"Relationships are the key to avoid surprises."

A qualitative study of how a Swedish B2B SME perceive risk when internationalizing to South Africa.

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Abstract

The purpose of this thesis is to describe and analyze how Swedish B2B SMEs perceive and manage risk when internationalizing to South Africa. The author intends to contribute with empirical contributions regarding risk perception and management in this matter in order to ease the establishment for other companies wanting to expand to South Africa. The literature review has been conducted regarding relevant theory such as different internationalization theories, entry mode strategies and risk theories to gain a deeper understanding of former researches within this field.

The research has been conducted as a qualitative embedded case study of a Swedish B2B SME regarding their risk perception and internationalization in South Africa with different units of analysis within this case. Further, the study has followed an abductive research approach.

The analysis can be understood as a discussion between the theoretical and the empirical findings with similarities and differences. Further the results of our study are presented by answering the three research questions in the conclusion chapter. Moreover, in this chapter are theoretical and practical recommendations as well as recommendation for future researches and a short reflection.

**Keywords:** Risk perception, risk management, SME, B2B, emerging market, internationalization, network theory

**Glossary**

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<tr>
<td>B2B</td>
<td>Business-to-business</td>
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<td>FDI</td>
<td>Foreign Direct Investments</td>
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<td>MNC</td>
<td>Multi-National Companies</td>
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1 Introduction

In the initial chapter of this thesis the emphasis lies on describing the background of this research. The discussion of the problem with the background as basis will result in the outcome of the research field including the research questions. Furthermore, the purpose will explain the significance of the study while the delimitations and dispositions round the research field and the chapter.

1.1 Background

SMEs experience a more important role within international business through a strong pressure that pull and push the small firms into international markets to ensure its survival in consequence of the globalization (Mtigwe, 2006). Globalization can be explained as the direction in which the world considered as a whole is moving (Roberton & White, 2007) or as a shift from local or national to an international or global periphery (Audretsch, 2003). Hamilton and Webster (2009) define globalization as a process in which barriers separating different regions of the world are reduced or removed. This opens new advantages for businesses and firms being able to choose between a wider selection of markets, choose between suppliers and become more cost-efficient. Baylis and Smith (2005) explains the change of way doing business, due to globalization and the revolution of communication. Accomplish business across borders becomes easier. Further, globalization can be explained as a process that creates a network between societies which lead to political, physical, economic and cultural barriers blend together. Audretsch (2003) highlights two major ways that affected SMEs due to globalization. The first has been the easier access to transnational activities, ranging from exports to foreign direct investment to participating in global value chains. The second impact of globalization has been the increased role for SMEs in consequence of the relocation of the source of competitiveness towards the knowledge-based economic activity. However, entering a more distant market still increases the uncertainties or the risk for companies. Although, risk and uncertainties can be reduced through a higher commitment (Figueira-de-Lemos, Johanson, & Vahlne, 2011), in some markets uncertainties are more conspicuous than in other markets which increases the perceived risk for companies entering these markets distinctive.
More than a few evidence provides a foundation for the stubborn belief that Africa is incompatible with modern and formal business. Besides, most of the African countries maintain an environment with several obstacles such as political instability, high corruption, underdeveloped capital markets, inadequate or decayed infrastructure or structural constraints such as trade barriers (Taylor, 2012). Nevertheless, Africa recorded a significant economic growth over the last recent years. Although, the growth has slowed in 2014 with the lowest numbers since 2009 (The World Bank, 2016a), the decreasing FDI projects in Africa followed the worldwide trend (EY, 2015; UNCTAD, 2015). While FDI decreasing in North Africa and rising in Sub-Saharan Africa (UNCTAD, 2015), FDI projects announced in 2014 will create 76,200 jobs more than in 2013. However, African FDI remains a poor performer from a job-creation perspective facing a fast growing population and high underemployment (EY, 2015). EY (2015) expects in terms of per capita income, Sub-Sahara Africa to reach the level where emerging Asia is today by 2030. Natural resources, including, agriculture, remain a strong draw for foreign investors. This implies that natural resources in Africa still have substantial investment potential. In addition, with the reinforcing investor focus on consumer-facing activities reflects strong economic and demographic growth. Leke et al. (2010) state the key reasons behind this growth in government action to end armed conflicts and effort to create a better business climate by improve the macroeconomic conditions and undertake microeconomic reforms.

The future growth of African countries is as well driven by the continent’s rapid population expansion. With a projected doubling of 1.2 billion inhabitants in 2015 to 2.4 billion, Africans Generation 2030 has the highest population growth rate worldwide. Furthermore, is it the first African generation of children that can expect to reach the pensionable age of 65 years by 2035. In addition to that, the African continent follows the worldwide trend of urbanization. Population residing in urban areas increase from 26.7 percent in 1980 to 55.9 in 2050 (UNICEF, 2014). Among these urbanizations the African middle-class will rise and strengthen their purchasing power (Leke et al., 2010). Despite of this encouraging facts, Africa faces several difficult obstacles which could slow down the growth and deter potential buyer. Emerging threats through rising violence and conflicts, trafficking, piracy and religious extremism put the stability of some countries and their economy and to an acid test as well as pandemic crisis like Ebola. Furthermore, Africa suffers already the most from the effects of climate change,
although it is the lowest carbon-emitter. To diminish this vulnerability and build resilience is important to maintain solid growth rates and keep sustainable progress in reducing poverty and achieving the development goals (The World Bank, 2016a). To reach this goals, several long term projects such as agricultural productivity, increasing access to affordable, reliable, and sustainable energy, investing in climate change adaptation techniques and disaster risk management, regional integration to improve connectivity, leverage economies of scale, and enhance productivity, integrated urban planning, addressing water, sanitation, transport, housing, power and governance, to making urbanization a true driver of productivity and income growth as well as minimize the mismatch between what African students are learning and the skills employers are actually seeking to increase the human capital were started (The World Bank, 2016b).

Previous research regarding international business show the impact of globalization for SMEs (Mtigwe, 2006) which opens new market through elimination of barriers (Hamilton & Webster, 2009). The combination of economic and demographic growth in Africa creates an expanding consumer class with purchasing power. African people earning between US$2 and US$20 a day in real terms is expected to triple from 313 million in 2010 to approximately 1 billion by 2060 (African Development Bank, 2012). If Africa capitalize on the significant growth opportunities and expedite structural transformation such as better education systems and investment in infrastructure and sensible regulatory reforms, Africa as already one of the world’s fastest-growing region could make progress (The Economist, 2015) and achieve development goals (The World Bank, 2016a).
1.2 Problem discussion

Within the last few decades several theoretical approaches in international business have been developed and run parallel to each other. While first researches viewed the nation as the unit of analysis, after the rise of post-war multinational corporation in 1950s researches shifted towards to the firm as a unit of analysis. Nevertheless, a universally accepted model of international business is still not found yet to date after over 60 years of extensive researches (Mtigwe, 2006). Andersson (2000) emphasize with the economic and the process view two dominant views in international business theories. Although this views give some insight into the complex phenomenon of the internationalization pathways. The progress toward the development of core internationalization theory obtained new impetus by the realization of the importance to take into account the behavior of the small entrepreneurial companies, which was not considered to possess sufficient resources to compete on the global market (Mtigwe, 2006). Prefontaine and Bourgault (2002) states the role they play in the domestic economy and in international business as much greater than previously recognized since small businesses account for between 75-99% of all businesses in most modern economies.

The increasing trend in numbers of researches concerning the internationalization process of firms entering emerging markets indicates that more companies search for opportunities in fast growing markets for products and services in developing countries (Khanna, Palepu & Sinha, 2005) as the market in developed countries are becoming more saturated MNCs (London & Hard, 2004). Many companies shy away from doing business in these nations whereas a possible lack of needed market institutions such as consumer data experts, end-to-end logistics providers and talent search firms exists to do business successfully (Khanna, Palepu & Sinha, 2005). Research show that MNCs sometimes are having difficulties with reformulating their existing business strategies to fit the emerging market environment (London & Hard, 2004), while other research shows the effected shift in MNCs towards emerging market investments since the emerging markets constitute the major growth opportunity in the evolving world economic order (Arnold & Quelch, 1998; London & Hard, 2004). On the other hand, SMEs have the advantage of being more flexible even with or because of their scarcity of financial, human and intangible resources (Weerawardena et al., 2007) when it comes to make decision and adapting their strategy due to fewer decision maker. A research by
Hilmersson and Jansson (2012) with emphasis on the internationalization of SMEs in Easter European countries, Russia and China, shows the success with reducing uncertainties with a high degree of experiential knowledge.

In previous research the firm’s internationalization process in Asia, Eastern Europe and South Africa have been analyzed (Owusu & Habiyakare, 2011; Hilmersson & Jansson, 2012). When studying SMEs research, the focus laid on rapidly internationalizing firms that tend to be small (Oviatt & McDougall, 1994). Combined with prior research, there has been a research gap concerning the internationalization of SMEs and their entry into future emerging economies since most African countries are considered to be emerging economies. Especially in this economies risk and uncertainties are strongly correlated as conducted by Owusu and Habiyakare (2011) when they studied Finnish LSEs entering the South Africa market. While entering geographical more distant market sets a higher uncertainty which increase the risk as well. SMEs are endangered of lack of resources when it comes to gathering the required information and do research about new markets and tend to choose markets close to the home market to reduce uncertainty since knowledge is an important determinant (Johanson and Vahlne, 1977). Owusu and Habiakare (2011) emphasis the help of network, incremental market involvement, strategic alliances as well as the right entry mode to lower the risk when entering an emerging market. Additional market commitment will help to lower the risk and uncertainties as well (Johanson & Vahlne, 1990).

The main characteristic of SMEs in their internationalization process can defined as entrepreneurial activities. International entrepreneurship connects the properties of being innovative, proactive and risk-taking (Oviatt & McDougall, 2000) as well as using technological advances and cultural awareness to open untapped foreign markets (Oviatt & McDougall, 2005b) or international entrepreneurship is closely related to discovery, evaluation and exploitation where opportunities leads to international expansion (Oviatt & McDougall, 2005a). Overall there has been an increase of export between Sweden and Africa, the export between Sweden and South Africa has increased significantly after the sanctions were lifted in 1993 and within one-year, South Africa became the most important export market for Sweden in Africa (Swedenabroad, 2011). However, there is still restraint from some firms to invest in the region outside South Africa due to the historical uncertainties. Hence the significance of
the opportunities outweighing the uncertainties and the importance for firms to manage risks within the process of internationalization.

The increasing number of risk management studies within the last years shows the growing interest in this topic (Verbano & Venturini, 2013) with Keizer, Halman and Song (2002) highlights the importance of an early diagnosis and management with focus on risk treatment within risk processes. Since small businesses account for between 75-99% of all businesses in most modern economies (Prefontaine & Bourgault, 2002) there is a need for research concerning SMEs entering emerging markets and their risk management, risk perception and risk treatment.
1.3 Research question

*Main Question*

What are the risks Swedish B2B SMEs perceive when internationalizing to South Africa?

*Sub-question 1*

How do they manage the risks?

*Sub-question 2*

How does the firm's network affect the perception and management of risk?

1.4 Purpose

The purpose of this thesis is to describe and analyze how Swedish B2B SMEs perceive and manage risk when internationalizing to South Africa. The author intends to contribute with empirical contributions regarding risk perception and management in this matter in order to ease the establishment for other companies wanting to expand to South Africa.
1.5 Outline

Figure 1 shows the outline of this thesis. The first chapter explains the research field including a background and problem discussion which leads to the research questions. Further the data acquisition based on theoretical and empirical findings represents the foundation for the analysis of this study. The conclusion sums up the findings and answer the research questions and suggest theoretical and practical contributions as well as recommendations for future research.

Figure 1 - Outline of the thesis
(Source: Author’s own construction)
2 Literature review

The emphasis in this chapter will be towards describing the theories and concepts that have been significant in this research. The aim is to provide an enhanced understanding for the relevance of each theory regarding the research field and leads to a conceptual framework to show the correlation between them and the way the empirical data will be analyzed. Figure 2 shows the process of the literature review graphically.

*Figure 2 - Process literature review*
(Source: Author’s own construction)
2.1 Internationalization theories

International business theories can be classified into two different approaches; the economic and the process view (Andersson, 2000). The difference consists of the economic context in internationalization or the network approach theory on one side and the the incremental approach theory as specific issues surrounding process development (Mtigwe, 2006).

2.1.1 Incremental Theory

Johanson and Wiedersheim-Paul (1975) first developed the incremental internationalization theoretical framework, which included ideas from the FDI research stream and the mainstream economic theory (Mtigwe, 2006), when they named in their study of four Swedish firms the establishment chain as a series of incremental steps when firms internationalize. Although, if internationalization was defined as a series of incremental steps, they emphasize the possibility to leapfrog some steps as a crucial factor of the establishment chain which is often missed in literature (Johanson & Wiedersheim-Paul, 1975; Mtigwe, 2006). Market entry was expected in culturally, physically and geographically close markets, also defined as “psychic distance” (Johanson & Vahlne, 1977), and then to extend step by step or “fanning out” (Vernon, 1966; Johanson & Vahlne, 1977; Mtigwe, 2006).

Johanson and Vahlne (1977) refined with the Uppsala-model previous incremental internationalization theoretical frameworks (Johanson & Wiedersheim-Paul, 1975; Perlmutter, 1969) with the aim to make it more dynamic (Mtigwe, 2006) and emphasizes the relationship between market knowledge, commitment decisions and current activities within a firms’ internationalization process. With the four stages of internationalization which are i) no regular export activities, ii) export via independent agents, iii) establishment of a foreign sales subsidiary, iv) establishment of a foreign manufacturing plant, within the Uppsala-model, the firm aim to reduce the risk can be achieved by reducing the uncertainty with increasing the commitment of both the amount of resources and the degree of resource specificity (Figueira-de-Lemos, Johanson & Vahlne, 2011; Mtigwe, 2006). The incremental internationalization theory can be seen as gradual unidirectional learning process because of a lack of resources,
information and experience which will build up within the four stages and time (Mtigwe, 2006).

Although the incremental theory obtains a wide acceptance of received literature, it has been widely criticized theoretically and practically (Mtigwe, 2006). Andersen (1993) emphasize a lack of correlation between the intuitive and scientific appeal and therefore questions the theoretical and methodological consistency of the Uppsala model. Another critics is the lack of explanatory power combined with the deviation between theoretical and operational levels which leads in an incomprehension of received acceptance in literature (Reid, 1984; Andersen, 1993; Crick, 1995). The conclusion of researches about the incremental internationalization hypothesis are diverged. Assumed of its validity, some studies supply confirmatory evidence of the hypothesis (Loustarin, 1980; Denis & Depelteau, 1985; Crick, 1995), while other researches emphasize evidence that contradicts the hypothesis entirely (Valla & Turnbull, 1986; Hedlund & Kvernerland, 1983; Sharma & Johanson, 1987; Millington & Bayliss, 1990).

Another major challenge towards the incremental theory has come from the network theorists. Their arguments, based on modern high-technology firms, emphasize a short-circuited internationalization process of firms, based on the experience and resources of network partners to a high level of international development than envisaged by the incremental theorists for a firm at that age (Oviatt and McDougall, 1994; Bell, 1995; Madsen & Servais, 1997). Johanson and Mattson (1988) however, underline the important contribution to the general understanding of internationalization due to the Uppsala model. They argue that an early starter firm typically exhibit the Uppsala development process what leads to the conclusion of the merit of its model, even without a complete empirical support in every case (Mtigwe, 2006).

Coviello and Munro (1995, 1997) developed a model that combines the process model and the network approach as results of their findings about the impact of relationships on the entry mode and market selection. Further researches in studies of internationalization strategy (Welch & Welch, 1996), the location of foreign direct investment (Chen & Chen, 1998), the first step abroad (Ellis, 2000), SME

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1 that is, a firm with a low degree of internationalization and operating in a market with a low degree of internationalization (Johanson & Mattson, 1988)
internationalization (Chetty & Blankenburg-Holm, 2000), internationalization of firms from emerging markets (Elango & Pattnaik, 2007), and rapid internationalization (Loane & Bell, 2006) as well as the network theory induced Johanson and Vahlne (2009) to develop their original model in which they focus on business networks as a market structure in contrast to how networks evolve during the early phase of internationalization (Coviello, 2006). The revisited model is based on the stated factors knowledge and opportunities as well as network position. The recognition of opportunities is denoted as the most important process driver for the body of knowledge while the process of creating knowledge is embedded within business relationship activities (Johanson & Vahlne, 2009). Further, Johanson and Vahlne (2009) emphasize the change of the “network position” variable away from the primary identification “market commitment” towards to relationships on different levels of knowledge, trust and commitment. As counterpart they changed the changed variable “current activities” to “learning, creating and trust-building” with the aim to make current activities more explicit. The second change variable became extended by “relationship” to imply that commitment is to relationships or network of relationships (Johanson & Vahlne, 2009).

Within the revisited Uppsala model, Johanson and Vahlne (2009) emphasize the declining validity of the “establishment chain” as the company behavior has changed since the original model. Several researches of leapfrogging within the establishment chain (Hedlund & Kverneland, 1985) early and more rapid internationalization (Oviatt & McDougall, 1994; Zahra, Ireland & Hitt, 2000) and the order of entering foreign markets no longer correlates with psychic distance (Madsen & Servais, 1997) induced them to redefine the importance of psychic distance. However, they argue that the changes in company behavior is attributed to changes in the international environment than in internationalization mechanisms (Johanson & Vahlne, 2009).

2.1.2 Network theory

Mtigwe (2006) emphasize the network theory as an extreme view of the internationalization process with networks as a bridge between markets that allows a rapid internationalization. Within this approach, market exchange can be viewed as a result of interaction between market actors (Tikkanen, 1998) and therefore the internationalization process as a natural development from network relationships with foreign individuals and firms (Johanson & Mattson, 1988, 2013). The value of a firm’s network as a source of market information and knowledge may not be underestimated.
as it would take a long time accompanied by great costs to acquire (Chetty & Campbell-Hunt, 2003). The firm becomes instant globally through bypassing the establishment chain through a revolutionary process. Subcontractor firms for example following their main contractor partners (Mtigwe, 2006).

SMEs are traditionally described as limited in resources and therefore tend to be innovative in their internationalization strategy. The use of relationships and networks is an important tool to find and use knowledge of other markets while keep the costs as low as possible (Mtigwe, 2006). Madsen and Servais (1997) suggest based on the fact of a fundamental different approach to internationalize to use a firm’s network as the unit of analyze in place of the firm itself. According to Johanson and Mattson (1988, 2013), the importance of the domestic network cannot be underestimated as it can be used as a bridge towards other networks within an international environment. Thereby, companies gain access to other markets by network experiential knowledge even with limited resources which emphasizes the importance of networks in an internationalization process (Blomstermo et al., 2004). Furthermore, positioning in a network opens the access to resources which are held or controlled by other companies and leads to the important exchange of resources and capabilities which supports the different goals of different actors within the network (Johanson & Mattson 1988, 2013). According to Håkansson and Snehota (1995), this exchange of resources is in a strong correlation to relationships which helps to organize the networks resources. Establishing new relations, maintaining and developing existing relations as well as ending relation to procure to the collection of resources is a strategically decision process (Håkansson & Snehota, 1995).

Johanson and Mattson (1988, 2013) emphasize the the controversial discussion among researchers who enable the network theory to show a more adequate picture of the reality of the internationalization process of SMEs than the Uppsala model. Relationships in networks enable a firm to access a more distant market, both in terms of psychic distance as well as geographically (Ojala, 2009). Johanson and Mattson (2013) emphasize the firms’ internationalization as a process to establish and develop foreign market positions while using its network. Further, they highlight three main factors to achieve it; i) international extension, using relationships to enter new markets, ii) penetration, expanding resources commitments where firm is already present, iii)
international integration, coordinating its international network activities. Depending on the network a firm is established in, Coviello and Munro (1997) enhance that different internationalization patterns emerge regarding entry mode and selection of markets.

Johanson & Mattson (1988) recommended a categorization of firm internationalization regarding to networks. Thereby, the level of internationalization of the firm as much as the extent of commitment of the firm to the market figure as key factors. They describe the categories as: the early starter, the late starter, the lonely international and the international among others. Researches about the early starter shows the tendency towards the incremental theory or the Uppsala model process with a low degree of internationalization both on firm as well as on market level (Johanson & Mattson, 1988). The later starters characteristics labels a low international involvement while the market itself has a high degree of internationalization. The decision making process to internationalize as well as the market choice is significant influenced by the firms’ network (Johanson & Mattson, 1988; Hadley & Wilson, 2003). The lonely international on the other hand has already a high degree of internationalization while the market has a low internationalization level. The firms network is internationally less developed or established (Johanson & Mattson, 1988). The advantage of a lonely international is to use the firms position to gain competitive advantages with use of the network (Johanson & Mattson, 1988). A high level of internationalization of both the firm as well as the market is described as the international among others (Johanson & Mattson, 1988).

Chetty and Blankenburg-Holm (2000) proposed in their study some adjustments to Johanson and Mattson’s (1988) model. They emphasize especially the role of the manager and their ability to recognize opportunities who are provided within their network. They underline the importance especially for the internationalization process for SMEs where the managers lack of knowledge might inhibits the internationalization process (Chetty & Blankenburg-Holm, 2000).

2.1.3 International entrepreneurship theory

The international entrepreneurship theory can be briefly summarized as a compromise between the two extreme positioned incremental theory with large multinational companies and slow internationalization progress as primary focus and network theory with very swiftly internationalized small firms as primary focus (Mtigwe, 2006). Some
authors put the network theory on a level with the international entrepreneurship theory, Mtigwe (2006) emphasize an important difference between them and stress to see them as complementary theories rather than synonymous. He enhances the fact that international entrepreneurship exists outside formalized networks. However, especially small entrepreneurial firms are able to use the competitive advantage of collaboration with domestic and foreign network partners (Johanson & Mattsson, 2013) due to their awareness of foreign market risks and their ability to manage them effectively (Shrader, Oviatt, & McDougall, 2000). However, Mtigwe (2006) highlights some discussion about the international entrepreneurship theory as a real theory or more a phenomenon which is not understandable in a SMEs behavior context alone neither in context with the “Born-global” approach.

2.2 Entry modes

The choice of the right entry strategy to enter a foreign market is important for a company. Depending on the intentions, the has to consider differences in culture, legal scheme and political environment (Cavusgil, Ghauri & Agarwal, 2002). The traditional view on firm’s internationalization process to commit to foreign markets as discussed starts with direct or indirect export before establishing an owned subsidiary, a joint venture or acquiring local companies (Johanson & Vahlne, 2009; Cavusgil, Ghauri & Agarwal, 2002). Although, companies in the past followed this incremental approach the internationalization process changed to firms are implementing the strategy that suits the best on them in correlation with the market (Cavusgil, Ghauri & Agarwal, 2002). Thereby, the willingness of taking risk has a significant influence on companies’ internationalization strategy to enter a market. Low risk strategies characterized with low commitment to the market and a minimization of costs such as agents, distributor or joint venture, while high risk strategies tend to a high commitment towards the market with high costs such as subsidiaries or acquisitions. Recent researches proposed project management as another strategy being used within the internationalization process (Owusu, 2002a; Owusu, 2002b).

2.2.1 Agent / Distributor

Cavusgil, Ghauri and Agarwal (2002) characterize the usage of agents as a low commitment and low resources alternative with a lower risk when entering a foreign
market. Agents are selling the company’s products in their name in one or more markets (Cavusgil, Ghauri & Agarwal, 2002). The location of the agent varies by the choice of export such as located in the domestic market when choosing the indirect export mode or located abroad when choosing the direct export mode. One risk within this mode is the limited control of the agent due to regulations, laws, norm or the agent’s own profitability (Cavusgil, Ghauri & Agarwal, 2002). On the other hand, the company does not have to spend time to gain knowledge about the market by themselves since the agent decreed about it (Cavusgil, Ghauri & Agarwal, 2002).

2.2.2 Project Business

Project business characterizations is a process of developing marketing and implementing technical-economic solutions to special needs (Owusu, Sandhu & Kock, 2007). Besides, a project can be defined as discrete, unique and complex with the involvement of major financial commitment (Artto & Wikström, 2005; Owusu, Sandhu & Kock, 2007). Project business can be used to bridge wider cultural or technological gaps between marketer and purchaser as a result of increased knowledge. It can also provide some higher flexibility and risk protection where other modes have failed. Another advantage of project business the possibility that new opportunities can emerge when interacting within the network (Owusu et al., 2007). Especially when doing business in African countries, research that has been done regarding project business as an entry mode underline the significant advantage concerning involvement in developing or emerging economies (Owusu, 2002b).

2.2.3 Joint Venture

Joint venture as an entry mode can be used by companies with a risk-averse strategy. In order to have a lower commitment and investing less resources the company can cooperate with one or more other units or companies to establish a new company in a foreign market (Cavusgil, Ghauri & Agarwal, 2002). The ownership and the control is shared within the involved actors as well as the risk. Further, they complement each other to share the knowledge needed (Kogut & Singh, 1988). Kogut and Singh (1988) further emphasize, that joint venture with local partner has the advantage of knowledge about legislation, culture, regulations, etc. on the other hand they highlight the cultural distance between partners as possible risk.
2.2.4 Owned subsidiary

A subsidiary is an independent part of a parent company with an important role within the business network. The independence signifies functional control of the company’s business (Cavusgil, Ghauri & Agarwal, 2002). Managers within subsidiaries differs in relations to products which helps them to adapt the business strategy that fits the best regarding supply and demand on the market. Sharing resources and knowledge can be an advantage for subsidiaries regarding the establishment of good relationship and open of new opportunities (Cavusgil, Ghauri & Agarwal, 2002).

2.3 Risk management

2.3.1 Risk theory

Within the last years’ risk management learned a significant expansion from an aspect of management control to become a good governance for different organizations (Power, 2007; Baird & Thomas, 1985). Previous researches emphasizes the increasing interest concerning risk strategies in relation to both macro- and micro-environment (Baird & Thomas, 1985; Miller 1992). The risks increases within a firm if the firm’s anticipation of risk for the internal and external environment is not sufficient which results in an increasing growth of uncertainty with a direct impact of the firm’s performance (Miller, 1992). Risk as an important aspect has an influence on the firm’s corporate strategy through the fact of the range of risk taking affects in a firm’s intended strategy. However, it is difficult to identify the outcome of potential risks within this intended strategy (Baird & Thomas, 1985).

Baird and Thomas (1985) highlight the integration of risk in long-range decisions as part of the nature of strategy. In nowadays meritocratic business world, risk can be recognized as potential or danger to reach managerial goals. March and Shapira (1987) recognizes different ways in which managers tends to orientate. Their decision making process is particularly affected by the orientation and focus of critical performance goals. Moreover, there is a sharp distinction between taking risks and gambling. However, new opportunities would not be discovered without the perception of risk as a potential of the firms’ success. The positive affection due to optimizing risks in the firms’ interest should not be underestimated (March & Shapira, 1987).
Aven and Zio (2011) emphasize the problem of risk arise within points of contact of potential sources of damage or loss such as a hazard to a target, people or the environment. Risk and uncertainty are strongly correlated (Figueira-de-Lemos, Johanson & Vahlne, 2011) nevertheless the risk of loss or damage usually affects a certain target while the uncertainty of its transformation depends more on an actual loss or damage (Aven and Zio, 2011). A firms’ lack of anticipation of external or internal environment entails an affected performance due to uncertainty and thereby an increased risk as consequence. This leads to the understanding of uncertainties as variable for risk in a risk management view (Miller, 1992).

According to Baird and Thomas (1985) the handling in risk management is divided in three steps:

(i) Risk identification phase
(ii) Risk estimation phase
(iii) Risk evaluation phase

Within the identification phase the perception of risk depends on the manager and their concerns if the decision is risky or not. Risk perception is an emerging problem area of concern in marketing. Uncertainty increase with assessing and identifying goals and its importance in relation with assessing the consequences of success or failure in meeting the goals. During the risk estimation phase, the estimations can differentiate a lot from person to person due to individual and subjective identification of the problem. The risk evaluation phase emphasizes the willingness of a firm to take chances (Baird & Thomas, 1985).

2.3.2 Risk perception

Sjöberg (2000) explains risk perception as a phenomenon seeking for an explanation with an influence of several factors. Therefore, the need of understanding the influencing factors is important. Further Sjöberg (2003) emphasize in his study the relationship between emotional stability and risk perception. According to Sjöberg (2003) is the Psychometric Model (Fischhoff et al., 1978) the best known framework to shape risk perception. The aim of the Psychometric Model is to track risk perception regarding characteristics of hazards with the use of semantic risk dimensions as explanatory variables. The framework uses the hazards characteristics and sets it in
relation to the level of perceived risk and its acceptability (Fischhoff et al., 1978). Fishbein and Ajzen (1975) as well as Sjöberg (1980) emphasize in this context the higher correlation of variables which are semantically closer than which are distant in content. This assertion is supported by Slovic and Peters (1998) however, they underline the higher interest in obtaining high correlations between semantically distant measures.

Another approach on risk perception is Risk as feelings and Risk as a logical analysis (Slovic & Peters, 2006). Previous researches (Lerner et al., 2003; Lerner & Keltner, 2000) emphasize strong visceral emotions as possible role in risk as feelings, with opposite effects. Fear strengthens the risk estimation while anger diminishes them. Most of the time, people are directed by subtler feelings (Slovic & Peters, 2006). The reliance on feelings (Slovic et al., 2002) as well as experienced feelings are used as information within the individual decision making process (Schwarz & Clore, 1988). Slovic and Peters (2006) emphasize the connection between intuition and instincts as foundation of how human react on danger as risk as feelings and logical reasoning to manage risk as risk analysis. According to Alhakami and Slovic (1994) and Finucane et al. (2000), emotions affect the risk behavior and the estimation of risk significant. Whereas previous research shows, that a positive correlation between risks and its benefits tends to greater benefits out of higher risks in comparison to low risk activities (Fischhoff et al., 1978), Alhakami and Slovic (1994) emphasize the significance of the inverse relationship between perceived risk and benefit. Further they underline the impact of feelings within the concept of judgement as high risk activities tend to be applied with lower benefits based on emotions. Alhakami and Slovic (1994) conclude that risk perception is also guided by emotions related to the risk and not only by logical decision.

2.3.3 Risk management in South African business environment

Previous research emphasizes different approaches to manage risk. Several studies discussed risk management within the internationalization process (Reuer et al., 2004; Rivoli & Salorio, 1996; Shrader, Oviatt & McDougall, 2000; Kwok & Reeb, 2000; Miller, 1992) considered from different perspectives. Before Millers (1993) contribution with the conception of the Perceived Environmental Uncertainty measure, Mascarenhas (1982) emphasized in his study five uncertainty types to be mastered within a given

Van Wyk, Dahmer & Custy (2004) further emphasize their classification of four types of risks, with the knowledge of suggestion by several authors (Miller, 1992; Miller & Waller, 2003) i) political, ii) economic, iii) financial, iv) operational risks which are well adaptable to the South African business environment. An active risk management strategy to avoid surprises within the South African business environment as discussed by Van Wyk, Dahmer & Custy (2004) is supported by Plourd (2009) who emphasize an active risk management practices to approach the possible major risk within the current economic climate such as credit crisis risk, fluctuating commodity prices, increased government debt or rising unemployment. Boyd, Spicer and Keeton’s (2001) possible long-term scenarios emphasizes South Africa’s vast advances and improvement in economic liberalization and competitiveness which leads to the persuasion to continue the processes of deregulation, privatization with a corresponding education and skill transfer. Owusu & Habiyyakare (2011) study about Finnish B2B companies and their perception of risk and market turbulence shows the similar perceptions which is in accordance with Van Wyk, Dahmer & Custy (2004) conclusion regarding the requirements of the identification of specific risk and its business influence. Further they emphasize the understanding of political and other non-market forces related impact and risk. Furthermore, Van Wyk, Dahmer & Custy (2004) indicates the strong influence of risk management regarding the entry mode referred to former researches (Ahmed et al., 2002; Brouthers, 1995).
2.4 Conceptual framework

For a better understanding, the author summarized the literature review in a relevant conceptual framework for this study. The aim of this conceptual framework is to emphasize the correlation between the different theoretical approaches within a firm’s internationalization process and its risk perception and management. Further the aim is to show the significance for this study.

As an international company, the business environment changes between countries or markets and has a different influence to the company. With the business environment as external factor, the company’s internationalization strategy is driven by several internal factors such as the general firm strategy according to vision or mission, the knowledge composed of the individual knowledge of employees as well as the company’s knowledge, opportunities for new product developments or new markets, as well as the decision of entry modes or the presence within a certain market.

New opportunities or new market entries prove an emergent strategy. With a new market entry uncertainties and risk increase. A general risk management strategy based on the company’s internationalization strategy can be seen to affect the perception of risk. A well-established network or business relations on the contrary can provide a company with specific market, country and culture knowledge which leads in an improved and specific risk management strategy adjust for a certain market in a certain business environment. This affects the perception of risk in another way and gains new knowledge and experience for the company which might can be used within another market.

Figure 3 - Conceptual framework
(Source: Author’s own construction)
3 Methodology

This chapter will present the methodological framework as foundation of this research. The choice of research approach and method will be discussed and explained, leading to the research design which includes the research strategy, the data collection, the operationalization, the analysis method and the quality of research in a descriptive way. Figure 4 shows the process graphically for a better understanding.

![Figure 4 – Research design](Source: Author’s own construction)
3.1 Research approach

When accomplishing a research, three different approaches are described as the foundation in combining theories with empirical findings. The inductive approach is used to generate or build theory with known premises are used to generate untested conclusions (Saunders, Lewis & Thornhill, 2012). The deductive approach on the contrary has its aim on falsify or verify of existing theory (Saunders, Lewis & Thornhill, 2012). The abductive research approach combines elements of both prior mentioned approaches but cannot explained as a mix of both (Saunders, Lewis & Thornhill, 2012).

The author considers an abductive research approach according to Alvesson & Sköldberg (2009) interpretation, a single case study, where the managerial problem comes from, will be an abductive approach. With the managerial problem as base, the thesis leads to build up the theoretical knowledge through the literature review with the conceptual framework as result. The empirical findings, including a case study, will correlate to the theoretical framework in a back and forth movement as well as the framework to the theory (Kovács & Spens, 2005; Saunders, Lewis & Thornhill, 2012). The four main-factors theory, framework, empirical world and the case match together and determine the direction of the research (Dubois & Gadde, 2002). The research leads then to theoretical suggestions for this specific research field and ends with a critical questioned and recommendations for future researches. The whole research approach, mapped in Figure 5, is in a dynamic movement between theory and case. After a first informal meeting with the case company, the parameters for the literature review will be defined (Figure 2). With these findings the interview questions will be prepared and several interviews will be conducted. Between these interviews the theoretical framework will be reviewed and the parameters redefined if necessary. Therefore, the author argues that the theoretical and the empirical parts determine the direction with permanent reviews while gathering the empirical data and shows the validity of the abductive approach for this research.
3.2 Research method

Qualitative or quantitative are the two primary research methods within the field of business (Alvesson & Sköldberg, 2009; Saunders, Lewis & Thornhill, 2012). The quantitative research method is usually used with a deductive research approach where the hypothesis will be falsified or verified. Quantitative data can be collected by primary and secondary data with a range from simple counts such as the frequency of occurrences to more complex data such as test scores or rental costs. The results of this type of research method should be measurable and generalized and allows to answer the hypothesis or the research question (Saunders, Lewis & Thornhill, 2012). When using the qualitative research method, it is possible to approach the data analysis from an inductive approach, where a naturalistic and emergent research design is used to develop a theoretical perspective, or a deductive approach to test an existing theoretical perspective. However, an abductive approach with inductive inferences are developed and deductive inferences are tested during the research is common (Saunders, Lewis & Thornhill, 2012). Alvesson and Sköldberg (2009) highlight the advantage of qualitative research studies, that the researcher usually starts from the perspective and actions of the subjects studied, while quantitative researches typically proceed from the researcher’s ideas about the dimension and categories. Denzin and Lincoln (2011) define the qualitative research approach as a situated activity that locates the observer in the world and consists of a set of interpretive, material practices to transform and make the world visible.

In this research, the author chooses to use the qualitative research method in view of the fact of the abductive research approach. The author truly believe the choice of method
will support the purpose and help to obtain a better understanding of the research field. Further, the qualitative research method should simplify the research in a field with equivocal and interpretative empirical material (Alvesson & Sköldberg, 2009) and involves a naturalistic approach to study things in their natural settings with the aim to make sense of or interpret in terms of the meanings people bring to them (Denzin & Lincoln, 2011). Based on the research field and the formulated research questions, the author believes the best way to gather the empirical data is through qualitative guided interviews.

3.3 Research strategy

The research strategy can be defined as plan of action to achieve a goal or how a research will go about answering the research question (Denzin & Lincoln, 2011). There is a variety of possible research strategies such as experiments, surveys, archival researches, case studies, ethnographies, action researches, grounded theory or narrative inquiry. Some of them are more linked to a specific research philosophy, approach or method than others (Saunders, Lewis & Thornhill, 2012). Using a case study as research strategy is to explore a research topic or phenomenon within its context or a number of real-life contexts (Saunders, Lewis & Thornhill, 2012). According to Yin (2014) the boundaries between research topic being studied and the context are not always apparent with a case study. With a case study an embedded approach is the most favorable one to when analyzing an organization as a whole unit (Yin, 2014).

Since choosing between a single or multiple case study is not simply related to producing more evidence (Saunders, Lewis & Thornhill, 2012), the author decided to use a single case study with different unit of analysis as research strategy for this thesis with an embedded approach when analyzing the company as one whole unit and combined data collection of interviews and observations.

3.3.1 Formation of case

As already mention, case studies can be divided into two clusters; single case- or multi case-study (Saunders, Lewis & Thornhill, 2012; Yin, 2014). With a Swedish B2B SME company as background for this research, a single case study appeared corollary. Yin (2014) emphasize two different single-case designs, the holistic and the embedded approach. These two variants both have their advantages and disadvantages, the fact of
sub-units or an in-case study leads the author to implement an embedded design approach. The advantage of an embedded case-study is to ensure the depth of the case while conducting analysis on different units on different levels. However, one pitfall with this approach is to focus only on the sub-units instead to return to the larger unit of analysis at the end (Yin, 2014). Further, Yin (2014) emphasize the skepticism of researches with single case studies because of fears about the uniqueness or artefactual conditions surrounding the case. To counteract possible criticism and to ensure the depth and significant of the case, interviews will be taken on different hierarchical level within case company as well as with their distributor and a consultant company as external expert opinion. Moreover, the focus lays on B2B business.

3.3.2 Sampling
A purposive sampling as an instrument is a useful instrument when researchers need to construct cases and samples in accordance with the purpose of research (Kidder, Judd, Smith, 1991). Saunders, Lewis & Thornhill (2012) differs between two sampling techniques, probability sampling and non-probability sampling. The main difference between is the unknown cases of the population for the non-probability sampling. Yin (2014) explains different non-probability sampling approaches such as strategic sample, quota sampling, convenience sample and chain sample. Due to data collection by interviews, the author conducted according to Yin (2014) a convenience sampling approach. This approach fits our study because of the limited number of units within the single-case study.

To choose the company it has to be a Swedish SME who acts within an international context or environment. To reach the highest possible depth within the timeframe the aim was to interview employees on different hierarchical levels and with a great knowledge of internationalization personally as well as within the company.

3.3.3 Selection of case firm
The initial point of finding a research topic as well as the case firm was the proposal of Läckeby Products AB to the Linnaeus University with a topic for a thesis. With the awareness of writing an academic paper, the authors focus laid on determine the possibility to convert their demand in to an academic approach.
3.3.3.1 Läckeby Products AB
Läckeby Products AB based in Kalmar is a developer and manufacturer of high quality products for efficient heat recovery and mechanical particle separation. Since 1965 Läckeby Products has developed, built and installed their products to each customer’s unique requirements and needs. Through acquisition Läckeby moved into international business and acts globally with a network of distributors. Their distributor in South Africa is Monitor Pumps & Systems with which Läckeby Products wants to enter new markets within region.

The author conducted two interviews. The first interview was with Mattias Johnsson, Area Sales Manager with the responsibilities for the American and African market as well as Norway, Germany and Finland. This interview took place on Wednesday 11th May 2016 via Skype.

The other interview was conducted with Robert Holm, Director Sales & Marketing of Läckeby Products AB. This interview took place on Monday 16th May 2016 at Läckeby Products headquarter in Kalmar.

3.3.3.2 Monitor Pumps & Systems
Founded in 1949, Monitor Pumps & System main business as a division of Monitor Engineering is to supply high quality pumps and fluid handling equipment to mining, industry, agriculture and waste water markets. Monitor Pumps & Systems figured as a distributor of Läckeby Products since 2012.

Due to time limitations and date collision the interview with Managing Director Grant Orsmond was just possible to conduct by email. The author received the answers on Thursday 19th May 2016.

3.3.3.3 EKN
EKN is a governmental authority for the Swedish government who function as a sort of insurance business. EKN supports Swedish companies in export transactions to ensure the loss of non-payment due to commercial or political reasons by offering guarantees to cover the risk. Further, EKN compile cover policy guidelines for specific countries. EKN is active in over 150 countries with main focus on emerging or transitions
economies. The interview with EKN was conducted to receive an external expert view of risk perception in South Africa and the business environment.

The aim of the author of the interview with EKN is to gain a deeper insight of general perceived risk while doing business within the South African region. EKN figured thereby as expert role. The interview guide for EKN was specially focused on risk management without company specific questions regarding internationalization or network.

The author conducted an interview with Rebecka Lundgren, Senior Country Analyst for Southern, Eastern and Central Africa. The interview took place on Wednesday 18th May 2016 via Skype.

3.4 Data collection

“Data collection refers to a collection of organized information, usually the result of experiences, observations, experiment. It may consist of numbers, words or images and especially as measurements or observations a set of variables.” (Yin, 2014). According to Saunders, Lewis & Thornhill (2012) the information sources can be divided in primary and secondary data. Yin (2014) defined primary data as a collected from people and institutions in their daily situations. To answer the research question, this study will primarily gather primary data through interviews. Further, Yin (2014) argues that individual interviewees, documents and observations are predestinated as primary data.

3.4.1 Primary data

The intention of data collection is to bring lucidity into the research field and towards the research question (Yin, 2014). Thereby, the importance of acknowledge people while contacting for gathering data to ensure the validity of the information is required as Yin (2014) stresses. Based on the in-case study and to ensure the depth of it, the interviews within the case company were taken on different hierarchical levels. Furthermore, the distributor as another unit of analysis depicts the other side of the business relation. This three interviews were taken regarding internationalization, opportunities, perception of risk in South Africa. Moreover, the external view of a consultant or business analyst regarding risks perception underlines the better
understanding of possible threats and how to manage them within the specific region. Thereby, the international knowledge and experience of the interviewee was a central criterion.

3.4.1.1 Interviews
According to Yin (2014) interviews are most commonly used in case study researches. Saunders, Lewis & Thornhill (2012) presents several different ways to categorize the structure of an interview. The most common is the categorization of: structured, semi-structured or unstructured. A structured interview is based on a standardized or identical set of question while a semi-structured and unstructured interview is based on a list of possible key questions to cover the research field with a possible variation from interview to interview (Saunders, Lewis & Thornhill, 2012).

Regarding the fact of a single case study, the interviews are conducted by using the semi-structured approach. Based on the conceptual framework and the operationalization the interview guide is created to lead through the interviews. Furthermore, the aim to be flexible during the interview regarding possible follow-up question to discover more detailed information is another argument towards this approach. In addition to that, the awareness of missing possible information in consequence of too narrowed questions is another key argument. To ensure to gather all the important information, the interviews were recorded with the permission of the interviewees and the file will be deleted as soon as they will no longer needed for analyzing or proving reasons.

3.4.2 Secondary data
Secondary Data is described as data which is collected from information sources without the intention to deliver direct information to this specific study and can be collected through literature, printed articles or internet (Saunders, Lewis & Thornhill, 2012). Within this study the author’s approach was to use as less secondary data as possible. Only for some further information about the the unit of analysis with the case study as well as the business environment in South Africa were secondary data gathered.
3.5 Operationalization

When creating the interview guide, the connection between the conceptual framework and the research questions or the translation of concepts into tangible indicators (Saunders, Lewis & Thornhill, 2012) had the highest priority to ensure a complete data collection without gaps and to simplify the analysis later on. The main research question aims to answer risk Swedish B2B SMEs perceive when internationalizing to South Africa. To obtain a better understanding of risk within the internationalization process, the author formulated the two sub-questions who highlight the risk management and the effect of the network regarding risk perception and management. The research questions are linked with the conceptual framework to categorize the interview guide. Since the research is based on a single case study, the intention of the author consisted in building the interview guide for all the interviews with a highest possible outcome of different answers and a deeper understanding of the case.

During the interviews the focus laid on questions that put risk in a relationship with the firms’ internationalization strategy, their network and their previous experience as company or as single person. Table 1 highlight the four concept built in correlation with the theory and the conceptual framework with the purpose to explain the concept. The authors aim is in control the interview without narrow down possible answers of his interview partners.
<table>
<thead>
<tr>
<th>Concept</th>
<th>Theory</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background</td>
<td>- Knowledge</td>
<td>An overview of the interviewees background and knowledge should help to confirm their validity.</td>
</tr>
<tr>
<td></td>
<td>- Opportunity</td>
<td></td>
</tr>
<tr>
<td>Internationalization</td>
<td>Incremental Theory</td>
<td>The aim of this questions is to understand the company’s internationalization process and the influencing factors in their decision making process.</td>
</tr>
<tr>
<td>Strategy</td>
<td>- Uppsala Model</td>
<td></td>
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<td></td>
<td>- International Entrepreneurship</td>
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<tr>
<td></td>
<td>- Entry Mode</td>
<td></td>
</tr>
<tr>
<td>Emergent Strategy</td>
<td>- Network Theory</td>
<td>Within a new market the aim is to understand the business relationship with their distributor and the effect regarding risk management and perception.</td>
</tr>
<tr>
<td></td>
<td>- Risk Management</td>
<td></td>
</tr>
<tr>
<td>Risk perception</td>
<td>- Risk perception</td>
<td>While doing in business, external and internal risk can influence the business and therefore impact the perception of risk. The aim is to understand their risk perception</td>
</tr>
<tr>
<td></td>
<td>- Risk management in South African business environment</td>
<td></td>
</tr>
</tbody>
</table>

*Table 1 - Interview guide
(Source: Author’s own construction)*

### 3.6 Data analysis method

Different approaches to analyze qualitative data the reach an understanding of the gathered empirical data can be used as well as qualitative data can be gathered in different forms (Saunders, Lewis & Thornhill, 2012). The transcript of records of the interviews were structured according to the conceptual framework as transcript summaries (Saunders, Lewis & Thornhill, 2012). With structuring the analysis based on the conceptual framework, the conclusion and answering of the research question were simpler for the author due to the clearer structure.
3.7 Quality of research, validity, reliability

The quality of a research will be judged on different concepts of tests. The researcher should aim to produce a valid and reliable research with a research design that shows a logical set of statements. The concepts are tools to measure the research’s trustworthiness, credibility and confirmability with a strong relation between research approach, research design and the result (Yin, 2014). A qualitative researches its basis is trustworthiness in relation to validity and reliability. Thereby the theory differs between internal and external validity (Yin, 2014). Saunders, Lewis and Thornhill (2012) explain internal validity as the researcher’s compulsory to ensure an obvious causal relationship between the variables while the objective of the external validity is to be able to generalize the findings. Reliability correlates to the study’s consistent and the same results if the same study would repeat several times. Several threats can have an influence to this consistent such as participant or researcher errors or bias (Saunders, Lewis & Thornhill, 2012).

3.8 Ethical discussion

To protect the human subject should be one of the main targets while conducting case studies. During interviews, humans share their thoughts, private information about themselves or sensitive information about the company or the market. According to Yin (2014) it is the researcher’s responsibility to threat the gathered information with special care and sensitivity. Through transparency, pro-active information and asking for permission such as recording the interviews tried the author to consider the interviewees private space.
4 Empirical findings

In this chapter the interviews as primary data that has been collected will be presented. The interview questions are based upon the interview guide and the operationalization after which the findings will be presented to portray a clear overview. Further some additional secondary data about the business environment and business clime has been collected and added to the findings.

4.1 Background

Robert Holm (2016) is Director Sales & Marketing of Läckeby Products AB since 2013. With a background as mechanical engineer he worked several years as product developer and consultant for larger companies in Kalmar before he joined Bombardier Transportation as Manager for process and tool development in an international environment before he Läckeby. Within Läckeby he commanded different positions, mainly in marketing and sales and within an international sales environment since 2007 (Holm, 2016).

Mattias Johnsson (2016) joined Läckeby Products as part of the acquisition of Roto-Sieve Filter as Area Sales Manager in which position he worked before since 1998. He has a background as a technical engineer with several educations in hydraulics, energy, electricity and littering techniques due to his time with the Swedish coast guard. With an exception of one and a half year in 2008 when he started his own business, he works for Läckeby Products as Area Sales Manager with responsibility for North and South America, Africa as well as Germany, Finland and Norway. Further he is involved in market development (Johnsson, 2016).

Grant Orsmond (2016) is Managing Director, owner and active within Monitor Pumps & Systems for 20 years. He is certificated in Marketing and Business Management and is the direct contact person for Läckeby Products.

Rebecka Lundgren (2016) works as Senior Country Analyst for Southern, Eastern and Central Africa at EKN since 2007. Further, she is responsible for setting the country risk for the transaction EKN guarantees within her region as well as making the cover
policy such as guidelines for specific countries including the transaction EKN can guarantee. Before hiring at EKN, she graduated as master student in economics and worked for Swedbank and the Swedish government (Lundgren, 2016).

4.2 Internationalization

According to Holm (2016), Läckeby Products started around 1995 with doing international business. Back at this time the company just produced and exported special orders to international customers without being active within an international environment. With a slight acceleration of exports in the mid 1990s, Läckeby benefited of their steady development of products since 1960, the focus remained on internal use or existing contracts. The focus towards an international business changed in 2003 when Läckeby bought the Swedish company Roto-Sieve Filter AB to get access to a special strong product as well as to their well-established distributor network. With this acquisition, Läckeby reached global presence with a distributor network of 10 to 15 distributor in Europe and the United States as well as knowledge and international experience since Roto-Sieve Filter was international active since before the 1990 (Holm, 2016). Johnsson (2016) emphasize the global approach Läckeby Products has nowadays. The network comprises the most European countries, Canada, the United States, Mexico, Asia with mainly China, Singapore, Australia and New Zealand. Further he underlines business in Northern Africa before the Arab spring and the changed focus to Southern Africa as consequence. With doing business in South America, Holm (2016) emphasize the lack of good business such as distributor network or returning clients in this markets. He ascribes this gap in their network to different priorities and resources issues to concentrate on this markets due to improving their product implementation within the existing distributor network and markets.

4.3 Internationalization to Africa

In 2006 Läckeby Products got approached from Monitor Pumps & Systems with interest in Läckeby’s heat exchanger. Holm (2016) emphasize the advantage of a good network as reason why Läckeby got inquired. Their distributor in New Zealand bought some products in the United States from the same company than Monitor Pumps & Systems. They suggested Läckeby Products to Monitor Pumps & Systems which was the starting point of the business relationship. The cooperation with Monitor Pumps &
Systems started only with exporting this heat exchanger for many years with was a non-strategic decision. The reason why Läckeby started doing business with Monitor Pumps & Systems was the big interest and the big potential Monitor Pumps & Systems saw within the South African market (Holm, 2016). Without the Monitor Pumps & Systems approach, Johnsson (2016) implies that Läckeby Products would probably not doing business in South Africa and highlight an external factor as internationalization reason to South Africa. In addition to that, Johnsson (2016) emphasize the Monitor Pumps & Systems’ political driven approach. Due to apartheid, South Africa was closed for international business. During this time the country built its own energy production in a very substantial way. The government decision to close down some of them instead of rebuilding and to focus in other types of energy such as biogas opens a new market. Läckeby Products portfolio with the supply of the heat exchanger in biogas production fits very well in this market. With the Arab spring, Läckeby Products’ focus moved even more to the Southern African region (Johnsson, 2016).

With received funding from the European Union to enter the market in Mozambique (Johnsson, 2016), Läckeby Products’ focus shifted to the SADC-countries to enter with the main approach to find a way to enter Mozambique. Based on the good experience with Monitor Pumps & Systems, Läckeby wants to enter other South African countries with Monitor Pumps & Systems as their distributor what opens other possibilities for Läckeby since Monitor Pumps & Systems is mainly active in Namibia except of South Africa. Both Johnsson (2016) and Holm (2016) emphasize the countries opportunities in this region with a huge deposit of commodity. Holm (2016) further emphasize the observed environmental changes and South Africa’s economy as role model within the region. He believes that other South African countries start to be more active in using their advantage of natural resources such as mining or agricultural manor.

4.3.1 Entry mode

Läckeby Products decision to work with a distributor network has different reasons. One was the access to a well-established network with the acquisition of Roto-Sieve Filter (Holm, 2016). While still owning a subsidiary company in France, Läckeby Products closed former sales offices in Belgium and the United States and transferred employees to their distributor in order to concentrate their business (Johnsson, 2016). Holm (2016) underlines the inactivity within the market and admitted that Läckeby
Product missed to guide the company. On the other hand, working with distributor with a well-established network within the market and a good local as well as product knowledge benefits Läckeby Products. The higher the knowledge of the distributor, the better known is the risk and can be managed (Holm, 2016). Johnsson (2016) estimates the education time for a distributor with an insufficient knowledge up to two years. Further he underlines Läckeby Products approach in doing business with distributor brings the risk towards zero. The market knowledge and guaranteed sales within the market is a central factor for Läckeby Product to start a cooperation with a distributor (Holm, 2016).

4.3.2 Network

Johnsson (2016) emphasize good relationship as a key for successful business as well as keeping an open mind. As already mention, Läckeby Products internationalization approach is a network of distributors which started with the acquisition Roto-Sieve Filter (Holm, 2016) of in 2003. The way of building new business relations varies according to Johnsson (2016) such as through exhibitions, suggestion of other distributors or contact person who move to another company or country. Further he underlines that he talks more with his distributors than with his co-worker.

Monitor Pumps & Systems as a Division of Monitor Engineering has been active in international business as agent or distributor for various business since their establishment in 1948. Monitor Pumps & Systems main business is to supply high quality pumps and fluid handling equipment to mining, industry, agriculture and waste water markets (Orsmond, 2016). While looking for a heat exchanger to support another product, Monitor Pumps & Systems found Läckeby Products which leads to new opportunities within the waste water, food and paper industries for Monitor Pumps & Systems due to other products of Läckeby Products. Nowadays, Monitor Pumps & Systems are distributor for eight international companies (Monitor Pumps & Systems, 2016) as they saw the potential of focus locally on the market while their representative products already had an international strong position (Orsmond, 2016).

4.3.3 Risk

When entering markets within the South African region Johnsson (2016) emphasize two main concerns or risks. One of the biggest is always the ability to pay for the products.
Monitor Pumps & Systems reduced this risk to zero through working with banks so that Läckeby Products receives at least a big part of the payment in advance and risk with the customer is the responsibility of Monitor Pumps & Systems. This financial stability is an advantage to reducing the payment risk (Johnsson, 2016; Holm, 2016). Another risk Johnsson (2016) mention, is the political stability as well as political issues with colored people and strikes. He underlines strikes as generally a big problem within this region. Essential to stabilize is the growing middle class of black people which is a very slow process.

Another risk is the mentality of doing business as Holm (2016) emphasize. Customers tries to bypass Monitor Pumps & Systems and contact Läckeby Products directly which entails several risks. For Läckeby Product is it essential to handle this issue carefully and very active to not damage the relationship with Monitor Pumps & Systems (Holm, 2016). Further Holm (2016) emphasize the commercial risk with this mentality since Läckeby Products knowledge about the end-customer is very low and they do not know their payment morale intensions. The well-established relationship with Monitor Pumps & Systems helps to reduce this risk significant since they adverted in advance to this issue (Holm, 2016). Due to Monitor Pumps & Systems experience in international business neither Holm (2016) nor Johnsson (2016) experienced a negative internal influence to Läckeby Products.

Within the market, Holm (2016) sees a clear view of their competitors since the local competition is very low and mainly worldwide competitors are active. Johnsson (2016) stresses local competitors as possible risk in future if they will be able to reach the same quality than Läckeby Products due to pricing and transport time.

According to Orsmond (2016), South Africa as well as the whole region faces some major challenges. Especially South Africa and Zimbabwe are political unstable what lowers the foreign investors’ confidence and lead to a devaluation of the currency and could possibly lead to a down grade by various ratings agencies. The slowdown in demand for resources and the lower commodity prices affects the region supplementary since the economies are highly dependent on this markets which leads to a low demand and confidence within the industry (Orsmond, 2016). Further, Orsmond (2016) emphasize the increasing demand for products like food and local manufacture as well
as the infrastructural development of the governments in waste water or sanitation helps to continue to improve the GDP per capita.

Generally, Orsmond (2016) highlight three main risks with customers who try to bypass Monitor Pumps & Systems and doing business directly with the manufacture company, currency fluctuation as well as in this context security payment. The latter, Orsmond (2016) emphasize as the main risk while doing business with international companies such as being able to pay deposits for large orders. However, he underlines the uncertainties of international companies at the initial point in doing business with distributors in Africa who can be reduced through showing the awareness of doing business and the experience within an international environment. This gives the companies “peace of mind” (Orsmond, 2016).

4.4 Business environment

Looking from a Sub-Saharan perspective, Lundgren (2016) state South Africa’s country risk as a good risk. On EKNs scale of zero to seven with 0 is the lowest and 7 the highest risk, South Africa is classified with risk four. Within the region, Botswana has the lowest risk with category two EKNs rating system is based on an economic model where factors like GDP growth, inflation, indebtedness, member within a currency union, public finances and EKNs previous experience within this country will be measured and then adjust with political factors such as stability within the government, regulatory framework, corruption, business environment and legal environment (Lundgren, 2016). Further Lundgren (2016) emphasize due to well-developed legal and finance system, the events of non-payments in South Africa were rare and mainly in the mining sector. As consequence of the falling commodity prices and demand, Lundgren (2016) expects possible financial difficulties for some companies. Greater than the risk of non-payments in South Africa, Lundgren (2016) grades the political risk regarding the Black Economic Empowerment (BEE) regulations since the government change it quite frequently. On the other hand, Lundgren (2016) emphasize South Africa as a potential hub country to extend the business within the region.

South Africas country strengths are mainly mentioned as their legal systems, the natural resources (gold, platinum, coal, chromium, etc.), the developing service factor and the good economic management. On the other hand, poverty, inequalities, sources of social
risks such as high level of unemployment, demonstrations, crime, infrastructure shortcomings as well as currency and external account pressures due to the open economy, commodity price fluctuations were named as problems which leads to grade South Africa as a slightly risky country with a sharply slowing economy, ongoing political instability and a worsening of business climate (Lundgren, 2016; Coface, 2016; Euler Hermes, 2016; GlobalEDGE, 2016).
5 Analysis

In this chapter the empirical data will be analyzed in relation to the theoretical framework presented as a discussion between the theoretical and empirical findings. The sections are divided according the conceptual framework to create a higher understanding.

5.1 Internationalization Strategy

Johanson and Vahlne (2009) describe the internationalization process in four stages from “no regular export activities” via “export via independent agents” and “establishment of a foreign sales subsidiary” to “establishment of a foreign manufacturing plant”. Regarding the internationalization process of Läckeby Products, their pathway is close to the theoretical approach of the Uppsala model. Läckeby started with non-regular exports on special order before the company started to build its distributor network with the acquisition of Roto-Sieve Filter. Furthermore, Läckeby has a subsidiary in France (Holm, 2016). The gradual learning process and gaining new knowledge leads theoretically to a higher commitment within the market (Johanson & Vahlne, 2009). Lack of knowledge and the wrong strategy as a result led to the closing down of Läckeby Products sales offices in Belgium and the United States (Holm, 2016). Johanson and Mattson (2013) emphasize the importance of the domestic network as a bridge towards other networks in international environment is showed by the way, Läckeby Products got approached by Monitor Pumps & Systems. With having the same supplier in the United States Läckeby Products got suggested to Monitor Pumps & Systems by their distributor in New Zealand (Holm, 2016). As a result, Läckeby Products gained access to a new market despite their limited resources and due to their well-established business relationship (Blomstermo et al., 2004).

5.1.1 Knowledge and opportunities

Across the different international business theories knowledge is an important constant. The knowledge may be gained through the firm’s own internationalization process and experience (Johanson & Vahlne, 2009) or through knowledge-sharing within the firm’s network (Chetty & Champbell-Hunt, 2003; Blomstermo et al., 2004). Especially for SMEs with limited resources (Mtigwe, 2006) the role of the manager and their ability to
recognize opportunities is very important (Chetty & Blankenburg-Holm, 2000). Läckeby shows in respect thereof great awareness. Both Mattias Johnsson and Robert Holm are experienced within Läckeby and their company culture as well as within an international environment (Johnsson, 2016; Holm, 2016). Further the company’s strategic decisions with acquisitions such as Roto-Sieve Filter promote their process of knowledge gaining and positioning within a well-established network which is very important according to Johanson and Mattson (2013).

5.1.2 Entry Modes
Johanson & Vahlne, 2009 and Cavusgil, Ghauri & Agarwal (2002) describe different possible entry modes for a company within their internationalization process, all in correlation to the firm’s strategy, the market and the willingness of taking risk (Cavusgil, Ghauri & Agarwal, 2002). Läckeby Products approach with a distributor network can be interpreted as a risk-averse strategy. With just one B2B contact within a country or market, Läckeby Products devolve the economic risk when doing business with the end-costumer to their distributor which in turn reduce Läckeby’s risk towards zero (Johnsson, 2016). Further, Läckeby’s bad experience with own sales offices in foreign markets due to wrong strategies and inactivity lead to the decision to rather develop their distributor network and the implementation of their products (Holm, 2016). On the contrary to Cavusgil, Ghauri & Agarwal (2002) statement of the advantage of own subsidiaries regarding the establishment of good relations and open of new opportunities, Läckeby Products sees the greater benefit within a distributor network (Holm, 2016).

5.2 Emergent Strategy
Läckeby Products decision to enter the South African market has not been a strategic decision (Holm, 2016) it was more the opportunity given by the interest of Monitor Pumps & Systems in one of Läckeby Products product. According to Johanson and Mattson’s (2013) internationalization process to establish and develop a foreign market position while using its network, Läckeby Products behaved like that. The cooperation with Monitor Pumps & Systems was limited to this one product for many years (Holm, 2016) which can be interpreted as Johanson and Mattson’s (2013) first step “international extension” with using a business relationship to enter a new market. With
seeing the potential and opportunities in South Africa and the region, Läckeby Products increased the commitment within the South African market and their relationship with Monitor Pumps & Systems by exporting different products (Holm, 2016). This step can be interpreted as “penetration” what means that a firm expands its resources commitments in an already present market (Johanson & Mattson, 2013). Further it shows the important role of managers to recognize opportunities as stated by Chetty and Blankenburg-Holm (2000).

5.2.1 Network and risk management

Läckeby Products network had a significant role within their internationalization process in South Africa. Monitor Pumps & Systems with the knowledge and experience within an international environment and the market for several years proved Läckeby Products the awareness in doing business with international companies (Orsmond, 2016). This proved the correlation of estimation of risk and emotions within the decision making process as stated by Alhakami and Slovic (1994) and Finucane et al. (2000). Due to Läckeby Products decision of having Monitor Pumps & Systems as a distributor one of their biggest concerns regarding the South African market, the ability of payment as emphasized by Van Wyk, Dahmer and Custy (2004), was reduced significantly because of Monitor Pumps & Systems collaboration with South African banks (Johnsson, 2016). Monitor Pumps & Systems on the contrary are aware of the risk of non-payment, especially for deposits for large orders or currency fluctuation (Orsmond, 2016). Further the mentality of South African firms to bypass the distributor and doing business directly with the manufacturer-company (Orsmond, 2016) is a well-known risk by Monitor Pumps & Systems which leads to the possibility to point it out to Läckeby Products right from the beginning of their collaboration (Holm, 2016). Further Holm (2016) emphasize the importance of the awareness regarding this issue to handle the risk correctly in order to not damage the business relationship with Monitor Pumps & Systems as state by Aven and Zio (2011).

As emphasized by Plourd (2009) fluctuating commodity prices in a country like South Africa where the economy is highly dependent on this markets (Orsmond, 2016), Orsmond (2016) emphasizes the increasing development of the government in waste water or sanitation helps in which market Läckeby Products product fits perfectly. This
proves Monitor Pumps & Systems awareness of anticipation of external environment to maintain their business performance as stated by Miller (1992).

5.3 Risk perception

Risk perception is guided by emotions and feelings regarding to the risk (Alhakami & Slovic, 1994) which is shown by the different perception of risk of different actors in South Africa. Lundgren (2016) as country analyst profess South Africa a good country risk which is underpinned by several rating agencies (Coface, 2016; Euler Hermes, 2016; GlobalEDGE, 2016). Although if South Africa is political unstable, the regulatory framework as well as legal and finance systems is well-developed and established (Lundgren, 2016).

With Läckeby Products decision to enter the South African market with a distributor and thereby lowering their risk (Cavusgil, Ghauri & Agarwal, 2002; Johnsson, 2016) their perceived risk is minimal. Even if Johnsson (2016) mentioned the strikes as big problem (Coface, 2016; Euler Hermes, 2016; GlobalEDGE, 2016), Läckeby Products was never directly affected. The main risk Läckeby Products had to deal with was the mentality of end-costumer try to bypass Monitor Pumps & Systems as distributor. In this case and even with the information by Monitor Pumps & Systems, Holm (2016) admitted that Läckeby Products was not ready right from the beginning.
6 Conclusion

In this final chapter the emphasis is to answer the formulated research question according to the analyze. Furthermore, the conclusion contains theoretical, practical and future research recommendations as well as limitations section.

6.1 Results

Plourd (2009) emphasize an active risk management strategy to approach the possible major risk. When conducting the theory, there are several approaches how to manage risk regarding emerging markets. However, Cavusgil, Ghauri & Agarwal (2002) underline the correlation of willingness of risk taking and the choice of entry mode as key driver within the firm’s risk strategy. The perception of risk however is related to feelings and logical analysis (Slovic & Peters, 2006).

6.1.1 Main research question

What are the risks Swedish B2B SMEs perceive when internationalizing to South Africa?

Van Wyk, Dahmer and Custy’s (2004) emphasized possible major risk within the South African business environment. Through Läckeby Products internationalization strategy and their well-established distributor network, the perceived risk when internationalizing to South Africa was surprisingly low. Nevertheless, Läckeby Products is aware about possible major risk (Van Wyk, Dahmer & Custy, 2004) within the country such as the political instability and possible strikes, the financial situation and the risk of non-payment as well as the business mentality of South African companies. However, the gradual market entry (Johanson & Vahlne, 2009) in South Africa reduced the risk for Läckeby Products significantly due to the great collaboration with Monitor Pumps & Systems as their cultural and market specific knowledge.
6.1.2 Sub-question 1

How do they manage the risks?

Baird and Thomas (1985) divide risk management in three steps of identification, estimation and evaluation. Läckeby Products approach is to avoid unknown risk through a risk-averse strategy. With a slowly increasing commitment to a new market and the collaboration with a distributor, Läckeby Product transmits the economic risks to their distributor. An elaborateness inquiry assumed, Läckeby Product requires guarantees of possible sales, market, product and country knowledge. With this risk-averse strategic approach and a low risk entry mode (Johanson & Vahlne 2009; Cavusgil, Ghauri & Agarwal, 2002), Läckeby Products avoids the most of the major risk.

6.1.3 Sub-question 2

How does the firm's network affect the perception and management of risk?

The importance of a well-established network within an international environment as emphasized by Johanson and Mattson (2013) or Blomstermo et al. (2004) is proven by the case on Läckeby Products. Monitor Pumps & Systems with a great experience in doing business with international companies and a high level of knowledge within South Africa lowers the risk for Läckeby Products significant by focusing on their business relationship. Furthermore, Monitor Pumps & Systems shows a great awareness of the major risk within the country as state by Lundgren (2016), Coface (2016), Euler Hermes (2016) or GlobalEDGE (2016). The author emphasizes in this case the high effect of Läckeby Products network from the beginning to the market entry until the penetration of the market with implementing of more products.

6.2 Theoretical contribution

Researches concerning risk perception or risk management of SMEs within an international business have been very few. Either researches were conducted generally about risk perception or risk management or then regarding specific hazards. Although,
this research with its very specific orientation regarding a B2B SME case-study and the risk perception while doing business in an emerging market like South Africa with a distributor network shows the high correlation of some of the possible risks as well as the importance of well-established networks within an international environment. Especially networks in an emerging market and their influence of risk management and risk perception should not be underestimated.

6.3 Practical recommendations

Swedish B2B SMEs are in a great position as they are labeled as high quality companies. Within countries like South Africa were a need in developing of infrastructure such as sanitation, waste water as well as high quality products to develop the commodity sector exist, Swedish B2B SMEs have great opportunities. Especially in countries like South Africa with an emerging middle class with higher purchase power. The understanding of business mentality and possible major risk is thereby a major challenge and should be threaten with a higher priority. As seen in this case study a well-established network of a distributor with a great knowledge can help to manage possible risk. Governmentally funding in order to internationalize to this region should strengthen the internationalization process as well.

6.4 Recommendations for future research

Global interlacing drives the business environment into even more dynamic and complex settings and the required knowledge of internationalization processes continues to increase. This research regarding risk perception when internationalizing to South Africa as a Swedish B2B SME emphasize the importance of a network in managing risks. While conducting the literature review as well as the gathering of empirical data research gaps has emerged. With South Africa as driver within the Southern African region other countries around experience a high growth due to the perception of taking steps forward. Especially the business environment regarding major risk or hazards within the whole region would give some more indications about opportunities as well as risks. The recommendation would be to conduct a multiple-cast study within different countries or even a quantitative study to gather more knowledge about the region and possible risks within the B2B SME business environment.
6.5 Limitation

Within this study are several limitations due to the authors choice of research design, time issues and external unchangeable factors. Due to the loss of the three weeks at the beginning the limitations regarding the case has to be made to be able to finish this study in time. The author is aware of possible traps with a single-case study regarding design errors, research bias or missing depth of the case. With conducting interviews on three different levels and one with an external expert view the author tried to counteract to be aware of the fact that more interviews would have been useful. Further the timeframe was very challenging which led to several adjustments within the research field.

Nevertheless, the thesis contributes new empirical findings regarding risk perception and management in order to ease the establishment for companies wanting to expand to South Africa.
References

Literature


Scientific Articles


Electronic references


**Interviews**

Holm, Robert. Director Sales & Marketing at Läckeby Products AB. Face-to-face. Monday, 16th May 2016.

Johnsson, Mattias. Area Sales Manager for American, African, Norway, Germany and Finland. Skype. Wednesday, 11th May 2016.


Appendices

Appendix A. Interview guide

- What is your position and your relationship (different position, work duration etc.) within the company?
- What is your professional and academic background?
- How long is the company already international active?
  - Export
  - Network
- In which markets are you established today?
  - Why did you expand to this markets?
- What was your motivation to internationalize to the African market?
  - Do you think and if yes how do you think external and internal pressure or factors has affected the internationalization process?
  - What specific opportunities have you seen to enter South Africa?
- How have you experienced risk in South Africa in relation to:
  - The external environment?
  - The industry?
  - Internally?
  - Network
- How has your previous experience concerning foreign establishment been useful when expanding to South Africa?
- How affected your personal and professional networks/relationships
  - the choice of market?
  - the internationalization process generally
  - the risk management strategy?
- How has your network been helpful in relation to the internationalization process?
- How do you see the SADC region as a market?
- What differences do you see concerning risks in South Africa in comparison to other SADC markets?