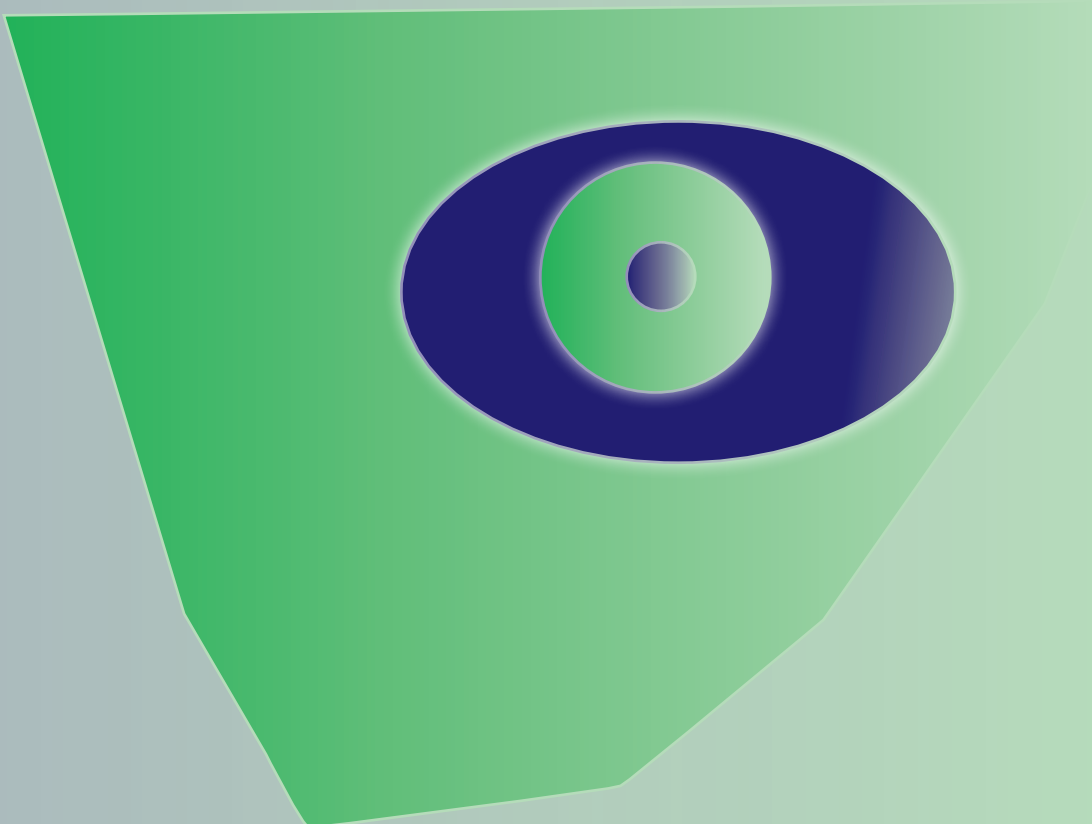


Evariste Habiyakare

A Long Way to the Rainbow Country

Understanding the Foreign Market Expansion
Process of Finnish Corporations into
the Republic of South Africa
between 1990 and 2005





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Turku, March 2009

Evariste Habiyakare

List of abbreviations

ANC:	African National Congress
BEE:	Black Economic Empowerment
BBBEE:	Broad Based Black Economic Empowerment
CRM:	Customer Relationship Management
DDU:	Delivered Duty Unpaid
EM:	Emerging market
EEA:	Employment Equity Act
EPCM:	Engineering Procurement Commission Management
FDI:	Foreign Direct Investment
FME:	Foreign-Market Expansion
GATT:	General Agreement on Trade and Tariff
GDP:	Gross Domestic Product
GROWTH:	Getting Repeated Orders with Time Honoured
GT:	Grounded Theory
HDSA:	Historically Disadvantaged South Africans
IB:	International Business
IS:	Import Substitution
JV:	Joint-venture
MBO:	Management by objective
MNC:	Multinational Corporation
MNE:	Multinational Enterprise
NEPAD:	New Economic Partnership and Development
PLC:	Product Life Cycle
R&D:	Research and Development
RBV:	Resource-Based View
RSA:	Republic of South Africa
RQ:	Research question
SC:	Supply Chain
SCA:	Sustainable Competitive Advantage
SME:	Small and Medium- Sized Enterprise
SADCC:	Southern Africa Development Coordination Conference
UIM:	Uppsala Internationalisation Model
UNCTAD:	United Nations Conference on Trade and Development

Acknowledgement.....	I
List of abbreviations	III
List of tables and figures	VIII
1 INTRODUCTION	1
1.1 Research gap and research problem	5
1.2 Research aims and objectives.....	7
1.3 Scope, limitations and relevance of the study	8
1.4 Research process and method	10
1.5 Definition of concepts	11
1.6 Structure of the thesis.....	15
2 LITERATURE REVIEW.....	16
2.1 Economic (rationalistic) theories	18
2.1.1 Theories of market imperfection.....	18
2.1.2 Theories of market failure	20
2.2 The strategic management approach.....	23
2.3 Behavioural approaches	24
2.3.1 The managerial decision-making process.....	25
2.3.2 The Uppsala Internationalisation Model (UIM)	26
2.3.3 The Business Network Approach	28
2.4 Reflections and challenges to the behavioural theory-based literature.....	31
2.5 The Resource-Based View (RBV).....	37
2.6 The model of organisational change underlying FME into emerging markets.....	40
3 FME TO EMERGING MARKETS: A CONCEPTUAL FRAMEWORK	44
3.1 Resource and capabilities and reasons for expansion: the R-factors.....	44
3.2 External environment and FME: the En-factors.....	47
3.3 Market commitment and marketing strategies: the M-factors.....	54
3.4 Networking and business relationships in the FME: the N-factors	58
3.5 Events in the FME-process into emerging markets: the Ev-factors.....	63
3.6 Time and temporality in the FME into emerging markets: the T-factors.....	65
3.7 Summarising discussion.....	66

4	RESEARCH APPROACH AND METHOD	72
4.1	A phenomenological approach	72
4.2	Abductive research approach.....	74
4.3	Research strategy: multiple case studies.....	75
4.3.1	Selection of cases and the selection process	75
4.3.2	Data sources and data collection methods	78
4.4	Data reduction and data analysis process.....	81
4.5	Reliability and validity.....	85
5	THE RSA: A RAINBOW COUNTRY OF GOLDEN OPPORTUNITIES.....	88
5.1	South African contemporary history and internal pressure for change	89
5.2	Industry and Import Substitution Policy (IS) and its consequences.....	90
5.3	External pressure for change (period 1970 -1990).....	91
5.4	South African business environment facing foreign companies	91
5.4.1	Institutional environment	91
5.4.2	Socio-political environment.....	92
5.4.3	Production and market structure facing Finnish corporations in the RSA.....	97
5.5	Importance of the RSA for foreign corporations.....	100
5.6	Summarising discussion on the RSA as a context for foreign corporations.....	101
6	CASE DESCRIPTIONS AND ANALYSIS	103
6.1	The case of Metso Minerals.....	103
6.1.1	Company description and its overall growth strategy ...	103
6.1.2	Metso Minerals and its FME into the RSA during 1990-2005.....	105
6.1.3	Host business environment facing Metso Minerals	107
6.1.4	Critical events and temporality in the FME of MM into the RSA	109
6.2	The case of Metso Automation	110
6.2.1	Company description and its overall growth strategy ...	110
6.2.2	Metso Automation and its FME into the RSA during the period 1990-2005	111
6.2.3	Host business environment facing Metso Automation... ..	115
6.2.4	Critical events and temporality in the FME of MA into the RSA	118

6.3	The case of Outokumpu Corporation.....	119
6.3.1	Company description and overall growth strategy	119
6.3.2	Outokumpu and its FME into the RSA during the period of 1990-2005	120
6.3.3	Host business environment and business relationships.	122
6.3.4	Critical events and temporality of the expansion process into the RSA.....	124
6.4	The case of Larox Corporation	125
6.4.1	Company description and its overall growth strategies.	125
6.4.2	Larox and its FME to the RSA during 1990-2005.....	127
6.4.3	Host business environment and business relationships.	130
6.4.4	Critical events and temporality in FME of Larox to the RSA	133
6.5	Problems and strategic responses in FME process to the RSA.....	134
7	ANALYSIS OF THE FME OF FINNISH CORPORATIONS INTO THE RSA	136
7.1	Resources and capabilities in the FME process into the RSA.....	137
7.2	External environment and FME into the RSA: the En-factors.....	142
7.3	Market commitment and marketing strategies in FME: the M-factors.....	148
7.4	Networking and business relationships: the N-factors.....	152
7.5	Events in the Foreign Market Expansion into the RSA: the Ev-factors.....	158
7.6	Time and temporality in FME into emerging markets: the T- factors.....	160
7.7	Summarizing Cross-Case analysis.....	161
8	KEY RESULTS AND MAIN CONTRIBUTIONS OF THE STUDY	162
8.1	Internal drivers of FME to emerging markets.....	163
8.2	External drivers of FME to emerging markets	165
8.3	Networking processes and Foreign Market Expansion to emerging markets.....	166
8.4	Events and temporality in FME process to emerging markets.....	168
8.5	The Foreign Market Expansion process to emerging markets and outcomes	170
8.6	Contributions of the study	174

9	CONCLUSIONS AND IMPLICATIONS.....	178
9.1	Managerial implications.....	178
9.2	Policy implications.....	182
9.3	Implications for further research.....	185
9.4	Critical assessment: reliability and validity of the study.....	186
	LIST OF REFERENCES.....	191
	APPENDIX 1: Interview Guide Year 2002.....	217
	APPENDIX 2: Interview Guide Year 2004.....	222

List of tables and figures

List of tables

Table 1: Outline and structure of the dissertation.....	15
Table 2: Internationalisation process according to the business network perspective.....	29
Table 3: List of cases involved, interviewees, positions, time and place of interviews.....	79
Table 4: Reduction of narratives and coding process	83
Table 5: South African contemporary history and internal pressure for changes.....	89
Table 6: Main problems and strategic responses in FME process to the RSA.....	135
Table 7: Key internal resources and capabilities.....	139
Table 8: Types of networks and key processes	154
Table 9: Cross-Case analysis in terms of process and concepts.....	161

List of figures

Figure 1: The overall research process and key activities in the research process	11
Figure 2: Theoretical school of thoughts in international business	17
Figure 3: Establishment chains and basic mechanisms in the UIM....	26
Figure 4: Summary of environmental factors affecting FME into emerging markets.....	53
Figure 5: A tentative REMNET-framework of FME to emerging markets.....	67
Figure 6: A map of Southern Africa	88
Figure 7: Reduction of relationship distance in a dynamic business relationship.....	155
Figure 8: Integrated REMNET- framework of FME to emerging market	164

1 INTRODUCTION

In the field of internationalisation into foreign markets, the core question has been how companies internationalise, and to be more specific, this has meant ascertaining the key processes and driving forces involved in the internationalisation process. Furthermore, the focus has been specifically on how to manage these global opportunities (for such discussions see Buckley 1988, Buckley & Casson 1998; Dunning 1988, 1995, 1998; Rugman & Verbeke 1992; Porter 1985, 1990, 1991). Political and economical changes in the global scene since 1990 have accentuated the importance of these particular questions. The economic growth in emerging markets depends on liberalisation and on privatisation of the economic sector governed by competitive forces of the world market (Nieminen 1994). This trend together with the general liberalisation of world trade and financial markets has lead many other countries to try to follow the example set by the early emerging markets. The opening up of markets in Eastern Europe and markets such as China and India in Asia, Brazil and Argentina in Latin America and to some extent in Africa, became a practical challenge for Western corporations, as their global business environment changed in its character. Moreover, these changes, together with other factors, have challenged earlier knowledge about the foreign-market expansion process (FME) of firms (see Forsgren 1989). These new emerging markets were characterised by a mixture of both open market practices together with some market regulations with the inevitable consequence that they were difficult to handle for Western corporations (Nieminen 1999). Thus, these changes called for a revision of the theories on expansion and operation strategies towards emerging markets.

According to Ahmed and Cleeve (2004), despite the changes in the global scene, the African continent has remained one of particular concern. For a long time, the whole world saw the African continent as underdeveloped (Nwankwo & Richards 2004). According to Asafu-Adjaye (2004), it is possible to hasten African economic development and growth by a high level of involvement by foreign corporations, for instance, in the form of Foreign Direct Investment (FDI) in which a foreign firm establishes subsidiaries for market development and production processes. While the involvement of foreign corporations into emerging, transitional and developing countries in general increased from the mid-1990s, involvement in the African market in the form of FDI decreased or stagnated (UNCTAD 2001). This happened despite the implementation of political and economic liberalisation in many African countries since the mid-1980s (UNCTAD 1999a; World Bank

2002). Furthermore, this happened despite the findings of the World Bank that “*the least known fact is that the profitability of foreign affiliates of Transnational corporations in Africa has been high and that in recent years it has been higher than most other host regions of the world*” (UNCTAD 1999b, p.15). A major reason for the relatively low level of business activities in Africa is the perception of the continent as risky and unstable, leading to low positive expectations in medium to long-term business activities by the international business community (Owhoso et al. 2002).

The amount of investment a country receives from foreign business depends on its policies and on the national and international business environment (Lall 2003; Borensztein et al. 1998). In general, the FDI received by emerging and developing countries, has increased since the mid-1990s. During the early part of this period, however, the FDI in Africa stagnated, but has started to increase slightly in the last few years; a 21% increase from 2002-2003, stagnation during 2003-2004 and a doubling from \$17 billion to \$31 billion during 2004-2005 (UNCTAD 1999b, 2004, 2005, 2006). The slight increase in the last few years is attributed to the implementation of political and economic liberalisation since the mid-1980s in many African countries, and the improved business climate (UNCTAD 1999, 2005; World Bank 2002).

It is, however, noteworthy that the increase of investment into Africa from 2002 to 2005 was minimal compared to the total increase made in developing countries as a whole, which was 40% from 2003 to 2004 and nearly 100% from 2003-2004 (UNCTAD 2004, 2005, 2006). In 2006, the total foreign direct investment in Africa was still only about 3% of the world total (UNCTAD 2006). According to UNCTAD (2006) and the World Bank (2003), investors were choosing mainly high-return businesses. In other words, most of the investment went to areas that produced high levels of profit. Mainly investments went to the oil-drilling and mining industries and in 2005; about 50% of the investments in Africa went into these fields. It is worth noting that of all the investments, which were made in Africa in 2005, 21% of these investments went to the Republic of South Africa (RSA) alone. In addition, Arnold (2005) found that in 2003, Africa’s contribution to international trade was only 1.7%, with world exports standing at 2%; global direct investment at 0.9%, and the share of the global FDI at 1%. Moreover, relatively few foreign companies had gone into market development within the local African market in either business-to-business or business-to-consumer areas (See Owusu 2003)

According to UNCTAD (2006, p. 12) “*...attracting quality FDI- the kind that would significantly increase employment, enhance skills and*

boost the competitiveness of local enterprises-remains a challenge". Owahoso et al. (2002) talk about the expansion of US MNEs into Africa as entering the last frontier. Nwankwo and Richards (2004) outlined the poor economic performance of many African countries since the early 1970s and referred to a general sense of "afro pessimism" as contributing to the perception of risk and low expectations. They argue that cautious optimism has developed recently and that the right policies could lift Africa from its economic difficulties. Brink and Viviers (2003) argued that the factors hindering foreign-based business operations in the Southern African region are a combination of a poor or non-proactive policy and the negative perception of the countries' prospects. They reported that countries were introducing policy changes, but they made it clear that these policies would have to be persistent over a long period to turn the tide of business opinion.

While most researchers agree on the reasons for the low attractiveness of the African markets to foreign companies as being due to the poor economic performance and mismanagement of African economies, they also believe that the negative view is exaggerated. To deal with the problem of negative perceptions of the African business environment, Owahoso et al. (2002) suggest that international development banks and organisations should publicise Africa's profitable business opportunities. Different studies and debates on Africa's future and business opportunities, for instance, those conducted by the Institute for Future Studies in Stockholm in 2007, have shown that the African continent is becoming increasingly of interest to the developed countries. Accordingly, the USA, China, and Western European countries are competing for African raw materials, mostly oil and other strategic minerals to sustain their own industries and their increasing energy needs (Melber 2007). Surprisingly, except in a few cases, none of these major areas of development have shown any great interest in investing directly in technology transfer or other investments related to African market development (on the new form of competition for Africa, see Melber 2007).

One notable exception to the African debacle is the Republic of South Africa (RSA), which also serves as the context of this research. At the beginning of the 1990s, the RSA introduced socio-political and institutional changes, which led to positive responses among foreign corporations and investors who were looking forward to expanding their business operations into the RSA. The South African economy is by far the most developed economy on the continent with a far higher per-capita income than the rest of the continent (UNDP 2004). Many of its modern economic sectors are comparable to those of the developed countries. Particularly, its mining sector is amongst the most advanced and productive in the world. This sector depends on a varied range of minerals

and boasts some of the world's most important mining companies such as Anglo Platinum Ltd. It is, therefore, a very important market for foreign mining companies, suppliers, sub-contractors and machinery developers. However, until 1993, South Africa's economy was considered as risky as those of many of the other African countries. Political changes leading to the end of apartheid and the establishment of majority rule have changed the business and networking environment.

Whereas the country was previously facing political and economic sanctions and was prohibited to most foreign companies, it has now gained respect and is currently open to new businesses. Many new firms, as well as those that had previously divested their business operations, have entered the market. The whole world considers the RSA to be an important market even in the non-mining sectors, and on par with economies such as Brazil, South Korea and those of Eastern Europe. South Africa's path from a "no-go" country for foreign companies to an attractive market shows the way for the rest of Africa. However, despite the openness of the RSA, the market still faces considerable inadequacies such as: a low degree of education among the vast majority of the population, socio-political and economic inadequacies, poor business infrastructures in some areas, high levels of criminality in some areas, corruption in some cases and a brain drain among skilled people (see Pillay 2004).

The transformations taking place in the RSA, and the opening up of the country to foreign corporations, call for special attention. As foreign corporations are compelled to respond to the new dynamics of the markets by appropriate measures to secure their short and long-term objectives, it means that there is a clear need to understand these new dynamics. Furthermore, there is also a need to analyse the impacts of these new market dynamics on foreign-market expansion processes and the operational behaviour of foreign corporations. The South African market is particularly important to Western corporations including the Finnish Corporations, because the RSA market is one of the most promising markets in Africa below the equator. Consequently, it could serve as a good base from which to explore and to serve other African markets as well. Since 1995, the RSA economy has been growing and there is a rising middle class among the Historically Disadvantaged South Africans (HDSA). In addition, the RSA plays a vital role on the African continent as it acts as a catalyst for development in the whole of Southern Africa, thus acting as an engine for overall growth on the continent. Due to its advanced and relatively cheap technologies, the RSA has already gained an important market share in most African countries and that trend may continue into the future. Since 1995, the RSA has started to take an active role in mediating in most of the African conflicts (includ-

ing Angola, Burundi, Congo, Kenya, Zimbabwe, etc), which in the future may also increase its good political relationships with many countries on the continent. Therefore, most foreign corporations who want to expand their business activities into Africa may need to go through the RSA. Business operations in the RSA offer very good returns and the RSA offers a very highly skilled labour force and the costs of operating there are still less than operating in other mature markets.

Given this increase in importance, since the cessation of UN-led sanctions against the RSA, I am convinced that the RSA offers a good location from which to start mapping out and analysing the key processes and structures in the expansion of business into Africa. Emerging markets in Africa deserve more attention than they have enjoyed so far, as to date, there has been a lack of research on expansion of business into Africa, especially in the Nordic countries and particularly in Finland. There is definitely a need for such research to expose African business potentials and problems, as well as ways of overcoming problems in expanding business operations to Africa. Despite the fact that the South African market alone is limited, it is by far the most important African market for Finnish corporations and the present situation calls for the need to understand the political and structural changes affecting the expansion process to that country.

1.1 Research gap and research problem

Existing literature on foreign market expansion towards foreign markets states that the foreign market expansion decisions of firms are based on complex calculations (Hayter 1998). Discussions concerning that process vary depending on the authors. However, since 1960, four broadly competing theoretical schools of thought have emerged from these discussions. Based on Cantwell (1991), Axinn and Matthyssens (2002) and Mtigwe (2006), we could classify these theoretical schools of thought into four broad groups:

- Theories of market imperfections, including: theories of monopolistic advantage, Product Life Cycle (PLC) and Oligopolistic Reaction theories
- Theories of market failure, including: Internalisation Theory, the Eclectic paradigm and Transaction Costs theory (TC)
- Strategic Management theories including: Strategy and organisational design, structure and location strategies, global business strategies, product and functional strategies.
- The behavioural approaches, including: decision-making processes; internationalisation process models and the business network approach

As will be discussed in chapter 2, these different schools of thought (see figure 2) and their main contributions have been tested in different markets and were found to be applicable to most markets. However, contextual studies have concentrated mainly on developed markets. One striking aspect is the fact that there are a limited number of empirical research studies which deal directly with African business issues, especially in the Nordic countries. Thus, research on the internationalisation process of Nordic corporations into Africa markets is still under-researched.

At this point, it is appropriate to name some contributions. Schoenborn (2006), Samli (2004), as well as Arnold and Quelch (1998), stress the potentials of all emerging and developing markets and suggest that firms should move into developing markets early to gain a first-mover advantages. Therefore, understanding developments in developing markets, including those in Africa, is important for international firms. Awuah (1994) studied how the capabilities of local firms sub-contracting to a multinational located in Ghana developed through their market relationships. He found that both the local firms and the foreign investors benefited from the relationships. Owusu (2002, 2003) suggests that project marketing by industrial firms that were not ready to invest in the African market could provide valuable knowledge of the African market and relationships on which they could later build for greater involvement. Boateng and Glaister (2002) studied the performance of joint-ventures (JVs) between foreign investors and local companies in West Africa. They found that success was constrained by the lack of capital in the African market, the capabilities of the JV partners, and the level of mutual goals and motives. Some of these problems were a result of the national policy environments. Habiyakare and Törnroos (2007) studying the expansion process of Finnish corporations into the Republic of South Africa, found that the South African market could be used as a springboard to other potential markets in Africa. Mbare (2004) studied Corporate Social Responsibility (CSR) and looking at the conceptualisation of CSR from a Finnish and Kenyan perspective, he found that CSR was conceptualised differently in the two societies. Discussing the issue of short-term business operations (investments) conducted in Africa, he used a concept of “*Cowboy investments*” in some cases.

In spite of these examples, the literature on business in Africa is still limited and it is believed that both exploratory and analytical studies are required to illuminate the issue of business in Africa in order to increase understanding and theorising of the FME into emergent markets. There is still a need to understand the key processes involved in the expansion process of foreign corporations towards Africa (Burgess & Steenkamp 2006; Nwankwo & Rugimbana 2003). So far, the literature

lacks a systematic analysis of these key issues (Axinn & Matthyssens 2002). Since 1990, there has been an increasing call for more dynamic theories of internationalisation that could take into account the special features of emerging economies. Scholars such as Dunning (1995), Strandskov (1986), Andersen (1993, 1997), Porter (1991), Bartlett and Ghoshal (1991), and Buckley and Casson (1998) have explicitly called for more theoretical work on the dynamic growth process of multinational firms. These authors concluded that the existing theoretical frameworks are not capable of lifting the veil in order to reveal the underlying process of internationalisation (see Melin 1992).

There is a definite need to broaden the internationalisation theory so that it takes into account the specific requirements of emerging economies. Furthermore, we need models for describing, interpreting and for explaining business expansion processes in emerging economies. There is a need to know what emerging markets look like, how to analyse their development, how to compete and gain sustainable comparative advantages (SCAs), how to establish and maintain fruitful relationships with different actors, how to organise business activities there and how to best respond to the local constraints and host business environment pressure. In addition, we also need empirical studies to ascertain how foreign companies have expanded their business to emergent markets. Thus, in this research, I am concerned with the socio-political embeddedness (Halinen & Törnroos 1998) of business networks in the foreign market expansion process into emerging markets and the role of environmental pressure on the FME-process of firms into emergent markets. In the next section, I present my research aims and objectives.

1.2 Research aims and objectives

The sudden changes in the Republic of South Africa (RSA) and the way different foreign corporations reacted to these changes deserve more attention. There is very little work done in the area of foreign-market expansion process of Finnish corporations into Africa and on how they cope with the changing business environment in Africa in general. It is essential to explore the expansion process of Finnish corporations into the RSA and to link that process to the socio-political changes that have occurred and are occurring in the Republic of South Africa. The overall objective of this study is to increase our understanding of how the FME-processes take place in a lesser developed market. More specifically, the study investigates how Finnish corporations have expanded their business operations into the RSA and how their business networks and relationships have been shaped by the socio-political and institutional changes in which they are embedded. In other words, the questions

guiding this research are:

1. How have Finnish corporations penetrated and expanded their business operations into the RSA between 1990 and 2005?
2. What were the key factors that motivated and shaped the FME process of Finnish corporations into the RSA, and what were the key factors that contributed to the FME outcome?
3. How has the South African business environment shaped FME processes and what specific strategies were used to deal successfully with such a business environment?
4. What theoretical, managerial and policy implications can be found in order to promote FME-processes into emerging African economies?

Finding plausible answers to the above questions, allows me to contribute to our understanding of FME-process, by showing that ignoring the role of socio-political, institutional contexts and their influences on business transactions in the context of emerging markets may lead to conclusions, which are far from actual reality. These questions were supported by the inevitable characteristics of the Republic of South Africa since the 1990s, as described later in chapter 5. In addition, these questions are also relevant in terms of the chosen companies. The Finnish corporations involved in the study operate worldwide and are among the first Nordic corporations to expand their business operations into the RSA. In addition, the literature review conducted in chapter 2, in order to gain a theoretical pre-understanding of FME into emerging markets revealed a heated debate about the conceptualisation of the internationalisation process into emerging markets. Within the behavioural approach, chapter two proposes a cross fertilisation of the incremental approach with the network approach through a Resource-Based View (RBV).

In summary, my assumption is that the socio-political and institutional environment will indeed influence FME-process in the RSA. The research questions and the theoretical pre-understanding also point to a general need for longitudinal case-study analysis.

1.3 Scope, limitations and relevance of the study

The focus of this research is on the expansion process of Finnish corporations into the RSA and there are several reasons for this: firstly, the institutional and political changes that took place in the RSA have not had any precedent in African history. Secondly, these positive changes brought about other regulative mechanisms under the name of affirmative actions, with the aim of correcting the past policies. According to Nwankwo and Richards (2004), these measures resulted in imposing

extra costs on corporations expanding their business activities towards the RSA. Thirdly, Western corporations reacted differently to these changes thus expanding their business operations according to their perceptions of the risks and expectations of the opportunities created since 1990 (see Hadjikhani & Johanson 1996). For the African countries, if they are to attract more foreign corporations to their markets, they need to understand the basic underlying processes and mechanisms involved in a firm's foreign-market expansion process.

Only after gaining such an understanding can host governments make the relevant policies to attract foreign corporations. In addition, managers involved in decisions about expansion into emerging economies, need insight into the host business environment and into the important structures affecting their expansion process and subsequent business operations. Losing sight of these processes would lead to a serious lack of competitiveness in these new emerging opportunities. To be able to assess and to opt for competitive policies to help promote trade with Africa, policy makers need information on these key processes and structures. As long as there is still a lack of understanding of the key processes involved in the expansion of foreign corporations into emerging economies, there will be difficulties in making positive decisions. Finally, but equally important, this research is also of relevance for the academic community, especially for those who are interested in understanding the FME-phenomenon into emergent economies. Understanding the host business environment as a key to new business opportunities on the African continent is a challenge, because it requires a change in expansion strategies and above all, it requires a change in managerial attitudes towards the African continent.

Due to the nature of the study, I pay particular theoretical attention to the behavioural approach in which two particular views of internationalisation process serve as the starting point of this study (see chapter 2). These particular contributions are the internationalisation process models by Johanson and Vahlne (1977, 1990, 1994) and the business network and business relationship approach (e.g. Johanson & Mattsson 1988, 1992, 1995) respectively in sections 2.3.2, 2.3.3 and 3.4. I consider the actual decision to expand business operations into the RSA to some extent as given, in the sense that the study does not analyse the actual decision-making process within the involved corporations. I pay special attention to the corporations in a business-to-business (B2B) context especially in the mining, pulp and paper industries (see table 3). The study analyses the dynamics that the changing socio-political environment may bring to the expansion process of foreign corporations towards the RSA. To facilitate an in-depth description and analysis of the foreign-market expansion process of Finnish corporations into the

RSA expansion process, the study is limited to the investigation of the main factors promoting and constraining the expansion process and the strategic responses used by the involved corporations during 1990-2005. The justification for limiting the scope of this study to the expansion process of Finnish corporations into the RSA is that the RSA hosts most of the Finnish corporations in Sub-Saharan Africa. In addition, the RSA is also expected to play a role as an engine driving economic development in the entire African continent

1.4 Research process and method

Methodologically, this study consists of a detailed description and analysis (Creswell 1998, 2003; Stake 1978, 1994, 1998; Yin 1993, 1994) of the FME-expansion process of Finnish corporations into the RSA (during 1990-2005). This study uses multiple case studies (Yin 1994). A case study is generally considered an appropriate method of investigating realities, facts, and issues that are not well known (Perry 1998). The use of the case study may increase understanding of the complex phenomenon under study. Initially, I contacted many Finnish corporations; some of them were not able to participate in this study. Ultimately, there were seven Finnish corporations¹ willing to discuss their expansion process into the RSA.

Apart from different visits made to the seven Finnish corporations in Finland (year 2002) and to their subsidiaries in the RSA (year 2002 and 2004), I did not have any practical experience of their industrial processes. Altogether, this research bases its empirical material on 30 in-depth, semi-structured interviews with Finnish senior managers in Finland and with senior South African managers at their respective subsidiaries in the Republic of South Africa. Appendices 1 and 2 provide the guiding questions. The interviews form the main source of data through which expansion process and market strategies are constructed and analysed. In this study, due to a consideration of space, only four illustrative cases are used and the results from the three remaining cases will be used later for further interpretations and clarifications. As I did not have a strict model before collecting data, the research process followed an abductive process as suggested by Kirkeby (1994), Alvesson and Sköldbberg (1994) and Gummesson (1991, 2000). In this process, the researcher goes back and forth between theory and empirical material as the research process evolves. The following figure 1 depicts the overall research process followed in the study.

1 For a list of Finnish corporations and list of participants in this study and their relative positions, see table 3

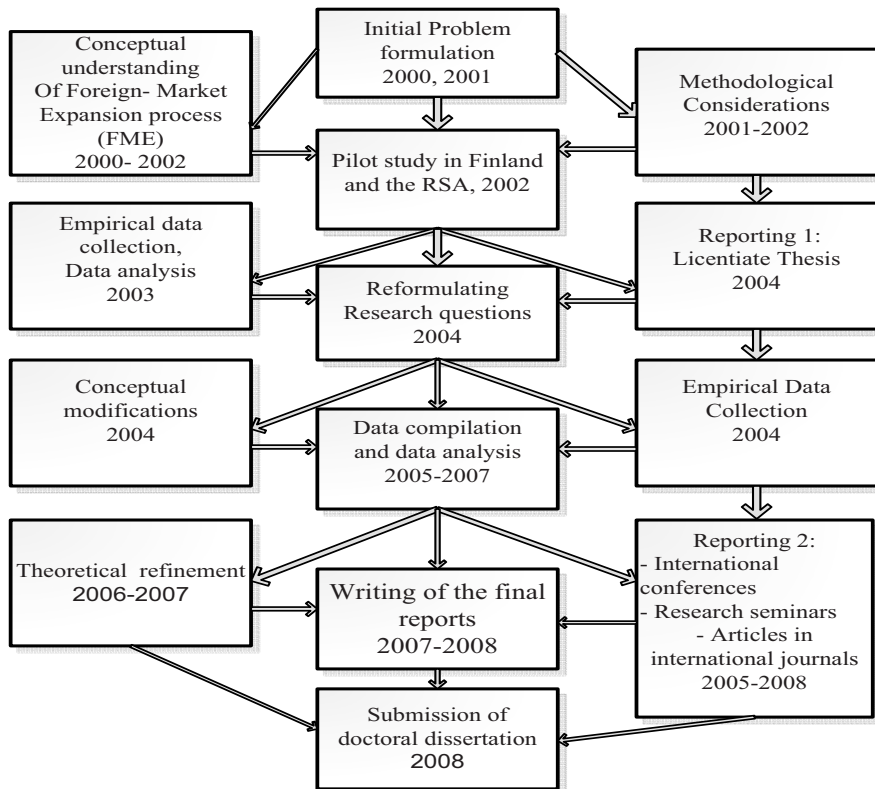


Figure 1: The overall research process and key activities in the research process (Based on Glatthorn 1998)

As can be seen from figure one, the process was time consuming and many years have elapsed since the initiation of this research project. Nevertheless, chapter 4 will provide a more thorough description, justification, of the chosen approach together with how data was gathered and analysed. In the same chapter, I will provide analysis (for a detailed description and analysis see chapter 4, section 4.4) of the leading ideas, which guided the whole research process and the chapter will provide a critical analysis of the different methods used and of the reliability and validity of the whole research (see section 4.5 and 9.4). In the next section, let me present definitions of the key concepts used in this study.

1.5 Definition of concepts

Internationalisation

With reference to the process models of internationalisation, Luostarinen and Welch (1990) define internationalisation as the process of increasing involvement in international operations. From the network perspective, Johanson and Mattsson (1988) discuss internationalisation

as a process in which relationships are continuously established, developed, maintained and dissolved with the aim of achieving the objective of the international expansion of the firm. According to Beamish (1988), internationalisation is the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries. Furthermore, Calof and Beamish (1995) saw internationalisation as a process of adapting the firm's operations (i.e. structure, strategy and resources) for an international environment. As all this makes evident, internationalisation is considered a complex and multidimensional process.

Foreign-Market Expansion (FME)

One part of the internationalisation process consists of the firm's outward operations, which have later been termed foreign-market expansion (FME). This refers to "*international market development from the point at which a company made the decision to operate outside the domestic market. Furthermore, it refers to the growth of business, in terms of growing sales volume, growing turnover and growing profit in the foreign market entered*" (Vincze 2004, p. 52). This growth leads to an increased complexity that may be associated with the adaptation process. According to Vincze (2004), foreign-market expansion falls within the larger process of internationalisation and should also be seen as a complex, evolutionary growth process. Both economic and behavioural elements should be considered in an attempt to understanding the foreign-market expansion process, regardless of where the expansion takes place.

Emerging markets and institutional changes

Gipson (1994) discusses the emerging markets as economic sectors with growth potential; countries that are deregulating markets, and liberalising trade and investment regimes. In this research, the term emerging market is used to represent new foreign markets that have been opening up to allow for the greater participation of foreign firms. These markets could be found in all the five continents. These markets present commonalities in terms of institutional changes, which are social structures that have attained a high degree of resilience, and composed of cultural-cognitive, normative and regulative elements that provide stability and meaning to social life. Rules, norms, cultural beliefs, behaviour, and material resources are central ingredients of institutions (for such discussion see Hegre et al. 2001). In this study, I refer to the socio-political changes and to changes in laws and regulations in the host business context as institutional changes.

Business strategy

Chandler (1962, p. 13) defines strategy as *"the determination of the basic long-term goals and objectives of enterprise and the adoption of course of action and the allocation of resources necessary for carrying out the set goals"*. Business strategy is the *"pattern of decisions taken in a company that determines and reveals its objectives, purpose, or goals. It produces the principal policies and plans for achieving those goals. It defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be and the nature of the economic and non economic contribution it intends to make to its shareholders, employees, customers and communities"* (Andrews 1971, p. 13). To simplify this concept, especially in the case of foreign-market expansion, we could use a narrower definition, which refers more specifically to *"the pattern of decisions leading to a choice of products, operational modes and geographical markets that a company subscribes to"* (Hirvensalo 1996, p. 27).

Network and Business Relationships

Networks are usually defined as sets of connected exchange relationships (Johanson & Mattsson 1988). Johanson & Mattsson (1988) concluded that a general definition of a business network is companies combining together with a common objective, working together and cooperating, to exchange and share ideas, knowledge and technology. According to Törnroos (2003), firms gradually extend their network connections through their commitment to technological and financial ties with other market actors. The network tradition defines a relationship as mutually oriented interaction between two or many reciprocally committed parties (Håkansson & Snehota 1995). What is particularly interesting in this perspective is that a relationship is a process over time creating interdependence between actors, organisational units and individuals. Partners are involved with each other through activities and possession of specific resources, which are interlocked, and together they produce synergies that one company (actor) could not achieve alone. Ford et al. (2003) use the term "relationship" to describe the pattern of interactions and the mutual conditioning of behaviours over time, between a company and a customer, or a supplier or an organisation. Time is the defining feature of a relationship. Both the past and the future affect the current behaviour in a relationship and experiences, expectations, promises underlie the interaction within a business relationship. The time dimension of a relationship requires managers to shift their emphasis away from each single, discrete purchase or sale and towards tracking how things unfold in the relationship over time

and changing these when “appropriate” (Ford et al. 2003).

Resources and capabilities

Each firm possesses resources and capabilities to which it owes its existence. According to Penrose (1980), a firm’s distinctive competence is based on the specialised resources, assets and skills it possesses, and focuses attention on their skilful utilisation to build competitive advantage and economic wealth. These tangible and intangible resources, which are under the control of the firm’s administrative organ, are what we refer to as “*firm’s resources*” (Zou & Cavusgil 1996, p. 58). Theorists commonly use the term “resource” in a very broad sense. Following Daft (1983), Barney (1991) defined internal *organisational resources* as all assets, capabilities, organisational processes, business attributes, information, knowledge and so forth, controlled by a firm and enabling it to conceive of and implement strategies which improve its efficiency and effectiveness. In his study of international project business, Owusu (2003) classifies the resources needed for success as including the following resources: physical, financial, technological, human, marketing, reputational, organisational /entrepreneurial, international experience and relationship/networking. Barney (1991) further classifies the numerous possible internal organisational resources into three categories: physical capital, human capital and organisation capital. All these resources are not strategically relevant and are not all are equally important (Black & Boal 1994). As Barney (1986) points out, some resources may prevent a business from conceiving of and implementing valuable strategies, others may lead to strategies, which reduce its performance, and yet others may have no effect on a firm’s strategic choice. The most critical resources are those, which are superior in use, hard to imitate, difficult to provide a substitute, and more valuable within the business than outside (Porter 1991, quoted in Zou & Cavusgil 1996, p. 59). Porter (1991) emphasises that such resources can arise either from performing activities over time which create internal skills and routines or from acquiring them from outside the firm. The firm’s knowledge base increases with repeated experiences and becomes embodied in personal and organisational memory (Penrose 1959; Johanson & Vahlne 1977, 1990). Thus, the international experience of the firm is an important source of competitive advantage in FME into emerging markets (Padmanabhan & Cho 1999). This thesis consists of 9 interrelated chapters and table one on the following page, indicates the structure and content of each chapter.

1.6 Structure of the thesis

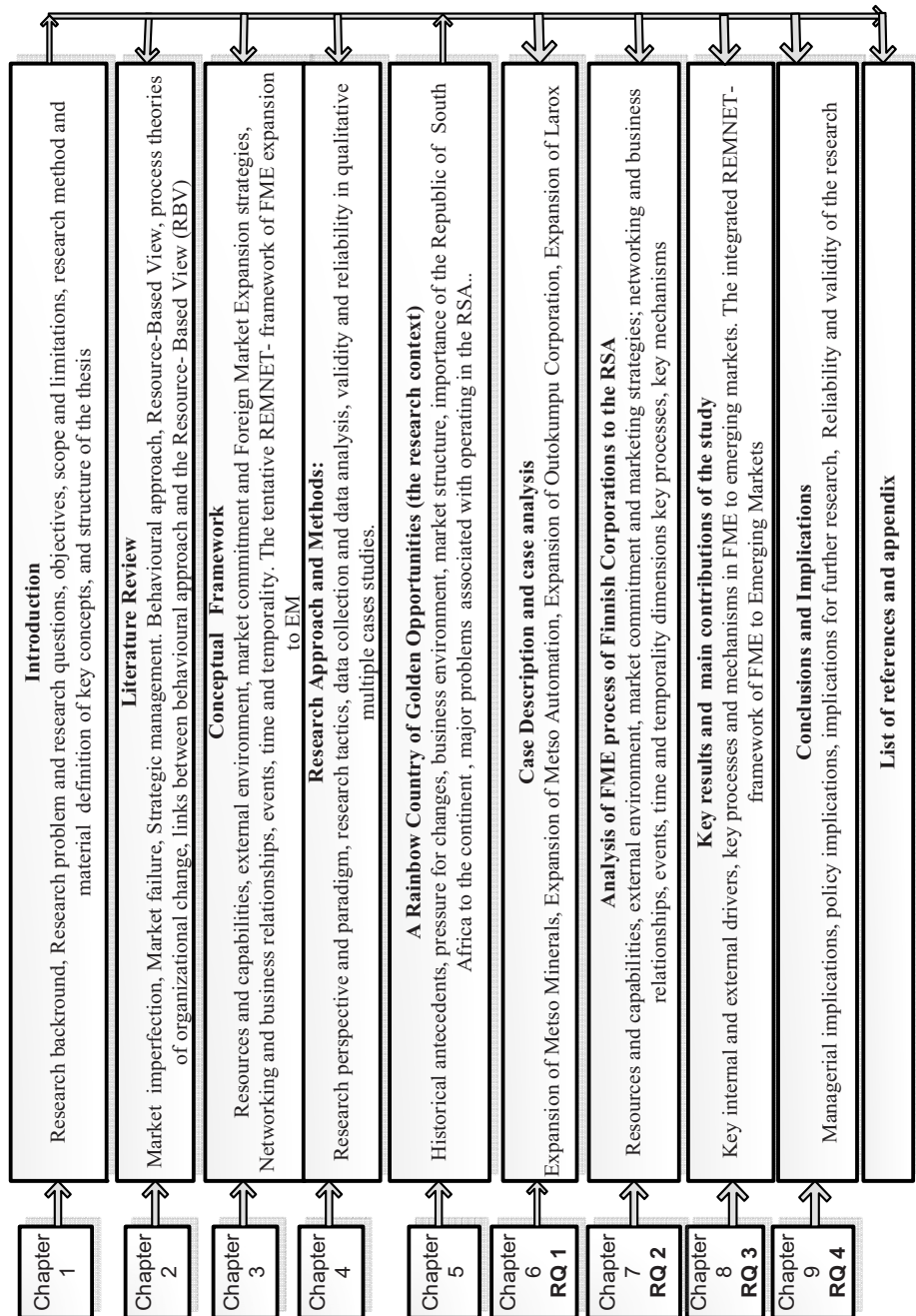


Table 1: Outline and structure of the dissertation

2 LITERATURE REVIEW

Business expansion into foreign markets is not a new phenomenon. Throughout history, there have been movements of goods and businesses from one country to another. Different authors have highlighted foreign market expansion processes and explanations of such processes vary according to the theoretical approach used. There are many theories with applicable concepts, which could be combined as building blocks when constructing a theoretical framework for a study. In the following, I provide a brief overview of the theoretical development in international business literature since the 1960s. This short description is important to show why I have chosen the behavioural approach for developing the theoretical framework used in this study. In order to provide a basis for the conceptualisation of FME-processes into emerging economies, this chapter is organised in the following manner: first, economic theories are presented; secondly, a brief introduction of the main corner stones in the strategic management literature are presented, and thirdly the behavioural approach is presented and analysed. The study then clarifies the theoretical links between the key theories in the behavioural approach. Fourthly, the kinds of process models of organisational change represented by the behavioural theories are identified. In the fifth chapter, I offer a critical analysis of the behavioural approach and its inherent weaknesses in its description of the FME-processes into emerging markets. Finally, the Resource-Based View (RBV), and its strengths in integrating the behavioural models, are explored. This structure is necessary in order to show why it is necessary to construct a six-dimensional framework called REMNET² with the potential of increasing understanding of the FME process into emerging markets (see chapter 3). However, in this chapter I do not attempt to provide a fully detailed theoretical examination of the literature of international business, as the objective of this chapter is rather to discuss the main contributions and to lay the groundwork for the six-dimensional framework for corporate internationalisation used. At this point, I am aware of the fact that any brief presentation of any theoretical approach is likely to suffer from distortion due to theoretical constraints. This problem may prove to be severe, especially when different approaches have been the focus of these controversies for a long time. Nevertheless, the core propositions in international business literature are analysed.

In an attempt to understand the movement of foreign firms to foreign markets especially in the form of FDI and other business processes, modern economic theories were introduced in the early 1960s. Since then, four schools of thought have evolved (see section 2.1- 2.3).

2 See figures 5 and 8

The following figure captures this theoretical development and each school will be discussed after the following figure 2.

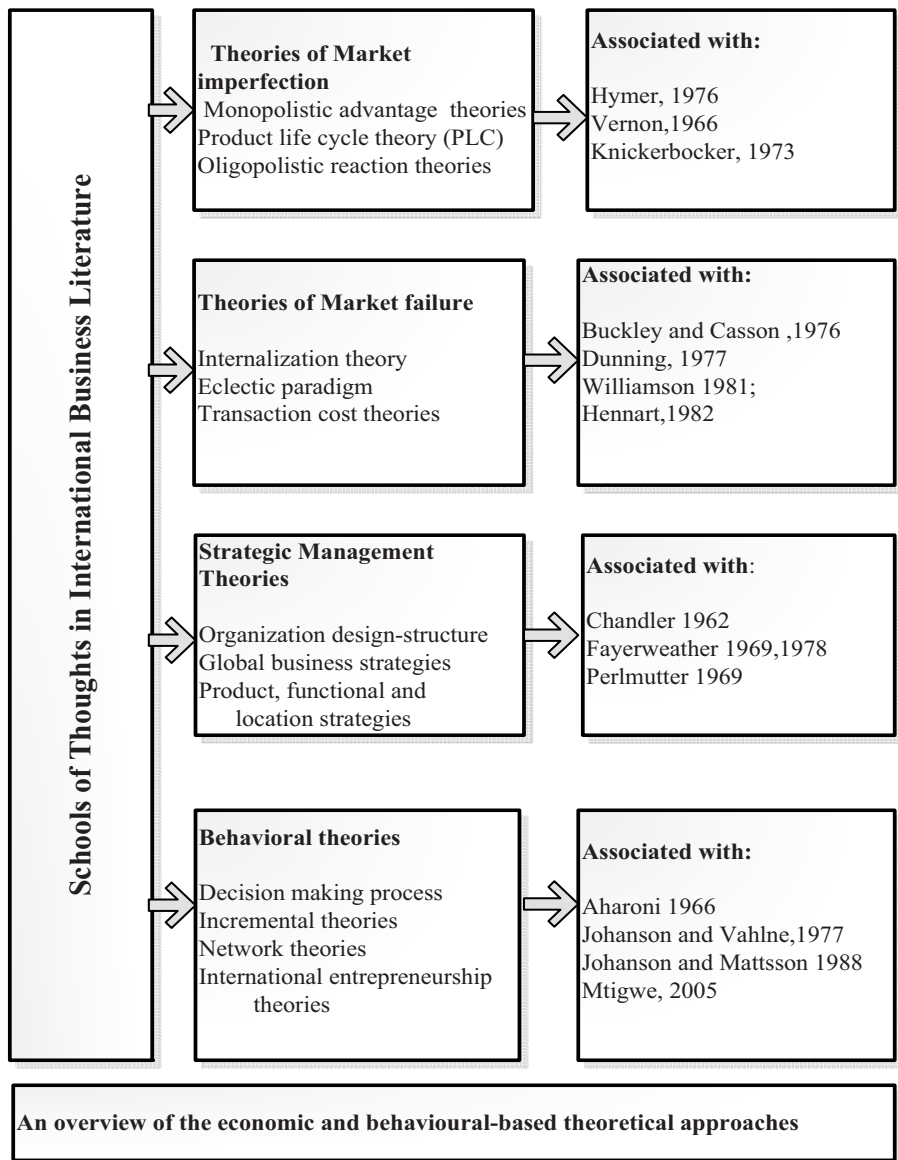


Figure 2: Theoretical school of thoughts in international business
 Based on Cantwell (1991), Axinn and Matthyssens (2002), and Mtigwe (2006)

In the following sections, each school of thought is briefly introduced and discussed.

2.1 Economic (rationalistic) theories

These theories are grouped into two main schools of thought: market imperfection and market failure. Next, each school of thought is presented.

2.1.1 Theories of market imperfection

Within this school of thought, 3 theoretical approaches have evolved. These three approaches are: theories of monopolistic advantages, product life cycle theory and oligopolistic reaction theories. The following is a brief presentation of each approach.

Theory of monopolistic advantage (associated with Hymer 1976)

Hymer's approach of monopolistic advantages states that international companies are likely to suffer from disadvantages in comparison to national companies with regard to relevant economic, political, or cultural information about target countries and their consumers. These disadvantages impose important market barriers on internationalising companies. Furthermore, he states that international companies are nevertheless able to compete with national companies in their home country because internationalising companies possess considerable advantages in particular activities. These distinct advantages can, for example, be seen in opportunities for product differentiation, patented or generally unavailable technology, a good financial resource-base, or even economy of scale. Hymer's major contribution in the field of corporate internationalisation was to realise that foreign direct investment could not be explained as if it were a portfolio investment, that is inter-country movements of a capital responding to differential rates of return on capital (interest rates).

Hymer's theory, however, paid less attention to strategic issues such as competition among multinational firms entering a particular host country at the same time. Although his theory of ownership specific advantage explained an important condition for the establishment of multinational enterprises, it failed to explain why firms had to locate sales or manufacturing subsidiaries abroad. Specific ownership advantages may be exploited by other means such as licensing to a foreign producer or through exports (see Calvet 1984). Apart from the emphasis it gives to the desire to appropriate the maximum economic rent from their assets in order to strengthen their positions, a special competitive advantage does not necessarily lead to foreign production. According to Calvet (1984), Hymer was overly concerned with aiming at explaining why foreign direct investment in production occurred in a certain place. However, he did not explain why it occurred in one particular

country and not in another, in other words, *where* a foreign direct investment occurred. The question concerning the country in which a firm locates its operation is of great importance, especially if the firm considers issues such as comparative costs, resource endowments, cultural and institutional, economical, and political conditions. The subsequent section considers and analysis the Product Life Cycle theory.

Product life cycle (PLC) theory (associated with Vernon 1966)

Without reference to Hymer, Vernon launched his product life cycle theory (PLC) in 1966. He argued that the prevailing international trade theory, which was based on the Heckscher - Ohlin (1933) extended theory of comparative advantage, was unable to explain the regular US trade surpluses in the 1950s. Vernon (1966) combined the product life-cycle approach together with the role of technological factors in international trade, the role of labour-force skills between nations, linkages between trade imbalances and monetary side of balance of payments, and the similarity of income levels and patterns of demand, which suggested that trade flows will be greatest between countries with similar factor endowments (Heckscher & Ohlin 1933). According to the PLC-model, production could be expected to be located in the home market during the initial stage when close customer contact is important for product development purposes. Later on, changing international demand conditions and production cost aspects are predicted to drive production initially to other advanced countries with low labour costs. This differed from the comparative advantage theory that proposed greater flow between countries with dissimilar factor endowments.

Although the product life cycle provided a useful framework for explaining the early expansion of US manufacturing investments in other advanced countries, it has however failed to explain the expansion of the multinational enterprises that have expanded their product development activities beyond their home markets and are innovating new products away from their home market. Secondly, the model has given excessive weight to the product rather than the firm when trying to explain foreign investments. The next section is an analysis of the theory of oligopolistic reaction.

Theory of oligopolistic reaction

In his doctoral dissertation, Knickerbocker (1973) introduced a theoretical framework called oligopolistic reaction, for explaining the prior reasons why firm behaviour should lead to foreign direct investment and how such behaviour is linked to market structures. In oligopolistic markets, the industry structure is characterised by having few sellers of products which are close alternatives. In such forms of markets, there is high market interdependence and each firm's policies affect other firms

as well. Knickerbocker (1973) found that each firm in an oligopolistic situation combined moves to improve its own position with motives to offset aggressive policies. An aggressive move may be prompted by special opportunities to size a market, new technologies, and/or sources of raw material. The advantage that the aggressor may gain in the end could be highly detrimental to its rivals, who therefore have to react in order to minimize risks, leading to defensive policies. According to Knickerbocker (1973), in order to avoid mutual destruction firms resort to avoiding price warfare in favour of more peaceful, market enhancing competition. The theories of oligopolistic reaction explain direct investments as a reaction of companies to imbalance between the competitors acting in oligopolistic industries. One competitor (“*the leader*”) belonging to a national oligopoly invests in another country. The other competitors are consequently, forced to follow this “*leader*” and investment abroad in order to regain the oligopolistic balance. An imbalance can also stem from a foreign investment in the national market. The reaction to this investment is “*cross investments*” by national competitors in the home market of the foreign investor (Knickerbocker 1973, Graham & Krugman 1991). His analysis, however, considered the role of moves and counter-moves in oligopolistic strategies as being confined to move and counter-move within foreign investment. He ignored other major strategic issues such as strategies towards development and use of technology, diversification, production in other countries, sourcing markets in other countries, vertical integration, expansion (acquisition, green-field), ownership (licensing, joint venture) and so on. Aggressive and defensive moves cannot be seen and isolated within a single type of strategy but they must be seen in the context of multi-strategic behaviour by oligopolistic firms. Section 2.1.2 introduces the theories of market failure.

2.1.2 Theories of market failure

In this school of thoughts three theoretical approaches are presented: internalisation theory, eclectic paradigm and transaction cost theory.

Internalisation theory

Building on Hymer’s idea of the firm’s specific advantage, Buckley and Casson (1976) introduced the internalisation theory. It assumes that a company invests abroad on the basis of a specific asset, under its control (usually in the form of superior production, product, marketing or management knowledge) that gives the company an advantage over those who do not have such an asset. Moreover, knowledge is a kind of public good, which is difficult to protect once the exploitation com-

mences. It is this nature of asset and the inability of the market to offer the proper price that causes the multinational to favour foreign direct investment instead of other contractual arrangements such as licensing or exporting. Bringing transactions under the control of the firm in international operations rather than market is what has become known as internalisation. It also assumes that when the market is internalised the collective efficiency of the firm as a group is increased. The direct coordination of the transaction leads to economies of scale, and more importantly, it helps reduce the costs associated with opportunism, bounded rationality, and uncertainty. This approach proposes that corporate internationalisation activities should be performed via direct investment if the international transaction cost of foreign direct investment is less than those of export licences.

However, some criticism could be attributed to the internalisation as it does not take into consideration country specific issues such as national cultures, the country's economic conditions, control policies and other external factors, which cannot be ignored when considering how and where to invest abroad. Internalisation theory underestimates the significance of the competitive characteristics of countries in influencing the strategic choice of firms involved in the international environment. Internalisation provides the wholly owned subsidiary as the only solution to the problem of imperfect international markets, while there are a number of other modes that firms can and do adapt to international markets such as licensing, management contracts, subcontracting and joint-ventures amongst others. It also ignores the cumulative nature of activities gained by a firm in relation to other firms within the industry or national markets. Large firms with long international experience have been found to "externalise" their activities without losing control of their crucial intangible assets.

Eclectic paradigm theory

The idea of formulating a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such investments was first presented in the works of Dunning in what has come to be known as the Eclectic Paradigm (Dunning 1977). Dunning (1977, 1981, 2000) states that monopolistic advantages (O) are necessary conditions if a company strives to internationalise- independent of the actual market entry mode. If the company sole advantage is the monopolistic advantages, it will probably base its corporate internationalisation on the contractual resource transfers. Exports are the preferred market entry mode if there have monopolistic and internalisation advantages (I). If additionally location advantages (L) exist,

the company will be inclined to choose direct investments in form of production. The Eclectic paradigm has contributed to making the internalisation theory operational by adding location factors, and thus assisting the assimilation of the theory of foreign direct investment into international economics.

The general nature of the paradigm makes it a very powerful tool for descriptive and classificatory analysis of foreign investment, but its general nature limits its predictive power to serve as an explanatory theory. The variables used to explain international involvement are very large with possible endless additions. Although the Eclectic theory is rich with more explanatory variables of international production, it takes no account of changes in the explanatory variables after the decision of foreign production has been made.

Transaction cost theory (TC)

With transaction cost theory (Williamson 1981; Hennart 1982), the emphasis shifted from why firms grow (by exploiting a monopolistic advantage in a foreign market or by bringing an imperfect market into the firm) to the choice of using spot markets (contracts) or hierarchy (firms) to organise activities in a foreign market. According to Hennart (1982), perspective, environmental uncertainty, unpredictability of the results to be obtained or difficulty to verify compliance with agreements would affect the choice of entry modes. The entry mode decision is seen as involving questions associated to risk, return, and control. A higher level of control implies higher resource commitment and thus higher risk. On the other hand, low-control modes can affect return, although they do not require the same resource commitment. Thus, firms have to balance control, risk and return issues when choosing an entry mode. In addition, integration (beside control, risk and return) should be considered in the entry mode decision (Anderson & Gatignon 1986). The transaction-costs theorists see uncertainty as a major determinant of the mode of entry. Two types of uncertainty are recognised: external uncertainty and internal uncertainty. External uncertainty is defined as the “*unpredictability of the entrant’s external environment*” (Anderson & Gatignon 1986, p. 7). This includes factors such as political and economic instability, currency fluctuation, and lack of adequate infrastructure or labour problems. The internal uncertainty, on the other hand is characterised by a lack of market related knowledge in a particular entry situation or “*the entrant’s inability to determine its agent’s performance by observing output measures*” (Anderson & Gatignon 1986, p. 7). In a seminal work, Anderson and Gatignon (1986) suggested that choice of entry mode in foreign markets was a “*frontier issue in international marketing*”. Although, since then the issue has been the object

of many studies, there are still many questions as to why companies choose one entry mode and not another. The question of why firm's own and control operation abroad has been analysed by a number of authors using the transaction cost approach (Buckley & Casson 1976; Rugman 1981; Teece 1981). Similarly, the question of why firms undertake investment in different countries has been treated as a question of minimising what could be termed, in a broad sense, production cost (Vernon 1966). The analysis in the following section is of the strategic management theories.

2.2 The strategic management approach

The attempt to link strategic issues to corporate internationalisation was first made in the pioneering work of Chandler (1962), Fayerweather (1969, 1978) and Perlmutter (1969). These authors provided the foundation of the strategic management perspective, albeit without incorporating the foreign direct investment theories. Chandler (1962) who probably was the first to draw attention to firm strategy and organisational design defined corporate internationalisation strategy as the determination of the basic long-term goals and the objective of an enterprise, the adoption of a course of action and the allocation of resources necessary for carrying out these goals. For Chandler (1962), internationalisation strategy was assumed to influence the organisation's structure. Perlmutter (1969) who was more concerned with the product, functional and location strategies of multinational firms identified three types of strategies; attitudes of multinational firms, that is, ethnocentric (home country-oriented), polycentric (host country-oriented) and geocentric (world-oriented). Although Perlmutter's work introduced the concept of a global environment as an important element in the decision of allocating a firm's resources across nations, his framework however, did not provide a meaningful analytical framework. His typology has been criticised as being purely phenomenological, and lacking a theoretical base. Fayerweather (1969, 1978) introduced the concept of global business strategy in corporate internationalisation by looking at the strategic issues facing a firm's involvement in many countries. On business strategy, he found that there are conflicting tendencies that arise from multinational firms that come from operating in different national environments where the multinational firm is pushed towards adapting to diverse operations so as to operate as a single firm. Those factors, such as economic, cultural and nationalistic differences between countries called for strategies that conform to local environments rather than global environments. The competitive advantage of a multinational firm is based on its technical competence, managerial know-how and produc-

tive facilities (for a thorough discussion see Fayerweather 1978).

Although Fayerweather (1969, 1978) and Perlmutter (1969) provided grounds for identifying the global firm environment and the tension between fragmentation and unity in international management, there has been increasing concern among researchers to draw attention to the strategic aspects of multinational enterprises. Among major contributions in that direction are the works of Bartlett and Ghoshal (1989), Prahalad and Doz (1987), Hedlund (1981, 1984, 1986), Hedlund and Kverneland (1983), Hedlund and Rolander (1990), Porter (1990), Yip et al. (1988) and Yip (1989) among others. However, these works focus mainly on the same idea raised by Fayerweather (1969, 1978), namely the analysis of *environmental pressure* facing the management of multinational enterprises.

Bartlett and Ghoshal (1989), for example, were more concerned about how different management systems of companies are affected by the tension of global integration and national responsiveness, while Hedlund (1986), raised issues on organisational learning in multinational enterprises, emphasizing the geographic diffusion of corporate internationalisation functions. Hedlund (1986) made substantial contributions to how multinational enterprises adapt to new markets. However, even if strategic management addresses strategic issues concerned with multinational operations, it lacks a sufficient powerful conceptual framework.

According to Doz and Prahalad (1991) most of the research in this area has been purely phenomenological and normative without having a proper theoretical basis. As Axinn and Matthyssens (2002) propose, it would be very useful to incorporate internationalisation of the management process of the MNE within the main stream of internationalisation process theories. This would strengthen the management process of MNE's explanatory as well as normative power. Since the above economic theories and strategic management literature were not attractive as a basis for constructing a framework for use in this study, the final analysis is of a more promising school of thought, especially for the expansion process into emerging markets: the behavioural approach.

2.3 Behavioural approaches

Given the aims and objectives of this thesis, as stated in section 1.2, it is obvious that the rationalistic approaches were not very attractive as building blocs for my conceptual framework. For that reason, the behavioural approach is more attractive than the economic theories. In this section, I present three behavioural approaches: the Decision-making process, Uppsala Internationalisation Model (UIM) and the Busi-

ness Network Approach to internationalisation.

The introduction of the behavioural theory of firms into business research by Cyert and March in 1963 was an important contribution towards a better understanding of the behaviour of the firm. Their theory known as the behavioural theory of the firm is identified by its three major relational concepts: problematic search, uncertainty avoidance, and organisational learning (Cyert & March 1963). The interest in this approach for this study lies in the two last concepts: the uncertainty avoidance and learning. These concepts have largely inspired the decision-making process model of Aharoni (1966) and the incremental models such as the Uppsala Internationalisation Model (e.g. Johanson & Weidersheim-Paul 1975; Johanson & Vahlne 1977, 1990, 1994; Luostarinen & Welch 1990; Ghoshal 1987). In addition, the behavioural theory concerning firms influenced the Business Network Approach (Johanson & Mattsson 1988, 1992) to some extent.

2.3.1 The managerial decision-making process

In 1966, Aharoni noted that

“There is a strong feeling that one should begin an investment program on a very small scale, learn from one’s experience and once expertise is gained there will be an increase in the size of operation” (Aharoni 1966, p. 57).

He further emphasizes that the decision to consider a foreign investment is normally reached through a fairly complicated and partly irrational process (Aharoni 1966, p. 57). He identified four exogenous triggers for foreign investments:

- An outside proposal that may originate from foreign governments, distributors of the company’s products and its clients or from another third person outside that business.
- Fear of loosing an export market
- “*The band wagon effect*” meaning that very successful operations abroad have been carried out by a competing firm in the same line of business, or the general belief that investment in some area is a “*must*”
- Strong competition from abroad in the home market

The third motive described by Aharoni (1966), i.e. the band - wagon effect, is obviously related to the “follow the leader” behaviour as described by Knickerbocker (1973, p. 25). Likewise, there is a connection between Aharoni’s fourth motive and the “*exchange-of-threat*” discussed by Graham (1974). It is interesting to note that Aharoni (1966) saw the decision to invest abroad as largely optional. Yet for many companies (such as Finnish firms), the very limited size of the home market

means that foreign expansion has become a “*must*” and not a matter of choice. Aharoni’s framework is concerned directly with the decision-making process and it does not stand as a basis for constructing my theoretical framework. In the next section, the Uppsala Internationalisation Model (UIM) is briefly explored.

2.3.2 The Uppsala Internationalisation Model (UIM)

Between the early and mid 1970s, mainly Scandinavian researchers such as Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977) drew our attention to the fact that the internationalisation of SMEs firms into foreign markets was a gradual process. Based on the initial article in 1975, Johanson and Vahlne in 1977 improved the model into what has come to be known as the Uppsala Internationalisation Model (UIM). There exist other interesting models related to the internationalisation process, such as the Innovation-diffusion models of Bilkey and Tesar (1977) and Czinkota (1982), but particular interest is paid in this work to the UIM. In the following figure three let me present the establishment chains and the basic mechanisms in the UIM.

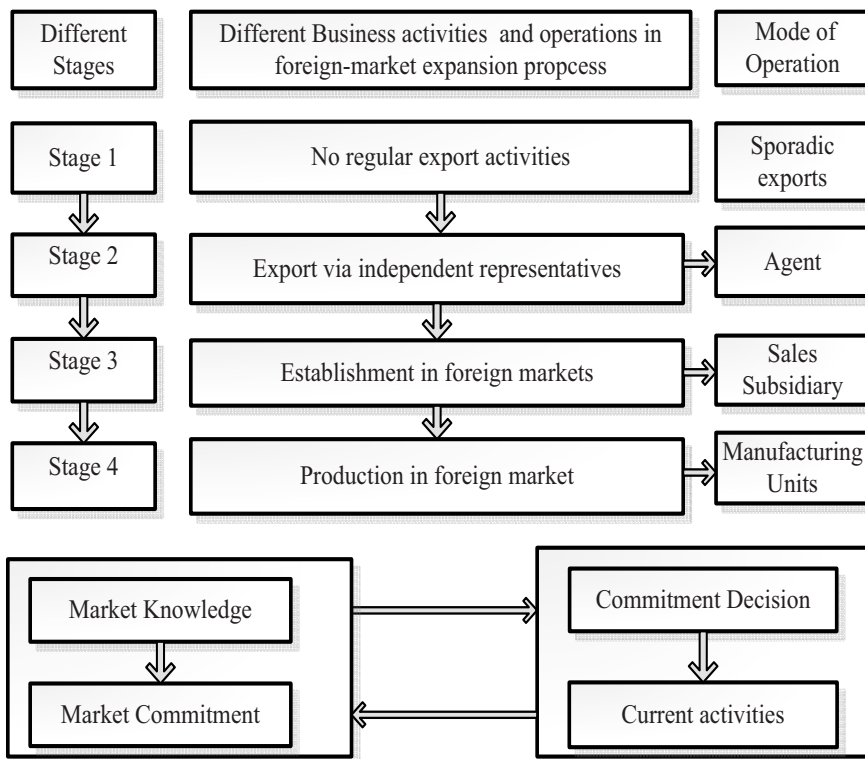


Figure 3: Establishment chains and basic mechanisms in the UIM
(Adapted from Johanson and Vahlne 1977, p. 12)

The reason for excluding the innovation-related models is that they are heavily based on the UIM and do not differ in any significant way. Furthermore, the emphasis on the innovation related process as an explanation of the expansion process might be mainly applicable to developed markets. Thus, I only present the UIM, which has many relevant points for this study. Johanson and Vahlne (1977, p. 11) stated that the purpose of the Uppsala model is “*to increase understanding of the development of international operations and to increase conceptualisation of internationalisation of the firm*”. The basic mechanisms in the UIM are shown in figure three above. Johanson and Vahlne (1977, 1990) posit that companies have a tendency to start expansion into countries with low psychic distance and later on to expand their operations towards countries with higher psychic distance. The UIM links that psychic distance to the market entry mode: export, sales subsidiary, manufacturing operations. According to Johanson and Vahlne (1977, 1990), a gradual increase in commitment will follow an increase in market knowledge.

According to Johanson and Vahlne (1977, 1990), the amount of resources committed includes, investment in marketing, organisation, personnel, financial resources, technologies, and so on. The Uppsala model proposes that the psychic distance which is, according to Johanson and Vahlne (1977, p. 12), “*a sum of factors preventing the flow of information from and to a market*” would influence the degree of commitment of resources. These factors could be, for example, differences in language, culture, political system and so on. When firms start the expansion process, they would choose a country, which has a shorter psychic distance to the home country. The description of gradual geographic expansion from the domestic market into a closer market and then into a culturally distant market is strongly inspired by Vernon’s Product Life Cycle (see Vernon 1966) and by Hörnell et al. (1973). Both have contributed to the psychic distance arguments by stating that establishments start in psychically closer markets and thereafter further away to psychically distant markets. The theoretical explanations for such a process, was that a lack of market knowledge is an important factor in international business. However, the concept of psychic distance, which was once one of the strongest constructs in the UIM, may also prove to be one of its current weaknesses (see Thomas & Araujo 1985; Turnbull 1987; Andersen 1993, 1997; Vincze 2004; Hadjikhani & Johanson 1996; Hadjikhani 1997; Nordström 1991). Prior to presenting my position and critical arguments (in section 2.4) which compelled me to develop my own conceptual framework (chapter 3), let me briefly present and discuss the business network approach, which also forms a cornerstone of the FME- process into emerging markets.

2.3.3 The Business Network Approach

According to the Industrial Marketing and Purchasing Group (IMP-Group), internationalisation is no longer solely influenced by the internal variables of the focal firm. It is also influenced by the firm's network relationships with external entities. Thus, FME takes place in a network setting, where different business actors are linked to each other through direct or indirect relationships (Johanson & Mattsson 1988, 1992, 1995; Håkansson & Snehota 2002). The degree of commitment to a market is not only determined by a firm's position in different business networks, but also by the degree of internationalisation of the market in focus. The business network approach considers entry into a foreign market because of interaction initiative by firms that are insiders in the network in the specific country, Johanson and Mattsson (1988, 1992, 1995) suggest that, during the internationalisation process, a firm establishes and develops positions in relation to counterparts in a foreign network by extension, penetration and integration. Each firm in the network is seen to have direct relationships with customers, competitors, distributors, suppliers etc. Each firm also has indirect relationships with suppliers' suppliers, customers' customers, competitors' competitors, and so on. Since firms are dependent upon each other in the networks in which they operate, the model assumes that this coordination occurs through the transactions forged by firms engaging in a series of bilateral exchange relationships (Johanson & Mattsson 1988, 1992).

These various actors from the network perspective possess resources and perform activities, which create exchange relationships amongst themselves. Exchange involves at least two parties, thereby implying some kind of mutuality i.e. both parties give to and receive from each other. An exchange relationship is manifested through several aspects, for example social business and information exchanges. Accordingly, firms base their decisions on a network strategy where the firm uses its business relationships to move to lucrative markets (Johanson & Mattsson 1988, 1992, 1995; Andersson & Forsgren 1995; Anderson & Narus 2004; Håkansson 1982; Håkansson & Johanson 1988, 1992, 1993; Håkansson & Snehota 1995; Ford 1990, 2002; Ford et al. 2003; Frazier 1983; Dwyer et al. 1987). Inter-firm relationships are viewed as multifaceted, long-term, and cooperative (Johanson & Mattsson 1988, 1992, 1995; Håkansson & Snehota 1995; Bridgewater 1999). From this perspective, it is argued that interaction in networks may also enhance the foreign market knowledge of the firm, which in turn determines the following commitment decision.

The business network and business relationship approach considers foreign market entry brought about by interaction initiatives by firms that are insiders in the network in the specific country. Johanson and

Mattsson (1988) suggest that, during the internationalisation process, a firm establishes and develops its position in relationship to counterparts in a foreign network by extension and integration. The position of a firm in the network determines the future development of the relationship and of its business operations. Equally important is the concept of connectedness. For instance, Törnroos (2003) posits that, through the firm's commitment to technological, market and financial ties with other market actors such as firms and departments of firms in the market or on the supply side, as well as financial institutions and legal actors; a firm gradually increases its interaction with these different actors. This approach clearly emphasises the role of a firm's relationship with other actors in the internationalisation process.

The business network approach does not really reject the psychic distance concept, and does not challenge the incremental nature of internationalisation as depicted in the following table 2.

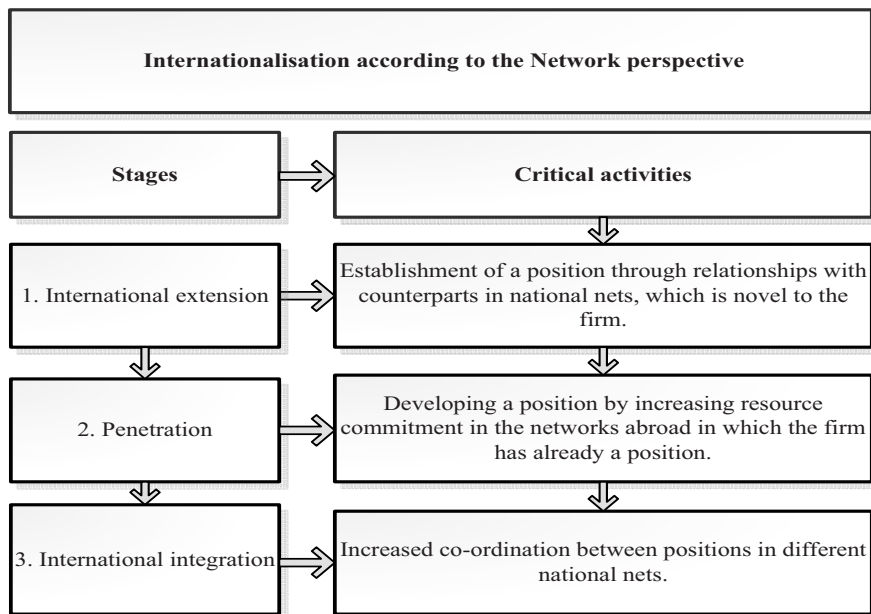


Table 2: Internationalisation process according to the business network perspective (Adapted from Johanson & Mattsson 1988)

Researchers putting forward a business network view on internationalisation and international growth discuss the advantages of relationships with other firms and other actors (see section 3.4). Changes within the expansion process are determined by the market position that firms create, possess and try to defend (Johanson & Mattsson 1988). Economic, technological and institutional factors all influence these changes.

The market position is defined by the role of the firm in the network, by its importance, and by the strength of its relationships with other firms (Johanson & Mattsson 1988). More specifically, market position could also be seen as determined by the place of the firm within the international value chain. Consequently, a firm may become an exporter in order to defend its position in the chain, based on the fact that its network contacts might even push it to operate on a foreign market. Johanson and Mattsson (1988) stress the importance of the network context in terms of factors considered influential in the social network in which companies are embedded (for a discussion on different dimensions of embeddedness, see Halinen & Törnroos 1998). These factors may influence the perception of barriers to foreign market involvement, business goals and the attitudes/or commitment towards FME as a business strategy for creating competitive advantage.

As posited by Johanson and Mattsson (1988), companies mutually increase knowledge through networking and in that way, trust develops between different actors. Over time, a trustful partnership increases competitive advantage, which in turn may help the company to extend its business towards new markets. Some loss of independence and revenue sharing is inherent in inter-firm cooperation, but it also enables firms to position themselves in a foreign market more quickly. The increased mutual knowledge and trust lead to greater commitment between the actors on the international market. This process may not be solely dependent behaviour of the focal firm (Håkansson & Johanson 1992; Håkansson & Snehota 1995).

According to Turnbull (1987), the business network approach to internationalisation proposes that interconnected exchange relationships evolve in a dynamic, less structured manner, and that they are the key drivers of international involvement. A particular process in business internationalisation, which is interesting for this study, is the business interaction. The characteristics of business purchases are that they involve at least two active parties interacting with each other (Ford 2002). According to Ford (1990), the basic assumptions of the interaction approach are the following:

- The buyer and seller are active participants in the market
- The relationship between the buyer and seller is frequently long-term, close and involves a complex pattern of interaction between and within each company
- The links between the buyer and seller often become institutionalised into a set of roles that each party expects the other to play.
- In the context of continuous raw material or supply of components, closer relationships are considered.

- In the case of infrequent previous product purchases, the emphasis is on mutual evaluation.

In order to argue for my position and for the reasons why none of the frameworks was attractive alone to act as a basis for the framework used for this study, in the next section 2.4, let me put forward my comments and critical reflections on the behavioural theory-based literature.

2.4 Reflections and challenges to the behavioural theory-based literature

Whereas we can applaud progress in internationalisation theories, there are still weaknesses that need to be addressed. Despite the acceptance generally accorded to these theories, it would be justified to point to some concerns about the behavioural theory-based literature. Due to the globalisation phenomena and to the increasing importance of emerging economies, it is imperative to revisit most of these behavioural theories. Critical examination of the earlier theories is essential and should be seen as an invitation to look beyond these theories in order to increase our understanding of the foreign-market expansion processes into emergent economies. Thus, the aim of this section is to challenge some of the key elements of the Nordic School that, in my opinion may not be appropriate or relevant in the rapidly globalizing business environment and particularly in the Southern African region. In this section, I also provide the key arguments which prompted the search for a combination of different views to increase understanding of the FME process into emerging markets. In doing this, I also aim to show the reasons why we would need a complex framework, such as REMNET, which is presented in chapter 3.

In terms of the behaviourally-based approaches, the following concerns arise. In its attempts to conceptualise the process of internationalisation, how does the Nordic School deal with complexity and variation? Has it really identified the core process of foreign market expansion in terms of emerging markets appropriately? In other words, are the uncertainty avoidance and the experiential knowledge creation acceptable as the core processes in foreign market expansion to emerging markets?

For instance, the UIM model describes internationalisation in a linear fashion and sometimes this description incorporates circular development like the concept of knowledge and commitment growth in the UIM (Cavusgil 1980; Johanson & Mattsson 1988; Turnbull 1987; Bell 1995; Hadjikhani & Johanson 1996; Vincze 2004). The UIM places too much emphasis on psychic distance and on experiential learning, while it places little emphasis on alternative modes of operations. I agree with

Vincze (2004, p. 67) “*in the spirit of these frameworks, one might see foreign-market expansion as a goal-maximizing and uncertainty minimizing process pursued by managers making rational decisions*”. This claim links the UIM, which otherwise belongs to the behavioural tradition, to the economic theories (rational theories). According to Madsen and Servais (1997), the UIM cannot describe the growing number of acquisitions around the world and Born Global firms. Forsgren (2002) has illustrated the growing number of acquisitions of foreign firms by a Swedish multinational without going through a “*stage-by-stage process*”. Thus, some firms have started to go abroad by directly setting up their production subsidiaries without following the stages described by the model. Madsen and Servais (1997) suggested a non-incremental or zig-zag pattern, where a firm would choose the most appropriate pattern according to the specific situation and according to its goals. There is also a growing number of high tech firms that expand their activities in foreign markets without going through a stage-by-stage development, as predicted in the UIM, for instance, Born Global firms may expand their activities more quickly into foreign markets (see Madsen & Servais 1997; Bell 1995; Coviello & Munro 1997).

The unique elements and continuing environmental influences (see section 3.2) make the FME process complex. In order to understand this complexity, we need a better understanding of the variations in how companies pursue FME. The process cannot be explained by elaborating only on a very few numbers of factors such as those in the UIM. For companies to embark on international operations, the primary drivers have to be opportunity seeking and risk taking (Vincze 2004). Concurrently, uncertainty avoidance should be considered as a second driver, especially for entrepreneurial firms (see also Mtigwe 2005). Companies try to win over their rivals and FME is one of their strategic growth processes. Admittedly, the FME growth process has economic objectives and companies will be ready to embark on it if they see economic justifications for doing so (see Williamson 1981; Hennart 1982). Instead of seeing this process being due to uncertainty avoidance as in the UIM, it would make more sense to see it with the more complex and continuing process of growth through efforts to develop competitive capabilities in order, in the longer-term, to be able to deal with rivals both at home and in foreign markets (see Knickerbocker 1973; Vincze 2004).

The UIM assumes that the *experiential knowledge* is seen not just as one of the internal factors, but is rather the key driving factor of the FME. Furthermore, the UIM states that the status of the international commitment grows with international experience over a long period of time. In addition, success in foreign markets encourages more success. As with failure early on, a company's international experience can

cancel or limit its further commitment to foreign markets (see Mtigwe 2005). However, in opposition to the experiential learning argument found in the UIM, we could also say that a company's choice of its expansion strategy for a given product/target country, is the net result of several often conflicting forces (see Vincze 2004; Mtigwe 2005). The variety of these forces, difficulties in measuring their strength, and the need to assume their direction over a future planning period are combined to make the expansion strategy decision a complex process, with numerous trade-offs among alternative strategies.

The UIM and the business network approaches seem to be satisfied with the concepts of experiential knowledge, psychic distance, organisational capacity and business relationships (see section 2.3.3) as key factors in explaining the FME. These different variables are connected to entry mode, market position, target market and sale objects (see Cazorra & Ramos 2002; Vincze 2004). In the network approach, for instance, market position influences foreign market entry, and depends on the business relationships (see section 3.4). Consequently, entry strategies are considered to be of the utmost importance when describing the process.

As is shown in the conceptual framework developed later in chapter 3, the combination of many determinants (see Cavusgil & Nevin 1981) has to be considered unique for each company, and these determinants change over time (see section 3.6). In addition, experiential knowledge creation cannot be considered to be a core process of FME into emerging markets because it actually undervalues the economic side, and furthermore, it does not really distinguish between internationalisation and other social processes (see Vincze 2004). In addition, the range of financial resources and the sophistication of financial techniques develop with international growth. Administrative and organisational demands inevitably increase with diversification, which means that a company needs to prepare for and respond to such increased demand and diversity (see Chandler 1962; Perlmutter 1969; Fayerweather 1978). Welch and Luostarinen (1988) argued that there are internal changes that are consequent upon the degree of internationalisation. Such changes may provide a basis for taking additional steps forward as in FME (Vincze 2004). Furthermore, Luostarinen and Welch (1990) appear to consider organizational capacities, which are internal elements (see section 3.1) more decisive than the psychic distance between the home and the target market (see also Mtigwe 2005).

As stated above, FME should be evaluated as a strategic growth process. According to Pettigrew (1997), a process can be understood if the context (internal and external) and the content are appropriately considered. In order to tackle the large variation in the FME process

into emerging markets, we need to consider a wider range of context and content-related issues in which the FME unfolds. Since the 1970s, there have been various attempts to present the extent and significance of several factors and forces affecting internationalisation (Bilkey 1978). These forces inevitably refer to the context, both internal and external and the content. In my opinion, there are several factors which have a direct effect on FME into emerging markets. Chapter three of this dissertation is devoted to the elaboration on these factors.

According to the UIM, barriers to information flow between the domestic and the host market constitute the main external determinants, and some of them have been conceptualised according to the psychic-distance factors as stated in section 2.3.2. Psychic distance is an aggregate concept and as such it aims at measuring the socio-cultural and economic distance between the domestic and the host market in question (see also Vincze 2004).

Looking closely into the concept of psychic distance, I believe the importance of psychic distance is overstated. The psychic distance does not really offer control of economic attractiveness (see also Vincze 2004). In line with globalisation, together with fast growing improvement in communication, transportation infrastructure and economic interdependencies, the concept of psychic distance is losing ground (see Julien et al. 1997). Furthermore, empirical evidence shows that companies increasingly move into more distant markets often before entering neighbouring markets. They may begin exporting before obtaining any domestic sales, e.g. the born global (Madsen & Servais 1997; Bell 1995). Even entrepreneurial firms from emerging markets such as the RSA may not choose to start their international operations in closer markets either. They try to export and to sell wherever the purchasing power is located. Thus, the most current export markets may be located far away in developed countries, and not necessarily psychically close (see Mtigwe 2005).

According to Hadjikhani and Johanson (2001), firms make timing decisions on their entry into foreign markets on the basis of their expectations of the future economic attractiveness of the foreign market. Thus, a comprehensive discussion of the psychic distance factor should include customer-prosperity measures, the size of economies, and the development level of the infrastructure and the concentration of the population (see chapter 3, section 3.2). Nevertheless, beyond economic attractiveness, entry into a particular country may be consolidated in a short period on the basis of a political decision to open up the country to foreign investment (as in the case of the RSA in the beginning of the 1990s).

Too much emphasis on psychic distance may lead to misinterpretation of what really happens in FME into emerging markets. The psychic

distance variable does not really include other important business factors such as industry structure and competitive elements, and function of the nature of the product. The competitive structure of the home market also affects the expansion strategy (see also Vincze 2004). As posited by Knickerbocker (1973), firms in oligopolistic industries tend to imitate the actions of rivals who threaten to upset competitive balance (see section 2.1.1). Accordingly, when one firm invests abroad, other firms frequently follow their rival's lead. Yet firms in oligopolistic market are unlikely to view a rival's exporting or licensing activities as a very serious competitive threat. In that perspective, oligopolistic reaction is based on increased commitment to foreign market. This may happen, for instance, in the form of FDI in production (Knickerbocker 1973). These factors may well override the importance of the aggregate elements of psychic distance (see 2.1.1).

The concept of psychic distance found in the UIM, does not fully consider the impacts of unpredictable moves made by customers and by competitors. As most emergent markets may be unpredictable, it is then safe to say that the psychic distance contradicts the real meaning of emergent markets. In reality psychic distance between foreign markets does not necessary lead to more costly operations (see Williamson 1981; Hennart 1982). In my opinion, focusing on a limited number of factors such as those used in the UIM, and then determining changes in the expansion process (such as changes in operation modes as predicted in the UIM), cannot fully explain the complex process of FME to emerging markets. The variation in how companies expand into foreign markets is not simply an anomaly in the established theoretical models (see also Vincze 2004).

Unlike the UIM, *the business network* goes beyond the firm's internal developments to include the firm's relationships with other actors in the expansion process. The firm's relationship with other actors are argued to be a key decisive factor in FME, this is specifically true according to the network approach (see section 2.3.3 and 3.4). Companies obtain resources from the environment (see section 3.2) and they do not exclusively use internal resources (Bell 1995, Coviello & Munro 1995; Ford et al. 2002). With an emerging economy in sight, the relationship element in the business network approach should be strongly emphasised. Evidence drawn from studies on the expansion process to Eastern Europe has shown that relationships with other actors play a considerable role in the expansion process. For instance, Blankenburg-Holm (1995), Salmi (1996), Nieminen and Törnroos (1997), Bridgewater (1999), Törnroos and Nieminen (1999), and Vincze (2004), found networking through business relationships to play a decisive role in entering former Eastern European and Baltic markets. In addition, Owusu (2002) found that the

Finnish and Swedish project marketers IVO International and Transelectric succeeded in their African projects through networking with local and foreign actors. As long as the business network incorporates customer, competitors and other market relationships, in the same line with Vincze (2004), I believe it gives more attention to the interdependence between a company's business operations and their business environment (see section 3.4).

However, relying solely on the business relationship approach to understand the FME-process into emerging markets may not be very attractive either. Certainly, the business network approach has made a major contribution to the internationalisation theory by providing a general framework for analysing behaviour of firms through the inclusion of variables, which are external to the firm. However, the business network approach has been criticised for failing to explain why firms belonging to such networks internationalise at all (for a critical view, see Bell 1995; Coviello & Munro 1997; Madsen & Servais 1997).

The fact that there are so many theories, which describe and explain almost the same phenomena differently, indicates some concerns. Bell (1995), Coviello and Munro (1997), and Madsen and Servais (1997), point to weaknesses in the explanatory and predictive capacity of these theories. The best way to study foreign-market expansion into emerging markets may require a re-conceptualisation together with a combination of earlier theories. Nevertheless, there is a lack of a general FME-framework, which could also take into consideration specific problems encountered by firms expanding their businesses activities into African markets.

However, integrating through convergence of the IB-literatures may not really be the best way to increase our understanding of the FME into emergent African economies. One could be tempted to believe that the convergence of the international business literature, for instance, with the strategic management literature would give a better understanding of the FME-process. I am not suggesting that the gains would be automatic. Firstly, these streams of research rely on different ontological and epistemological assumptions and they are conceived to describe and explain different problems. Nonetheless, there is a growing conviction that the strategic management stream of research could strengthen the internationalisation literature.

FME can be better understood from the teleological rather than the life-cycle perspective (see section 2.6). Each company pursues its FME process uniquely, and the process varies among companies. The process is complex and embedded in the company's overall growth strategy (see Vincze 2004). However weak the arguments might sound at this point, to draw heavily on these well established frameworks was not

attractive in this research project. My general belief was that they might hold the danger of withholding relevant evidence or understanding, and describing the relationship between concepts inadequately

Considering the background and the arguments above, I propose a cross fertilisation of the behaviourally-based models discussed earlier (in sections 2.3.2, 2.3.3) and I suggest looking outside the behavioural approach to find a strong integrator. One of the strongest concepts developed in the strategic management literature (see section 2.5) is the *resource and capabilities* within the Resource-Based View (see sections 2.5 and 3.1) with its roots in the theory of the growth of the firm (Penrose 1959, 1980; Barney 1991; Bartlett & Ghoshal 1991; Prahalad & Hamel 1990; Tallman 1991).

In this section, I introduced an extensive list of factors as comparisons to the explanations offered by the Nordic School. I show that the Nordic School ignores factors that should be included in increasing our understanding of FME into emerging markets. In addition, this section serves as introduction to the key arguments about why we need a complex conceptual framework such as the one developed in this study, for the purpose of increasing understanding of FME into emerging markets (see sections 3.7 and 8.6). The following discussion and analysis is based on the premise that foreign market expansion into emerging markets should be seen through “*teleological glasses*”, a process approach to organisation change by Van de Ven (1992) and Van de Ven and Poole (1995) (see section 2.6).

2.5 The Resource-Based View (RBV)

The Resource-Based View (RBV) originates in early economic models of imperfect competition. We could trace back the acknowledgement of potential importance of a firm’s specific resources in the work of Penrose (1959). Later on, these views were incorporated into organisation economics and organisation theory to build a foundation for firm growth and strategy (Cohen & Cyert 1965). The common themes in the RBV are firm heterogeneity, barriers to duplication, sustainable competitive advantage and Ricardian rents. Rather than emphasising market structures, these economists highlighted the firm’s heterogeneity and proposed that the unique *assets and capabilities* of the firm were important factors giving rise to imperfect competition and the attainment of economic rents (Penrose 1959). For example, Hall (1972) identified that some of the key capabilities of firms include technical know-how, reputation, brand awareness, the ability of managers to work together and particularly, patents and trademarks. Nelson (1996) and Zou and Cavusgil (1996) see resources as those tangible and intangible resources, which are under

the control of the firm's administrative organ (Zou & Cavusgil 1996). Following Daft (1983), Barney (1991) defined internal *organisational resources* as all assets, capabilities, organisational processes, business attributes, information, knowledge and so forth, controlled by a firm and enabling it to conceive of and implement strategies which improve its efficiency and effectiveness. It is possible to classify *resources* as financial resources, capital resources, physical resources, human resources, technological resources, reputation, and international experience (Padmanabhan & Cho 1999). Barney (1991) further classifies the numerous possible internal organisational resources into three categories: physical capital, human capital and organisation capital. All these resources are not strategically relevant and are not all equally important (Black & Boal 1994). As Barney (1986) points out, some resources may prevent a business from conceiving of and implementing valuable strategies, others may lead to strategies, which reduce its performance, and yet others may have no effect on a firm's strategic choice. The most critical resources are those, which are superior in use, hard to imitate, difficult to provide a substitute for, and more valuable within the business than outside (Porter 1991, quoted in Zou & Cavusgil 1996). Porter (1991) emphasises that such resources can arise either from performing activities over time, which creates internal skills and routines or from acquiring them outside the firm. The firm's knowledge base increases with repeated experiences and becomes embodied in personal and organisational memory (Penrose 1959; Johanson & Vahlne 1977, 1990). Thus, the international experience of the firm is an important source of competitive advantage in FME into emerging markets (Padmanabhan & Cho 1999).

Furthermore, Penrose (1959) conceptualised the firm as a pool of productive resources organised within an administrative framework. According to her, these productive resources are imperfectly divisible in as much as the firm has incentives to expand and enhance the productivity of its resources (Penrose 1959). Depending on the nature of the under-utilised resources and demand conditions, the expansion or growth of a firm arises either from the greater output of existing resources or through diversification. The growth of the firm is only constrained by an environment that is the same as its available productive opportunities (Penrose 1959, p. 20). In the much-cited work on the theory of the growth of the firm, she notes that:

"A firm is more than an administrative unit; it is also a collective of productive resources the disposal of which between different users and over time is determined by administrative decision. When we regard the function of private business firm from this point of view, the size of the firm is best gauged by some measure of the productive resources it employs" (Penrose 1959, p. 24)

The above quotation highlights some important dimensions of the RBV that have occupied the minds of both theorists and managers alike. Firstly, theorists have been concerned with the question regarding the role of managers in the development and deployment of resources (Barney 1986, 1991). Secondly, they have also been preoccupied with the problem related to the relationship between resources and the scope of the firm (Prahalad & Hamel 1990). Penrose's work was the first to provide deep insights into the nature and the role of resources in the firm. For example, she distinguishes resources from services. She argues that it is not the resources themselves, i.e. inputs into the production process, that are important, but rather that it is the services that these resources can render to a firm which are important (see Barney 1991). Penrose (1959) sees this distinction as the resource of uniqueness of each individual firm and it is a distinction that has many parallels with the separation of resources and capabilities as described in the strategic management literature (for instance Hill et al. 1990). Similarly, Penrose (1959, p. 26) argues that:

“Internal resource configurations both facilitate and constrain the direction of expansion of the firm and contrasts this with the prevailing external inducements to expand such as growing demand and change in technology, etc”

She argues that a firm's previously acquired or inherited resources and those it must obtain from the market in order to carry out its production and expansion programmes have a profound influence on its expansion process. Nelson and Winter (1982) and Nelson (1997), argue that strategy, structure and core capabilities define the firm. The significance of the RBV to strategic management literature comes from the attention it pays to the internal resources of the firm and how these firms acquire these resources and how it develops them. The underlying theoretical approach here is to see the firm not through its activities in the product market, but as a unique bundle of tangible and intangible resources (Wernerfelt 1984). In the RBV, firms base their competitiveness on strategies rather than on collective action (Tallman 1991; Grant 1991; Peng 2001).

Early models of strategic decision-making usually proposed a rational process of setting objectives, followed by an internal appraisal of capabilities, an external appraisal of outside opportunities leading to the decision to expand or diversify based on the level of correspondence between existing products/capabilities and investments prospects (Ansoff 1965). Strategic management is essentially concerned with the ways in which a manager acts to achieve long-term objectives in the event of market failure. According to Andrews (1971), the 1970s was marked by a shift in research to include four interrelated elements:

- Company strengths and weaknesses
- Industry, economic and technical opportunities and threats
- Personal values of key implementers and
- Broader societal expectations

In the RBV, heterogeneity is a source of competitive advantage. Resource heterogeneity, arising from imperfection in strategic factor markets, grants firms with superior resources and capabilities earnings in the form of rents (Grant 1991). It is the heterogeneity of the productive service available or potentially available from its resources, which gives each firm its unique character (Penrose 1980). Consequently, a firm's distinctive competence and superior organisation routines in one or more of the firm's value-chain functions are important sources of heterogeneity, which enable a firm to generate rents from a resource advantage (Penrose 1980). On the issue of exchanges between the firm and its environment, the RBV places primary emphasis on economic as opposed to social or political exchanges (Araujo et al. 1998). Furthermore, it emphasises rationality and views organisational actors as rational beings, assessing choices and making decisions that maximise their own interests. This position may be dangerous and consequently one weakness in this RBV-framework as there is a limit to rationality. For instance, Penrose (1959) notes that what is important is the inherent characteristics of individuals and the relationships between these individuals, while Nelson (1996, 1997) argues that it is nonsense to presume that a firm can calculate an actual best strategy. In support of Nelson (1996, 1997), decision-makers have their own histories and characteristics, which may influence the decisions they make. Nevertheless, despite the apparent weakness in the RBV, the potential benefits of applying some of its concepts. Especially in the analysis of the foreign-market expansion process into emerging markets could strengthen the behavioural approach. In the next section, based on Van de Ven (1992) and Van de Ven and Poole (1995), I identify which kind of process model of organisation change to apply to the FME-process into emergent economies.

2.6 The model of organisational change underlying FME into emerging markets

Thus far, the study has discussed the behavioural models (in section 2.3.2 and 2.3.2) and the RBV (in section 2.5) and has found that the literature emphasises richness and disparity (section 2.4). This disparity offers opportunity for at least partial integration of some of these views (Halinen & Törnroos 1998; Cazurra & Ramos 2002). Transformation of business activities from home to foreign markets requires a set of proc-

esses, which lead to changes in the corporate organisation (Beer 1980; Van de Ven 1992; Van de Ven & Poole 1995). Van de Ven (1992) and Van de Ven and Poole (1995) discuss four processes of organisational change: dialectic, life cycle, evolutionary and teleological processes. In the following, these four process theories of organisational change are briefly presented, with the aim of identifying which one of the four could best increase our understanding of the FME into emerging markets.

Dialectic process theory

Dialectic process theory assumes some contradictions between entities. As the firm starts to explore the possibilities of becoming heavily involved in a given foreign market, there is a *conflict* between domestic-oriented decision-makers and the demand for an increase in the foreign market (Perlmutter 1969). Over time, the firm may revise its expectations regarding a particular market and actively seeks to commit more resources (Johanson & Vahlne 1977, 1990). Thus, the battle between domestic (about decisions to expand to well-known markets) and foreign markets (unknown new markets) in the minds of the decision-makers results in a *transformation of attitudes*. That is, the conflict between the existing *thesis* of decision-makers focused on domestic and other well-known markets and the *antithesis* of the demands of new markets would be solved in the *synthesis* of a decision to expand the firm's activities into these new markets (Van de Ven & Poole 1995). The dialectical process theory is an interesting process theory, especially in the case of a decision to expand business operations into developing and emerging markets (uncertain markets). Different managers (decision-makers) and different units may have opposing views, values, and power regarding how to allocate resources, but they still have a common goal, and despite the differences, they begin to work together (synthesis) to achieve that goal.

The life-cycle process theory

The life-cycle process theory (transformation of the location of an industry via product-life cycles) assumes that the change is imminent; i.e. there is an underlying and pre-programmed unfolding of changes in a unitary, cumulative sequence. In this view, a path is forecast which depicts the trajectory until the end state. It assumes invariance between and within all organisational units to follow prescribed order of development phases, one subsequent to the next. Planning drives these step-wise models and therefore allows fewer opportunities for spontaneity (Vincze 2004). We find this kind of process in the Uppsala Internationalisation Model that was discussed earlier in section 2.3.2. However, the linear sequential model of development is typically inadequate to deal

with complexities (Van de Ven 1992; Van de Ven & Poole 1995). We find such complexities in emerging economies, where the host environment exerts a lot of pressure on the expansion process and on the growth of business operations (see Nieminen 1994).

The evolutionary change process

The evolutionary change process assumes that change proceeds in a continuous process as a recurrent cumulative and probabilistic progression of variation, selection, and retention leading to the transformation of the structure of the firm (Van de Ven 1992; Aldrich 1979). The process creates a variety of new forms, which might emerge by random chance. Selection occurs through natural competition in which the best forms suitable for the respective environment continue to evolve. Retention on the other hand stabilises the change process with forces that oppose changes (Van de Ven 1992). Stopford and Wells (1972) and Bartlett and Ghoshal (1989) produce some examples of evolutionary structure models. These models follow an evolutionary process model of organisational change, with some dialectical notions of transformation. They attempt to account for the transformation of the organisational structure of the MNE as the international operations of the firm increase in importance, moving from an international division to a product or area structure (Stopford & Wells 1972). Later studies have analysed the evolution of the structure in connection with the objectives of the firm (Nelson & Winter 1982) with change as one of the phases reflecting dialectal conflicts between the current organisation of the activities and emerging pressures. They are not direct explanations of the foreign-market expansion process of the firm, rather they account for transformation of the structure as the expansion occurs (Cazurra & Ramos 2002).

Teleological process - Transformation of firm's activities via strategy

According to the teleological conception, the development of the entity of the organisation proceeds towards a goal or an end state (Van de Ven & Poole 1995). This developing entity socially constructs an envisioned end state and selects from alternative courses of action to reach the objective (Van de Ven 1992). Purposeful cooperation is the basic idea behind the teleological theory where the goal formulation, implementation, evaluation, and modification of the goals are based on what was learned and repeated. In addition, the developing entity is purposeful and adaptive, by itself or in interaction with others (Van de Ven 1992). This view allows the participants to be more innovative and free to choose their goals, as well as their means to achieve them. This approach enables the more explorative ideas for developing entities to search for their future strategy. However, there are also risks and dangers, as the expanding entity may not control its processes in

the envisioned manner (Van de Ven 1992). This situation may transpire especially with non-intentional occurrences (such as events) and other external factors that may affect the adaptation process. The teleological view does not specify or presume any necessary sequence of events and it does not need assumptions about historical necessity. Nevertheless, it implies a standard for judging the change, i.e. the development is something that moves the entity towards a certain goal.

Teleology emphasises the purpose of the actor or unit as the motor of change; it also recognises the limits of action. For instance, in teleology, both internal and external environments and available resources and capabilities may constrain the actor's possibilities, strategies, and actions. Consequently, the FME process could take place in several possible ways. Accordingly, there are no predetermined stages that must be followed such as those predicted in the incremental models. Rather, a set of possible paths between which firms choose, based on their aspirations, to create value by using and by creating resources and by using their own capabilities (Habiyakare & Törnroos 2007). Firms then take into consideration their existing resources and capabilities and consider the possibility of acquiring other necessary resources from their home and from foreign markets (environments). According to Van de Ven (1992) this process allows for the transformation of the firm as the business context (environment) changes, not assuming a necessary sequence of stages but rather a set of standards and objectives by which to evaluate the actions and modify them accordingly. The conclusion here is in accordance with Cazorra and Ramos (2002) and with Vincze (2004), that foreign-market expansion into emerging economies, such as the Republic of South Africa, could be better understood using a teleological process view of organisational change. In terms of a teleological process perspective, the desired end of foreign market expansion is growth or survival, while using and acquiring resources and creating capabilities in the foreign market. The objective is not only to create value for the firm and for others involved, but also to drive the whole FME- process into emerging economies. The motivation, methods, and mode of operations to achieve this objective are evaluated in terms of their ability to lead to the achievement of that ultimate goal. Thus, what requires a clearer understanding is how to choose the path from the several possible routes to achieve the desired end. Therefore, there is a need to know more about processes, forces and mechanisms of foreign-market expansion, especially in emerging and developing markets (Van de Ven 1992; Van de Ven & Poole 1995; Cazorra & Ramos 2002; Vincze 2004). In the next chapter, let me present the conceptual framework used for the study.

3 FME TO EMERGING MARKETS: A CONCEPTUAL FRAMEWORK

Dunning (1993) admitted that the full incorporation of strategic variables into a general theory of internationalisation of MNE activities has yet to be accomplished. That framework, if it existed, could serve as a bridge for a more dynamic foreign-market expansion theory taking into consideration the realities of developing and emerging markets. This study suggests the integration of the UIM and the business networks using the RBV and its underlying teleological process as integrator (see section 2.5 and 2.6). To fill the gaps in the behavioural approach as mentioned in section (2.4), this study proposes a multidimensional integration based on six interrelated dimensions. These six dimensions form the REMNET framework of FME to emerging markets. In the following each dimension is presented and discussed and the main theoretical links are clarified with a hope of increasing understanding of the FME-process into emerging markets such as the Republic of South Africa.

3.1 Resource and capabilities and reasons for expansion: the R-factors

The point of departure for any expansion programme would first consist of the basic decisions related to the planning and the strategic choices concerning the resource identification, resource development and resource deployment. This process requires a sequence of decisions about motivation, methods and modes. From this perspective, the FME into emerging markets is expressed in terms of the preferences of the key decision-makers. Explanations of these preferences focus on the decision-makers' search for and evaluation of information. It emphasises that in the real world decision-makers make choices based on limited and uncertain information (Cyert & March 1963; Aharoni 1966; Dicken 1998; Hayter 1998). Thus, the decision-makers are characterised as "*satisfiers*" to reflect the reality of decision-makers who have limited information and limited ("bounded") rationality (Hayter 1998). The decision-makers seek to make choices, including location choices, which at least meet the aspiration levels (and which are hopefully economically viable) of the decision makers. In order to make these choices, decision-makers collect; code and evaluate information, and at the same time, they learn. Managers and firms are information processors; the environments of the firm, or the wider economy, comprise information spaces; and the key interaction between firms and envi-

ronments takes the form of information flows (see for instance Dicken 1998). Moreover, since in the real world, learning cannot be perfect and because decisions commit firms to the future, which cannot be known precisely, decision-makers try to cope with uncertainty (Johanson & Vahlne 1977, 1990). According to Hayter (1998, p. 143) “*uncertainty means that investments can fail before they generate a return or earn a profit or pay back the investment*”.

However, true uncertainty is temporal (may vary with time) and may result from the fact that decisions to commit resources at one point in time must make assumptions about the external business environmental conditions such as the socio-economic and political environment (for En-factors, see section 3.2), which will happen at a future point in time³. Here, it is necessary to bear in mind that several years may elapse between the time when a decision to go ahead with an expansion is made and the time when the actual expansion takes place. There may be changes in technology, institutions, policies, and regional stability. These factors may threaten the viability of the expansion as it starts. As a result, expanding firms may incur significant costs that are certain, while potential revenues wait in an uncertain future (Hennart 1982). To be able to identify and to design foreign market expansion strategies and to react to uncertainty, expanding firms must possess resources and capabilities i.e. the R-factors

According to Penrose (1959), a firm’s distinctive competence is based on the specialised resources, assets and skills it possesses, and focuses attention on their best utilisation to build competitive advantage and economic wealth. These tangible and intangible resources, which are under the control of the firm’s administrative organ, are what are referred to here as firm resources (Cavusgil & Nevin 1981). Firm’s resources are classified into two main categories: firm resources and firm’s capabilities (Penrose 1959, 1980; Grant 1991). According to Grant (1991), firm resources consist of tangible and intangible resources that may be traded. These could be financial resources, capital resources, physical resources, human resources, and skills of individual employees, technological resources like manufacturing systems, marketing systems, finance, patents, brand name, reputation and the international experience etc. The international experience and knowledge of the firm can be considered as an important source of competitive advantage (Padmanabhan & Cho 1999).

The firm’s knowledge base increases with repeated experiences and becomes embodied in personal and organisational memory (Penrose 1959; Johanson & Vahlne 1977, 1990). As we saw earlier, Johanson and Vahlne (1977) posit that uncertainty in international markets is reduced

3 For the discussion on time and temporality, see section 3.6

only through actual operations in these markets and not through acquisition of “*objective information*”. From this perspective the UIM solve the problem of expanding business operations to uncertain markets through acquisition and development of the knowledge needed to deal with such uncertainty. Davidson (1983, p. 453) supports this contention by concluding:

“Direct experience and not market search activities now provides the principal inputs in market selection decisions”

For instance, prior experience with a particular type of business environment of the host country will allow the firm to “*learn*” from its experience and the learning will become very valuable when dealing with similar circumstances (Johanson & Vahlne 1977, 1990). Consequently, an expanding firm will prefer to use the same strategies as before, because they enhance the firm’s value by reducing implementation costs in the foreign country, since the existing routines can be used (Penrose 1959, 1980; Grant 1991). Thus, highly experienced firms will be motivated to undertake market-seeking expansion projects by the advantages associated with staying close to customers in a foreign market and thus protecting their own advantage from deteriorating. Chang (1995) supports this argument as well. He suggested that the more internationally experienced firms face less *local knowledge disadvantages*. This view was supported in the case of FME through FDI, especially in Eastern Europe and Russia. Firms with experience and market knowledge tend to invest directly in Russia, Eastern markets (Borsos-Torstila 1999; Hirvensalo 1996; Törnroos & Nieminen 1999; Törnroos 2002) and Asian markets (Tahir 2003).

From this perspective, the size of the firm may play a decisive role in developing capabilities, and acquiring and using resources. There is a positive relationship between the propensity to expand business operations into foreign markets (for example through committing more resources in the form of FDI) and the size and experience of the firm. Such findings have been confirmed for instance by Caves (1971). Firms also need resources such as financial resources. They need them in order to absorb the costs and risk associated with heavy involvement in psychically distant (unfamiliar) markets, such as emerging markets in Africa. Based on their resources and capabilities, their size combined with the strategic drivers to expand to a certain market (see Cavusgil 1984), some firms (especially SMEs) may take a cautious approach to foreign-market expansion (Johanson & Vahlne 1977, 1990). Other firms may choose other approaches.

It would be then safe to assume that the size and the existence of other internal resources of the expanding firm are likely to influence the perceived risk of any project to be taken in a psychically distant

market. Consequently, one might expect that the readiness to engage in culturally distant foreign markets, which may be associated with a higher risk, is dependent on the availability of internal resources and capabilities (Benito 1995). In addition, research and development is also an important factor associated with the size of the firm. In emerging economies, the lack of local expertise in R&D may compel the foreign firm to do R&D at home or in another developed country (Vernon 1966). However, depending on the kind of product, a firm may perform some parts of their R&D in the local market to ensure the adaptability of the product in the local conditions. For the moment, let us turn our analysis to the next dimension; the business environment context (the En-factors).

3.2 External environment and FME: the En-factors

In this section the study discusses the second dimension of FME which is the external business environment or the context in which the business operations take place. In the framework presented in figure 4, the external business environment is presented as the En-factors. According to Larimo (1989), the host country's environmental conditions refer to resources available in the host country and the costs involved in obtaining such resources. Expanding corporations are expected to operate in different socio-political contexts (Rosenzweig & Singh 1991) and they must take decisions about where to expand business operations (Bass et al. 1977). Selection of the target country and selection of the mode of operations depend on several factors. One of the initial reasons for the expansion are the characteristics of the country in terms of the institutional and competitive environments (Arrow 1975; Aldrich 1979; Aldrich & Pfeffer 1976; Kravis & Lipsey 1982, 1983), which may influence the ability of the expanding firm to achieve its ultimate goal (Nelson 1997). The host context may assist or constrain the expanding firm in gaining access into the necessary network⁴ and using or obtaining resources needed for a viable expansion programme (see Davidson 1980). Since the focus is on the influences of the host market's socio political environment on the FME process, in the following, the study presents the key characteristics of developing and emerging markets with regard to increasing our understanding of the foreign market expansion process.

There are several factors influencing the FME into developing and emerging markets (see Torrisi 1985; Lecraw 1991; Brewer 1991, 1993). A host country's business context includes the size of the market/or growth as indicated by the GDP or growth rates. The business context

⁴ See discussion on networks in FME in sections 2.3.3 and 3.4.

is composed of several factors, which refer to the cost and quantity of the available production factor inputs, such as labour, land capital, technological resources, as well as infrastructure. They indicate the stock of tangible as well as intangible resources available in a given business context (Grant 1991). Target production factors determine the kind of resources the expanding firm can acquire from that particular context. In addition to the standard trilogy of land (natural resources) labour, and capital, two other elements are particularly relevant for FME into emergent economies: infrastructure and technology. Based on the discussion by Hayter (1998), the following factors are of extreme importance in choosing the country and the kinds of expansion programmes to be developed:

- Market Size of host country (Agodo 1978; Aharoni 1966; Kravis & Lipsey 1982; Petrochilos 1989)
- Population Size of the host country (Agodo 1978)
- Socio-political and institutional factors situation (Aharoni 1966; Mäkelä & Larimo 1996; Halinen & Törnroos 1998; Hadjikhani & Sharma 1999)
- Tax and incentive policy (Bass et al. 1977)
- Cultural differences and similarities (Kogut & Singh 1988; Johanson & Vahlne 1977, 1990; Luostarinen 1979)
- Host country infrastructure (Agodo 1978)

According to Mäkelä and Larimo (1996), most of the developing and emerging markets tend to rely more heavily on *natural resources* than developed countries. The performance of the primary sector, which is highly dependent on commodity prices in international trade, has profound effects on the state of the national economy. As to *the ability of labour*, there is generally a scarcity of skilled workers and an abundance of unskilled labour. Particularly in the developing countries, a *low-cost work force* creates one of the largest benefits of these countries. As regards financial issues, in most developing countries, private and public domestic capital is very scarce e.g. low income and savings, skewed income distribution, weak financial institutions, high inflation, and capital flight (ibid).

For many developing countries, the lack of foreign exchange is especially critical, severely affecting their external purchasing power. Most developing countries are also characterised by a deficient physical and informational infrastructure. Modern facilities are often lacking as well as the basic infrastructure elements, including transportation, postal services, telecommunications, and electrical utilities. Obtaining reliable information on different aspects of the developing countries environment may prove to be difficult, due to the inadequate information gathering and disseminating infrastructure. Regarding technological

aspects, there are three points that stand out: in most of these countries, the technological level is lower than advanced economies; technological development is concentrated in larger enterprises and in certain segments of the economy, and technological sources are mostly foreign (Austin 1990, quoted in Mäkelä & Larimo 1996). Several developing and emergent market economies also suffer from a brain drain, i.e. the migration of the most educated people to developed countries. For a country like the Republic of South Africa, the aspects of being both a developing and an emerging market are present.

The host country's political conditions refer to the institutional stability, the political ideology of the ruling party, the political organisation, and the legal system (Bennett & Green 1972). Apart from positive changes, there may be political risks, which refer to unexpected changes in the host institutions policies that affect the profitability of the established unit (Young 1989). Thus, it is the possibility that political decisions, events or conditions in a country including those that might be referred to as social, will affect the business operation context negatively. This may then lead to the fact that actors may loose from their business activities (investment) or will have a reduced profit margin. In addition, several features regarding the political and legal context may be identified that distinguish most of the emerging markets and the developed countries. One of these differences is the political instability. The history of a large number of emerging markets has been characterised by frequent conflicts and radical changes in the political system and legislation. Political instability has been realised e.g. in the form of the nationalisation of industries and firms, sudden restrictions on the repatriation of capital and even threats to property and life (the examples of Zimbabwe in the 2000s and Uganda in the 1970s are telling from this perspective).

Other features of the *political and legal context* are the *weak and unstable political institutions* that may influence the expansion of foreign firms through e.g. inefficient, slow, and costly institutional services, extreme centralisation and arbitrariness in decision-making and pressure to bribe in order to elicit approvals or any action from the bureaucracy. In addition, it is possible to see the heavy involvement of the local institutions in the economy as a distinguishing feature between most developing countries, emergent economies, and developed countries. The significant role of the institutions often requires maintaining a close relationship between foreign firms and local institutional authorities (see section 3.4). International links are also important aspects in the socio-political environment. For example, colonial ties continue to have an impact in terms of economic flows and business practices (Mäkelä & Larimo 1996).

Political risk exists for both domestic firms and foreign-based firms, and many of the techniques for the assessment of the risks are the same for both (Simon 1984). For instance, revolutions, civil wars, and other types of internal unrest such as nation-wide strikes, work slowdowns and boycotts symbolise internal, public-initiated macro risks, while restrictions in the repatriation of capital and earnings are example of internal, institution-initiated macro risks. Companies perceive and respond differently to risks occurring in their business environment. In many cases, risk also implies business opportunities. Thus, high risk might mean high gain. For instance, foreign firms may use these risks as a prejudice for negotiating more beneficial terms with the local actors (government or private actors), from this perspective, the risk may confer a kind of bargaining factor to the advantage of the expanding firm. In extreme cases, risk may play a very negative role and the expanding firm may have to register business losses or to withdraw from operating in that host market.

Simon (1984) distinguished between macro and micro political risks. Macro risks arise from policies directed to all enterprises in the host country. If the political risk is perceived as extensive, foreign expanding firms would be inclined to limit the amount of financial and human resources committed to the operations, and consequently it would prefer a low involvement operation mode, such as traditional exports. On the other hand, if the political risk were moderate in scope, expanding firms would be more willing to commit a substantial amount of resources to the operation by choosing a high-involvement operation mode, implying increasing market commitment. In order to assess the scope of political risks in the country concerned, Simon (1984) proposes consideration of the following factors:

- The degree of political stability and the probability of nationalisation
- The attitude towards foreign investors and foreign-based corporations
- Restrictions on capital movements and on foreign ownership
- The scope of government intervention in the national economy and in the private business activities
- The likelihood that there will be internal conflict in the host market
- Corruption in the host country
- The level of bureaucracy in the host public institutions

Usually, larger firms (with multinational production strategies), are less exposed to political risks as they have multiple production units and serve multiple geographic countries. In such circumstances, firms may circumvent unexpected political events by shifting production among

production sites. In addition, they may capitalise upon political events in order to generate additional advantages. Countries such as Peru and Bolivia may serve as examples of countries, which have gone through political changes that have affected the perception of increased commitment towards these countries.

In addition to perceived political risk, the *legislation* of the country may restrict the use of some expansion modes. For example, countries suffering from a major balance of payment problems may exert substantial restraint on foreign exporters through import controls. In these countries, all imports or imports of particular products may be controlled through mechanisms such as tariffs, voluntary restraint agreements, or quota systems (Czinkota & Ronkainen 1998). In the 1980s and earlier, a large number of developing countries heavily restricted the volume of imports. Therefore, they introduced import-substituting policies, aimed at promoting the development of indigenous industry. Since the late 1980s, several countries have increasingly opened their economies to free trade and abolished, or lowered import barriers. According to Larimo and Mäkelä (1995) in the case of developing countries, the *legislative framework* may also include bilateral investment protection agreements, made between two countries with the purpose of limiting the scope of political risk. The agreement protects investments made by firms from other countries against nationalisation. Expropriation of assets is possible only if compelling national interests so demand and in such cases the government pays full compensation to the investor. The ensuring of the free movement of capital is also a common element in investment protection agreements; governments give companies the right to transfer their profits in convertible currency from the investment country. *Political factors* represent a constraint unless the institutions of the host country request the institutions of origin to encourage the firm to direct their higher commitment investments towards the host country. Many firms may have to abandon their operations due to political conflicts with institutions of the host country.

Expanding firms face a host competitive context refers to the number and nature of competitors selling similar or related products in the target market. This context determines the profit earning potential of the expanding firm in that market. If the competition in the target market is weak, the expanding firm has greater possibilities for earning higher profits by employing its resource superiority over local competitors and thereby, earning above-normal returns. *Host market inflation rate* plays an important role. Inflation is the persistent and appreciable rise in the general level of prices (Beamish et al. 2000). The inflation rate of any country can substantially influence the relative prices between the finished goods of foreign and domestic firms and the relative prices

between inputs of goods and the final goals within firms. Inflation rates can influence the profitability of a particular market of a product, as well as open up opportunities for new markets and /or new products. Related to this is the exchange rate fluctuation, which refers to the sensitivity of a firm's value to fluctuations in foreign exchange rates. Inflation is a risk factor, which may be influenced by monetary policies of the host country. However, Wallace (1990) reported that subjects of the survey judged the exchange rate fluctuations are negligible in market entry decisions. Beamish et al. (2000) found that devaluation had a positive effect on FDI in developed countries but no effect in developing countries.

Customers' requirements, market size and market growth potential as well as demand uncertainty, the purchasing power and the level of industrial development of the target market determine the demand conditions. Demand conditions are very important for the expanding firm's formulation of operation strategies. They determine to what extent the firm allocates its resources to meet demand. Lower demand may lead to less capacity utilisation, which means less return on invested resources. Wells (1977) points out that the demand in the host country is not believed to be the only major consideration but also the per capita GNP may affect the expansion process through its interaction with infrastructure development. He stated that a good infrastructure is necessary to attract export-oriented investment (Wells 1977). Rolfe and White (1992) also concluded that the infrastructure quality is very important in the attractiveness of a country for inward expansion. Larimo and Mäkelä (1995) identified six main factors that influence the expansion process into emergent and developing countries:

- Demand, technology and competition situation in the host market,
- Stage of product in the life-cycle and the location of the main market,
- Attempt to safeguard market shares and competitive position in the main markets,
- Factor endowment and factor proportion between different countries and markets
- Institutional factors such as incentives for investment
- Other measures related to investments, physical, cultural and economic distances between home countries and the host countries of the expanding firms.

A number of authors, including Mäkelä and Larimo (1996), Halinen and Törnroos (1998), Welch and Wilkinson (2004), Brewer (1993) and Hadjikhani and Sharma (1999), have indicated that the characteristics of the political and legal context have a profound impact on the scope

and nature of business activities and business networks (see 3.4). As can be seen in figure four, political embeddedness plays a decisive role in FME through shaping the evolution of business networks and business relationship building between both business and non business actors (Hadjikhani & Sharma 1999; Welch & Wilkinson 2004). Figure 4 depicts some of the most pertinent factors within the environmental dimension.

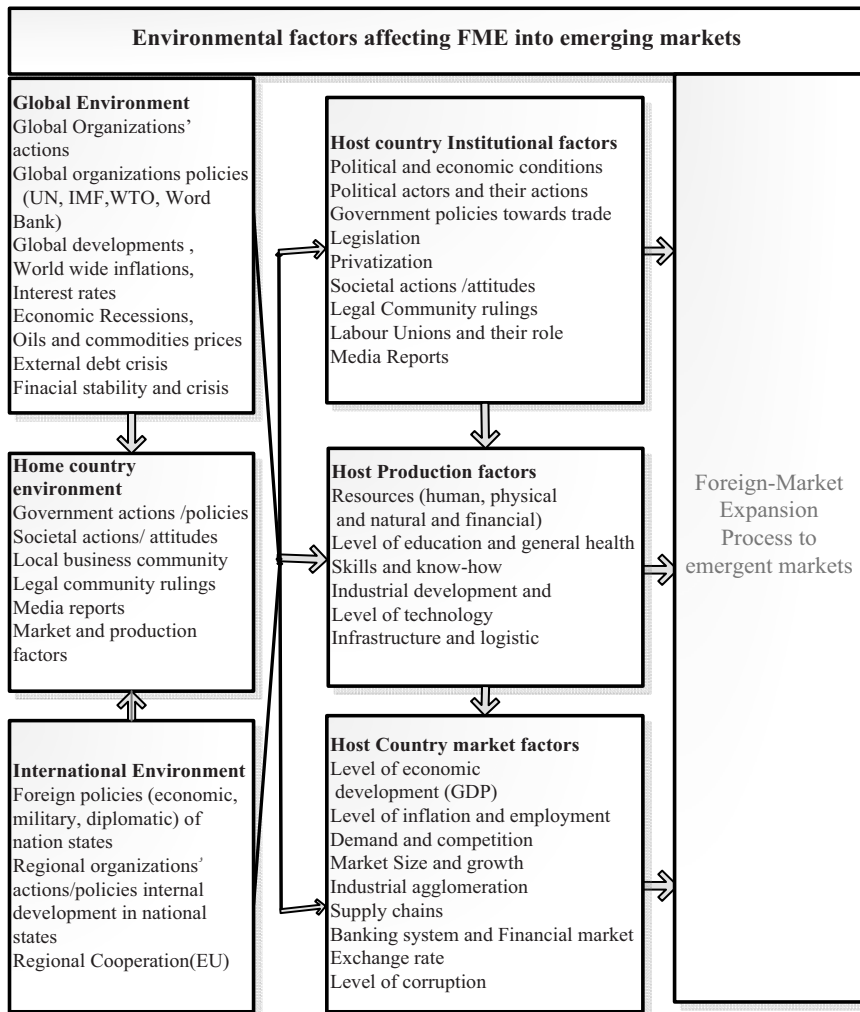


Figure 4: Summary of environmental factors affecting FME into emerging markets

In section 3.4, the business network and business relationship dimension (the N-factors) is discussed and its connection to the En-factors is demonstrated. While discussing business network and business relationships in FME, it is of extreme importance to bear in mind that

authors such as Ford (1990, 2002) and Håkansson (1982) do not conceptualise the business environment as a separate dimension from the business networks and business relationships. For this study, I infuse the En-factors as a separate dimension of FME into emerging markets. In order to have a holistic and at the same time simple framework, it is imperative to separate the two. Although, I also bear in mind that there are flows of influences from the environment in which business networks and business relationships are embedded. It is essential to make such distinction in order to show that the socio-political environment of emerging markets plays a decisive role in shaping the business networks and business relationship building. The study considers business networks and business relationships to be embedded in the market environment and to be influenced by actions and events occurring in that specific environment. Therefore, in this manner, networks and relationships directions are constantly shaped by the external environment in which these networks are embedded (see Halinen & Törnroos 1998). For the sake of simplicity, this study concentrates on environmental factors related to the host environment mostly on: institutional, production and market factors as indicated in figure 4.

3.3 Market commitment and marketing strategies: the M-factors

The other dimension which I posit to be the dependent dimension within the REMNET- framework of corporate internationalisation into emergent economies is the market commitment and marketing strategies (M-factor). Based on Root (1987), Madhok (1997), Luostarinen (1970, 1979), Luostarinen and Welch (1990), and Agarwal and Ramaswami (1992) there are different entry, marketing, and expansion strategies. As suggested by Fayerweather (1978), expanding corporations must formulate expansion and marketing strategies and deploy adequate resources to implement these strategies. Firms formulate these expansion strategies according to their motives, resources, and capabilities to expand business operations into a given foreign market. They also depend on the home country factors and the host country business and networking environment (see sections 3.2 and 3.4). In addition, these strategies depend on events and time (as discussed later in sections 3.5 and 3.6) that encourage or discourage foreign market entry and market commitment into a given context.

My view of the FME-strategy (entry and subsequent market commitment strategies) is that there exists a correspondence of foreign market opportunities (or threats) with a firm's existing resources and capabilities (Penrose 1959). At least theoretically, firms base their choice

of foreign market entry mode and subsequent commitment on several tradeoffs between: risk and return, the desirability of control over foreign operations, resource availability, and the interrelationship existing among these several factors (e.g. Anderson & Gatignon 1986). A number of studies have established different models and analytical frameworks used to investigate selection among all the available modes of entry abroad (Anderson & Gatignon 1986; Hennart 1982, 1989; Hill et al. 1990; Agarwal & Ramaswami 1992). Each of these studies introduces strategic selection criteria, which should precede any option the expanding firm faces when exploiting its specific advantage beyond national borders. The selection between the use of exports and other higher commitment modes (such as FDI) will depend on the ability of the firm to transfer resources across countries, either directly through a wholly-owned subsidiary within the firm using FDI (Kogut & Zander 1995) or indirectly using trade. Additional factors such as the level of internationalisation of the firm in other countries with similar conditions, would also influence the method selected (Barkema et al. 1996). Several strategies enable expanding firms to reach the target market and to increase its commitment through business operations, which evolve over time. A simple classification could group them into four categories:

- Entry and penetration strategies
- Commitment and ownership strategies
- Co-ordination and concentration of value adding activities
- Fragmentation and integration strategies

In the following, the study briefly discusses each of these main categories

Entry and penetration strategies into emergent markets

Entry strategy refers to the firm's choice of whether to enter a foreign market by buying existing units in the host country, that is acquisition, or through establishing new ventures, that is, Greenfield. Several studies conducted in Western economies analyse the basic choice related to the form of investment, i.e. *acquisition versus greenfield decisions* (Caves 1982; Buckley & Casson 1976; Hennart 1982, 1989), some of which further attempt to identify differences between various types of firms, for instance according to the knowledge intensity of the firm (e.g. Davidson 1983). Within developed economies, acquisition enables the internationalising firm to gain access to foreign markets in the shortest time possible. Acquisition also enables a firm to extend its resource base by acquiring skills and capabilities, which are unique to the target firm (the acquired). Since a firm's unique capabilities are path dependent, as they are acquired through a firm's history by tacit learning and dy-

dynamic routines that make it impossible for other firms to imitate or duplicate such capabilities (Collis 1991), the only way for another firm to gain such capabilities is by acquiring the whole unit in which such special capabilities lie. Through acquisition, the firm avoids the slow and difficult process of building facilities, contacts, and relationships that are necessary for access to a foreign (local) market. Through this kind of entry strategy, one is able to gain access to the target nation's competitive advantages through the acquired firm's established networks. For emergent markets, acquisition would be preferred if the target company has reached a certain level, allowing the entrant to take advantage of the resources in the local market. However, in many cases, there may not be many local candidates for acquisition. If acquisition happens, the entrant may acquire other foreign-based units operating in that same market.

Commitment and ownership and strategy

In addition to the form of entry strategy, ownership arrangements are a critical element of the expansion process (e.g. Gomes-Casseres 1989, 1990; Buckley 1988). Firms entering emerging markets have to make choices of whether to enter the new foreign market alone, or to share resources with other parties. This involves choice between wholly-owned subsidiaries (WOS) and a joint-venture, followed by the choice between majorities, equal or minority ownership (see Hennart 1982; Buckley 1988). The level of the ownership that a firm is able to acquire is dependent on its bargaining strength in relation to that of the involved actors. The firm-specific characteristics play a significant role in determining the position of the firm in negotiations (Hennart 1982; Buckley 1988). The bargaining power approach has been particularly useful in explaining the choice of ownership strategy in developing countries, where the role of the institutions has traditionally been more influential than in developed countries (Nieminen 1994; Mäkelä & Larimo 1996). However, for high level of commitment mode of operations (in the form of FDI), restrictions have been liberalised in many emergent and developing countries, and the partner's knowledge of the local market, investment climate, business culture, etc. have come to play a more central motive behind JVs in developing countries (Larimo & Mäkelä 1995).

Regardless of whether it is required or not by the host country as a prerequisite for entry, joint-venture arrangements are often preferred in emergent and developing countries (see for example Beamish 1988). The advantages of a joint-venture are mainly based on the opportunity to combine the material and human resources of the partners, in order to produce complementarities and, at best synergy (Beamish 1988). Among the most commonly cited reasons for taking a local part-

ner, are the obtaining of capital and vital raw materials, spreading the risks, increasing economies of scale, gaining a more rapid market entry and local image, as well as acquiring knowledge of the local economy, politics, customs, legislation etc. (Larimo & Mäkelä 1995). Host country specific expertise is of special significance in developing countries, where the operating environment differs considerably from that of developed countries. The need for local expertise is further accentuated, especially if the foreign firm has no prior experience in operating in the country (Johanson & Vahlne 1977, 1990; Larimo & Mäkelä 1995). Similarly, industries with fast growth rates in the host economy, due to short-term profit opportunities and participation in a growing market, are associated with the need for the firm to make a rapid market entry (Hennart 1982, 1989).

Coordination and concentration (of value adding activities) strategies

Each expanding firm makes decisions concerning which functions of the value chain are to be performed in the new foreign market and to what extent they should take place (Porter 1985, 1990). The decision regarding the appropriate coordination and concentration mechanisms during FME depends on several factors. Existing resources in the firm and their transferability across countries (Kogut & Zander 1995; Rugman & Verbeke 1992) and the change in resources over time (Chang 1995), play a key role. In addition, the need for additional resources and the characteristics of the competitive environment (Hennart 1989), as well as the institutional conditions such as the political culture (Kogut & Singh 1988), was found to influence the choice of operation mode and strategy. Additionally, considerations pertaining to transaction costs might influence the specific mode of expansion (Hennart 1982; Madhok 1997). Thus, the expanding firm makes choices regarding the amount of technical, managerial and marketing activities, to assign to the business entity in the foreign market. Greater value-creating activities are associated with a shorter relational distance and with greater commitment. It may be associated with higher financial risks too. Accordingly, three broad categories of co-ordination and concentration strategies are identified as exports, contractual arrangements, and foreign production. In the case of emergent markets, firms may be much more willing to start by exporting their products directly to the customers and later on, when there is an increase in volume; the expanding firms may open a subsidiary.

Fragmentation and integration strategy

The issue of which role the new entity is to play in the firm's entire global network is very crucial (see Fayerweather 1969; Perlmutter 1969;

Bartlett & Ghoshal 1989; Doz & Hamel 1998). Fragmentation and integration strategy refers to the decision of whether to incorporate the new venture in the host market into the firm's global network or to let the new venture live its own life i.e. remain an independent unit with little or no relationship with the main group members. Unlike the activities of cross-borders coordination, integration involves rationalisation that may entail standardisation of products, centralisation of technological development, or the vertical or horizontal integration of manufacturing (Kobrin 1991). Fayerweather (1969) provided a conceptual framework for analysing the tension that prevails between the strategic choices of whether the management and the strategy of subsidiary operations should be diversified according to individual requirements (i.e. fragmentation), or if it should be integrated as a part of the global system (i.e. unification). There are many reasons why expanding firms may favour integration: the need for greater utilisation of the firm's existing resources and capabilities through economy of scale, scope and learning (Teece 1981). Integrating subsidiary operations allows a greater flow of information between subsidiaries in different national environments within the firm's global network (Arrow 1975). In this sense, subsidiaries can share experience arising through information exchange. Furthermore, learning enables the firm to increase or strengthen its capabilities. This strategy is likely to be the one preferred in order to exploit the firm's existing resources and to develop the firm's resource base through learning brought about by the international coordination among the firm's units (Fayerweather 1969). Concisely, the expanding firm develops resources, its relative competitive advantage changes and this enables it to alter its foreign operations over time.

3.4 Networking and business relationships in the FME: the N-factors

In section 2.3.3, the study introduced the basic tenets of the business network approach and business relationships. It was seen that more than 20 years have passed since the introduction of the business network research by the Industrial Marketing and Purchasing (IMP) group. During, these years, understanding of inter-firm relationships and of their role in the international operations of firms, has been transformed. Accordingly, based on the views presented in the literature, we could observe three interlinked "generations" of research (for an overview, see Håkansson & Snehota 2000; Johanson & Mattsson 1995). Through the 1980s, the IMP Group insisted on the fact that interaction was more important than pure buyer-seller exchange relationships. Alternatively, the IMP-Group saw it as exchange relationships in which the roles and

routines of the buyer and seller are institutionalised. Thus, both parties adapt to each other by making modifications to the exchange and themselves, and the two parties form and act upon their perceptions of the atmosphere or state of relationships between them (Håkansson 1982).

Building on the findings from the first generation of IMP research, the second generation of IMP research states that a single buyer-seller relationship cannot be understood in isolation from the “*pattern of relationships which surround it*” (Ford 1990, p. 3). Accordingly, industrial networks are systems of interconnected exchange relationships among business actors (see Welch & Wilkinson 2004). There was a clear shift from the interaction model towards the actor-resources-activities (ARA) model, which puts heavy emphasis on networks in terms of three types of connections: links between activities, ties between resources and bonds between actors (Welch & Wilkinson 2004). Thus, any single exchange relationship is “*embedded*” within this system of interlinked activity patterns, resource constellations and actor webs (Håkansson & Snehota 1995). According to Halinen and Törnroos (1998), although there was a clear shift from the interaction model towards an Actors-Resources-Activity (ARA-based research), the “*broader contextual setting of relationships system*” was downplayed (Halinen & Törnroos 1998, p. 191). The interaction model includes the interaction environment (see section 3.2.), as well as interaction variable (parties, process and atmosphere). By contrast, in the ARA model, the firm’s embeddedness is limited to other - predominantly inter-firm - exchange relationships.

Critics who are opposed to such a focus on the market-based inter-firm are many. For instance, Hadjikhani and Sharma (1999) posit that the ARA-based models do not take the socio-political actors and institutions into enough consideration. Thus, the ARA-models as business behaviour are explained only by reference to business actors (see Hadjikhani & Sharma 1999). To rectify some of these theoretical and methodological weaknesses, there are a growing number of “*third generation*” IMP researchers, who have revisited the concept of “*embeddedness*” (on the role of embeddedness in the evolution of business networks, see Halinen & Törnroos 1998), and at the same time who have extended the research agenda from industrial marketing to business networks involving a diverse range of relationships and influences.

From this perspective, Halinen and Törnroos (1998) propose that the network could be of various types such as: market, political, social, spatial, temporal and technological (Halinen & Törnroos 1998). Building on Halinen and Törnroos (1998), and the embeddedness of companies in a broader network structure, Welch and Wilkinson (2004) identify four forms of political embeddedness in business networks. These are

political institutions, political actors, the political activities of firms and political resources. The IMP research into political institutions has focused on the effects of what Hadjikhani and Johanson (1996; see also Hadjikhani & Håkansson 1996) term “*political turbulence*”; that is discontinuous change in political ideologies and associated macro-political structures. Changes such as the ones that occurred in the former Soviet Union, in Eastern Europe and in the Republic of South Africa have triggered reconfigurations of business networks and have shaped the FME towards these markets (Salmi 1995). This has had consequences for companies expanding their business operations into these markets for the first time. At the same time, firms which already had business operations in these regions have been compelled to rebuild their existing networks in responses to the new competitors and new customers triggered by these socio-political changes which created new rules for interaction and business activities (Nieminen 1994; Salmi 2000).

Hadjikhani and Håkansson (1996) point to the fact that political actors in industrial networks may play a decisive role. These actors, who might be, for example, bureaucrats, government ministers, members of parliament, opposition parties, interest groups and the media, may promote or hinder a free flow of exchange in business networks. Studying the Bofors case in India, Hadjikhani and Håkansson (1996) concluded that political actors can help form or change the business network. This happens through facilitating or disruptive activities. For instance, in their study of the Bofors scandal, Hadjikhani and Håkansson (1996) trace the interdependencies that caused a crisis in the focal relationship, to be the linkage between Bofors and the Indian Government (see Welch & Wilkinson 2004). Surprisingly, this scandal was also seen to affect other Swedish firms seeking to secure contracts with the Indian government.

However, political actors may also play a facilitating role. For instance Hallén (1992) discusses the facilitating role of non-business actors in what he terms “*infrastructural networks*” which are the social ties of a particular organisation or person in a business network. Such infrastructural networks may not be directly related to a specific purchase or sale. They may be a vehicle for information, communication and influence. Thus, they “*may be as important as the business relationships themselves*” (Hallén 1992, p. 79; quoted in Welch & Wilkinson 2004, p. 218). Particularly in the African context, infrastructural networks may play a decisive role. Due to their political position and influence, different actors seek friendship and protection from each other in countries which are not their own and these relationships evolve into mutual trust and cooperation (see Owusu 2002, 2003). When opportu-

nities arise, some of these political actors may receive the information very quickly. Thus, business actors who have close connections to these political actors may also gain advantages through helpful information and by obtaining contracts and orders. Owusu (2002, 2003) found that the political and institutional actors from both Finland and Ghana facilitated the work of the project marketer, IVO International in Ghana, and were actively involved in helping the project marketer solve problems that arose during the construction of the infrastructural projects in Ghana.

Through foreign-market expansion, both individual business actors and political actors are involved in political activities. These different actions may influence the configuration of the network context in the hosting business firms. Halinen and Törnroos (1998) identified the role of business actors as lobbyists of the government and influencers of public opinions. In this way, firms are “*involved with the political system*” Halinen and Törnroos (1998, p. 196). Firms may help or may exert influences on governments to make laws or they may even cooperate in influencing governments to move in a certain direction. In addition, firms may help a government to implement its policies (see Hadjikhani & Sharma 1996). Hadjikhani and Sharma (1999) identified several advantages firms have acquired by becoming involved in political activities. For instance, individual actors or the actors for a firm, who are involved in political activities, expect to gain “something” in return. These gains may be in the form of public sector contracts, licences and approvals, industry policies and regulations, support in the form of tax incentives, tariffs and other protection measures, funding for R&D and regional development and information providers. Firms act politically in order to achieve legitimacy and it is not only the “*technical or business legitimacy*” which counts, but rather the fact that it becomes imperative to gain a kind of “*institutional legitimacy*” (Welch & Wilkinson 2004, p. 219) by justifying performance in terms of prevailing political norms and values (Hadjikhani & Sharma 1999). Thus, a firm will always need to invest in political relationships in order to gain institutional legitimacy. Discussing the role of government, Jansson et al. (1995) identified two types of actors, political and administrative, and also distinguished between headquarter and subsidiary operations. Using the same approach, Hadjikhani and Håkansson (1996, p. 441) reject a “*homogeneous*” view of political actors. They argue that bureaucrats have an identity of their own, which is separate from that of the government of the day (Welch & Wilkinson 2004).

In addition, Hadjikhani (2000) posits the fact that a firm-government network may also include inter-firm linkages, such as competitors col-

laborating in lobbying efforts. This may also be the case when it comes to competing subsidiaries, operating in a foreign “turbulent” environment. Firms may avoid mutual destruction and may act with one voice to try to increase their bargaining power, or their positions within a firm-government network. According to Hadjikhani (2000) different kinds of networks develop, depending on their membership, degree of integration, resource and power. These networks form what can be regarded as policy communities, which feature stable relationships based on frequent exchanges of resources among a closed membership whose interdependence ensures a high degree of influence over policy-making. However, the outsiders, who are not part of these policy communities present a looser formation of issue networks that have an unstable, fluctuating membership with unequal resources and irregular access to political decision-making (see Welch & Wilkinson 2004)

Business actors may be involved in developing relationships with different institutions. This refers to the kinds of exchange that exist between the expanding firms with the either the home institutions or the host institutions that are perhaps of value for the expansion process in a given environment. These relationships may develop in the form of incentives, regulations and other requirements of the different institutions. The actions of local institutions are sometimes encouraging or discouraging to the internationalisation process of foreign firms. As in developing countries or in countries with a non-market economy, the institutions (government) may direct the kind of products that are to be made in a certain place or to be imported to the country. Institutions may use import substitution or other policy instruments to direct trade. In this way, the internationalising firm will be compelled to formulate its operation strategy accordingly. In the case of emergent markets, large firms may be state owned or at least partially controlled by the state. This implies that the internationalising firm should discover the key actors who are able to influence decisions.

Equally important, is the relationship between different institutions, as this may play a considerable role, especially in infrastructural projects requiring bids (Owusu 2002, 2003). Political institutions may be involved in negotiations or play as guarantor to business actors. In developing countries, individual managers have high esteem and trust for officials of foreign government institutions. Thus, in some cases, contracts will take place in the presence of government officials from both sides (Habiyakare & Törnroos 2007). Most of the African countries like publicity, exposure and recognition. Government officials from other foreign countries, who make official visits, are highly appreciated and such visits may even promote more trade between the two countries. These official visits, may trigger a reconfiguration of business net-

works. Although, this may prove to be absurd in Western logic, any gesture from a high-ranking foreign personality is highly appreciated in the developing and emerging markets. Thus, state visits at a presidential or ministerial level influence the reconfiguration of government and business interaction and cooperation.

To conclude this section, it could be said that unlike the UIM, the business network and business relationships approach not only stresses the cumulative nature of a firm's activities but it also goes beyond internal development to include the firm's relationships with other bodies in foreign markets. Hitherto, the role of socio-political actors in business networks and business relationships has not really gained the place it deserves in the IMP tradition. Its role has been of a non-economic nature. Nevertheless, emerging markets such as the RSA and other markets in Africa offer good examples of the fact that socio-political actors may also be in command of economic resources. Political actors, or people connected to them may also have important information, which, if acquired by business actors may lead to more economic resources as well. In the case of Africa, relationships forged between political actors may also help businesses and individuals to gain access to information concerning new projects in other locations. In emerging markets, other types of cooperation between firms and governments may be possible. As will be seen in chapters 6 and 7, to gain contracts, business actors may be involved in other activities (such as political activities) with the aim of obtaining contracts from government controlled sectors or from business indirectly linked to government. We should not forget that in most developing and emerging markets, large businesses might also be owned by high-ranking politicians or people with close connections to them. To date, there are limited comparative studies on how political and institutional environments affect the formation and behaviour of business networks and business relationship building in emerging market. In the next section, the study explores the event-dimension.

3.5 Events in the FME-process into emerging markets: the Ev-factors

In this section, the discussion is continued by presenting the event-dimension. According to Hedaa and Törnroos (1997), an event is an outcome of acts or changes caused either by humans, political systems or by the nature of the environment within or outside of the business environment. In the history of each nation, there are events or occurrences that could be directly related to the development of business operations in that particular country. These events can be classified into two main categories: favourable events and unfavourable events.

Favourable events are those events that once they have taken place, are followed by a positive development in the business context. Such positive events may trigger more business activities as firms may see a reduction in the uncertainty in their environment. Unfavourable events are those events that once they have occurred, are followed by negative development in the business environment. Man may act consciously to alleviate the negative side of event/s and to create favourable conditions for business to continue. These types of acts may be decisions taken by one person or by a group of individuals holding formal positions or functions that allow one person to have influence over another individual's behaviour.

As Hedaa and Törnroos (1997) express it, events have two sources: man and nature. While nature has no intention at all, man-made events may be intentional or unintentional. Consequently, events are outcomes of acts that are either man-made or have their causes in nature. When caused by nature, an event may take place in the region where it occurs, such as the Tsunami and New Orleans catastrophe in the years 2004 and 2005 respectively, and the earthquake in Iran. Event(s) and act(s) take place in a given context and the outcome is interpreted differently according to the observer i.e. the perceiver. Event(s) will have a meaning in the mind of the actor(s) (the perceivers) once noticed by them. The actor may be a human being, for instance the industrial marketing manager who reacts to stimuli from the events taking place. At the same time the author's cognition and sensitivity towards event-evocation and selection, constitute the condition in a certain situation to act. Acts and activities are defined as "*the outcome of how the actors have been able to identify the events, and how they have overcome the stimulus-response barriers (thresholds) as well as how willing an actor is to take further action in response to the stimuli*" (Hedaa & Törnroos 1997, p. 11). The response to the stimuli can be proactive (creating new acts and new events), reactive (following and reacting passively), neglect and /or indifference i.e. no intention to act. From the expansion process point of view, the outcome of an event may help the responsible decision-makers to assess whether to increase the commitment of the resources to that foreign market or to reduce the level of commitment and in an extreme case, to withdraw from that process given the signals / stimulus and interpretation that follow a given event. The stimulus-response (S-R) process may persist into the future.

3.6 Time and temporality in the FME into emerging markets: the T-factors

Looking at the foreign market expansion process of firms, the interplay of time and events may act as a trigger bringing about business transactions. Different people, countries, and actors in business settings have different conceptions of time. Looking at the literature on business relationships and business networks, researchers have devoted attention to conceptualise time and to elucidate its role and significance. This is the case with Miettälä and Törnroos (1993), Halinen and Törnroos (1995), and Hedaa and Törnroos (1997, 2003). According to Miettälä and Törnroos (1993), time is a complex and varied concept (see also Halinen & Törnroos 1995). We should not exclude the time factor in social and business research, especially in buyer-seller relationships. Halinen and Törnroos (1995) defined time as “*point or period when something occurs*” (cited in Hedaa & Törnroos 1997, p. 9). Miettälä and Törnroos (1993) proposed the concept of relational time when studying business markets (for a discussion of these different concepts, see Miettälä & Törnroos 1993). Relational time has at least three properties: the concept of time in a relationship is bound to the past, present and future (for instance in a given relationship). Time has a relationship with the culture and space surrounding an interaction, and time is perceived differently within different cultures and groups of people (see Miettälä & Törnroos 1993). Time has its context, which means that it is related to the human actors, their situation and the problems they try to solve through interactions.

In addition, Hedaa and Törnroos (1997, p. 10) identified six different aspects of time:

- Time is socially constructed and consists of inter-subjectively known trajectories of events
- Time exists through many temporal units (e.g. days, weeks months and socially/culturally-based notions of temporality)
- The passing of time is attributed to identifiable phases within temporal units.
- Period consists of a distinctive orientation to the past, present, future, including image of the future.
- The production and reproduction of time-reckoning elements and systems in society are embedded in practices
- Social time can be understood as a chain of events

I agree with Miettälä and Törnroos (1993), on the fact that the present moment can only be understood in terms of the past (history) and the future. Interactions occur and business relationships appear and disappear through time. Businesses make decisions sometimes under the

pressure of time. There are different socio-political times and business events that occur in different periods within a country or between different market actors who have their own histories, surroundings and values as well as future expectations and goals. The period of time and events connected to this specific time may dictate the types of operation strategies to adopt during the expansion process. From the business network point of view, the act may be in the form of an increase in market commitment or a decrease in commitment if the event is judged unfavourable. Time, temporality and crucial events embedded within time, will affect a firm's business networks and its operation strategies. As stated earlier, once the market is perceived to be less risky, there may follow act(s) of increasing commitment or a continuing period of *wait and see*. In some cases, events and happenings may even provoke ambiguity. Actors may become confused about how to proceed as the rule/s of the game may change with the outcome of that event.

As it can be seen above, the concept of time has been used mainly in order to increase our understanding in business relationships and business networks. Initially the above authors did not discuss the concept of time from the internationalisation perspective. However, due to the importance of time and events in business transactions and regardless of where transactions take place, it is appropriate to incorporate such concepts into the internationalisation theory, especially with regard to the developing and emerging markets. There are many different actors classified into business actors, societal actors, political actors, and international bodies. These actors, who have different goals and objectives with regards to the market, may have their own perception and judgement of events and may make differing assessments of the future outcomes. These actors produce acts that reflect their understanding and their analysis of an event and its outcome. Briefly, the concept of events connected to time and temporality should be incorporated into the framework describing FME into emergent markets.

3.7 Summarising discussion

This study uses the power of behavioural approaches as the basis for the conceptual framework in order to study the expansion process of Finnish corporations into the RSA. Thus, this study uses the UIM and the power of the business network and relationships approach to build the REMNET-framework used for the study (see figure 5 and figure 8). These two different theoretical approaches (the UIM and Business Network Approach) have been in competition for predominance. However, since there are empirical proofs for both approaches, integrating these two has not been an easy task. Nevertheless, Johanson and Vahlne

(2003) suggested an integration of their model with the business network approach by concluding that:

“We have a situation where old models of internationalisation processes are still applied fruitfully at the same time as a number of studies have suggested that there is a need for new and network-based models of internationalisation. We think it might be worthwhile to reconcile and even integrate the two approaches” (Johanson & Vahlne 2003, p. 84).

The behavioural approach provides an understanding of the foreign market expansion process into emergent markets, especially concerning the process industries. The foreign-market expansion process into developing and emerging markets is, however, largely dependent on the local institutional changes and the existing network of actors in that context. Trying to understand the core processes involved in foreign market entry and expansion strategies into emerging markets requires a multifactor analysis. In order to develop the conceptual framework, as presented in figure 5, I used these two approaches together as a cornerstone. I integrated these approaches through the RBV, which functions in this case as an integrator for these approaches.

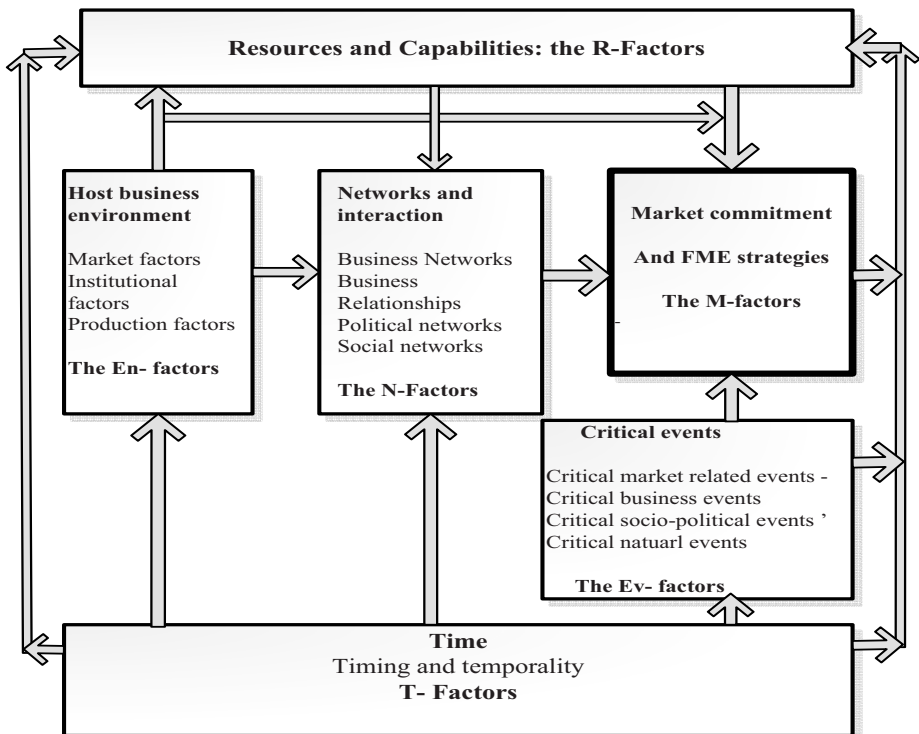


Figure 5: A tentative REMNET-framework of FME to emerging markets

There are certainly different arguments concerning the links between the two approaches used. For instance, the RBV posits that the desired outcomes of the managerial efforts within a firm are to achieve a sustainable competitive advantage (SCA), because achieving a SCA allows a firm to earn economic rents or return on investments (ROI). The RBV core question and focus then becomes “*how do firms achieve and sustain advantages*”? The RBV contends that the answer to this question lies in the possession of certain *key resources and capabilities* that have characteristics such as value, property rights, as well as barriers to duplication and imitation (Barney 1991; Nelson 1991). It is possible to obtain an SCA if a firm effectively deploys these resources in its markets. Therefore, the RBV emphasises strategic choice, charging the firm’s management with the important tasks of identifying, developing, and deploying key resources to earn economic rents (Penrose 1980).

While the RBV is internally focused, regarding the firm as a bundle of resources, it can be extended to include the firm’s external environment (En) as an influencing factor on the strategic choice. The significance of a firm’s resources is determined by the external environment from which resources are drawn and valued (see section 3.2). Penrose notes that critical environmental changes may influence the significance of resources for the firm (see Penrose 1980). In the RBV, resource heterogeneity, imperfect immutability/sustainability, imperfect resource mobility, and limited competition for the superior resource position are the basis for a firm’s competitive advantage. All these factors reflect the interplay between internal resources and external business environment (En). The RBV recognises the importance of firms taking into account the behaviour and relative positions of rivals in the external environment, in their strategy formulation. Thus, a firm’s market commitment, marketing, operation strategies or potential for making profit (M-factors) is derived from its internal resources such as core competence and its set of product market opportunities (Luostarinen 1979). Decisions such as whether to license a new technology or to develop it internally or the decision to serve a market through export or by direct investment would depend on the extent to which the technology is imperfectly mobile (Buckley & Casson 1976). If the technology is perfectly mobile and/or easily imitable, then the firm would benefit from licensing the technology or building co-specialised resources, which are less available, such as a reputation for service on the new technology (Peteraf 1993).

The most obvious connection between the Uppsala Internationalisation Model and the RBV is to be found in the fact that experiential knowledge is treated as a resource that may limit the expansion of the firm. Through the recognition of the fact that experiential knowledge

is a part of a firm's resources, UIM takes into account the RBV in the explanation of the expansion process. The RBV goes further to include other factors, such as market size, global industry characteristics and the importance of the first movers' advantages in the new market. In addition, the RBV admits that "*the possession of such characteristics may lead to greater market commitment offsetting the psychic distance*" (Rutihinda 1996, p. 54). The UIM states that "*firms under constraints strive to increase its long-term profits, which is judged equivalent to growth*" (Johanson & Vahlne 1977, p. 16). Penrose (1980, p. 24) states that a "*firm grows by their resources and capabilities, a firm slowly expands and changes*".

In this manner, the RBV provides a strong basis for explaining the variation in the expansion processes of firms, by incorporating experiential knowledge as a subset of the firm's capabilities (Cazurra & Ramos 2002). In the UIM, reducing uncertainty leads to increased commitment in a distant market. This implies that the firm (decision-makers) makes decisions based on some calculations concerning expected profits (rents) which are also (or will create) resources. A firm may even bring in experience from other sources, such as human resources, that have some experience in operating in the distant markets.

The network approach (exchange of resources) has greatly incorporated the concepts of resources and capabilities. According to Håkanson and Johanson (1988), through business relationships, firms may develop capabilities. In the same way, Easton (1992) bases the source of the firm's capabilities partly on its resource collection and partly on its relationships (Owusu 2003, p. 68). Owusu (2003) emphasises that capabilities are dependent on resources but that the two are not the same thing. He sees resources as tangible and intangible assets used to perform activities, whereas "*capability on the firm level is created when resources from different resources groups are mixed for a certain purpose*" (Owusu 2003, p. 68). According to this view, we could expect that different firms create different capabilities due to the mode of "*mixing*" their resources (tangible and intangible). Thus far; there has been confusion on whether a firm's capability is equivalent to the whole resource collection or whether it is some special intangible resource (see Owusu 2003). What is clear is that in the FME-process capability is concerned with expanding the firm in order to establish its successful business operations through the various relationships it adheres to.

There is also a clear link between the business network and the UIM. The basic link is in the degree of interaction. In the first stage, firms interact with actors in the home market and the psychically less distant markets. Once they start operating abroad, other kinds of interac-

tions and networks are established. These interactions may change as the business operation proceeds and due to the business environment in which these networks are embedded. It is also possible to link the commitment of more resources to the intensity of interaction within business networks.

There are clear links between the other dimensions too. For instance, the host business environment and its En-factors exert influences on the operation strategies adopted. The host business environment through its En-factors may compel a firm to restructure its business operation strategies over time through a teleological process as discussed in 2.6. The existence of a favourable and stable institutional environment, the existence of abundance production factors and positive market factors in the host country will determine the level of market commitment (M-factors) the expanding firm invests in the host market. Penetration, entry strategy, ownership strategy and value adding activities will be decided according to the requirements set by the En-factors. However, as the operation develops through time and as different events take place, the En-factors may change over time. These changes in the En-factors, if they take place, will also have profound influences on the business operation and strategies. The operation is not static; it follows in a teleological fashion by adapting to different En- requirements.

There is also a clear theoretical link between Ev-factors and N-factors. For instance, events have profound influences on the configuration of business networks and business relationship building. Events may take place in a business environment and have a great impact on the actors' strategic responses. A firm may change its position in the network due to events influencing its operations. Business and market events, natural events and socio-political events may exert profound influences on the reconfiguration of N-factors. In addition Ev-factors may also facilitate or hinder networking. Old actors may disappear, new actors may appear and actors may reconfigure their network. In addition, these Ev-factors may create new opportunities for business actors involved in interaction and networking. Naturally, different Ev-factors have a different impact on the N-factors depending on the origin and intensity as well as the actors' perceptions of these Ev-factors. Ev-factors may either be detrimental for the N-factors or may actually be catalysts for a reconfiguration of the network.

There is also a clear link between the M-factors and the R-factors. Firms commit resources to a certain market according to their expectations of success in that specific market. Success may also include acquisition of new resources. Thus, through penetration, good entry strategies, good ownership strategies and good coordination strategies, the expanding firm is likely to benefit through gaining new resources

(R-factors). These resources, if transferable, may be transferred back to the parent company or may be used to support its overall business operation in other markets as well. If the operation proceeds differently to the initial expectations, a factor which is dependent on the role the new entity was expected to play in the overall firm's expansion strategy, it may be possible for the expanding firm to restructure its R-factors so as to support its expansion strategies.

In summary, some dimensions that form the cornerstone of the REMNET-framework may overlap; however, I am convinced that the UIM and the business network can both be accommodated by recognising the experiential knowledge as one of the resources among all the other resources influencing FME process and strategies. Firms also acquire experience through, networking and through relationships and through political activities (see Welch & Wilkinson 2004). The concept of psychic distance, which in my view holds a danger of legitimising a kind of "market discrimination", should be revisited, because a home market oriented decision-maker might feel at ease ignoring other markets (emerging and developing) by just providing the explanation that the market is psychically distant (see section 2.3.2). However, in the case of emerging markets, it may be difficult to predict accurately how the business environment will develop given that unpredicted events may take place. With increased globalisation, we know that the whole world offers opportunities and the exploitation of these opportunities has become possible through networking and business relationships and through the improvements in infrastructures, logistics and fast deliveries, politics and market deregulations of trade and investments. As the socio-political environment changes the firm's political activities, the firm will strive to position itself better in the new network and relationship configuration. The past, present and future play a decisive role in the other five dimensions as well. Resources, capabilities, relationships and strategies are not static; they change with time and the changes take place according to what is learned through interaction. Thus, time and temporality become decisive dimensions in FME.

The REMNET-framework of corporate internationalisation calls for tolerance of uncertainty and patience when dealing with emerging and developing markets. Subsequently, in chapter 7 and 8, through data analysis, more understanding is provided on empirically derived sub-elements constituting the integrated REMNET-framework (see figure 8). While in chapter 4, the key methodological considerations are presented and the choices made regarding the research approach used in this study.

4 RESEARCH APPROACH AND METHOD

This chapter is organised as follows: firstly, the chapter presents the ontological and epistemological considerations on which this study is based. Secondly, the chapter presents the research approach and strategies used to collect the data. Thirdly, the chapter presents the method used for data processing and analysis. The chapter ends with reflections on the use of case studies in business research, and the criticism expressed against the use of qualitative research in research work. The chapter ends with discussion on the reliability and validity of this research and the way in which these criticisms were taken into consideration.

4.1 A phenomenological approach

Irrespective of the research approach, there are various perspectives with which researchers may approach their phenomena of interest. According to Remenyi et al. (1998), there are different assumptions constituting the philosophical stances that researchers adopt to carry out their investigation. These assumptions can be categorised into beliefs about the physical and social reality. For instance Taylor and Bogdan (1984), Denzin and Lincoln (1994), Kidder (1981a), Remenyi et al. (1998), and Ritchie and Lewis (2004) would all argue that phenomenology, sometimes called a non-positivistic approach, is the appropriate way to conduct research into people and their organisations. To cope with the problems of people and organisations, it is necessary to go beyond positivism and use a phenomenological approach to research (Remenyi et al. 1998). According to them,

“Phenomenology is a theoretical point of view which sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality” (Remenyi et al. 1998, p. 95).

From this perspective, phenomenology does not consider the world to consist of an objective reality but instead focuses on the primacy of subjective consciousness. Each situation is seen as unique and its meaning is a function of the circumstances and individuals involved (Remenyi et al. 1998). In the phenomenological paradigm, the researcher is not independent of the topic being researched, but is an intrinsic part of it. Thus:

“In this rational universe, we can no longer study anything as separate from ourselves. Our acts of observations are part of the process that brings forth the manifestation of what we are observing”. (Remenyi et al. 1998, p. 34)

With regard to the research problem at hand, my study adopts a phenomenological stance. I consider that social systems influence the FME process of business operations of foreign firms into emergent economies. Factors influencing the expansion process cannot be studied in a purely objective manner. There are several influences from the socio-cultural, socio-political, institutional, and business environment. People and their behaviour are central to the FME-process, thus that process cannot be described in an objective manner. In a similar way to Perry (1998), the ontology of this study is constructivism, as it emphasises the importance of the subjective meanings and of social, political and symbolic action in the process through which humans construct and reconstruct their reality. My belief is that organisations, groups, and social systems do not exist outside human reality, and hence cannot be measured in an objective or universal way, but only through imagination, projections, constructions and interpretations. Although there are phenomena that can be measured, a complete understanding of them still requires subjective interpretations. Thus, the way we interpret the world and our vision belong both to what is interpreted and to our system of interpretation (Perry 1998).

Epistemology has assigned terms to the activities of scientists; scientific research entails a ceaselessly repeated cycle of observation, classification, analysis, and theory building or modification. The researcher then tries (or should try) to understand these different realities and as much as possible should try to consider these multiple realities. I have to look beyond the details of the situation to understand the reality or even to understand the reality behind that reality. This viewpoint requires that the enquirers necessarily use their own pre-conceptions in guiding the process of enquiry. According to Yin (1984, p. 65) *“when the researcher interacts with the human subjects of the enquiry, the perception of both parties is changed”*. Furthermore, Yin (1981) posits that:

“In a case study, both the researcher and those being studied interact with one another. The researcher can influence the course of events merely by his existence, even though he tries to avoid interfering. In addition, the report of the events is his personal interpretation of it. Several aspects require careful consideration from the reliability point of view. In the ideal situation, the research report is written in a so thorough and vivid way that it is possible to recognise every feature of events and that it can be examined in detail”.

(<http://www.metodix.com/showres.dll/en/enindex>, visited on the 22.02.2007)

Thus, the epistemology of this study is descriptive and interpretive and adopts the position that knowledge of reality is a social construction made by human actors. Furthermore, interpretive studies reject the

possibility of an “*objective*” or “*factual*” account of events and situations, seeking instead a relativistic, albeit shared, understanding of the phenomena (Remenyi et al. 1998, p. 36).

4.2 Abductive research approach

There are two major approaches to theory development: deductive theory testing and inductive theory building (Bonoma 1985; Parkhe 1993). The difference between the two approaches can be viewed in terms of a scientific paradigm, with the deductive approach representing the positivist paradigm, and the inductive approach representing the phenomenological paradigm (Easterby-Smith et al. 1991). Guba and Lincoln (1994, p. 17) define a paradigm as “*basic set of beliefs that guide action*”. Inductive theory building is said to be more suitable, especially for case study research. Thus, Grounded Theory (GT) is at one extreme of the induction versus deduction continuum and emphasises generating theory from data alone (Glaser & Strauss 1967; Strauss 1987). Perry (1998) concludes that it is unlikely that any researcher could genuinely separate the two processes of induction and deduction. Perry (1998) suggests that both prior theory and theory emerging from the data are always involved, often simultaneously and that “*it is impossible to go theory-free into any study*” (Perry 1998, p. 788).

Miles and Huberman (1994, p. 17) concluded that induction and deduction are linked research approaches, although tradeoffs might be made between “*loose and tight*” initial frameworks. Their own experience has led them to emphasise the importance of “*pre-structured*” study (Perry 1998, p. 789). Instead of using either pure induction or pure deduction, Alvesson and Sköldbberg (1994) and Dubois and Gadde (2002) propose a mixture of the two in a process they call abduction. In an abductive research process, the researcher moves forwards and backwards and navigates between theory and empirical data as indicated in table 3. This study on the FME process into the RSA is a good example of a process involving both deduction and induction. The study uses multiple case studies and Pettigrew (1990, 1997) supports the idea of using abductive research in case studies.

Firstly, an intensive literature review was inevitable in order to map out the research issue at hand. Then, a pilot study was conducted in 2002, with the first round of interviews. After which, it was possible to define and redefine as well as to position the research problem better. Later on, it was possible to collect more data in 2004, and further analysis and discussion led to further conceptual modifications. This research followed a process as presented earlier (in figure 1, section 1.4). In the beginning, I had a very loose theoretical framework, which was refined

later as the data analysis progressed. The following gives an account of the research design of the study and the use of the multiple-qualitative case studies used.

4.3 Research strategy: multiple case studies

There are several methods of conducting descriptive/interpretive research in international business. Literature provides various methods for selecting a research design (Remenyi et al. 1998; Yin 1984, 1989, 1994; Bryman 2002; Ghauri 2004; Merriam 1988). As presented previously, the choice of the method of inquiry is dependent on the underlying philosophical position adopted and the research problem at hand. To increase the understanding of the dynamic behaviour of expanding business operations into the RSA, an account of the perceptions and opinions held by different individuals and organisations are important. In this study, I use qualitative case studies (Halinen & Törnroos 2005) because it *“is concerned with meaning rather than measurement of organisational phenomena”* (Daft 1983, p. 397). There are several definitions of a case study but, based on Yin (1989, 1994), and on a variety of other sources, a case study could be defined as *“an empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple source of evidence is used”*.

The case study method is particularly interesting for this study too, because the FME process into the emerging markets requires the use of multiple methods of data collection, such as interviews, documentary reviews and other observations (Yin 1994). Triangulation (Denzin & Lincoln 1998) of these data sources can thus reduce the problem of bias, especially in longitudinal cases such as the ones at hand. Added to this, the choice of my qualitative research strategy is based on the assumption, that organisational realities are not concrete, but are the projection of human imagination (see Benbasat et al. 1987). In the following section, I present and discuss the process through which these cases were selected.

4.3.1 Selection of cases and the selection process

According to Taylor and Bogdan (1984), an ideal research setting is one where the observer or researcher would have easy access, is able to establish immediate rapport with the informants, and can gather data that is directly related to the research interests. In this respect, I did not have any pre-established contacts with Finnish corporations. All the contacts were established by telephone and e-mail. During the inter-

views in Finland in 2002, the interviewees offered their help in obtaining contact for me, with the management of their subsidiaries in the RSA. This was very valuable help, as it could have been difficult to convince the South African senior managers to participate in this study without a word from their respective headquarters. Usually, the strength of a case study methodology is very much dependent on the criteria set for the selection of concrete cases. The idea was to include corporations which had established their business operations in the RSA in the 1990s and/or before 1990, and these cases should have registered subsidiaries in the RSA. In Finland, I was hoping for two or more interviewees per corporation. The interviewees needed to be at a high-ranking managerial level and to have participated in the management team, which was involved in the decision-making process to expand business operations into the RSA. If these criteria could not be met, I would have been satisfied with any senior manager possessing deep insight into the expansion process into the RSA and the subsequent business operations in that country.

I also had criteria for selecting interviewees in the RSA. Firstly, I was looking for senior managers who had been in the subsidiary since the 1990s and preferably, had been there when the decision to expand operations into the RSA was taken. Secondly, they needed to occupy senior managerial positions and have deep insights into South African history, socio-political development and institutional changes taking place since the 1990s. Criteria for choosing the third group of people, those outside the companies, were that these informants needed to be people with a deep knowledge of South African history and with a good knowledge of the socio-political and economic processes taking place in the RSA. I was also looking for people who had somehow participated in the expansion process of Finnish corporations into the RSA.

I bought a list of the Finnish companies registered in the RSA in 2002 from FINPRO⁵. Once I started to contact these companies by telephone, it appeared that most of them did not really have a well-established business at that time. However, the people I spoke to immediately suggested other Finnish corporations which might be suitable for such a study. Using this snowball method, I continued to contact people and eliminated from the list the ones that were not interesting (or not interested in this study). The process was time consuming but after a few weeks, the names of 15 Finnish corporations emerged with well-established businesses in the RSA. After having established the names, addresses and contacts of these corporations, I then made contact with

⁵ Finpro is an association founded by Finnish companies. Clients are Finnish companies at different stages of internationalization. Its aim is to guarantee that Finnish companies, especially small and medium size companies, have access to high quality, comprehensive internationalization services around the world. (www.finpro.fi)

them by phone. After being connected to a variety of people, I finally spoke to the right person who was able to say exactly which person in the company would be suitable for an interview or who could give authorisation for such an interview. Of the 15 suitable corporations, only seven consented to participate.

In general, the literature does not recommend the exact number of cases to be included in a given research in order to generate valid knowledge. Even Patton (1990) does not provide any exact number of cases to be included. "*There are no rules*" for the number of cases in qualitative research (Perry 1998, p. 793). Duly considering this debate about the number of cases, I acquired fifteen potential cases and seven of these corporations consented to participate in the study. The corporations, who agreed to participate, also gave the name and position of the personnel to be interviewed in their respective subsidiaries in the RSA. I could not freely choose the person to meet and could not decide freely the exact number of people to interview in each corporation. The following table 3 indicates the names of the corporations and subsidiaries that participated in the whole study. The table also indicates the position and number of interviewees and the time of the interview. During this time, in order to gain more information about the change processes taking place in the RSA, obtain a better understanding of South African history and acquire more current information on the transformation going on in the RSA, I also interviewed the Managing Director of a Radio station called AMAC. In addition, I also interviewed the then Managing director of FINPRO South Africa, an organisation which has been very much involved in helping Finnish corporations to find the needed information for their internationalisation into the RSA. These two organisations are listed in table 3, but should not be counted as separate cases for this study.

For the purpose of this thesis and for reasons of space, I only present a deep analysis of four corporations. This was decided because the four corporations chosen operate in the same industry. Among the three corporations that will not be analysed deeper, one is a consulting company in pulp and paper, and the second is a consulting company in the label and packing industry. These two do not offer a good basis for comparison with the four cases chosen. The third corporation named Tamrock-Sandvik operates in the same industry as the chosen cases; however, it was left out because it is essentially dominated by Sandvik which a Swedish company. Primarily only Finnish corporations were used for this thesis. The three remaining cases will be analysed later for verification.

Before I interviewed people in different corporations, I asked the participants whether they would like their names and the names of

their corporations to be disclosed in my final reports. None of them saw any reason why their names should not be disclosed.

However, during my data coding, I decided not to fully disclose the name of the interviewees and thus kept their names in a separate file. Their respective positions and years of experience indicate that they have a very good knowledge of the phenomena of my interest.

Apart from the exploration of the literature on internationalisation, other information was collected from printed material, such as promotional material, annual reports, magazine articles and home pages on the internet and CDs. I received other internal documents in the form of market surveys and sales cases, from two subsidiaries. As these internal documents contain sensitive information about their market and sales figures, they will not be appended to this dissertation.

4.3.2 Data sources and data collection methods

The longitudinal research design requires particular procedures and principles to be used in data collection. This kind of activity is concerned with the research period, the events involved, and the interviewees participating. The research was concerned with the expansion process and it was during this period that data was collected for each case study involved. The cases started at different times, but mostly in the same time period, i.e. in the 1990s. Empirical data was collected following the recommendations of Yin (1994) using multiple sources of evidence, creating a case study assembly of evidence, establishing of a chain of evidence to link the research question, the data, and the conclusions. According to Yin (1994), there are six important sources of evidence in cases studies: documents, interviews, direct observations, participants-observations, physical artefacts, archival records. In this study, I also used multiple sources of evidence: documents, archival records, direct observations and interviews. However, the items most pertinent to this study were the interviews, documents and published materials, and the Web. These were the most important items for insightful first hand information. I mainly used semi-structured interviews⁶ both in Finland in 2002, and in the Republic of South Africa in 2002 and 2004. Based on the tentative REMNET-framework of corporate internationalisation (see figure 5), interview questions were grouped around the following themes (see appendix 1 and 2):

- Information on the interview and their own experiences, information on the corporation itself
- The mode of penetration and expansion strategies
- Business socio-cultural and institutional environment in which the cooperation is working

⁶ The semi-structured interview themes are provided in details in appendices 1 and 2.

Finland	Time	Position	South Africa	Time	Position
Metso Minerals Mineral processing Big size	24.05.2002 24.05.2002	Senior Vice P Senior Vice P	Metso Minerals South Africa Mineral processing (foundry) Big size	27.06.2002 27.06.2002 28.06.2002 24.11.2004 01.12.2004	Human Resources D. Operation Director Deputy secretary Human Resource D. Director (Foundry)
Metso Automation Automation process Pulp and paper Big size	06.05.2002	Senior Vice P	Metso Automation South Africa Automation process Pulp and paper , SME	26.06.2002 29.11.2004	Managing Director Managing Director
Larox Oy Mining industry Pressure filters Medium size	18.06.2002	Managing Director	Larox S.Africa Minign industry Pressure filters SME	28.06.2002 22.11.2004 22.11.2004	Managing director Managing director Operation and sales director
Outokumpu Mineral processing Big size	20.05.2002	Market Area Director	Outokumpu SA. Mineral processing Medium size	27.06.2002 23.11.2004 23.11.2004	Project & Sales D. Managing Director Chief Financial D
Jaakko Pöyry Consulting Pulp and paper, forestry etc. Big size	17.04.2002	Financial Director	Jaakko Pöyry SA Consulting, pulp and paper Medium size	26.06.2002 26.06.2002 30.11.2004	Managing Director Marketing Director Design Director
UPM- Raflatac UPM- Paper Label industry Big size	17.10.2002 01.10.2003	Market Area Director Former managing director RSA	UPM-Raflatac Label industry SME	02.12.2004	Managing Director
Tamrock-Sandvik Mineral processing Big size	15.05.2002	Market Area Director	Tamrock-Sandvik Mineral processing Big size	28.06.2002 25.11.2004	CFO and Vice P. CFO and Vice P.
			Radio Amac Finpro SA – Consulting Services	30.06.2002 25.06.2002	Managing D. Managing D.
↓			↓		
Total Interviews: 9			Total interviews : 21		

Table 3: List of cases involved, interviewees, positions, time and place of interviews

- Business networks and business relationships and key learning processes involved
- Impacts of the socio-economic and political environment
- Market and competition structures faced in the RSA
- Expansion and business strategies
- Events and temporality in the corporation's FME process into the RSA
- Integration of the subsidiary into the global structure
- Key strategies to deal with these problems and to conduct successful business operations
- Time and temporality and future prospects and challenges
- Problems linked to operating in the RSA and key success factors

Kvale (1997) indicates that in semi-structured interviews the question has not only a descriptive form, but also aims at drawing out the informant's spontaneous stories. The corporations, which participated in the study, have had export activities in the RSA before 1990, although they were forced to withdraw their operations during the UN-sanctions against the RSA. Later on, they could establish their own subsidiaries after sanctions were lifted. My research interest is mostly focused on the period starting from 1990 up to 2005, because it was during this period that the Republic of South Africa was going through socio-political and institutional changes, thus allowing most of the foreign corporations to establish their business operations freely in the Republic of South Africa. The reason why I conducted interviews only once with the respective headquarters in Finland was mainly because the focus of my unit of analysis was at the subsidiary level. Through the process, it became clearer that the business operation was influenced by the socio-political transformation (the En-factors) and that business networks and business relationships were constantly shaped by the business environment in which they were embedded (see Halinen & Törnroos 1998).

The interview data was collected retrospectively, and in the interviews, the respondents were asked to tell, in their own words, how the business operations had evolved and expanded and what kind of factors and events had been involved in the FME process. The interviews were conducted in the interviewees' offices except for five interviews, which were conducted either at restaurants or at hotels. All the interviews were conducted in English and were tape recorded with the permission of the interviewees. The interviews I conducted had a character very similar to what Kvale (1997) calls qualitative conversation interviews. These are defined as interviews whose purpose is to arrive at a description of the informant's life and world and with the aim of interpreting the meaning of the described phenomena (Johanson 2001).

The qualitative research interview is semi-structured, which according to Kvale (1997) means that it is neither an open conversation nor that it follows a strictly pre-structured questionnaire. It does not mean that the qualitative interview loses focus on the topic. Its focus is on a specific, in this case the FME process into a specific country, and tries to describe specific situations and courses of events in the informants' own words (Johanson 2001). Kvale (1997) established six qualitative criteria for an interview:

- First, it should be spontaneous, rich, and specific.
- Second, it should be characterised by short questions and long answers.
- Third, the interviewer should follow up and clarify the meaning of the answers during the interview.
- Fourth, ideally the interviewer should make interpretations
- Fifth, verify the interpretation during the interview.
- Finally, the interview should be self-communicating, that is, it should stand on its own as a story worth reading.

When using these six criteria, some difficulties occurred when conducting the interviews for this research, which I mention here. It took time to build up the confidence and the trust needed for these interviews. For instance, the fact that I came from a very distant and very different culture and that English language is not my mother tongue nor my first or second foreign language may also have affected the qualities described in the first and the second criteria. It may also affect clarification of meanings of answers, interpretation, verification of the interpretation during the interviews as required by the third, fourth and fifth criteria. In the RSA, I realised that the beginning of the interviews was not very spontaneous and easy. However, with time and through conversation, we built the necessary trust and all interviewees could speak freely. The second time I went there, I realised it was quite different and the atmosphere was much more open. My hosts invited me for lunch and dinner, which also added very much value to our conversation and data collection. The other problem related to data collection, could be associated with time and costs involved in travelling to the RSA, travelling within and from the RSA. These subsidiaries are not located in the same region. I had to travel to Johannesburg, Durban and Cape Town and arranging meetings and suitable times was an added problem.

4.4 Data reduction and data analysis process

The reduction process may be characterised as a compression and categorisation of a large volume of written text. Coffey and Atkinson (1996, p. 26) prefer to think in terms of generating concepts "*from and with our*

data, using coding as the means of achieving this". During the research process, the researcher brings fragments together and thereby creates categories, which have some common property or elements. Coding and retrieving are activities usually connected with coding as an analytical strategy. Coffey and Atkinson (1996) referred to Seidel and Kelle (1995), who said that the process involves noticing relevant phenomena, collecting examples of those phenomena, and analysing those phenomena in order to find common features, differences and structures. Coding is more than arranging data into various categories. Instead, it is identifying concepts, questioning the data and categories, testing provisional relationships among and within the data, and searching for antecedents and outcomes (Neuendorf 2002). Analysis of qualitative data depends on the capability of the researcher to integrate evidence from multiple sources (Benbasat et al. 1987; Silverman 1993; Miles & Huberman 1994). The analysis may not be as mechanical as the analysis of the quantitative data (Patton 1990; Miles & Huberman 1994) but the conclusions from these analyses are reliable (Silverman 1993).

As I conducted all the interviews myself, I had the opportunity to ask as many questions as necessary in order to have as much clarification as possible. Later on, I transcribed all the recorded data into written text. I read the transcribed data and I paid particular attention to discussions about issues, such as customer behaviour, institutional changes, and other factors, which were driving the FME process. Furthermore, I tried to ascribe further meanings to the apparent points that emerged from these analyses. Within case analyses, it is important to write a summary of each interview discussion, as well as the researcher's observations and analyses of the discussion. The researcher should include pertinent background information from each company's annual report and press releases in each case summary. The intention here is to become intimately familiar with each case as a stand-alone entity. Furthermore, it allows the researcher to make a more coherent analysis and better access in order to replicate or re-analysis, thus increasing the reliability of the findings.

For the reduction, process, categories generation, categories reductions, data analysis and sense-making process, I used the qualitative content analysis approach as suggested by Holsti (1969) and Miles and Huberman (1994). I went through 5 interconnected levels of analysis as shown in the following table 4. Subsequently, let me also describe the key processes involved in the data reductions and analysis processes of this study.

Level of analysis 1: Case description

Written material from interviews and from other printed material was available for analysis. Only four cases were chosen for the analysis. At level 1 analysis, I used descriptions of how different case companies have expanded their business operations into the RSA. At this first level of analysis, I looked through the written interview material and was able to identify useful interview extracts as indicated in table 4 for each case. I started by producing chronologies and case descriptions (see chapter 6) for the 4 cases involved. Henceforth, the following initials will be used for the respective cases:

- Case 1: **MMFI**=Metso Minerals Finland and **MMSA** = Metso Minerals S. Africa
- Case 2: **MAFI**= Metso Automation Finland and **MASA** = Metso Automation SA
- Case 3: **OKFI** = Outokumpu Finland and **OKSA** = Outokumpu South Africa
- Case 4: **LAFI** = Larox Finland and **LASA** = Larox South Africa

	Initial for the company, country, interviewee and year of interview	Level 1 Important extracts	Level 2 Category generations	Level 3 category reduction	Level 4 Category reduction	Level 5 Selective coding
Case 1	MMFIU02	96	69	63	18	24 Substantive categories
	MMSAR02	146	90	48	16	
	MMSAR04	130	145	90	20	
	Total	(Extracts) 372	304	201	54	
Case 2	MAFIK02	69	110	69	24	38 Substantive categories
	MASAG02	101	129	27	18	
	MASAC04	79	85	38	21	
	Total	(Extracts) 249	324	134	63	
Case 3	OKFIK02	58	95	46	20	16 Substantive categories
	OKSAH02	46	72	16	6	
	OKSAA04	64	60	28	12	
	Total	(Extracts) 168	227	90	38	
Case 4	LAFIK02	68	126	36	12	24 Substantive categories
	LASAJ02	72	85	24	10	
	LSAJ04	104	164	16	12	
	Total	(Extracts) 293	439	94	40	
TOTAL		1082 Usable extracts	1294 Generated categories	519 Reduced categories	195 Reduced categories	102 Substantive categories

Table 4: Reduction of narratives and coding process

With the case description, the objective was to try to become as familiar as possible with the data. The case descriptions centred on how these Finnish corporations have expanded their business operations into the RSA. In total, 1,082 useful extracts were chosen from the transcripts of interviews from the 4 cases (the number of useful extracts from each case is shown in table 4). After these case descriptions, I presented two working papers in different international conferences and received helpful comments.

Level of analysis 2: Data reduction and category generation

This level of analysis consisted of selecting interview extracts which had relevance to the research problem at hand. In this process, I was looking for extracts related to salient behaviour, events, beliefs, attitudes, structures, policies and other processes, which occurred in the FME into the RSA. This phase consisted of data reduction through category generation, and I managed to generate a different number of categories for each case. At this stage, from the 1,082 useful extracts, I generated a total number of 1,294 categories (for generated number of categories in each case see table 4).

Level of analysis 3: Category generation and category reduction

At this level of the analysis, I endeavoured to generate key categories in a process called open coding. These categories were grouped according to the common themes found at level 2 of the analysis. At this level of analysis, different behaviour, events, beliefs, attitudes, structures policies and other processes from the cases involved were compared to each other. Through this open coding process, I was able to reduce the number of categories from 1,294 categories to 519 categories.

Level of analysis 4: Category reduction through axial coding

At this level, the analysis is called axial coding. Here I looked for categories which described the forces and processes linking the events, beliefs attitudes, structures, policies identified in the level of analysis 3. Furthermore, I tried to look for the strategies shaping the FME into the RSA. At this level, categories were reduced according to their level of abstraction and from 519 categories I generated 195 categories.

Level of analysis 5: Selective Coding

The last level of analysis in this reduction process was the highest level of abstraction, which produced 102 substantive categories. Table 4 provides an overview of the reduction process and the number of categories created.

The reduction process, as described above and as presented in table 4, comprised a systematic comparison of small units of data and

involved a gradual construction of a system of concepts that described and explained the FME into the RSA, in these actual cases. In terms of methodological analysis, this means a hierarchy from the lower-level sub-properties and properties and their dimensions, towards the higher level categories. According to Strauss and Corbin (1994) and Glasser (1992), a category could be defined as a type of concept that could be used for a higher-level of abstraction, while a property could be defined as a conceptual characteristic of a category. From this perspective, properties are attributes that pertain to a category and could be at a lower level of abstraction than a category (see Strauss & Corbin 1994). The properties may have relevant sub-properties, which also had different dimensions.

In practice, the lower-level theoretical elements defined the higher-level ones. First a category was defined by its properties and later in the analysis, identifying the place of a category within the emergent REMNET-framework gave further clarification of the category definitions. In general, I stayed very close to the data in order to maintain accuracy and intensity. The theoretical structure, which was first built from existing literature, i.e. from the top, was reshaped from the bottom, in an abductive process through data analysis as indicated in table 4. In the case description and analysis (chapters 6 and 7), as evidence, I use important quotations from the useful extracts found during the reduction process as indicated in table 4. When quotations are used in the text, I provide the initials of the corporation, the country, year of the interview and the number which gives the location of the extracts in the stored reduced extracts. For example with the following quotation:

“So there is a lot of pressure on us to survive in the face of the mines putting off future growth until things stabilize. This is also the case with many aspects of industry in this country. So the exchange rate is playing a major role” (MMSAR0414).

The reference in brackets signifies that it is taken from an interview with a company named Metro Mines, conducted in the RSA (SA) or in Finland (FI) with a person called Richie (R) in 2004 (04) or 2002 (02). The number 14 indicates the rank and location of the used extract taken from a numbered list of the important extracts in the interview in question.

4.5 Reliability and validity

The issue of validity and reliability have been addressed in several studies (Guba & Lincoln 1994; Parkhe 1993; Sykes 1991; Yin 1994). These authors hold that the validity of any scientific study is a broader issue than just the quality of the collected data. Validity concerns the whole

research process, the adherence to generally accepted scientific values, the internal logic of a study and the external validity of its findings. As Brinberg and McGrath (1985, p. 13) put it, “*validity cannot be purchased with techniques*”. It is rather like integrity, character, or quality to be assessed relative to research purpose and circumstances. Several authors (e.g. Kidder 1981b; Yin 1989; Bryman 1988, 2002) mention the necessity of dealing with problems of construct validity, internal validity, external validity, and reliability, irrespective of the research adopted to study any social phenomenon.

As pointed out (Bryman 1988), the positivistic research approach and the “*interpretative*” or qualitative approach are not subject to the same criteria of validity and reliability. There is no generally accepted set of guidelines for the assessment of case studies (Eisenhardt 1989). Scientific principles are and should be common to all kinds of research, but it seems that many of the traditionally used concepts and measures of validity are not directly applicable to case studies. This issue has attracted many different conflicting views (Patton 1980, 1981, 1990; Norén 1990; Bacharach 1989; Yin 1989; Hirschman 1986). In general, there is suspicion directed towards using case study methods, especially in business and management research. Thus, compared to the use of surveys and experiments, the use of a case study has been viewed as a less desirable method for empirical research.

Based on Guba and Lincoln (1994), McGrath (1982), Parkhe (1993), Sykes (1991), Tsoukas (1989) and Yin (1994), it is possible to summarise some of the often-heard sceptical views against using case studies. Criticism is often heard from researchers with a positivist approach:

- Bias and tendency for case studies to use incomplete evidence
- The lack of rigour and objectivity in case studies
- Nothing can be deduced from a single case study
- The use of case study takes too much time and is too expensive
- The use of a case study generates too much documentation

The defendants of the use of case study methods of research in business studies state that these criticisms are not justified. These critics may come from a lack of understanding of the use of case studies. It is possible to generate new knowledge by using a case study. Yin (1989, 1994) and Eisenhardt (1989) affirm that case studies are not necessarily more time consuming than surveys, or more expensive in terms of money. These issues depend first on the researcher, the research problem at hand, and on the number of cases involved. The subtle skills of listening and understanding, the nuances provided by informants and the need to interpret and analyse case studies may prove to be difficult and not well understood. The major strength of the case study is that it al-

lows for triangulation of different data sets and the accounts of events, as well as the strategies, and activities within the same study. However, there are some weaknesses associated with using cases studies, especially in international business research:

- Particularly when using only a few cases, it is difficult to show whether the findings can be applied to other contexts.
- Using interviews, especially historical reconstruction, may present some weaknesses too, because when talking about something, people may forget important details or may omit some important details. This may be due to their unwillingness to reveal information or may be because they have forgotten how things were at that time (see Johanson 2001). The availability and selection of cases to include may significantly affect the research findings.

It is true that using case studies is not an easy option. Remenyi et al. (1998) identify some sources of difficulties in obtaining testimonials from informants: problem in getting access to important informants, difficulties encountered by individuals in being able to recall events accurately, the difficulty individuals may face in disclosing important feelings, the suspicion individuals may have about revealing information that might reflect poorly on themselves or their superiors. In section 9.4, I provide for a more thorough discussion and critical evaluation of reliability and validity in this study. In the following section I present the context of this study (the Republic of South Africa).

5 THE RSA: A RAINBOW COUNTRY OF GOLDEN OPPORTUNITIES

The Republic of South Africa occupies the Southern tip of the African continent and, except for a relatively small area in the northern Transvaal lies to the south of the Tropic of Capricorn. The Republic of South Africa covers a total area of 1,219,080 sq km (470,689 sq miles) and has common borders with several countries as depicted in the following map. Lesotho is surrounded by South African territory, lying within the eastern part of the republic.

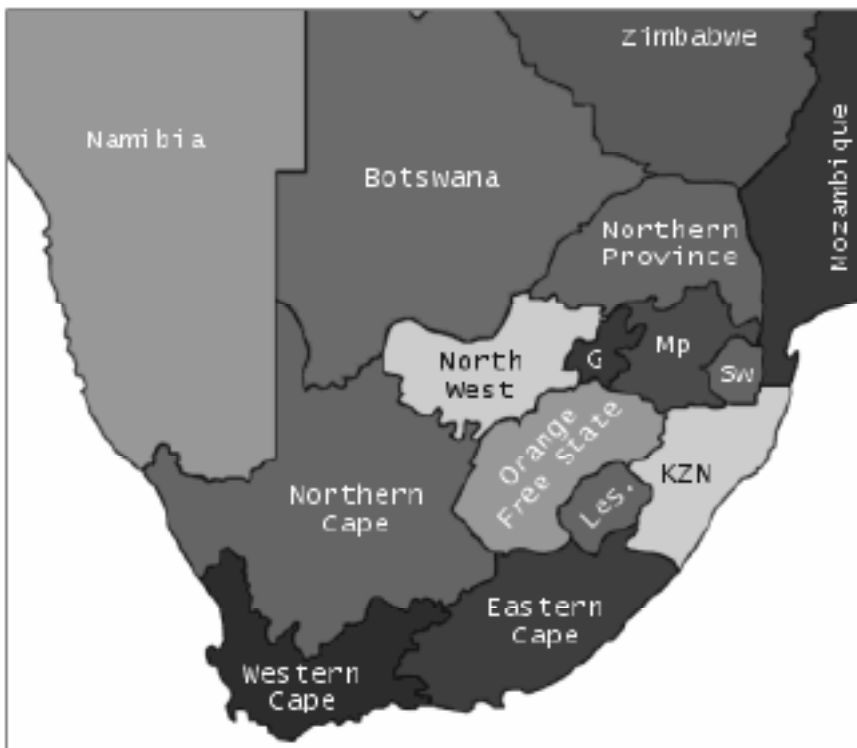


Figure 6: A map of Southern Africa
(<http://www.roamingafrica.com>, visited on the 09.04.2008)

5.1 South African contemporary history and internal pressure for change

Time/period	Historical critical events
1970	South African endeavoured to confer formal independence on the “Bantustans”
1976	Transkei established independence from South African financial support
1977	Bophuthatswana accepted independence from South African financial support
1979	Venda established independence from South African financial support
1981	Ciskei established independence from South African financial support
1970-1985	International community did not recognise these independences The imposition of independence was resisted by: Kwa Ndebele, KwaZulu
1978	The agglomeration of segregated African townships to the South West of Johannesburg known as SOWETO (South West Townships) erupted, police open fire. Uprisings in many Black African townships and many detained by the police
1980-1985	P.W. Botha took over as Prime Minister and gave more power to the army The State Security Council became the decision-making organisation The Role of the NP and of Parliament was progressively reduced.
1982	A hard line party was founded: The conservative Party of South Africa (CPSA)
1983	White voters approved the creation of a tri-cameral legislature in a referendum. With separate houses for the Whites population, Coloureds and Indians but without any Black population representation. A number of groups opposed to apartheid; many with church affiliations and multiracial memberships formed the United Democratic Front (UDF) to promote the rejection of the constitutional plan on the grounds that it failed to provide representation for the Black population
1984	Elections for the Coloureds’ House of Representatives and the Indian House of Delegates and in September P.W Botha became the first executive president
1985	Creation of The Congress of South African Trade Unions (COSATU) politically allied with the ANC. It demanded the abolition of pass restrictions, the withdrawals of foreign investments, and the release of Nelson Mandela. Violence escalated.
1986	Government imposed a state of emergency but violence continued
1985-1989	Opinion was growing that apartheid should be abandoned. The paramilitary Afrikaanse Weerstandsbeweging (AWB) created in 1977 actively recruited among the White population

Table 5: South African contemporary history and internal pressure for change. Based on information in VARIOUS 1990, p. 932-970⁷

⁷ For more information on events and business environment after 1990, see section 5.3

5.2 Industry and Import Substitution Policy (IS) and its consequences

As far as the manufacturing industry was concerned, the Import Substitution (IS) based on high tariffs and initiated during the 1940s, contributed to the weaknesses in the economic growth process of the Republic of South African. From the experience of a large number of countries in the Third World, the import protection policy did not bring the expected results in the long-term. Most important in the context of economic growth is the fact that IS tends to become progressively more difficult as the process advances over time and the interests of different branches of manufacturing clash. IS usually begins with non-durable consumer goods followed by consumer durables. These goods are made subject to high nominal tariffs (and/or import quotas), while intermediate products like capital goods and raw materials enter duty free or are subjected to only low rates. This makes for a high rate of effective protection. The maintenance of high output prices and downward pressure on the price of purchased inputs creates an ample margin, which may be used to bid successfully for labour, funds etc. and to yield profits. Once IS has run its course in the consumer goods industries, the process must be “backwards” in the production chain if it is to continue. Domestic production of firstly intermediate and later capital goods must begin (Lundahl et al. 1992).

South Africa followed this typical path with consumer goods giving way to producer goods over time. The country has been more or less self-sufficient in consumer goods since the 1950s. Thus, the only way to expand the domestic market has been through increased purchasing power. This had been realised by parts of the white urban business community as early as the 1920s and 1930s. They saw the African as a most important consumer group and therefore came out in favour of wage increases, even for the Africans. This would ensure the growth of the demand for consumer goods. The expansion of African incomes, however, has not been fast enough to maintain the growth of the consumer goods industry. Given this inherent limitation on industrial growth, IS extended backwards as well. Thus from the beginning of the conscious industrialisation policy in 1925, to 1982, the share of the light (consumer goods) industry in total value added in the manufacturing sector, fell from 63 to 37%. Metal products and machinery, in particular, increased their shares from 11% to 21 and 15%, respectively (Lundahl et al. 1992, p. 319). The IS program was weakened by the lack of an active export strategy, the reliance of industry on protection and ever more advanced machinery imports. Hence entrenching the international non-competitiveness of local production, which is a typical pattern for developing

countries with natural resources that have attempted to maintain import substitution behind a tariff wall (Lundahl et al. 1992, p. 319).

5.3 External pressure for change (period 1970 -1990)

By pushing protection and IS beyond the consumer goods stage, the South African government gradually raised costs to domestic producers to the extent that the later were forced to rely on expensive home-produced inputs instead of cheaper imports. The long-term effect was that real industrial growth diminished and the GDP diminished as well. In this situation, the general remedy against industrial stagnation caused by the IS was to switch to an export-oriented strategy. The South African Government at that time opted for a dual approach: retaining industrial protection combined with a selective promotion of manufacturing exports. Moreover, given the international reputation of South Africa at that time, it was a little bit difficult to expand industrial exports in the face of UN-sanctions and the organised consumer resistance abroad (1985-1990).

Furthermore, most African countries and some European countries had agreed to boycott the Republic of South Africa and its products. Some of them were even supporting the African National Congress (ANC) militarily and that fact made it difficult for the Republic of South Africa to keep on the apartheid policy. Thus, in the beginning of the 1990s, the steam had gone out of the South African growth machine. The expansion process generated a number of contradictions that have slowed the process down considerably. The need for change was great if per capita income was not to embark on a steady downward trend. It was not only the African organisations, in particularly the ANC, that were arguing for the apartheid system to be abolished, but also the capital owners, although for completely different reasons. In 1990, apartheid had turned into an anachronism that prevented the economy from obtaining its "old" growth (see Lundahl et al. 1992).

5.4 South African business environment facing foreign companies

5.4.1 Institutional environment

The beginning of the 1990s was still characterised by political violence in the RSA. It was a decisive period in which rival political parties finally agreed on a peaceful settlement, which led to general elections in 1994. On the business side, there were positive signs. Most of the foreign corporations knew that if the RSA could stabilise socio-politi-

cally, it was going to offer business opportunities. In the beginning of 1990, the borders were reopened again, there was a huge demand for spare-parts, for upgrades, for software developments, and for most of the businesses, and it was a major opportunity.

Many companies (such as the Finnish corporations) could realise seize the opportunity in order to have leverage on the South African market. Thus, Finnish corporations were among those who followed enthusiastically what was happening in that market and most of them returned as early as 1990, to restart their business operations. However, due to the uncertainty prevailing in the business environment at that time, most of the Finnish corporations started on a very small scale. The period from 1995-2000 was characterised by a period of political calm, which started directly after the general elections. The period was characterised by different institutional reforms and regulations with the aim of correcting past policies. During this same period, the government introduced institutional changes, which, later on, have proven to be challenges for the business environment.

5.4.2 Socio-political environment

The most interesting achievement was the political pluralism and the first peaceful multiracial elections held in the country. The new leadership started to redress the past mainly in human resource and entrepreneurial issues in a process called affirmative actions (see Visagie 1999). However, in most cases, this did not give the expected results. It proved to cause additional problems for foreign and local firms, as the government started to implement new laws concerning business activities. According to Pichard (1994), sometimes elements of the legal and regulatory environment were inconsistent and contradictory, thus creating a confusing business environment for both domestic and foreign firms. In the following section, some of the institutional changes that have been said to cause extra costs to businesses are presented. These changes come under the heading of: Employment Equity Act (EEA); Black Economic Empowerment. Both are known in a process called affirmative actions and Employment Equity (see Sachs 1992).

Affirmative actions

According to Van Jaarsveld (2000), defining affirmative actions without reference to justice and equality is impossible. She divided the concept of justice into two categories: distributive justice, which refers to an obligation to expand actions for beneficiaries (give them the chance they should have had) and correctional justice, which refers to equitable conduct in order to achieve the goal of equality. Equality, in turn, refers to the principles of similar treatment irrespective of background or race.

From this perspective, affirmative actions should refer to programmes, which lift the discriminated groups into higher participation with the effect of a reversal of earlier discrimination. Thus, affirmative actions could be seen as an “auditing system” which alerts organisations about discrepancies between qualified citizens and their utilisation in the organisation, whilst demanding correctional action regarding racial imbalances, which the system has pointed out (Van Jaarsveld 2000, p. 6).

In the RSA, affirmative actions were described as a tool of justice, which could rectify past discrimination practices whilst contributing to the demand for equality and equity. It is suggested that affirmative actions’ should be defined as an active attempt to integrate and bring about social reconstruction. These policies are not new, in that they have been applied in other countries such the USA. However, in the USA, they have been subject to debate. For instance, in the USA critics argue that affirmative actions, which were in favour of Blacks, female and other previously disadvantaged people were a revised discrimination which should not be promoted (on a process of reverse discrimination in USA, see Rossum 1980). In the case of the RSA, affirmative auctions means that companies operating in South Africa need to have a plan whereby they bring people who were previously disadvantaged, in top management positions and in other positions as well. It governs the recruiting processes and skills mix processes (see Van Jaarsveld 2000).

Companies have to pay attention to previously disadvantaged members of the labour force: Black people, Coloured people, Indian, as well as women and people with disabilities. During the period 1995-2000, these requirements were somehow hard to fulfil. This was because the Black majority lacked the required skills to participate in sophisticated industrial processes. Blacks and other previously disadvantaged people who possessed skills started to ask for higher wages. Most companies applied affirmative auctions in fear of legal penalties. In the beginning, this process applied mostly to those companies with a local organisation with more than 50 employees, and the legislation was not a uniform thing, because it applied differently to companies of different sizes. A company of about 50 and less employees has to submit a report each year to the government on how they are succeeding with the plan of trying to increase the number of Blacks in all level of hierarchies (also in management). The problem with foreign corporations could be summarised in the following statement:

“Our problem in this particular company is that we are quite a high-tech company selling what we call smart and computerised products. Because of the previous education system which was in this country, with a better education reserved for the White population and the poor education reserved for the Black populations, we have

a headache in finding Black people who could fill the positions as we require" (MASAG0246).

From discussion with different people in the RSA, it was possible to understand that companies especially the SMEs, may have problems in applying affirmative actions. Their resources may not permit them to train engineers or other people in the senior management positions and if they do not do that, they could face legal penalties from the government and that may affect the way the companies operate. Widely linked to the affirmative actions is the Immigration Act, which refers to the fact that companies operating in the RSA, if they need to employ somebody from abroad, would also have to employ a previously disadvantaged person to co-train and to take the position after the foreigner worker leaves. The other problem, which characterises the RSA business environment, is that some of the "*white skills*" left the RSA and that resulted in shortage of skills, especially through the 1990s up to 2002.

Another factor that changed South Africa was the Labour Unions; especially the Black dominated Labour Unions. This was due to the fact the apartheid system outlawed the black political parties such as, for instance, the ANC and the Pan African Congress (PAC). Instead, Labour Unions became quite different from their West European counterparts, where they mainly look after people's labour relations. In the case of South Africa, Labour Unions became politicised, they almost became like political parties. As the apartheid went on, Black South Africans united in those unions and constituted the forces that were later on, the cornerstone of the democratic government in 1994. Those Labour Unions exerted a lot of pressure on White dominated employers.

The black majority rule has resulted in what people call "labour friendly legislation" which has made it difficult for companies to dismiss employees (even for incompetence). Based on Thomas (2002) on employment equity in the RSA, affirmative actions have caused both strategic and operational concerns (on the pro and cons of policy and practice of affirmative actions see Tomasson et al. 1996). Based on Thomas (2002, pp. 238-239), in the following, I summarise the strategic concerns in nine points.

- 1 Overregulation of the labour market could lead to a decrease in the FDIs and SMEs
- 2 Administrative burdens would increase and legal structures could be overloaded
- 3 Heavy administrative costs in the private sector
- 4 Shortage of skills in some sectors could make skills (Blacks) more expensive and unaffordable in some cases. Hiring a Black engineer would be more expensive than hiring a White

engineer with the same qualification.

- 5 New entrants to labour markets would simply shift from one employer to others (who pay more)
- 6 Indirect and opportunity cost will increase because of decisions to hire based on poor criteria.
- 7 Race classification will be heightened and reverse discrimination will lead to serious problems
- 8 People from designated racial groups who will still require training and development will have unrealistic short-term expectations that may increase further racial and social conflicts
- 9 Those from designated groups, expecting secured positions may adopt a culture of entitlement that undermines initiatives, self-confidence and self-reliance

On the operational side, there could be problems at the work place such as:

- a) Adversarial relationships, lack of trust and communication between individuals and groups
- b) Poor teamwork, apparent absence of employee commitment and motivation towards organisational goals
- c) High staff turnover especially amongst those from designated groups
- d) Industrial conflicts and low level of productivity, profitability, quality and customer service and so on (see Thomas 2002, pp. 239-241).

Black Economic Empowerment (BEE)

Black Economic Empowerment (BEE) which is a program launched by the South African government to redress the inequalities of the past by giving previously disadvantaged groups (Africans, Coloureds and Indians) economic opportunities. It includes measures such as employment equity and skills development, targets for ownership and management and preferential procurement. This policy was adopted especially after the general elections took place and at the advent of the majority rule in 1994. This policy has had different effects: first, the policy has seen the development and acquirement of businesses by capable and educated persons who were historically disadvantaged. Through setting quotas for previously disadvantaged ownership of companies across various significant economic sectors in the RSA, including but not limited to mining, financial services, ICT, tourism and agriculture, some new economic players have entered the business environment.

Critics against Black Economic Empowerment in the RSA

For instance, there have been allegations that Black Economic Empowerment (BEE) is being used to enrich small, politically well-connected

elites, while leaving the majority of poor Black South Africans unaffected. This in effect leads to increasing the gap between the rich and the poor through making the rich people richer and poor people poorer. These allegations have arisen because many beneficiaries of BEE have so far been those with close links to the ruling party, the African National Congress (ANC). Instead of companies hiring a person with the best skills in their field, a person with less knowledge could get the job if they fit the BEE criteria (for a more elaborated criticism against BEE, see Pillay 2004). In cases where success in business depends on extremely close relationships between business people and state institutions rather than the espoused “*equitable*” concepts of the free market; open competition, and economic liberalism, may suffer. This may also go hand in hand with corruption, which may be exhibited by favouritism in the distribution of legal permits, bank loans, government grants; special tax breaks and so forth (see Pillay 2004).

According to Thomas (2002), many experienced professionals (mostly young Whites) found it hard to find work and preferred to relocate in foreign countries, which lead to a decrease in the general professionalism and experience of the South African work force, which is detrimental to the economy as a whole. This criticism is based on the consideration of social background before qualifications when hiring new employees. Instead of using this type of policy, it has been suggested that a policy of qualification equality could be provided by allowing businesses to focus on employing the person with the highest qualifications, the most experience, and the best recommendations. There have been many voices saying that the government could achieve better results by allowing the previously disadvantaged to achieve higher qualifications first. These voices posit that the government could put more money into secondary and tertiary education, perhaps subsidising high schools and universities to provide the required resources such as textbooks for the previously disadvantaged students. In addition, to allow for those previously disadvantaged being able to gain work experience in industry, they suggest that the government could subsidise companies wishing to employ them. The government counters these critics by saying that such a process would be rather slow.

Up to the present, companies are not directly forced to apply these measures. However, the government has found indirect mechanisms to ask companies to adhere to the affirmative actions and to BEE-processes. The government does it through the big customers, who in many cases are state owned or have a large public share. For instance, the major mining companies are trying to improve their scorecards in these matters and are looking to their suppliers and asking them to be a part of the process. In addition, business dealings with government-owned

corporations must first show how they have adopted these structures; or else companies (suppliers) may not get contracts. Thus, today not only is the government asking suppliers to comply with these structures, but also the industrial customers are asking their suppliers to show how they have applied these structures in their processes as well. Customers also ask how suppliers use Black empowered companies as sub-contractors, how far they have come with employment equity and how far they have managed to have shareholders from the previously disadvantaged groups. In addition, foreign corporations operating in the RSA are not exempt from these BEE processes either. In the following, I present the market structure and competition structure faced by companies operating in the RSA.

5.4.3 Production and market structure facing Finnish corporations in the RSA

Due to the sanctions imposed by the UN in the 1980s, many foreign firms divested their business operations and others have adopted a wait and see policy preferring to serve South African market from abroad. The reintegration of the RSA into the international capital market and its financial reforms has also contributed to the growing participation of foreign investors in its financial markets. Short-term investments have represented the largest part of capital inflows to the RSA since the 1994 political changes. The short-term structure of capital inflows has enhanced the vulnerability of the South African economic situation. Compounded by uncertainties in the South African foreign exchange market and the depreciation of the currency (Rand) under the transition period, it favoured large speculative capital outflows, especially in during 1996.

The market structure has long been characterised by a few industrial producers based on a few large oligopolies both private and state-owned conglomerates and this has resulted in high prices. During the UN-led sanctions, local companies were able to develop their technologies by pirating or copying the available technologies in the West. This phenomenon called "*reverse engineering*" has lead local South African firms to become "powerful" actors in the home market and after the sanctions were lifted, some of these big companies are becoming key players on the global scene. However, even if the South African technology is advanced, it does not match the Western technologies in all sectors, there is still a need for foreign technology to complement the existing ones. During 1985-1990 (under UN-sanctions), the few powerful producers could decide on pricing and the buyers did not have

much choice. It was difficult or forbidden to have contact with other international suppliers.

Since the 1990s, the rule of supply and demand is the same in the RSA as anywhere else in emergent economies. Balance between supply and demand is achieved through decisions made by firms and consumers, where prices for goods and services are liberalised. Furthermore, the cessation of sanctions against South Africa exposed the South African local companies to international competition. This happened through privatisation of state owned-companies and through the opening of markets to foreign competition and the rise of new ownership in the process of BEE. Barriers to competition were gradually removed. The competition is high and customers for industrial products are becoming more and more sophisticated. This fact is putting pressure on both local and foreign suppliers to compete with high quality, low prices and other means as in the Western markets. American, European and Japanese suppliers are competing to gain access to that growing market and most of them see probable extension of their markets beyond South African borders to its neighbouring countries (see figure 6).

South Africa's physical infrastructure is one of the best on the continent. Modern technologies, highly skilled human resources, roads, harbours and the banking system are outstanding and have been developed due to the revenues from the mining industry. The RSA has one of the best telecommunications liaisons over the entire African continent. Due to the rise in energy needs and to an increase in the middle classes in many different parts of the country, the electrical system, which used to be one of the best on the continent, is facing problems linked to shortages. This has led to the closure of some gold mines and to other social problems. Although there are many problems associated with operating in the RSA, six problems sources have emerged as causing the most difficulties in operating in the RSA:

- 1 The brain drain observed since the 1990s has proven to be a serious problem. Skilled White people have left for Europe, USA, and Australia and for other countries.
- 2 According to a survey for the period 1998-2000, compiled by the UN, South Africa was ranked first per capita for murder by firearms and rape, and was also second for assault and murder per capita. This high crime level has had a pronounced effect on society: many wealthier South Africans moved into gated communities (see Thomas 2002), abandoning the central business districts of some cities for the relative security of suburbs. Some people who left the RSA also state that crime was a great inducement for them to leave the RSA. Crime against commercial farmers has continued to be a major problem in the coun-

try and has resulted in thousands either emigrating or giving up their profession. South Africa also has a terrible record for car highjacking. The crime phenomenon is not unique in the RSA, but the problem is that once combined with other negative aspects in the society, it might influence the perceptions of foreign firms who wish to expand their business operations to the RSA. These investors may perceive the RSA as an unsafe country. However, violent crimes such as murder and armed robberies have decreased in recent years. In 2006, rape was still prevalent through the country.

- 3 The other serious problem affecting the business environment indirectly is the high rate of HIV/AIDS and the number of cases of corruption in business practices.
- 4 Other problems in the 1990s and early 2000s were of macro economic nature with the changing rate of inflation and exchange rate fluctuation; high level of unemployment in some regions, institutional instability and corruption in some circles.
- 5 Adversary relationships between black South Africans and immigrants from neighbour countries. Many foreign workers have been target for violent attacks and have been driven from their works and their homes. This problem, together with other socio-political problems created insecurity in the South African business environment, especially in the mining sector.
- 6 The high level of economic inequality between whites and blacks also acts as source of tensions and turbulence in many cases.

In summary, the business environment seems to be very different from most of the business environments in the West. However, based on the turbulent history of South African, both foreign and local firms should note that the creation of equality between labour management, and between the wealthy White business class and the rest of the mainly-non White labour force augurs well for the long-term stability of the country. In addition, the BEE process and the participation of Historically Disadvantaged South African (HDSA) in the overall economic activities should in the long-term create more business opportunities as the number of people in the middle class rise. Considering the severe discrimination of the apartheid era against the Non-White South African population, a long period of reforms will be needed to create a modern egalitarian society.

5.5 Importance of the RSA for foreign corporations

The political and economic development, the infrastructure, the financial structure, the market structure and its geographical location point to the fact that the RSA could play a positive role both for foreign corporations and for the African continent in general (World Bank 2000). Firstly, the Republic of South Africa offers a good market and many business opportunities. For instance, the process industries and telecommunication could have many good opportunities there. Secondly, the RSA offers good raw materials and a low cost base for business operations and manufacturing. Thirdly, as its role on the African continent is increasing, the RSA is expected to be used as a springboard to other markets as well. The mining industry has seen a considerable shift from the traditional minerals (e.g. gold) towards platinum. Platinum, being used in the car industry and in the worldwide jewellery market, has seen its price increase. For instance, the demand of jewellery in India and China has contributed to the rise in mining activities to extract platinum. The RSA has more reserves of platinum than most other countries. Furthermore, a deliberate strategy on behalf of the South African and Nigerian governments has taken place especially with the creation of the new concept called New Economic Partnership and Development (NEPAD), which is trying to develop the whole of Africa into a new economic partnership (Lundahl 2004). South Africa together with Nigeria, Senegal and few other African countries are trying to make African countries deal with African problems, and to do business with other blocks such as America and Europe, as equal partners.

“We in Africa, have realised that the worldwide economy is going to leave us behind if we do not make a stand and try to become more proactive in it” (MASAG0215).

Politically the RSA is gaining strength on the African continent and with the NEPAD initiative; the RSA could even increase its future influence. The RSA has participated in different mediation efforts to tackle most of the conflicts ravaging the continent and in most cases; it sends troops as peace keeping forces. Economically, with its relatively cheap technology, the RSA is a net supplier to most of the African countries.

The globalisation of South African corporations, mostly in regards to pulp and paper, is also an interesting phenomenon for Finnish corporations. This globalisation process makes the South African business environment easy to operate in, because these expanding South African businesses also have to learn how to operate on a global scene. In the RSA, both the suppliers (foreign) and the customers (based in the RSA) speak the same “*technical language*” thus reducing their cultural distance. This is summarised in the following quote:

“In the RSA customers are technical and not economic buyers. They love technology and are very highly skilled people” (LAFIK0228).

In addition, it is even possible to be able to join forces with South African companies in order to gain access to other markets outside Africa. Subsidiaries placed in the RSA also play a positive role in the global network. They act as both profit and knowledge-centres. As we will see later in chapters 6 and 7; the RSA has acted as a testing ground and as a profit centre for most of the Finnish corporations involved in that market. In summary, the RSA is expected to act as a knowledge-source for foreign corporations who want to get involved in businesses in Africa and positive signs have started to come from some potential markets such as Angola, Botswana, Zambia, Namibia, Tanzania, Kenya and other markets in West Africa such as Ghana, Nigeria, Senegal etc.

5.6 Summarising discussion on the RSA as a context for foreign corporations

Looking at the changes that have taken place in the RSA, we could divide these change processes into three kinds of dynamic processes: systemic, structural, and behavioural (for more about these processes, see Nieminen 1994). These dynamic change processes are not separate from each other. The systemic change concerns the dimension, which aims to meet the challenges of a democracy and market economy. It includes the political actions, such as the establishment of new legislative and institutional regulations. The two basic patterns of political and economic transition at the systemic level have been the lifting of sanctions and the new trade policy. In developing institutions, such as the legal system, correcting past practices, takes time, perhaps even decades, because it involves such a fundamental change in skills, organisations and changes in attitudes.

Complexity is not the only reason reforms may be delayed; politics can also impede the process, as often happens in reforming social programs (World Bank 2003, p. 9). Change of behavioural patterns at the micro-level is likely to be the hardest and slowest of the change processes as the informal social norms and cultural characteristics are not subject to change by laws and regulations (see Nieminen 1994). All these three change processes influence the business environment and practices in the RSA. Therefore, they also form the specific context for the FME-process into the RSA. The systemic change leads to economic and political structures, laws and regulations, which influence the business transactions to which an organisation must adjust. The structural change leads to the emergence of new actors and the disappearance or restructuring of old actors in the market. The structural change is

likely to influence the industry structure and the network context for foreign corporations. The behavioural change process together with the macro-level institutions defines the “correct” behaviour in business relationships at the level of both organisation and individual interactions. In the next chapter 6, I present four Finnish corporations and their expansion process into the Republic of South Africa during the period of 1990-2005.

6 CASE DESCRIPTIONS AND ANALYSIS

In this chapter, the study provides an extensive description of the FME process of the four Finnish corporations as presented earlier in table 3. These cases are: Metso Minerals, Metso Automation, Outokumpu and Larox corporations. The case descriptions are based on interviews with senior managers both in Finland and in their subsidiaries in the RSA. A complete list of all involved interviewees and the time of the interviews were provided in table 3. Interview themes are provided in appendices 1 and 2. In addition, other information was collected from printed material, such as promotional material, annual reports, magazine articles, home pages on the internet and audio-visual material from these corporations. Other internal documents in the form of market surveys and sales cases, from two subsidiaries were used.

The case descriptions and analysis in this chapter are structured in the following way: first, I present a brief history of the corporations, their business ideas and key business processes and growth strategies during 1990-2005. Second, the South African business environment, competition, customers, and key business relationships each corporation is involved in are presented. Third, the dissertation presents the main key events that shaped their expansion process into the RSA. The aim is to follow the flow of the decisions and processes that shaped the FME process in which these four cases were involved. The discussion covers the important elements, trends and events that changed the internal and/or the external conditions in these corporations and which led to certain actions and behaviour in these cases. It is worth noting that I have relied on the interviewees' own evaluation of how they assigned importance to certain changes in condition, decisions and actions/interactions and the consequences of their business operations. Thus, this chapter aims at providing answer to the following research question: *"How have Finnish corporations penetrated and expanded their business operations into the RSA between 1990 and 2005?"*. Next, section 6.1 starts with a description of Metso Minerals and its overall growth strategy. The section continues with its expansion overall expansion process into the RSA.

6.1 The case of Metso Minerals

6.1.1 Company description and its overall growth strategy

Metso Minerals is the largest member of the worldwide Metso Corporation, it is a global multinational engineering company that designs,

develops, and produces systems, automation solutions, machinery, and equipment for process industries. Metso Corporation's business operation is divided into four business areas: Metso Paper, Metso Minerals, Metso Automation, and Metso Venture.

"This is a good balance in strategic portfolios because when paper's cycle goes down, mineral processing should even out those cycles. Thus, we have built a company that has four legs to stand on" (MMFIU028).

Metso Minerals covers production and marketing of rock and mineral processing solutions for quarries, mines, and civil engineering contractors. The segment also covers metal recycling equipment. Metso Minerals specialises in the supply of complete crushing plants.

The history of Metso Minerals and its domestic market conditions before the 1990s points to the fact that Metso Minerals is the result of a series of acquisitions and mergers combining different technologies in the mineral processing businesses. Formerly in the early 1980s the site of Metso Minerals in Tampere (Finland) was the largest corporation in Finland producing the entire off road equipment needed to rebuild Finland in the post-war period. At that time a company called Rauma Oy, started manufacturing mechanical and hydraulic excavators, vibrating rollers, road building equipment, mobile cranes, crushers and anything to do with heavy engineering. In the 1980s, the management of Rauma Oy noticed that excavators had become a global business. As the company felt it was too late to continue with this development, they sold the excavator business, started to prepare their other business, crushing and screening, to go global. In the early 1980s, the company sold all its activities except crushing. The money from the sales was re-invested into crusher products and marketing. Then, in the mid-1980s, Nordberg's European operations⁸ and Rauma merged with Swedala (Swedish corporation) to form the Metso Minerals (later on after series of other acquisitions and mergers the whole group became Metso Corporation which comprises Metso Paper, Metso Minerals, Metso Automation, and Metso Venture).

Looking at its growth path, the desire to grow globally is the key drive of Metso Minerals; it has been able to keep up with advanced technology and information processing in order to offer high-class products according to the different demands of the markets. Metso Minerals' background and characteristics indicate that it is a very powerful global corporation with great resources and capabilities. Its core competencies reside primarily in its worldwide production and well-structured sale and distribution network. These exclusive capabilities are demonstrated by its abilities to provide fast and reliable deliver-

8 Nordberg Inc. was an American corporation.

ies and services when required. The group has a global structure with production concentrated in a few centres in Europe, America, Canada, and Australia. Supporting Metso Minerals are the excellent foundries, which participate in the manufacturing of the core components of the crushing equipment. The concentration of production centres in these locations enables the whole group to achieve greater synergies as well as the full utilisation of the employees' unique technological and market knowledge. Looking at its expansion process, Metso Minerals' competence also lies in its innovative capabilities, which are shown by the continuous introduction of new products as well as the involvement of the divisions in every stage of the product's life cycle from the R&D to the introduction of new products through manufacture, sales and distribution and installation to after sales maintenance. This structure enables greater interaction between marketing and manufacturing functions and this facilitates the feedback, which is crucial for R&D and for innovation.

6.1.2 Metso Minerals and its FME into the RSA during 1990-2005

The choice of entry and expansion strategy is dependent on many different factors. Metso Minerals' size, financial and human resources together with its core capabilities and competence made its worldwide expansion possible. In addition, its FME expansion strategy has partly been influenced by its domestic conditions. Finland is one of the leading rock-crushing equipment and technology providers worldwide with one of the most sophisticated mining support industries. Furthermore, Finland has an advantage due to its proximity to the Russian mining market. The strong need for mechanisation in the Finnish mining industry, so as to offset the increase in mining costs in 1970-1980s, has increased the competence of companies such as Metso Minerals to meet those demands, which in turn improved the company's resource and capabilities through improved know-how.

Domestic conditions encouraged Metso Minerals to locate most of its value-adding activities in the home market due to its established links with other industries. Due to its internal beliefs and desire to become the first in the market worldwide, Rauma (the Finnish corporation which, after a series of acquisitions and mergers became Metso Minerals) realised that it needed to focus its energy on very few core technologies. Furthermore, the company's internal capabilities and resources as well as the conditions in the RSA market that made it possible for such foreign corporations to own businesses in the RSA without any barriers, have guided the choice of the model used.

For corporations in global industries such as Metso Minerals, the advantage lies in the ability of the company to offer high quality products at relatively low costs. Metso Minerals adopted that strategy by restructuring the group's global business operations and locating them where they are most effective and from where they serve the entire network through efficient sales and distribution networks. Locating production in a few centres encourages greater capability in the firm, through concentration on special activities. It also enables greater flexibility, which is crucial for an industry that may be vulnerable to global economic recessions or to local institutional changes in most emergent economies.

Metso Minerals' global structure also calls for a greater control of its foreign business operations in order to fulfil its need to coordinate the different units in its global networks. Thus, the strategy of being near all these markets should, in the end, increase greater utilisation of existing resources through synergies. The replacement of a local agent or distributor with the group's own subsidiary provides the group with a stronger grip on its position in the markets. It also gives an opportunity to the firm to gain first hand knowledge and information about changing market conditions, rather than through a second source, such as an agent. The Republic of South Africa is in a good position to serve as a gateway to other African markets in the region. At the same time, it enabled the group to maintain its global image as a high quality company.

In order to maintain its reputation for high quality products, it had to acquire the best of its competitors, Nordberg and later on Swedala. After completing these acquisitions, Rauma the whole group became Metso Corporation. The acquisition of Nordberg by Rauma occurred in 1988 during the UN-led sanctions against the RSA. As Finnish corporations were not allowed to trade with the RSA during sanctions, Rauma sold the South African portion as an MBO to South African employees and the deal was structured that after sanctions were over, Rauma would buy back the Nordberg South African business operations. Thus, buying back Nordberg South African business operations and acquiring a foundry from AMIC (an American company which used to be a key supplier of raw material to Nordberg), the group acquired a better position in order to pursue its long-term objectives. The group then acquired full control of these operations and of the raw material from AMIC. Consequently, for Rauma, the move to buy back Nordberg South Africa and later to acquire an existing foundry was a strategic move to minimise the risk of losing these specific resources to competitors.

Even before these acquisitions took place, the Finnish corporations did not want to use other contractual arrangements that would jeop-

ardise their product's quality. Instead, they chose to operate through local distributors (agents) while the products and engineering came entirely from Finland. Seen from this perspective, the company's image and keeping its own key brands were very important. The move to set up its own sales subsidiaries, assembly plants, production plants and to back those with their own foundries allowed Metso Minerals to bring the South African market into its global network as a part of a coordinated system without hindrance from outside parties. The South African foundry plays a considerable role in supplying the whole group and it is natural to have a contingency plan, just in case something unexpected happens. Companies do not like to disclose their contingency strategies to outsiders but here we could assume that in case something happened, Metso Minerals would have alternative supplies from other foundries located in other countries. It may be costly to obtain access to these resources that are probably owned by other companies, but at the same time, this is not an impossible for a company of Metso Minerals' size.

Looking at the worldwide expansion process of Metso Minerals, I would suggest that Metso Minerals is a very experienced corporation with operations in many different cultures. It has been operating in many different countries in Europe, America, Australia, and Asian markets. This experience combined with its other capabilities and resources (internal and external) made it possible to take a corporate decision to acquire other assets in the South African market. Four kinds of corporate motives emerge from the discussion just presented: seeking local markets, following competitors into foreign markets, finding a gateway into other markets and resource seeking. Later on, the subsequent investments are driven by the intention to become closer to customers and to develop appropriate solutions for them and with them.

6.1.3 Host business environment facing Metso Minerals

The business environment and specific conditions in the RSA played a major role in shaping the FME process into the RSA. Once the political changes started and once the risk perceptions became low, the shares of Nordberg South Africa were re-purchased. The lack of heavy commitment to the South African market before 1990 was due to the perceived political instability and the uncertainty and risks attributed to the increasing political violence within the country.

The competitive situation in the RSA reveals that the South African market has opened up for foreign competitors. In addition, on several occasions, Metso Minerals found themselves in a price war with other Finnish-based competitors such as Outokumpu and Larox. Looking at

the expansion process of their business operations, Metso Minerals has not made any major changes in its operation strategies except the restructuring of its organisation to integrate the acquired corporations. Its size and its resources and capabilities allow the company to fight the competition for a share of the big market. Through acquisitions it acquired companies and kept the customer base and markets of these companies. The problem was in coordinating business operations, and in this area, Metso Minerals had to improve its competence and capabilities to keep its position as one of the market leaders. The size of the customers and their degree of internationalisation has also been stated as one of the major factors among many that affected Metso Minerals' expansion process into the Republic of South Africa. These giants, being global companies, dictate their conditions to Metso Minerals. These customers may dictate how they want their products and what kind of partnership they want with a particular supplier.

The institutional changes, for instance, through affirmative actions are said to be one of the significant changes that affected the expansion process and operation strategies of Metso Minerals in the RSA. For instance, the role of the Labour Unions and the government requirements in the affirmative actions and BEE, have major impacts on Metso Minerals business operations processes and direction. Metso Minerals South Africa, being of a considerable size, is very much affected by the issue of affirmative actions and BEE, more than any other single Finnish-based corporation operating in the RSA market and it costs a lot of time and money. In addition, problems such as crime, lack of skills, and HIV (especially in the mining sector) have had indirect effects on Metso Minerals. Metso Minerals South Africa, being of a large size in the RSA, has to comply with these structures and this has caused problems as the government has created mechanisms to force companies like Metso Minerals to embrace this process. The government puts pressure on Metso Minerals by saying that if it wants to obtain a particular contract with the government or a non-governmental organisation (e.g. ports or railways); it has to increasingly use black empowered companies. Even their major customers, also require Metso Minerals to account for how they have used these black empowerment companies. Indirectly, this Black Economic Empowerment initiative puts pressure on Metso Minerals, as they feel indirectly forced to forge business relationships, alliances, and networks with these relatively newly empowered companies.

“We are forced into this formal vehicle that takes a lot of time and energy” (MMSAF0237).

The other macro-economic problem affecting its business operation in the RSA is associated with the local currency (Rand) losing value, es-

pecially at the end of 1999 and in the beginning of 2000. This has had a major negative impact on the subsidiaries importing foreign equipment, as the value of the equipment was seen as more expensive to the local customers. Later on in 2004, it was the opposite as the local currency strengthened against major foreign currencies, and most of the mining corporations put their projects on hold. This had a very negative effect on the growth of Metso Minerals South Africa. The strengthening of the currency together with the government requirements created an atmosphere of uncertainty.

Networking and business relationships, especially with customers and key suppliers played a crucial role in the FME process of Metso Minerals into the RSA. Metso Minerals, being one of the four mainstays of the Metso Corporation, is a member of a wide range of networks and it exerts its influence in these networks. Internally, it collaborates with other Metso members on some projects requiring different expertise. To be able to maintain the expectations and the satisfaction of its customers, it surrounds itself with key suppliers, these being contractors or project houses and service providers. This process is driven by a just-in-time delivery of products, spare-parts, and services and by the BEE issue. Metso Minerals works in cooperation with many different actors but the network profile is changing due the need for the outsourcing of activities. To deal with its customers, Metso Minerals has moved towards a closer cooperation with its customers through a future care process, which implies that Metso Minerals aims at forming a partnership with its key customers. Using historically disadvantaged South Africans (HDSA) in all operations and at all levels has its problems too, especially when dealing with governmental work (e.g. in building roads, railways, materials handling, and environmental matters), as the government requires Metso Minerals to use HDSA as suppliers or sub-contractors. The requirement to use 40% of their tender with black empowered vendors makes the issue crucial.

6.1.4 Critical events and temporality in the FME of MM into the RSA

In its business expansion process into the RSA, Metso Minerals has been influenced by several events. In addition, the timing of decisions and subsequent business operations point to the existence of key drivers influencing the business environment. For instance, political events were said to play a positive role, especially after 1990. As confidence returned, several companies responded positively by investing in green field projects or by acquiring existing companies for modernisation, or in order to gain control of other import resources. Nevertheless, a part

from these macro events, there were other small micro events, which may be difficult to account for in this study. For instance, the decision to locate business operations near the main customer and the decision to share inventories with the customers in some cases are decisions that are very highly appreciated by the business community, especially on the customer's side. Companies have been participating in meeting events, grouping business communities, and discussing the future of the industry for some time. Problems associated with negative events are linked to the affirmative actions process, together with the black empowerment process. For instance, in 2002, MMSA was forced to choose a contractor who lacked the capabilities to fulfil Metso Minerals® requirement. Other negative events came with the decisions of the customer to withhold their investments as a response to the macro environmental issues such as the high level of inflation or currency fluctuations and political uncertainty. These issues became crucial at the end of 2006 and the beginning of 2007 when many companies had to put their business projects on hold. In the following, I briefly describe the FME of Metso Automation into the RSA.

6.2 The case of Metso Automation

6.2.1 Company description and its overall growth strategy

Metso Automation (MA) as one of the four members of the Metso Corporation focuses on manufacturing of industrial valves, process automation, and control solutions. Furthermore, MA offers control and shut-off valves and solutions for improved efficiency and control accuracy in process industries worldwide. It operates in more than 45 countries and its presence in all these countries indicates that it has a wide range of experience in operating in many different cultures. The merger between Rauma and Valmet automotive made this company one of the worldwide market leaders in its core products. Its size, its core products, and its financial position together with its large global market share give it a very strong market position in its core products. Metso Automation has a strong competitive advantage in both vertical bargaining and cost structure in different markets. Its innovative capabilities lie in investing in R&D for superior production technology and the constant new products that are more "smart" with high technical quality and unique modern designs. Metso Automation has a very strong brand name and has a very good reputation for high quality products worldwide, a fact that enables the group to have several advantages by using its key brand, product technology, marketing distribution and servicing capabilities.

The group's capabilities are also reflected in the management's vision of extending its resource base through mergers and acquisitions. In addition, its capabilities are reflected in increasing their expertise in coordination and integration, by putting the resources of the merged companies into more profitable use through rigorous pruning of the financial, physical and human resources to the level needed to support the volume of business of the merged businesses. The move to merge Rauma and Valmet Automation at the end of the 1990s also reflects the management's attention on concentrating, acquiring, and managing other core areas. The increasingly saturated markets in Europe and in the USA, in which Metso Automation held a market leadership position, encouraged the group to look for other new markets wherever they arose. Thus, it was not surprising that they enthusiastically followed what was happening in the RSA.

6.2.2 Metso Automation and its FME into the RSA during the period 1990-2005

The cessation of UN-led sanctions against the RSA took place during the time that MA's traditional markets at home, in Europe, the USA and elsewhere had become saturated. In order to increase capacity utilisation of existing resources and capabilities, the group had to expand its business operations to emerging markets such as the RSA or to other regions. Thus, the opening of the RSA market and the opportunities that followed encouraged the group to take further decisions to operate in the RSA market and above all to use the same market as a springboard to other African markets as well. The decision was driven by opportunistic behaviour as the group saw the RSA as a platform to launching business operations into other markets. For instance, although not at a very significant level, Metso Automation now sells, from the RSA, some products to Nigeria, Tanzania, Kenya, Zimbabwe, Zambia, and Swaziland. The South African pulp and paper industry have moved from being local players to global player status. The motivation to enter the South African market is characterised by market and profit motive and by the motive to increase the competitive advantage as a worldwide supplier. The desire to be closer to the local customers by offering them a higher level of services in the local market has been the other driving force in the expansion process. Most of its customers in the RSA are in turn global companies. They demand certain standards and the supplier must take care of these customers on a global basis. Judging from the time, the level of investment, and the business operation that followed the decision to resume its business activities in the RSA, we can say that MA adopted an opportunistic behaviour and that the deci-

sions were based on market opportunities in the RSA. First, it adopted a “*wait and see*” policy to assess the kind of projects that may come and then on an opportunistic basis, it decided on appropriate strategic moves to compete on that market.

When looking at the Southern African region and the African continent in general, it can be seen that there were not many businesses in which MA could fully participate. The industrial side outside of the RSA did not require Metso Automation’s heavy commitment to the whole continent. Although MASA had always considered possibilities of doing businesses outside of the RSA, by the year 2005, it did not yet have any major projects. This was due to the lack of sophisticated industrial activities that would be able to use a pulp and paper valve and their processes in other markets outside the RSA. Thus, the decision to expand to the RSA was only triggered by the opening up of that market and the increased demand for its products. Therefore, it is not surprising that MA was not very active in other markets outside the RSA. By 2005, most of the African countries had not yet shown any sign of developing industrial processes, which would seriously attract MA, except in a few cases such as Angola and Zimbabwe, which had a reasonable pulp and paper market, but also had a serious political crisis. Kenya and Tanzania were seen to have some potential but the problem with all these countries is that they do not make any re-investments except in few cases. They seem to be more interested in running marginal operations without maintenance.

Metso Automation first entered the RSA through an independent representative, and later changed its operation mode to having its own registered company, indicating the group’s effort to exploit more fully its existing resources and capabilities in relation to the emerging opportunities in the RSA. The bulk of the imports are process control valves used in the pulp and paper industry, power plants, and petrochemical complexes. They are high specification heavy products, and are manufactured and dispatched from Helsinki in Finland. Products are designed and manufactured in line with the focus industries’ principles and it is difficult to use them in other industries e.g. food and beverage, pharmaceutical etc. Through its own subsidiary in the RSA combining both Neles Controls and Valmet Automation South Africa, all product lines, which used to be different, have been brought into the same coordinating administrative centre. They are also now under the same name of Metso Automation, which means that the two different entities together are able to utilise the group’s established reputation (both brand and corporate image). The established South African subsidiary imports products both from Finland and from other units in the group’s global network. The result is a greater capacity utilisation of the group’s

existing plants in other locations. Added to this, the new ventures in the RSA, through coordination with other units, enable greater utilisation of the group's existing marketing and managerial resources.

By merging these two different entities to form a unified one, the different product lines have been brought together under the same management, a fact that enables the sharing of the group's existing resources and capabilities. This strategy also allows for managerial, financial, and marketing synergy. Financial synergy arises from the same source of funding for all business divisions in the RSA. Managerial synergy is achieved through utilisation of the group's managerial expertise in different divisions in the RSA. Marketing synergy is achieved by using the group's brand names and reputation in the new markets. Through this strategy, it is possible for Metso Automation to achieve scale economies and thus to reduce unit costs. By using the same facilities for different product lines in the RSA, MASA is able to reduce costs. The group strategy also facilitates collective learning within the group by coordinating experience from different product lines as well as within the group by coordinating experiences from different product divisions.

The flow of information to and from the market is made easier through MASA's administrative centres in Durban and Johannesburg. Considering the tight competition that MASA faces in the RSA from other global competitors, and considering the future strategic importance of the RSA on the continent, the strategic merging of Neles Controls and Valmet Automation South Africa gave Metso Automation a competitive edge over many other competitors. With these mergers, Metso Automation gained full access to the local market knowledge and expertise offered by the dedicated South African staff that used to work for these two separate entities. It was also a good strategic move, as the whole group acquired both companies' customer bases. This allowed the South African business operation to continue immediately. Metso Automation's competitive strategy in the RSA also reflects the impact of Metso Automation's domestic conditions. The existence of highly advanced technologies in Finland supporting Metso Automation's products and the existence of highly sophisticated customers both in Finland and in other advanced markets means that Metso Automation must produce high quality products to meet those demands. In turn, this could be said to be one of the decisive factors that caused Metso Automation to be able to compete so strongly in the RSA market. Despite the fact that some of Metso Automation products are heavy, thus imposing high transport costs, the group still maintains its policy of making these products in either Finland or other locations in the world, where it finds a comparable low cost-base. This policy is still justified by the desire to avoid heavy involvement through local manufac-

turing in the RSA. If it had had local manufacturing, the group would have been required to employ more expatriates and a heavy presence on the market, and there is no guarantee that the South African market alone could have absorbed all the production capacity.

For the business operation developed in South Africa, MA did not favour using any joint-venture arrangements. From the very beginning, it was clear that the South African market area was large enough to allow the use of wholly owned and limited legal operations so as to be able to take full strategic control of the expansion process of its business operations on the continent. As a member of Metso Corporation, there has been cooperation with other group members on some large deliveries, where all the parties involved benefited in sharing resources to strengthen their own positions.

MASA has always endeavoured to become a partner with customers by giving them the best possible service to pre-empt problems. This has been done by having a system and a method of making sure that the problems are minimised and quickly solved. Both Rauma and Valmet followed the same route: using representatives first and then setting up their own organisations and then putting the legal entities together after the merger. This seems to be a rather natural expansion process into an emerging market. In accordance with Johanson and Vahlne (1977) and Luostarinen (1970), suppliers start with representatives and build an installed base and when there are enough installed bases and enough business and increase in knowledge, the suppliers set up their own organisation. Even after registration, MA still has very close cooperation with some of its earlier representatives. It still uses their businesses and services as sub-contractors whenever needed.

Looking at the expansion process, and the time horizon, we could say that South African history and the sanctions seriously affected the FME process. When the UN imposed sanctions on the RSA, Rauma and Valmet had to remove their expatriates, and that slowed down their growth. The subsequent business operation that developed was only possible due to a dedicated team of local representatives who had good knowledge of the products, and who kept the systems running under the sanctions. This fact indicates that the local human resources played a central role in speeding up the FME-process, especially after the UN-decision to end the sanctions. Seizing that opportunity, these Finnish corporations could begin operations there again. However, Metso Automation has opted for small business operation in the RSA (with less than 50 employees there). Thus its size in the RSA does not allow it to diversify or expand heavily into other business areas in the RSA and outside. So far, only the RSA is in the economic forefront on the continent. FDIs have not yet taken off in a significant way in the other countries.

Although the RSA market alone may currently be small compared to the other developed markets, the internationalisation of South African-based corporations (key customers) and their demand for upgrades for their own processes make the market attractive for the near future.

6.2.3 Host business environment facing Metso Automation

As MASA is in a business-to-business area and its customers are in process technologies, it is not subject to direct influence from the socio-political environment as such. After a long period of sanctions, customers were in urgent need of modern technologies to upgrade their plants and to become competitive themselves as they strove to become global. By merging the two different entities (Valmet automation and Neles Controls) and by having one coordinating and administrative office in the RSA, the group minimised the costs of running business operations in a region with a low demand. It minimised the scale of operations to meet the market potential at the same time as it exploited market opportunities to the maximum. Low demand in the RSA was due to the existence of only a few industrial customers, which made it difficult to sell large volumes in the RSA.

Other African markets did not either seem to be very attractive for MA product applications at the time of this study (2005). This is because most of these markets do not yet have process industries that are advanced enough. Added to which, countries such as Angola, Zimbabwe and the Republic of Congo, are going through major political chaos and that can nullify the attractiveness of these countries. Even where the markets exist outside of the RSA, they do not purchase after sale services and maintenance. Therefore, this required MA to adopt a gradual investment strategy by providing less value-adding activities in markets outside of the RSA and by coordinating the administrative centre in the RSA. With the increased globalisation of MASA's key customers, the South African market now offers good potential because the South African-made products are less expensive in comparison to the Finnish-made products. With the discussions in World Trade Organisation (WTO) and with different agreements on trade and tariffs within the GATT framework, there is hope that the RSA will play an even greater role outside the RSA.

Metso Automation's aspiration to employ local people in its operations in foreign markets is to be applauded. It enables the group to benefit from cost advantages arising from the RSA's relatively low labour costs. At the same time, it helps to learn from and to transfer managerial capabilities and practices to local managers. For instance, working on the mill site during the period when sanctions were enforced, the

local managers had to be genuine specialists as there was no way to ask for help from outside. This may be the reason why there are very experienced and highly trained people working for MA in the RSA. Affirmative actions and BEE are the major government policies that have proven to be challenging issues for MASA. For a company like MASA, which is a specialised service provider, the BEE, affirmative actions will always prove difficult. If MASA were manufacturing goods in the RSA, it would have been even more affected by these structures. To respond to the challenge MASA relied on obtaining human resources from the group for specific short-term assignment whenever needed, thus avoiding recruiting new people all the time. Due to its size in the RSA and to the kind of products and services it is offering, MASA has not really been concerned very much with applying these structures. As was pointed out earlier, MASA is involved in Metso Corporation's global network, but it has primarily a territorial role to play in the RSA. Looking at its networks, we could say that the complete foreign market expansion process of Metso Automation into the Republic of South Africa has been driven by two factors: future care and the customers' own expansion process and their requirements to satisfy the global demand for their products. Since 1995, there has been a drive in South African corporations to expand their businesses into global markets and some of them; including Mondi (<http://www.mondigroup.com/>) and Sappi (<http://www.sappi.com/>), pulp and paper corporations, have become truly global players.

When looking at MASA's business operations in the RSA, the majority of their business operations can be seen to be in the after sales services, in marketing, and in maintaining the business level. Looking at its business processes, I would say that the business of MASA is about understanding what the customers need and about understanding their operation processes and then to offer advice through business interactions and business relationships. With the majority of its business in the RSA being after sales services explains why MASA is very much involved in building long-term relationships with its key customers. MASA engages in business activities to recognise and to make sure it knows each customer's needs and preferences, and in what way they need the services to be provided to them. This understanding and learning process constitutes an important part of the relationship building process. Through learning and understanding, MASA is able to differentiate itself from other larger competitors who offer highly standardised products. The objective is to build long-term business relationships with its key customers and contractors, who will support the whole FME process. By focusing on very few but important customers and working hard to satisfy them, MASA concentrates its resources and ca-

pabilities, its efforts and energy on delivering high quality solutions.

The idea is that satisfied customers will not see any need to change such a dedicated supplier. Within this kind of business relationship, it is true that the ultimate power resides with the customer, who has many options. For instance, if not satisfied, customers will switch to other suppliers (either foreign-based or local). Customers often exercise their rights and different strengths depending on their situation and the time frame in which the action takes place. Customers may decide to go for products with low prices and low quality if they wish to do so. In addition, customers strive to avoid being locked into a single relationship. Largely, the relationship is driven by customers' demands, which indicate customers' preferences, which is not a site-by-site type of preference; rather, it reflects the customer's head office preferences as these play a crucial role in making decisions or recommending responses that they deem appropriate for a specific problem. The responses offered by MASA play a crucial role in their future relationship.

Thus, for MASA, it is imperative to be on very good terms with its customers before problems occur. Customers' choices are based on a number of criteria: service, price level, quality of the product, quality of the service and delivery time. In a case where MASA is chosen as a supplier, it also receives instructions from the customer about what, where and how its products are to be utilised, and at what price and under which conditions. From that perspective, the relationship depends very much on building trust and that comes with how each supplier delivers on his promises and at what price. However, as the person, making the promise might not be the same person controlling and driving the whole process, there will always be problems in the multiple links in the supply chains. For example, problems may occur linked to either product failure or delays and when this happens, it is important for MASA to be on good terms with its customers. In general, the response to a specific problem plays a crucial role in the future relationship. To counter potential problems in a relationship, MASA builds very good relationships with its customers, through the professional advice it gives to them. MASA does this in many different ways, especially from the product's point of view. For instance, it gives exact specifications on the conditions in which its products function or do not function.

To enter other industries such as the hydrocarbon industry where MASA's market share is still small, it cooperates with others e.g. representatives with strong local knowledge and a good customer base. If MASA manages to seriously enter other industries it will allow MASA to keep enough critical mass to move forward even during the downturns of its traditional industry (pulp and paper) caused by fluctuations in exchange rate.

Since MA started operating in the RSA, there have been dramatic changes in the mode of operation. In summary, for a corporation such as Metso Automation, who are interested in selling products to the RSA, before investing into selling, the prerequisite has to be an investment into the means of supporting those sales. It is then imperative to invest in networks, installations of support units so as to gain trust in the customers.

6.2.4 Critical events and temporality in the FME of MA into the RSA

There have been different events that have shaped the expansion process of MA into the RSA. Each event has had its own impact on the FME process throughout this period. Firstly, political events before 1990 acted as inhibitors for the expansion process and then acted as triggers depending on the kind of events and at the time, they occurred. For instance, the UN-led sanctions caused a withdrawal of most of the Nordic-based suppliers including Rauma and Valmet Automotive, while the cessation of sanctions caused positive reactions among investors who were happy to come back to the South African market. We could classify the second type of event as a purely business event such as any decision to deliver an automation process to a given customer. On the corporate level, there are also different events taking place and the most influential event took place in 1999-2000 when the two corporations decided to join forces, thus allowing for a greater utilisation of their joint resources and capabilities. Other minor but significant events could be associated with business relationships, which take place continuously over time, after a business relationship has been established. Business events where customers take decisions to use MA products or to invest are various. When a customer decides to use a totally new application (not used before in the company), it may be seen as risky. From this perspective, both customer and supplier have to work hand in hand to make sure the product works properly. An event that has had a positive impact on the business relationships took place when MA took a decision to relocate its offices near to one its major customer. The move led to positive feedback and to a long-term business relationship.

Negative events associated with missing deliveries or delivering the wrong piece of equipment may occur but if the partners have a good relationship, these incidents may not affect the relationship adversely. There are other business events related to the macro-economic situation such as when there are fluctuations in the local currency which cause major customers to experience downturns in their offshore revenues. The consequences have been that customers have resorted to doing a

lot of project business in which they use revenues gained from earlier years. This situation occurred during 2004 and later on, as customers anticipated an upswing in the manufacturing cycle. It is not surprising that they became more adept through making investments on a small scale, in project basis in order to keep their business running until better times.

6.3 The case of Outokumpu Corporation

6.3.1 Company description and overall growth strategy

Since its creation, Outokumpu has had a strong presence wherever there is a robust mining industry. When the sanctions against the Republic of South Africa were lifted in the beginning of 1990, it took the decision, at this early stage, to expand its business operations into the RSA. Directly after the sanctions, the South African mining industry, although negatively affected, still kept running. Most of the installations and equipment purchased before the sanctions were in a poor condition due to a lack of spare parts. From Outokumpu's perspective, there were different choices about entry strategies. The initial strategy was to concentrate on some key customers within its core industries. Because the platinum industry requires more processes, it had to restructure itself and adapt its technologies to the new challenges. At the same time, the expectations about the outcome of the transition process were high and the company felt it could start a business operation on its own on a small scale, and then follow the market very closely with the possibility of expanding further. Expansion would depend on the local market's growth and opportunities.

Outokumpu's historical background, its size and worldwide position show that it is a corporation with resources and capabilities, which mostly lie in its innovative potential in many different product areas. It is thanks to some of these capabilities that Outokumpu managed to move successfully into global markets at an early stage. The company is one of the key players in the mining industry worldwide, and it has been a vital influence in shaping the structure of the global mining industry from the supply side. The importance of concentrating on the firm's core capabilities is demonstrated in its historical growth. The expansion into diversified areas proved to be very successful thus developing multiple capabilities in many different areas. Outokumpu's size and its international experience through its global presence and its innovative potential show that it is a corporation with a large resource base both in financial, human and physical terms. This suggests that it faced less resource constraints in relation to its choice of entry strategy

into the Republic of South Africa in 1993.

Opening up a wholly owned branch and later on a registered sale and marketing subsidiary shows that the company was very confident in its own resources and capabilities and wanted to retain control of its business operations even though the market had hardly recovered from the effects of the sanctions. This desire to control its business operations also suggests Outokumpu wanted to monitor the market very closely by obtaining first hand information from its own staff rather than using an agent. In addition, it shows that the corporation had a strong belief in the host market. The decision to expand into RSA without going through joint-venture or other cooperative modes shows the need for control over its own operations there. In addition, its resources and capabilities are demonstrated by the group's management vision and ability to cope with strategic changes from being solely an exporter into the RSA to later becoming a manufacturer in the country. After the subsidiary was established, it expanded its business operations and later on came to be considered a profit centre and a key player in the whole group.

To be able to succeed, the group chose a local management team with a mission to develop the local business in the RSA. From Finland, the local South African management team was supported with expertise and great innovative machinery from Finland. However, the key driving force of this process was the customers' requirement for after sale services. Mining operations are very expensive; therefore, the equipment and installations supplied by Outokumpu may be very expensive depending on the case and project. Thus, it is imperative not to only sell these installations but also to be able to supply spare-parts and the entire after sale services needed. From this perspective, a reliable supplier like Outokumpu is very keen to give good after sales service for its installations.

6.3.2 Outokumpu and its FME into the RSA during the period of 1990-2005

Outokumpu's historical development and its growth show it usually expands into foreign markets through acquisition, which suggests that it would have preferred such a strategy for the FME into the RSA. Despite the fact that it was used to acquiring acquisitions in other developed markets, it did not use the same strategy in the RSA; instead, it opted for a different strategy. This shift from its traditional strategy may be explained by the target market conditions, which were and still are different from other developed markets. Acquisition gives the foreign expanding firm the benefit of the local firm's established positions.

For instance, by acquiring some of the large local manufacturers and suppliers, Outokumpu could have tried to pre-empt other foreign suppliers, through accumulated experience, customer dependence, and confidence, thus establishing high barriers for other competitors' later entry. However, many different factors may have prevented it from using such an acquisition strategy. First, the quality of existing local companies suitable for acquisition, which at the end of sanctions may not have been satisfactory. The old and the reverse engineered technologies may have proven to be rather too costly to modernise and to adapt. The acquisition strategy would have given Outokumpu the advantage of a large market share to start with, but on the other hand, it would have required the retraining and substitution of some of the work force and modernising the outdated plants and equipment. Secondly, by the time it started again in the RSA, there was political uncertainty and violence and nobody knew for certain what the outcome of the South African transition would be. Therefore, it opted for a more cautious entry strategy with low commitment. Instead of entering intensely, it opted for establishing its own subsidiary, with a mission to market and sell products and projects designed in Finland. At a later stage, it used a contracted outsourced network to manufacture some of the components locally. Outokumpu took the decision to license some products to local manufacturers but kept the manufacturing of core technologies in Finland and other developed countries. Through this strategy, it avoided problems associated with having local fixed assets and land in such an emerging market. Furthermore, it avoided problems associated with trying to modernise any acquired partner. By doing so, it avoided being engaged in modernising outdated technologies and equipment, and avoided the conflicts associated with restructuring locally acquired companies. Through establishing its own subsidiary, it was able to hand pick young, motivated, and qualified sales people. It was able to train them on how to service Outokumpu's equipment and installations. Thus, it could enter the SA market with its modern technologies, which were far more efficient than the local competitors' technologies.

The global mining industry has a global structure, and competition takes place across national borders. Therefore, in order to survive, products must meet global standards. During the sanctions period, the RSA had been closed and was actually protected from global competition. Through reverse engineering, local suppliers were actually able to gain technological capabilities, which later proved to be of great help for their own internationalisation. Looking at its growth path, there is no suggestion that Outokumpu would have suffered from any low returns. It differentiated itself from the local competitors by offering far better products and services, and at the same time kept its international

pricing and cost structure. Due to the shift from traditional minerals towards platinum and due to new mining operations opened in other locations throughout the country, the strategy was to convince the mining companies to use these expensive products and installations in order to obtain a far better output. After a few years of hesitation, the mining companies started to see the technological benefits of using Outokumpu's products and services.

It is most likely that the local mining industry conditions have had major impacts on the formulation of entry strategies and further marketing strategies throughout this period. It is also likely that it was due to the importance of first entrant advantages that it served the South African market through exports, while it was still looking for the best firms to license manufacturing of some components to local producers in the RSA. Since its penetration into the RSA, the growth path has been very positive. It is most likely that the political and institutional conditions during the transition had an impact on the entry strategy, and the choice of subsequent marketing and operation strategies. It has kept its South African business operation at a size of less than 50 employees, thus avoiding problems that may arise with the government requirements. However, this size does not seem to be a response to these government requirements, but rather to there being no justification to hire extra employees. The key question raised before recruiting any extra person is:

“Would this extra person make money for the company?” (OT-SAA0456).

6.3.3 Host business environment and business relationships

Before the UN-led sanctions against the RSA, the South African mining industry was vibrant. On the customer's side, a few giant companies, being local and global mining companies dominated and still dominate the industry even today. On the supplier's side, both local and foreign firms had to compete to supply to the local industry. Before the end of sanctions, Outokumpu was represented through agents. It managed to sell equipment and installation to the mining companies. The sanctions made the RSA a much closed country and the local suppliers actually profited quite a lot, as they almost monopolised the supply side of the mining industry. At the end of sanctions, it found that its installations were suffering from the lack of spare-parts and the local suppliers had not been able to service these installations. The other striking factor was that among the big market players were other state owned companies; the key industrial actors had formed a kind of solidarity in response to the damage caused by the sanctions.

Since 1990, the mining conglomerates that emerged before and during the sanction's period have dominated the mining scene in the RSA. After the sanctions, a transition period was introduced with many different reforms that increased the number of players in the mining industry, but still a few conglomerates dominate the customers' side. In addition, the supply side has seen a rise of small players, and these players also require time to develop and mature in order to accommodate the growing demand and requirements from the mining companies. Seen from this perspective, the first entrants were more likely to secure contracts with these giants, leaving little room or no room at all for those who came later. With the end of sanctions and the beginning of the majority democratic rule, there have been measures from the government to encourage businesses to adopt affirmative actions and to embrace BEE. For companies exporting their products to the RSA, these institutional changes apply differently compared to those with local production. In addition, the size of the business operation has an impact on whether or not they have to comply with the affirmative and BEE practices. When considering the FME process of Outokumpu, the key driving force seems to have been networking through good customer relationships.

From the outset, OTSA started interacting with potential customers to build trust. This interaction was done through both business and social networks. The key strategy was first to be acquainted with the customers and to know what the customers' needs were and to let them know that it had the solutions the customers were looking for. In this search process, both potential customers and OTSA developed a mutual understanding of the business problems to be solved. Initially, OTSA offered products made in Finland, but at the same time adopted a strategy to gain intimate knowledge of its key customers. The objective was to become not only a product supplier but also to be seen as a solution developer, a status that might lead to a strategic role of being an exclusive supplier in many cases.

By looking at OTSA's evolution into the RSA market, we can depict different phases in the evolution of the relationship with customers. The relationship went through a product-exporting phase and then a solution provider phase. The same pattern can be seen between Outokumpu and its key customers. This kind of relationship and networking developed differently according to the strategic drives of each customer and the kind of products offered. As its market share increased and due to the low cost base for production in the RSA, OTSA has succeeded in surrounding itself with contractors and sub-contractors and some of its components are made locally. This helps to avoid delays in the delivery of the spare parts that OTSA manufactures for the whole group. Some

important developments have been the tendency towards an increase in the partnership between Outokumpu and its key customers on a rand by ton basis, with the implication of having an inventory at its key customers' site, in order to offer the best services to its customers. This business concept has worked positively in both directions through a value creating and value adding process in which customers get the best service they can expect, while Outokumpu can make a profit out of its business operations. Considering the size of OTSA, it is not surprising that it would be happy for such arrangements to maximise its installation services. This kind of relationship gives the company the possibility to grow and to expand its operations whenever other green field mines are opened. The spare-parts and maintenance business require the availability and the just-in-time service of the provider. Mining operations being very expensive, customers do not want to be stuck with broken equipment. Instead, they are ready to pay for the service it requires to ensure a high level of utilisation of the purchased equipment.

6.3.4 Critical events and temporality of the expansion process into the RSA

Over the years of its expansion into the RSA, Outokumpu has faced several events, which have had an impact on its overall operation strategies within the region. These events are both internal and external. Internal events are the kinds of events within the organisation boundaries, which have impact on its operations and its strategies. In the case of Outokumpu, the major internal events could be associated with the decision to withdraw from the RSA and to re-enter the market later. Added to that, there are also other events connected to business negotiations and reaching agreements with different key actors. These kinds of events have taken place continuously since it has expanded its operations into the RSA. The external events could also be divided into different subcategories such as external political events like sanctions and other business events independent of the Outokumpu's organisation. It is usually hard to predict the outcome of such external events and their consequences for the expansion process of Outokumpu. The company had to adapt to the situation according to its judgement. In most of the cases, these critical events were external events and OTSA had to respond strategically to these different events to ensure survival in the fast growing market with intense competition from other foreign-based firms. Due to the long-term nature of the mining industry, the timing of entry becomes very crucial. The first entrant enjoys the advantage of quickly arranging long-term contracts with major mining companies,

whom, due to the past and to the industry structures are very few but powerful corporations.

Compared with foreign imported equipment and solutions, the local South African products are inexpensive and good. This implies that foreign suppliers exporting foreign made equipment may have to suffer from low returns in the beginning due to the different cost structures. However, most of the customers in the mining industry are giants and do not have problems with finances as long as they perceive the quality and the service offered to be adding value to their business operations. So far, Outokumpu has been able to monitor changes and other market behaviour over the time of its operations in the RSA. It has been both proactive and reactive in order to keep its business operation as intact as possible. The decision-making with regard to the South African business operation has been to follow decisions and actions made by competitors. Outokumpu is not only fighting a fierce battle with other global corporations in the RSA; but also with some of its larger competitors, which are other Finnish corporations as well. In some instance, it has been forced to sell one of its product lines to its competitors. It was compelled to sell one of its product line, although the line was not very competitive, to Larox Corporation; another Finnish corporation operating in the RSA (see below in section 6.4). This allowed Outokumpu to concentrate and to focus its energy on products and services where it was strongest.

6.4 The case of Larox Corporation

6.4.1 Company description and its overall growth strategies

Larox Corporation is a provider of solutions for worldwide processing industries. A Finnish entrepreneur established the company in 1977. At the time of the first interview (in 2002), the family or the founder owned the A-shares of Larox while the B-shares were listed on the Helsinki Stock exchange. The core business and expertise have mainly been concentrated on the solid-liquid separation process. Larox has developed its products to make automatic pressure filters and that has been its main products from the earliest beginnings. Larox Corporation is a medium-sized corporation with a little over 300 employees worldwide. During 2002 Larox made an important acquisition of a product line from England called Cyber Filters Ltd. and with that product line, it was able to strengthen its capabilities and resources.

From at its core business area, Larox Corporation looks at the industry in two ways: one is as a mining and metallurgy industry, and the other is as a chemical processing industry. Larox is stronger in the

mining industry than in the chemical processing industry. The mining industry represents its traditional core business and most of resources have been devoted to the development of products in this area. It covers the rest of the world through commercial agents; third-party companies who represent the company. These subsidiaries are located in the traditional mining countries. For some markets such as China, at the time of the first interview (year 2002) it had about 10 people working under their direct management, doing the same type of business there as in Finland. From the early beginnings of its establishment, the founder of Larox planned that it was not going to be a business for the home market only. Originally, it supplied equipment to Sweden and then to other countries much further away. The foreign operations were established in two separate periods: the early eighties and the early nineties. Larox's FME into the RSA points to the company's internal confidence about its capabilities to develop into other markets if it could acquire the necessary resources to complement the existing internal resources in order to carry out the expansion. Its products (pressure filters) are in business-to-business, and wherever modern mining activities take place, there could be a need for such products. The expansion was possible due to many factors such as high technological expertise and was also due to the activities of a committed and energetic subsidiary managing director who was keen to expand its business activities into the Southern African region. However, because pressure filters are very expensive, the demand for these industrial products may not be an automatic requirement, especially in the beginning of an operation. This may explain why it took 3-5 years for LASA to convince the customers about its capabilities. As the management points out, the reason for expanding its operations into the RSA was the market potential. Not only was the SA market becoming interesting, but there was also another drive to explore other regional markets in the neighbouring countries, thus the RSA could be considered as a springboard to expand to other markets as well. Therefore, its home market conditions called for expansion towards foreign markets as the pressure filter market in Finland was no longer expanding and Larox realised that its growth could only continue by looking at other markets as well. The desire to exploit its competitive advantage and to follow others into other markets could be said to be behind the decision to expand the operations into the RSA. For instance, other Finnish corporations like Metso Minerals, Outokumpu and Tamrock established their presence in the RSA at about the same time. Considering the number of countries where Larox was represented by 1992, it could be said that it had good experience in operating in West European markets. Expansion into emerging markets started quite late and it decided to expand to several markets

at the same time: starting from 1990. Before the sanctions, the RSA had a very advanced and strong mining industry. Added to that, the vast majority of mining activities in Africa below the equator occurred in the RSA. Consequently, different motives emerge from Larox's expansion process into the RSA: market seeking, following competitors in foreign markets, and a desire to grow. Third, it wished to exploit its capabilities by establishing a closer relationship with potential customers in the market. The South African market became one of the healthiest markets, especially in the platinum industry. This drive from potential customers to have a closer cooperation with suppliers was one of the external pulls. Customers needed spare-parts and at the same time, they needed a supplier who would be there to solve their problems. The experience of sanctions and the withdrawal of most of the Nordic companies had taught a severe lesson to the customers not to rely too heavily on foreign suppliers. By pushing for a broader cooperation, customers want to make sure that the supplier takes more responsibility. In some instance, the drive to explore other regional markets has materialised through selling equipment and installations to Zimbabwe, Zambia, Tanzania and Mozambique. However, considering the low level of investment used in the surrounding markets we could conclude that, the expansion to these regional markets was not yet a high priority. The expansion process shows a mixture of optimism and pessimism towards the other African markets.

6.4.2 Larox and its FME to the RSA during 1990-2005

Before 1990, Larox used to have a sales agent in South Africa, this was in the early 1980s, and the company was called Batman. This agent managed to sell 3 filters in a period of 5-7 years. Two filters were sold to one South African zinc producer and a third was sold to one foreign owned company. As countries could not trade with South Africa due to sanctions introduced in 1985, all the installations in the country suffered because they were not able to obtain the spare parts and the needed after sale services. The company did poorly during that period. Under the sanctions, nothing was really happening on the sales front. Local suppliers tried to look for local solutions to keep the industry going. Just before the sanctions were lifted, one Finnish man who used to work in South Africa suggested to Larox to take a more serious look at the market. Once the sanctions were lifted, it started to do a feasibility study and decided to re-open its operations in South Africa by employing one mechanical engineer, Mr. Jay Patrick who currently (in 2005) runs the whole Southern African operation.

In the early 1990s, Larox acquired a new president, Mr Timo Wärt-

silä who took over from his father. During this period, the management took a decision to globalise Larox in a more aggressive way. To do that Larox employed several people around the world, basically one man per country. Once the sanctions were lifted, their first action was to find a person to establish a branch office and that person really needed to know the business, a person with experience of the South African market and especially someone who had contacts within the business. Larox looked for a person who could sell and also had technical competence in the products, as well as the process of how products were used. This was necessary because at the beginning that person needed to go and see the customers and do tests to demonstrate Larox' capabilities to the customers. It was also a matter of convincing and building the trust with these customers.

For the South African market Mr. Jay Patrick, a native English speaking South African was employed there primarily as an after sales service engineer to start the spare part business on the existing installations in South Africa. He joined Larox in 1991, directly after the sanctions were lifted. During that period he managed to get in contact with many different customers and conducted many different tests to make the big mining houses believe in its solutions. It took time before Larox's equipment started to take off but after that it has become very successful. In fact, it took 4-5 years to get orders and since then the growth path has continued.

The effects of sanctions were still experienced during these first years of its operations. Mr. Jay Patrick's challenges in Africa were a little bit different from the challenges faced by other people placed elsewhere in 1991, such as the United Kingdom, Mexico, Chile or other places. In the beginning, Larox used traditional marketing methods. It started by targeting existing installations to let them know that it was possible to do business again after many years of damaging sanctions. Gradually, confidence was built, especially the ability to supply the spare parts, to service equipment. At the same time Larox started to make enquiries about projects where Larox's products could be used. They segmented the market, identified those companies and industries of high potential and then started to cold-call the businesses. Larox Southern Africa uses a technique that works very well, which consists of showing the customer the proof of the equipment's performance before they buy it. This is done by conducting field test work on the equipment. Larox Southern Africa conducted several such tests for all the highest potential customers and then orders started to arrive in large numbers. When the orders commenced, Larox Southern Africa started to grow. During that time, the operation had to grow organically, to gain enough assets to support the local operation. Gradually, Mr. Jay Patrick was given

an opportunity to hire more workers. During the period of 1995-2004, Larox Southern Africa did extremely well. It had succeeded in getting different orders from the Anglo-American Corporation and other major mining companies in South Africa, and was even attacking the other markets in Southern Africa. Larox Southern Africa had succeeded in convincing the mining industry both in South Africa and in the surrounding countries of its potential.

In the beginning, Larox did not want to enter the market with any large commitment. This was partially due to its resources and the uncertainty prevailing in the South African business environment at the time of entry. Given the South African business environment at the end of the UN-led sanctions, and given the size of Larox Corporation, together with its ownership structure and its internal resources and capabilities, it would have been surprising if it had committed serious resources in the beginning of the expansion process into the RSA. Nevertheless, the decision to expand business operations into the RSA was an easy business decision to make for Larox Corporation.

Larox's historical development shows that it mostly expands its activities by first exporting through agents and then by establishing its own subsidiaries, but only with sale and after sale functions. Until 2005, it believed in manufacturing pressure filters in Finland.

"Larox's expansion process to the RSA has been a very logical process to us in that sense it has been like that because when the decision was taken we put our own people down there, it has been proceeding very logically in that sense and basically what is going to be is mostly sales and service personnel down there" (LAFIK0220).

Given its size and especially its resources and capabilities, and the political situation in the host country in the 1990s, it is not surprising that it chose this low-risk entry strategy. It did not want to commit substantial resources to a market with a volatile political setup. At the same time, it wanted to retain control of the market information and other related operations with the hope of further growth at an appropriate time. Furthermore, even if it had more resources to use for acquisition, it was not sure if it was going to find a suitable local company to acquire, at that time, i.e. immediately after the UN-led sanctions. An acquisition strategy would have forced Larox to modernise the acquired company and to match their technological expertise and managerial skills and that could have led to an expensive operation to start with. It did not explore the idea of acquiring a local company, as it was not a desired strategy. Considering the quality of the existing companies available for acquisition at that time after sanctions, it may have proven to be a rather costly strategy to acquire old and local technical condi-

tions. It also helped to avoid the conflicts associated with restructuring old companies and inferior technologies. The acquisition of an existing company would have been suitable in the case of production or assemblies, but the company performed all these functions solely in Finland.

For a corporation like Larox, with the intention of remaining number one in the filter business, it made a strategic decision to acquire one of Outokumpu's business lines and the justification for such strategy was their concern for growth:

"We are a hungry company. We were aiming to take on and become the world's service provider for solid-liquid separation. In addition, we have been working towards growing our market share for some years. It was clear to Larox's global management even three years ago that we could not take all the business in the world with one product, we needed more products: the choice was then between acquiring or designing new products. It has to fight against 50-60 other high competitors in the world. Therefore, if we are going to double our business, we have to double or triple the size of our target markets. That is why we acquired Outokumpu's range product line" (LASAJ0403).

As can be seen from the above citation, Larox motivates its decision as a desire to grow and to keep its competitive edge. Developing its own new products would have taken longer to achieve, but at the same time, acquisition of a new product line from a competitor is not always without its problems either. In some instances, the two companies may have had different business cultures and it took time to integrate.

"The acquisition of Outokumpu's filters has opened a lot of opportunities, but it has left us in a weaker position to start with" (LASAM0418).

To tackle such changes, Larox tried using the same methods it used with its earlier customers: intensive interaction through problem solving, innovativeness, and cooperation.

6.4.3 Host business environment and business relationships

When discussing issues of market and industry structures, there are many issues that need to be tackled: the number of sellers and buyers, product differentiation, barriers to entering a market, cost structures, vertical integration, and conglomerates. Initially, Larox found the South African market to be a very difficult place to do business. This fact was due to the existence of a closed community of decision-makers in the industry and a closed community of suppliers who had developed strong ties with each other during the sanctions, when most of the foreign corporations had divested their operations. It was very difficult for a foreign-based company like Larox to enter that circle and to be

acknowledged as a credible supplier. For instance, 3-4 players dominated the South African mining industry and 2 players dominated the pulp and paper industry. That situation changed with time as the country became more open, allowing more competition and the application of affirmative actions and BEE. Directly after the sanctions were lifted, many companies became interested in the Republic of South Africa and in its growing industry. Since 1990, and especially after the general elections in 1994, the SA business environment has gradually become normal.

Currency and pricing has played a decisive role in its business operations, especially in the way Larox chooses its customers. South African customers are not similar to any other African customers on the continent. These giant companies prefer to buy in advance so as to avoid the problem with currency fluctuation. They do so to avoid losing a lot of money due to fluctuating exchange rates. This kind of arrangement makes it possible for Larox to purchase the input factors and to have cash for activities. Companies such as Larox do business in the Republic of South Africa similar to anywhere else in the world but the difference is that the South African customers prefer to buy in such way that suppliers take responsibility for delivering the product to the site for installation. In most of the cases, the preferred Inco term is Delivered Duty Unpaid (DDU). This is due to the problem linked to logistic and transportation arrangements in most of African countries. Thus, most customers on the African continent want the supplier to arrange for logistics, transport and insurances until the product is delivered.

The neighbouring African markets have been promising. However, due to Zimbabwe's major political crisis, people and foreign companies do not want to invest in this country to any significant extent. Since 2002, Larox's business environment in the RSA has not changed very much except that competitors have been far more active and there have been mergers and acquisitions amongst the competitors. For instance, Larox acquired Outokumpu's filter business line and its major competitor Delco was acquired by another large company who were prepared to inject a lot of cash into Delco. The acquirer of Delco had similar strong growth plans as Larox in the Southern African region. The third merger and acquisition was made between the American GLND, and the Oliver Baker Process Arm Company, both strong global competitors. The other Finnish corporation, Metso Minerals (see previously in section 6.1) is also still in business there with their filters which they acquired with their purchase of Swedala which was a Swedish corporation.

The South African market has also seen the emergence of other new strong competitors from Japan. There are also local companies that supply equipment to some of the mines, who have never used Larox's

filters, and these local suppliers have become agents and distributors for other filter producers as well. The market in Southern Africa has grown, and competition has become tougher and all companies use almost the same price strategy. Another interesting phenomenon in the business environment is that most of the large South African companies have started to internationalise and to globalise significantly. This implies that they also have access to resources and capabilities and the information needed to play in the global arena. On the decision-making side, another interesting phenomenon is that some previously disadvantaged people have started to participate actively in the decision-making. In Larox's expansion process, the key driving force was its relationship with customers. Customers' requirements have always played a central role and will continue to direct its future operations. The new business concept of working on a rand per ton basis, with the possibility of sharing profits and losses with the customers is one new development. Due to the reluctance of Larox to take on new employees, Larox Southern Africa has to find an innovative way of using a subcontracted network of 12 self-employed sub-contractors, which supplement the nine ordinary employees in the RSA (in 2005). The self-employed sub-contractors perform services for customers as if they were Larox's employees. Due to its small size in the RSA, LASA is not able to take all its installations to South Africa, and only uses internal resources. This outsourcing works very well and functions also as a strategic response to the affirmative actions, which requires companies to hire previously disadvantaged people whenever there is a position to fill. By using independent entrepreneurs, LASA is able to keep its number of employees at a lower level and the same time to deliver on their promises. In addition, LASA helps the contractors to start their own businesses to ensure not only that there are enough of these outsourced contractors to keep all its contracts alive, but also as a way to spread wealth to other actors.

In the case of the absence of these contracted networks, Larox South Africa would have major problems with its customers, especially if they were requiring a 100% service and Larox Southern Africa did not have enough people to do the work. So far, Larox has used a centralised manufacturing site in Lappeenranta (Finland). However, there is a widely held belief that Larox could manufacture some elements in the RSA, for instance. This would mean that it might be possible to manufacture conveyable tanks and other conveying systems locally for some customers. However, LAFI would not be willing to undertake such manufacturing in the RSA, especially if such operations would require great changes in their strategic business concept, consisting of having a centralised product management and centralised business manage-

ment, which is able to serve the customers wherever they are located in the world. The key driving force in the outsourcing process is to make sure that when customers buy the equipment, they will absolutely be assured of the value and that they can rely on Larox South Africa for spare parts and service. For such an operation to be successful, a lot of trust has had to be developed over time. Both the headquarters and the customers trust LASA and its management.

6.4.4 Critical events and temporality in FME of Larox to the RSA

There have been different events that have shaped the Larox's FME process into the RSA. For instance, the lifting of UN-led sanctions was one of the decisive events prior to the decision to enter that market. In addition, other business events have also been very crucial. The most crucial event is associated to the relationship between Larox and some of its key customers. One crucial event took place between years 1999-2000, when a major key customer had problems with a filter. A phone call for help proved to be a very decisive one in the relationship. Being ready to assist the customer whenever needed proved to bear mutual fruits. Through its business expansion and operations Larox South Africa has learnt over time the different ways to circumvent negative events and to accentuate positive ones. The mechanisms in place are to make sure that instruction and training are given properly but at the same time Larox is ready to assist the customer whenever needed. The acquisition of a product line from Outokumpu in 2003 was also positive. However, at the same time, it brought other major problems as LASA became overstretched due to the acquisition of new customers to service. Looking at the expansion process of Larox into the RSA, there is no doubt that the time factor played a major role. Though the signal came from outside Larox itself, it is possible to connect this call for "*doing something in the South African market*" as connected to the overall political development in the RSA. The mining and pressure filters industry is a specialised industry with only a few players. It has been, since its creation, vigilant in defending its market position. In such situations, as suggested by Knickerbocker (1973), the timing of foreign investment is determined largely by the reaction to competitor's moves and counter moves. The discoveries of new metals and especially the demand for platinum worldwide made many mining companies shift from traditional metals to platinum.

6.5 Problems and strategic responses in FME process to the RSA

Since the beginning of their business operations in the RSA, Finnish corporations have faced different challenges and problems. Their strategic responses have varied according to the nature of the problem and according to their resources and capabilities to deal with these problems. In the following table 6, I summarise the key problems and strategic responses associated with expanding business operations into the RSA.

As can be seen from the previous discussion and table 6, most of the barriers came from the external environment and specifically in what is called institutional factors. The issue specifically linked to affirmative actions and BEE has been reported to be one of the major problems. The expanding businesses are sceptical when it comes to results from affirmative actions and BEE. Nevertheless, given South Africa's recent history, it is imperative to apply these measures which allow the previously disadvantaged groups to become equal. Politically and economically, the large majority is still lagging behind. A very small portion of those previously disadvantaged has been able to get access to higher education and to political networks. Therefore, there is still a need to educate the HDSA and there is a need to make both private and public sector realise the importance of integrating these HDSA. This will only create a positive climate for the long-term. Even foreign companies aiming at expanding their business operations into the RSA need to look at the unique social, political and economic reality facing the RSA. They need to put into place good policies and strategies to deal effectively with these institutional requirements. In the long-term, conscious CSR policies will benefit both the society and business (see Mbare 2004). By integrating the previously disadvantaged people, their economic purchasing power will increase and the economy in general will profit and more business may appear in the South African market.

Processes	Main Problems associated with FME to the RSA	Strategic Responses
Competition	<p>Intense competition and aggressive competitors</p> <p>Local competition through reverse engineering</p> <p>Difficulties in competing with cheap and good local and foreign brands</p> <p>High price level of imported equipment</p>	<p>Differentiation and focus on service strategies. - Partnership and value creation</p> <p>Differentiation from competitors through future care</p> <p>Intensive partnership with key customers.</p> <p>Search for new markets</p> <p>Diversification into new areas</p>
Customers	<p>Limited number of customers</p> <p>Difficulties to get into the closed circle of customers and supplies</p> <p>Powerful customers</p> <p>High dependency on customers</p> <p>Globalization of key customers</p>	<p>Knocking on the door of all potential customers (door to door marketing)</p> <p>Social and business networking with customers</p> <p>Reduce their bargaining power through relationships and partnership</p> <p>Act jointly whenever possible</p> <p>Strive to be a part of customer's value network</p> <p>Intensive partnership with key customer</p> <p>Diversification of customer's base</p>
Institutional Challenges	<p>Government intervention to split some of the big Oligopolies</p> <p>Indirect pressure from government to comply with affirmative actions and BEE since 1994</p> <p>Pressure from mining companies to apply affirmative actions and to use BEE companies</p> <p>Uncertainty with regards to affirmative actions and BEE</p> <p>Stress in working all the time with filling forms</p>	<p>Hiring local people as far as possible</p> <p>Efforts to partner with BEE companies</p> <p>Uses outsourced contractor</p> <p>Negotiating and building relationships with Labour Unions</p> <p>Political actions to acquire necessary political resources</p>
Currency, price and taxation	<p>Devaluation and strengthening of the local currency</p> <p>Major projects on hold and that halted the FME</p> <p>Profit challenges in some cases</p> <p>Complicated taxation law</p>	<p>Pricing strategy</p> <p>Concentration on customers who can afford products and services in foreign currency</p> <p>Operating on Rand per ton basis</p> <p>Concentration on R&D service and spare parts in waiting for projects to be released.</p> <p>During devaluations, sell directly from Finland bypassing the local organization</p> <p>Concentrates on providing services in waiting for the projects to be released</p> <p>Strengthening capabilities waiting for projects to be released</p>
Acquisitions and mergers	<p>Acquisitions and mergers may lead to internal cultural problems</p> <p>Pressure to harmonise these mergers</p> <p>Some time the acquirer became weaker</p>	<p>Strengthening structural integration of different corporations.</p> <p>Harmonization and give time for entities to get along with each other</p> <p>Effort to introduce the new culture to the new customer base</p>
Lack of skills and prohibited and prohibited to import skills	<p>Lack of skills in the majority of people</p> <p>Brain drain and shortage of skills in some cases</p> <p>Problematic to find HDSA engineers</p> <p>Expensive local Black skills and prohibition to import skills</p>	<p>Use a network of outsourced contractors in some cases</p> <p>Getting resources from the group to train sub-contractors</p> <p>Training of own employees</p> <p>Training of HDSA to increase societal performance</p>
Crime level and HIV/AIDS	<p>Crime and safety cause major problems in some places</p> <p>HIV/AIDS caused efficiency drops in foundry</p> <p>HIV/AIDS leads to low morale and drop in foundry and mining output</p>	<p>Use good security companies</p> <p>Guidelines and counselling to employees when moving outside offices and work place</p> <p>Help to these affected and campaign to increase awareness</p> <p>Careful movement of personnel</p>

Table 6: Main problems and strategic responses in FME process to the RSA

7 ANALYSIS OF THE FME OF FINNISH CORPORATIONS INTO THE RSA

The analysis of the written material, case studies, and interviews pointed to important processes in the expansion process of different Finnish companies into the RSA. In particular, the interviews with top managers both in Finland and in South Africa shed substantial light on the key factors influencing FME into emerging markets such as the RSA. These case studies and interviews revealed critical factors involved in the FME expansion process into the RSA. The aim of this research was to increase our understanding of the expansion process into an emerging market such as the RSA and took the expansion process of Finnish corporations into the RSA as example cases. The four cases involved are production-oriented and they regard their products and services as complex offerings. They sell complex and expensive systems to their business buyers in different process industries as described in chapter 6.

What I wished to understand is what drove the managers making and implementing the decisions to achieve the desired ends and to sustain the growth of the company in the Republic of South Africa (see the teleological process in section 2.6). In order to understand broader aspects of the FME process into an emerging market, I needed to discover more about the influencing factors and the key forces and drivers of such an expansion process. My preliminary assumption was that it was not sufficient to possess internal resources and capabilities in order to operate in emerging markets. Rather that expanding corporations must engage in many different business relationships embedded within a changing socio-political environment, which shapes the direction of the establishment and maintenance of business relationships (see Halinen & Törnroos 1998).

In chapter 2 and 3 and based on the existing literature, a tentative theoretical framework was developed, summarised as a REMNET-framework of corporate internationalisation (see figure 5). Chapter 7 offers a comparison of the involved four cases with the explanations of the connections between different categories in the substantive theory (cf. Eisenhardt 1989). As stated earlier in the methodological approach (see chapter 4), this study is abductive in nature (see section 4.2), in such studies, the theory itself becomes embedded in the data analysis. The data analytical process I followed was described in chapter 4 (section 4.3.3, table 4). The focus of this chapter is on presenting and discussing the main properties and elements forming the REMNET-framework of corporate internationalisation based on evidence from the field.

This analysis is in line with the ultimate aim: to make the theoretical framework more compact in such a way that it is useful, economical and modifiable (Glaser & Strauss 1967; Strauss & Corbin 1994). This chapter aims at finding answer to the following research question: “*What were the key factors that motivated and shaped the FME process of Finnish corporations into the RSA and what were the key factors that contributed to the FME outcome?*” Subsequently, in section 7.1, I present and provide an analysis of the key internal forces influencing the FME process.

7.1 Resources and capabilities in the FME process into the RSA

As presented earlier in chapter 3, the theoretical framework used for this study had 6 interrelated dimensions (R-E-M-N-E-T). The directions and links between these 6 dimensions were provided. The upper section is made up of R-factors, which are the *resources and capabilities* inherent in each expanding corporation. These resources could be internal to the expanding firm and were classified as *tangible and intangible resources* within the organisational boundaries (see sections 3.1). Later on, it was argued that even the networking and business relationships with which the firms are involved, also provide valuable resources.

Through the analysis of the expansion process, it became evident that different resources played a role and contributed to variations observed in the FME of Finnish corporations into the RSA. The interviews with the top managers of the Finnish corporations and their subsidiaries in the RSA were especially important when it came to critically evaluating the role of resources and capabilities in successfully launching new ventures and targeting emerging markets such as the RSA. When looking at the FME processes, three of the four cases are seen to use an incremental approach, as suggested by Johanson and Vahlne (1977). Only one entered the market by means of a heavy commitment (acquisition). The incremental approach reflects the feeling of uncertainty experienced at the end of 1989 and in the beginning of the 1990s, when the political climate was threatened with instability. During this period, all these ventures relied either on existing links with their previous agents or tried to create new links with individual managers in order to acquire specific market information and market knowledge. These “*local managers*” were born and grew up in the RSA and had specific knowledge and good capabilities in business processes in general.

The study identified factors and triggers influencing the decisions to expand business operations into the RSA. Based on the data and analy-

sis of the cases involved in this study they had different motives for expanding their business into the RSA. The analysis suggests an interaction between following factors:

- Local market-seeking and gateway to other African markets
- Exploitation of internal resources and external resource-seeking
- Follow competitors into foreign markets
- Value creation and learning through cooperative innovativeness
- Perceptions of low risk level and reduction of uncertainty and cultural distance between the RSA and Finland

When conducting the analysis and comparisons, I looked for the internal factors which were present in each case and which acted as forces promoting or impelling the expansion process into the RSA. All the four cases had a good and stable financial situation. Due to the many years they have all had in their respective industries and due to their many years of operations on the global market, they have managed to secure their finances and whenever new market potentials are perceived they do not hesitate to deploy these resources.

I was then interested in what sort of structures do organisations apply and which factors might have significant influence on the decisions made during the expansion process to, specifically the RSA in order to achieve economic growth? As we saw earlier (in sections 2.5 and 3.1), the R-factors, were posited to be the basis on which a company defines its aims and the results it wishes to achieve. In this respect these R-factors included firm specific factors and people (leaders, executive managers, and workers), financial resources, physical resources, knowledge accumulated through several years of experience, organisational capabilities and competencies; managerial and market orientations, organisational culture and international experiences. During the analysis, the resources could be classified into 4 broad categories: company characteristics and product factors, company's hard resources, human resources and political resources. Furthermore, each broad category was assigned sub-categories as shown in the following table 7. These factors are under the control of the expanding firm and are called key internal influencing forces of FME (the R-factors as discussed in section 3.1 and 3.7).

In the following, a brief discussion of the key resources and capabilities which were found to play a decisive role is provided. The obvious connection between these categories and their properties is that they are considered to be internal factors. Each firm is unique and has *own characteristics and product factors* which distinguish that specific firm from competitors. These characteristics or factors may be conceptualised into several sub-categories as indicated in table 7.

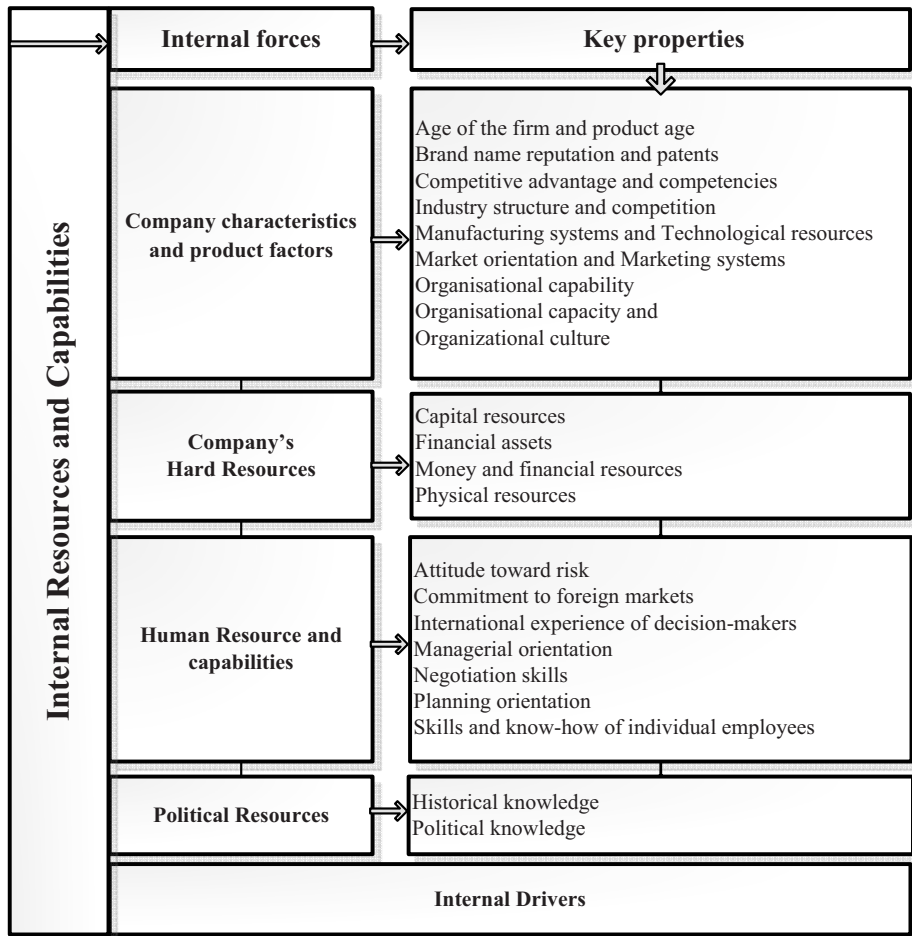


Table 7: Key internal resources and capabilities

The size and age of the firm play a decisive role in the FME into emerging market. As stated in section 3.1, the firm's resources and capabilities are assumed to grow both in quantity and quality over time (see section 3.6). Yet these two factors alone cannot offer satisfactory explanations as to why firms engage in international operations. Companies with generous resources in management, planning orientation, capital, technology, production skills and marketing skills, will have numerous strategic options for its FME process. A company with limited resources is forced to use expansion strategies that call for only a small resource commitment. As was shown in section 2.5 and 3.1, the resources of a company in both domestic and foreign market expansion should be valuable and inimitable, rare and non-substitutable. This is required for the company to maintain its competitive advantage over its rivals (see Knickerbocker 1973). It is then understandable for a company with

unique resources to engage in foreign operations. As far as organisation culture is concerned, the argument is that different stimuli from the external and internal environment are effective only if key managers perceive them as such. Organisational culture evolves in parallel with companies' historical development and may affect how FME unfolds (see section 3.1). Welch and Luostarinen (1988) introduced the concept of organisational capacity as a firm-related factor. The concept incorporates the personnel and financial resources as well as the organisational structure and the international personnel development is considered as a key indicator. Thus, the organisational capability and competencies as defined by product/production, quality, and capacity and processes (both production and sales/marketing) are key forces in the FME into emerging markets.

"Obviously there are many things and I think you can only do well if you have something which is useful to the market. Therefore, our technology is well-proven, well-respected and well tested. I believe that is our starting point because, we have something that we can offer to the mining industry. Secondly, we are backed by huge machine being and international parent. That makes it easier for us to go into the mining industry and to prove that we can solve their problems" (OTSAH0237).

"I could say that even though these pressure filters typically make a rather simplistic due to the process, very often the material flow based on which the customer gets his money is going through a filter, so it is like a cash flow machine. I think the biggest challenge for the first 5-6 years was to convince these larger mining companies that this small African operation, and this medium-sized Finnish company has something to offer that they can trust that we stand for something if we get orders then we also service them" (LAFIK0213).

Although firm related factors constitute influencing factors, they are not sufficient to explain a company's choice of expansion strategies. Firm related characteristics must be joined with a willingness to commit them to foreign market development. Thus the second broad category is conceptualised as human resource and capabilities (see table 7 above). A high degree of commitment means that managers will select the expansion strategies for a target country from a wider range of alternative strategies than managers with low commitment. A highly committed company, regardless of its size, is more likely to choose a strategy committing financial resources (such as in an equity penetration strategy). In addition, the degree of a company's commitment to FME is exposed by the role accorded to foreign markets in corporate strategy. Thus, firm-specific resources and capabilities should be considered broadly in case of FME.

The FME process is also depending on the characteristic of key decision-makers (see Aharoni 1966). For instance, we should consider firm-specific knowledge and the existence of skilled-human resources management as creators of competitive advantage. The history, age of the decision-maker, their level of experience with foreign market and their attitude towards risk played a decisive role in launching FME into the RSA. Internationalisation (especially in SMEs) tends to rely heavily on the individual decision-makers (see Mtigwe 2005). From this perspective, the question may not be of committing more resources to ensure continuation of the growth process but the aspiration of entrepreneurs themselves, which may also be an important factor driving FME. In addition, managers who are not foreign-market oriented perceive the barriers to be higher (see Mtigwe 2005; Hadjikhani 1997; Vincze 2004). For FME to take place, the management must commit itself to international business (Johanson & Vahlne 1977).

In addition, managers and workers in subsidiaries, people at the site (working with customers) give valuable information, which increases a firm's knowledge base. In all four cases, people played decisive roles in identifying opportunities and deciding on strategies for further expansion processes. Due to the size of the parent company, the first three cases had many people involved at the beginning of the expansion process, while the fourth corporation only used a few people initially. The first case, which is a large organisation, employs more than thousand (1000) people in the RSA and has more than ten thousands (10 000) employees world wide. This suggests it has a good basis and a wide range of knowledge considering the number of people. In all four cases, the employees in the RSA played a decisive role in the success of the business operations established there. Having experience and having a substantial local socio-cultural and political knowledge and sensitivity, they were able to increase capacity and to deal with key customers without difficulties. In addition, the political and socio-political knowledge and sensitivity proved to be of great importance. In case no. 4, the initiative came from a person who had lived and worked several years in the RSA and who knew the political dynamics of the society in question.

For the analysis the REMNET-framework separates the resources (R-factors) from the N-factors although; in reality and at a certain point these factors may be intertwined through the exchange process (see section 3.4). However, it has to be born in mind that over time subsidiaries, customers and other suppliers in the RSA and socio-political actors also contribute to increasing the resources and capabilities of the involved actors (see Welch & Wilkinson 2004; Hadjikhani & Sharma 1996; Halinen & Törnroos 1998). Aiming at minimising the transaction costs has

also been seen as an internal driver of FME (Williamson 1981; Hennart 1982). Buckley and Casson (1976) and Dunning (1988, 1995) argued that a particular entry decision cannot be viewed in isolation. Rather it must be considered in relation to the overall strategic posture of the firm. From this perspective, the overall performance of a company can be seen as a driver of the FME process too.

7.2 External environment and FME into the RSA: the En-factors

For the expansion process to take place and for a firm to maintain growth, the theoretical discussion conducted in section 3.2, instructed us that there are conditions that have profound influences on the expansion process. These conditions, named *external conditions*, are to be found in the business environment in which the expanding firm operates. These factors are also related to *the government policies, the competitive environment* (Porter 1990, Buckley & Casson 1998) and to *acquisition opportunities* (Calof & Beamish 1995). They are external to the company and may be regarded as parameters of the entry and expansion decision. Because no single external factor is likely to have a decisive influence on the expansion strategy for companies in general (although it may have for an individual company); one can only say such factors encourage or discourage a particular expansion strategy. These external factors cannot be directly affected by management decisions. The often used pull factors refer to the nature of the effect of these factors. The external environment (Welch & Wilkinson 2004; Hadjikhani & Sharma 1996; Halinen & Törnroos 1998) imposes certain conditions on the expansion process. These factors may create barriers to growth of a company in both domestic and foreign markets. According to Hennart and Larimo (1998), growth in the target industry, the extent of natural resources, the industry structure on the domestic market and the possibilities for transaction costs minimisation appear to be key factors.

“Due to the size of some of these projects and due to the fluctuations in the exchange rate, the danger that MASA have faced due exchange rate losses, MASA has resolved that in some instances by selling directly from Finland to its customers. Thus bypassing the local organisation and by invoicing in Euros from Finland. The customer pays in Euros directly to Finland. MA makes profit, but the local company misses on the profit part of the cash flow, which may in turn, affect the local business operations. The local organisation would then continue to have expenses, but with these bypassing there won't be any justification of paying these expenses” (MASAG0279).

As discussed in section 3.2, and shown in figure 4, the host environment

plays a decisive role in attracting or in discouraging foreign companies from expanding their business operations into a particular country. In this analysis, I was particularly concerned with the host environment factors. To simplify the analysis the host environment was divided into 3 broad categories: host country market factors, host country production factors, host institutional factors. Furthermore, each of these broad categories was also given sub-categories as stated in figure 4. To avoid repetition, I do not display all these sub-categories again here. Rather in the following, I provide for a discussion on these sub-categories which acted as key drivers for the FME into the RSA for the four cases. There are also factors that originate from the host market, described as: access to production input, capital market, distribution channels, managerial linkages, and the exploitation of firm-specific advantages in foreign locations (see Dunning 1988, 1995). Market accessibility includes factors such as increased communication with foreign market, the proximity of suppliers, efficient transportations, avoidance of tariffs and non-tariff barriers, as well as access to government contracts.

Other important market characteristics include labour costs, material inputs, management labour relation and the availability of non-unionised labour, less probability of strike, publicly provided financial incentives above government contracts and the similarity of customer preferences. Barriers included political factors, competition (e.g. host-country and other foreign rivals (see Porter 1985, 1990; Buckley & Casson 1998) and those factors related to customers (e.g. cultural differences). Target country market factors, such as the present and projected size of the target country market is an important influence on the mode of penetration.

Another dimension of the target market is its competitive structure: markets can range from atomistic (many non-dominant competitors) to oligopolistic (a few dominant competitors) or monopolistic (Porter 1985; Knickerbocker 1973). Atomistic markets are usually more favourable to export entry than oligopolistic or monopolistic markets, which often require entry via equity investment in production to enable the company to compete against the power of dominant firms (see Knickerbocker 1973). In target countries where competition is judged too strong for export and equity modes, a company may turn to licensing or other contractual modes. Small markets favour entry modes that have low break-even sales volumes (indirect and agent/distributor exporting, licensing, and some contractual arrangements). Contrary, markets with high sales potentials can justify a penetration strategy with high break-even sales volumes (branch/subsidiary exporting) and equity investment in local production (Root 1994, p. 29).

The availability and quality of the local marketing infrastructure is

worth mentioning too. For instance, when good local agents or distributors are tied to other firms or are simply non-existent, an exporting company may decide that the market can be reached only through a branch/subsidiary entry (see section 3.2). Host country production factors: the quality, quantity, and cost of raw materials, labour, energy and other productive agents in the target country, as well as the quality and cost of the economic infrastructure (transportation, communications, port facilities, and similar considerations) have an evident bearing on entry mode decisions. Low production costs in the target country encourage some form of local production, unlike exporting. Obviously, high costs would harm local manufacturing (see section 3.2). The following quote illustrates what one manager thought about the host market factors, which had influenced their decision to expand their operation into the RSA.

“The first motive was to go to a market where they could make money. There is a huge industry potential, compared to the rest of undeveloped Africa. Since 1994, the RSA had a relatively stable political situation which was a good score of growth in business confidence, but what made them to come here was that there is a lot of potential” (LASAJ022).

“What we felt in our particular case was that the products came first, and there was a need for valve and automation products in the country, because Sappi and Mondi⁹ for instance as well as the petrochemical industries. When they were built in the beginning, the engineers specified Neles and Valmet products at that stage. Neles and Valmet were represented here by agents, who were local companies who had some knowledge of the field of that Metso operations and had agency to import these products. Later on, these agents saw a positive potential for growth which pushed them to establish their own presence in the RSA” (MASAG0216).

“The motives really were to some extent to increase their store base, increase our products in various sectors of South African economy to some more products thereby increasing the turnover and the profit, also trying to increase the competitive advantage. MA has competitors worldwide, so, it was driven by the desire to give the level of service to the local South African industry too. In that sense, MA was aiming at enhancing its product in the RSA and that may have been the main justification for moving in” (MASAG0218).

In all the cases involved, the issue of robust competition was said to cause difficulties in expanding businesses into the RSA.

“There is tough competition and then we have customers who are very well informed. They expect first world standard in terms of

9 Large paper processing corporations based in the RSA, and they are in the process of becoming global players.

projects and in some way South Africa is unique because it is the first world country with the third world components, and the mixture you know between them. I think that makes it difficult to perform to the first world standard". (OTSAH0235).

"Initially, Larox found the RSA to be very difficult place to do business with. In our particular case, we felt that there was a much closed- community of decision-makers in industry and there was a closed community of suppliers and they seemed to have very close links, so we had found very difficult to penetrate and to be a credible supplier. This kind of inward behaviour had taken place during the sanctions time, which resulted in business concentration and conglomerates" (LAFIK0222).

In the host environment, there were also *institutional factors* (socio-political policies) that affected the way business operations were to be conducted. These had profound influences on the business and social networks. The following quotations illustrate the existence of these key influencing factors.

"The government policies affect us as much as they affect any other company. You are talking about equity bills like black economic empowerment and it is affecting us so that we have to align ourselves to those structures. It is not a question if we are going to do it; it is how we are going to do it and when we are going to do it because those that are left behind are the people who are going to suffer. Major mining houses are looking to get their scorecards up to speck and they look to their suppliers to be part of that process" (OTSAA0460).

"Now the way it affects us as a Finnish company is..., it says that companies operating in this country need to have a plan whereby they bring people who were previously disadvantaged into top management positions. That is not a uniform thing, because it applies differently to different size companies. A company of our size which is about 50 employees or less has to submit each year report to the government on how it is doing on that plan to try to increase the black management" (MASAG0243).

The socio-political environment and government requirements were seen in the four cases as affecting the FME into the RSA. In all the interviews, these concerns were present and were discussed as causing extra costs for the management of these processes. For instance, the cases involved affirmed that they had challenges in adapting to the affirmative actions and to the Broad Based Black Economic Empowerment (BBBEE).

"The costs of doing that in time, efforts and manpower have also been horrific. Previously in my job as Human Resource Director, I was able to interact on the shop floor with people to understand problems across on a lower level. Today, I am bogged down in issues

surrounding pension and providing funding, surplus distribution, proportionate of pension and surplus funds, which is a new act they brought in. I've been bogged down in more so than normal. Previously, there was employment equity; even if it wasn't legislated we were doing it" (MMSAR0456).

For these cases, trying to use BEE partners was difficult during the period between years 1995-2005. For those who tried the result was that they had trouble with these companies, although they had been confident they would fulfil their part of the agreement. After a short time, the four Finnish companies realised that the partner could not match their expectations. Conventional wisdom would have suggested that these "local partners" would be very familiar with the local business context. These black empowered companies, being "citizens" of the RSA and having support from the government felt that they understood the South African market better than any one else. However, this turned out not to be true, especially when it was a question of very specialised and sophisticated processes. To overcome the problem, Finnish corporations either had to change partners, or had to adapt to a new partnership through offering training. As one senior manager concedes:

"It is critical to do good homework to find suitable long-term partners in the future" (MMSA04R105).

All the four cases (at the corporate level) have a lack of knowledge about these black empowerment structures. Thus, they preferred to let the local subsidiary management handle these local issues. Three Finnish corporations (the larger ones), felt the affirmative actions and BEE structures were imposing extra costs in management and believed there was a risk of poor performance in the short-term. All agreed that the existing Black empowered companies still lack the necessary capabilities to deal with "technically advanced processes". However, the "white dominated" partners were found to have good skills and capabilities and "western-like business operations and laws" and that contributed to the feeling of less cultural distance when dealing with Western like business partners. The four involved cases had very well established brands. The socio-political processes pursued by these cases, were mainly associated with dealing with government officials and Trade Unions to show how they planned to apply the affirmative actions and to negotiate favourable terms in situations where they applied these structures.

In addition, the cases involved in the study were concerned with other social processes connected to external feedback from customers. It was a question of convincing customers of the fact that they could obtain the best services and value if they adopted these products. The expanding ventures understood quickly that the South African market

was a slightly different business environment. The more the customer accepted these case companies' offers, the greater their sustainable competitive advantages became. Revenue creation was determined by the number of products or equipment installations that were delivered to the customers. At the same time, only the number of deliveries could be a measure as a direct growth in sales volume. For instance, Larox admitted to having installed about 15-20 pressure filters for one customer, and these were installed at different mining sites.

The impetus for all four cases was to conquer the whole RSA market and thereafter to be able to search for markets in other Southern African countries, and probably to expand their business operation into other African countries as well in the future.

"Strategically South Africa serves well in the location because out of the global manganese which is the laying element reserves and by far the majority are in South Africa. So, the raw material base all base is there, and it is good quality or it is low phosphorous, excellent material to be used for this kind of production" (MMFIU0223).

Through their competitive advantages (technologies, and socio-cultural know-how), these four cases were able to compete with other fierce competitors operating in the same market or in the surrounding markets as illustrated in the following quotations:

"So it is a little bit, South Africa is not only for South Africa, but LASA is taking care of the surrounding countries " (LAFIK0215).

"Many companies see South Africa as a lunch pad to other markets on the continent. South Africa has a very important role in acting as a either a base or a development base for business in other countries" (MASAK0467).

The participants in these FME processes (in Finland) admitted to a considerable knowledge gap in respect of the South African Business environment (socio-political environment) yet they admitted that most of the customers in the RSA also operate as key actors in the global scene and that made it easier to deal with them. All the cases involved in the study have a high level of experience of operating in global markets. However, the same experiences may not be transferable to the RSA with its quite different socio-political setting.

When dealing with emerging markets, instead of using arguments based on premium brands and high margins as used in developed markets, the best strategy seemed to be to "learn from the bottom" and to try to reduce the relationship distance with they key market partners such as customers. For local management at the subsidiary level, it is necessary to have a supportive management at their respective headquarters. Relying only on traditional capabilities and corporate mindsets, may not be appropriate when expanding into emerging markets

and corporations may lose substantial opportunities. Highlighting the potential risk from failing to learn from the bottom, South African managers appreciated the support from the top and actually were proud that their parent companies actually adopted their propositions (presented at various strategic meetings both in Finland and in the RSA) in overall corporate strategies. In this sense, it created the potential to override the traditional expansion process and the traditional allocation of resources. In the cases involved in the study, bottom-up learning and willingness to learn has generated more profit for the entire group as most of these subsidiaries eventually achieved the function of profit centres.

7.3 Market commitment and marketing strategies in FME: the M-factors

At the centre of the tentative REMNET-framework (figure 5), I identified the M-factors. These are factors related to different strategies and modal choices in FME processes. Within the M-factors, the following sub-categories were identified: entry and penetration strategies, ownership and commitment strategies, co-ordination and concentration of value adding activities, fragmentation and integration strategies. As discussed in 3.3, these different strategies are of importance in the FME process and are influenced by other processes as well. The penetration process in this study refers to Finnish corporation's choice of whether to enter the RSA by obtaining existing units in the RSA through acquisition, or through establishing new ventures or Greenfield.

"The first 4 years it was. "I am a one man' band" and that was it: one man! There was no huge injection of cash; money had to come from the trade, so we bought everything you see here in this office from the profit made in South Africa! As you know, there is no free lunch and the Finns do not hand out the check book for sure. I mean they put one man and say "If that person does not perform far, let us hire another one" (LASAJ0205).

"We are a hungry company. We were aiming to take on and become the world's service provider for solid- liquid separation. In addition, we have been working towards growing our market share for some years. It was clear to LA global management even three years ago that we could not take all the business in the world with one product, we needed more products: the choice was then between acquiring or designing new products. It has to fight against 50-60 other high competitors in the world. Therefore, if we are going to double our business, we have to double or triple the size of our target markets. That is why we acquired OK's range product line" (LASAJ0403).

The ownership strategy is a critical element in the expansion process. The four cases involved had to make choice whether to enter the RSA alone, or to share resources with other parties through joint-ventures, and if that was to be the case, they had to decide how much share each partner would have in the arrangements. Each case made decision(s) on which functions of the value chain was to be performed in the new foreign market and to what extent they should take place. Each company therefore had to formulate some sort of co-ordination and concentration strategies. These strategies were influenced to a large extent by several factors that are identified in section 3.3. However, similar processes were observed in all the four cases. Customer's requirements became one of the decisive factors in deciding on co-ordination and concentration strategies.

“So, we are putting the focus very strongly on being a service provider into the various mines and quarries in which we operate. We could say that we are solutions providers to our customers. That is what we do best and that is how we counter pirate activities. Pirates do not have the expertise that we have to supply a full solution, a full problem solving expertise. Thus, this is the route we are taking and that is our future. We aim at distinguishing ourselves from the smaller players who are to provide products without full services” (MMSAR0429).

“I think a prerequisite before you invest in selling in this country you must invest in supporting those sales as well. So, if it's a technical product, technically you need to ensure that you can support what you are doing, you cannot just sell” (MASAK0461).

The decision on the appropriate coordination and concentration mechanisms during FME depends on several factors such as the existing resources in the firm and their transferability across countries.

The issue of which role the new entity is to play in the firm's entire global network is very crucial. The fragmentation and integration strategy refers to the decision as to whether to incorporate the new venture in the host market into the firm's global network or to let the new venture live its own life i.e. remain an independent unit with little or no relationship with the main group members. Unlike the coordination of cross-border activities, integration involves rationalisation that may entail the standardisation of products, centralisation of technological development, or the vertical or horizontal integration of manufacturing (Kobrin 1991). In this study, the process of integration means forming, coordinating or blending entities into a functioning unified whole, and integration refers to the ongoing process of striving for harmony between the case companies and the internal conditions, as discussed earlier. Furthermore, it is about finding common grounds with the oth-

er actors involved. When something is integrated into something else, the two together possess a unique quality. This integration process was observable from different angles. Firstly, the Finnish corporations with their subsidiaries functioned as a unified whole. Subsidiaries located in the RSA function as profit centres and were found to be well integrated in the overall group's world wide structure as witnessed in the following statement:

"We are set up as a profit centre, so we are here to make money and we get measured on generating profits, especially for the minerals processing business. For the metal processing business, we do not carry the expertise base; that is based in Finland. I think we all are judged by how good the whole company is doing ultimately. We understand as a group that it doesn't help us to be the only shining stars; the group as a whole has to do well, and I think that is the sort of structure that has been created and that is how we fit into the technology structure" (OTSAS0432).

These Finnish corporations incorporated the new local employees into the larger unit of their Finnish corporations' global networks. The other type of integration, which occurred with the increased activities transpired between key customers and the Finnish corporations as they endeavoured to become solution developers together with their customers. It is generally assumed that forces that are unified act in concert as expressed in the following quotation.

"MASA strives to achieve the future care which means to work hand in hand with customers in the way that they become more of partner to give them the best possible service to pre-empt problems, not to react to the problems that have occurred. We will continue to sell well and will have a good reputation for service quality and reliability. In that way, we will overcome some of the problems we have" (MASAG0293).

Integration also means ending segregation, and creating equal membership in the organisation. This refers more to the new business in the RSA that the customers gained through business activities. Equal membership or the need to create it certainly dictated the economic and growth opportunities and potential in the RSA. This required somewhat of a re-organisation of internal structures, both in Finnish headquarters and in relationships with their dyads (key customers).

"Customers demand certain standards and more and more these days, customers want equal partnership/relationship with us. With any supplier for that matter, the customer is saying for instance, if your product fails, you are responsible for that product as a supplier. We will deal with you as a supplier if you deal with us as equal partner, you give us what we require, we give you what you require, and we work as in a partnership. So, to a large extent we are driven by our

relationships with customers and their demands" (MASAG0229).

The other process in the M-factors was named adaptation, which signifies adjustment to the environmental conditions and pressures (see Calof & Beamish 1995). It also has to do with the kinds of modification that enable organisations to be able to survive under the conditions of its new environment (the En-factors as discussed in 3.2). In this study, adaptation means arriving at a correspondence between the objectives of the expanding companies and the business environment in which they are operating in the RSA. For instance, when companies merge or acquire other business units or other companies they both need to adapt to each other, and to find common ground to support their operations. In the case of Finnish corporations, this process was identified and the following quotation illustrates what one Finnish manager felt concerning this matter.

"It requires a lot of pain and suffering that soon has to be done to get things to run properly. Our company was very big also in pulp and paper sort of things. However, we sold Timber Jack, which was very strong in Canada and so on. We sold that although it was a quite successful business. We did that because, that was not one of the core businesses we are looking at. Then we used that money to expand into other acquisitions. So, our corporation is a very big global organisation" (MMFIU0252).

Thus, adaptation comprises of both the strategic and tactical behaviour of the expanding firm in the face of environmental changes. In the case of the RSA, the cessation of sanctions, the introduction of affirmative actions, the requirements of key customers, as well as the macro-level changes like inflation currency fluctuation, all required responses from the cases in this study.

"The government published for the manufacturing sector and other sectors in the economy what they referred to as the BBBEE which is Broad Based Black Economic Empowerment. They formed also a scorecard and a charter which affects companies like ourselves in the RSA and how we do business and how we as a vendor, a supplier to the mining houses on the one hand, to government on the other conform with a scorecard which measures our performance in terms of this economic empowerment" (MMSAR048).

Customers are saying "We want to know what affirmative actions measures you have got in your company as an approved vendor to us. What black empowered companies do you use in the manufacturing of your products or in the installation of your products or in other occasions? So, that is a changing thing for us now" (MMSARF0266).

"So, there is a lot of pressure on us to survive in the face of the mines putting off future growth until things stabilise or until such times

that the rand devalues. This is also the case with many aspects of industry in this country. So the exchange rate is playing a major role" (MMSAR0414).

Adaptation processes need adequate and at the same time unique mechanisms. It requires up-to-date trustworthy market information in order to sustain good relationships with key customers and to fight competition. The following quotations give an indication of the adaptation process, and how this process develops over time, after relationships are initiated:

"We have a future care concept which means that we do not wait for our customers to say: 'Hey you know, you are not performing. We go to the customer and say that we want to form a sort of partnership with him. We want to talk about the standardised prices, we want to talk about service prices, we want to talk about ownership of the inventory plant, so instead of selling to them, we have the inventory at the plant the spare parts and whatever and just supply to them when they need it. We take the ownership of the products until they actually install it. Added to that, we agree on service contracts and that is largely the way it has been run" (MASAG0234).

7.4 Networking and business relationships: the N-factors

FME process takes place through networking and through creation of business relationships. The cases in the study were involved in different business and social networks in order to exchange resources and information. Networking was important to offset negative influences and lack of knowledge of the external environment. Business networks and business relationships were found to be embedded in a socio-political environment and that they could be shaped and could also shape the business environment (see Halinen & Törnroos 1998). The example below shows how one Finnish senior manager described the forces in the company's business environment after the UN-led sanctions (early 1990).

"The key driving force has been that South African pulp and paper companies have decided to internationalise their business operations. They have thus learned and understood how to conduct international businesses. That has proved to be extremely helpful for MA in many aspects and the RSA is becoming a very well established market" (MAFIK0241).

Although networks were present in all of the cases, the intensity of networking varied from case to case and from type of network to type of network and relationship, according to the purpose for which the

relationship was established. All the cases involved spent a substantial time networking, especially with their key customers. The desire was to create partnerships and develop solutions together. There are different factors that affected the network content and context. For instance, the socio-political environment was stated as having played a considerable role. Within the socio-political environment, firms found themselves engaged in political activities. One case company, which has a large business operation in the RSA, found itself dealing with the government and trade unions on employment and BEE issues more often than normal. The other 3 cases also found that these processes were time consuming and caused uncertainty in business operations. The following table (table 8) identifies the types of networks and the key activities performed by the different actors involved.

For instance, the requirement of having a joint-ownership with a BEE actor is said to be confusing for foreign corporations. They feel forced into partnerships with partners, which may not add value to their activities.

“We are forced into this formal vehicle that takes a lot of time and energy” (MMSAF023).

The study identified different structures, drivers, and mechanisms behind business relationships and networking and the direction they take in the RSA. In accordance with Anderson and Narus (1998, 2004) and Dwyer et al. (1987), the key driving force for business networking for Finnish corporations expanding into the RSA were: interaction, knowledge sharing, learning, exchange of resources and commitment, partnership and trust, position, value co-creation, cooperative innovativeness, political networking, reduction of relationship distance and future care. The following statement illustrates these processes.

“MASA strives to achieve the future care which means to work hand in hand with customers in the way that they become more of partner to give them the best possible service to pre-empt problems, not to react to the problems that have occurred. We will continue to sell well and will have a good reputation for service quality and reliability. In that way, we will overcome some of the problems we have” (MASAG0293).

Finnish corporations engage in activities and business operations with the aim of creating and increasing value for their customers while increasing value for themselves. Through exchange relationships and through cooperative innovativeness value was co-created between the involved actors. By analysing the expansion processes of Finnish corporations into the RSA and the development of their business relationships, it was possible to depict a common trajectory or pattern that the business relationships that were following.

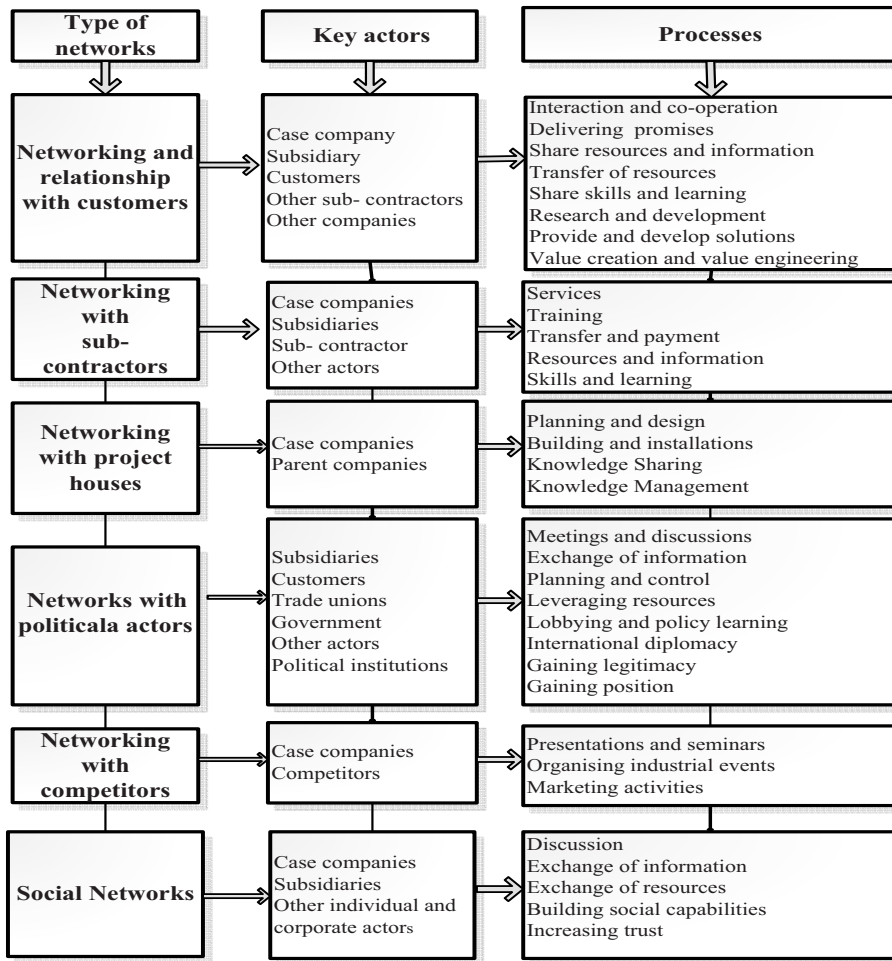


Table 8: Types of networks and key processes

The cases studied went through a process of diminishing the relationship distance between the actors as depicted in figure 7 on the next page. At situation 0, there was no contact at all. This could be associated with the time before there was interaction between the case companies and their customers in the RSA. In the buyer/seller relationship (situation 1: product supplier relationship), both supplier and customer establish contacts through sporadic exports and effort from the supplier to demonstrate its capabilities and the kind of solution it offers to solve the customer's problems. This could be done through exports, and the intensity of interaction from a single actor's point of view is dependent on who initiated the process and how willing and prepared they are to interact according to their strategic drivers. The duration of this phase depends not only on the product(s), but also on many other factors

such as: alternative supplies, legal requirements, function of the products, the expertise involved, the existence of close substitute, and the general infrastructure in the customer's business environment, to name just a few key factors. In this situation, the value-adding activities for the customers reside in the initial phase. In the awareness phase, there is an intensive network of people-to-people and the expanding firm is an awareness creator.

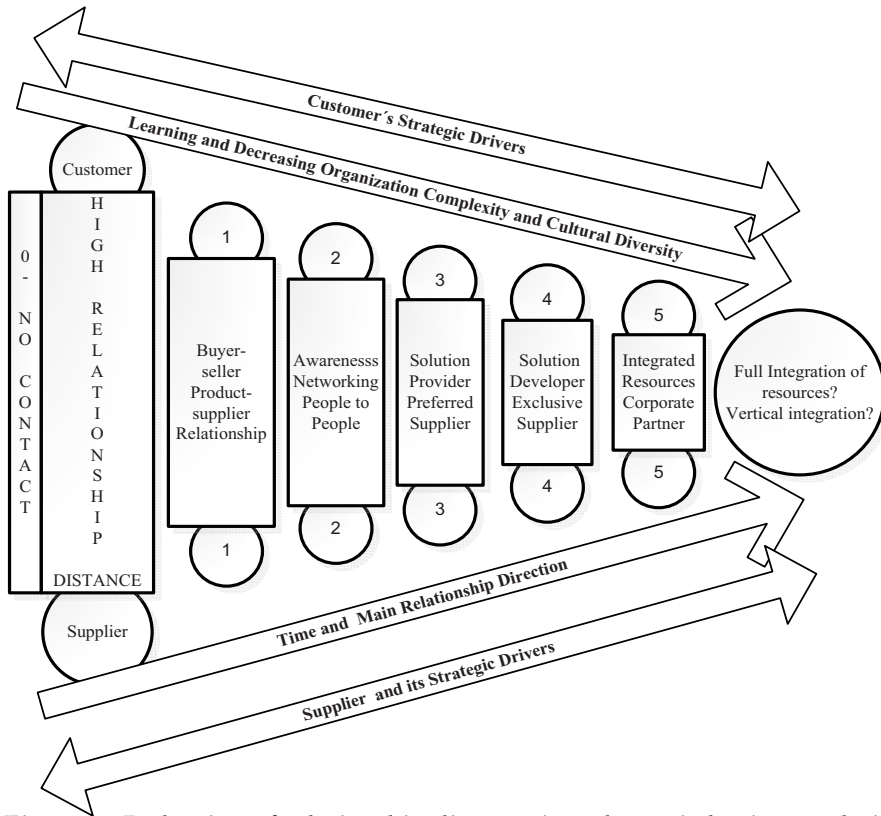


Figure 7: Reduction of relationship distance in a dynamic business relationship (Own conceptualisation inspired by Ford, 1980)

The supplier then moves to a hard “*person-to-person*” argumentation to convince customers to formulate their own opinions that might support the supplier's offering and capabilities in the long-term. In this phase, the supplier would try to gain intimate knowledge of the different forces at work in the customer's organisation. This situation might prove to be crucial as the customer (buyer) enters a bargaining phase before making important and decisive decisions to use the product offered by the supplier. This study does not analyse other potential forces at work and other drivers influencing decision-making process. However, we can assume that different attributes such as technical solutions,

quality and price, after-sale services and maintenance and the overall function of the product within the customer's production system have a bearing on these decisions.

In the third situation, as a solution provider, the supplier occupies a status of preferred supplier. The customer becomes almost dependent on the supplier and may fear changes. The customer relies on the supplier and usually does not have any reason to talk to other competitors. To enter into this situation, requires that the customer is satisfied not only with the supplier's performance of the product offered by the supplier, but also with the overall services rendered in the after-sale period.

In the fourth situation, the supplier is a solution developer, with a status of exclusive supplier. The supplier not only listens to the customer's formulation but also tries to anticipate the customer's problems and tries to find solutions before problems arise. Both the supplier and the customer are well acquainted with each other and work together in a mutual understanding and cooperative innovativeness. In this situation, the relational distance has become very short and the supplier is considered almost as one part of the customer's own resources or resource creating entity.

In the long-term, the partners may move to the fifth situation where they start to have integrated resources and to become corporate partners. During this "*mature*" situation, the involved partners have their resources largely integrated. They may conduct many value-enhancing activities together, such as research and development, tests of other solutions that could add value and other activities related to the marketing of the final products. In this situation, both partners increase their value and their own capabilities by sharing information. To keep up the competitive edge, a broad cooperation with key customers may also trigger innovative capabilities and other functions that the supplier could not perform alone. In a hypothetical sense, we could imagine a situation where this kind of relationship develops and results in a bottom-up integration or vertical integration. However, customers might still like to have "*other cards*" to play. They want to keep their options open so that they can always use their bargaining power to squeeze the supplier by price bargaining and other strategic moves. FME into an emerging market should be seen as a result of interaction between the expanding firm and the actors both in the host market and outside. The level of interaction and the requirement to create value will determinate the mode of operation and the level of investment to keep the value as high as possible (see Forsström 2005). The other striking factor in the development of this dynamic business relationship is the increase (in the beginning) of organisational complexity and

then, over time, a decrease in organisation complexity. The decrease occurs because of the increased cooperation and partnership. Concurrent learning acts as a good mechanism to diminish frustration, which may occur with increased cultural complexity and diversity (through an increase in the merging and integrating of different companies, for instance). Joint training, meetings and seminars, reciprocal visits and presentations function as mechanisms to tackle the issue of learning and increases the trust among the partners. The four cases in this specific context in the RSA provided preliminary propositions for foreign firms doing business in Africa: developing business in Africa demands the development of mutually beneficial relationships and value with other market actors in and outside the continent. Unique problems and cultural distance can be solved through engaging the expertise of network partners (see Owusu 2002, 2003).

Once the expanding corporations in these case studies established contacts with the actors (such as customers), it required a more participatory approach, in which all parties were willing to share information. This extended far beyond the idea of national responsiveness consisting of adapting pre-existing solutions to local conditions once the uncertainty is minimised for example in the UIM (Johanson & Vahlne 1977, 1990). In fact, the analysis conducted here indicates that the entry into the RSA benefited from identifying local partners who could actively contribute to respective ventures' conceptualisation, by adding local content to the product design. The cases involved in this study kept their core products and at the same time, they adapted their solutions to the customer's requirements. Some of the successful ventures outsourced a great number of services to local entrepreneurs, who met the customers on their behalf. This was possible after intensive training of these entrepreneurs and after encouraging them to start their own businesses in the RSA. In doing so, these new ventures encouraged them through both rigidity and flexibility on how the final product and after-sale services could be marketed and delivered to the customers.

The four cases illustrate that partners benefit mutually through developing a cooperative environment based on "*win-win*" strategies. This cooperative environment requires a shared responsibility and accountability among key members. Through different situations in the relationship between the key members, it was demonstrated that the involved partners could benefit mutually from the development of a common vision, goals, objectives and actions plans. This is done through shared information and knowledge, shared risks where feasible and through incentives for improvements. Through different relationship situations as described above in figure 7, the involved partners foster a sense of trust and commitment and they jointly manage their

projects and relationships. This approach could be used to move the relationship into the next situation and that could in turn reduce costs through joint actions. This in turn, might lead to improved efficiency and joint innovation.

However, the process shown in figure 7 should not be understood in a linear fashion. Although it shows different situations 0 to 5, it should not be interpreted in a way that the relationship needs to go through the different steps (like in stage models) one step after the other. On the contrary, these situations depend on the strategic drivers of each actor in the process. Thus, each relationship may have its own path and the durations of each situation also depends on many factors. It was found that the situation the relationship found itself in was also determined by the level of commitment each actor wants to contribute to that relationship. Suppliers, customers and users create value for each other through cooperation and that leads to the reduction of relationship distance over time. In these specific cases, value creating processes have been demonstrated to succeed through mutually beneficial relationships between the parties in the relationship. Thus, relationships between the four cases with their key customers in the RSA moved both forward and backward according to the strategic drivers of each and according to time and critical events that took place either in the business relationship or in the broader business environment. The top management interviewed in the four cases attributed the company's success to the management of the relationships with their partners in South Africa.

In summary, it can be said that this study posits that the FME process into the RSA was driven by both business and social networks, by the aspiration to create value and future care, as well as seeking profits for the involved partners. If they are to succeed, firms need then to avoid the unsuccessful strategy of viewing creation of value in terms of the product itself. Learning from the local environment and knowing customer's expectations leads to positive results. To avoid a rigid top down process, expanding corporations could benefit by adopting a strategy aimed at reducing the relationship distance with the key partners as depicted in figure 7 above.

7.5 Events in the Foreign Market Expansion into the RSA: the Ev-factors

Other influencing forces come from different events (see Ev-factors in section 3.5), which were seen to play a major role in shaping FME. Involved corporations had to make decisions and to adjust their operations according to the events involved. These events could be cat-

egorized and they vary according to their sources and intensity: Business and market related events, Political events, Socio-cultural events. *Business and political events* can be classified as a critical positive event or a critical negative event. A critical political event is an event which is followed by positive market outcome and may be linked to macro economic policies (see discussion in section 3.2). The following quotation captures the existence of negative and positive events, which have shaped the FME into the RSA.

“One problem that we encountered at the end of 2002 and in the beginning of 2003, as we were doing work for the government in one of our product lines involving materials handling, one of the criteria was that we must use previously disadvantaged, or as they call it, HDSA – historically disadvantaged South Africans – we must use HDSA suppliers. Up to 40% of our tender must involve those people and that is fine. The difficulty was finding reliable HDSA vendor that was, black empowered vendor. The difficulty was finding a company that could deliver the right quality at the right price at the right time” (MMSAR0433).

There have been other isolated events, which have had influences on the FME. These events are related to competition and other markets factors such as those expressed in following quotation:

“In 1996 we entered into a fierce price war with one of our toughest competitor in terms of flotation where they undercut the margins in the industry and we had to fight that price war, and I think we got through on top” (OTSAA0443).

Other events may be related to positive gestures in the established relationship as expressed in the following quotation.

“They had a major problem and they started shouting for help. So, I would say that in this closer relationship, that was the turning point; when the need was visible and it was answered” (LASAM044).

These four cases were affected by different events during the time of their business operations in the RSA. Each of the four cases mentioned event(s) associated with choosing the wrong partner as the most serious ones. These events could be categorised into business events, political events and social events. For example case 1 was forced to choose a partner who did not really perform well. Another event, which played a very positive role in the relationship building, was associated with an immediate response to a customer’s call for help. The consequence of which was the building of trust and a good relationship with the customer. Political events and macro economic events are associated with political decisions or behaviour, which had a profound effect on the actors’ business operations. In the case of the RSA, positive political events took place in the 1990s and that encouraged businesses to

expand into the RSA. Negative macro economic events were associated with the loss of value of the currency. This macro economic event affected all the four cases and other businesses that were selling imported expensive products and systems. The consequences were that many projects were put on hold, waiting for a better exchange rate. To counter the problem associated with currency fluctuations, South African buyers used a strategy of paying for future procurements. This strategy worked well for these four cases, especially as they as sellers could receive cash before delivering products and services. All in all both political and market related events may have great influences on market strategies and may serve to reshape business network structure and resources.

7.6 Time and temporality in FME into emerging markets: the T- factors

The last dimension having an influence on other processes has been identified as time and temporality in what was conceptualised as T-factors (see 3.6). Time has its own context, which means that it is related to the human actors, their situations and problems that they try to solve through interactions and such interactions have had a great significance for the case companies too. The actors in the cases took decisions, which involved time constraints and they also worked with their key business relationships with a time frame in focus. The following quotation illustrates the meaning of time as an influencing factor for the expansion process of this particular case

“Looking backwards and at the result, the timing to set up our operations in South Africa was pretty much perfect. Whoever at the time took the decisions, took it with very fine time dimension. It was the right time for us to start our business operations there. In our time of business, we even tell ourselves that, if we expand our business in a new country, it typically takes 2 to 3 years before we get the first order” (LAFIK0218).

The four cases took decisions to expand into the RSA under the pressure of time. As the market was opening up, they could not afford to wait too long. If they did so, they could have missed obtaining the first movers' advantages and the competition could have been even stronger for those who entered at a later stage. Temporality and time dimension also influence the other dimensions. For instance, resources and capabilities vary with time, business networks and business relations also vary with time.

7.7 Summarizing Cross-Case analysis

Corporation	FME process	Critical resources and Capabilities	Impacts of En-factors	Operation strategies	Critical Networks	Critical events
Metso Minerals	Exports agents first Acquisition of foundry Merging with Swedala Local manufacturing Heavy market involvement More than 1000 employees	Skilled Human resources Commitment to FM Experience Managerial orientation Planning orientation Capital and Finances Product age Brand name reputation Manufacturing systems Technological resources Marketing systems Organisational capability Historical knowledge Political knowledge	Political actors in business BBE imposed extra costs Labour Unions Lack of local skills Import of skills forbidden Low productivity-foundry More paper work Losing customers Mergers led to difficulties Exchange rate - problems Positive expectation with infrastructural project	Buying back the RSA operation Acquisition of Swedala Assembly lines, sales marketing - Distribution and services Local production Acquisit of foundry Investment in R& D Project marketing Shared profit with customers	Parent companies Other Subsidiaries Project houses Sub-contractors Customer relationship Service-based strategy Trade unions Government Political institutions	UN- Sanctions MBO- Deal Cessation of Sanctions - Decision on Mergers and Acquisitions Problem in using Black Empowered companies Devaluation of currency Visit of Finnish Trade authorities Decision to locate inventory near the customer
Metso Automation	Exports through agents Interruption 1985-1990 Own sale subsidiary Low level of investments Less than 40 employees	Skilled Human Resources Specific knowledge Access to global networks Experienced SA manager Special products Product applicability	Internationalization of SA companies - positive Lack of local skills Import of skills forbidden Tough competition Exchange rate - problems	Wholly-owned subsidiary Spare-parts workshops Assembling and manufacturing Project marketing Service- based strategy	Partnership with customers Project houses Co-operation with competitors	UN- Sanctions Cessation of Sanctions Devaluation Project on hold Locational decision
Outokumpu	Exports through agents Interruption 1985-1990 Agent Own sale subsidiary Low level of investments Less than 40 employees	Skilled Human resources Commitment to FM Industrial Experience Managerial orientation Planning orientation Capital and Financial Brand and reputation Technological resources Marketing systems Organisational capability Historical knowledge Political knowledge	Political actors in business BBE imposed extra costs Lack of local skills Import of skills forbidden More paper work Losing customers Exchange rate - problems Positive expectations with infrastructural project Worries on how to apply BEE	From exporting Assembling, Sales and marketing Distribution and manufacturing 100% ownership Distribution and Services Investment in R&D Project Marketing Service- based strategy	Parent company Sub-contractors Project houses Customer relationship Service-based strategy Trade unions Government Political institutions Political actors Co-operation with competitors	UN- Sanctions Cessation of Sanctions Devaluation Project on hold Locational decision Getting rid of product line to a competitor
Larox	Exports through agents Interruption 1985-1990 Agent Organic growth Low investments Less than 25 employees	Skilled Human Resources Specific knowledge Experienced SA manager Testing capabilities Building trust Sharing capabilities	Lack of local skills Import of skills forbidden Getting more customers Exchange rate - problems Training sub-contractors BEE- Worrying Organic growth	Wholly- owned subsidiary Workshops Sales marketing Distribution and servicing Project marketing Branch office 100% Ownership Test and product demonstrations	Parent company Own formed sub-contractors Customers Mining fields Co-operation with local firms Project houses	Cessation of Sanctions Devaluation Project on hold Locational decision Getting a new product Weaker position Decision to apply the SA business model to other subsidiaries

Table 9: Cross-Case analysis in terms of process and concepts

8 KEY RESULTS AND MAIN CONTRIBUTIONS OF THE STUDY

The traditional internationalisation theory advocating global strategy (see Hamel and Prahalad 1985; Yip 1989), focuses on global integration, national responsiveness and worldwide learning (Bartlett & Ghoshal 1989). Sharing resources internally maximises the economic benefits to the expanding firm. Although process-oriented studies could identify additional variables and enrich understanding of their complex interactions, studies that directly explore the causes and mechanisms that shape the FME-process into emerging markets are rare. At this point, I am able to reflect back and to assess the findings from the analysis in the light of selected studies outside of the immediate field of study. In this way, my hope is to strengthen the empirical and theoretical findings and to go more deeply into a conceptualisation of FME into emerging markets. The focus is on identifying and supporting the basic process that emerged in the empirical study. In this process, I follow the framework as suggested by Whetten (1989) on how to contribute in a theory development. In my opinion, relying solely on one theoretical approach in the behavioural stream of research was questionable. Earlier evidence also supported this approach of combining old models to increase understanding of the FME process into emerging markets (e.g. Bilkey 1978; Bell 1995; Coviello & Munro 1995, 1997). The analysis showed how the FME process of Finnish corporations into the RSA had unfolded and what had influenced them.

Managers usually have good skills of seeing, recognising or matching patterns that confer obvious evolutionary benefits. In dealing with complex problems, they look for patterns, they simplify the problem by constructing temporally internal models or hypothesis or schema to work with. This means that they carry out localised deduction based on their current hypothesis and act on it (see Vincze 2004). This is where the experience accumulated through repetitive decision-making and action help them to solve their problems (see Aharoni 1966). In a stimulus-response (SR) process, feedback from the external environment on their actions, may strengthen (positive reinforcement) or weaken (negative reinforcement) the temporary internal models (Aharoni 1966). As posited by Vincze (2004), using simplified models to fill the gaps in understanding complex phenomena is inductive behaviour widely practiced by managers. As identified in section 3.1 and 3.2, there are internal and external triggers and drivers that act on a firm, putting pressure on it to expand its activities into foreign markets. Some of these triggers were earlier identified, for example, by Czinkota (1982) and in the case

of emerging markets by Torrisi (1985), Lecraw (1991) and Brewer (1991, 1993).

Based on the discussion in chapter 7, I could summarise the key categories and their sub-properties in the integrated REMNET-framework of FME into emerging markets in figure 8. In accordance with Mtigwe (2005) I identified three groups of factors. That is: those aspects responsible for initiation of the FME into the RSA (*internal and external drivers*) and those aspects responsible for accelerating or slowing down the process (*accelerators and barriers*) as well as those aspects responsible for determining what form the FME into the RSA took (*selectors*). Subsequently, each group of factors is discussed and the key relationships between these constructs are presented with hope of clarifying the theoretical and empirical contribution of this study.

8.1 Internal drivers of FME to emerging markets

As shown in figure 8, many factors act as internal drivers and contribute to variations which occur in FME. According to Penrose (1959), a firm's distinctive competence is based on the specialised resources, assets and skills it possesses, and focuses attention on the best utilisation of these competences to build competitive advantage and economic wealth. These tangible and intangible resources, which are under the control of the firm's administrative organ, are what are referred to here as the firm's resources and capabilities (Penrose 1959, 1980; Grant 1991). These resources consist of tangible and intangible resources that may be traded. These could be financial resources, capital resources, physical resources, human resources, and skills of individual employees, technological resources like manufacturing systems, marketing systems, finance, patents, brand name, reputation and the international experience etc (see figure 8). In the REMNET framework, this first group of factors is labelled the R-factors and is divided into four broad categories: company characteristics; company's hard resources, political resources and human resources. In addition, the international experience and knowledge of the firm can be considered as an important source of competitive advantage (Padmanabhan & Cho 1999) because a firm's knowledge base increases with repeated experiences and becomes embodied in the personnel and organisational memory (Penrose 1959).

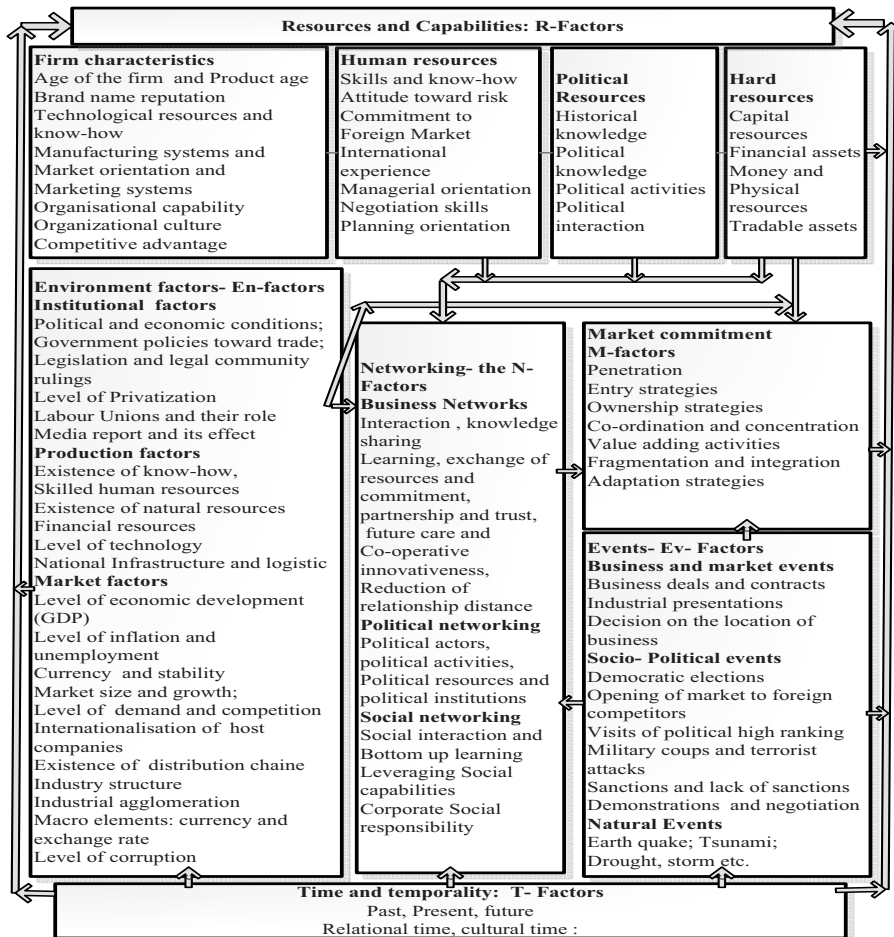


Figure 8: Integrated REMNET-framework of FME to emerging market

For instance, prior experience with a particular type of business environment of the host country will allow the firm to “learn” from its experience and the learning becomes very valuable when dealing with similar circumstances (Johanson & Vahlne 1977, 1990). From this perspective, the size of the firm plays a decisive role in developing capabilities, and acquiring and using resources. In accordance with Caves (1971), there is a positive relationship between the propensity to expand business operations into foreign markets and the size and experience of the firm. Firms also need resources such as financial resources in order to absorb the costs and risk associated with involvement with foreign markets, such as emerging markets in Africa. It would be then safe to assume that the size and the existence of other internal resources of the expanding firm are likely to influence the perceived risk of any project to be taken in an emerging market. Consequently, and in accordance

with Benito (1995), one might expect that the readiness to engage in culturally distant foreign markets, which may be associated with a higher risk, is dependent on the availability of internal resources and capabilities. There are also other forces such as influences from the owner and other interest groups.

For the expansion process into emerging markets to take place, there must be a number of factors that act as *stronger enablers* of the process. These factors can be found among the four broad categories within the main category of Resources and capabilities (R-factors) and could be identified as management orientation, financial ability, partnership, political knowledge; opportunity seeking and risk taking (see also Mtigwe 2005, p. 370). These factors enable the expansion process at a point in time. As posited by Mtigwe (2005, p. 370) the critical effect on the motion of the process is the strength of these enablers. Although a firm may have the same experience in the home market, the same financial resources and the same managerial competencies, the same firm-level factors and may face similar threats in the foreign market, these factors may make a considerable difference between a home market oriented firm and a foreign market oriented firms. As indicated in figure 5 and figure 8, all the internal drivers are necessary but insufficient conditions for FME into emergent markets. The external drivers are presented in the following section.

8.2 External drivers of FME to emerging markets

A second group of factors labelled *external environment* (En-factors) which was sub-categorised into institutional, market related and production related environment (see section 3.2) also has a profound impact on the FME process into emerging markets. Obviously, the macro and institutional changes taking place in the RSA were a significant force in terms of their major effect on the moves of customers and competitors. The results at hand support the suggestion that external environment also plays a decisive role in the outcome of the FME into emerging markets. The companies in questions integrated, adapted and made action strategies according to the condition created by the external and the internal environments and the involved actors' role. The cases involved initiated an adaptation process in order to cope with the environmental condition they were exposed to and in which they were operating. Companies tried to find compatibility between their business operations and the institutional requirements. Companies were not really driven by uncertainty avoidance. They rather acted as risk takers in the lights of the external stimulus in the external environment. When the expectation level was high, they deployed energy and re-

sources into building good relationships with key actors in the business environment (see Hadjikhani & Johanson 1996). Seen from the perspective of institutional requirements, the adjustments made by competitors and customers' requirements, in the cases involved were that they were forced to respond adequately to the situation (see Knickerbocker 1973). These adaptation processes required: market information relating to customers, fighting competition, and positioning.

In accordance with Mtigwe (2005, p. 371), I identified two forces acting in opposite directions that have an impact on FME process. On one hand, there are *barriers* whose effect is to delay the commencement of the expansion programme into an emerging market. These barriers may play a negative role and may stop, delay or impede FME progress. As identified in section 3.2 and summarised in figure 8, these factors may be linked to the institutional environment as well as market and production factors. On the other hand, there are other factors that could be named as *accelerators* that act to speed up FME once it has started. Accelerators may be found, in the firm's internal and external boundaries. Those accelerators could be: international management experience, planning orientation, familiarity with emerging markets, the age of the firm, networking ability etc. To summarise, we could say that factors which play a negative role for the FME are barriers and those factors within or outside the firm that act to speed up the process are accelerators. A list of factors which act as barriers in emerging markets can found in the environmental sub-categories as presented in figure 4 and discussed in sections 3.2 and 7.2.

8.3 Networking processes and Foreign Market Expansion to emerging markets

To compensate for lack of the necessary resources expanding firms become engaged in different relationships. As discussed in section 3.4 and 7.4 and as figure 8 indicates, firms engage in business, social and political networks (the N-factors). These different networks act as key complementarities for the expanding firms to gain access to external resources and information. Business relationships, social networks, and political networks are all embedded within the business environment and accordingly, they are largely influenced by the institutional setting. Therefore, concerning the institutional and political setting of the business network, four-sub categories were identified: political actors, political activities, political resources, and political institutions (Welch & Wilkinson 2004; Hadjikhani & Sharma 1996; Halinen & Törnroos 1998). The idea is to join forces with other actors and to increase competitive advantages to achieve growth. The other objective is also to secure rev-

enue and to sustain organisational and business growth for both parties in the partnership. The interaction within the networking processes lead to different effect: interaction and learning, exchange of resources and commitment, partnership and trust, position, value co-creation, cooperative innovativeness, political networking, reduction of relationship distance and future care (see section 7.4 and figure 7). Networking processes occur and different actors influence these processes. At the same time, the corporations involved manage to use their involvement and interaction with these actors to increase their own political resources, which hopefully, in the long-term, helps the expanding firms to achieve their long-term objectives. Networking acts then as an enabling process and is apparent in the adaptation and integration process. The purpose of this structure is not to fix the operational mode, but rather to achieve some strategic flexibility. Once these relationships are initiated, the extended organisations create together with other members of the network a delicate balance in respect of the diversity of perspectives and unity of purpose.

The cases involved in the study developed a contractual network with other companies and were able to move more rapidly into the larger network. Relationships with customers became very influential forces. In all these cases, joint interest and shared goals came into force. The relationship distance diminished over time and buyer-seller relationship was improved with time. The relationship could develop according to the process described in figure 7. Establishing business relationships with key customers and key actors functioned as a guiding rule for the cases involved. When business is complicated by institutional challenges and unpredictability in the business environment, the operations strategy must be rather simple and flexible. As was observed in these four cases, the collaborative links had to be adapted according to how business and markets emerged in the turbulent situation (see also Hadjikhani & Johanson 1996).

Re-organization of internal structures at the subsidiaries and in the relationship prevailed and structural changes helped to combine different operation modes. It was probably a question of trying to attain efficiency and at the same time to achieve adaptation to the business environment constraints offered by the RSA. One other reason may have been a question of whether or not the manager's mental maps were made explicit, as these might have created bias in favour of some investments in business relationships. Past successful business experience among subsidiary managers favour previous patterns of relationship building (see also Vincze 2004). The cases involved re-organised themselves to responds to the environmental pressure imposed by the institutional requirements in the RSA. They allocated time and resourc-

es to dealing with these issues and to implementing a more open communication.

All four cases experience smooth development because of alliance champions, or promoters who could be on either side of the relationship. The South African promoters who participated in and carried out the early expansion processes at the initial stage, with support from headquarters established good customer relationships early on and gained recognition both from their respective headquarters and from the customer side. They slowly gained "*legitimacy and power*" in the extended organisation.

This study suggests that it is not enough to only rely on the internal resources and capabilities of each company. Companies in their FME efforts find themselves engaged in political activities at various levels. They gain political knowledge through various interactions with different actors. Political activities are the basis for social processes which pave the way to achieving long-term objectives. In expanding their business processes into the RSA, the four cases used different strategies in their actions and interactions with key actors. Different networks (business, social and political) and other social processes were always shaped by the institutional setting.

8.4 Events and temporality in FME process to emerging markets

From the expansion process point of view, events could be classified into three broad categories (business and market related events, socio-political events and natural events). In the REMNET these events constitute the Ev-factors and the time factors are conceptualised as T-factors. The present moment can only be understood in terms of the past (history) and the future (see Hedaa & Törnroos 1997). For instance, interactions occur; business relationships appear and disappear through time. Businesses make decisions sometimes that are restrained by time. Business events occur in different periods within a country or between different market actors who have their own histories, surroundings and values as well as future expectations and goals. The period of time and events connected to this specific time may dictate the types of operation strategies adopted during the expansion process. From the FME point of view, the act may be in the form of an increase in market commitment or a decrease in commitment if the event is judged unfavourable (Hedaa & Törnroos 1997).

In the expansion process into emergent economies, different acts by private decision-makers, either within the firm or by collective institutions, may generate other events, which in turn may influence the actors

in the expansion process who may take decisions generating further events and so on. Here, we should note that other events could take place independently of the preceding acts and events. Consequently, an event might be generated outside the firm (such as a political event in the external environment) with a consequence (positive or negative) on the outcome of the decision to commit resources to an expansion into a foreign market. In a given business context, there are many different actors such as business actors; politicians, political parties, labour organisation, institutions, non-institutional organisations and international bodies reacting to stimuli produced by the event. These actors are actors, if in their acts or actions they have the possibility to influence any events that are further generated or to use the outcome of an event to influence the interaction and behaviour in FME.

Business and market related events may take place either within the firm's boundaries or in the external environment. Regardless of which, such events have profound impact on the FME process. There are many micro business events and these are mostly related to the relationship between suppliers and customers and between business actors within the market. Different business deals and contracts, industrial presentations, and decision on where to locate business activities are such business events that influence the outcome of FME.

For the expanding firm going into emerging and developing markets, there are different socio-political events that occur in different periods within a country or between different market actors who have their own *histories, surroundings and values as well as future expectations and goals* (Hedaa & Törnroos 1997, p. 10). The period of time and events connected to this specific instance may dictate the types of interactions and the type of operation strategies that are adopted in order to conduct successful business operations. Looking at the foreign-market expansion process into emergent economies, the interplay of time and connected events may act as a trigger for expansion. Socio-political events usually take place within the external environment. Democratic elections, for instance, and the opening up of a market, visits of political high ranking, military coups and terrorist attacks; sanctions, demonstrations etc. are the kinds of events that may play a positive or a negative role depending on the nature of the event. If they play a negative role, they act then as deterrent or as barriers to FME. When they play a positive role, they act as enticing factors accelerating the expansion process.

Natural events, which take place and are completely independent from the expanding firm may also, have profound influence on the FME process. Natural disasters such as earth quakes and tsunamis etc. are examples of natural events which may act as a deterrent to the com-

mitment of more resources into the foreign markets of the country in which they take place. In any case, the outcome of an event may help the responsible decision-makers to assess whether to increase the commitment of resources to that foreign market or to reduce the level of commitment and in an extreme case to withdraw from that process, given the signals/stimulus. The stimulus-response (S-R) process may persist and decisions will need to be based on the interpretation that follows a given event.

Critical events will heavily influence the perceptions of opportunities and risks and this in turn then affects the expanding firm's formulation of expansion strategies. However, some events may provoke ambiguity. Decision-makers within the firm and/or the other actors outside the expanding firm may become confused as to how to accomplish and develop a successful business operation in a foreign market. This involves a further important issue, that of *judgement*. From the business point of view, the outcome of an event may help the managers to assess whether to increase their business activities or to reduce them or even withdraw (in extreme cases) according to the signals / stimulus and interpretation that follow an event. The process may go on and in the case of business, different acts by individual managers or by collective institutions may generate other events, which in turn may influence the actors who may take decisions generating even additional events and so on. Here it should also be recognised that more events may take place independently of the preceding acts by the actors and the process. An event may be generated outside the firm (such as a political event), but with consequences on the decision-making within the firm.

The time parameter was interesting too, because the foreign market expansion process involves changes and is also affected by the intensity of these changes. Variations between the four cases existed over time in a processes-oriented fashion. The differences I saw were quite consistent with strategic management behaviour. The behaviour differed to some extent between the four cases. The differences in approach were due to the internal resources and the aspirations and expectations held by the different managers (See also Hadjikhani & Johanson 1996). Thus time, temporality and crucial events embedded within time, will affect the FME process into emerging markets.

8.5 The Foreign Market Expansion process to emerging markets and outcomes

In international business research, strict reliance on modes and means may mask the richness that is attributable to intra-organizational differences. Attempts to measure the average, the typical and/or the domi-

nant level of any parameters for the sake of sub-grouping may cause the crucial internal differences to be overlooked, and in many cases may yield estimates that are in fact unrepresentative of any particular sub-units of a given organisation (see also Vincze 2004). When integrating all the above processes, it became evident that FME included both a macro and micro- perspective which may be either the internal drivers (see 8.1) or the external drivers see 8.2). Furthermore, there are also other process elements such as time and temporality and these together contribute to the FME outcome. The feedback from the market affects manager's perceptions about the initial elements which act as triggers and accelerators of the process. The outcome may be the speeding up or the slowing down of present or future foreign market expansion process (see also Mtigwe 2005). There are several outcomes and these could be grouped into the M-factors: modal choice and strategies which show the level of commitment to FME in terms of penetration, entry and adaptation, ownership and commitment, co-ordination and concentration, fragmentation and integration strategies (see section 3.3). These strategies enable expanding firms to reach the target market and to increase or to reduce their level of commitment through business operations, which evolve over time (see figure 7). At least theoretically, firms base their choice of foreign market entry mode and subsequent commitment on several tradeoffs between: risk and return, the desirability of control over foreign operations, resource availability, and the interrelationship existing among these several factors. The selection between the use of exports and other higher commitment modes will depend on the ability of the firm to transfer resources across countries. Additional factors such as the level of internationalisation of the firm in other countries with similar conditions also influenced the method and strategies selected. There follows a brief discussion of each category.

Modal choice and entry strategy refers to the firm's choice of whether to enter a foreign market by buying existing units in the host country, that is acquisition, or through establishing new ventures, that is, Greenfield. Acquisition also enables a firm to extend its resource base by acquiring skills and capabilities, which are unique to the target firm (the acquired). Since a firm's unique capabilities are path dependent, as they are acquired through a firm's history by tacit learning and dynamic routines that make it impossible for other firms to imitate or duplicate such capabilities (Collis 1991), the only way for another firm to gain such capabilities is by acquiring the whole unit in which such special capabilities lie.

Commitment and ownership arrangements are a critical element of the expansion process. Firms expanding into foreign market firms have to make choices of whether to enter the new foreign market alone,

or to share resources with other parties. This involves choice between wholly-owned subsidiaries (WOS) and a joint-venture, followed by the choice between majority, equal or minority ownership (see Hennart 1982; Buckley 1988). The level of the ownership that a firm is able to acquire is dependent on its bargaining strength in relation to that of the involved actors. The firm-specific characteristics (R-factors) play a significant role in determining the position of the firm in negotiations (Hennart 1982; Buckley 1988). The external environment (En-factors) also acts as an encouragement or discouragement for a high level of commitment in emerging markets (see sections 3.2 and 8.2). Positive development in the external environment (En-factors) plays a positive role. The need for local expertise is further accentuated, especially if the foreign firm has no prior experience in operating in the country (Johanson & Vahlne 1977, 1990; Larimo & Mäkelä 1995). Similarly, industries with fast growth rates in the host economy, due to short-term profit opportunities and participation in a growing market, are associated with the need for the firm to make a rapid market entry (Hennart 1982, 1989).

Each expanding firm makes decisions *co-ordination and concentration of value adding activities* and on which functions of the value chain these are to be performed in the new foreign market and to what extent they should take place (Porter 1985, 1990). The decision regarding the appropriate coordination and concentration mechanisms during FME depends on several factors. Factors such as the existing resources in the firm and their transferability across countries (Kogut & Zander 1995; Rugman & Verbeke 1992) and changes in resources over time (Chang 1995), play a key role. The need for additional resources and the characteristics of the competitive environment (Hennart 1989, Kogut & Singh 1988) as well as the institutional conditions such as the political culture (see En-factors in section 3.2) play a decisive role. The expanding firm makes choices regarding the amount of technical, managerial and marketing activities to assign to the business entity in the foreign market. Greater value-creating activities are associated with a shorter relational distance and with greater commitment (see figure 7).

The issue of which role the new entity is to play in the firm's entire global network is very crucial (see Fayerweather 1969; Perlmutter 1969; Bartlett & Ghoshal 1989; Doz & Hamel 1998). Unlike the activities of cross-border coordination, integration involves rationalisation that may entail standardisation of products, centralisation of technological development, or the vertical or horizontal integration of manufacturing (Kobrin 1991). There is a tension that prevails between the strategic choices of whether the management and the strategy of subsidiary operations should be diversified according to individual requirements

(i.e. fragmentation), or if it should be integrated as a part of the global system (i.e. integration). There are many reasons why expanding firms may favour integration: the need for greater utilisation of the firm's existing resources and capabilities through economy of scale, scope and learning (Teece 1981).

Integrating subsidiary operations allows a greater flow of information between subsidiaries in different national environments within the firm's global network (Arrow 1975). In this sense, subsidiaries can share experience arising through information exchange. Furthermore, learning (which occurs through networking and experience in the business environment) enables a firm to increase or strengthen its capabilities. This strategy is likely to be the one preferred in order to exploit the firm's existing resources and to develop the firm's resource base through learning brought about by the international coordination among the firm's units (Fayerweather 1969). Concisely, the expanding firm develops resources, its relative competitive advantage changes and this enables it to alter its foreign operations over time.

The smallest units in this analysis are mechanisms which could be defined as the inter-relation between processes and contexts (Pettigrew 1997), as well as between processes and objectives and strategies. This emphasis is crucial because it is the context which will force the behaviour and actions to take place (i.e. the context will bring the process). At the same time, the behaviour and these actions will shape the context. It is noteworthy to see that a similar argument may apply to the process objectives and strategies. Since the content of the FME incorporates objectives, strategies, feed-back, deliberate and emerging consequences, these mechanisms may be further analyzed in terms of their feature, being linear or other type of progress (Vincze 2004). Thus, mechanisms may also be complex to a different degree. Yet it is possible within the same phenomena to find straightforward mechanisms, linear mechanisms, circular mechanisms, or mechanisms that are even more complex. In addition, at the core of a mechanism are actions and interactions. A mechanism would not be understood by seeing it in terms of responses without the force to induce actions or interactions. Furthermore, a mechanism would be questionable if no consequences or feedback were seen. With respect to the original focus, I had to find and to focus on some mechanisms, which were used by these corporations in order to be able to deploy and to focus on the strategies they used to achieve their overall objectives. Examples of mechanisms used in the four cases analysed are: customer selection, communicating marketing information, choice of place to locate, recruiting of the workforce, rewarding individual performance etc.

“So in some cases we have taken on that responsibility and said that we will provide that expertise, we will have a stable workforce in that area and run certain pieces of equipment and maintain them for the customers. We are also involved in test work programmes with customers, so we actually create partnerships by doing that with customers” (OTSAA0420).

The choice and combination of these mechanisms and the way they were applied were unique to each case. However, the data analysis revealed significant similarities between the four cases. In fact, it was possible to conceptualise these similarities within the REMNET-framework, on the basis of matching properties across the cases in the processes.

8.6 Contributions of the study

At this stage, it is appropriate to summarize the key contributions of this study in relation to the research questions as stated in section 1.2. The previous paragraphs provided an account of the major research findings of this study. This section will discuss its theoretical and methodological contributions. It should be noted here that this section will only provide summary contributions of the study as a whole, and will not go into details concerning the contribution of conceptual frameworks and the lessons from the empirical study. The conceptual models were presented in chapter 3 and were summarized in a model called REMNET in chapter 7, figure 8. In addition, the second contribution in terms of networking processes was outlined in chapter 6, table 8 and figure 7 on the reduction of relationship distance.

Some of the important findings can be considered to be, first, that it was shown that within the resources and capabilities, management attitude may prove to be the single most important determinant of whether or not a firm will expand its business operations into emergent markets. Previous corporate experiences in dealing with similar markets also allow the teleological process to overtake the dialectic one.

The initiating mechanism of FME into emergent markets operates through a dynamic process between all of the following elements: the interaction of the firm’s factors, the decision making factors, the political factors, the environmental factors and motivators, the enablers and the sources of foreign market information. The principal motivator of FME towards the RSA is opportunity-seeking. Management attitude and market information derived from several sources were the principal factors in the enablement system and information system respectively.

At this stage, it seems reasonable to acknowledge that companies

expanding their business to emerging markets do not easily follow prescribed stepwise foreign market expansion process. More exactly, they have to prepare alternative responses to unpredictable opportunities and problems in order to sustain their expansion process (see also Henart 1982). This is done through acquiring political knowledge and resources either from the other actors in the network or from the broader business environment (see section 3.2 and 3.4). From this perspective, when expanding into emerging markets foreign corporations cannot rely solely on the transfer or protection of resources and capabilities within firm boundaries (See Buckley & Casson 1976). In the beginning of the 1990s, the changes in the RSA were introduced rapidly and that situation created uncertainty and unpredictability in the outcome of the transition. In a time that is less predictable, more diffuse opportunities require fewer rules in order to increase efficiency (see also Vincze 2004). This approach was adopted by most of the cases involved in the study. In the beginning, they gave more flexibility to the management of the subsidiaries to deal with the local environment according to their judgement. Having few rules, probably gives more scope for manoeuvre, which may suit an entrepreneurial culture developed by most South African managers (see Mtigwe 2005). These four cases created options and conditions for future care in terms of taking advantages of opportunities and avoiding the pitfalls, which may come with different events occurring through time. The cases involved in the study tried actively use their existing brands, but did not lose sight of the institutional environmental pressure on their business operations.

Surprisingly, the dissimilar cultures (societal/corporate) did not really affect the business relationships very much with key customers. Most of time, these four cases used subsidiary managers, who were posted as strategy activists. The local managers were then the ones who were placed at the forefront to deal with customers and to manage the key business relationships created through years of operation in the RSA. Understandably, the competencies of the four Finnish corporations changed during the fourteen-year time span. In particular their sales/marketing competence developed, partially by cooperative innovativeness and interaction with key customers. This, in the end, served as a competitive weapon in terms of business networks. The RBV argues that variation across firms selecting and deploying resources may depend on factors of market imperfection such as barrier to acquisition, imitation, duplication and substitution of key resources inputs. This is in accordance with my findings concerning foreign and local competitors in the RSA.

It was further reasoned that the concept of psychic distance does not have a great bearing on FME to the RSA. Rather firms enter markets

purely for economic reasons. The expansion process was more about pursuing opportunities rather than avoiding uncertainty, and operations were also driven by expectations (see Hadjikhani & Johanson 1996). I am inclined to suggest that the timing of decisions, timing of entry, and timing of responses to different problems made each business operation unique. It was clear that when the timing was right, the involved actors could maintain good relationships. The internal conditions of each firm were of the utmost importance; together with the external factors influencing the expansion process (see also Vincze 2004).

Companies should not really act to avoid uncertainty, as predicted in the UIM, however, they can, according to the different situations and circumstances of the actors, pick up strategically significant processes (see figure 7 and figure 8). The cases involved established good relationships with local actors who had good knowledge of the local business environment.

According to Oliver (1997) and Vincze (2004), the field of international business could benefit from a framework that combines competitive and internal organisational processes. A multi-dimensional framework facilitates a deeper understanding and promotes the integration of different dimensions in FME process by linking the internal and external forces to objectives and outcomes and other factors influencing them. The REMNET-framework appears to be complex enough to deal simultaneously with the internal and external environmental, as well as strategic and operational issues. In every industry and for every firm, the specific impact of each force is different and the interaction in every case determines a unique path in the FME process. The strength of the proposed REMNET-framework is that it identifies key processes, drivers and mechanisms that should be taken into consideration in order to develop a successful FME into emerging markets. However, there is no absolute weight of importance given to any particular one of the six dimensions or different categories within these dimensions. Different companies are expected to react differently to different stimuli according to their internal resources and capabilities. The internal resources and capabilities were as important as the external ones in terms of the right timing of entry.

Another important contribution of the study is a methodological one. With a few exceptions (Owusu 2002, 2003; Mbare 2004, Habiya-kare et al. 2007), qualitative studies dealing with FME into Africa are rare, especially in Nordic countries. This may be attributed to a lack of interest or the fact that the FME into Africa is a recent development, and in addition there are difficulties in accessing valuable networks on the continent. While rejecting any conflict in principle between qualitative and quantitative research methods or any sort of pre-eminence of one

over the other, this study argues that the choice of a particular research methodology should be determined by the nature of the phenomenon studied. For the purpose of this study, qualitative research methodology - interviewing and archival data analysis- has been adapted to enable richness, a multi-dimensional approach and an in-depth analysis. In addition, the research strategy was to use an abductive approach to ensure a closer link between the empirical data collection, the analytical data analysis, and the interpretation dimensions. Although generally criticized for lacking in scientific rigueur, the abductive process proved to work well for this research because this study represents an empirically supported case, substantially grounded in FME process literature. The research could be further developed in the analysis of some broader issues about the FME process into emergent markets in general.

In summary, it can be stated that at the beginning of this thesis I set out to do two things. First, to increase our understanding of how the FME-processes take place in a lesser developed market; in other words, I was interested in investigating how Finnish corporations have expanded their business operations into the RSA and how their business networks and relationships have been shaped by the socio-political and institutional changes in which they are embedded. Second, I set out to integrate the rather fragmented pieces of the FME process into emergent markets into a whole unit. Both these objectives have been met in the proposed REMNET- framework of FME into emergent markets. The REMNET- framework not only integrates the previous process-based works with the network approach, but it goes beyond to extending the boundaries of present knowledge about expanding business operations into emergent markets. The REMNET framework introduces several dynamics not seen before in any single model of FME. These include the fundamental aspects of resources and capabilities, the motivation domain and the feedback mechanisms that modify the process on an on-going basis through value creation processes. As a result, we are now in a position where we can match the theoretical level more closely with what is happening in practice. We are in a better position to know what needs to be done in order to help foreign firms prepare for an expansion of their business operations into emergent markets and we are in a position to say whether certain firms are likely to expand into emergent market or not. In essence, this section is the answer to all the research questions raised in chapter one and is the embodiment of the thesis topic: *“Understanding the FME process into emergent markets”*. In the next chapter, I present the conclusions and implications derived from this study.

9 CONCLUSIONS AND IMPLICATIONS

9.1 Managerial implications

South Africa's geographical position (see figure 6), particularly its endowment factors, have together with its economic development and the openness of its market, increased its attractiveness to foreign businesses (see section 5.4). The results presented here offer several managerial implications for corporations interested in expanding their business into emerging markets. From the point of view of FME into emerging markets, the findings of this study point to the need for expanding companies to review their recruitment policies in terms of the emphasis that they place on managers and employees' background, if they are to expand their businesses into emerging markets. Managerial experience in dealing with similar markets may prove to play a decisive role in advancing the expansion process. These findings also have implications for the nature and quality of training which should be available to managers and other employees. In addition, companies should strive to build facilitating networks with foreign contacts or create exposure to foreign business practices and opportunities. This could be done through reciprocal visits to emerging markets and through inviting visitors (business actors, political, academicians etc.) to give presentations on the emerging markets. Finnish corporations could also benefit by using the knowledge base which may be held by individuals from targeted emerging markets living in the region where expanding firms are located. If these steps are taken, it will contribute toward nurturing an international mindset among the decision-makers that will provide a valuable resource for any expansion process into emerging markets.

When expanding business operations into the RSA, and in accordance with views of Johannisson (1987) and Törnroos and Nieminen (1999), both social and business relationships at individual and organisational levels seem to play a significant role. In the course of the expansion, strategies that include understanding and positive participation in the socio-political context may enhance competitiveness in the long-run. Firms going into an emerging market should be ready to become involved in different types of political networking. In most emerging markets, political actors (politicians, bureaucrats and labour unions) may play a key role in providing valuable information and other valuable resources. These resources may be in the form of land, tax incentives, and other promotional activities. These actors may also act to speed up or slow down the process. Local business actors may well be connected to different political institutions and political actors

and through networking the expanding firm may gain information and even contracts. It may be possible to obtain access to financial resources and to gain legitimacy through political networking and all these processes should contribute to the reduction of the level of uncertainty.

Acquiring knowledge concerning political activities, social and infrastructural projects and the identification of key political priorities may also give the expanding corporations an advantage in attaining access to crucial information regarding potential markets in the regions. Companies need to learn from the market and to cooperate with other key actors to innovate proper solutions for that specific market. As Owusu (2002, 2003) noted, interacting with political authorities played a role for future contracts too. In the short run, Finnish or other Western corporations wanting to expand their business operations into Africa would be at a better advantage by participating in turnkey projects and other businesses that would ensure technological transfer and knowledge transfer to the host market as suggested earlier by Owusu (2002, 2003).

The results of this analysis suggest that corporations interested in expanding their business operations into emerging markets such as the RSA should consider both societal performance and sharing of resources outside firm boundaries in order to build long-term local capacities. Expanding firms benefit from operating in a vibrant local economy and gain more businesses in the long-term. Entering an emerging market certainly poses some problems and challenges (see table 6). New actors emerge, others disappear, and different actors, for example the host government, labour unions, NGOs, civil society and international organisations may influence the FME process. Business operations in the RSA and in other emerging markets require strong consideration concerning the social impacts on local communities and on the environment (see also Björkman & Kock 1995; Carroll 1991; Mbare 2004).

In the efforts to explore the adoption of affirmative actions and the use of black empowered companies, it is important to contrast the historical perspective and the future care perspective. The history of South Africa contributed to the inhibition of competitiveness in the majority of the population. The law prevented the black majority from participating actively in political activities, business ownership and production processes. On the other hand, since 1995 the future care perspective has endeavoured to make it possible for the previously disadvantaged people to be able gain equality in the RSA economic processes and to adapt to the new economic realities (see discussion 5.3). For foreign companies expanding their business into the RSA, it is very important to be sensitive to the history, and the social, political, and economic situation in the country. This can easily be done through CSR as suggested by

Carroll (1991) and Mbare (2004). Some mining companies operating in the RSA have faced serious problem due to a high level of HIV-infections among their workers. Offering free HIV-tests and medicines to the infected has proved to increase the moral of workers. In addition, there is a need for campaigns to make people aware of the risks and dangers caused by HIV and AIDS.

Finnish corporations planning to expand their business operations into the RSA and Africa in general, would do better by entering into joint-ventures with local firms. The use of joint-ventures with local partners could offer positive results as is also suggested by Törnroos and Nieminen (1999) when discussing entry into Eastern Europe. Through cooperative innovativeness, it is possible to reduce cultural complexity and cultural diversity (see figure 7). The number of South African corporations is increasing and they will play an even greater role not only on the African continent but also in global affairs. It is possible to manufacture cheaply in the RSA due to the good quality of the existing raw materials and human skills. I would recommend that Finnish corporations and other foreign corporations start manufacturing in the Republic of South Africa as it has a low cost-base, considerable potential in its raw materials, and a favourable business infrastructure. If manufacturing takes place there, it would help Finnish corporations and other foreign corporations to be closer to the market (and to customers). They could then enter into the conducting of joint research with their key partners in the host market and thus reduce the relationship distance with their key customers as suggested in figure 7.

South Africa also presents good opportunities for different types of Finnish companies. For instance, the South African food and pharmaceutical industry is growing rapidly, thus offering excellent opportunities to Finnish investors. It is especially now, at this present time that the investors should go there in order to position themselves in the market. By waiting longer, the investors will lose this present momentum. Even the companies already established in the RSA could do better by diversifying into other fields, e.g. petrochemicals and other process industries. It would be possible to reduce uncertainty significantly by making every effort to allocate resources into training. Corporations should not only target training at the local labour force level but also at Finnish employees located both in Finland and in the RSA. Overall, the human resource issues are crucial in the implementation of business operations.

To date, the markets in other African countries are not yet as well-developed. At the same time there are very positive signs in some countries such as Angola, Botswana, Zambia, Mozambique, Tanzania,

Kenya¹⁰, Uganda and countries in West Africa such as Ghana, Senegal, Gambia and Nigeria¹¹. Finnish corporations should start to study these markets carefully to be able to enjoy the advantages of being first movers. There are several ways of approaching these emerging markets, especially in the mining sector. My proposal would be that Finnish firms start project houses in some of the promising countries (or regions). These project houses could then have a role in identifying, planning, and designing good projects where Finnish products and expertise could be used. These project houses could also serve as very strong bridges between the governments and the international financial bodies. Eventually, both local and foreign corporations could benefit mutually.

I would suggest a bottom-up learning approach (see Hamel 1991) when it comes to the adaptation and the use of a future care mindset in the FME process towards emerging markets such as the RSA. To move forward and to be able to adapt to these structures, foreign corporations may have to cooperate with non-profit organisations that usually possess valuable and relevant market information. Foreign corporations could actually participate in developing an expertise in promoting (jointly) local, social, and economic developments. It would then be necessary to forge other relationships with non-profit organisations that could provide knowledge about local contexts and other market potential. I believe that strategies which enhance learning and build capabilities in the market, and which encourage sharing resources across organisational boundaries may enhance effectiveness and long-term profit for the involved actors in the African context. A successful strategy would require more than leveraging internal resources and capabilities or adapting standard expansion strategies. It is very important to identify the key partners with appropriate context-specific knowledge and to look for access to external competences wherever possible. Using the standard company model for international expansion into well-developed foreign markets may be inappropriate for emerging markets such as the RSA and other African countries, because, it may inhibit value-creation in the long term.

The kind of partnership model the study proposes recognises that many of these potential partners could actually be organisations with a strong societal mission. This would mean that the expanding ventures would have to incorporate societal and environmental goals together with economic goals (see Carroll 1991; Mbare 2004). This approach

10 By the end of year 2007, Kenya was troubled by political problems linked to democratization process.

11 Despite the fact that the Nigerian oil-based economy is promising, the country is cited to be one of the most corrupt countries on the continent. In addition, crime levels are high in some places.

may require that the FME process moves beyond the traditional MNC perspective. It suggests a broader openness and cooperation with business actors, government, civil society and international organisations. In some cases, relying solely on global capabilities might even be a constraint when going into emerging markets such as the ones in Africa. Therefore, companies need additional capabilities, which may be acquired from a base level i.e. from the host market through a bottom-up learning approach (see also Björkman 1990). They also need to adapt their solutions to the local market requirements. Thus, they should strive to combine the global mindset and the local mindset in a process called “*glocal*” (with a mixture of global and local mindsets).

9.2 Policy implications

Positive political, economic and market changes have moved companies into greater involvement in the Southern African market. The present study shows that companies will respond positively to changes that reduce the level of risk perception in the external environment. The companies studied see great potential in the country’s market, as well as problems that are due to the characteristics of the economy. They will continue to react positively, but are, on the other hand, apprehensive and watching developments carefully, especially regarding the regulatory environment and a reduction in the gap between the developed and the “Third World” economies. Therefore, continued improvement of the economy and stabilisation and clarification of the regulatory environment, particularly regarding affirmative actions to redress the imbalances created by apartheid, are important. Furthermore, improvements in social conditions including greater personal security and reduction in crime rates, as well as an improvement in the HIV-Aids situation will increase investor confidence. As South Africa is seen as a beachhead for the remaining African market, positive developments in the neighbouring countries could positively influence the level of investment of many foreign firms. Based on the results presented in this study, I would recommend that the South African government consider using both “carrots and sticks” to encourage foreign companies willing to apply the affirmative actions and the BEE. For instance, the government could reduce taxes or could contribute to training, or offer some other incentives to companies operating in the RSA and willing to apply affirmative action and BEE structures.

Regarding the internationalisation of the rest of Africa, I believe that a lot would have to be done to adequately raise the interest of foreign companies. UNCTAD’s (1999) study showed that the perceptions of Africa held by the international business community are much worse

than the real situation on the continent. This makes foreign business leaders more pessimistic about Africa than other parts of the world with similar problems. Therefore, positive developments regarding the rest of Africa would have to be extensive and sustained to improve the confidence of the international business community. In line with the Uppsala Internationalisation Model (UIM) (Johanson & Vahlne 1977, 1990), this study also shows that a high risk perception negatively affects the expansion process of companies. Risk is not only due to low profit expectations but also to turbulence in the host markets (see also Hadjikhani & Johanson 1996). This study shows uncertainty is caused by a large number of social, economic, political and legal factors as well as critical events. Firms will increase their market commitment as the risk perception decreases and as they gain more experiential knowledge of the host market. Furthermore, in line with the network approach (Johanson & Mattsson 1995; Blankenburg-Holm et al. 1999), they will use networks and strategic alliances to manage risk and reduce resource demands when expanding their business into emerging markets.

From a public policy point of view, this study suggests that government promotion efforts should target Black Empowered companies and other companies which show early signs of developing capabilities to match international standards. If this happens, these local companies can act as candidates for networking. It would also be possible to identify these companies (such as the Black Empowered companies in the RSA) and to help them in fostering cooperation clusters to develop strategic competitive capabilities together. This cooperative environment and trust among local young firms can be enhanced via the creation of localised regional clusters where firms (particularly new ones) in the same industry could be identified (see also Mtigwe 2005). If this process is adopted, there will be an opportunity to develop synergies in well localised networks among the members of the cluster. An institutionalised support could then be granted to these firms so that they act as targets for cooperation with foreign firms who wish to expand business activities in the region. Network cooperation can also be encouraged among domestic competitors in order for them to respond together to challenges posed by globalisation. It is also possible to foster competitive capabilities among local firms that are ready to network with foreign firms through assisting them with training and other financial resources needed to increase their resources and capabilities in general.

Implications for Finnish Government

Based on the results of the study, the Finnish government might also encourage more trade with emerging economies. For instance, this study has shown that a visit from a Finnish president or from other

Finnish high-ranking personalities is of great importance to enhance trade with emerging economies. The study shows that such visits play an extremely important role, especially in the African context where the business community tend to believe and to respect foreign government officials. In the African context (more so outside the RSA) business communities may even have stronger trust and belief in a deal made with a government official present. Added to that, some of the large companies in emerging markets may still be state-owned or the government may have a considerable share in their assets.

It is then crucial to persuade eminent Finnish personalities to become involved in negotiations even if they do not play any significant role in the structure of the business deal at hand. These kinds of gestures from the government may eventually support the increase in trade flow between Finland, South Africa, and the surrounding markets. Any effort from the Finnish government to encourage business with emerging markets will certainly benefit the Finnish economy as well. Based on the results of the study, the Finnish government and trade authorities should be encouraged to make decisions to arrange for grants or other funds to African countries that commit themselves to using Finnish products or expertise. As Owusu (2002, 2003) noted, most of the African countries have many “*sleeping projects*” in which Finland and Finnish corporations could be involved. For example, Finnish corporations could be involved in aid to infrastructure development projects, to the training of local people and to the health care system and enhancing local entrepreneurship, all of which would yield positive results in long-term.

The study shows that Finland has not yet used the full advantage of trade with the RSA and the surrounding markets. For instance, it was found that Finland has been modest in marketing itself to the Southern African region. The results at hand show that all the Finnish corporations involved have used the services offered by FINPRO every time they needed information. This suggests that the Finnish government could help Finnish companies in emerging markets by establishing FINPRO offices in other emerging markets as well. These FINPRO offices could also help in the marketing of Finland to the country in which they would be located, as well as searching for possibilities for trade between Finland and that country. The study suggests reciprocal trade between Finland and emerging markets. The study confirmed the existence of a large trade gap between Finnish-South African trades. As one informant put it, “*Finns are interested in selling but not in buying from Africa*”. This issue of reciprocal trade may be a tricky one as the EU in which Finland is a member, may dictate what the EU member states may buy or not buy from countries outside the EU. This may put Afri-

can countries at a disadvantage (see Thapisa 2000). Lastly, most of the foreign firms investing in South Africa, may be investing in sophisticated products and this may limit the competitiveness of the previously disadvantaged people on the job market, especially in these industries. My suggestion is that South African government, business community, education institutions and international partners should work hand in hand to promote technical education among historically disadvantaged people of South Africa.

9.3 Implications for further research

The present study looks at the behaviour of four different Finnish firms in the field of business-to-business industries. It is therefore recommended that the present study be replicated for business-to-consumer industries in order to analyse any differences and similarities. The study could also be replicated for other African countries. It would also be of interest to compare the FME behaviour and motivations of non-Finnish firms in South Africa. It would be interesting to know the role of South African labour Unions and their influence on the FME process of foreign corporations. It would also be of great interest to compare the FME behaviour of non Finnish corporations. It would be interesting to use the research approach used in this study to analyse and to compare the behaviour of other Nordic MNCs towards the RSA. Another possibility would be to use the same approach to investigate the behaviour of Finnish corporations expanding their business operations towards different emerging markets and assess the external validity of the proposed-framework. Eastern European countries, Middle Eastern countries, Asian and other African countries may offer alternatives for this kind of research. For instance, it could be interesting to know the role of political actors and how political networking transform into business resources.

The study also provides a good basis for planning empirical tests on the proposed REMNET-framework for foreign market expansion through quantitative inquiries. There is a need to explore the contingencies that surround the FME process of foreign firms into emerging economies. From this perspective, one could identify the most important factors in each case. One good starting point would be the use of the factors identified in the REMNET-framework. Such research might assist managers in their important and difficult tasks of prioritising factors affecting expansion strategies, and would therefore allow them to focus their time and resources better.

9.4 Critical assessment: reliability and validity of the study

In chapter 4 section 4.5, I discussed briefly the issue with regard to reliability and validity in research. At this point, it is appropriate to reflect back and to discuss how I ensured reliability and validity in the entire study. In order to assess critically the reliability and validity of this study, I use the framework suggested by Remenyi et al. (1998) and Yin (1994). I use these frameworks because they take a broad perspective on validity and seem to be applicable to a wide range of studies (inclusive qualitative research). According to Remenyi et al. (1998), the criteria set for conceptual presentations are the most significant for the study. Thus, to meet the test of the “*construct validity*” the researcher should be sure to cover at least two steps:

- 1 Careful identification of core ideas, concepts, relationships and issues to be studied.
- 2 Demonstration of the fact that the selected empirical tool actually addresses the ideas, concepts, relationships and issues being studied.

In building the conceptual framework of FME, I primarily sought for comprehensiveness, which meant that I valued the detailed differentiations of concepts and the broad scope of the research problem and context. There are also other sets of criteria such as the relevance of the concept and logical coherence of the concepts. In other words, the proposed framework or model should not contain mutually contradictory conceptual relationships or logical gaps (Whetten 1989). Halinen (1994) stresses the fact that the framework or the model should be adequate in describing and/or for explaining the substantive phenomenon. Most relevant factors should be included and different details should be suitably balanced and placed in the whole (Halinen 1994). The demonstration of logical coherence is, in its turn, very much an issue of how the researcher reports and documents the conceptual analysis.

In the methodological domain, I adapted a constructionist view with respect to the empirical context of the study and to the material and data collected through qualitative multiple case studies. This was necessary although at the cost of generalisability (see Pettigrew 1997). The study aims at increasing the understanding of the dynamic and behavioural aspects of the FME process of Finnish corporations into the RSA. The “substantive domain” involves ongoing real-world systems, which in this study refer to the FME process and expansion strategies in a given context of the RSA. Using a qualitative multi-level analysis, my aim was to explore, describe and to analyze what happened in the FME process into the RSA.

Validity as correspondence refers to how well the researcher has been able to bring together the elements and relationships between the three research domains: conceptual, methodological and substantive (Brinberg & McGrath 1985). The concepts and the relationships between these concepts and their conceptual presentation have to match the methodological tools and procedures used and the substantive phenomenon, its elements and processes. Chapter 4 of the study illustrates the procedures and methods used to collect and to analyse data. As I constructed the conceptual framework abductively, the empirical inputs have strengthened the theoretical relationships between constructs. Thus, in the study the conceptual, methodological and substantive domains have added to each other, in the sense that in the entire study, these three domains have been interlinked.

In the study, *correspondence validity* refers to the logic of the entire research process and includes the idea of construct validity. The *construct validity* has traditionally, been used to describe the match between theoretical and operational definitions of the concepts (Yin 1989). To increase construct validity, Yin (1994) mentions many different tactics, but suggests researchers should use at least three of them: the use of multiple sources of evidence, establishing a chain of evidence, and having the draft case-study report reviewed by key informants. With reference to Yin (1994), I used qualitative multiple case-studies and multiple sources of evidence such as company documents, published material, interviews with people in senior positions both in Finland and the RSA. Additionally, I also applied "cross-checking" tactics when conducting the interviews. For instance, whenever possible, I had more than one interviewee in each case. With regard to the third tactic to increase construct validity, I sent a draft report to key informants for their comments and corrections. The key informants gave their opinions and after revision, I could construct each case accordingly.

According to Rosenthal and Rosnow (1991) and Huberman and Miles (1985), *internal validity* could be defined as the degree of validity of statements made about whether X causes Y. Thus, in demonstrating internal validity it is necessary to consider plausible alternative explanations of apparent relationships between X and Y. The conceptual framework constructed for the study has six dimensions: R-E-M-N-E-T. Typically, in qualitative multiple-case studies there are broader qualitative situations to elucidate. However, despite the fact that I tried to include the main concepts and that I tried to consider as many plausible interpretations as possible, it is not certain that any specific observed relationship was the cause of the achieved results. In qualitative multiple case studies, it is common that the researcher may infer that a particular phenomena influenced the outcome of a certain result without

necessary having all the evidence, as it is seldom possible to have all the available evidence (Yin 1989).

According to Yin (1989) *validity as robustness* refers to the assessment of the scope and limits of research results i.e. to the assessment of the *external validity* of the findings. Robustness is concerned with knowing whether the researcher's findings can be generalised to a wider world beyond the immediate research context. Related to the robustness is the "*replication of research*", which refers to the possibility of obtaining similar results and drawing similar conclusions if other researcher(s) were to conduct (repeat) the research in the same manner (Yin 1989).

Reliability refers to the issue of whether the evidence and measures used are consistent and stable (Yin 1994). This is especially important if the findings of the research are to be applicable to other situations and not only to the original environment or environments in which the research was conducted. Yin (1989, p. 40) submits that the objective of the research being reliable is to make sure that:

"If a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same research all over again, the later investigator should arrive at the same findings and conclusions".

This definition of reliability is more closely related to cases in experiments and may not be applicable for longitudinal case studies, such as the one at hand. The qualitative case study method involves several reliability risks. Therefore, in a strict sense, replication is not possible, since the passage of time and the prior exposure of the investigator to the research material always change the research setting. According to Yin (1989), a case study relies on in-depth evidence that is evaluated based on analytical interpretations. In analytical interpretations, the researcher is striving to associate a particular set of results to a broader theory, and thus the number of cases is not such a relevant issue. Added to that, the researcher is the study instrument, which means that the given interpretation of data is always subjective and dependent on the researcher as a person. Phenomenologist will argue that all situations and organisations are different and thus, it is never possible to obtain the same results again, and consequently reliability per se is not a central issue (Hirschman 1986). It is not possible to have the same rules concerning validity as in quantitative studies. Although, I have documented the procedures used for data collection and analysis, it would be rather difficult for a later researcher to follow the same steps and to arrive at the same findings and conclusions. This is because collecting longitudinal data through semi-structured interviews varies depending on the interviewer's skills in formulating questions, listening, and observing. In addition, his/her personal experience and background

certainly play a key role.

The Republic of South Africa is in many ways unique when compared to other countries on the continent. The existence of both an advanced and a Third World Economy in the RSA suggests that FME to the RSA would be rather different from other African countries. In many other African countries, there are social classes and in most of them ethnical, racial, and regional discriminations are causing incessant conflicts (case of Rwanda, Burundi, Congo, Ivory Cost, Cameroon, Sierra Leone, Liberia etc.). In some African countries, there may even be some kind of separation between economies within a country. These separations could be classified into a pyramid-like economies: with the “*top of pyramid*” representing the wealthiest class in the country made up of elites and politically well-connected individuals and the “*bottom of the pyramid*” representing the third world part of the economy made by the majority of the population. This situation may remind us the South African social situation up to the 1990s.

Where case studies are involved, we should not put excessive emphasis on the generalisation of particular findings (external validity), but rather on the transferability of an interpretation to other context, thus recognising that no two social contexts are ever similar (Halinen 1994). According to Halinen (1994) to assess transferability of an interpretation one must know the specificity of the context in which the interpretation is to be applied. Norén (1990) stresses the fact that a case study researcher has to describe the context in order to create an understanding of the phenomenon for his/ her readers. Furthermore, Pettigrew (1997) identified interplay between the context, process and content of the phenomena to be studied. Chapters 5 and 6 were used for this purpose. To summarise, this study needs to be replicated in other contexts of emerging markets to assess the external validity of the findings. There are certainly a great number of factors that affect the FME process of foreign firms into the RSA, and this study considers only a few of them.

Finally, there are many theories that aim at describing and explaining FME processes towards developed markets. However, when I considered the most effective ones closely, I was not able to identify a single theory that could fully help in adequately capturing the FME processes of Finnish corporations into the RSA. I had to accept the challenge of combining earlier theories to construct my own conceptual REMNET framework of FME into emerging markets. A promising starting point from which to understand the behaviour of foreign corporations expanding their business operations into emerging markets was offered. I hope that this study further enriches the debate on the necessity for good policies and strategies aimed at enhancing trade between emerg-

ing and developed markets. I am convinced that emerging markets such as the RSA and other markets in Africa offer very good potential for Western expanding businesses.

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APPENDIX 1: Interview Guide Year 2002

PERSONAL DATA

Interviewee:

Current position:

Years in the company:

Previous positions:

Field of expertise (education):

COULD YOU PLEASE START BY A PRESENTATION OF YOURSELF AND BY A BRIEF PRESENTATION OF THIS COMPANY?

WHEN DID YOUR COMPANY START INTERNATIONALISATION TO THE REPUBLIC OF SOUTH AFRICA?

COULD YOU PLEASE DESCRIBE HOW IT STARTED?

COULD YOU PLEASE DESCRIBE THE MAIN STEPS INVOLVED IN YOUR COMPANY' S INTERNATIONALISATION PROCESS TO THE REPUBLIC OF SOUTH AFRICA?

IN YOUR OPINION, WHAT WERE THE KEY TRIGGERING SIGNALS OR EVENTS THAT PRECEDED YOUR DECISION TO ENTER? (Through a FDI)

COULD YOU PLEASE DESCRIBE THE MAIN MOTIVES FOR YOUR COMPANY TO INTERNATIONALISE TO THE REPUBLIC OF SOUTH AFRICA?

WHICH MODE OF OPERATION DID YOUR COMPANY USE IN THE BEGINNING OF ITS EXPANSION TO THE RSA?

WHAT WERE THE REASONS BEHIND THAT CHOICE?

DID THE OPERATION MODE CHANGE SINCE YOU STARTED OPERATING IN THE REPUBLIC OF SOUTH AFRICA?

HOW HAVE THESE CHANGES OCCURRED AND WHO INITIATED THESE CHANGES?

WHAT ARE THE MAIN REASONS BEHIND THESE CHANGES IN THE MODE OF OPERATION?

COULD YOU PLEASE DESCRIBE THE MAIN EVENTS THAT LED TO THESE CHANGES IN MODE OF OPERATION?

COULD YOU DESCRIBE WHO WERE THE KEY ACTORS IN YOUR COMPANY'S EXPANSION PROCESS TO THE REPUBLIC OF SOUTH AFRICA?

WHICH ROLE DID THESE RESPECTIVE ACTORS PLAY IN THAT INTERNATIONALISATION PROCESS FROM ITS INITIATION TO THE PRESENT (2002)

ACCORDING TO YOU, WHAT ARE THE MAIN SOCIO- POLITICAL CHANGES INTRODUCED IN SOUTH AFRICA SINCE YOU STARTED YOUR OPERATIONS THERE

HOW HAVE THESE CHANGES AFFECTED YOUR COMPANY' S INTERNATIONALISATION TO THE REPUBLIC OF SOUTH AFRICA?

HOW HAVE THESE CHANGES AFFECTED THE DEVELOPMENT OF BUSINESS OPERATIONS IN SOUTH AFRICA?

COULD YOU PLEASE DESCRIBE THE MAIN INSTITUTIONAL OR LEGAL CHANGES INTRODUCED IN SOUTH AFRICA SINCE YOU STARTED OPERATING ON THE SOUTH AFRICAN MARKET?

HOW HAVE THESE CHANGES AFFECTED YOUR COMPANY'S DECISION TO INVEST IN THE REPUBLIC OF SOUTH AFRICA?

HOW HAVE THESE CHANGES AFFECTED THE DEVELOPMENT OF YOUR OPERATIONS IN THE REPUBLIC OF SOUTH AFRICA?

COULD YOU DESCRIBE THE SOUTH AFRICAN BUSINESS ENVIRONMENT SINCE YOU STARTED OPERATION IN SOUTH AFRICA?

WHAT HAS BEEN THE MAIN ECONOMIC CHANGES INTRODUCED SINCE YOU STARTED THERE? (WHICH COULD HAVE AFFECTED THE DEVELOPMENT OF YOUR BUSINESS THERE)

How has the decision-making changed?

Has the price system changed and how?

Has the role of national currency changed and if yes how?

Could you please describe any change in the business ownership patterns in the republic of South Africa that could have had any impact on your operations there?

Have there been any changes in infrastructure, which could affect your decisions, and operations in the Republic of South Africa?

HOW HAVE THESE ECONOMIC CHANGES AFFECTED YOUR DECISIONS TO INVEST IN REPUBLIC OF SOUTH AFRICA AND THE SUBSEQUENT OPERATIONS THERE?

COULD YOU DESCRIBE HOW YOUR MARKETS IN SOUTH AFRICA HAVE DEVELOPED

HOW HAVE YOUR MARKETS IN THE RSA BEEN DEVELOPING?
FOR EXAMPLE CONCERNING:

Supply

Demand

Level of competition

Market structure

COULD YOU DESCRIBE THE SOUTH AFRICA FOREIGN TRADE REGIME

IN YOUR OPINION WHAT WERE THE FACTORS THAT WERE HLODING FOREIGN FIRMS TO EXPAND THEIR OPERATIONS TO THE REPUBLIC OF SOUTH AFRICA PRIOR TO YOUR OPERATIONS THERE?

HOW IS THE SITUATION NOW (2002) WHEN IT COMES TO FOREIGN TRADE?

COULD YOU PLEASE DISCUSS THE FOLLOWING ELEMENTS

Entry barriers to enter South Africa

Authorization to invest directly in South Africa

Laws and regulations, which could affect foreign investments?

Customs and capital movement?

COULD YOU PLEASE DESCRIBE HOW YOUR ORGANISATION IN SOUTH AFRICA HAS EVOLVED WITH TIME?

WHAT ARE THE REASONS BEHIND THAT DEVELOPMENT?

COULD YOU DESCRIBE YOUR MAIN BUSINESS PARTNERS (RELATIONSHIPS) IN SOUTH AFRICA?

HOW AND WHY DID THESE RELATIONSHIPS EVOLVE AS THEY DID?

HAVE THE CHANGES IN THE REPUBLIC OF SOUTH AFRICA HAD ANY EFFECT ON THESE KEY NETWORKS ACTORS?

COULD YOU ALSO DESCRIBE AND COMMENT THE EFFECTS OF THE CHANGES THAT HAVE TAKEN PLACE IN SOUTH AFRICA ON THE FOLLOWING ELEMENTS

Decision-making

Developing relationships with key actors

Size of deliveries

Location of customers

Quality relationship

WHICH ROLE DID THE FINNISH GOVERNMENT PLAY IN YOUR COMPANY' S EXPANSION PROCESS TO THE REPUBLIC OF SOUTH AFRICA AND IN ITS SUBSEQUENT OPERATIONS?

WHICH ROLE HAS THE SOUTH AFRICAN GOVERNMENT PLAYED IN YOUR COMPANY' S INTERNATIONALISATION TO THE REPUBLIC OF SOUTH AFRICA IN ITS SUBSEQUENT OPERATIONS?

ARE THERE OTHER NON- GOVERNMENTAL BODIES WHICH HAVE PLAYED A DECISIVE ROLE IN YOUR COMPANY' S INTERNATIONALISATION TO THE REPUBLIC OF SOUTH AFRICA AND ITS SUBSEQUENT OPERATIONS?

COULD YOU DESCRIBE HOW AND WHICH ROLE THESE NON-GOVERNMENTAL ORGANISATIONS HAVE PLAYED?

COULD YOU PLEASE DESCRIBE THE INVESTMENT OPPORTUNITIES YOUR COMPANY HAS IN SOUTH AFRICA AND THE MAIN REASONS FOR THAT?

WHAT ARE THE MAIN CHALLENGES FOR YOUR COMPANY IN THE SOUTH AFRICAN MARKET?

HOW DOES YOUR COMPANY OVERCOME THESE CHALLENGES IN THE REPUBLIC OF SOUTH AFRICA?

COULD YOU PLEASE DESCRIBE THE FUTURE INVESTMENTS PROSPECTS OF YOUR COMPANY IN THE REPUBLIC OF SOUTH AFRICA?

COULD YOU ALSO DISCUSS THE FUTURE PROSPECTS OF OTHER FINNISH COMPANIES IN GENERAL?

ARE THERE OTHER ISSUES RELATED TO YOUR COMPANY'S INTERNATIONALISATION TO THE REPUBLIC OF SOUTH AFRICA (OR SOUTHERN AFRICA) YOU WOULD LIKE TO ADD?

OTHER ISSUES RELATED TO THE DEVELOPMENT OF OPERATIONS IN SOUTH AFRICA WE HAVE NOT COVERED SO FAR YOU WOULD LIKE TO COMMENT

APPENDIX 2: Interview Guide Year 2004

Background

Could you please present yourself?

I would like to know who you are your position and background in the company.

How many years have you been in this company?

What has been your occupation and position before you joined this company?

Which positions have you occupied in this company?

Could you describe your activities in this company since you started?

How does your normal week look like?

COMPANY- Corporation

Could you please present your company shortly?

Industries, Products,

Size, annual turnover, number of employees in the RSA

Location of business operations and why

MODE OF OPERATION

Could you please discuss your mode of operation since you started?

If there have been changes in the mode of operation why was it so?

If there were no changes in mode of operation, why was it so?

How has your investment grown since last time we met?

Are there any significant changes in your business operations that have taken place in the RSA?

BUSINESS ENVIRONMENT

Could you describe for me the business environments you are operating in?

What is driving the business environment you are operating in?

Socio- political environment

Socio cultural

Institutional environment

How do the institutional structures (BBBEE and affirmative actions) affect your business operations?

MARKET STRUCTURE

Could you describe and discuss the market structure your company is facing in the RSA?

In terms of customers

In terms of competitors

In term of suppliers

In terms of contractors
 In terms of institutions

BUSINESS NETWORKS

Could you please tell about the kind of networks your company is involved in?
 How do these networks look like?
 Key actors
 Role of each actor in the network
 How do these networks develop?
 Which structure does the network have?
 How the power structure in the network does looks like?
 Intensity of each network
 Which direction and the outcome
 What are the main activities in the network?
 Which position do the actors occupy?
 Conflicts in these networks
 How was conflict resolved
 Positive events, which have shaped these networks

SOCIAL AND INSTITUTIONAL NETWORKS AND THEIR EXISTENCE

A part from business networks your company is involved in, are there other networks?
 If yes, could you please discuss these kinds of networks?
 If your company is not involved in other networks than its business networks, why is it so?
 Social networking
 Networking with government
 Activities in these nets
 How do they contribute to the expansion process?
 The key processes taking place in these networks
 How do you maintain your key relationships?
 With customers
 With contractors
 With government
 With others

RELATIONSHIP AND LEARNING

What are the key elements in your business relationships?
 How does your business network look like?
 How does learning take place?
 Which role does learning play in the FME?

Personal networking and their role

What are the factors that affect that learning process in these relationships?

Role of trust

Role of co-operation

TRAINING

Could you please discuss training issue and the learning process?

Who participate in the training?

Which role does every partner have in the training process?

How often do you train and who is trained?

The content of the training

The place of the training

Technology transfer

PROJECT AND SALE CASES

Could you please describe the business projects you are involved in?

Who are the key actors in these projects?

Which role do they play in your business?

What are the inputs of each actor?

What are the difficulties of being involved in such projects (sales cases?)

EVENTS

Are there critical events that have shaped the expansion process of your company?

Which events?

When did these events take place?

What was involved?

What was the intensity of the events?

How the issue was resolved

What was the consequence and outcome of the events?

Other expected events that could shape the expansion process?

ROLE OF THE ENTITY IN THE RSA- INTEGRATION

Which role does this specific unit play in the whole group?

Knowledge

Resources and capabilities

Strategic role

Key inputs in other group members

Other markets in Africa

Other markets outside Africa

PROBLEMS IN OPERATING IN THE RSA

Could you please discuss the main problems you face in operating in the RSA?

How do you overcome these problems?

Market problems

Societal problems

Institutional problems

Macro economic

Financial

Human resources

Risk factors

Political problems

Global problems

Other

KEY STRATEGIES IN EXPANSION PROCESS

Which strategies have your company used to succeed in the RSA

Strategies

How were they applied?

What were the key results?

What were the problems?

How did the strategy change?

What was the cause for change in your strategies?

What were the consequences of these changes?

(What are planned strategies for the future?)

KEY SUCCESS FACTORS

Could you please discuss about the key success factor in operating in the RSA

Role of the product

Adaptation

Other factors you would like to mention

FUTURE PROSPECTS

Could you please describe the future prospect of your business operations in the RSA?

Market structure

Market potential in the RSA

Market potential in other African countries

Adaptation

Relationship

Regional

Other Finnish Corporations

FUTURE CHALLENGES

Could you please tell about the future challenges of your company operating in the RSA?

How does the future look like?

What are the main expected problems in the near future?

What are the expected problems in the long- run?

Are there other challenges you would like to discuss and tell about?

Are there individual challenges you would like to tell about?

Thank you for your time!



The foreign market expansion process has gained popularity among researchers. Yet, little is known about business expansion and operational strategies in new emerging markets. For instance, studies of how foreign corporations expand their businesses and how they cope with changing business environment on the African continent are still rare.

This research emphasises the environmental and political conditions affecting the actions of MNCs in new emerging markets. For this purpose, the study elaborates on key elements that make the REMNET model of foreign market expansion by showing how a collection of internal and external drivers as well as networking and critical events come together to form the basis for internationalization to emergent markets.

The empirical research was undertaken in two waves: during 2002/2003 in both Finland and South Africa and then again in 2004 in South Africa. Using an abductive research approach, an empirical qualitative data was collected from seven Finnish corporations and qualitative content analysis was used for data reduction and analysis.

The study found company characteristics, company hard resources, human resources, political resources, networking activities to play a decisive role in the expansion process. In addition, the study found evidences for a reduction in relationship distance between key actors over time in strive to co-create value.

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