



TAMPERE UNIVERSITY OF TECHNOLOGY

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**NORDIC INDUSTRIAL SMES IN MIDDLE EAST – FACTORS  
INFLUENCING LACK OF FDI**

Master of Science Thesis

Prof. Olavi Uusitalo has been appointed as the examiner at the Council Meeting of the Faculty of Business and Technology Management on January 14<sup>th</sup>, 2015.

# ABSTRACT

TAMPERE UNIVERSITY OF TECHNOLOGY

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MIR HAMED FATTAHI MOSHTAGHIN: Nordic Industrial SMEs in Middle East-  
Factors Influencing Lack of FDI

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Nowadays in the global business environment, globalization process is not limited to only large companies. One of the main goals of SMEs is also expanding their international businesses in order to increase sales and profits. The way a firm selects to go to international markets from its local market and choosing the appropriate entry modes are significant decision that demands a lot of resources and preparation. In the procedure of choosing entry modes different factors have to be surveyed before making the final decision. The results of the entry mode selection can have important influences on the success of the company. Selecting inappropriate entry mode can cause various problems such as financial losses and limited control on the foreign market.

This research study figured out that there are a number of Nordic SMEs exporting in the Middle East market. All of these SMEs are using only exporting as an entry mode and none of them have chosen FDI. Therefore, the main purpose of this study is to discuss and provide a deeper recognizing of factors that have caused Nordic SMEs in the Middle East market do not select FDI as their entry mode. The thesis surveyed internal factors that can influence on entry mode selection such as firm size, relevant international experience, business networks of Nordic SMEs and the capability of Nordic SMEs to produce differentiated products. The study also examined external factors that can influence on entry mode selection such as industry specific factors, cultural distance and environmental uncertainties.

The reasons for lack of FDI in the Middle East market among these Nordic SMEs were as follows: small firm size, lack of Nordic SMEs' relevant international experience, local networks of Nordic SMEs are not oriented toward the Middle East market, different environmental uncertainties in the Middle East market, perceived cultural distance and finally industry growth potential of the Middle East is not sufficient to attract FDI.

## **PREFACE**

Writing this thesis was an interesting experience that could not be achieved without help of several people. I would like to thank my advisor Professor Olavi Uusitalo for his invaluable support and guidance through the research process. Without his instructions, selecting the topic, processing the work, finding suitable and applicable research literature would be almost impossible.

I owe my greatest thank to my family, my mother, father, and brother for their continuous support and encouragement. Without you, this would not have been possible.

Mir Hamed Fattahi Moshtaghin

Tampere, April 2015

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## DEFINITIONS AND ABBREVIATIONS

This thesis uses some key terms that are particular to this analysis. These terms are recognized and explained with more detail below:

**Internationalization:** internationalization is the procedure of adapting operations of firm (strategy, structure, resources, etc.) to international environments (Calof & Beamish, 1995).

**Small- and Medium-Sized Enterprise (SME):** The term SMEs is usually mentions to Small and Medium size non-subsidiary, independent firms within definite standards. These standards are on the basis of the number of employees and annual turnover of the firm. This thesis considers a firm as SME if the number of its employees is less than 250, the small firms considered to be firms with fewer than 50 employees and micro-firms have at maximum 10 employees. Financial properties are also used to describe SMEs. In this thesis SMEs must have annual turnover of less than 50 million Euros (European Commission, 2005).

**Foreign Direct Investment (FDIs):** Foreign direct investment is a form of entry mode in which a firm from a country provides capital to an existing or a new established firm in another country (Jones & Wren, 2006).

**International Market Entry Modes:** International market entry mode is an institutional arrangement that makes possible the entry of firm's management, technologies, products and other resources into a foreign country (Root, 1994).

**Equity entry modes:** Investment or equity entry mode can include joint ventures and foreign direct investment (Lopez et al., 2013).

**MNEs:** Multinational Enterprises

**Non-equity Entry Modes:** Non-equity entry modes include contractual entry modes (licensing, project business, franchising) and exporting entry modes which in this kinds of entry modes the firm do not do any investment in targeted country (Hollensen, 1998).

**Likert Scale:** Likert scale is a psychometric scale usually involved in research that uses questionnaires. It is the most broadly used method to scaling answers in survey research. Respondents rank quality from high to low or best to worst using five or seven levels (Neuman, 2000).

**Exporting:** Export can be define as firm's sales of products and service produced in the domestic market and then sold in the foreign market through an entity in the host country (Johnsson and Tellis 2008).

**Project Business:** Project business is a short-term trade activity which is carried out by foreign firms in foreign countries to offering unique products or services within a particular time limit (Hollensen, 2004).

**Sub-contracting:** In subcontracting entry mode a firm enters into a foreign country in order to implement part of a business procedure of another firm (Hollensen, 2004).

**Franchising:** Franchising is a form of entry mode in which one firm (franchisor) gives permission to another firm or individual (franchisee) to use its particular assets (Hill, et al, 1990).

**Licensing:** Licensing can be define as a contractual transaction in which the holder of the proprietary gives the right to another firm or individual to use holder's assets and specific knowledge under certain defined condition (Luostarinen & Welch, 1990).

**List of countries in the Middle East:** Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Yemen, Oman, Qatar, Saudi Arabia, Bahrain, Syria, Turkey, Libya, the United Arab Emirates, Jordan and Palestine.

**Arab Spring:** The Arab Spring was a series of anti-government protests, uprisings and armed rebellions that spread across the Middle East in early 2011 (Bekaert & Harvey, 2000).

# 1. INTRODUCTION

## 1.1. Background

Nowadays in the business world, the way of organizations' activities is changing and they are switching from domestic organizations toward international ones. Firms across the world have understood that globalization is a truth that creates infinite opportunities although bringing competition and challenges as well. High taxes, saturated domestic markets, tough regulations and etc., are factors that stimulate a firm to think about expanding its trade into foreign markets. Also the attractions of foreign markets such as cheaper raw materials and resources, low labor cost, less governmental regulations and etc., motivate firms to invest in those new and advantageous markets (Buckley & Ghauri, 1993).

The Nordic countries are a geographical and cultural region in Northern Europe and the North Atlantic. It consists of five countries (Denmark, Finland, Iceland, Norway and Sweden). Nordic Countries have an open economies and exports amounts to 35 - 50 % of their GDPs. The high degree of openness provides wide opportunities, but also presents high exposure towards variations in the worldwide economy. The quick varying dynamics of the worldwide economy require Nordic firms to be able to familiarize to changes in market conditions and exploit new opportunities as they emerge. The growth of income and wealth is closely connected to the earnings of export firms. Therefore, in order to ensure growth and sustain the existing level of safety society, Nordic countries must enter into the most attractive markets and adjust the market concentration in accordance with the growth trends in the worldwide economy (OECD, 2010).

Nowadays BRIC countries (Brazil, Russia, India and China) are the most attractive markets for foreign countries to invest. Total population of these four countries is more than 2.883 billion that accounts for 41% of the world total population. These countries offer a very good potential for any firm tend to enter into new markets. They offer cheap labor force and they furthermore have very good demand in terms of customers. Furthermore, they have plenty of natural resources that make it easy for foreigners to invest and run their businesses there (United Nation (UN) Population and Vital Statistics Report, 2010).

Numerous Nordic SMEs have been in relationship with foreign firms in emerging markets for a long time and exports to these markets are generally increasing at a faster pace than exports to more developed markets. Exports to BRICS and other developing countries still make up a very small share of overall exports and an increased presence in emerging markets is vital for the development prospects of firms in the Nordic

countries (OECD, 2010). Figure 1 illustrates Nordic exports to emerging markets as a share of total export.

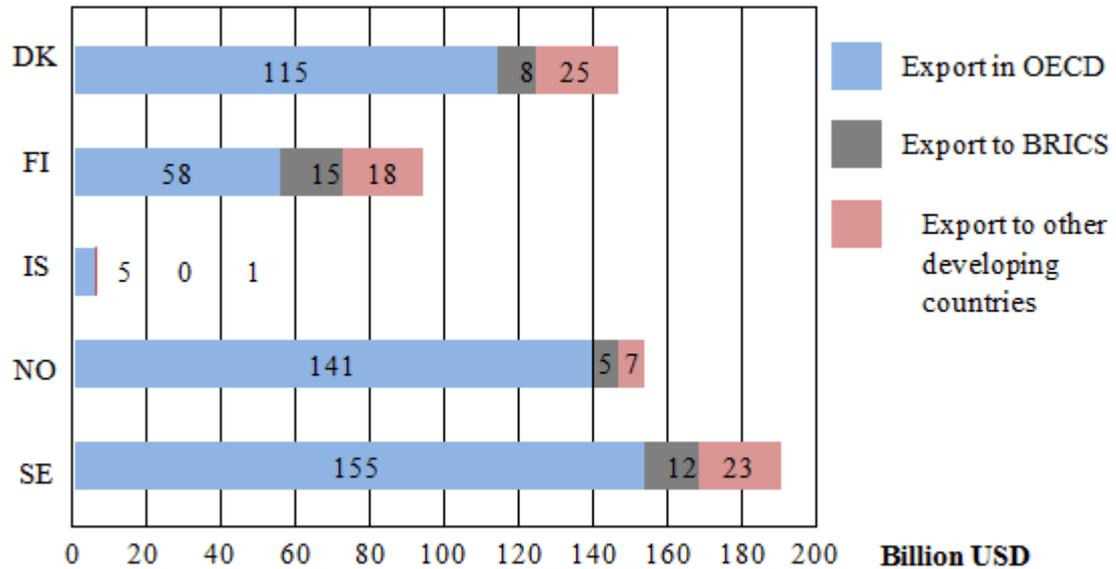


Figure 1. Nordic export to emerging markets as a share of total exports (OECD, 2010)

Activities and exports of Nordic countries towards BRICS and other developing markets generally represent the Nordic countries' national core strengths. The exports to emerging markets are mainly centered on paper production, industrial and professional machinery, maritime, medicine, transportation and automotive (OECD, 2010).

Market opportunities in emerging markets will increase quickly in coming years. BRIC countries will remain among the furthestmost significant drivers in the world economy for numerous years, but other emerging markets such as the Middle East are likewise likely to play a further significant role going forward. Middle East countries are facing strong development in nearly all industry sectors, tourism, ranging from services, and construction to energy intensive industries such as aluminum, oil and chemical. Because of the sufficient natural resources existing in this area, the economy of Middle East has been growing over the past years. Minerals, Oil, gas, petrochemical and construction industries provide a perfect market for those SMEs who pursue new opportunities in worldwide. There is enormous amount of money in this section which is a valuable source of income for foreign firms. This high amount of money in the Middle East can be looked at as a motivation for foreigners to try to evaluate the existing potentials in the countries located in the region. Middle East can be a valuable market for Nordic SMEs to invest, as this region could provide not only similar but also even more promising future when compared to the BRIC (Anderson, 2009). The following paragraphs presents some reasons that explains why this research focuses on lack of Nordic SMEs' FDI in the Middle East.

The activities of Nordic firms in emerging economies are mainly dominated by their operations in China and Russia. High percentages of activities in Russia can be clarified by the historical links and geographical proximity to the Nordic countries. The high attention on China is a worldwide trend due to China's growing significance in the world economy. In 2003 China became the biggest target country for FDI leaving the United States behind. The high concentration on these two countries specify a lack of knowledge and experiences related to the opportunities in other emerging economies or simply indicate a traditional approach towards business opportunities in unknown and distant markets (Suomen Pankki, 2011).

Good percentages of these Nordic companies in China are SMEs. The entry modes of Nordic SMEs into the China include all mode of entry such as exporting, licensing, project business, subcontracting, joint ventures and FDI. Most of the Nordic SMEs are continuously showing eagerness and interest to enter the Chinese market despite different challenges of the Chinese market. There are also some supports provided by European Union which help Nordic SMEs to internationalize their operations into China. Moreover, there are high numbers of R&D projects dealing with business activities and internationalization of Nordic SMEs into China. All these factors cause the increasing number of exports and imports from China and also increase Nordic SMEs' experience in performing business in China. This is also slowly decreasing the psychic distance between Nordic market and the Chinese market (Katua, 2014).

Nordic SMEs presently have no FDI, licensing, subcontracting, franchising and Joint ventures in the Middle East. The major entry mode of Nordic SMEs into the Middle East market has been mainly exporting and few SMEs on project business. Nordic SMEs in China has relatively all forms of entry mode in the Chinese market. The important matter is that the motivation for Nordic SMEs to enter into the Middle East market might not be met (Katua, 2014). These motivational factors rises because of target country specific factors referring to psychic distance between Nordic and Middle East market, country risks, industry specific opportunities, cultural distance, and internal factors such as home country government supports and firm international experience. These factors might have resulted in the slow pace of entry and none-equity entry mode choice of entry of Nordic SMEs into Middle East Market. According to World Bank (2011) some North American SMEs (SMEs from USA and Canada) and central European SMEs (SMEs from Germany, Netherland, France and United Kingdom) have FDI in the Middle East. Based on these findings, the main goal of this research study is finding the reasons why Nordic SMEs not have FDI in Middle East market.

Moreover, the challenges confronting SMEs, either as manufacturers selling directly into international markets, or through their integration into international value chains, are mostly acute. FDI has a role to play in the improvement of these SMEs. Therefore, SMEs to sustain income growth either individually or collectively in the long run have

to develop the competence to upgrade not just procedures and products, but gradually also their functions (Kaplinsky, 2001). FDI can be seen as an effective factor of technology transfer, thus have an important and effective role on overall productivity in the economy (Fawzy, 2002). It can be concluded that choice of FDI by Nordic SMEs into the Middle East can be useful for them.

## **1.2. Problem Discussion**

It seems that Nordic SMEs currently have no Greenfield investment, subcontracting, franchising, licensing and Joint ventures in the Middle East market (Katua, 2014). These studies demonstrate that the main entry mode of Nordic SMEs into the Middle East market has been exporting. Therefore, the important issue is that the motivation for Nordic SMEs to enter into the Middle East market might not be met. On the basis of literature review these motivational features rises because of foreign country specific factors in relation to psychic distance between Nordic countries and Middle East market, cultural distance, industry particular opportunities and country risks. Moreover, internal factors such as firm home country government supports and international experience also have influences on motivational features. Therefore, there are different factors that can influence on Nordic SMEs' entry mode decision into Middle East market. The main goal of this thesis is to recognizing and measuring these factors that cause Nordic SMEs not select FDI as an entry mode into the Middle East market.

International experience of SMEs is a factor that influence on the SMEs' entry mode choice into the international markets. International experience is resulting from the sum of both management and organization experience in operating business in related international markets (Carpenter et al., 2003). According to Gankema et al., (1997) SMEs gained experience after a period of investigational knowledge in international markets and then changed their entry mode of exporting to equity investments.

Cultural distance is the perceived variances between the managers' own and the host country culture (Albaum & Duer 2008). Johnsson & Tellis, (2008) argue that cultural distance has a significant role and effect on the efficiency of the entry. Davidsson (1980) explains that there are a lot of failures because of insensitivity to cultural differences; therefore most of the firms prefer to begin their internationalization processes with countries that are culturally close to them.

When a firm decides to enter into foreign markets, there are different types of foreign country environmental uncertainties which influence on the entry mode decision of firms. Environmental uncertainty refers to the sum of uncertainties in a given country (Miller, 1992). Country risk is one of the most important factors that should be considered by SMEs when they want to enter into a foreign market. Country risk include transfer risk, economic risk (the risk is because of changing the economic condition in the host country), political risk and exchange risk (the risk is because of

unanticipated adverse exchange rate movements). Country risks dispirit high investment entry modes (Meldrum, 2000). Meldrum (2000) argues that SMEs choose non-equity entry mode into international market that have high environmental risks or uncertainty while the chosen entry mode in foreign markets with less environmental risks would be equity modes.

McDougall et al. (2003) studied the effect of product specific factors on the internationalization process of SMEs and explain that product specific factors can have influence on the SMEs' entry mode choice in foreign countries. The study shows that the companies selling generic products used non-equity entry modes, while companies that have ability to produce technically differentiated products mostly use equity entry modes. Moreover, Tan et al., (2001) argue that firm size can limits the capability of SMEs for FDI. Therefore, SMEs lack the managerial and financial resources needed to use equity entry mode, consequently non-equity entry mode dominant as SMEs' choice of entry mode.

Market entry mode selection is an important decision for SMEs since the international markets for them are pretty wide and diverse. SMEs' connections with clients and suppliers can be really important since this relationship could have influence on SMEs' market entry mode selection (Bell, 1995). It means that internationalized local business network partners of SMEs can have vital role in selecting market entry mode by SMEs. Therefore, it can be possible that in internationalization process, SMEs with more internationalized local partners be more successful than SMEs with less internationalized local partners (Coviello & Munro, 1997). Moreover, government support can have influence on the SMEs' entry mode decision. The most important influence of government support can be in the initial stage of SMEs' internationalization process (Puljeva & Widen 2006).

### **1.3. Research Goals**

The purpose of this study is to gain a better understanding of the internationalization process of Nordic SMEs, and try to recognize and analyze the main factors influencing the select of non-equity entry modes of Nordic SMEs into Middle East market. Therefore, the main questions of this thesis will be:

*How can the factors that caused Nordic SMEs not select FDI as an entry mode into the Middle East market be explained?*

### **1.4. Structure of the Thesis**

This Master's Thesis contains six main chapters. The first chapter of this research study discusses general introduction about the research topic. The first section of this chapter discusses the background, the second section discusses the problems, the third section

discusses the research goals and finally the fourth section gives some definition of key terms in this research study.

The second chapter is the theoretical part which reviews and discusses literature of related topics. The first section of this chapter discusses the concept of internationalization, the second section discusses entry strategy into new foreign markets, the third section discusses on factors which influence the choice of entry mode and finally the fourth section analyzes the Middle East market.

The third chapter of this thesis concentrates on the research methodology and empirical case of Nordic SMEs operating in the Middle East market. This chapter describes the research strategy of the thesis and also the data collection is clarified in this chapter. The last section explains some limitations of the thesis.

The fourth chapter presents the results of this research study. It contains the results of multiple case studies and perceived results from questionnaire. The fifth chapter analyzes the perceived results of questionnaire. This chapter examines how the results are linked to the prior studies. Conclusion as the last chapter reviews managerial and theoretical implications. Moreover, in this chapter future researches are explained.

## **2. SMEs' OPERATION MODES IN MIDDLE EAST**

### **2.1. The Concept of Internationalization**

#### **2.1.1. Definition of Internationalization**

Researchers and academics have tried to describe internationalization on many cases using numerous different perspectives and variables. The concept of internationalization varies depending on the phenomenon they include.

According to Calof & Beamish (1995), as a procedural and organizational point of view internationalization is the procedure of adapting operations of firm (strategy, structure, resources, etc.) to international environments. Buckley & Ghauri (1993) define internationalization also means a changing state. The growth of the firm provides a contextual to internationalization and to some degree the perceptions of internationalization and growth are intertwined. Welch & Luostarinen (1998) explain internationalization as the procedure of increasing involvement in international operations. Chrysochoidis et al. (1997), focused only on the international development. They explain the internationalization of a firm as entering in another country and primarily developing operations.

#### **2.1.2. Stage Models of Internationalization**

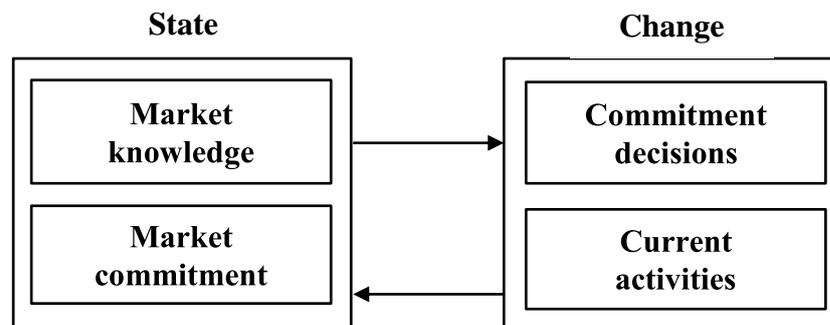
The stage models of internationalization are a linear and sequential procedure composed by a series of specific stages Uppsala model (U-Model) (Johanson & Vahlne, 1977; Luostarinen, 1979), Luostarinen Model (Luostarinen, 1979) and the Innovation-Related Internationalization Model (I-Model) (Bilkey & Tesar, 1977) are three major stage models of internationalization. In all models internationalization defines as a gradual and sequential export growth by stages, based on a series of incremental commitment decisions depending on perceptions, prospects, experiences and managerial competences (Cavusgil, 1980).

#### **Uppsala Internationalization Model (U-model)**

According to Korhonen (1999) in the early 1970s a group of researcher began research on internationalization of SMEs in the Nordic countries. Researchers working in small and open economies were more concerned in the dynamics of the whole internal procedure of small firms. Differences in the research objects and research contexts were the reason that Nordic researchers started their own theory-building.

Uppsala internationalization model is considered most excellent to understand the internationalization procedure of the SMEs. The Uppsala internationalization model is

based on the presumptions that lack of knowledge of SMEs about the foreign market and defeat of firms to make commitment are the most significant barriers for the SMEs to begin their internationalization procedure. This model deals with internationalization procedure from two dimensions. The entry of firms in individual foreign market is the first dimension, and the consecutive operation of the firm in the new market is the second dimension (Johanson & Vahlne, 1977). Figure 2 describes the main structure of the Uppsala internationalization model.



*Figure 2. Structure of Uppsala internationalization model (Johanson & Vahlne, 1990)*

This structure distinguishes between state and change aspects of the internationalization variables. The state aspect considers the market commitment and market knowledge. Change aspect of the Uppsala internationalization model considers the factors commitment decision and current activity (Johanson & Vahlne, 1977).

The amount of resources committed and degree of commitment are two factors which create the market commitment factor of the Uppsala model. Amount of resource commitment is distinct as the amount of investment in exacting market and degree of commitment is distinct as the complexity of finding other alternative for firm's resources and mobility of resources. Market knowledge is considered most significant after the market commitment in the Uppsala model (Johanson & Vahlne, 1977).

Knowledge about market opportunities and problems of market is a significant factor which could be extremely beneficial and useful for firms in order to take decision. Moreover this knowledge could help the firm to appraise the alternative. Firms can use the current activities to achieve experience. Hiring the practiced employees is other alternative for the firms to achieve experience. Commitment decision of the firm depends on decision alternatives that are raised and how the firm can select these alternatives. Firms could be able to made intentions in response to market opportunities or problems that depends on experience of the firms (Johanson & Vahlne, 1977).

The core presumption of the Uppsala model is that in the international market the market knowledge of the firm will cause market commitments or resource commitments. Figure 2 explains, when the firm enters in the foreign market it has very limited market commitment and market knowledge in the primary stage. Number of

Resources committed in a foreign market and the degree of commitment are two factors which indicate the commitment of firm. The Uppsala model explains that the firm enters in foreign market in small steps and chooses the market which has adequate market knowledge. Current business activities and commitment decision of the firm will be affected by operation of the firm in the first stage with its previous market knowledge and recourses. The internal assets of the firm such as financial resources and skills of the employees is a factor which will further increased by the commitment decision and business activities, continuously this factor will increase the firms' recourse commitment and market knowledge, and the firm shift into the next stage (Andersen & Suat Kheam, 1998) (Johanson & Vahlne, 1977).

### **Luostarinen Model**

Luostarinen (1979) introduces an internationalization model of the firms which is divided into four different stages:

1. Starting stage of internationalization
2. Development stage of internationalization
3. Growth stage of internationalization
4. Mature stage of internationalization

The starting stage is usually like the step into the unknown. In this stage the international business knowledge of company is limited, so the company often starts their internationalization process from closest countries. In this stage companies start their internationalization process by introducing physical goods through NIMOS (non-investment marketing operations) (NIMOS: either indirect or direct export operation) (Luostarinen, 1979).

Transition from the starting stage to the development stage of internationalization takes place through introduction of goods and services into foreign markets. In this stage the company is utilizing both NIMOS and DIMOS (direct investment marketing operations). Products sell through NIMOS to different countries with differing business distances. DIMOS are substituted for NIMOS in very close business distance countries. Services are introduced in very close but also in more distant markets (Luostarinen, 1979).

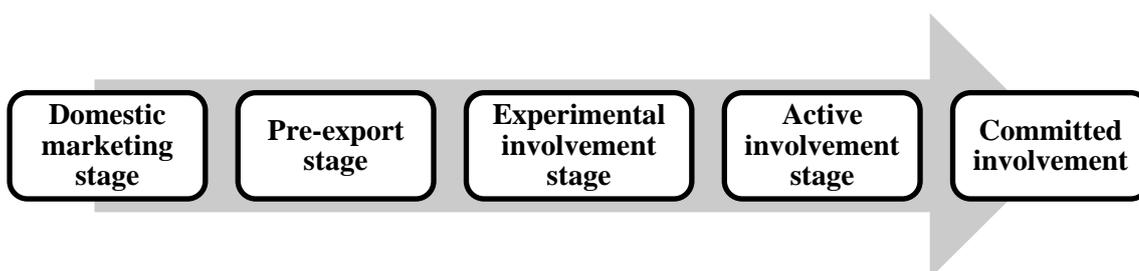
In growth stage of internationalization process, the company in addition to goods and services also introduces systems to foreign markets. In addition to NIMOS and DIMOS, the company also utilizes NIPOS (non-investment production operations) types of operations in foreign markets. The operations of company are more and more reaching countries with long business distance (Luostarinen, 1979).

In mature stage of internationalization process, the company in addition to goods and services also starts to sell know-how and systems to international markets. In addition to NIMOS, DIMOS and NIPOS the company also starts to utilize the DIPOS (Direct

investment production operations) type of international business operations. The company in addition to close, very close and distant countries also starts to operate in very distant target countries (Luostarinen, 1979).

### **Innovation Related Model**

Innovation related model is another model which used for internationalization process after Uppsala internationalization model. In this model internationalization process of the firm is considered as a process parallel to the stage of product adaption. This model explains which every next stage in the internationalization process is an innovation for firms. The ratio of export to total sale measure the different stages of the model, which demonstrate the extent to which firm involve in the international activities (Snuif, 2000). Various stages for the internationalization process of firms are illustrated in the innovation related model. However, the number of stages varies from three to six. Number of stages and explanation of each stage are two factors which make the most significant diversity between Uppsala internationalization model and innovation related model (Andersen, 1992). Figure 3 illustrates various stages of the internationalization process of firms in the innovation model.



*Figure 3. Various stages of the internationalization process of firms in the innovation model (Andersen, 1992)*

Firms are not interested in exporting activities in the primary stages of internationalization process. Distribution of products in domestic market is accomplished in first stage and then obtaining information about the foreign market is accomplished in second stage. The exporting processes of the firms begin from third stage and then the activities continue and firm begin expanding in fourth and fifth stages (Cavusgil, 1980).

### **2.1.3. Internationalization in the Present**

Network model and Born-global model are two recent internationalization theories which discussed in literatures. This section will discuss them respectively.

## **The Network approach**

According to Johanson & Vahlne (1990) the network model for internationalization is an approach which is developed in the work of Uppsala school. By improving their principal model, they demonstrate the significance of putting the firm in its network. Based on the concepts of their principal model (decision-making, knowledge, activities and commitment), they attempt to illustrate the motivations and the modes of internationalization by placing the firm in a multilateral structure by mobilizing the intra and inter organizational connections.

Coviello & Munro (1997) explain that, in the process of internationalization, SMEs externalize their activities by relying themselves on network relations in order to select the market and entry mode. They propose that relations in existing networks could be helpful in order to launch a rapid process of internationalization, exclusively by international networks in which the major partners do not just begin the internationalization process but also influence the mode of investment in market. They also explain that the relations in network will simplify the international growth of the firm.

Internationalization is a procedure developed inside the network through mercantile relationships with other countries. Extension, penetration and integration are three various steps of this procedure. Extension is the first step performed by the firm to construct the network, either by itself or by attaching itself to an existing network. The firm will involve itself into new types of immaterial investment such as information, contractual relationship and partnership that will link the firm to its foreign partners. Penetration refers to the growth of the position of firm in the network and the increase of resource commitment. Integration assigns an advanced step which the firm links itself to numerous networks and the coordination between the various networks (Johanson & Mattson, 1988).

Cook & Emerson (1978) explain network as a connection of a group of relationships. Companies extend their connection with other companies by establish technological, financial and market relationships with other members of the network. This trend gradually helps companies to increase their activities across national borders till they become international. Coviello & Munro (1997) explain that various types of relationships developed in the network influence on the degree and the structure of internationalization. Cooperative and competitive relationships are two factors which firms are mutually dependent to them in the network.

According to Johanson & Mattson (1988) firms establish relationships with foreign partners during internationalization process. These relationships are developed and maintained continuously in order to fulfill the international development of the firms. Johanson & Mattson (1988) introduce an internationalization model in which advanced

learning and knowledge improvement through communications inside the network take great significance because the firm can be considered international if other firms be international in the network. Formal and informal activities of firms inside the network create their position in the network. This internationalization model illustrates four situations of internationalization in which the firms' internationalization strategies are connected to the requirement of knowledge development and the relationship adjustment in network. Figure 4 illustrates the network approach of internationalization.

		Degree of Internationalization of the Market	
		Low	High
Degree of Internationalization of The Enterprise	Low	The early starter	The later starter
	High	The lonely international	The international among others

Figure 4. *The network approach of internationalization (Johanson & Mattson, 1988)*

**The early starter:** The firm has limited knowledge about international markets because this kind of firms does not have adequate relations with other foreign firms. Normally, local agents and distributors which have more experience in the international markets help the early starter firms to enter into new foreign markets. Firms regularly start their internationalization process by export, which is often taken by their partners but it will accumulate valuable experiences for the future. The resources adjustment is significant in this stage since the firm needs to increase the production capability for new market demand and also develop the psychic distance and knowledge development on new markets. The strategy to go foreign markets is regularly taken by other counterparts than the firm itself. The alternative plan, to start with an acquisition is mainly probable for the firms that are large and resourceful in the home market (Johanson & Mattson, 1988).

**The later starter:** The firm is located in high degree of internationalization of market though the firm has low degree of internationalization. The firm has a number of indirect connections with foreign networks. For example, a firm's whose dealers, clienteles and competitors are international means that it has a number of indirect relationships with foreign networks even if it is purely domestic. Internal network generate the pull force which lead the firm to improve its internationalization position. The firm is frequently attracted to internationalization by other members of the international network. So, resources arrangement and activity coordination to internationalization are essential (Johanson & Mattson, 1988). According to Plinter & Habersaat (1998) the network approach of internationalization can be appropriate in the internationalization process of SMEs. As the SMEs' business is limited to the domestic market and they are not resourceful in the home market, they are seeking to enter into international markets through development of indirect networks and relationships

through co-founders' obtainable link. It means SMEs are mostly later starter in the network approach of internationalization.

**The lonely international:** The lonely international is located in low degree of internationalization of market though the firm is highly international. The firm is able to get access to new networks and extend its activities by its experiences (Johanson & Mattson, 1988).

**International among the others:** The firm is highly international and also located in a highly international market. So, the firm is able to use of one network in order to get connection with other networks (Johanson & Mattson, 1988).

The network approach of internationalization can be a useful framework for internationalization process of firms and furthermore this framework describes the foreign market selection perfectly. Though, this framework has these advantages, it also has some limitations. Most significantly the network approach rarely explains how SMEs use the networks in their process of internationalization rather it focuses on bigger firms (Nummela, 2002).

### **International New Ventures/Born global**

Nowadays, world economy is approximately integrated because of two factors: technological advancement and declining trade barriers. In this situation SMEs are able to complete internationalization process in a quicker or effective manner (Masum & Fernandez 2008). According to Oviat et al. (1994) international new ventures or born global is a concept which explain this new trend of quick internationalization.

International new ventures firms are business organizations which try to gain competitive advantages from multinational markets. Seeking for resources and selling products in multinational markets are two factors which help international new ventures firms to be international ever since the beginning (Oviat et al, 1994).

According to Nik et al. (2011) international new ventures firms are those incept exports on average within two years of establishment of the firm. However, Knight and Cavusgil (1996) explain which firms have to reach foreign sales of at least twenty five percent within three years of establishment. However, Wickramasekera & Barberry (2003) define that international new ventures firms start their international processes within six years of creation and it seems to be emerging as the most preferred definition.

## **2.2. Entry Strategy into New Foreign Markets**

The previous section explained various theories of internationalization and firms motives for internationalization. This section will explain entry strategy of SME's into foreign market.

### 2.2.1. Time of Entry

According to Gallego et al. (2009) nowadays, time of entry of a firm into a foreign market is important as well as entry mode and market selection decisions. Time is a factor that have to be explicitly considered in order to improve an appropriate understanding of the inter nationalization of the firms. Time of entry has influences on selection of entry mode and market in the internationalization process of firms. The most important task for all of firms which are planning to enter into foreign markets is how to implement their internationalization strategy (Melin, 1992). There are different modes of entry into foreign markets. The choice of firms is based on the conditions and opportunities of each case. Each one of these entry modes varies in the degree of control that the firm is able to exercise over its foreign operations, the potential revenues it will earn, the capitals it has to commit and the risk it might have to face. On the basis of these facts exporting has the lower risk and is the easiest entry mode in comparison with other modes of entry into foreign markets, since exporting avoids numerous of the fixed costs involved in global trade, as well as being further probable to attain economies of scale, location and others, achieved through experience. Then again, the control it has over its foreign operations is low, that means less potential revenue in comparison with other entry modes (Young et al., 1989).

Gallego et al., (2009) introduce a model in which the relationship between entry mode choice, time of entry and choice of market is discussed. This model discusses earlier or later timing of entry will affect the entry mode chosen for the internationalization process. According to this model an earlier timing of entry tends to lead the firm to select more conservative methods of entering into other countries (exporting), whiles the longer the firm takes to enter into markets of foreign countries, the more committed it is, since it has had time to gather more information, and will choose for less conservative modes of entry (subsidiaries). Figure 5 illustrates these relationships.

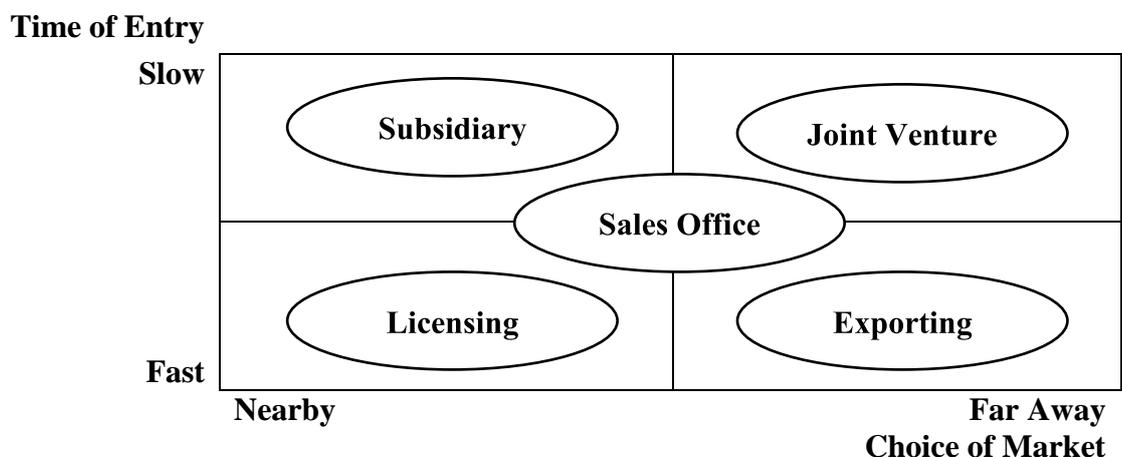


Figure 5. Relationship between timing of internationalization and modes of market entry (Gallego et al., 2009)

According to Gallego et al., (2009), there is a relationship between time of entry, entry mode and choice of market such that;

1. When the destination market is far away and the entry timing is slow, the firm will choose joint venture which is the second most risky mode of entry
2. When the destination market is far away and entering timing is fast, the firm will choose exporting which is the least compromising internationalization method
3. When the destination market is near and entering timing is fast, the firm will choose licensing
4. When the destination market is near and entering timing is slow, the firm will choose subsidiaries (FDI) which is the most compromising internationalization method
5. When distance from the destination and entry timing is intermediate, the firm will choose sales offices which is equally intermediate of entry

Consequently, this model illustrates that timing of internationalization is one of the most significant factors which firms should focus on it during internationalization process.

### **2.2.2. Modes of Entry**

There are considerable amount of literatures about entry mode choice or selection. Root (1994) explains international market entry mode as an institutional arrangement that makes possible the entry of firm's management, technologies, products and other resources into a foreign country.

Selecting an appropriate market entry mode in the process of internationalization is a critical key decision for all firms especially when they attempt to enter into an emerging and promising market. This selection also has a vital role in the success of the firm in markets beyond its domestic borders. Moreover, the chosen market entry mode must sustain and increase firm's competitive advantages. International market penetration displays increased difficulty and variation through complexity of operations, cultural barriers and geographical distances and thus risks and uncertainty are considerable higher than usual. The appropriate choice preparation is consequently all the more significant for selecting the right market entry mode and therefore the need for a broad knowledge basis is of paramount significance (Peng, 2013).

There are several ways to enter a new market. Each firm, based on the degree of its commitment to internationalization and acceptance for probable risks, has to select an appropriate way for itself to enter into a new market (Albertini, 2011). According to Root (1994) entry modes are classified into export entry modes, contractual entry modes and investment entry modes. Each of these entry modes has a variety of subtypes.

#### **Export**

Export is the common mode of entry into foreign market for an SME. Export can be the best mode for SME's initial entry into international markets because it requires limited investment in terms of cost and time (Hollensen, 1998). Export can be define as firm's

sales of products and service produced in the domestic market and then sold in the foreign market through an entity in the host country (Johnsson and Tellis 2008). There are different types of export which can be classified into direct and indirect export depending on the number and type of intermediaries. First of all the firm must establish export channels and then distinguish its own responsibilities from intermediaries' responsibilities. Based on how the exporting firm carries out the transaction flow between the buyer and itself, direct and indirect export is distinguished (Hollensen, 1998).

Direct export is a form of exporting in which an exporting firm sells directly to a buyer or an importer in a market of foreign country. In this form of exporting firms are much more involved in the host country in comparison with indirect export. For instance firms are able to handle both documentation and transportation, build up overseas contacts, be involved in the design of the marketing mix strategies and do market research (Hollensen, 1998).

Indirect export is a form of exporting in which the exporting firm just uses independent organizations which are situated in the host country. In indirect exporting the exporting firm exports its products by domestic intermediaries to foreign markets. Firms with limited international expansion objectives, probably select indirect exporting. Furthermore, firms with minimal resources are regularly devoted to indirect exporting in order to test the market before obligating larger resources and emerging an export organization (Hollensen, 1998).

### **Contractual**

Contractual entry mode is a form of entry mode in which one firm agrees to let another firm use its specific advantages to achieve the goals set. There are four major types of contractual entry modes; licensing, franchising, technology transfers, subcontracting and project operations. Contractual entry mode is a vehicle for technology transfer or transfer of human skills as well as shared level of control and risk. This specific makes it different with exporting entry mode (Hollensen, 2004).

Licensing might be distinctive as an agreement between two firms, where one firm has proprietary rights over some copyright, information, process and trade. Two firms sign a contract as a document for this agreement. The licensee needs to pay a certain sum to the holder of the proprietary in return for authorization to copy the patent, or trademark (Hisrich et al, 2005). Licensing can be defined as a contractual transaction in which the holder of the proprietary gives the right to another firm or individual to use holder's assets and specific knowledge under certain defined conditions (Luostarinen & Welch, 1990). Moreover the buyer of the license contract for a product, knowledge and technology resources gain the right to use it based on license contract. Nevertheless the main owner of resource has the right to keep the patent and make sure

that the buyer used the provided resources as specified as in the license contract (Yi, 1999). Licensing entry mode makes able firms to gain profit from a foreign market without obligating substantial funds and taking widespread international construction risks. Therefore licensing is an important option for the firms to increase their revenues without costly primary investment. Licensing is also an appropriate way to minimize risk and expand a business (Chen & Messner, 2009).

Franchising is a form of entry mode in which one firm (franchisor) gives permission to another firm or individual (franchisee) to use its particular assets. Franchising is similar to licensing entry mode but the different is; franchisor unlike licensor helps to the franchisee with business and operation tasks. In this form of entry mode, the franchisee must follow strictly the way which franchisor does the business. Service companies regularly choice franchising as a strategy in order to enter into foreign markets (Hill, et al, 1990).

Technology transfer is a form of entry mode in which technology and service expertise will be exchanged through project work or standard export arrangement, direct investment, licensing arrangement and joint ventures (Root, 1998). In subcontracting entry mode a firm enters into a foreign country in order to implement part of a business procedure of another firm. Therefore, the local firm in the foreign market obtains product or manufacturing procedure from the foreign firm. Project business is a short-term trade activity which is carried out by foreign firms in foreign countries to offering unique products or services within a particular time limit (Hollensen, 2004).

### **Foreign Direct Investment (FDI)**

Foreign Direct Investment (FDI) or equity entry mode can include joint ventures and foreign direct investment. According to Lopez et al. (2013) joint ventures is a form of entry mode in which two or more firms reaching a commercial contract to collaborate with each other in order to achieve a common aims. Kirby & Kaiser (2003) explains that joint venture can be used as a tool to obtain embedded resources in other firms. Local management expertise and connection can be obtained quickly by using joint venture entry mode in order to fast entry into new foreign markets. Kirby & Kaiser (2003) explain that SMEs with limited knowledge about the new foreign market can implement joint venture entry mode in order to be more successful in the new foreign market.

FDI is a form of entry mode in which a firm from a country provides capital to an existing or a new established firm in another country (Jones & Wren, 2006). FDI is a key element in this fast emerging international economic integration. FDI can be a useful way for creating direct, stable and long term relationships between economies. FDI can be a significant method for local enterprise growth, and it might also be useful to improve the competitive position of both the host country and investing country economy. Specifically, FDI persuade the transfer of knowledge and technology between

economies and provides an opportunity for the host country to advance its produces more broadly in international markets. In addition, FDI has a vital role and positive effect on the growth of international trade and also preparation capital for both host and investor country (OECD, 2008).

According to Welch, (2007) the most important reasons for choosing FDI as an entry mode include access to unique local assets, powerful means of foreign market exploitation and expansion, responding to the actions of competitors, exploitation of intellectual property and avoiding tariff and other barriers to trade to name a few. Figure 6 illustrates the level of risk and control of different entry modes. This Figure explains that as the entry mode selection changes from exporting entry mode to investment entry mode, the level of risk and cost increases as well as an increase in the degree of control and returns.

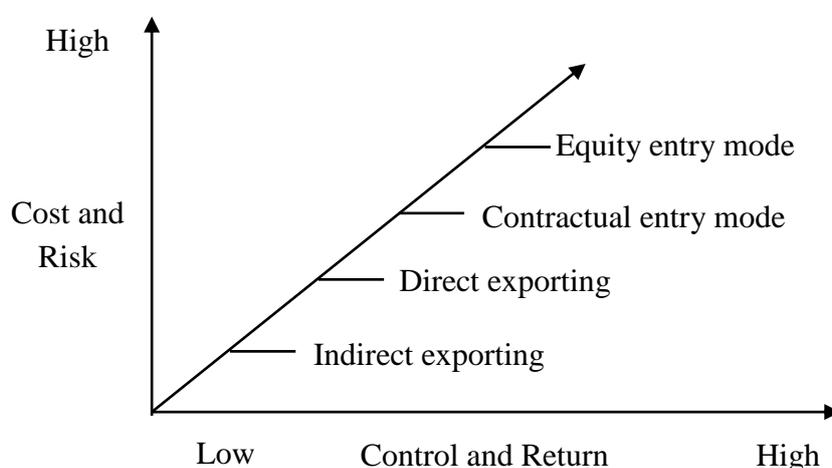


Figure 6. *Level of cost and risk as well as control and return of entry modes (Datta et al, 2002)*

### 2.3. Factors Influencing Choice of Entry Mode

Firms in order to enter international markets apply from different approaches and there numerous factors greatly influencing on this choice. Identifying these factors is very significant for firms. According to Root (1994) there are internal and external factors that can influence on entry mode decision when firms want to go to international markets. Internal factors are those that have influence on decisions of firms in relation to mode of entering to international markets. External factors are out of direct control of firms which are able to influence choosing entry mode to international market.

Resources are one of the most important factors for firms which want to enter into international markets. Firms with huge resources have higher possibility of entering into international markets (Hollensen, 1998). Similarly firms having limited resources must select the entry mode that needs smaller number of resources (Root, 1994). SMEs have

always been desirable to select the export entry mode as a strategy for entering into the international markets. Though SMEs have constantly desired to have more control in their foreign actions but this happens in rarely situations as most frequently it needs huge resources to control and operate in an international market which SME's are not able to afford (Hollensen, 1998). Figure 7 illustrates Root (1994) choice model which provides a framework of analysis for defining entry mode choice.

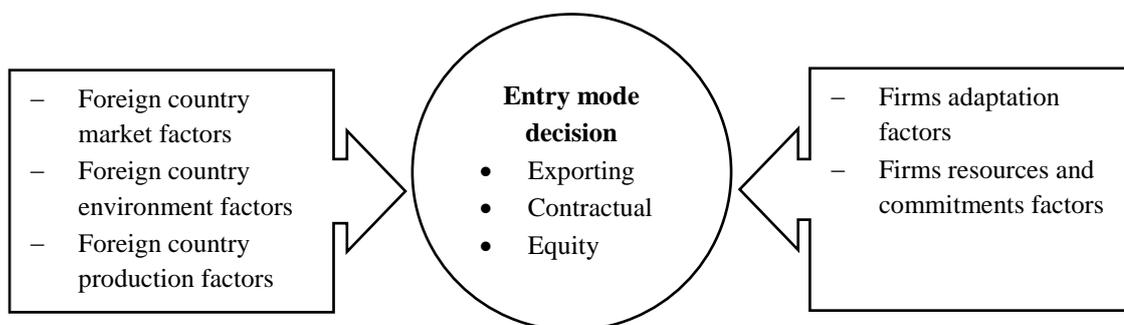


Figure 7. Foreign market entry framework (Root, 1994)

External factors including foreign country marketing factors, foreign country environment factors and production factors which firms are not able to directly influence on them by their actions. Foreign country marketing factors includes infrastructure, competitive structure and market size. Foreign country environment factor includes cultural uncertainty, economic uncertainty, political uncertainty and geographic distance of the host country. Production factors include quantity, quality and cost of raw materials and labors in the host country. Two internal factors contain firm adaptation and resource commitment from investment firms. By evaluating each factor, firms might obtain deep understanding of their investment opportunities and barriers in a host country (Root, 1994).

### 2.3.1. Internal Factors Influencing Entry Mode Decision

Internal factors have a significant influence on the companies' entry mode decision. The effect of external factors on foreign investment choice is influenced by internal factors. Therefore, evaluating the external factor is narrowly linked to some internal factor. For example, a firm's products describe what foreign country market factors are of greater importance (Tammilehto, 2005). Root (1998) categorized internal factors into (1) Product factors and (2) Resource and Commitments factors. Resource and commitment factors contain firm size and experience in international market.

**Firm size:** The size of a firm is a significant source of strategic advantage that has a vital role in companies' entry mode decision into international markets (Tan et al., 2001). The relationship between the use of equity-based entry mode and firm size has been extensively studied. For example, Osborne (1996) studied the effect of firm size on

the selection of entry mode when New Zealand SMEs want enter into international markets and discovered that smaller SMEs prefer no equity modes while larger SMEs prefer to select equity modes. Hollensen (1998) argues that the size of a firm approximately indicates its resources; the firm with more resources will be more successful in international markets. Exporting is the best appropriate mode of entry for SMEs though they regularly desire high control. As entering into new foreign markets often requires huge volumes of resources and SMEs have inadequate resources, the desire of high control is so much difficult for them.

**International business experience:** International business experience mentions to the extent which a firm has been involved in acting globally (Erramilli, 1991). It can be attained either by functioning in a specific country or by functioning in a general international situation (Driscoll & Paliwoda, 1997).

Different studies demonstrated a positive connection between international experience and the use of a specific entry mode. For instance, Gankema et al., (1997) argue that when SMEs achieve more experience it moves from exporting to equity investments. Carpenter et al., (2003) explain that managers with important international experience tend to select green field investments and acquisitions over joint ventures. Though, there are some arguments that international experience might not have any influence on degree of control. For instance, Nakos & Brouthers (2002) studied Greek SMEs investing in CEE countries and figured out that there is not any important difference in the entry mode selection on the basis of differences in international experience. Also, Kogut & Singh (1988) did not figure out any tough relationship between international experience and chosen entry mode by foreign SMEs into the United States.

**Product:** According to Root (1998) a firm with high differentiated products is freer to set up the price. There categories of produces inspire the firm to select export as its foreign market entry mode. Produces that are distinct by their physical differences and brand name, after sales service or other factors can assist a firm to control the higher costs of being in a foreign market. Hollensen (1998) argues that this differentiation makes the firm able to balance the cost and benefit by raising the produce prices. Furthermore assists the firm makes entry barriers for competitors, strong situation in the market and fulfill the requirements of customers. McDougall et al. (2003) explain that firms with complex industry products seek to invest directly into international markets in order to amortize their high R&D costs. This could be understood as a reason to select a higher commitment entry mode.

According to Luostarinen (1979) product forms might provide a worthy explanation of products which are complex and exclusively differentiated. Products can be categorized into system based, goods, services and know-how. Grönroos (1990) argues that goods contain equipment, components, machines and materials. Services are approximately intangible, often concurrently produced and consumed, and do not contain transmission

of ownership. Kosonen (1991) explains systems as a combination of physical goods, services and know-how, which signify a perfect solution to customers' requirements. Know-how products can be determined as exclusive know-how which is regularly protected with a brand or patent and is typically licensable.

### **2.3.2. External Factors Influencing Entry Mode Decisions**

According to Root (1994) external factors are factors for which firms are not able to directly influence by its actions. External factors include foreign country market factors, environmental factors and production factors. First, according to Dichtl & Köglmayr (1987) foreign country market factors are infrastructure that determines how a foreign firm will price, distribute and sell its produces. Ahmed et al. (2002) also explains that external factors refer to the techniques obtainable within a market to advertise, distribute, sell, and promote a firm's produces or services.

Some countries do not have adequate suitable distributors, agents and infrastructure needed to market their products and services which this can be a challenge for them. Therefore, a firm should analyses foreign market infrastructure when decide to select entry mode since using inappropriate marketing channels or networks on the basis of home market experience without adjusting for variances in the targeted foreign market, might results in undesirable outcomes (Brouthers, 1995).

Second, according to Root (1994) foreign country environmental factors includes cultural distance, government policies, external economic relations, and geographic distance, regulation and economy of foreign country. Koveos (1997) categorizes foreign country environmental factors into three groups: government policies and regulations, country risk and cultural distance. Countries vary in their approach towards foreign possession. Government policies and regulations might prevent or exclude the investment entry mode.

Country risk is one of the most important factors that should be considered by SMEs when they want to enter into a foreign market. Country risks include transfer risk, economic risk (the risk is because of changing the economic condition in the host country), political risk and exchange risk (the risk is because of unanticipated adverse exchange rate movements). Country risks dispirit high investment entry modes (Meldrum, 2000).

Miller (1992), offer another framework related to foreign investment decision, explaining environmental challenges a firm might meet when venturing into foreign investment as illustrates in Table 1.

Table 1. *General environmental uncertainties (Miller, 1992)*

<b>General Environmental Uncertainties</b>	
<b>Political Uncertainties</b>	<ul style="list-style-type: none"> <li>• War revolution</li> <li>• Coup</li> <li>• Demographic change in government</li> <li>• Other political turmoil</li> </ul>
<b>Macroeconomic Uncertainties</b>	<ul style="list-style-type: none"> <li>• Inflation changes in relative prices</li> <li>• Interest rates</li> <li>• Foreign exchange rates</li> <li>• Terms of trade</li> </ul>
<b>Social Uncertainties</b>	<ul style="list-style-type: none"> <li>• Changing social concerns</li> <li>• Riots</li> <li>• Social unrest</li> <li>• Demonstrations</li> <li>• Small-scale terrorist movements</li> </ul>
<b>Natural Uncertainties</b>	<ul style="list-style-type: none"> <li>• Variations in rainfall</li> <li>• Hurricanes</li> <li>• Earthquakes</li> <li>• Other natural disasters</li> </ul>
<b>Government Policies Uncertainties</b>	<ul style="list-style-type: none"> <li>• Fiscal and monetary reforms</li> <li>• Trade restrictions</li> <li>• Price controls</li> <li>• Nationalization</li> <li>• Barriers to earning repatriation</li> <li>• Government regulation</li> <li>• Inadequate provision of public services</li> </ul>

Root's environmental factors are similar to Miller's general environmental risk analysis. Therefore, on one hand, while Miller (1992) explain other external environmental factors perfectly, on the other hand, Root (1994) environment factors offers further environmental factors that need to be considered by SMEs when making environmental investigation for entry mode choices. These added factors are geographical distance and cultural uncertainty. These two factors are summarized as cultural distance between home and host country market. Following sections will discuss the influence of cultural distance on the entry mode selection.

Finally, according to Tammilehto (2005) foreign country production factors are those that affect the creation of goods and services in the host country. Quantity and quality of materials and the availability of highly-skilled workers are the challenges that firms might face in this case.

### 2.3.3. Industry Specific Factors

Host country industry structure factors have an important influence on SMEs' entry mode decision into the market of host country. Host country industry structure factors refer to the host country industry structure such as market size, competitiveness, demand conditions and market structure (Root, 1998). Market size of the host country and its development potential has a significant effect on the firms' decision of entry mode. If the host countries market is large and continues growing, then firms prefer a larger involvement through the investment (Buckley & Ghauri, 2006). Brouters & Nakos (2004) argue that when the market of host country is small, the best entry mode for SMEs could be: exporting, agent, and licensing. On the other hand, for the market with high sales potential the best entry modes for SMEs are: subsidiary, branch and equity investment.

The volume of potential demand in the host country market is another important factor which influence on the SMEs' entry mode selection. When the volume of demand is low more advantageous entry mode for SMEs and start internationalization process is exporting rather than investment. On the other hand, when the volume of demand is high investments to the host country market at an early stage of internationalization may assist SMEs gaining an important competitive advantage, particularly when the demand is estimated to growth strongly in the future (Karhu, 2002). Malik & Chudary (2008) studied the effect of demand condition in the host country on the selection of entry mode when Pakistani SMEs want enter into international markets. They figured out in large markets with high demand and rapid growth Pakistani SMEs commonly prefer to open up completely owned subsidiary and in smaller markets with low demand and medium degree of growth Pakistani SMEs choose enter the foreign markets indirectly through distributors and agents.

Fundamentally, the quantity of potential customers and also their ability and willingness to buy the firm's products has an important role on the volume of demand. The quantity of accessible customers is the base for potential demand thus countries with high population regularly provide the best chances for successful internationalization. Though, many of countries with high population in the world are rather poor and thus the purchasing power of markets of these countries is much weaker in comparison with smaller, developed western countries. Level of income and wealth of potential customer are two significant factors which indicate purchasing power of customers, therefore low percentage of these two factors causes low volume of demand. Another factor that has a vital role on the volume of sales is the customers' willingness to buying the product, which is influenced by their understanding and trend towards the product. Influencing the willingness of customer to purchase as well as diminishing the barriers to purchase are hence significant tasks within firms' marketing (Karhu, 2002).

The level of competition at the market of host country also has influence on SMEs' entry mode decision. When the chosen target market is extremely competitive SMEs prefer to choose direct investment, specifically if the advantages of local presence are important. Quantity of competitors and their competitive capabilities determine the competitive situation at the market. Actually, competitive markets are mostly those with high purchasing power and large size (Karhu, 2002).

#### **2.3.4. Cultural Distance**

According to Albaum & Dueer (2008) cultural distance is the perceived variances between the manager's own and the host country culture. Moreover, Kogut and Singh (1988) claim that the culture affects not only the fundamental customers' behavior in a market but likewise the performance of marketing and management plans. Johnsson & Tellis, (2008) argue that cultural distance has a significant role and effect on the efficiency of the entry. Davidsson (1980) explains that there are a lot of failures because of insensitivity to cultural differences; therefore most of the firms prefer to begin their internationalization processes with countries that are culturally close to them.

Hofstede framework is one of the famous frameworks which explain the impact of cultural distance on firms' internationalization. These framework includes four dimensions; high power vs. low power, masculinity vs. femininity, individualism vs. collectivism and avoid uncertainty vs. tolerates uncertainty. Hofstede describes power distance as "the level to which less powerful members of establishments and groups within a country expect and accept that power is distributed unequally". Masculinity vs. femininity describes the sharing of roles between the genders. Uncertainty avoidance deals with a society's patience for uncertainty and equivocation. Finally Individualism vs. collectivism discovers the degree to which individuals are joined into groups. In individualist, the connections between individuals are loose: each person is estimated to look after him/herself and his/her instant family. In collectivist, persons from birth forwards are included into strong, cohesive in-groups, regularly extended relatives (with grandparents, uncles and aunts) which continue protecting them in exchange for unthinking loyalty (Hofstede, 1984)

Schwartz (1994) framework is another famous framework which explains the impact of cultural distance on firms' internationalization. Schwartz's framework discovers seven dimensions: harmony, conservatism, affective autonomy, mastery, egalitarian commitment, hierarchy, and intellectual autonomy. According to Drogendijk & Slangen (2006) Hofstede and Schwartz framework can have a significant influence in defining cultural distance between countries and multinational enterprises choice for acquisitions or Greenfield investment. This research emphasizes that variances in differences in individualism, differences in hierarchy, in power distance, differences in conservatism, differences in egalitarian commitments between countries forecasts multinational enterprises select for acquisitions or Greenfield investments.

Therefore, cultural distance between countries should have influence on multinational enterprise selection between Greenfield and Acquisition since firms located in culturally distant countries have basically dissimilar structural and organizational practices as well as communication styles, and are therefore challenging to integrate into multinational corporate network after they have been acquired (Drogendijk & Slangen 2006). It means that, multinational enterprises are more expected to enter culturally distant countries through Greenfield investments, since this kind of investments permit them to introduce their performances from the beginning to selected workforce that is compatible with their organization culture (Hofstede, 2001).

When cultural distance is high between the firm and host country, the firm meets greater trouble in achieving complete or accurate information about their potential foreign distributors. This information incommensurability brings considerable challenges of finding a perfect distributor in the partnership relationship. With high level of cultural distance comprehension of local distributors' thinking will be difficult that cause limiting the accuracy of forecasting their behavior. Likewise evaluating potential of distributors for opportunism becomes problematic (Hollensen et al, 2014).

Hollensen et al, (2014) studied the effect of cultural distance on the selection of entry mode when Danish SMEs want to go to the market of China. They found out that even after selection of distributors, the Danish firms still have to deal with the challenges of checking, negotiating and enforcing conventional agreements with the distributor, and these problems might cost too much for the Danish firms. Because of these situations, the Danish firms would prefer to completely control their foreign processes, which cause to selecting completely owned subsidiary as the preferred mode of entry. Hollensen et al, (2014) argue that their results specify that this is particularly the case for Danish firms operating in China. However, if cultural distance increase, the need for transferring information from the parent Danish firm to foreign subsidiaries similarly will grows, unless the foreign subsidiary know-hows a high degree of decentralized supervision style from the parent firm.

### **2.3.5. Business Networks**

Market entry mode selection is an important decision for SMEs since the international markets for them are pretty wide and diverse. SMEs' connections with clients and suppliers can be really important since this relationship could have influence on SMEs' market entry mode selection (Bell, 1995). Quick and effective growth of firms seems to be a consequence of their involvement in international networks, with main partners frequently guiding foreign market choice and providing an appropriate process for market entry. In short, network relationships affect organizations' market and entry mode choice (Coviello & Munro, 1997).

Creation business in international foreign markets needs firm to develop a distribution channel to market its products which it cannot be an easy task. The best way to solve this problem is to make a network relationship with a foreign firm as a partner which has powerful distribution channel (Coviello & Munro, 1995). According to Bjorkman & Kock (1995) business network relationships can be seen as a link for businesspeople which connect them to potential buyers. Moreover, Welch (1992) explains that using of associations or cooperative arrangements by SMEs can increase foreign market penetration by providing access to more connections.

Limitation of resources in SMEs can be moderate by using networks. Joining to international business networks can be significant factor for SMEs in order to increase their international competitiveness. Joining to international networks can be highly valuable when firms considering a high investment entry mode (Han, 2006).

Networking is an effective tool for SMEs to expand their in international environments. The managers of SMEs can have more efficient relationships in international markets by participating in international trade fairs and exhibition. Having connections with international markets is a significant factor that is able to shape the foundations of SMEs and also increase their experiences in international environments (Saixing et al., 2009).

### **2.3.6. Government Support**

Policy of governments in relation to international business can have an importance influence on the internationalization process of local SMEs. Government support policies directly or indirectly affects SMEs' international market selection particularly at their early phase of internationalization process. Governments must support and patronize the export sector of SMEs; they have to discover the problems that obstruct SMEs of doing export and entering into international markets. Government business supports can assist companies to recognize foreign markets and then improve business in that market. Therefore, government support programs could be useful in pursuing and evaluating new foreign markets. The government support programs can be in form of trade shows and trade mission which can help managers to explore foreign markets make primary global business links and meet buyers and distributors (Puljeva & Widen 2006).

Absence of government support in lack of appropriate trade institutions, lack of the stimulating for the policy of national export and unstable rates of exchange currency influence the internationalization process of SMEs. The government support can reduce the cost of transportation and transport service for SMEs (Goitom and Clemens, 2006). Hall (2003) explains that, factors prevent SMEs in internationalization include poor infrastructure such as highways, telecommunication roads, warehouse, ports and extreme regulations. Czinkota and Ronkainen, (2007) explain that, as an external

change agent, the government support programs act an important turn in respect of giving an description for successful international activities of the firms and drives international business movement of local firms.

Trade mission is one of the useful government support programs that have positive effect on the internationalization process of SMEs. Trade mission usually leads by a product expert or high level government official who arranges meetings between purchasers and vendors at a suitable overseas location (Jaramillo, 1992). Spence (2003) argues that though trade missions might contribute to sales in foreign markets, they usually complete this by improving the process of building relations between potential business associates over an extended period of time.

## **2.4. Middle East**

According to Kort (2007) the Middle East includes seventeen countries: Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Yemen, Oman, Qatar, Saudi Arabia, Bahrain, Syria, Turkey, Libya, the United Arab Emirates, Jordan and Palestine. Anderson (2009) explains that there are some specific factors that differentiate the Middle East from other parts of the world. Firstly, the Islam is the dominating religion in the Middle East and most of people are Muslim. Secondly, one time in many years ago the main part of this region was under the rule of the Turkish sultans. Finally, the Middle East is located at the meeting point of three significant main lands (Africa, Asia and Europe).

### **2.4.1. Business Opportunities in the Middle East**

Deeper study of business trade in Middle East countries discloses that this is an area which includes imposing and maybe dismaying selection of cultures, political system, religions, economics, social, industrial properties and structures. In Middle East countries and people are connected not only by geographic nearness and history, but moreover by a custom of trading practices. Other differentiating features of people exists in this area are similarityof resources and ambitions (Campbell, 2008).

The Middle East region consists of specific natural resources that attract the interest of foreign countries to invest there. An evaluation of selected countries of this area indicates their business opportunities and business risks. This section will review precisely some opportunities in the Middle East which must be considered by foreign countries before investing into this market. Kavoossi (2000) summarized some business opportunities which are:

- Geo-economic location of Middle East is an excellent factor for this region. Because approximately two thirds of the world oil and gas are sited in this area. This factor is exclusive in the world and other countries do not have such importance.
- Middle East has extremely outstanding professional and business sector that are commonly within international standards.

- Middle East has access to the important international waters through main ports. Moreover in this region air transportation is extremely importance because of being main airports and airlines of the world. These facilities make more efficient international trading in this region.
- This region has a good strategic location, chiefly suited to the European Union. Furthermore international companies located in the Persian Gulf are able to operate south and west around the Mediterranean Sea, North Africa and Asia.

#### **2.4.2. Business Challenges in the Middle East**

The business risks and challenges in the Middle East are country-specific that means countries in this area vary in terms of complications and barriers that they create for international firms. However there are some general business risks that can be attributed to almost all of countries in this region as Devlin (2010) lists them:

- The labor productivity of a country is one of the most significant indices which represent the growth of that country. It means that a country can be more developed if has more productive labor force. This index is rather low in the Middle East in comparison with other regions in the world and unfortunately it has been decreasing over the past years.
- Level of capital (physical and human) accumulation is rather low in the countries of this region which is an indication and the reason of underdevelopment.
- Institutional structure is rather weak in the Middle East countries. Controlling quality and responsibility are in a lower level in this region in comparison to other regions in the world. Organizational corruption is practically visible everywhere and there is not any concern from government. Furthermore because of unfair distribution of income the percentage of poverty is high.
- The countries of this region do not have a good image in the world in relation to nutrition and health. No control on the growth of population in this area causes enormous parts of the population suffer from protein-energy undernourishment and limit access to drinking water. Because of these problems rate of infant mortality, infections and diseases is high.

Kavoossi (2000) explains other challenges and business risks which have been listed below:

- The Middle East does not have an affirmative business image in the world and generally countries out of this area think that there is a high degree of economic mismanagement in the Middle East. Moreover, issue of violence and instability are other things that do not have a good image on the mindset of foreigners.
- Though this area has a good level of transportation infrastructure, but it is not sufficient. Joining to international business and expansion of the market needed more transportation infrastructure.
- Middle East has encountered with a lot of political struggles during recent decades. As political struggles can have influence on economic development of countries, economic situation of the Middle East is not good as is expected.
- Education and literacy has an important influence on the development of countries. These factors has also significant role in making a worthy or devil image of countries. The Middle East does not have enough percentage of people with high degree of education. Generally in the Middle East the high level of education is low and in some areas the percentage of illiteracy is high.

- Growth rate of population is also another significant factor. This factor, on one hand, can be seen as an advantage since when population is growing then the demand and requirements of people will increase that causes more market demand and business opportunities. On the other hand, the population growth could be considered as a problem since increasing the rate of population without suitable infrastructure causes higher rate of unemployment that can have negative results. So, the growth of population in this region can be seen as business risks for the investment of foreign countries.

## **2.5. Analyzing Lack of FDIs in the Middle East**

### **2.5.1. Overview of Reasons for Lack of FDI in the Middle East**

The purpose of the following research questions is to provide a better understanding of reasons that causes the lack of equity entry modes of Nordic SMEs into the Middle East market. The studied literature argued the resource and commitment factors that might influence entry mode selection of SMEs. According to Dunning (1998) the resource and commitment factors are found inside a firm and are typically the firm particular advantages that differentiate it from its competitors typically referred to as ownership advantages of the firm. Therefore, firm-specific resources or capabilities provide an exceptional advantage to the firm. Resource and commitment factors argued in the literature review contain technology advantage, firm size, level of international experience and business network.

McDougall et al. (2003) studied the effect of product specific factors on the internationalization process of SMEs. The study shows that the companies selling generic products used non-equity entry modes, while companies that have ability to produce technically differentiated products mostly use equity entry modes. Therefore, the purpose of the first research question is:

*H1 Are Nordic SMEs in Middle East offering generic products to account for their select of non-equity entry modes?*

Moreover, Tan et al., (2001) argue that firm size can limit the capability of SMEs for FDI. Therefore, SMEs lack the managerial and financial resources needed to use non-equity entry mode, consequently non-equity entry mode dominant as SMEs' choice of entry mode. Therefore the purpose of second research question is:

*H2 Does the size of Nordic SMEs in Middle East limit their approachability to both managerial and financial capability required for an FDI mode choice in Middle East?*

International experience of companies was studied in the literature as a factor that influence on the SMEs' entry mode choice. According to Gankema et al., (1997) SMEs gained experience after a period of investigational knowledge in international markets and then changed their entry mode of exporting to equity investments. Carpenter et al.,

(2003) argue that international experience is resulting from the sum of both management and organization experience in operating business in related international markets. Therefore, the purpose of third research question is:

*H3 How much the organization's international experience of Nordic SMEs can influence on lack of FDI in Middle East?*

Business Networks of SMEs was studied in the literature as a factor that influence on the SMEs' entry mode choice. It means that internationalized local business network partners of SMEs can have vital role in selecting market entry mode by SMEs. Therefore, it can be possible that in internationalization process, SMEs with more internationalized local partners be more successful than SMEs with less internationalized local partners (Coviello & Munro, 1997). Therefore, the purpose of the Forth research question is:

*H4 How can the local networks of Nordic SMEs in Middle East be defined as regards its effect on lack of FDI?*

Government support can have influence on the SMEs' entry mode decision. The most important influence of government support can be in the initial stage of SMEs' internationalization process (Puljeva & Widen 2006). In our research study the Nordic SMEs are already internationalized in the Middle East market with just exporting business. Therefore, the purpose of fifth research question is:

*H5 Can absence of FDI entry mode of Nordic SMEs into the Middle East market be seen as a result of limited government support programs?*

According to Miller (1992), when a firm decides to enter into foreign markets, there are different types of foreign country environmental uncertainties which influence on the entry mode decision of firms. Meldrum (2000) argues that SMEs choose non-equity entry mode into international market that have high environmental risks or uncertainty while the chosen entry mode in foreign markets with less environmental risks would be equity modes. Therefore, the purpose of the sixth research question is:

*H6 How can the environmental instability of the Middle East market be explained as regards its effect on lack of FDI among Nordic SMEs in Middle East?*

Hollensen et al, (2014) studied the effect of cultural distance on the selection of entry mode when SMEs want to go to foreign markets. These studies explain that cultural differences between the home country of company and targeted host country can have influence on the company's entry mode decision. According to Hofstede (1984), Middle East countries and Nordic countries are culturally difference in many features. Therefore, the cultural distance between Nordic countries and Middle East countries has to do with the possible variances existing in relation to the way individuals from

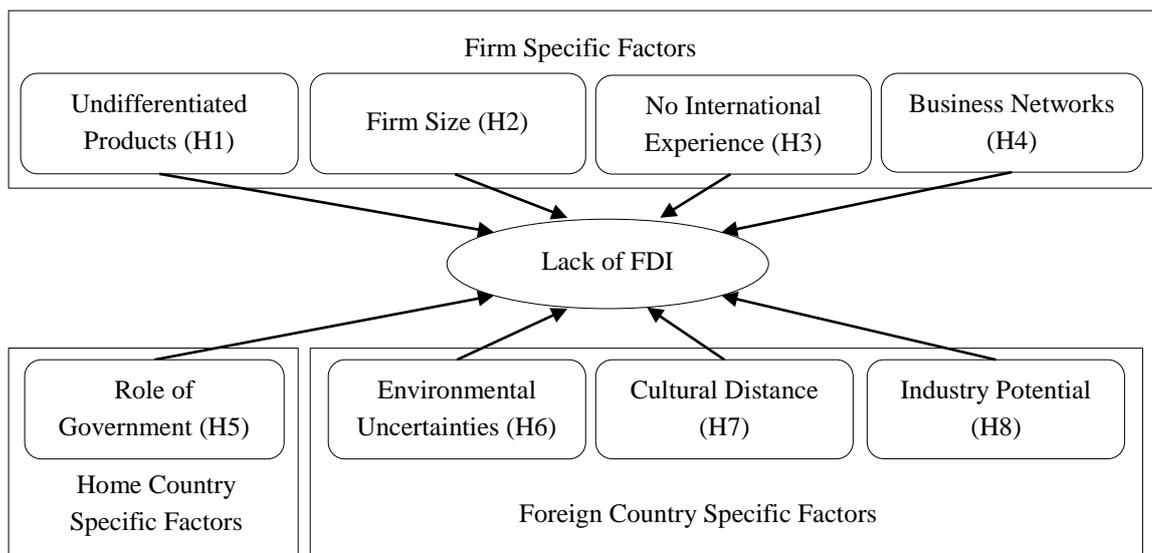
different countries perceive definite behaviors, that would affect the validity of the transmission of work practices and techniques from one country to another. Hofstede (2001) explains which larger cultural differences between country of origin and target countries cause that companies do not be eager to use of entry modes that need a high resources commitment level. Therefore, the purpose of seventh research question is:

*H7 How can the cultural distance between Nordic Countries and Middle East countries be explained as regards its effect on lack of FDI among Nordic SMEs in Middle East?*

Host country industry structure factors have an important influence on SMEs' entry mode decision into the market of host country. Host country industry structure factors refer to the host country industry structure such as market size, competitiveness, demand conditions and market structure (Root, 1998). In industries with high potential growth SMEs prefer to use equity entry mode, while in industries with low growth potential SMEs prefer to use non-equity entry modes. Nevertheless, the ability to obtain these potential depends on the knowledge of the firm about the industry in that market or the export extremity of their offerings in that market (Brouthers & Nakos, 2004). Thus, the purpose of our Eighth research question is:

*H8 How can the growth potential of the industries within which Nordic SMEs activates in Middle East be explained as regards its effect on the lack of FDI among Nordic SMEs in Middle East?*

Figure 8 illustrates the theoretical frameworks of factors which cause Nordic SMEs not select FDI as an entry mode into the market of Middle East countries.



*Figure 8. Reasons for Lack of FDI in the Middle East Market*

### 2.5.2. Design of Questionnaire

This master thesis has used three types of questions in questionnaires which include close-ended questions, open-ended questions and Likert scales. This thesis has used Likert scale with 5 point in the questionnaire in which, the manager of Nordic SMEs were required to score the scale of their agreement for specific thing. In this survey “1” represents “extremely minor impact on lack of FDI” and in contrast, “5” represents “extremely major impact on lack of FDI”. Neuman (2000) argues that Likert scale can be seen as a method that is simple and easy to use. Moreover, he explains that the reliability of data showed with this scale is extremely valued. Thus, it is easy for the writers to clarify the examination for the trustworthiness it has created for. The Likert scale has been used by numerous investigators for approximately four decades and regularly used in survey research.

First the managers of Nordic companies were asked about their capability to generate differentiated products. The purpose of designing this question was to understanding that how much producing differentiated or undifferentiated products by Nordic SMEs can influence on lack of FDI in the Middle East. This was in all measured with 5 point Likert-type scales 1(Undifferentiated products) to 5(Very differentiated Product).

Second, information about firm size was the second question which asked from managers of Nordic SMEs. This thesis is concentrated on the SMEs; the thesis used measures on the basis of the realization of the managers on the limitation of their company size as a considered reason for lack of FDI in the Middle East market. In order to do this, managers were asked on a five point likert scale if the reason for absence of FDI as an entry mode select for the Middle East market is because of Nordic’s firm size.

Third, according to Gankema et al., (1997) SMEs gained experience after a period of investigational knowledge in international markets and then changed their entry mode of exporting to equity investments. Carpenter et al., (2003) argue that International experience is resulting from the sum of both management and organization experience in operating business in related international markets. In the questionnaire the manager of Nordic SMEs were asked to answer that does their company have any international experiences in other similar countries with Middle East countries. And then if they have any international experience in similar countries with Middle East countries such as Pakistan, Afghanistan, Turkmenistan and Azerbaijanin, they were asked to mention the name of countries and the entry mode selected in those countries.

Forth, Coviello & Munro (1997) explain that business network of SMEs is a factor that influence on the SMEs’ entry mode choice. It means that internationalized local business network partners of SMEs can have vital role in selecting market entry mode by SMEs. Therefore, it can be possible that in internationalization process, SMEs with more internationalized local partners be more successful than SMEs with less

internationalized local partners. In the questionnaire the SME business network was selected to define how the business network of this Nordic SME is oriented towards the market of Middle East countries. This is because if the networks are oriented intensely towards the Middle East market, they would eager to follow their network to internationalize into the Middle East market and in for assisting them better after years of exporting, they would pursue for additional resource commitment entry for the Middle East market. Therefore, in the questionnaire the managers of Nordic SMEs were asked to answer this question that there is any of their local business networks (SMEs, MNEs, Universities, public organization etc.) that have business activities in the Middle East. Then if the answer is yes the manager have to explain that which type of entry mode the local business used in order to enter into the Middle East.

Fifth, government support can have influence on the SMEs' entry mode decision. The most important influence of government support can be in the initial stage of SMEs' internationalization process (Puljeva & Widen 2006). In our research study the Nordic SMEs are already internationalized in the Middle East market with just exporting business. In the questionnaire the managers of Nordic SMEs were asked to answer the question in order to figure out if there is any support provided by their country's government to support or assist their internationalization into new markets especially the Middle East. And also the managers were supposed to explain how the support of their government is.

Sixth, according to Miller (1992), when a firm decides to enter into foreign markets, there are different types of foreign country environmental uncertainties which influence on the entry mode decision of firms. On the basis of literature review SMEs choose non-equity entry mode into international market that have high environmental risks or uncertainty while the chosen entry mode in foreign markets with less environmental risks would be equity modes. In the questionnaire managers of Nordic SMEs were asked to rate on a 5 point likert scale (very small) to (very high) the influences of any of these environmental challenges measures on their causes for lack of FDI in the Middle East Market.

Seventh, Hollensen et al, (2014) studied the effect of cultural distance on the selection of entry mode when SMEs want to go to foreign markets. These studies explain that cultural differences between the home country of company and targeted host country can have influence on the company's entry mode decision. The questionnaire asked managers some questions in order to figure out how the cultural differences between Nordic countries and Middle East is responsible for lacking of FDI in the Middle East Market. Therefore, managers were requested to rate on a 5 point likert scale how large their management team observes the cultural differences between Nordic countries and Middle East countries.

Eighth, host country industry structure factors have an important influence on SMEs' entry mode decision into the market of host country. Host country industry structure factors refer to the host country industry structure such as market size, competitiveness, demand conditions and market structure (Root, 1998). In the questionnaire the industry structure factors were derived on a likert scale of 1(unknown) to 5 (very large) by requesting the managers to explain the industry characteristics of their offerings in the Middle East market. Appendix 1 illustrates the designed questionnaire.

## 3. METHODOLOGY

### 3.1. Research Approach and Methods

In order to better understand certain phenomenon, researchers conduct case studies. The aim of case study research is to provide new data, thus, contributing to better understanding of a problem. Gummensson (1993) studied various research methodologies and divided those into several categories. Selection of an appropriate data generating method in a research is the first prerequisite for success. If research is carried out using inappropriate method, it can produce data of low interest and hence undermine the relevance of the whole study. According to Gummensson (1993), data generation methods include:

- Using existing materials
- Questionnaires and surveys
- Interviews
- Observation
- Action science

Existing materials or secondary data include everything carried by other media than human beings such as books, articles, research reports, notes, memories, mass media reports, computer data bases, and many others; they are created by someone else for some other purposes. Questionnaire survey, often treated as quantitative methodology, supports also the qualitative research and case study. The designer of questionnaire can get quantitative results by setting closed questions and qualitative results by asking open questions. In statistical sense, the size of population would give rise to its objectivity and accuracy. Therefore, the control of the population group is a challenge. The respondents may not take it seriously to give sincere responses. Hence, the design of questionnaire and the way how to conduct it are more critical. Questionnaires are used to formalize and standardize interviews (Gummensson, 1993).

Qualitative interview method is the most common way to generate empirical data for case study research. Such interviews which can be formal or informal are useful in finding out others' view and feelings about any given subjects. Fourth, observation includes several ways such as direct observation and participant observation. In direct observation, researcher requires less involvement while participant observation needs personal involvement of the researcher. Action science requires the total involvement of the researcher. The researcher should become the active participant. The researcher has the preferential access to strategic decision process. Those data are much closer reality to more validate the research (Gummensson, 1993).

Yin (2003) also argues that there are five major research strategies which include: experiments, surveys, archival analysis, history and case studies. Table 2 shows these

methods. Each of these five data generation methods has advantages, disadvantages and diverse ways of collecting and analyzing data based on the following three conditions:

1. The type of research questions modeled
2. The degree of control an investigator has over real behavior events
3. The degree of concentration on contemporary as contrasting to historical events

*Table 2. Relevant Situation for Different Research Methods (Yin, 2003)*

<b>Research Strategy</b>	<b>Form of research questions</b>	<b>Requires control over behavioral events</b>	<b>Focuses on temporary events</b>
<b>Experiment</b>	How, why	Yes	Yes
<b>Survey</b>	Who, what, where, how many/much	No	Yes
<b>Archival Analysis</b>	Who, what, where, how many/much	No	Yes/No
<b>History</b>	How, why	No	No
<b>Case Study</b>	How, why	No	Yes

The reason for using of research methodology in this thesis is based on the fact that just using of theoretical approach cannot be enough for answering the research questions and for showing a comprehensive view of the phenomena. According to Hannula et al., (2003) there are different research approach in industrial management. Table 3 illustrates these different research approaches in industrial management.

*Table 3. Research Approach in Industrial Management (Hannula et al., 2003)*

	<b>Theoretical</b>	<b>Experimental</b>
<b>Descriptive</b>	Conceptual Approach	Nomothetic Approach
<b>Normative</b>	Decision-Oriented Approach	Constructive Approach

Based on Table 4, the approach of using information include normative and descriptive pattern while the approach of gaining research information is through experimental and theoretical pattern. The empirical research concentrates on individual cases and the theoretical research focuses on developing innovative theories from the existing ones. Nevertheless, both approaches can be used by researches. The researchers can use descriptive pattern when desire to clarify phenomenon and can use normative pattern in order to creating guidelines for developing processes or planning new ones (Hannula et al., 2003). This Master thesis research will utilize both theoretical and experimental research approaches.

In this thesis the theoretical approach will be carried out by using books, articles in scientific publications and internet. By using of this research approach, the theoretical

framework will be recognized and will be used in the empirical part. The empirical section of thesis is completed through sending questionnaire by Email to Nordic SMEs already doing business with Middle East countries with non-equity entry mode. According to Gummersson (1993) the questionnaire survey will qualify this thesis to prepare quantitative treatments of the respondents' answers. Therefore main research approach of this thesis is questionnaires and surveys methods which provide useful information for fulfilling main goals of thesis.

According to Oppenheim (1992) there are various benefits and advantages to using a questionnaire. These advantages are:

- The answers are collected in a standardized way, so questionnaires are more objective, surely more than interviews.
- Usually it is pretty quick to gather information using a questionnaire. Nevertheless in some situations they can take an extended time not only to design but also to apply and analyze.
- Easy to reach persons who are diffused across a broad geographical area or who live in remote places.
- Potentially answers can be gathered from a large percentage of a group. This potential is not regularly realized, as returns from questionnaires are typically low. Nevertheless return rates can be affectedly enhanced if the questionnaire is delivered and answered to in class time.
- Without any cost it is possible to prepare questionnaires to high numbers of people concurrently.
- Some persons tend to responding to a questionnaire more than contributing in an interview because of comfortably.
- wide amount of questions can be covered with a rather wide range of questions in a compact time scale

According to Gummesson (1993) there are three categories of questions which are: structured, unstructured and semi structured. Structured questions are also called formal questions, since they have prearranged answer alternatives and therefore the answers are closed. Therefore, it is simple to translate the selections distinct on the scale into numbers and to evaluate the responses with statistical methods. Unstructured questions are more demanding to evaluate because they are open-ended. Usually, responses to open-ended matters demand some qualitative clarification. Nevertheless, formal questions are regularly complemented with open-ended questions since these enhance a qualitative touch to the questionnaire. This master thesis is including broad arrays if studies which require intense comprehension. In other words, the answers needed to provide useful information needed for the thesis would be both structured and unstructured answers. Therefore, the questionnaire would be both structured and unstructured.

### **3.2. Data Collection and Reliability**

In this study research the chosen samples were industrial Nordic SMEs that have activities in the Middle East countries. The list of targeted SMEs was found through

surveys different databases related to Nordic SMEs. After analyzing databases 58 Nordic SMEs were selected to survey. Therefore, questionnaires were sent to the 58 companies through Email and they were given two weeks response time. Finally 21 companies returned the filled questionnaires which showed that 36 % of respondents have answered to the questionnaire. After checking returned responses, it was found out that three responses did not completely fill the questionnaires. These three questionnaires were taken out leaving the response rate at 31%. Final analysis was performed by 18 questionnaires.

There are four categories of validity which include: construct validity, internal validity, external validity and reliability. Construct validity processes the degree to which the investigator grows adequate operational set of measures sufficiently for the research. The important specification of construct validity is theory. Therefore, construct validity measures the validity of the theoretical frameworks and perceptions used in the studies. Internal validity is used mostly for casual studies and descriptive research and therefore relates to creating casual associations where certain conditions are supposed to lead to other conditions. External validity use to create an area to which the study outcomes can be generalized and finally, Reliability proves that when diverse researchers use the same approaches to conduct an investigation they should end up with same conclusions (Yin, 2009).

In this study numerous sources of evidence were used, thus the construct validity of this research has a high level. The sources were used in this research include: numerous theories, documentation and questionnaires. The empirical data was collected through sending questionnaires by Email to appropriate responsible persons in Nordic SMEs which have main role for decision making in internationalization process into the Middle East market. In this research the questionnaire is developed based on literature review and theoretical framework which increased the contrast validity. Internal validity was increased by comparing the gathered empirical data against each other and to previous theories. The research's external validity was improved by the multiple case studies that were performed. Finally the response rate of 31% was received from the Email assessment which this was considered reliable in comparison to other Email assessment rates.

### **3.3. Limitations**

This research study has used questionnaire as a research methodology which might causes some limitations. As high percent of all communication is visual, signs and other visual cues are not accessible with written questionnaires. The absence of personal contact will have various influences depending on the form of information being demanded. Another limitation of this thesis was limitation of founded literatures about the international trade between Nordic SMEs and Middle East countries. Moreover, in this thesis only 58 Nordic SMEs have found which were exporting products to the

Middle East market, therefor the questionnaire just sent to these SMEs, maybe if the number of founded SMEs was more than this number then the results could be more accurate.

## 4. RESEARCH RESULTS

### 4.1. Demographics of Middle East

Demographics information of host countries can have important role in international trade and feed critical information to firms that want enter into the market of these host countries (William, 1994). Sirageldin (2003) argues that, in the 20th century, it is pure stupidity to disregard demographics. Therefore, the need for more investigations to obtain more information on the demographic characteristics of the target region is significance. In other words, companies are in serious need to have a big picture of the region that they want to enter.

According to World Bank data (2015) the total population of Middle East countries is 410 million people. The population of Middle East is increasing rapidly. Sirageldin (2003) argues that the population of Middle East is also undergoing structural changes. The nomadic population of Middle East is suffering large pressures to live in a determined place, by direct or indirect action of governments. Two third of people in this area are still village inhabitants, but the percentage is slowly falling since higher natural rise in the town and countryside urban migrations. Significant qualitative changes in the population are also happening that mostly receive far too little acknowledgment.

Table 4 well illustrates the variation between the growth of the population in the Middle East counties and the average of world. As the table obviously shows, averagely, the Middle East countries have a significant higher rate of population in comparison with the world average. This high population growth rate of Middle East can be seen as attractive opportunities for foreign investments (World Bank data, 2010).

Table 4. *Growth of population (world and the Middle East) (World Bank data, 2010)*

<b>Population Growth</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
World	1.23	1.21	1.19	1.17	1.17	1.16	1.16	1.15	1.14
Bahrain	-0.07	0.79	3.73	7.60	11.29	13.18	12.82	10.56	7.59
Egypt	1.85	1.87	1.87	1.85	1.82	1.80	1.78	1.76	1.75
Iran	1.35	1.26	1.21	1.21	1.21	1.20	1.19	1.17	1.14
Iraq	2.57	2.57	2.57	2.57	3.02	3.02	3.02	3.02	3.02
Israel	2.01	1.81	1.77	1.76	1.77	1.78	1.78	2.39	1.84
Jordan	2.42	2.47	2.41	2.27	2.29	2.23	2.18	2.19	2.21
Kuwait	2.95	2.72	2.91	3.35	3.79	4.02	4.02	3.77	3.36
Lebanon	1.71	1.71	1.58	1.35	1.11	0.91	0.77	0.72	0.73
Libya	1.91	1.95	2.00	2.05	2.13	2.17	2.08	1.82	1.47
Oman	1.03	1.43	1.80	2.13	2.48	2.79	2.92	2.81	2.56
Qatar	2.62	4.59	9.01	13.80	17.53	18.59	16.97	13.50	9.60
Saudi Arabia	3.71	3.98	3.86	3.50	3.11	2.80	2.56	2.43	2.36
Syrian	3.09	3.11	2.94	2.66	2.04	2.04	2.04	2.04	2.04
Turkey	1.39	1.36	1.34	1.34	1.34	1.34	1.32	1.29	1.25
Emirates	3.29	4.40	7.29	10.66	13.61	14.78	13.82	11.15	7.93
Palestine	3.48	3.48	3.48	3.48	3.48	3.48	2.71	2.65	2.66
Yemen	3.05	3.07	3.07	3.06	3.05	3.05	3.05	3.05	3.06

As Table 4 shows, the average population growth years from 2002 to 2010 are comparatively higher in the Middle East in comparison with the world. Likewise the yearly growth in the population for the similar period of time follows the similar pattern representing that even the yearly population growing of the Middle East countries stands higher than that of the world average (World Bank data, 2010).

Another significant issue which must be considered in this region, beside population, is the age structure of the countries within the Middle East (George, 1973). Figure 8 illustrates a comparison of the population growth between the world average and the Middle East countries.

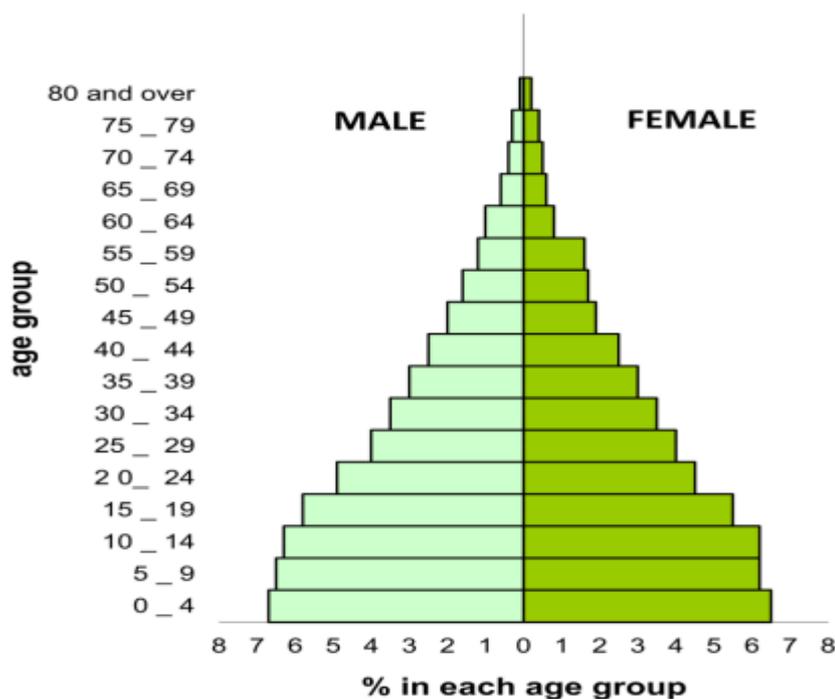


Figure 9. The general age structure of the Middle East region (Sirageldin, 2003)

As Figure 9 illustrates, the population of the Middle East is typically subjugated by the youth and old people establish for a small proportion of the total population. This imitates the fact that within years to come, the present young or children will account for the mainstream of the population. This will cause new requirements for these people and besides will provide promising opportunities for those who tend to start doing business in the Middle East (Sirageldin, 2003).

## 4.2. Cultural Analysis of Middle East

This section will argue the Hofstede cultural dimension of the Middle East Society. From this discussion, the cultural distance between the Middle East and Nordic countries will be analyzed and other issues related to Middle East culture will be highlighted.

In section 2.3.4, the dimensions of Hofstede National culture was argued to include the following:

- Power distance:** the level to which less powerful members of establishments and groups within a country expect and accept that power is distributed unequally.
- Individualism:** Individualism vs. collectivism discovers the degree to which individuals are joined into groups.
- Uncertainty avoidance:** Uncertainty avoidance deals with a society's patience for uncertainty and equivocation.
- Masculinity:** Masculinity vs. femininity describes the sharing of roles between the genders.

Hofstede (1991) provides data on the Middle East countries which can be used as the starting point of analysis. First, the Middle East power distance scores is high which means that people accept a hierarchical order in which everyone has a place and which requires no more justification. Hierarchy in an organization is considering as reflecting innate inequalities, centralization is general, assistants expect to be told what to do and the perfect boss is a generous autocrat.

Second, the Middle East culture has low individualism dimension. This is because in the Middle East culture, there is importance on the family, the extended family and people around someone to provide support to them when requirement be. Therefore, dissimilar in the western cultures were everyone is independent in their easement, values and decision making, in the Middle East cultures, there is dependence on the family and people around someone to provide help and support to these concerns (Hofstede, 1991).

Third, the Middle East has a preference for avoiding uncertainty. Countries showing high uncertainty avoidance keep rigid codes of belief and behavior and are fanatical of unorthodox behavior and thoughts. In these cultures there is an emotional requirement for rules, time is money, people have an internal motivation to be busy and work hard, exactness and reliability are the norm, innovation might be resisted, and security is a significant factor in individual motivation (Hofstede, 1991).

Finally, masculinity is high in the Middle East and therefore the Middle East is a masculine society. In The Middle East people live in order to work, bosses are expected to be conclusive and self-confident, the importance is on equity, competition and performance and struggles can be solved by fighting them out. In the Middle East there is high degree of admiration for achievements and material success. This takes priority from the old incentive systems of conferring titles and rulers to men and women who have attained wonderful success in their material pursuits in life (Hofstede, 1991).

From Hofstede original dimension analysis for national culture, this paper founded out the dimensions of Nordic countries and also Hofstede (1991) indicated dimensions of the Middle East countries (as the Middle countries has approximately same Hofstede dimensions) as shown in Figures 10 and 11. From this, analysis of cultural distance between the Middle East countries and Nordic countries will emerge.

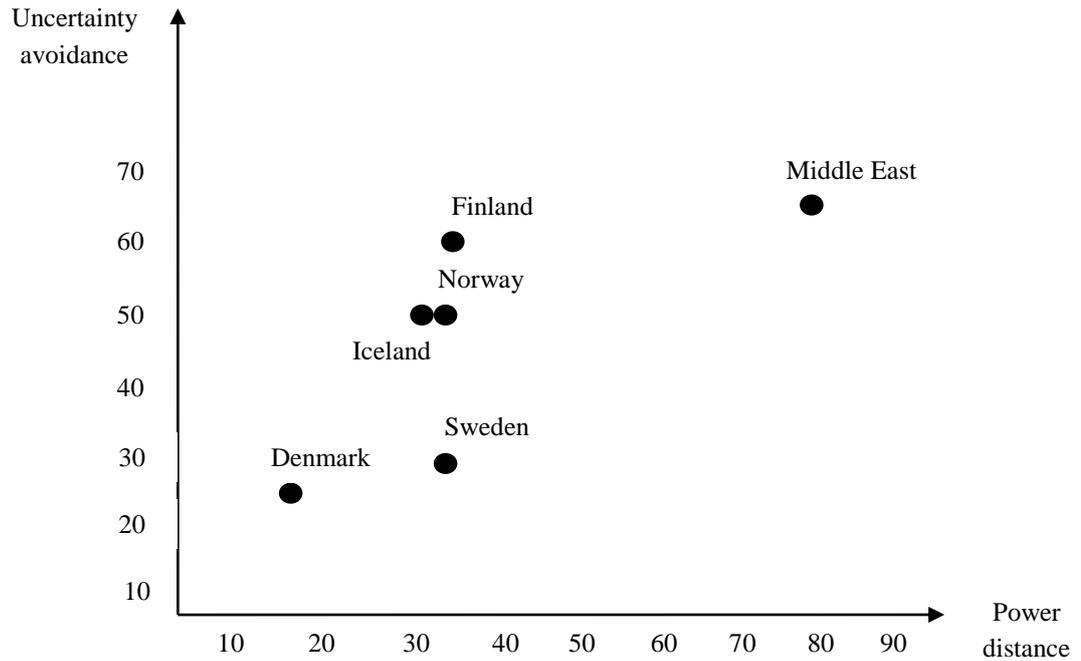


Figure 10. Cultural distance between Nordic and Middle East countries-power distance and uncertainty avoidance (Hofstede, 1984)

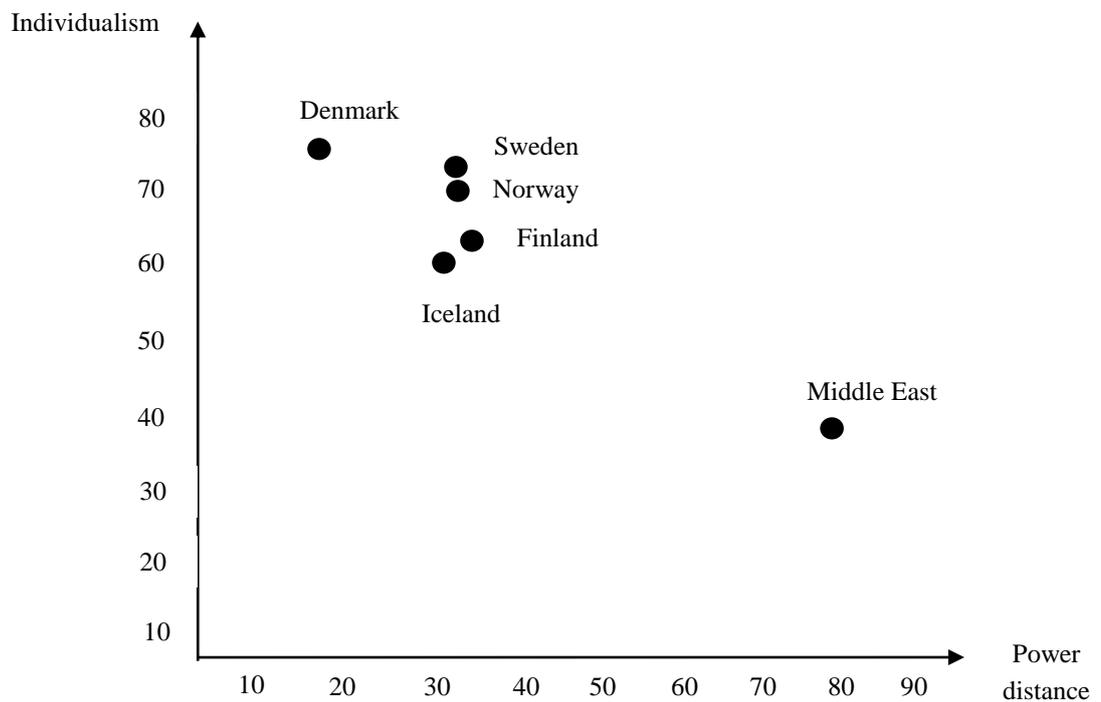


Figure 11. Cultural distance between Nordic and Middle East countries-power distance and individualism (Hofstede, 1984)

According to the Figures 9 and 10, obviously the Nordic countries are classified as individualistic, strong uncertainty avoidance culture and small power distance, while the Middle East countries are classified as collectivist, large power distance and weak uncertainty avoidance culture. The reason for the small power distance in Nordic countries is therefore; in Nordic countries, less powerful members of administrations and institutions do not accept or assume that power is divided unequally. Even though power is not distributed equally in societies, however, in the Middle East countries it is more distributed unequally than in Nordic countries (Hofstede, 1984).

Nordic countries have individualistic dimension because, in this countries the ties between individuals are weak therefore each person is expected to look after herself/himself which is not similar in the Middle East countries where everyone from birth is integrated with different groups. Finally, there is patience for uncertainty and ambiguity while in the Middle East countries there appears to be avoidance of uncertainty and ambiguity (Hofstede, 1984).

The result that can be taken of this cultural distance is that, Nordic firms presenting Nordic-oriented management theories to the Middle East countries have to be aware of the cultural coordinates of the Middle East countries and the cultural variance between Nordic and Middle East countries. Therefore, when trying to introduce Nordic organizational cultures in Nordic businesses in Middle East, it would be best carried out through the use of individuals that are familiar with Middle East cultures. Familiar individuals with both Nordic and Middle East culture would eager to be the early adopters in the dissemination of organizational culture. They will be more appropriate to comprehend, the Nordic culture, which would be foundation for organizational culture of a Nordic firm in Middle East. As early adopters and as individuals that do comprehend both the host and home country cultures, they can perform as change agents (Hofstede, 1991).

### **4.3. Overview of FDI in the Middle East Region**

FDI into the Middle East region has been at comparatively low levels till recently. Whiles during the 1980s and 1990s the Middle East countries accounted for just around 1 percent of international inward FDI flows, this percentage has been increasing steadily since 2000 and has grown to 3.8 percent in 2005 and 5.7 percent in 2008. Some governments have been encouraging FDI as an approach of developing and expanding their economies, notably Egypt, Saudi Arabia and United Arab Emirates. Despite recent development, the Middle East region's share of international FDI flows has remained constantly lower than the region's share of the global economy (UNCTAD, 2009).

Countries in the Middle East region do have some commonalities in terms of language, culture, history, business practices and governance systems. Nevertheless, in terms of economic profile there is one significant difference between Middle East countries

related to the countries' oil and gas resources (Rogmans & Ebbers, 2013). Table 5 illustrates an overview of Middle East countries.

*Table 5. Middle East countries overview (Rogmans & Ebbers, 2013)*

Country	Pop'n (m)	GDP (US\$ m)	GDP per capita (US\$)	FDI inflow (US\$ m)	FDI stock (US\$ m)	OPEC (Y/N)
Bahrain	0.8	21.903	28.240	1.794	14.844	No
Egypt	81.5	162.283	1.991	9.495	59.998	No
Iran	71	286.058	4.028	1.492	20.811	Yes
Jordan	5.9	21.238	3.596	1.954	18.012	No
Kuwait	2.7	148.024	54.260	56	991	Yes
Lebanon	4.2	29.264	6.978	3.606	24.170	No
Libya	6.3	93.168	14.802	4.111	12.834	Yes
Oman	2.7	41.638	15.273	2.928	11.993	No
Qatar	1.1	71.041	62.451	6.700	22.055	Yes
Saudi Arabia	24.6	468.800	19.022	38.223	114.277	Yes
Syria	20.6	55.204	2.682	2.116	10.337	No
Emirates	4.4	198.693	45.531	13.700	69.420	Yes
Yemen	22.9	26.576	1.160	463	3.305	No

OPEC members attain approximately 25 percent of their GDP from oil and gas incomes and have big proven oil reserves which will last over 85 years at present production rates (BP, 2009). Though some non-OPEC members such as Bahrain, Egypt, Oman, Syria and Yemen similarly have some oil reserves, these are abundant lesser and are estimate to run out within the next 15 years. The other countries in the sample (Jordan, Lebanon) have no proven reserves of oil and gas that are presently being exploited (Rogmans & Ebbers, 2013). Since Middle East countries show such a diversity of oil and gas endowments and own very little other exportable natural resources (Richards & Waterbury, 2008), the region is a prolific ground for analyzing the influence of natural resource endowments on FDI inflows, with oil and gas resources serving as a comparatively truthful measure of a country's total natural resource endowment (Rogmans & Ebbers, 2013). Table 6 illustrates energy reserves of Middle East countries.

Table 6. *Energy reserves of Middle East countries (BP, 2009)*

Country	Gas reserves (trillion cubic m)	Gas in barrel of oil (billion barrels)	Oil reserves (billion barrels)	Oil and gas reserves (billion barrels)
Bahrain	0.1	0.6	0.0	0.6
Egypt	2.2	14.3	4.3	18.7
Iran	29.6	195.4	137.6	333.0
Jordan	0.0	0.0	0.0	0.0
Kuwait	1.8	11.7	101.5	113.2
Lebanon	0.0	0.0	0.0	0.0
Libya	1.5	10.2	43.7	53.8
Oman	1.0	6.5	5.6	12.0
Qatar	25.5	168.1	27.3	195.3
Saudi Arabia	7.6	50.0	264.1	314.0
Syria	0.3	1.9	2.5	4.4
Emirates	6.4	42.5	97.8	140.3
Yemen	0.5	3.2	2.7	5.9

According to Moosa (2002) FDI into the Middle East can be clarified in terms of GDP growth rate, employment in tertiary learning, spending on research and improvement, country risk and local investment. Alessandrini (2000) explored the legal and controlling framework of FDI in the Middle East region and defines connections with inward FDI. He explains that countries that have attracted important FDI have done so despite legal limitations to FDI in definite sectors. Chan & Gemayel (2004) investigated the role of risk and risk unpredictability on FDI inflows. They determined that the constancy of risk, rather than the total risk level, is related with high FDI flows in the Middle East region. After comparing the role of risk in Middle East countries to a set of advanced economies, they moreover determined that the role of risk in attracting FDI is greater in emerging countries than in developed countries.

Rogmans & Ebbers (2013) argue that oil and gas reserves have a negative influence on FDI inflows. Judging from the numerous limitations on foreign possession placed by OPEC members, the comparatively poor inward FDI performance among countries that are rich in energy resources is furthestmost likely the outcomes of policy decisions. Though some OPEC members have been prosperous at attracting FDI since 2001, other OPEC countries have not. Countries believe that the profits from FDI is related to the numerous spillover effects and job creation outweigh the worries about economic dominance, would do well to accelerate their struggles to inspire foreign investment, even if such countries might previously have sufficient foreign exchange reserves.

Only recently have some OPEC members begun to encourage FDI, particularly Saudi Arabia and the United Arab Emirates. These efforts have met with important achievement, making these two countries the top two FDI receivers in the Middle East region since 2006. The United Arab Emirates is now a large receiver of FDI since 2001, while Saudi Arabia's FDI inflows have developed powerfully after its entrance into the World Trade Organization in 2005. Other OPEC members in the Middle East are still amongst the bottom players in the region in terms of attracting FDI or have begun to attract more investment only very recently afterward a long period of very low FDI inflows (Rogmans & Ebbers, 2013). Figure 12 illustrates FDI potential and FDI performance of Middle East countries.

		<b>FDI potential</b>	
		<b>Low</b>	<b>High</b>
<b>FDI performance</b>	<b>Low</b>	<u>Under performer</u> <ul style="list-style-type: none"> <li>• Syria</li> <li>• Yemen</li> </ul>	<u>Below potential</u> <ul style="list-style-type: none"> <li>• Iran</li> <li>• Kuwait</li> <li>• Libya</li> <li>• Qatar</li> </ul>
	<b>High</b>	<u>Above potential</u> <ul style="list-style-type: none"> <li>• Egypt</li> <li>• Lebanon</li> </ul>	<u>Front runners</u> <ul style="list-style-type: none"> <li>• Bahrain</li> <li>• Jordan</li> <li>• Oman</li> <li>• Saudi Arabia</li> <li>• Emirates</li> </ul>

Figure 12. FDI potential and performance of Middle East countries (UNCTAD, 2009)

As Figure 12 illustrates Iran, Kuwait, Libya and Qatar have high FDI potential but their performance is relatively poor. Among the countries with low FDI potential, Egypt and Lebanon have been doing pretty well, whereas Syria and Yemen have not attracted important FDI flows. The remaining countries show a combination of strong FDI potential and performance, with Saudi Arabia and the Emirates standing out as the only OPEC members who have succeeded to attract a great deal of FDI in recent years (UNCTAD, 2009).

#### 4.4. PESTEL Analysis: Middle East

The PESTEL framework is an important tool to analysis macro environmental conditions such as political conditions, economical conditions, socio-cultural conditions, technological conditions, environmental conditions and legal conditions. Political conditions refer to the degree a government interferes in the economy. These might contain factors such as environmental law, tax policy, labor law, trade restrictions, tariffs, and political stability. Economic conditions are factors such as interest rates, economic growth rate, exchange rates and the inflation rate of a country. Social-cultural situations contain the cultural factors of the country as well as its

population growth rate and age distribution. Technological conditions contain factors, such as level of industrialization, degree of automation, R&D activity, technology incentives and the rate of technological change. Finally, legal conditions are related to the level of laws in a country and if it complies with worldwide standards. Such laws can be health and safety law, consumer law, discrimination law, antitrust law and employment law (Kotler & Keller, 2006). The following paragraphs present Middle East via a PESTEL analysis.

### **Political**

Middle East lacks a primary political policy aimed at building up innovation competences and also the associates between the private sector, education community, and research organizations are weak. The major inadequacies in the political policy include high transaction costs, controls and limitations on private investment, internal trade and competition, and underdeveloped capital markets. Many parts of the Middle East are politically volatile and disturbed which can create apprehensions about it (Chekir & Diwan, 2012).

### **Economical**

Before the Arab Spring, economical instability was not among the top concerns in the Middle East. During the 2000s, corruption, interest rate and inflation were most widely cited as major constraints to private sector growth. After the Arab Spring, concerns about inflation have become even more pronounced, while economical instability has become the second most cited problem troubling the business environment. High percent of business owners in Middle East complained about economical instability (World Bank, 2011). However, some Middle East countries have adopted liberalization and privatization policies that intensely affected the structure and performance of their whole economies. Financial liberalization is one policy aiming at improving market development, which more results in the decrease of the cost of capital for large and small companies. Privatization opens the market to competition and attracts FDI in many industrial sectors in general and in the finance and in the banking industries in particular (Bekaert & Harvey, 2000).

### **Social**

Populations growth rate in the Middle East have remarkably increased. In this region Islam plays a very important role in countries' culture and the primary inhabitants are Arabs which are known for their warmth and hospitality. Many of the leading cities in the region such as Dubai, Muscat, Abu Dhabi and Kuwait are very multicultural in nature with more than half of population comprising of expat population. In most of countries in this region the political turmoil and fundamental forces existing in the society (Moghadam, 2003).

## **Technological**

The level of technological improvement is rather low; R&D spending in the Middle East is funded mainly by the government. By contrast, in developed economies, the private sector contributes between 40% and 60% of R&D spending. In some countries of Middle East lack of strong technological and managerial capabilities is a key obstacle to successful technological acquisition and application (Rijkers et al, 2013). However in the recent years it seems to be a little improvement for industrialization and technological infrastructure. For instance, in some countries of Middle East there is a strong telecommunication network, which attracts IT entrants and caused a rapid development. The telecom market experienced a quick growth since its privatization. However, still the education offer in the field of science is inadequate to meet demand (Dahab & Castro, 2013).

## **Legal**

The legal environment in most countries in Middle East also has suffered instability due to the discrimination law, antitrust law and volatility of the government. As the government changes the laws are review and amended preventing continuity in the legal system (Kobeissi, 2005).

## **4.5. Perceived Results from Questionnaire**

This chapter presents the data collected through questionnaire that sent to Nordic SMEs which have activities with Middle East countries. The research study focused to find most important factors which influence on Nordic SMEs that do not have FDI in the Middle East countries. Therefore, the questionnaire was designed based on these factors and the results illustrate the importance of each factor in comparison with other factors. Each factor would be analyzed and identified distinctly with using of figures and tables based on Likert scales. The study used 5-point Likert scale “from extremely minor impact” with the score of 1 “extremely major impact” with the score of 5. On the basis of questionnaires’ results each influencing factor got a score from 1 to 5 and the average weight of each factor was calculated based on frequency. The total average of factors’ Likert Scale is 3.08 which the score of each factor compare with this average. Appendix 2 illustrates the standard deviation and average Likert scale for all of the influencing factors.

## **Product**

In the first question of questionnaire the managers of Nordic companies were asked about their capability to generate differentiated products. The purpose of designing this question (H1) was to understand if producing undifferentiated products by Nordic SMEs is the reason of lacking FDI in the Middle East market. Analyzing perceived data

related to undifferentiated product from questionnaires based on Likert scale shows that average Likert score is **1.83** for influences of undifferentiated products.

### **Firm Size**

In order to understand the influence of Nordics' firm size, the manager were asked to answer if the size of Nordic SMEs in Middle East limits their approachability to both managerial and financial capability required for an FDI mode choice in Middle East. Analyzing perceived data from Nordic SMEs show that the average Likert scale is **3.16** for the firm size factor.

### **International Experience**

In order to understand the influence of previous international experience of Nordic SMEs the managers were asked to answer if their company has any international experiences in relevant countries such as Pakistan, Afghanistan, Turkmenistan and Azerbaijan. Analyzing perceived data from Nordic SMEs show that the average Likert score is **3.50** for the lack of international experience factor.

### **Local Business Networks**

The purpose of forth research question (H4) was to understand that how can the local business networks of Nordic SMEs in Middle East be defined as regards its effect on lack of FDI. It means that internationalized local business network partners of SMEs can have vital role in selecting market entry mode by SMEs. The managers of Nordic SMEs were asked to answer whether their local business networks have any activities in the Middle East market or not. From the survey responses the average Likert scale for lack of local business network is **3.38**.

### **Government support:**

The purpose of fifth question (H5) is to understand whether absence of FDI entry mode of Nordic SMEs into the Middle East market is as a result of limited government support programs or not. In order to answer to this question the managers of Nordic SMEs were asked to answer whether there is any support provided by their country's government to support or assist their internationalization process into new markets especially the Middle East or not. From the survey responses the average Likert scale for lack of government support is **2.16**. Table 7 illustrates the summary of average Likert scale for research questions (H1-H5) respectively.

As Table7 shows firm size of Nordic SMEs, lack of local business networks and lack of relevant international experience of Nordic SMEs are three factors that have to be considered as factors that cause Nordic SMEs do not have FDI in the Middle East market.

Table 7. Average Likert scales for research question (H1-H5)

Factors	Mean (extremely minor impact on lack of FDI =1 and extremely major impact on lack of FDI = 5)
Undifferentiated products	1.83
Firm size	3.16
Lack of relevant international experience	3.50
Lack of local business networks	3.38
Low support of Nordic governments	2.16

### Environmental uncertainty

Understanding the impact of environmental uncertainties on Nordic SMEs' entry mode decision in the Middle East was important. In order to figure out these factors the managers of Nordic SMEs were asked to explain that how can the environmental instability nature of the Middle East market be explained as regards its effect on lack of FDI among Nordic SMEs in Middle East. The average Likert scale for each factor is calculated based on manager's answers in the questionnaires. Table 8 illustrates the average Likert scale for each factor of environmental uncertainty.

Table 8. Average Likert scale for general environmental uncertainties (H6)

Environmental Challenges	Mean (extremely minor impact on lack of FDI =1 and extremely major impact on lack of FDI = 5)
<b>Social Uncertainty</b>	
Terrorist movement	3.72
Changing social concerns	3.16
Riots	3.33
Social unrest	2.66
Demonstration	2.72
<b>Political Uncertainty</b>	
War revolution	3.38
Coup	3.16
Demographic change in government	3.22
Other political turmoil	3.27
<b>Economic uncertainty</b>	
Inflation	3.16
Interest rate	3.16
Foreign exchange rate	2.38
Terms of trade	3.72
<b>Government Policies Uncertainty</b>	
Nationalization	2.33
Fiscal and monetary reforms	2.61
Trade restrictions	3.83
Price controls	3.16
Barriers to earning repatriation	2.72
Government regulation	3.83
Inadequate provision of public services	3.44

### Cultural Distance

In order to figure out the influence of cultural distance on Nordic SMEs' entry mode decision, the managers were asked to answer which how can the cultural distance between Nordic countries and Middle East countries be explained as regards its effect on lack of FDI among Nordic SMEs in Middle East. The average Likert scale for each factor is calculated based on manager's answers in the questionnaires. Table 9 illustrates the average Likert scale for each factor of cultural distance.

*Table 9. Average Likert scale for cultural distances between Nordic SMEs and The Middle East countries (H7)*

Cultural Distance Measures	Mean (extremely minor impact on lack of FDI =1 and extremely major impact on lack of FDI = 5)
Behaviors	2.55
Norms & Values	3.11
Business practices	3.44
Habits & Customs	3.38
Language	1.72
Organizational practices	3.44
Ways of communications	3.61

### Industry Specific Factors

In order to figure out the influence of host country industry structure on Nordic SMEs' entry mode decision, the managers were asked to answer which how can the growth potential of the industries within which Nordic SMEs activates in Middle East be explained as regards its effect on the lack of FDI among Nordic SMEs in Middle East. The average Likert scale for each factor is calculated based on manager's answers in the questionnaires. Table 10 illustrates the average Likert scale for each factor of host country industry structure.

*Table 10. Average Likert scale for industry specific factors of Middle East (H8)*

Industry Specific Factors of Middle East	Mean (extremely minor impact on lack of FDI =1 and extremely major impact on lack of FDI = 5)
High competitiveness	2.61
Low growth potential	3.27
Low demand condition	3.33
Low market size	3.16

## 5. Data Analysis: Analyzing Factors Influence Nordic SMEs' Entry Mode

The research study focused to find most important factors which influence on Nordic SMEs that not have FDI in the Middle East countries. This chapter presents the analysis of data collected through questionnaire that sent to Nordic SMEs which have activities with Middle East countries. Each factor will be analyzed based on its average Liker Scale. The study used 5-point Likert scale “from extremely minor impact” with the score of 1 “extremely major impact” with the score of 5. On the basis of questionnaires' results each influencing factor got a score from 1 to 5 and the average weight of each factor was calculated based on frequency. The total average of factors' Likert Scale is **3.08** which the score of each factor compare with this average.

### **Product**

According to Root (1998) a firm with high differentiated products is freer to set up the price. There categories of produces inspire the firm to select export as its foreign market entry mode. Hollensen (1998) argues that this differentiation make the firm able to balance the cost and benefit by raising the produce prices. Furthermore assist the firm makes entry barriers for competitors, strong situation in the market and fulfill the requirements of customers. McDougall et al. (2003) explain that firms with complex industry products seek to invest directly into international markets in order to amortize their high R&D costs. This could be understood as a reason to select a higher commitment entry mode.

Perceived average Liker Scale for undifferentiated products is too much lower than average of other factors and illustrates that most of Nordic SMEs are capable to produce complex and exclusively differentiated products. Therefore, undifferentiated product cannot be recognize as an factor which influences on Nordic SMEs do not select FDI in the Middle East.

### **Firm Size**

Information about firm size was the second question (H2) which asked from managers of Nordic SMEs. The thesis used measures on the basis of the realization of the managers on the limitation of their company size as a considered reason for lack of FDI in the Middle East market. According to Osborne (1996) firm size can limit the capability of SMEs for FDI. Hollensen (1998) argues that the size of a firm approximately indicates its resources; the firm with more resources will be more successful in international markets. Exporting is the best appropriate mode of entry for SMEs though they regularly desire high control. As entering into new foreign markets often requires huge volumes of resources and SMEs have inadequate resources, the

desire of high control is so much difficult for them. Therefore, SMEs lack the managerial and financial resources needed to use non-equity entry mode, consequently non-equity entry mode dominant as SMEs' choice of entry mode.

Perceived average Liker Scale for firm size is high and illustrates that firm size of Nordic SMEs is a factor which influences on Nordic SMEs do not select FDI in the Middle East. The results illustrate that Nordic SMEs do not have the same conditions as larger firms have, because of this they are not capable to put in as much resources as their resources are not adequate. This reason causes decrease in their internationalization level of Nordic SMEs. Obviously if Nordic SMEs were larger firms they would have further probable choices in selection of foreign entry modes and then maybe they selected another entry mode than export to the Middle East market. Therefore, the size of Nordic SMEs limits their approachability to both managerial and financial resources required for an FDI mode choice in the Middle East countries.

### **International Experience**

The purpose of third research question (H3) was to understand that how much the organization's international experience of Nordic SMEs can influence on lack of FDI in Middle East. According to Driscoll & Paliwoda (1997) the prior international experience of companies is a factor that influences on the SMEs' entry mode choice when they are entering new foreign markets. This international experience can be attained either by functioning in a specific country or by functioning in a general international situation. Therefore, when Nordic SMEs want to enter into a new international market they have to look at and appraise how they have entered into new markets earlier and also have to analyze the act of other companies in this way. This evaluation helps Nordic SMEs to have the greatest effective market entry as possible and similarly decreasing the risk of making faults that are done before.

Perceived average Liker Scale for international experience factor is high and illustrates that lack of international experiences of Nordic SMEs is a factor which influences on absence of FDI in the Middle East. This score shows that Nordic SMEs do not have relevant international experiences which help them to gain knowledge in international markets and then change their entry mode of exporting to equity investments. Gankema et al., (1997) argue that when SMEs achieve more experience it moves from exporting to equity investments. There is a relationship between what the theory of Gankema et al., (1997) said and what the questionnaire results received from Nordic SMEs are saying, both are mentioning that lack of relevant international experiences force the company select exporting instead of FDI. Therefore, this study claim that The relevant international experience of the managers and organizations of Nordic SMEs in the Middle East countries is not sufficiently oriented for them select FDI in the Middle East market.

### **Local Business Network**

According to Bell (1995) SMEs' connections with clients and suppliers can be really important since this relationship could have influence on SMEs' market entry mode selection. In short, network relationships affect organizations' market and entry mode choice. According to Bjorkman & Kock (1995) business network relationships can be seen as a link for businesspeople which connect them to potential buyers. Moreover, business networks are of strategic significance to companies for recognizing international opportunities and foreign exchange associates, obtaining foreign market knowledge, and achieving access to other strategic resources. Bjorkman & Kock (1995) argue that companies with high number of local business networks in the targeted market have a better situation to select equity entry mode in that market.

The perceived results of questionnaire from Nordic SMEs illustrates that there is a relationship between explanation of study's literature review and perceived results of Nordic SMEs. This score shows that lack of business networks of Nordic SMEs is a factor which influences on absence of FDI in the Middle East. Obviously, Nordic SMEs not have connections with clients and suppliers which have activities in the Middle East. It can be concluded that the local networks of Nordic SMEs (SMEs, MNEs, Universities, public organization etc.) are not oriented towards the Middle East market generally. Therefore, impacts their shortage of knowledge, interest and select for exporting over FDI.

### **Government Support**

According to Puljeva & Widen (2006) Policy of governments in relation to international business can have an importance influence on the internationalization process of local SMEs. Government support policies directly or indirectly affects SMEs' international market selection particularly at their early phase of internationalization process. Government business supports can assist companies to recognize foreign markets and then improve business in that market. Therefore, government support programs could be useful in pursuing and evaluating new foreign markets and can have influence on the SMEs' entry mode decision.

Perceived average Liker Scale for government support factor is lower than average of other factors which shows that lack of government support cannot be consider as a factor which influence on the lack of FDI in the Middle East. Most of managers of Nordic SMEs mentioned in the questionnaire that their government provides different facilities for companies through exhibitions, local embassies and foreign ministry in order to make them familiar with the market of Middle East.

## **Environmental Uncertainties**

According to Miller (1992) when a firm decides to enter into foreign markets, there are different types of foreign country environmental uncertainties which influence on the entry mode decision of firms. SMEs choose non-equity entry mode into international market that have high environmental risks or uncertainty while the chosen entry mode in foreign markets with less environmental risks would be equity modes. Brouthers (1995) argues that some countries do not have adequate suitable distributors, agents and infrastructure needed to market their products and services which this can be a challenge for them. Therefore, a firm should analyses foreign market infrastructure when decide to select entry mode since using inappropriate marketing channels or networks on the basis of home market experience without adjusting for variances in the targeted foreign market, might results in undesirable outcomes.

The perceived result of questionnaire from Nordic SMEs determines environmental factors which influences on Nordic SMEs' entry mode decision. First, terrorist movement, riots and changing social concerns are three social uncertainty factors that have to be considered as factors that cause Nordic SMEs do not have FDI in the Middle East market. Second, based on the Average Likert score war revolution, coup, demographic change in government and other political turmoil are four political uncertainty factors that have high influence on absence of FDI in the Middle East market. Third, Likert score illustrates that inflation, interest rate and terms of trade with Middle East countries are three economy uncertainty factors that have high influence on absence of FDI entry mode by Nordic SMEs in the Middle East market. Finally, trade restrictions, government regulation, price controls and inadequate provision of public services are four government policies uncertainty factors that have high influence on absence of FDI entry mode by Nordic SMEs in the Middle East market. Consequently, the total average Likert scale for environmental challenges shows that the market of Middle East countries is environmental highly unstable in nature therefore is one of the causes of lack of FDI among Nordic SMEs in the Middle East.

## **Cultural Distance**

According to Drogendijk & Slangen 2006 Cultural differences between the home country of company and targeted host country can have influence on the company's entry mode decision. Larger cultural differences between country of origin and target countries cause that companies do not be eager to use of entry modes that need a high resources commitment level. Therefore, cultural distance between countries should have influence on multinational enterprise selection between Greenfield and Acquisition since firms located in culturally distant countries have basically dissimilar structural and organizational practices as well as communication styles, and are therefore challenging to integrate into multinational corporate network after they have been acquired. Hofstede (2001) explains that companies are more expected to enter culturally distant

countries through Greenfield investments, since this kind of investments permit them to introduce their performances from the beginning to selected workforce that is compatible with their organization culture.

Based on average Likert scales which are perceived from questionnaire, ways of communications, relationship with people, organizational practices, habits and Norms are five cultural distance factors between Nordic SMEs and Middle East which have high influence on absence of FDI in the Middle East market. The total average Likert scale for cultural distance factor represents that the Middle East and Nordic market are culturally too much far from each other. These cultural differences have an important influence on Nordic's manager to choose export entry mode instead of FDI in the market of Middle East countries. Therefore, the Nordic SMEs' managers prefer to have FDI with countries that are culturally close to them.

### **Industry Specific Factors**

According to Root (1998) host country industry structure factors have an important influence on SMEs' entry mode decision into the market of host country. These factors refer to the host country industry structure such as market size, competitiveness, demand conditions and market structure. Brouthers & Nakos (2004) argues that when the market of host country is small and sale volume is low exporting could be the best way to enter into the market. On contrast, when the market of host country is big and the volume of sales in that market is high the most efficient entry mode could be FDI. In the big market there should be apparently an extraordinary consumption and demand for the produces. Karhu (2002) explains when the volume of demand is low more advantageous entry mode for SMEs and start internationalization process is exporting rather than investment. On the other hand, when the volume of demand is high investments to the host country market at an early stage of internationalization may assist SMEs gaining an important competitive advantage, particularly when the demand is estimated to growth strongly in the future. Malik & Chudary (2008) figured out that in markets with high and rapid growth potential SMEs commonly prefer to open up completely owned subsidiary and in markets with low and medium degree of growth SMEs choose enter the foreign markets indirectly through distributors and agents.

Based on average Likert scales which are perceived from questionnaire, low growth potential of the Middle East market, Low demand condition and low market size of Middle East are three industry specific factors of Middle East market which have high influence on absence of FDI in the Middle East market. It means that the managers of Nordic SMEs believe that the growth potential of Middle East market is low and they prefer to use exporting as an entry mode instead of FDI. If the Middle East was a market with a large growth rate and high demand then Nordic SMEs could use FDI. At situations where the market is not large and the market growth is growing but not so fast and the market still looks interesting then Nordic SMEs arrive the market through

export the products. Therefore, it can be concluded that the growth potential, demand condition and market size of the industries within which Nordic SMEs operates in Middle East is not adequate for FDI entry mode choice.

## 6. CONCLUSION AND DISCUSSION

### 6.1. Managerial Implications

Nowadays Internationalization process of companies is a significant issue for managers and has brought the subject of entry modes and their factors, to the attention. Though initially big companies obviously acquired the lead on the internationalization process, SMEs rapidly proved they were not to be ignored. Nevertheless, SMEs figure out that internationalization process for them is more difficult in comparison with big companies with many resources. The outcomes in this study support that the selection of entry mode in foreign market is affected and determined by many internal and external factors. The main goal of this study was to identifying factors that influence on Nordic SMEs to select exporting instead of FDI in the Middle East market.

When the managers of SMEs decide to internationalize, it is also extremely important for the SMEs manager to recognizing, assessing and using best practices that is, the greatest ways of functioning to attain the goal of entering and working in foreign market. For instance the managers of SMEs should look at successful firms, their entry method and adopting their performances in order to save time and resources. Furthermore when managers selecting the entry modes in a foreign market it is crucial to look at both the external and internal factors and figure out what factors have the most influence on their entry mode selection.

The choice making powers of managers have a significant effect on the entry mode policies the firms choose to enter into a foreign country. Thus managers need to get and improve their knowledge and management abilities in order to achieve supportable competitive advantage. This research study figured out that Nordic SMEs have preferred to use exporting as entry mode in the Middle East market due to several reasons illustrated in Figure 13. Exporting is a non-equity entry mode and there are also other types of non-equity entry modes such as licensing, subcontracting, etc. The managers of Nordic SMEs could use other types of non-equity entry modes instead of exporting in order to attain more knowledge about the Middle East market. This can help them to achieve necessary knowledge which required for doing FDI in the market of Middle East countries.

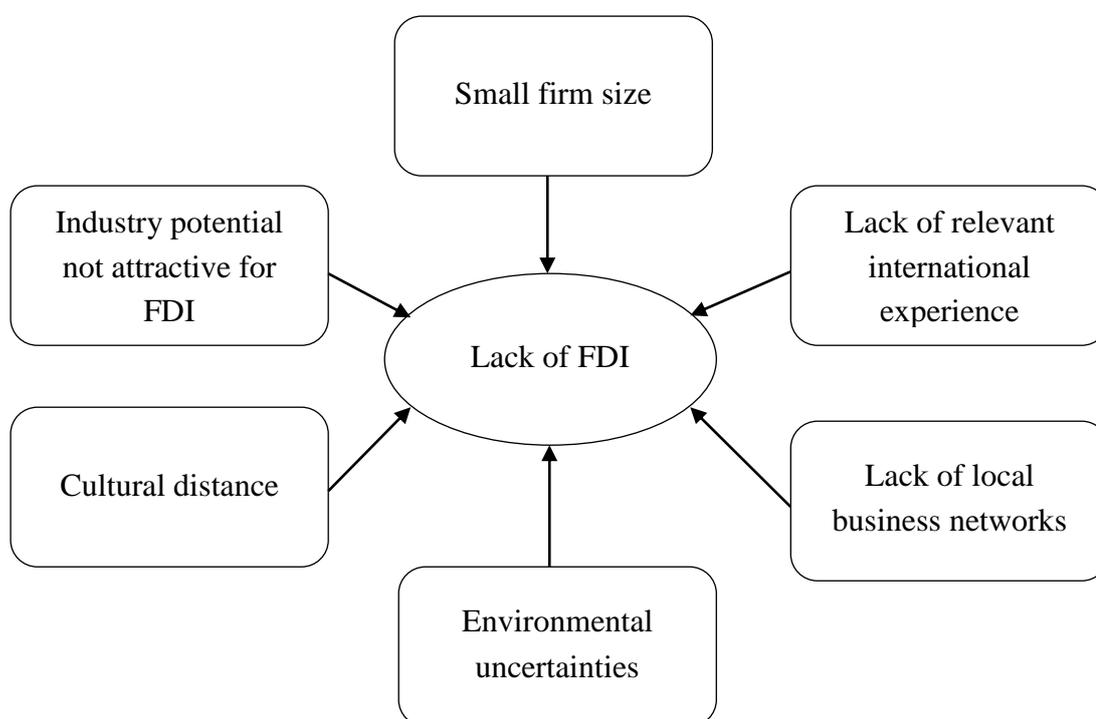
The results of this research study demonstrate that managerial perceived cultural distance between Nordic countries and countries of the Middle East is one of the most significant reasons for lack of FDI among Nordic SMEs in the Middle East. Managers of Nordic SMEs have to find a way to fill this cultural gap in order to do FDI in the Middle East. The managers need to gain more knowledge about the Middle East culture and it will possible by employing people which are originally from Middle East.

One of the main responsibilities of managers is recognizing and reducing different possible risks in the internationalization process of SMEs. Nordic SMEs which are doing business in the Middle East market might be influenced by different environmental uncertainties. Therefore, it is the managers' responsibility to research on how these environmental instabilities would influence on their company and selection of entry mode. By recognizing these issues the managers will be able to control risks and reduce them.

As a consequence, The reasons for lack of FDI in the Middle East market among these Nordic SMEs were as follows: small firm size, lack of relevant international experience of Nordic SMEs, local networks of Nordic SMEs are not oriented toward the Middle East market, different environmental uncertainties in the Middle East market, perceived cultural distance and finally industry growth potential of the Middle East is not sufficient to attract FDI.

## 6.2. Theoretical Implications

The main goal of this research was to identifying the main factors that caused Nordic SMEs do not select FDI as an entry mode into the Middle East market. Figure 13 illustrates these main factors.



*Figure 13. Reasons for lack of FDI in the Middle East Market*

First, the study figured out that because of the limited amount of managerial and financial resources accessible within the disposal of Nordic SMEs in Middle East, they

selected exporting over FDI. Nordic SMEs do not have the same conditions as larger firms have, because of this they are not capable to put in as much resources as their resources are not adequate. This reason causes decrease in their internationalization level of Nordic SMEs. Obviously if Nordic SMEs were a larger firm they would have further probable choices in selection of foreign entry modes and then maybe they selected another entry mode than export to the Middle East market.

Second, the study found out that lack of international experiences of Nordic SMEs is a factor which influences on absence of FDI in the Middle East. Nordic SMEs do not have the relevant international experience required to impact or select FDI as an entry mode strategy for the firm. Although, Nordic SMEs have international experience in operating business generally, but these involvements are not relevant for the Middle East market. It means that the relevant international experience of the managers and organizations of Nordic SMEs in the Middle East countries is not adequately oriented toward FDI in the Middle East market.

Third, the results of this study show that also that lack of business networks of Nordic SMEs is a factor which influences on absence of FDI in the Middle East. It means that the local networks of Nordic SMEs (SMEs, MNEs, Universities, public organization etc.) are not oriented towards the Middle East market generally. Moreover, from gained results it can be concluded that Nordic SMEs do not have connections with clients and suppliers which have activities in the Middle East or do not know if their business associates have business activities in the market of Middle East countries or not.

Forth, the study found out that environmental uncertainties of the Middle East market is an important factor which causes Nordic SMEs select exporting as an entry mode to the Middle East market instead of FDI. These environmental uncertainties include: social uncertainty (terrorist movement, riots and changing social concerns), political uncertainty (war revolution, coup, demographic change in government and other political turmoil), economy uncertainty (inflation, interest rate and terms of trade with Middle East countries) and government policies uncertainty (trade restrictions, government regulation, price controls and inadequate provision of public services). Therefore, Nordic SMEs, encountered with a high level of uncertainty in the Middle East environment and it can be concluded that they decided to select the less risky way of entering to the market and have chosen exporting instead of having FDI in The Middle East market.

Fifth, the results of this study shows that managerial perceived cultural distance between Nordic countries and countries of the Middle East is one of the most significant reasons for lack of FDI among Nordic SMEs in the Middle East. Ways of communications, relationship with people, organizational practices, habits and Norms are five cultural distance factors between Nordic SMEs and Middle East countries which have high influence on absence of FDI in the Middle East market. Therefore, because of these cultural distances managers of Nordic SMEs prefer to have FDI in

countries with much similarity in culture and use exporting as an entry mode to countries with high cultural differences.

Finally, the research results found out that industry specific factors of Middle East can be seen as a factor which causes Nordic SMEs select exporting as an entry mode to the Middle East instead of FDI. These industry specific factors include low growth potential of the Middle East market, low demand condition and low market size of Middle East. The results illustrate that within these businesses that SMEs act in the Middle East, the growth potential is not meaningfully sufficient to attract FDI. Therefore, if the market is not attractive for FDI and also selecting FDI for this market include risks then the managers prefer to select entry modes with low risks such as exporting. It can be concluded that the growth potential, demand condition and market size of the industries within which Nordic SMEs operates in Middle East is not adequate for FDI entry mode choice.

### **6.3. Future Research**

Findings of this thesis were identifying and analyzing different factors that have influenced on Nordic SMEs' entry mode decision and have caused absence of FDI into the Middle East market. These factors can be seen as challenges which limit Nordic SMEs to improve and expand their international business activities. Therefore, future research should be directed towards how Nordic SMEs can overcome these existing challenges. These challenges are in different fields and each of them could be solve in a reasonable way.

Cultural distance between host country and home country is one of the most important challenges in this category. Therefore, one of the interesting future research topics would be understanding whether decreasing this cultural distance could help companies to select equity entry mode or not. Moreover, lack of networks was another challenge which has limited Nordic SMEs to select FDI in the Middle East. It means that Nordic SMEs do not have useful business networks and so they are not able to attain essential knowledge to select FDI as an entry mode. Therefore, future research can be focused on how companies can develop their business networks to successfully operate FDI in the foreign market?

Procedure of companies' investment in foreign markets can be done more easily by some special actions. These specific actions can just be done by governments such as facilitate trade policies for both investor and home company. Providing these facilities make the more attractive business environment for investor and also reduce the business risks for them. Therefore, one field of future research could be how governments can facilitate the investment procedure and provide the suitable business infrastructure for FDI so that foreigners would be absorbed in investing.

It can be really useful for companies if they can obtain the essential experiential knowledge required to effectively operate a resource commitment entry mode choice in a foreign market. One field of future research could be focused on what kind of understanding, knowledge and information can be attained in non-equity mode choice and how it can have positive influences on the company to select equity entry modes as future's entry mode.

There are large numbers of Nordic SMEs that are using FDI as an entry mode or operation mode in the market of China. Obviously FDI have had benefits for Nordic SMEs in China as they are still eager to continue their strategy. As mentioned in this research study the Nordic SMEs have not had FDI in the Middle East market. Therefore, future research can also be focused on identifying and analyzing the reasons that cause Nordic SMEs has FDI in China but not in the Middle East.

The choice making powers of managers have a significant effect on the entry mode policies the firms choose to enter into a foreign country. Managers need to get and improve their knowledge and management abilities in order to achieve supportable competitive advantage, choosing the most efficient entry mode into foreign markets and also prepare a situation which increase the company's profitability continually. Therefore, future research can also be focused on identifying and analyzing relationship between companies' managerial characteristics and entry mode choice.

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## APPENDIX 1- Questionnaire

This research is meant to study how Nordic companies seek to enter into the market of Middle East countries and the reasons for lack of Foreign Direct Investment (FDI). Please, assist us provide appropriate answers to all questions listed below. Furthermore, there is a list of definitions at the last page.

### Pattern of entry into the Middle East market

#### 1. Mode of Entry Into The Middle East Market

What mode of entry does your company have presently in the market of Middle East?  
 (1) Exporting                      (2) Licensing                      (3) Sub-contracting  
 (4) Project Business              (5) Franchising

#### 2. Product of Entry

What is the characteristic of your company's products?  
 1) Undifferentiated              (2) Poorly differentiated  
 (3) Moderately differentiated      (4) High differentiate  
 (5) Very high differentiated

#### 3. Firm Size

The reason why your company does not have FDI in Middle East is as a result of your company size?  
 (1) False              (2) Partly False              (3) Uncertain              (4) Agree  
 (5) Strongly Agree

#### 4. International Experience

Does your company have any international experiences in Pakistan, Afghanistan, Turkmenistan and Azerbaijan?

Yes              No

If yes, please explain in which countries and which type of entry mode?

#### 5. Local Business Networks

Is there any of your local business networks (SMEs, MNEs, Universities, public organization etc.) that have business activities in the Middle East?

Yes              No

If yes, how many are they and what type of operation do they have there?

#### 6. The Role of Government

Is there any support provided by your country's Government to support or assist your internationalization into new markets especially the Middle East?

Yes              No

If yes, please explain how?

## 7. General Environmental Challenges

Environmental challenges of market entry is in the below table. Which of these environmental challenges is the reason why your company has no foreign direct investment in the Middle East Market?

<b>Environmental Challenges</b>	<b>Low</b>	<b>Average</b>	<b>Uncertain</b>	<b>High</b>	<b>Very High</b>
<b>Social Uncertainty</b>					
Terrorist movements					
Changing social concerns					
Riots					
Social unrest					
Demonstration					
<b>Political Uncertainties</b>					
War revolution					
Coup					
Demographic changes in government					
Other political Turmoil					
<b>Economic Uncertainties</b>					
Inflation					
Interest rate					
Foreign exchange rate					
Terms of trade					
<b>Government Policies Uncertainties</b>					
Nationalization					
Fiscal and monetary reforms					
Trade restrictions					
Price controls					
Barriers to earning repatriation					
Government regulation					
Inadequate provision of public services					

## 8. Perceived Cultural Distance

How large is the cultural differences between your country (one of the Nordic countries) and Middle East responsible why your company has no FDI in the Middle East Market?

<b>Cultural Distance Measures</b>	<b>Very small</b>	<b>Small</b>	<b>Uncertain</b>	<b>Large</b>	<b>Very large</b>
Behaviors					
Norms & Values					
Business practices					
Habits & Customs					
Language					
Organizational practices					
Ways of communications					
Relationship with people					

## 9. Industry Factors

How can you describe the industry characteristics of your products in the Middle East Market?

<b>Industry Characteristics</b>	<b>Unknown</b>	<b>Small</b>	<b>Average</b>	<b>Large</b>	<b>Very Large</b>
Competitiveness					
Growth potential					
Demand condition					
Market size					

## APPENDIX 2- Average Likert scales

Factors	Mean (extremely minor impact on lack of FDI =1 and extremely major impact on lack of FDI = 5)	Variance
Terrorist movement	3.72	0.40
Changing social concerns	3.16	0.01
Riots	3.33	0.06
Social unrest	2.66	0.18
Demonstration	2.72	0.13
War revolution	3.38	0.09
Coup	3.16	0.01
Demographic change in government	3.22	0.02
Other political turmoil	3.27	0.03
Inflation	3.16	0.01
Interest rate	3.16	0.01
Foreign exchange rate	2.38	0.50
Terms of trade	3.72	0.40
Nationalization	2.33	0.57
Fiscal and monetary reforms	2.61	0.23
Trade restrictions	3.83	0.55
Price controls	3.16	0.01
Barriers to earning repatriation	2.72	0.13
Government regulation	3.83	0.55
Inadequate provision of public services	3.44	0.13
Behaviors	2.55	0.29
Norms & Values	3.11	0.00
Business practices	3.44	0.13
Habits & Customs	3.38	0.09
Language	1.72	1.86
Organizational practices	3.44	0.13
Ways of communications	3.61	0.28
Relationship with people	3.55	0.22
High competitiveness	2.61	0.23
Low growth potential	3.27	0.03
Low demand condition	3.33	0.06
Low market size	3.16	0.01
Low support of Nordic governments	2.16	0.86
Lack of local business networks	3.38	0.09
Lack of relevant international experience	3.50	0.17
Small firm size	3.16	0.01
Undifferentiated products	1.83	1.58

Average Likert scale ( $\mu$ ): 3.08

Standard Deviation ( $\sigma$ ): 0.52

$$\mu + \sigma = 3.60$$

$$\mu - \sigma = 2.56$$