was
the extensive bureaucracy during the first years, where the state was making it difficult to do
business. The interviewee exemplifies this with the long process to import the machines
necessary to start producing wares, and state representatives coming around for
“inspections” looking for bribes to facilitate the process. Avoiding bribes and thus handling
the unnecessarily prolonged process naturally incurred costs for the firms. Yet, interestingly
this does not appear to be taken into account as an important factor in the firm’s IMS process,
as long as the country is sufficiently politically stable. The interviewee also means that this
bureaucracy has improved immensely in the years that followed, with the mentioned entering
into EU with increased transparency and professional state representatives as a result of this.

Summarizing the findings, in Table 5 below the rating of the relative importance of each
discussed factor is presented, given in accordance with the rating methodology presented in
subchapter 4.8.
Table 5: Impact of determinants on FiberCorp’s IMS process

<table>
<thead>
<tr>
<th>Factor</th>
<th>FiberboardCorp</th>
</tr>
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<tbody>
<tr>
<td>Market size</td>
<td>1</td>
</tr>
<tr>
<td>Market growth</td>
<td>1</td>
</tr>
<tr>
<td>Natural resource</td>
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<tr>
<td>Human Capital</td>
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<td>Labor Cost</td>
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<tr>
<td>Infrastructure</td>
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<tr>
<td>Geographic distance</td>
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<td>Political stability</td>
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<tr>
<td>Corruption</td>
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<td>Legal system quality</td>
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<tr>
<td>Ease of doing business</td>
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<td>Taxes and Tariffs</td>
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<tr>
<td>Psychic distance</td>
<td>3</td>
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<tr>
<td>Network</td>
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</table>

5.3 AgriCorp

AgriCorp provides solutions for the agricultural industry in the premium segment, mainly to large industrial customers but also at times to smaller farms. The firm does this by taking the role as a system integrator, designing a tailored system for the customer, producing parts of the system at its own facilities in the home market and purchasing the rest from subcontractors, delivering a complete system to the end customer. As such, the subsidiaries function as sales- and project management offices - selling, designing, installing, and maintaining the systems.

The IMS process is long and formal for the firm; the interviewee says that it can take up to five years from that the firm starts evaluating a market until a decision to enter is made. However, what sparks this long process is recommendations from the suppliers and subcontractors, expressing their positive experiences from doing business on the market and that the market may be interesting for AgriCorp. As such, these network contacts act as a form of first screening criterion that marks the start of the IMS process. This process for international expansion is divided into three stages. The first stage determines whether or not the market will likely be a good market to invest in, which is done through indicators that can be measured with available secondary data, explained further below. The second stage is a more detailed analysis which gives a better view of how the market should be prioritized compared to other markets, resulting in a business case that creates the foundation for the third stage. This data is to a larger extent primary data specific for the industry and market at hand. The third stage is making the establishment choice, which combines both the choice of whether AgriCorp should enter the market at all, and if so which mode of entry should be used, which is determined by weighing the profitability potential versus the market risk.

In the first stage, besides the positive view of the market from the firm’s suppliers, the main criterion of importance is what the firm calls market potential. For AgriCorp, this means that there is a high level of agricultural activity, and as such a lot of potential customers to serve. The interviewee states that while there must of course be customers on a market in order to consider entering it, even after reaching some form of minimum level this factor is
still one of the most highly valued factors that outweigh the rest. Next, the political situation of the market is evaluated. According to the interviewee, to some extent this also involves corruption on the market, stating that it is always possible to work around corruption, as with other political issues, and dealing with the bureaucracy it entails, if the market potential is high enough. However, not only the political, but also the economic stability of the market is evaluated to gain an understanding of what AgriCorp considers to be the market risk. The long-term economic stability is important as the firm deals in sales cycles of several years, and being a premium solution provider the firm works with long and deep relationships, which requires the customer to be able to pay for the services over many years. These systems can cost several million euros, and for that reason it is also important that there are good financing options for the customers on the market, for example with a developed and stable banking system or availability of agricultural grants from the EU or other organizations or institutions.

As mentioned, the second stage of AgriCorp’s process deals with more detailed analysis based on industry-specific data. Factors brought up are the market growth, competition situation (market share per competitor, competitor’s growth, price levels, competitive advantages between current actors on the market and AgriCorp), taxes and regulations on the industry, payment terms on the market as a part of the risk assessment. The firm also looks to the geographical area, and most of the current subsidiaries are established in Central- and Eastern Europe. The firm claims that the focus on this region is due to the strategic fit between the firm’s offering and customer base. As previously mentioned, the firm provides large premium systems that are costly. As such, the optimal customers are the large industrial farms, and according to the interviewee this type of production is much more common in Eastern Europe compared to Western Europe. When asked directly about whether this focus could also depend on having a more similar culture inside the region than outside of it, making markets inside the region a more comfortable choice, the interviewee states that this is not believed to be the case. However, looking at the internationalization pattern of the firm, a clear trend can be spotted of moving from the home market to adjacent markets, with a focus towards Eastern Europe, the main break from this trend being the North American market which the company has served for over ten years. Furthermore, the firm has only very recently established its first subsidiary on the Asian market, a region with enormous agricultural production. To put this into perspective, the firm is currently active in over 20 markets, all with a high assessed market potential for AgriCorp.

As AgriCorp keeps its production on the home market and establishes subsidiaries as sales- and project management offices, the natural resource availability is not considered in the IMS process. The skill of the workforce, or human capital, is also not a decisive determinant in the selection process; the subsidiaries do not require a large number of personnel to start doing business on the market, and the interviewee means that on every market there are at least some suitable people to build and run the business, and as the firm has a long IMS process time and other resources can be dedicated to find this suitable person to recruit locally. Again because of the large scale production being kept on the home market and the subsidiaries not employing an extremely large number of people, labor costs are stated to be completely irrelevant for the IMS decision. One of the challenges in the region, as mentioned by the interviewee, is dealing with unnecessarily difficult bureaucracy. In this case too, however, the interviewee states that this is not something that matters greatly during the selection. As long as it is not completely unreasonable, hindering the firm from doing business at all, it can be worked around, and the impression is that it would not be taken into
account unless most other factors are similar between countries – in particular the market potential, which is maintained to be the by far most important criterion.

Summarizing the empirical findings of AgriCorp’s IMS process, Table 6 below presents the rating of the relative importance of each discussed factor, given in accordance with the rating methodology in subchapter 4.8.

<table>
<thead>
<tr>
<th>Factor</th>
<th>AgriCorp</th>
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<tbody>
<tr>
<td>Market size</td>
<td>4</td>
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<tr>
<td>Market growth</td>
<td>4</td>
</tr>
<tr>
<td>Natural resource</td>
<td>1</td>
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<tr>
<td>Human Capital</td>
<td>1</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>1</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>1</td>
</tr>
<tr>
<td>Political stability</td>
<td>3</td>
</tr>
<tr>
<td>Corruption</td>
<td>3</td>
</tr>
<tr>
<td>Legal system quality</td>
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<tr>
<td>Ease of doing business</td>
<td>2</td>
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<tr>
<td>Taxes and Tariffs</td>
<td>2</td>
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<tr>
<td>Psychic distance</td>
<td>2</td>
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<tr>
<td>Network</td>
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</tr>
</tbody>
</table>

5.4 SalesCorp

SalesCorp is a global firm that produces consumer products which are sold using a direct sales method, with independent individuals acting as sales consultants on the markets served. The firm creates local subsidiaries on new markets, which import products from the few, large, production facilities, which are then sold via the independent sales consultants to the end customer. This has been the core of the business model since the firm was founded around 50 years ago.

As SalesCorp has been expanding to new markets for several decades, the IMS process has naturally varied. Initially, when the firm was run by its founders, the firm expanded to markets adjacent to the home market, with the founders’ friends and other contacts being interested in starting up the business on the new market. In this way, the firm expanded first through the Nordic countries and Western Europe. Next, the firm began to move into Eastern Europe and the former Soviet Union states as these markets began to open up. The interviewee states that for several of the smaller markets in this region, the firm did not make much of an active choice to enter them, or was even initially aware that it had customers there. Because of the similarities in language, independent sales consultants had begun selling SalesCorp’s products over multiple markets, building up a successively larger customer base that then warranted the opening of a subsidiary on that market.

However, since then SalesCorp has grown into a large, multinational company and its founders have taken a less active role in operations. The interviewee states that it was at the time of the founders’ withdrawal from active roles that many of the firm’s processes, such
as the IMS process, were formalized and shaped into the way they look today. Nowadays, all potential new markets, both mature and economically underdeveloped, are evaluated through this formal process. First, the firm is interested in the large markets, such as Brazil, Mexico, and China, and for new candidate markets it is important that they at least are adjacent to one of these big global markets, preferably one that SalesCorp is already active on in order to make use of the larger scale operations for efficiency in serving the new market. The candidate market in itself must also, in the words of the interviewee, reach some form of “critical mass” in terms of size to be interesting for the firm. The firm looks both to absolute values of GDP as well as per capita measurements to understand the relative purchasing power of the consumers. Here, SalesCorp also looks to the market growth within the relevant product segments on the market, to see if there seems to be a market for the firm’s products.

Together with the size of the market, the other critical factor evaluated in the IMS process is the competition on the market. Mainly this deals with the classic issues of which direct competitors are represented on a candidate market and their shares, but there is another aspect that SalesCorp also has to take into account, namely how competitive the firm can be towards the independent sales consultants. Some of these sales consultants sell the firm’s products as a way to get an additional income to their regular job, while some use it as a full-time job. On markets that are economically strong, it can be hard for the firm to compete, as there is a difficulty attracting sales consultants that instead may choose to go to other, more well-paying jobs. One example is Germany, that has high salaries, and the firm had a difficult time to make a profit for both itself and the sales consultants, and as such decided to leave the market. In this way, labor costs are important to the firm. On the one hand, higher salaries in the countries entails a higher purchasing power, but on the other hand it also makes it difficult to use the firm’s regular business model to make a profit. Because of this, an important aspect for the firm is how the employment laws of the candidate country are designed. For some markets, these independent sales consultants must be officially employed by the firm, which brings about additional costs in terms of taxes and social-security fees. This was the case with for example France, where the firm decided against entering due to the strict employment laws. On other markets this is not the case, allowing for a situation where the firm can have lower costs and thus a bigger profit potential. Similarly, given that the firm has a few large production facilities from which it imports its products, tariffs on the relevant product segments are also evaluated for the market, as high tariffs will eat the profit margin.

Regarding the political factors such as the stability, corruption, and the quality of the legal system, the firm does not take these factors into account. This follows from that its “employees” are independent entrepreneurs on the market, and as such the firm itself, as stated by the interviewee, flies under the radar and is not affected by whether the market is corrupt or unstable. Whether or not the market has a complicated bureaucracy is also not regarded as important in the IMS process, but rather it is considered in the subsequent step, namely the planning on how to enter the market and when certain steps must be initiated in order to have clearance to import and sell the products. The education levels, or human capital, on the market is somewhat looked at, but this is mainly to gain an idea again of the purchasing power on the market and how likely the firm is to be able to attract sales consultants, but for the operations themselves it is not important how skilled the local workforce is. Instead, whether or not the market has a culture of direct sales is more important, as this will also affect the likelihood both of the firm being able to attract
consultants, and of consumers being interested in buying goods through this direct sales channel.

To summarize, in Table 7 below the relative importance of each discussed factor, given in accordance with the rating methodology in subchapter 4.8, is presented.

<table>
<thead>
<tr>
<th>Factor</th>
<th>SalesCorp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
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<tr>
<td>Market growth</td>
<td>4</td>
</tr>
<tr>
<td>Natural resource</td>
<td>1</td>
</tr>
<tr>
<td>Human Capital</td>
<td>2</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>1</td>
</tr>
<tr>
<td>Political stability</td>
<td>1</td>
</tr>
<tr>
<td>Corruption</td>
<td>2</td>
</tr>
<tr>
<td>Legal system quality</td>
<td>2</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>2</td>
</tr>
<tr>
<td>Taxes and Tariffs</td>
<td>3</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>1</td>
</tr>
<tr>
<td>Network</td>
<td>1</td>
</tr>
</tbody>
</table>

5.5 TradeCorp

TradeCorp is a large, multinational wholesale and retail company, operating on over 30 markets around the world. The company operates through independent sales divisions; a cash and carry wholesale division and several different retail divisions. Although TradeCorp has traditionally entered markets through a so-called Big Box strategy, opening large shops outside a city center, the company has over recent years transitioned to other systems to develop its direct delivery and distribution by purchasing or partnering with smaller local actors on the selected new markets.

During the early years of the firm’s existence, focus was on a larger domestic expansion and thereafter expanding to international markets. Initially, TradeCorp expanded to adjacent markets in Central-, Eastern- and Northern Europe, to countries with similar business climate, customer base and with a high assessed market potential. As such the earlier international expansions were focused on more economically developed markets. When the IMS process developed and became more formalized, market size and growth have maintained a central role in the assessment. Furthermore, it is mentioned that these factors are equally important for the different sales divisions of the company. With the more formalized process TradeCorp began to expand to economically less developed markets, maintaining a certain focus on markets with a possible high market potential. The interviewee mentions that TradeCorp has developed a liking for untouched markets - being the first actor - and is searching for underdeveloped markets without the presence of strong competition and with higher risk due to the potential of higher reward.
According to the interviewee the identified underlying IMS factors taken into consideration by TradeCorp besides the market potential are the company's international expansion experience - i.e. which regions it has knowledge about - and the opportunity as a first mover on the market to determine the rules of the market. While expanding to the African region, the position of first mover and opportunity to form the market was highly valued and as the market potential was seen as great the usually deterring factors of uncertainty and instability were neglected. A similar pattern was shown in the firm’s expansion to central Asia, indicating that these institutional factors are subordinate to the market potential. Another factor that TradeCorp has found to be important, partly in its IMS process but mostly in the choice of entry mode, is customer maturity and culture on candidate markets - i.e. customer needs as well as both the social- and business culture. As such, international expansions to adjacent markets with similar market maturity and culture have been seen both early in the company’s international expansion as well as later with the less developed markets.

With the aforementioned transition in expansion model, the market potential and -growth have maintained importance as selection criteria for TradeCorp. However, some factors that were previously believed to be of low importance are now valued higher in the IMS process. Due to a stronger focus on digitalization from TradeCorp, factors such as digital- and telecom infrastructure, partnerships with digital startups and other digital solutions for TradeCorp and its customers are considered more frequently in the IMS process. While the influence of institutional factors on the market selection seems to be limited, corruption and stability is explicitly mentioned to pose as hygiene factors. As such they still carry some importance. Using the example of the Moldovan market, TradeCorp entered this market through its more traditional Big Box-strategy as a natural step after a long-lasting presence in Romania. The drivers to Moldova were the market potential – while a smaller market, there was practically no competition, which made Moldova the type of untouched market that TradeCorp favored - the expected cultural similarities with Romania and the opportunity to initially run management and administration from Romania, thus entering the market with less financial risk. The identified negative aspects of corruption and political instability were considered tolerable due to TradeCorp’s experience of Romania with similar challenges and the overall international experience of the firm, again indicating the lesser importance of the institutional factors for the firm.

In Table 8 below, the findings regarding the factors in TradeCorp’s IMS process are summarized, with a presented rating of the relative importance of each factor in accordance with the rating methodology presented in subchapter 4.8.
Table 8: Impact of determinants on TradeCorp’s IMS process

<table>
<thead>
<tr>
<th>Factor</th>
<th>TradeCorp</th>
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<tbody>
<tr>
<td>Market size</td>
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<td>Market growth</td>
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<td>Labor Cost</td>
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<td>Infrastructure</td>
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<tr>
<td>Geographic distance</td>
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<tr>
<td>Political stability</td>
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<td>Corruption</td>
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<td>Legal system quality</td>
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<tr>
<td>Ease of doing business</td>
<td>1</td>
</tr>
<tr>
<td>Taxes and Tariffs</td>
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<tr>
<td>Psychic distance</td>
<td>3</td>
</tr>
<tr>
<td>Network</td>
<td>1</td>
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</table>

5.6 MachineCorp

MachineCorp sells heavy machinery for the agricultural industry in the premium segment, with more than ten subsidiaries worldwide and a presence in around 30 countries. The firm has two production facilities and one assembly facility, and the remaining subsidiaries are sales offices. These sales offices operate in two distinct ways. Either, the office has sole responsibility for the end customer on the market, dealing with sales, repairs and other aftermarket services, or it has responsibility for a network of distributors on the market, educating them in servicing the firm’s products, and managing spare parts needs of said distributors. This latter way is used when the market at hand is very large, an example being Germany, whereas an example where the former method is more suitable are the Baltic states. For the markets where the company does not have a subsidiary, it partners up with importers on the market.

In the early stages of the company's existence the IMS process was informal. According to the interviewee, the firm’s decision makers reasoned that what worked on the home market would also work on neighbouring markets, beginning the firm’s internationalization through export to those markets. However, in not too long the firm also started with some irregular export to markets on the other side of the globe, following customer requests. It was not until around 30 years after the firm was founded that its first own subsidiary was established, which was done in a nearby market with high potential. After this first successful establishment, however, another four subsidiaries were created in the same decade, all established on markets in Europe with high market potential. This also stemmed from a lower rate of globalization than today, with the interviewee noting that “the world used to be a bigger place”, the distance to other markets being more impactful than it is today. At the time, MachineCorp also had a somewhat opportunistic behaviour, entering some markets with regular exports because of interest from importers rather than an evaluation process on the firm’s part. One example mentioned by the interviewee was an importer from a North African market, whose wife was from the firm’s home market and through that channel came into contact with the firm. Today, as mentioned, the firm’s IMS process is more formal, but there are still examples of opportunistic behaviour where the firm has diverged from the formal process and entered a market due to opportunities stemming from its network. This is exemplified by the firm recently entering a market in Southern Africa because of an
existing customer who had multiple connections to other farmers on that market, allowing
the firm an easy way to reach new interested customers through his referral.

Looking at the formal internationalization process, the interviewee divides this into two main
steps. The first step is deciding whether the firm should serve the markets, and not until this
decision is made is the second step, evaluating which entry mode is most suitable, initiated.
Using available secondary data on agricultural activity, as well as the firm’s knowledge of
the global agricultural industry, a first quick screening is done to identify markets to evaluate
more closely. The first step can then be seen as trying to answer two questions, namely
whether there is a market demand for MachineCorp’s products – i.e market potential – and
whether MachineCorp can efficiently transport its products to the customers on the market.
The latter question involves looking at the hard physical infrastructure of the market and the
region through which the products need to be transported, and more critically whether there
are any embargos or high tariffs that can prevent the firm from doing business. For example,
in South America there are several markets which MachineCorp believes are perfectly suited
for its products, but the high tariffs make it impossible to sell the products at a price which
the customers can afford, and thus the firm has been deterred from those markets. High tariffs
on machines was also the reason for the firm’s assembly facility on one market, where the
parts carried lower tariffs than the finished product. Returning to the first questions of
demand, MachineCorp looks at what it calls market potential, which is divided into several
sub-factors. One is how much farmland there is on the market, both in absolute values but
also how many land owners there are. If there are many small farmers with small pieces of
land, the firm’s products are less suitable than for large, industrial, farms. The maturity
of the customer is also important, if there is a culture or tradition of investing in premium
technology so that they may be interested in MachineCorp’s products. Naturally, how many
machines are currently being sold on the market is also investigated, showing both the
willingness and purchasing power of the customer, as well as the competition.

If the market potential is good, and the firm can transport its products in a cost-efficient
manner, the firm will aim to serve that markets with goods, and moves to the second step of
deciding the entry mode for the market. For the firm to go with an FDI approach and own
sales offices, there are three main aspects that are considered. The first is the level of
education on the market. There needs to be an availability of skilled service technicians,
salespeople and CEOs that also speak English, in order to be able to communicate with the
headquarters on the home market. If the educational levels are low, the firm will often choose
to only export to the market. The competitive situation is also taken into account, in order to
see if importing is even an option. Being a premium quality brand, MachineCorp is in need
of good and reliable partners, and if the firm is late to the market, the competitors may have
already partnered up with the more serious and prestigious importers on that market. As
such, high competition may “force” the firm to establish a direct presence to overcome this
obstacle. Lastly, if the market is less mature there is sometimes no established dealer
network, which may also entail that the firm has to build the entire business by themselves
from the ground up.

In the early discussions with the interviewee, the above mentioned factors were in focus.
When asked directly about institutional factors, such as political stability, corruption, and
the quality of the legal system, these seem to play an insignificant part in the process. While
the firm is on many markets that can be classified as unstable, even that are currently
involved in armed conflicts, there is however some form of minimum level that the market
must maintain for the firm to consider it. The example brought up by the interviewee, is that
the firm is not at all interested in DR Congo due to the unstable situation. The interviewee notes that in most cases, political instability is interrelated with an underdeveloped agricultural industry, and as such when measuring the market potential, some of the more unstable countries are removed from consideration. Therefore, this is not a factor that the firm evaluates closely. Furthermore, bureaucratic issues that make it more difficult to do business on the market are also not considered - the interviewee notes that often it is the independent dealers on that market that the subsidiary deals with that have to handle these issues, and as such they are of lesser importance to MachineCorp.

From these evaluated determinants, the firm’s decision makers make a judgement call on whether the market is appropriate to enter, and if so how to enter it. The exact impact of each factor is not formally decided, but instead the firm judges the situation as a whole, and as such the final decision is quite subjective. However, from the interview and the impressions gained during it, the authors have rated the respective factors according to the predetermined criteria of relative importance, in accordance with the rating methodology in subchapter 4.8. A summary of the findings is found in Table 9 below.

<table>
<thead>
<tr>
<th>Factor</th>
<th>MachineCorp</th>
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<tbody>
<tr>
<td>Market size</td>
<td>4</td>
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<tr>
<td>Market growth</td>
<td>4</td>
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<td>Natural resource</td>
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<td>Human Capital</td>
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<td>Labor Cost</td>
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<td>Infrastructure</td>
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<tr>
<td>Geographic distance</td>
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</tr>
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<td>Political stability</td>
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<td>Corruption</td>
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<td>Ease of doing business</td>
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<td>Taxes and Tariffs</td>
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<td>Psychic distance</td>
<td>1</td>
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<tr>
<td>Network</td>
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</tbody>
</table>

5.7 ITCorp

ITCorp is an IT-outsourcing firm, recruiting competent IT personnel in the Eastern European region to create tailored teams mainly for long-term customer projects. One of the strengths of the business idea in this particular region, according to the interviewee, is the engineering culture - for example, if the local developers believe that something can be done in a more efficient manner or a particular solution will not work they are not afraid to speak up. This is something which some of the firm’s customers supposedly have had difficulties with in the highly hierarchical culture of India, probably the biggest IT-outsourcing market of all, where it is much less acceptable to question the tasks you are given. The firm has a sales representative on the home market office, but the founders and CEO sits at one of the offices in the Eastern European region. The firm’s customers are almost all focused on mature Western markets as well as Israel, with the home market being the biggest revenue source. The firm is only a few years old with young founders who started the firm after graduating
from their university, and as such, ITCorp is still operating in quite a small scale compared to the other interviewed firms, and has less international business experience.

When the firm decided on which market to establish its project offices, there was one initial screening criteria, namely the language spoken on the market. This was because both of the founders speak Russian, and this was believed to therefore be easier than to attempt to enter another market using English, which large parts of the population in the region was believed to have some trouble with. As such, the choice was quickly reduced to Russia, Ukraine, Belarus, and Moldova. However, in coming to a final decision, the firm also benchmarked these options with other markets in the region to gain a better understanding. The interviewee notes that the decision process in itself is not strict or formal - there are particular aspects taken into account but these are not measured in strict ways, nor weighted according to importance.

After this initial screening, the choice mainly rested on understanding the availability of a skilled IT workforce, and how much this workforce would cost - as the whole business idea from the start with IT-outsourcing was to provide this competence cheaper than could be done in-house by firms on mature markets. Measuring the competence or skill of the local workforce is done in-house, but again this does not seem to follow a formal process. According to the interviewee, the larger markets considered had the benefit of being more scaleable long-term with no shortage of potential employees, something which did not favour for example Moldova. While the soft infrastructure matters to an IT-firm, the interviewee states that in making the decision on market, this factor had minimal importance. What did affect the choice, however, was the taxation levels. In part, this was due to the effect it had on the labor costs, but this was not the main reason. In countries in the region where the tax levels are higher, the interviewee claims that there is a prevalence of tax evasion by firms - for example stating that they pay all their employees minimum wage to minimize the taxes, paying the rest of the salary under the table. Thus, for the firm wanting to do everything by the book, this affects the firm’s competitiveness negatively. This was another factor that made the firm decide against Moldova.

Regarding the institutional factors, these did not play a major part in the IMS process for ITCorp. They did, however, need to reach some form of minimum level. The firm motivates this with that the firm strives to have some social impact, contributing to the business idea of creating jobs in economically underdeveloped markets, but that for it to be possible to have an impact the market needs to have at least some basic form of development and stability. The interviewee further notes, however, that political stability on the market can calm the customers on the mature markets who have an exaggerated view of the situation, exemplifying this with the conflict in Ukraine that in many parts of the country is barely noticeable in the day-to-day life. In conclusion, the interviewee states that what is important is not where the country is today, but what the trend is, i.e. whether the market seems to be on the right path of development or if the future is highly uncertain.

A summary of the findings is presented in Table 10 with the rating in accordance with the methodology presented in subchapter 4.8.
Table 10: Impact of determinants on ITCorp’s IMS process

<table>
<thead>
<tr>
<th>Factor</th>
<th>ITCorp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>1</td>
</tr>
<tr>
<td>Market growth</td>
<td>1</td>
</tr>
<tr>
<td>Natural resource</td>
<td>1</td>
</tr>
<tr>
<td>Human Capital</td>
<td>4</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>1</td>
</tr>
<tr>
<td>Political stability</td>
<td>2</td>
</tr>
<tr>
<td>Corruption</td>
<td>2</td>
</tr>
<tr>
<td>Legal system quality</td>
<td>2</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>2</td>
</tr>
<tr>
<td>Taxes and Tariffs</td>
<td>3</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>1</td>
</tr>
<tr>
<td>Network</td>
<td>1</td>
</tr>
</tbody>
</table>

5.8 Synthesis of findings

To provide an overview of the empirical findings of the study Table 11 is presented, displaying the rating, in accordance with the methodology presented in subchapter 4.8, for all the case companies next to one another.

Table 11: Impact of determinants on all case companies

<table>
<thead>
<tr>
<th>Factor</th>
<th>Fiber Corp</th>
<th>AgriCorp</th>
<th>Sales Corp</th>
<th>Trade Corp</th>
<th>Machine Corp</th>
<th>ITCorp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Market growth</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Natural resource</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Human Capital</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Political stability</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Corruption</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Legal system quality</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Taxes and Tariffs</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Network</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
6. Analysis of the IMS process of studied case firms

The following chapter aims to relate the empirical findings of the study to the reviewed literature in order to gain an understanding of how the elements from the systematic and unsystematic approach respectively influence the IMS process of MNEs on transition economy markets. The chapter is divided into the factors related to these two approaches, and concluded with a discussion between the relative impact of these factors on the IMS process.

6.1 The systematic approach to IMS

This subchapter deals with factors relating to the systematic approach to IMS, divided into the subcategories of Pure economic factors and Institutional factors, as well as one section dedicated to new factors discovered during the data collection. Overall, MNEs with a market-seeking motive look to the market potential above all else, whereas resource-seeking MNEs instead are interesting in the available resources in terms of raw materials and human capital and its respective costs. The institutional factors act mainly as hygiene factors, and are argued to correlate with other factors of market development. As such, they are not evaluated closely in most firms’ IMS processes.

6.1.1 Pure economic factors

Below, the pure economic factors from the hypothesized model of analysis are analyzed based on the empirical findings of this study. The headings follow the same structure as during the literature review in subchapter 2.3.1.

Market size and growth - Market potential

During interviews with the case firms, it quickly became clear that separating the size from the growth of the market provided little research value. Instead, many firms spoke simply of market potential, including both the size and growth, which therefore will be used here to refer to both these elements. In discussions with the case firms, there were two main views of the importance of market potential: either it was the single most important criterion in determining which market to expand to, or it was completely irrelevant. The former was the case for AgriCorp, SalesCorp, TradeCorp, and MachineCorp, and the latter true for FiberboardCorp and ITCorp. The reason is simple: all of the firms in the first group are market seekers (cf. Dunning, 1988), looking to provide their goods and services to customers on the market they invest into. For FiberboardCorp, on the other hand, the large customer wanted a sourcing option in the region, but the firm is still exporting the goods to the customers distribution central, not located in the same country. As such, with this resource-seeking motive, whether there is purchasing power or not on the market itself is not important for FiberboardCorp’s business. The same goes for ITCorp, keeping development in the region but having the customers on more mature markets looking for low-cost outsourcing options. This supports findings of Kinoshita and Campos (2003) who attributed their conflicting results on this reason.

Naturally, for market-seeking MNEs there must be some minimum level of customers on a market for it to be viable. However, the impression gained during this study is that the value of an increase in the market size does not seem to have a diminishing effect. When comparing two markets, despite both being very large by a global standard, if one is larger
than the other this will still carry weight in the IMS decision. As will be seen, this differs somewhat from other factors, with some aspects needing solely to reach a minimum level as a form of hygiene factor. The lack of diminishing effect of this factor means that for smaller markets it will always be difficult to compete, regardless of how well-developed other aspects are.

What the ‘market’ in market potential is though, is also context-dependent. Naturally, a firm such as SalesCorp - and to some extent TradeCorp - selling consumer products, may be more interested in the population size as a whole, whereas MachineCorp and AgriCorp are more interested in the agricultural activity, with the added constraint of the number of farms large enough to make use of their respective products. Thus, for smaller markets wishing to attract MNEs in the B2B-segment, there may be benefits in focusing on building up a small number of industries, where the size of that particular industry relative to the country is high and thus become more attractive. Otherwise, focusing on export-focused resource-seeking MNEs may be a more attractive option for the small markets, working to change and improve other market conditions.

Resource availability - natural resources and human capital

Out of the six interviewed firms, solely one, namely FiberboardCorp had any interest in the availability of suppliers of raw material, in this case fiberboard, which in the hypothesised model of analysis falls under the category natural resource availability. For the remaining firms, the factor had no impact whatsoever. As in the discussion in the section on market potential, this can clearly be attributed to the firm motives, with only FiberboardCorp and ITCorp of the case firms entering the new markets in order to produce goods and services for export. Obviously, as ITCorp produces no physical wares, only IT-services, there is little need for natural resources. With FiberboardCorp seeing this as one of the most critical factors in the IMS process, these findings, then, strongly support the reasoning of Root and Ahmed (1978) that export-seeking firms will value this availability of natural resources above all other - contingent on the firm producing physical goods.

As the sample for this study is relatively small, it is not possible to draw conclusions regarding the number of market-seeking and resource-seeking MNEs respectively in the region, and therefore neither on the relative importance of the factor today in the region. For the same reason, any definitive conclusions regarding the impact of the factor depending on the region is difficult to reach, as Mohamed and Sidiropoulos (2010) did when they found natural resources to be highly important in the MENA region, or Kinoshita and Campos (2003) in the CIS-region, but not in the non-CIS region.

As mentioned, ITCorp provides IT-services, and instead of natural resources they are contingent on competence to create value for its customers. As such, this is a case where human capital on the market becomes critical for the firm. There are no other service firms in the sample besides ITCorp, which in the general case entails a risk when drawing general conclusions. However, looking at the core business idea of the firm, it is about selling access to a high skill workforce. As such, it is of course important for the firm itself to have access to this skilled workforce, by extension meaning that the market needs to have this resource available. This is supported by the case of MachineCorp, seeing it as important that there are skilled, bilingual, service technicians in order for the firm to be able to efficiently teach them how to service machines. If this is difficult to come by on the market, the firm instead prefers to export to the market and not create its own subsidiaries. It is reasonable, therefore, that
for any business dependant on highly skilled labor on the market the MNE expands to, it will be an important factor to consider. Being critical, it cannot be easily compensated for on the market by having other attractive qualities, which goes against the findings of Kinoshita and Campos (2003) that human capital is shadowed by institutional and other economical factors, instead supporting Noorbakhsh et al. (2001) in their thoughts of human capital being the most important factor to take into account. However, this is again highly contingent on the firm’s business model and its motives for expanding internationally. Besides ITCorp and MachineCorp, human capital is seen as between somewhat to completely unimportant by the case firms. The production for FiberboardCorp is low-skill, and therefore the skill level required on the market is low, although English proficiency was desired to facilitate communications. Similarly, SalesCorp and TradeCorp, both enter new markets to sell simple products, not requiring the sales personnel to have extensive education. While AgriCorp requires skilled people for its business, the teams are small and the firm assumes that it will be able to find competent people, entailing that the managers do not look at this factor in the IMS process. Again, these examples shows that the factor cannot be looked at in isolation, but its importance is contingent on the business model of the firm, and its motives for expanding to a new international market.

Labor costs

Naturally, no firm wishes to pay higher wages just for the sake of incurring costs, as supported by Nielsen et al. (2017) finding that with all else being equal, lower wages will increase FDI inflows. However, how the labor costs on the market are valued in the IMS process between the case firms varies greatly. Among those finding it critical are FiberboardCorp, SalesCorp, and ITCorp. For FiberboardCorp, expanding in order to produce goods in the region which is exported to the customer, focus is on keeping low costs compared to the home market. In the production, there are several hundred people employed, and as such each increase in wage in a chosen market will result in a high total increase in cost for the firm, which leads to this factor being critical for the firm. Similarly, SalesCorp sells consumer products through a large number of sales consultant who each sell small quantities of the firm’s products. Thus the country’s view of whether or not the sales consultants are seen as employees of the firm or independent entrepreneurs - i.e. whether the firm will have to pay extra taxes and social-security benefits - will hugely affect the profit margin for each salesperson, which with a large number of salespeople greatly affects the total profit. For the third example, ITCorp, the firm consists solely of a qualified workforce, and the whole business idea is to offer this competence at a lower price than can be done in more mature markets, again making this a critical aspect in the IMS process, although put in relation with the skill level and looking for the best competence/price-payoff. In each of these three cases, wages and other labor costs constitute a huge part of the total costs of the firm, and it is here believed that this is the main reason why these firms value labor costs as more important than the other case firms.

For the remaining case firms, labor costs is a much smaller cost item on new markets. For example Agricorp, working on the international markets with project offices that sell and design systems, this does not require many people when put in relation to the fact that each business opportunity is worth several million euro. Installing the system, where more manpower is required, is quite rapid compared to the long sales cycle, and as such does not incur huge costs. Production of system parts has so far been kept on the home market, and as such the subsidiaries can keep a smaller size. The firm, during the interview, thus stated that labor costs would be the last thing it ever looked at during its IMS process. Similarly,
MachineCorp, keeps its production on only two markets, most subsidiaries functioning as sales and service offices. To some extent, these two firms can also be argued to be involved in businesses that require more qualified labour, where the skill of the workforce will affect the end results, and as such the reduced interest in the labor costs would support Noorbakhsh et al. (2001) who believe that this is why higher labor costs are sometimes positively correlated with FDI inflows. This, then, would by extension also explain why the previously mentioned firms with lower requirements of workforce skill, FiberboardCorp and SalesCorp, are more interested in this factor on the market.

Infrastructure

Of the interviewed case firms, only ITCorp fully dismissed the relevance of infrastructure during the IMS process. The remaining firms too, however, had varied views on its importance. The firm that gives this aspect the most weight during its IMS process is FiberboardCorp. Specifically, the firm is adamant on having access to both harbor and an international airport. The former is understandable given the firm’s export motive, making it critical to be able to efficiently ship the products to sites globally, not solely being reliant on roads and deliveries by trucks. For similar reasons, although with the products coming into the market instead of going out, MachineCorp also to some extent evaluate the infrastructure in order to assess the cost of transporting goods to customers. However, this seems to by the firm be seen as a hygiene factor, i.e. not adding huge costs relative to the price of the sold machines themselves. Additionally, of the interviewed case firms, MachineCorp is the one active in the most varied markets in terms of overall economic development, and as such there may be more potential markets interesting to the firm that have a sub-standard infrastructure level which therefore must be evaluated and taken into account during the IMS process. This is somewhat supported by the case of AgriCorp that operate in markets that are economically underdeveloped compared to many mature markets but still have progressed further than other transition economies. The interviewee there states that is not normally a problem when the firm does business and as such is not evaluated closely. Further support is found in the statement of ITCorp that a market must have reached a minimum level of overall stability and development to even be considered. This would then provide an explanatory element to the findings of Kinoshita and Campos (2003) who note that improvements in infrastructure levels create a larger change in FDI inflows in CIS-countries than in the studied, more developed, non-CIS-countries.

So, while the majority of the interviewed case firms do not evaluate the infrastructure closely in their IMS process, it is here argued that the factor still needs to reach a form of minimum level, in particular for firms that have to continuously transport their goods. Once this level is reached, however, it seems that there is a clear diminishing effect on each successive infrastructural improvement. These findings and subsequent analysis thus agree with Gobinda Goswami and Haider (2014), proposing that any major infrastructural bottlenecks on the market should be highly prioritized.

Taxes and tariffs

When it comes to taxes, all of the interviewed firms take this into account to some extent, as it affects the costs of every type of business. For some, however, it is more important than others. SalesCorp are as previously mentioned highly affected by whether or not the sales consultants are regarded as independent entrepreneurs or employees of the firm. If the former applies, then the various taxes on labor becomes extra impactful. FiberboardCorp are
interested in whether the new target market have free economic zones where the tax pressure is reduced, demonstrating the value of these tax incentives for certain MNEs. Again, this is easily understood by the motives of the firm, seeking a site where goods can be produced efficiently for customers on other markets, the aim of reducing costs where possible will entail a wish for lower taxation. However, for FiberboardCorp and for the market-seeking firms, taxation on labor or corporate tax is not observed to hold a vital position in the IMS process, as long as it stays within “normal” levels. Taking AgriCorp as an example, the tax costs will be part of the larger business case for the market when the profit potential is calculated, but if there is a higher tax rate that is compensated for by other cost items being low then there is no problem for the firm. This is in line with both Nunnenkamp (2002) and Miyamoto (2003) who both state that while taxes are relevant, they are not vital for the FDI decisions. So, in sum, taxes do for all firms seem to have some impact, although it is in most cases relatively low and can be compensated for by other cost items instead having beneficial levels compared to other candidate markets.

With the special case of tariffs, the interviewed firm managers brought this up as a more impactful criterion. For MachineCorp, it has been the one factor preventing the firm from entering certain markets in South America, pushing the costs of transporting goods to the markets up to the point where it is not profitable. It is also what made the firm place an assembly facility inside a tariff-intense region, tariff-jumping as proposed by Ruane (2008) and Kinoshita and Campos (2003). SalesCorp, producing its goods in a few, large production facilities also take tariffs into account, both when evaluating whether to enter the market, and which products to sell there. FiberboardCorp, exporting to the customer globally, is also during the IMS process interested in the tariffs for exporting to the customers’ markets from the candidate market. For this reason, the firm also mentioned that an EU-membership when expanding in the Eastern European region was a positive indicator for a candidate market. In the case of AgriCorp, tariffs were not given the same importance, but this is likely explained by the firm operating within countries that have free trade agreements with the home market. With the recent expansions to new continents, it is possible that this factor will become more important in the IMS process for the firm. So, while authors such as Nunnenkamp (2002), Peng et al. (2008), and Ruane (2008) believe in the more limited role of tariffs today, findings here suggest that it is indeed still a somewhat to highly important criterion for MNEs that carry a more global reach, as opposed to operating solely within a trade union or between markets with other free trade agreements.

**Geographic distance**

In every single interview conducted, the importance of geographic distance to the home market was dismissed by the interviewee as completely irrelevant in the IMS process, fully in line with Buerki et al. (2014) who found that out of the factors in their study, geographic distance was deemed the least important by firm managers. The only case firm to unprompted mention something related to this factor was AgriCorp, talking about the geographical region from the perspective that the Eastern European region has an agricultural industry that fits well with the business of the firm. However, taking a global view of all the MNEs’ subsidiaries, the firms clearly have their respective center of mass in Europe, where each MNE also have its home market. Furthermore, each of the reviewed works on market-focused FDI determinants that take the factor into account, do in fact find this relevant (Bénassy-Quéré et al., 2007; Golubeva, 2016; Kinoshita and Campos, 2003; O’Farrell and Wood, 1994), begging the question of why the views of firm managers in this study as well as in that of Buerki et al. (2014) differ so from the models used above.
One possibility is that the expansions - in particular earlier in the firms’ respective internationalization - were characterized by an unsystematic approach to IMS, with the firms choosing markets based on the network or the perceived distance to other markets - likely having more network contacts in the nearby region and perceiving the distance shorter to its neighboring countries. This will be explored further in subchapter 6.2. Another potential reason is that firm managers using a more systematic approach look at other aspects which correlate with the distance. Using the case of MachineCorp, the interviewee talks about the transport costs from the production unit on the home market to the target market, a cost which in part will depend on the infrastructure as discussed above, but which will also naturally increase with longer distances, just as stated by O’Farrell and Wood (1994) and Buerki et al. (2014) regarding transaction costs in general. Both AgriCorp, SalesCorp, and TradeCorp find themselves in a similar situation as they, too, do not start up local production in the markets they expand to, instead importing it from their production facilities. This, then, supported by previous research, seems likely to be the underlying cause of these findings.

Regardless of the underlying cause, even though the geographic distance may correlate with other aspects evaluated by the MNEs in the study, it is clear that the managers of the firms do not actively take this factor into account in the IMS process, neither in economically developed or underdeveloped markets. As this is the result across the board, combined with the equally unequivocal results of Buerki et al. (2014), this is argued to be fairly generalizable.

6.1.2 Institutional economic factors

During the study, it quickly became clear that the MNEs do not separate the institutional factors in the subcategories proposed in the literature review, or indeed in a unanimous way. Some regarded the proposed categories - political stability, legal system quality, and corruption issues - as a whole, while some referred to the subject using different terms altogether. Therefore, for this subchapter, the three above mentioned aspects have been grouped together under a single heading. The last aspect, ease of doing business, however, was separated from the others - during the interviews commonly referred to simply as bureaucracy during the interviews and these terms will thusly be used interchangeably.

Political stability, quality of legal system, and corruption

The political situation is somewhat considered by the studied firms, but how it is perceived also seems to vary between the firms. One example brought up in the case of FiberboardCorp was how the firm was deterred from Turkey because of an uncertainty stemming from the political climate. Seeing how this firm does not expand with a market-seeking motive, it somewhat goes against the thoughts of Pan and Chi (1999) that market-seeking MNEs are more sensitive to political instability. Contrasting the above example, several of the firms are established in markets with active conflicts, such as the Ukraine and Israel. However, they still claim that the stability is something they consider. For MachineCorp, the interviewee explained that it is more about being able to ensure the safety of the employees rather than the political situation in itself. Additionally, ITCorp claims that instability mostly has a negative effect in that customers on other market believe that it is risky to purchase from the market. Using the rating system conceived for this study, the institutional factors were rated on the lower half of the scale for the majority of interviewed MNEs. This contrasts
strongly with the previous works that highlights the importance of political stability, in particular those placing it as one of the primary determinants for FDI inflow (Busse and Hefeker, 2005; Miyamoto, 2003; Nunnenkamp, 2002), instead supporting the works of Alam et al. (2013), Cleeve (2008), and Mhlanga et al. (2010) who found no significant relationship.

However, as was argued regarding the infrastructure aspect, this aspect likely need some form of basic level and thus acts as a hygiene factor. Support is found for example in the interview with MachineCorp, where the interviewee mentions that a high instability on the market is often associated with an underdeveloped agricultural industry, and as its products require some degree of market maturity the firm is not interested in those markets. Another example is ITCorp, who states that for a firm to have any form of impact a minimum degree of stability and development is required, which is in line with Bénassy-Quéré et al. (2007) who state that reducing uncertainty is important for FDI. Also TradeCorp explicitly state that these aspects pose as hygiene factors. Lastly, while most interviewees states that the IMS process did not focus strongly on these institutional factors, its importance for doing business on a market was not fully dismissed during the discussions that followed in the respective interviews. The exception is SalesCorp, who mean that because of its network of independent sales consultants, as a firm it keeps a low profile on the markets and are not much affected by the situation - but this still assumes that the firm can get its products into the market and to its sales consultants, requiring some level of development on the market. So, despite most of the firms not placing this factor as highly relevant to evaluate during the IMS process, this is believed to follow rather from that the candidate markets being interesting in other regards by correlation also have a “good enough” stability rather than the aspect not having any impact at all.

The views by the MNEs regarding corruption are similar. Both AgriCorp and FiberboardCorp mention that it is possible to work around corruption issues, dealing with the additional processes and inspections that follow by doing things by the book. As stated by Kurtzman et al. (2004) though, these additional processes and inspections create additional costs and as such there is a limit on how widespread this corruption can be before it becomes too problematic for the firms. Just as with political stability, TradeCorp states that some minimum level of control over the corruption on the market is required, but the example where TradeCorp knowingly entered a market with high levels of corruption due to familiarity with the region shows that this firm, too, can work around these issues. Unsurprisingly, none of the interviewed MNEs saw corruption as something positive, but as long as it is not too much out of control, it seems that firms are willing to work around the issues if the market in other aspects is attractive enough. However, as reduced corruption has been found to be linked to greater prosperity on the market (Bénassy-Quéré et al., 2007; Cleeve, 2008), not to mention the legal and ethical aspects of the issue, there is naturally still a large value in combating corruption, regardless of the impact on the IMS process of MNEs. In sum, the three aspects considered in the hypothesized model of analysis all seem to function as hygiene factors, but the successive improvements thereafter appear to have a diminishing effect on how the markets are evaluated by MNEs.

Ease of doing business

Contrary to the reviewed literature, where both the works of Bénassy-Quéré et al. (2007) and Mohamed and Sidiropoulos (2010) state that the ease of doing business is one of the most important institutional factors to attract FDI, the findings of this study point in the complete opposite direction. None of the interviewed firms were interested in evaluating the
bureaucracy during the IMS process. Interestingly, however, is that the interviewees from both FiberboardCorp and AgriCorp stated that one of the biggest challenges they came across when expanding to the new market in the region was dealing with the excessive bureaucracy. Despite this, they did not believe that the factor should carry weight in the IMS process. Another example is SalesCorp, who stated that bureaucracy can affect the planning of entering the market, with some markets requiring the firm to initiate the process of entering a new market a long time in advance of the start of sales, in order to handle this extensive bureaucracy. Still, it was not a factor that would get in the way of expanding to the market, if the more critical factors such as market potential and the competitive situation were beneficial. Regarding the final example, MachineCorp, the firm dismissed the importance with that mostly the independent dealers that the firm does business with on the markets have to deal with the bureaucracy and as such the firm is not highly affected.

Given the increased uncertainty and delays that follow extensive bureaucracy and reasonably incur additional costs, it was expected that the ease of doing business would be a significant aspect in the IMS process of these MNEs in the region. So how can these findings, diametrically opposite of the reviewed works, be explained? As mentioned several times before, most of the studied articles are focused on the market, using proxies for different factors and measuring correlation with FDI inflows, such as Busse and Hefeker (2005) in the case of bureaucracy. It is thus possible that the proxy to measure the bureaucracy or ease of doing business also catches other, unintended aspects of a market, which would then explain the divergent findings. Regarding why the aspect is not considered important, this may be a matter of experience. The interviewed MNEs for this study have in fact invested in this region of economically underdeveloped markets, and has thus gained experience in dealing with the bureaucracy and understood how they can work to minimize the negative effects it brings. As such, its relative importance to other market aspects is reduced. Still, the interviewees most likely assumed some minimum, reasonable level, that at least allows the firms to do business on the market. If this did not exist, the market would not reach any basic form of development that would make the MNE interested in the market to begin with. As stated by the interviewee of ITCorp that in order to have any form of impact the market must have some basic form of development and stability.

So, it is here argued that the firms do in fact require some minimum level in regards to the ease of doing business that at least allows them to operate on the market, but this will be covered by the fact that the market is developed to the point that there is any interest at all to invest there, whether this means that there are potentially customers to serve, or possibilities to increase the efficiency of operations by locating there. As such, the bureaucratic system and the ease of doing business on the market is in itself not evaluated during the IMS process other than indirectly in this manner by the MNEs in the region. Despite the small sample, this is believed to be strongly supported by the fact that the responses are unanimous, no matter the firm motive or industry. That is not to say that an efficient system does not bring about other benefits for the market, such as firm satisfaction and retention, but that is outside the scope of this study.

6.1.3 Emergence of an additional factor relevant to the IMS process for MNEs

Besides the factors found in the literature review and included in the model of analysis, some additional aspects were brought up by the interviewees. While some were applicable only to the specific MNE’s industry, such as whether there is a culture of direct selling on the market in the case of SalesCorp, or existing network of machine importers in the case of
MachineCorp, one aspect in particular was recurring in the conducted interviews, namely the **competitive situation** on the given market, mentioned by all of the firms characterized as market seekers - AgriCorp, SalesCorp, MachineCorp, TradeCorp. Elements such as which other actors are on the markets, their respective market share, and other related measurements were brought up as relevant. Considering that market potential is the single most important factor for the above mentioned firms, it is not strange to find this factor being considered by the MNEs in the IMS process, as a higher competition means a higher risk for a lower market share. While the data sample for this study is rather small, the fact that every single interviewed firm with a market-seeking motive highlights the competitive situation as important, is here argued to provide strong support for its inclusion in a more general model.

6.2 **The unsystematic approach to IMS**

This subchapter deals with the factors related to the unsystematic approach to IMS, namely psychic distance and the firm network. In general, the relevance of both aspects seems to be reduced as the firm grows in terms of size and international experience. However, the network is still somewhat impactful both as an information source and through referrals to other actors.

6.2.1 **Psychic distance**

Out of the six interviewed firms, a majority - AgriCorp, SalesCorp, TradeCorp, and MachineCorp (the last one mainly through exports) - began their internationalization by expanding into adjacent markets. Taking the example of AgriCorp, this firm has around ten subsidiaries, moving increasingly further from the home market with only the latest direct investment being outside the Northern and Eastern European region, as the firm entered the Asian region. Another example is MachineCorp, describing that the reasoning at the early internationalization was that the same business practices would work well on the neighboring markets of the firm. While psychic distance does not necessarily equate to geographic distance, O’Farrel and Wood (1994) mean that the latter is an indicator of the former. Furthermore, considering that aspects such as language, education, and industrial development levels – part of the definition of psychic distance by Johanson and Vahlne (1977) – are likely to in many cases be similar in adjacent countries, and that psychic distance is **perceived** by the individual (Sousa and Bradley, 2006), there are clear arguments for the thought that the two types of distances will often correlate, with people perceiving the neighboring countries as similar. As such, the experiences of the above mentioned firms provide support for the thoughts of Johanson and Vahlne (1977) that firms will move to markets with successively longer psychic distance, at least in the initial stages of their internationalization, and the thoughts of Shenkar (2001) that the impact of psychic or cultural distance will be affected by other factors such as the international experience of the firm.

However, the remaining two firms, FiberboardCorp and ITCorp, do not show the same pattern of expanding to adjacent markets. For FiberboardCorp, its expansions have been prompted by a large customer requesting a sourcing option in the specified region. Here it is important to understand the context, which is that the firm relies on the few, large customers for its business, who in turn are not as dependent on FiberboardCorp, giving the firm no room to turn this request down. As such, the region was already decided for the firm, and it was only within the region that the firm could make an independent choice, reducing the influence of culture on the IMS process. As stated by Shenkar (2001), even if psychic- or cultural distance is something that is believed to impact firms’ decisions, it is not the only
determinant, and as such the absence of the “traditional” expansion pattern for this case cannot be used to dismiss the importance of the factor in the general case. Indeed, in the interview with FiberboardCorp the interviewee mentioned how France was declared an unattractive market which to a large extent rested on the difference in culture between France and the home market.

Regarding ITCorp, the firm was international practically from birth with project offices outside the home market, and has quickly gained customers in several markets, as such fitting in perfectly with the definition of Hennart (2014) as well as Knight and Liesch (2016) of a Born Global firm. The firm’s expansion is based in the business idea in itself, having low-cost IT-outsourcing that requires the firm to establish operations where labor costs are lower than average. As such, expanding in the traditional sense for operations was never an option. This is precisely what Hennart (2014) argues is what lies at the core of the Born Global phenomenon, with the firm’s business model today being viable due to advances in technology that allow for developers to sit anywhere in the world to work on projects for customers on several other markets, with low added costs for selling to customers on new markets. This is a clear difference to the other interviewed firms that are more traditional product-focused firms having to take for example transportation from production site to customer into account. Furthermore, the founders being relatively young have grown up in a more globalized world, as can be seen by both of them speaking at least three languages fluently and having international experience from their university studies among other things. As proposed by Knight and Liesch (2016), this may be an impacting factor in the Born Global phenomenon, with the international experience reducing the founders’ perceived psychic distance to the other markets of the world. Here it is difficult to establish whether the business model in itself or the founders’ international experience is what has been most impactful - and surely the former would not exist without the latter - but it is clear that the concept of psychic distance has played a much smaller role in the early internationalization of this young firm than the traditional literature suggests.

So, early in their internationalization the interviewed firms in most cases seem to have been affected by the psychic distance, but today when the firms are large MNEs with widespread reach the situation seem to have changed. The interviewee from SalesCorp dismisses the importance of differences in for example culture or languages between home and candidate market in the IMS process today, and the firm’s most recent expansions show no sign of continuously increased psychic distance, evaluating and expanding into markets on different continents. Similarly, MachineCorp are focused on the agricultural markets of the world, with a reach from North America to several sub-regions of Africa, to Europe and Oceania, South America being stopped only by the aforementioned tariffs. The same goes for TradeCorp, one of the largest retailers in the world having a global reach. Evidently, these firms have gained a lot of international experience over the years, and it is possible that this increased experience has reduced the insecurity over entering new foreign markets, as is proposed Shenkar (2001) as well as by the “learning” element in the Uppsala model (Johanson and Vahlne, 1977). Support for this proposition can be found in Papadopoulos and Martín Martín (2011) and Cavusgil (1985) who mean that firms choose a more unsystematic approach - with psychic distance as influential factor - because of limited experience of the firm managers. Being large MNEs, they also have resources to overcome the complexity and high costs associated with a more systematic approach that Papadopoulos and Denis (1988) mention.
Further support for this argument is found in the cases of FiberboardCorp and AgriCorp. FiberboardCorp, while being a large company following the EU definition, is located on fewer markets than the other interviewed firms besides ITCorp, and have had international operations a shorter time. As mentioned above, this firm is hesitant to enter markets where it sees a risk for culture clashes between the home market and candidate market - with France being one example - in a way that none of the other firms displayed during the case studies, which may be attributed to the reduced international experience of the managers in FiberboardCorp. Regarding AgriCorp, this firm is smaller than the other interviewed firms, again apart from ITCorp, but are active on quite a few markets with around ten subsidiaries. When asked directly the interviewee claims that differences in culture and languages is not important in the IMS process, and the firm indeed has quite a formal process. However, it is clear that the subsidiaries are clustered in the Central and Eastern European region, which the firm states is because the region has a strategic fit with the firm due to its often large-scale agricultural production sites. This may be so, but there are also other markets in the world with similar conditions, as evidenced by the latest expansion that now brought AgriCorp into Asia. As such it is not inconceivable that the familiarity in the region has affected the managers - and still do - but that this is gradually having less of an impact. This gives further support to the above statement that experience does indeed reduce the impact of psychic distance.

It is also interesting to see what is referred to when discussing culture with the different firms. In the case of SalesCorp, for example, it is not important how the culture differs between home and candidate market, but whether there exists a culture of direct sales on the market itself, in order to estimate whether the firm will be able to hire sales consultants or not. For ITCorp, the engineering culture in Eastern Europe is seen as giving a competitive advantage compared to IT-outsourcing in for example India. For TradeCorp, it is the shopping culture of the individuals on the market. For MachineCorp, it is whether there is a culture of trusting and investing in high tech that contributes to a demand for the firm’s products. Again, it does not seem to be the distance or differences that is important, but rather whether or not the relevant aspects of the culture will work with the current business idea, model and corporate culture - which however, was founded on the home market and as such should likely fit the home market culture. Thus, two firms from the same home market can be affected by the culture, and by extension the psychic distance, differently for the same candidate market in the IMS process. While the decision for all the firms is one of market selection, because of the varying contexts these findings can still be argued to support the thoughts of Nebus and Chai (2014) that psychic distance can vary between different types of decisions. It could also be seen as somewhat supportive of the illusion of firm homogeneity discussed by Shenkar (2001), that firms may have a different psychic distance to the target market - but here it is meant not necessarily because of the different values and beliefs between the firms, but rather differences in what is relevant in regards to the business model itself. This would then add an extra dimension to the difficulties in measuring culture discussed by Sousa and Bradley (2006).

In sum, for the studied MNEs in general, the impact of psychic distance has overtime been lessened, likely following the increased experience and resources available to the firm. However, measuring precisely how much psychic distance affects the IMS process is difficult, partly as there are other factors in play that can compensate for this distance, but also because for different firms different aspects of the culture on the market is relevant for the core business. This results in that every firm will view every market differently with regards to these aspects.
6.2.2 The firm’s network

There is ample evidence that the networks of the studied case firms - naturally to varying degree - have been impactful in the IMS process, both in the initial internationalization but also today for the MNEs with international experience. In accordance with what Zain and Ng (2006) state, several different actors in the network have influenced the firm in relation to the IMS process. For SalesCorp, it was friends of the founders in neighboring countries that showed interest in building the business on those markets, prompting the firm’s early international expansion. For FiberboardCorp it was a large customer who lead the firm to expand - a classic customer following as proposed by Cavusgil (1985), and also helped the firm with local contacts in the region that could help establish operations. For AgriCorp, the evaluation of a new market follows the recommendation from the firm’s suppliers. For MachineCorp, one of the importers in Africa became connected to the firm’s home market via his wife and through that connection got in contact with the firm.

The above examples show not only that several different types of actors in the network can impact the firm in its IMS process, but also the different ways in which they have an impact. In the above example of AgriCorp, the catalyst of the IMS process is that the suppliers contribute with information regarding markets, which can also be said about the friends of the founders of SalesCorp who historically found a demand for the firm’s products. This is in line with one of the three uses of network ties according to Sharma and Blomstermo (2003), namely as an information source, also proposed by Cavusgil (1985) and Andersen and Buvik (2002). FiberboardCorp’s large customer, instead, put the firm in contact with other actors in its network in the region the firm was expanding to. Similarly, the supplier from the North African market in the case of MachineCorp was put in contact with the firm through his wife and her network in the firm’s home market, and the firm further managed to enter another African market through the referral of a well-connected customer who knew many farmers on said market. While the network is not here as systematically made use of as AgriCorp’s reliance on its supplier for market information, it is still clear that the network can indeed affect the market choice in this manner, which is what Sharma and Blomstermo (2003) mean is another use of network ties, namely referrals. For TradeCorp and ITCorp, there was no evidence of the network having played a major role in the respective historical or current IMS process - which does not, however, necessarily mean that it did not have an influence, given that the firms were interviewed only once for a period of under two hours. As such, while it may not have had a major effect in the general IMS process, it is still possible to have been influential in given prior expansions – it is a possibility that can not be excluded without a deeper look into one given firm. For the same reason, it is difficult to dismiss the importance of the final use of network ties that Sharma and Blomstermo (2003) discuss, namely the timing of when information is received by the firm.

Similarly to the discussion on Psychic distance in subchapter 6.2.1, it seems that today it is the firms with less international experience, FiberboardCorp and AgriCorp, that rely more heavily on the network. This gives further support to the thoughts of Papadopoulos and Martín Martín (2011) and Cavusgil (1985) that a more unsystematic approach may be used by firms due to a lack of international experience with the managers. However, interestingly, during the interview with ITCorp - the final interviewed firm with less international experience - the firm’s network was not at all brought up by the interviewee. Considering for example that Zain and Ng (2006) propose that the network is highly impactful especially for smaller firms, and the prevalence of smaller enterprises in previous network research (cf.
Coviello, 2006; Hilmersson and Jansson, 2012; Sharma and Blomstermo, 2003), it could be expected that the network would be more prominent during these discussions. However, with this case having quite a different context than the rest - being a smaller and younger firm fitting the description of a Born Global firm (Hennart, 2014; Knight and Liesch, 2016) - it is difficult to draw any general conclusions from this one example.

In sum, the impact that networks has for MNEs during the IMS process seems to be reduced as the firm grows and gains more experience internationally. However, the findings also support the reasoning of the authors - based on Papadopoulos and Denis (1988) that smaller firms have less structured and formal processes - in subchapter 2.4.2, that the MNEs are not fully dependent on - or fully independent from - their networks in their IMS process.

6.3 Synthesis of analysis

As was argued for in the introductory chapter of this paper, the findings support that MNEs do not subscribe exclusively to a systematic or unsystematic approach to IMS, in accordance with what Cavusgil (1985) as well as Andersen and Buvik (2002) proposed. Instead, there seems to be an interplay between the formal, structured processes, and informal ones, allowing for opportunistic behavior and “gut feeling” decisions. Furthermore, looking over time the firms have become more systematic in their IMS processes, which is also evident in that the firms with more international experience (such as SalesCorp, TradeCorp, and MachineCorp) clearly have a more formalized process than those with less experience (such as FiberboardCorp and ITCorp).

The findings of this study indicate that MNEs in transition economy markets focus mainly on the pure economic factors in regards to their choice of market to expand to through FDI. What is valued most highly, however, depends in part on the firm motive for internationalization. For firms with a market-seeking motive, the market potential trumps all other factors, whereas the availability of resources in terms of raw materials and human capital is important for resource-seeking MNEs. The labor costs are also highly impactful for firms who enter the market in order to serve customers elsewhere more cost efficiently, whereas they play a lesser role for market seekers. As can be expected, both infrastructure and tariffs are mainly important to firms dealing with major import to or export from the target market, examples of which can be found in firms with both market- and resource-seeking motives. The taxation level in itself is not regarded as highly important for the firms, but is included as one of several items in cost calculations when forecasting the profit potential, and can as such readily be compensated for by other factors. Lastly, there are very strong indicators that MNEs and their managers do not consider physical distance between markets directly during the IMS process, but it may indirectly play a part in terms of increased costs, such as transportation costs for goods.

As stated above, the pure economic factors are in focus for the market choice. The institutional factors, proposed to carry great importance by the reviewed literature for this study, are instead not evaluated closely by MNEs. However, it seems that the factors still require some form of minimum acceptable level on the market in order to even become considered by the firms in the first place. It is here argued, however, that in many cases, markets that have more developed institutions, has also had a corresponding economic development - and vice versa - and by evaluating the economic factors the firms will often indirectly discard politically unstable markets. In addition to these pure economic and
institutional factors, there is strong support that market-seeking firms generally also investigate the competition on the market during their respective IMS process.

Historically, the perceived psychic distance has had a large effect on the studied case firms during their early internationalization, in accordance with the propositions by earlier researchers (Johanson and Vahlne, 1977; Shenkar, 2001). As the firms have become more experienced, however, the importance of this factor has been reduced, also in accordance with previous models of learning, and almost all of the interviewed managers themselves claim it plays no part. However, given that the firms still have a larger presence in the continent of the home market than others further away, and the difficulties in measuring this factor, here it is not possible to fully dismiss the possibility that this factor has an impact even for the more experienced MNEs. The other factor explored related to the unsystematic approach to IMS, the firm network, on the other hand clearly still impacts the IMS process for many of the studied firms. The way in which it impacts the MNEs varies, from acting as an information source about the market, to through referrals connecting the firm to suppliers, customers, or other partners on the new market. Here too, the MNEs seem to rely less on the network as an integral part of the IMS process as their experience decrease, but are not opposed to, on an opportunistic basis, interact with and take it into consideration at times.
7. Conclusions

This chapter focuses on the conclusions drawn from the conducted study and subsequent analysis. These conclusions aim to answer the purpose of the thesis, how elements of respectively the systematic and unsystematic approach to IMS act as selection criteria in MNEs’ choice of transition economy market. The hypothesized model of analysis is revisited and updated in accordance with the findings, and the chapter is concluded with recommendations for further research within this field.

7.1 Answering the purpose of the thesis – how elements from the systematic and unsystematic approach influence the IMS process for MNEs on a transition economy market

There is strong support in this study that as firms grow and gain more international experience, becoming MNEs, the IMS process is characterized by an increasingly formalized and systematic approach, with clear views of which aspects of a candidate market that need to be evaluated in the IMS process. As such, the firms with longer international history and a global reach have a more systematic process than the MNEs on fewer markets, and are less impacted by perceived psychic distance and less reliant on the firm network. However, from this study the former cannot with certainty be said not to still have some influence as a selection criterion in the IMS process, only that this influence has been reduced over time. Regarding the network, while the MNEs are less reliant on the network in their IMS process, several of the studied firms show that they are open to be flexible and deviate from their regular process to follow up on opportunities stemming from the network. In other words, some market selections are the result of the existing, structured IMS process, while others stem from an opportunistic behavior, making use of the network both as an information source and through referrals. As such, the firm network is argued to act as a quite impactful selection criterion, even for larger firms with a moderate to high amount of international experience. As many previous works focus on the network’s impact for smaller firms, this paper contributes with empirical evidence that the network is a valuable resource also for larger MNEs. Nevertheless, as with the other factor related to the unsystematic approach to IMS, the relative impact of the firm network does indeed appear to decrease with increased experience.

Generally, MNEs looking to expand to transition economy markets are mostly influenced directly by the pure economic determinants and these are the aspects that are most closely evaluated in the formal stages of the IMS process. Nevertheless, the firms do not dismiss the importance of a market working towards stability and transparency. Rather, these factors act as hygiene factors, required to reach some minimum level for international firms to even consider them in the first place; cases are found in this study where an economically sound market is rejected due to its political situation. However, economic- and institutional development appear to be interrelated, and as such for firms evaluating the economic aspects of the market, indirectly the institutional factors are in many cases also considered.

How elements of the systematic and unsystematic approach to IMS act as selection criteria differ between different types of MNEs on transition economy markets. More specifically, it is within the pure economic factors related to the systematic approach that variations are clear. The first distinction is between market-seeking firms, looking to serve the markets with goods and services, and those looking to enter the market in order to gain access to
resources, whether these resources are natural or human resources, here grouped together under the name of resource seekers. For the former, the market potential is the most impactful element in the IMS process, whereas the latter group looks for the best trade-off between availability and costs of the resource of choice. While this has indeed been suggested to be the case in previous works, this study nonetheless contributes with empirical evidence that the firm motive is important to consider when attempting to understand FDI flows. Furthermore, the market-seeking MNEs also take into consideration the competitive situation on the market, which was not suggested in the studied works on FDI location theory, further arguing for the value in considering the individual firm instead of focusing only on the market in itself in order to understand FDI flows.

In a similar fashion, empirical evidence is presented that for firms where import and export is a large part of the business, infrastructural aspects are actively considered in the IMS process. Despite the increased globalization, with suggestions that tariffs play a progressively reduced role, it is also clear that this is still a concern for managers when evaluating candidate markets. Unsurprisingly, this is not taken into consideration by other MNEs, as it does not interfere with their business model to the same extent. Lastly, a distinction can also be made between firms of different industries. Overall, there are many recurring elements that are shared between industries, but there are nevertheless some distinct aspects highlighted in this study, although as this paper does not focus on any particular industry, the small data sample has not allowed to establish with certainty which these are.

7.2 Revisiting the model of analysis

Some revisions of the hypothesized model of analysis in Figure 6 are suggested in order to better reflect the findings and conclusions in this paper. First, as differences have been found as to which aspects are relevant for the market- and resource-seeking MNEs, the firm motive is introduced as a form of decision gate reflecting whether the market potential and discovered competitive situation, or the resource availability in terms of natural- or human resources are valued most for the IMS process. Similarly, a gate is introduced for whether or not the firm has import or export as a large part of its business. This gate is unrelated to that of the firm motive; whether or not a firm is market- or resource-seeking it can still have an import/export-focus. There is also a category for factors that are often taken into account regardless of firm motive. As can be seen, human capital as well as labor costs figure both in this category and in category of factors for firms with a resource-seeking motive. This is because in the latter, these aspects are critical to the outcome of the IMS process, whereas they for market-seeking firms carry much less importance, although they are in several cases still included in the formalized process.

The geographic distance, included in the original hypothesized model, is removed in accordance with the findings that not one of the interviewed firms regarded this aspect as important, as is the ease of doing business. Lastly, a category is introduced for the industry related aspects, marked with a dotted line that illustrates that for this study no conclusions are drawn as to which these factors are. This category is added between the criteria from the systematic approach and the bubble representing the IMS process, as a way to illustrate that the industry of any given firm may regulate the relative importance of the various formalized criteria, in accordance with the findings. However, as there were no findings indicating that the industry affected the role of the “soft variables”, i.e. network and the psychic distance,
no regulator has been added on this side of the model. The updated model of analysis is illustrated in Figure 6 below.

Figure 6: Revised model of analysis

7.3 Suggestions for further research

As stated previously in this chapter, some industry-specific factors were highlighted during this study. However, as this thesis does not focus on any specific industry, the tested model was of a more general nature. Accordingly, the data sample had few firms from the same industry, and because of this no conclusions can with certainty be drawn as to these industry-specific variables. Thus, one potential area of future research is to focus on one industry, and investigate how the IMS process differ from MNEs in this industry, and which industry-specific variables should be added - or removed - from the more general model. Furthermore, this study found that many factors, in particular the institutional ones, act as hygiene factors, requiring a minimum level but thereafter not being of any concern for the MNEs in their respective IMS process. What was not established in this study, however, is what this minimum level is where firms believe it is “good enough” to enter a given market. It is not inconceivable that this level may also vary between firms - perhaps because of differing industries or experience of the firms. Investigating this topic may provide additional insight into the behavior of MNEs in their internationalization process.
List of references


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74


Appendix A – Interview guide regarding the IMS process

Introduction
- Tell us about your company?
  - What are the main activities?
- What is your position in the company?
- Tell us a bit about the internationalization process of your company?
  - Which markets is your company represented on?
    - Through export / joint venture / subsidiaries?
    - In which order did your company expand to these markets?
  - What are the steps included in your company’s internationalization process?

Market selection criteria
- What were the reasons for choosing to expand to market X?
- What aspects did your company take into consideration when evaluating market X?
  - How were these measured?
- What were the positive aspects of market X?
- What were the negative aspects of market X?

The following two questions are asked for the explored criteria: market size, market growth, natural resources, human capital, labor cost, infrastructure, geographic distance, political stability, legal system, corruption, ease of doing business, taxes and tariffs, psychic distance, network.
- Was [CRITERIA] considered when evaluating market X?
- Relative other aspects, how important is [CRITERIA] is?

- If you were to evaluate a similar type of market as market X today, would you make any changes as to which aspects were considered, or their relative importance?
- Does the process differ when evaluating a more mature market as compared to markets similar to market X?
  - Are different aspects considered?
  - Does the relative importance of any factors differ?
  - Do you think that the process should differ between different types of markets?

If the company does business in Moldova
- What are the positive aspects of doing business in Moldova?
- What are the negative aspects of doing business in Moldova?
- Have any aspects improved (deteriorated) since you entered the Moldovan market?
- What is, in your opinion, the most important aspect to focus on in order to improve the competitiveness of Moldova compared to the surrounding countries?

If the company does not do business in Moldova
- Have you considered Moldova as a potential new market to expand to?
  - Why/Why not?
  - What are the major impediments?
Concluding the interview

- To summarize, from what we have discussed we get the impression that [summary of interview with key take-aways] … do you agree with this?
- Is there anything you would like to add, change, or clarify regarding your previous answers?