



# An explorative study into the initial phases of the internationalization process of Danish organic food companies considering exporting to China

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## –A Case Study of Thise Mejeri and Lovemade



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## Abstract

China has in the last few decades increased its importance in the global trade. The country has in a short period developed into an important consumer market due to its rapidly growing middle class, and that is why companies consider China to be such an important market, even small and medium-sized companies. Danish organic food companies have also acknowledged the huge growth potential as the country offers. However, as this is a rather new tendency for Danish organic food companies, the aim of the thesis is to contribute to the knowledge about how the potential for internationalization to China is discovered, and what actions there are subsequently taken during the initial phase of planning and preparation. This will be done through a two-case case study of Thise Mejeri and Lovemade.

A framework was developed based on relevant literature to guide the research. The focus of the analysis has been on the firm typology, based on the firms' history, resources, and age, because the typology will impact the firms' motivations and aspirations for internationalization. The analysis has further addressed how the companies use their internal capabilities (use of entrepreneurship, knowledge and learning, and networks) in the initial phases of the internationalization to China.

Having analyzed the two cases companies on the basis of the framework, the thesis concludes that newly established firms, in the case of Lovemade, need to internationalize early to survive. Older more mature companies, in the case of Thise, have been forced to expand export to distant markets, because of a downturn in the Danish and neighboring export markets. Due to Thise's incremental and geographically close internationalization, Thise has been forced to break old habits of doing business when faced with a different institutional environment. Due to Lovemade's lack of experience with the food sector and export, the company has been forced to learn while doing. However, because Lovemade is a small new firm with no previous experience, it does not need to unlearn embedded routines, thus benefiting from learning advantages of newness. Both companies have used their networks to other companies in the discovery of the business opportunity and in acquiring specific knowledge about the Chinese market. The use of external collaboration partners (export agents) have especially been important for both firms, to overcome the institutional differences that are connected with doing business in China.

## 1 Introduction

Today, internationalization to foreign markets is no longer reserved for large multinationals with vast resources, young, small and medium sized firms can now compete with larger firms and harvest the benefit of large consumer markets around the world (Oviatt & McDougall 1994; Rennie, 1993; Knight & Cavusgil, 2004; Zacharakis, 1997). This has been made possible, due to changes in market conditions occurring during the last few decades, which have facilitated a proactive external environment. Cost barriers for international trade have been reduced due to cheaper transportation of goods and a more dynamic and global workforce. Likewise, developments in the area of information and communication technology have made the global market more accessible at a low cost, by the rapid expansion of the internet. These factors complemented by new production process technology have resulted in the possibility of small-scale operations to be economically sound. However, an active, dynamic and globalized external environment is not sufficient to explain why small firms internationalize their operations to distant markets, often early after their establishment. It is also essential to look at the firm's internal organizational capabilities, especially the entrepreneurial capabilities of the key decision makers, relating to their network, experience, and knowledge to explain why some small firms are successfully able to do it.

China has in the last few decades increased its importance in the global trade. The country has in a short period developed into an important consumer market due to its rapidly growing middle class, and that is why companies consider China to be such an important market. China's food industry is among the country's fastest-growing sectors, with output currently rising by more than 20 percent annually (BMI, 2010). In recent years, a rapid development of the Chinese food sector has taken place. Due to many food scandals all over China, focus on food safety and organic products have become increasingly more important for the Chinese consumers. The demand for high-quality food products has also been triggered by higher income and higher education, but mainly the extensive food scandals have contributed to the change in attitude, also among the less wealthy Chinese (Thøgersen & Zhou, 2012). Chinese suppliers are responding to the new organic preferences, but the products they produce suffer from a bad reputation and low standards, that is why many consumers do not have faith in the products, and are therefore not willing to pay the extra price. However, international products have a higher credibility rating among the Chinese consumers, which is why increasing demands can be seen for these products (Lagos et al., 2010).

Due to this evolving trend, the Danish Trade Council (The Trade Council, 2012a; 2012b) and the Danish Confederation of Industries (DIAB, 2012) are currently focusing on developing and promoting Danish food companies' internationalization to China (conventional and organic). Conventional Danish food companies have for some years already experienced success in the Chinese market; among the most successful are Arla and Danish Crown, but during the last couple of years, small and medium-sized Danish firms in the organic industry have also begun to look at China as a potential market. During the World EXPO in Shanghai

2010, the Danish Pavilion promoted a sustainable way of living where the visitors could buy Danish organic products.

To contribute to the existing literature and also to fill a research gap, the thesis will analyze Danish organic food companies' initial internationalization planning to China. The thesis will do so by conducting case studies of two Danish organic food companies; Thise Mejeri (hereafter Thise) whom produces organic dairy products and Lovemade (hereafter LM) whom sells organic frozen baby food.

## 1.1 Research question

The aim of the thesis is to analyze the initial phases of the internationalization of Danish organic food companies wishing to go China. The thesis will analyze two case companies, Thise and LM, to illustrate the process. Thise is the second largest organic dairy in Denmark, and LM is a newly establish company. Their two different backgrounds and set-ups offer unique insights in relation to their strategies and processes, and will be able to support and supplement each other by filling out potential gaps. The thesis will only focus on the process from the discovery of the opportunity to how the planning and preparing of the initial process is undertaken, because the two case companies have, at the time of writing, not yet started to export products to China. Thus, the research question for this master thesis will be as follows:

***How is the potential for internationalization to China discovered by Danish organic food companies, and what actions are subsequently taken during the initial phase of planning and preparation? - A case study of Thise Mejeri and Lovemade***

The companies will be analyzed on the basis of the Uppsala Internationalization model (Johanson & Vahlne, 1977) and International New Venture model (INV) (Oviatt & McDougall, 1994). I will use the models as a guide to analyze how far the firms follow one or the other course asserted by two internationalization models. The Uppsala model has been chosen for this paper because it has its origin in empirical studies on how Scandinavian firms internationalize (Johanson & Vahlne, 1977), and the INV model has been chosen because it explains the lately observed small firm internationalization. The INV model includes empirical findings from all around the world including many examples from Scandinavia. An extensive amount of literature and case studies written about internationalization processes of SMEs have been dealing with high-technological firms in e.g. the computer, communication, or pharmaceutical industry (Sapienza et al., 2006; Johanson & Vahlne, 2010; Madsen & Servais, 1998; Oviatt & McDougall, 1994). It will therefore pose some interesting challenges when considered from a perspective associated with the food sector.

I will first analyze what kind of typology the case companies is, based on their history, resources and age, because the typology will impact on which internal capabilities the companies possess, and that will eventually influence on what actions that are taken during the initial phase of planning and preparation. Therefore, the first sub-research question (hereafter sub-RQ) is:

**Sub-RQ 1:** *How do companies vary in their motivation and aspiration for internationalizing to China?*

Given the companies different typologies, it will be interesting to examine how an established company compared to a young company uses its internal capabilities; the role of the entrepreneurs and key decision makers, as well as how networks are used and how knowledge and learning are generated in the initial phases of internationalization to China, thus the second sub-RQ is:

**Sub-RQ 2:** *How do companies use their internal capabilities; entrepreneurship of the managers, knowledge and learning capabilities, and networks to other companies in the initial phases of the internationalization to China?*

## 1.2 Delimitations

The target group in this thesis will be organic food companies intending to undertake a process of internationalization to China, operationalized through a two-case case study of Thise and LM. Due to the timeframe of the thesis, attention will be devoted primarily to the initial phase of internationalization planning. The two case companies' internationalization to China is still in process, and the thesis will therefore not be able to find out whether or not the two cases will succeed with their planning of their internationalization to China. Consequently, the analysis will only focus on the process from the discovery of the opportunity to how the planning and preparing of the initial process is undertaken, and not on the success and results of the internationalization planning. The thesis will also be delimited from engaging in a wider analysis of the macroeconomic situation in China, but look at trends and tendencies in the society in order to understand the motives of the companies.

## 1.3 My motivation

My interest in the organic food sector comes from my time spent in China during my studies at a higher education level. During my internship at DI-Asia Base in Shanghai in the semester 2010-2011, I was assisting one of DI-Asia Bases' companies that worked in the conventional food sector. I could follow the company's development in China and see the Chinese demand for Danish products was remarkable. As a student I was in Beijing in 2006, and from then to the time I was living in Shanghai, the increase in the organic and green food products in small food stores as well as huge international supermarkets, such as Carrefour and Wall-mart has been significant. This trend has become bigger and bigger partly because of to the increased media attention on food scandals, during the last few years. Living in Denmark where organic products are a big part of the Danish food culture, it is exciting to witness what companies coming from a small country like Denmark, can achieve in a huge county like China.



### **1.4 Structure of thesis**

The thesis is organized in to seven chapters. The first chapter of the thesis introduces the thesis' problem field; the research question and sub-RQs and delimitations. The second chapter will review relevant literature on firm internationalization and emerging markets literature. With point of departure in the literature review, four hypotheses are developed in accordance with the two sub-RQs. The aim of third chapter is to clarify the methodological choices taken in the thesis; the philosophy of science, research strategy, design and empirical data collection. The chapter will furthermore put forward the analytical framework and approach, ending with addressing the construct validity and the reliability of the thesis. Chapter four presents the case of the thesis, starting with a presentation of the two case companies, Thise and LM. After that, the operating environment of Thise and LM will be presented. Chapter five analyzes the variables of the analytical framework. The analysis will lay the foundation for chapter six, the discussion, where the sub-RQs and hypotheses will be discussed. Lastly, the thesis will be concluded in chapter 7, by presenting the thesis findings.

## 2 Literature review

The literature review will start by reviewing firm internationalization theories, focusing primarily on the Uppsala internationalization stage model (Johanson & Vahlne, 1977) and International New Venture model (INV) (Oviatt & McDougall, 1994). The two frameworks have been chosen because they explain, in a complementary fashion, the internationalization process of small firms. The stage theory is intended to cover the traditional internationalization, while the INV model explains why some firms initiate international activities early after establishment. The literature review is then continued by taking a closer look on internal influences that impact the internationalization of firms, and will lastly review the external factors influencing internationalization including emerging markets literature.

### 2.1 Theories of internationalization

#### 2.1.1 The Uppsala internationalization stage model

The traditional Uppsala model explains how a firm internationalizes on the basis of the firm's experiential learning model. The Uppsala model claims, that small firms will take smaller steps in the course of internationalization, due to fewer resources and to reduce risk. The model explains how firms gradually intensify their activities in foreign markets because of the *psychic distance* between the home and the host countries. Johanson & Vahlne (1977) define the psychic distance as a sum of factors, such as differences in language, education, business practices, culture, industrial, and economic development, which can prevent the flow of information to and from the market. Building on the behavioral theory of the firm (Cyert & March, 1963 in Johanson & Vahlne, 1977), Johanson and Vahlne (1977) argue that firms tend to operate in markets close to existing knowledge and remain domestic unless provoked, pushed, or pulled by an event. Firms will therefore first gain experience from the domestic market before moving on to foreign markets. Thereby firms start their foreign operations from culturally and geographically close countries, and thereafter move gradually to more psychic distant markets. The incremental internationalization is regulated by the experience-based accumulation of foreign organizational knowledge. Necessary knowledge can be acquired mainly through operations abroad, so the lack of such knowledge is an important obstacle to the development of international operations. Firms will start their foreign operations by using traditional exports and then gradually move on to use more intensive and demanding operation modes. Johanson and Vahlne (1977) identified four successive stages in the firm's international expansion; 1) no regular export activities, 2) export activities via independent representatives or agents, 3) the establishment of an overseas subsidiary, and 4) overseas production and manufacturing units.

The Uppsala theoretical model (for figure see appendix 19) makes the distinction between *state* and *change* aspects of internationalization variables. The state of the firm is an important factor in explaining future changes and subsequent stages of the firm. The state aspects are represented by the firm's *market commitment* to the foreign markets and the *market knowledge and learning capabilities about foreign*

*markets* and operations. Market commitment is the amount of resources committed and the degree of commitment to a market. The more specialized the resources are to a specific market, the greater the degree of commitment. Market knowledge is especially important because commitment decisions are based on different kinds of knowledge (Johanson & Vahlne, 1977). It is particularly experiential knowledge that is important, but it cannot be as easily acquired as objective knowledge, which can be taught and learned. Experiential knowledge can only be gained through operations in a country. Experiential knowledge is seen as the most crucial type for international activities, because it provides the framework for perceiving and formulating opportunities (Ibid). International activities require both general knowledge about market operations and market specific knowledge. The latter can be gained primarily through experience with the foreign markets, whereas general knowledge of operations can be better transferred from one market to another. Firms change by learning from their experiences of operations and their current activities in foreign markets. The change aspects are the firm's *current activities* and *commitment decisions* to foreign market. Current business activities are the main source of experiential knowledge for the firm. Decisions to commit further resources to specific foreign operations will increase when experiential market knowledge increases. This implies that additional market commitment, as a rule, will be made in small incremental steps because it takes time to gain experiential knowledge of foreign markets to be able to reduce risk (Madsen & Servais, 1997). Johanson and Vahlne (1977) identified three exceptions to why firm's internationalization may not occur in small steps. First, if the firm has many resources and experience, it will be able to take larger internationalization steps. Second, when foreign market conditions are stable and homogeneous, then relevant market knowledge can be gained from sources other than experience. Third, when the firm has considerable experience of markets with similar conditions, it may be able to generalize this experience to any specific market.

Aspelund (2005) has categorized small international firms from Scandinavia in distinct groups, the *Born Globals*, *Early Internationals*, and *Late Internationals*, which differ in terms of their international motivation and internationalization patterns and performance. The Late International group of firms internationalize in line with the slow incremental internationalization pattern of the stage model. The Late Internationals are defined by "*their late and limited internationalization*" and consist of older and slightly larger firms (Ibid., p. 21). Internationalization is often caused by domestic downturns, and therefore the companies seek a more solid market platform by expanding business into new markets. Late International firms seek to leverage a market advantage, which they have developed through years of operations and in the making of high-quality products (Ibid.). The two other groups, the Born Globals and Early Internationals, will be addressed in the next section.

### 2.1.2 International New Ventures and Born Globals

In the recent decades, researchers have identified more and more firms that early on seek and gain superior international business performance in foreign countries, which presents an important challenge to the traditional internationalization stage theory (Oviatt & McDougall, 1994; Moen & Servais, 2002; Zacharakis, 1997). One of the firsts to put focus on early internationalization firms in literature was Oviatt and McDougall (1994). They defined an INV as “*a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple countries*” (Ibid., p. 49). Another name for early and rapidly internationalizing firms is the Born Global (BG). The BG label was originally developed by Rennie (1993) and was a description of well-networked firms established with the capability to compete internationally and coordinate resources across countries. The term INV and BG are often used interchangeably in new venture literature, because they share the same characteristics. The literature review will also not distinguish between the BG and INV literature. These firms, BGs and INVs, do not follow the traditional stage internationalization process, but skip some of the stages or the internationalization may not occur in stages at all. BGs and INV firms aim at international markets or maybe even the global market right from their establishment (Madsen & Servais, 1997). Despite scarce financial, human and tangible resources that often characterize most new businesses, the early internationalizing firms leverage innovation, knowledge, and capabilities to achieve success in foreign markets (Knight & Cavusgil, 2004). Today, the domestic market no longer seem to be as important a learning place for firms as previous (Moen & Servais, 2002), instead it depends on which networks, education, experiences, and knowledge the entrepreneur of the firm has prior to the establishment of the firm. Additionally, low cost communication, technology, and transportation have made it possible for small firms to take advantages of business opportunities in foreign countries (which will be reviewed later).

Aspelund (2005) has categorized small international firms and defines the *Born Globals* by their rapid and extensive internationalization. BGs are often forced into internationalization due to an insufficient domestic market and profit opportunities in foreign markets. They operate in many arenas and even though they often tend to continually operate around their home market, distant markets culturally different from their own, often are their most important. *Early international* firms are according to Aspelund (2005) defined by their early but limited internationalization. They internationalize to reduce the dependency of the domestic market. The internationalization process is often initiated by foreign initiatives, and will often be limited to a few and proximate near markets (Ibid.).

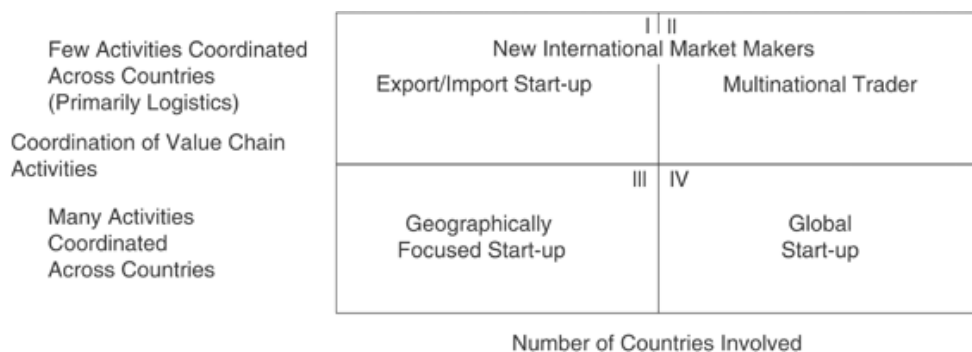
Oviatt and McDougall (1994) present a framework to explain the INV phenomenon by integrating international business, entrepreneurship, and strategic management theory. The framework describes four necessary and sufficient elements for sustainable INV. The first element, *internalization of some transactions*, is traditional in its reliance on transaction cost analysis, market imperfections, and the

international internalization of essential transactions to explain the existence of the multinational company. The second element, *strong reliance on alternative governance structure to access resources*, is essential for young ventures because they often lack sufficient tangible resources to control assets through ownership. The minimal use of internalization and the greater use of alternative transaction governance structures is a general feature that distinguishes new organizations from older (Aspelund, 2005). Therefore young ventures tend to internalize, or own, a smaller percentage of resources essential to their survival compared to more mature firms. Entrepreneurs in this kind of venture must rely on alternative hybrid modes, such as personal network, in order to access and activate foreign resources. The third element, *establishment of foreign location advantages*, refers to the advantage that the INV has to develop over local firms. To overcome the liability of doing business in a foreign country, the INV must rely on other resources to create cost advantage of doing business in a foreign country. The argument originates from the international business literature and Dunning's eclectic OLI paradigm (1988, in Oviatt & McDougal, 1994) which argues, that some firms are international because they profit from moving resources from one market to be combined with immovable resources in another. The last element, *control over unique resources*, is a necessary condition for the firm to create a sustainable advantage. In accordance with the resource-based view, having unique resources and capabilities, which can be a unique management style or organizational culture, are vital for developing a sustainable advantage.

Oviatt and McDougall (1994; 2005) present four broad categories of INVs (see figure 1). A mixture of the types can most likely appear, as well as INVs can change type by developing or reducing the number of activities. Some INVs coordinate the transformation of resources from many parts of the world into outputs that are sold wherever they are most valued. Others are primarily exporters that add value by moving outputs from the home market to locations where they are in demand. The *New International Market Makers* (INV I and II) are exporters/importers, therefore the most likely activity to be internalized are the systems and knowledge of inbound and outbound logistics. *Export/Import Start-ups* (I) focus on serving a few nations, familiar to the entrepreneur, while the *Multinational Traders* (II) serve multiple countries and are constantly searching for trading opportunities where their networks are established. Foreign direct investments of New International Market Makers in other countries are typically kept at a minimum. The location advantage of New International Market Makers is the ability to discover imbalances of resources between countries and to create markets where none exist. The sustained competitive advantage depends on the ability to spot and act on opportunities, acquire knowledge of markets and suppliers, and attract and maintain a loyal network. *Geographically Focused Start-ups* (III) develop advantages by serving a special demand of a particular region of the world through the use of foreign resources. They differ from the Multinational Traders (II) as they are geographically restricted to the location of the specialized need, and they coordinate more activities than just logistics. They differ from the Exporter/Importer Start-ups (I) only in the latter respect. Geographically Focused Start-ups' competitive advantage is found in the

coordination of multiple value chain activities. *Global start-ups* (IV) are the most radical type of the INVs because they develop significant competitive advantage from the extensive coordination among multiple organizational activities from locations all over the world. Global Start-ups are possibly the most difficult INV to develop, because they require skills in both geographic and activity coordination (Ibid.).

**Figure 1: Categories of INVs (Oviatt & McDougal, 1994)**



## 2.2 Internal factors influencing internationalization

Despite an external environment facilitating internationalization (reviewed later), there are still numerous SMEs that only operate in domestic markets. To explain why some firms internationalize early and why some stays domestic, it is necessary to look at the firm's internal organizational capabilities. I will review the entrepreneurship of the key manager, organizational knowledge and learning, and network influences.

### 2.2.1 International entrepreneurship

Oviatt and McDougall (1994; 2005) emphasize the role of the entrepreneur as the key driver of early internationalization, and define international entrepreneurship as "*the discovery, enactment, evaluation, and the exploitation of opportunities -across national borders- to create future good and services*" (Oviatt & McDougall, 2005, p. 540). They argue that many firms make an early leap into international markets because of the unique entrepreneurial capacities and outlook. The person or group that discovers or enacts upon an opportunity is central to the development of the international exploitation. Through the lens of their personal characteristics such as factors like education, experience from living abroad, and psychological traits, the entrepreneurs interpret and act on the potential of the opportunity. Taking the globalized external forces into consideration, these factors can either clarify or cloud the entrepreneur's decision making. Therefore, accelerated or delayed international entrepreneurial behavior cannot be explained through some objective measure of technology and competition, but only by understanding how the opportunity, and other motivating forces are interpreted by the entrepreneurial actor (Ibid.).

Some entrepreneurs possess a constellation of skills and knowledge that allow them to see and exploit windows of opportunity unseen by others (Oviatt & McDougal, 1994; Madsen & Servais, 1997). It is factors like education, experience from living abroad, experience from other internationally oriented jobs, etc. that shape the mind of the entrepreneur and decrease the psychic distances to foreign markets. Therefore, the entrepreneur may not see national borders as an obstacle, but rather sees international markets as open, waiting to be exploited (Madsen & Servais, 1997). Knight and Cavusgil (2008) argue that *“international entrepreneurial orientation reflects an innovation focused managerial mindset that appears to lead born globals to pursue a collection of strategies aimed at maximizing international performance”* (Ibid., p. 136). Furthermore, international entrepreneurial orientation is especially important to born globals international success, because it appears to drive them to develop high-quality goods that are distinctive and technologically advanced (ibid.).

After the entrepreneurial actor has discovered an internationalization opportunity, many researchers (Oviatt & McDougall, 2005; Madsen & Servais, 1997; Moen & Servais, 2002; Knight & Cavusgil, 2004; McGauhey et al., 1997 among others) agree that the *knowledge-intensity* of the opportunity combined with the *know-how* already available to the entrepreneurial actor and the characteristics of the entrepreneur's international *network* will largely determine internationalization speed, the two factors will be reviewed below.

### 2.2.2 Organizational knowledge and learning

Autio et al. (2000) define an organization's knowledge as *“its capacity to apprehend and use relationships among critical factors in such a way as to achieve intended ends”* (Ibid., p. 911) and organizational learning is defined as *“the process of assimilating new knowledge into the organization's knowledge base”* (Ibid.). The integration of individuals' specialized knowledge is the essence of organizational capabilities, and when becoming embedded into the firm's culture via ongoing replication of routines, it produces a unique configuration of resources. The most important knowledge resources are unique, inimitable, and immobile, reflecting the distinctive pathways of each individual firm (Barney, 1991).

Zahra et al., (2006) propose, that the ability of some new and established companies to continuously create, define, discover, and exploit entrepreneurial opportunities, lies in these firms' developing and applying different dynamic capabilities. Zahra et al., (2006) distinguish *“substantive capability from the dynamic ability to change or reconfigure existing substantive capabilities, which we term as the firm's dynamic capabilities”* (Ibid., p. 921). Thus, dynamic capabilities distinguishes one type of ability from another type of ability e.g. a new routine for product development is a new substantive capability but the ability to change such capabilities is a dynamic capability (Ibid.). Dynamic capabilities are viewed as the abilities *“to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate*

by the firm's principal decision-maker(s)" (Ibid., p. 924). Thus the definition emphasizes the managerial role as the centre of the.

Knowledge and learning can be expected to have an impact on international growth in that internationalizing firms must apprehend, share, and assimilate new knowledge in order to compete and grow in markets in which they have little or no previous experience (Autio et al., 2000). Knowledge regeneration is important to firm growth. The creation of new knowledge depends on what a firm knows when it encounters new knowledge and how it processes or assimilates the new knowledge. Oviatt and McDougall (1994; 2005) postulate that there is a correlation between how quick a firm first goes international, how quickly the firm will learn in the international market, and how great an impact the learned knowledge will have on its subsequent international growth. This suggests that the pace of a firm's international growth is regulated not only by the accumulation of foreign organizational knowledge as suggested by the traditional stage model, but also by the amount of time the firm has devoted solely to domestic operations (Oviatt & McDougall, 2005).

Knowledge and learning plays an important role both in the Uppsala model and in the INV model, but in different ways. In the Uppsala model, the lack of organizational foreign knowledge is a central explanation to the incremental and delayed international expansion. Whereas in the INV model, individual knowledge is also able to drive the timing and pace of early internationalization, because ventures do not necessarily need organizational experience to enter their first markets early (Oviatt & McDougall, 1994). Knowledge in the entrepreneurial firm tends to be more individualized to the founder or entrepreneurial team, therefore managers with great personal international knowledge, are more likely to exploit opportunities earlier and leapfrog some stages suggested by the Uppsala model. It is the greater absorptive capacity that makes these INVs ready to accumulate additional foreign knowledge, which reduces the uncertainty and risk of operating abroad and makes it more likely to exploit entrepreneurial opportunities earlier (Oviatt & McDougall, 2005; Autio et al., 2000). Knight and Cavusgil (2004) argue, where larger older firms often experience substantial bureaucratization which hinders their innovative activities, smaller or younger firms are more flexible, less bureaucratic and generally enjoy internal conditions that encourage innovativeness. Despite lacking financial power and human resource capabilities, BGs and INVs leverage a collection of intangible knowledge-based capabilities when doing business in foreign markets. Knowledge about international markets and operations, as well as the efficiency of how such knowledge is acquired, is an important determinant of superior international performance in these young internationalizing firms. Autio et al. (2000) explain that the success of young firms in their early internationalization is because their inexperience is an advantage. Autio et al. (2000) call this the *learning advantages of newness*. BGs and INVs appear to lack the deeply rooted administrative heritage of older businesses who typically must unlearn routines rooted in domestic operations before new internationally orientated routines can be learned. BGs



and INV do moreover not have obligations for domestic partners, as older firm often have established, because of their young age (Autio et al., 2000; Clercq et al., 2012). To unlearn embedded routines becomes more difficult as firms get older, because new knowledge that leads to new routines tends to conflict with existing ones. Additionally the routines of older firms may be costly to change and thereby limit the innovation of the firm. This is in line with Aspelund's (2005) advice that firms should "*internationalize before domestic cementation*" (Ibid., p. 39). Young firms are better to adapt and compete in new and dynamic environments due to the learning advantages of newness, but learning advantages of newness do not remove the *liabilities of newness* and that increases the potential to fail. The liabilities are often caused by lack of reputation, social capital, and tangible resources (Autio et al., 2000; Zahra, 2004). Luck, of course, also plays a role whether firms survive or fail (Zahra et al., 2006).

Both new and established firms engage in *experimentation*, *learning-by-doing*, and *improvisation* to learn and to deal with changing conditions. However, because learning is a path dependent process, firms' learning will depend on what they already know. How and what firms learn and how they change will partly depend on their history and the development stage of their organizational routines (Autio et al., 2000; Zahra et al., 2006). Miner et al. (2001, p. 319 in Zahra et al., 2006) distinguish the three learning types, improvisation, trial error, and experimentation, as follows: "*Improvisation involves real-time, unplanned experience in which action informs design as it occurs. Trial-and-error learning involves the taking of actions, planned or unplanned, to inform future action. Experimentation is the deliberate and systematic use of varied conditions to learn cause-effect relationships*" (Ibid., p. 932). Experimentation thus implies a higher level of control than improvisation and trial-and-error learning. Given that experimentation relies on detailed planning and evaluation, experimentation requires more time from initiation to integration of routines. Thus, Zahra et al. (2006) propose that the amount and speed of change in substantive capabilities is greater from trial-and-error and improvisation than experimentation processes. They also propose that younger the firms, the more likely they will need to use improvisation as a learning method, because they do not possess the resources that would allow them to plan activities or to experiment with different possibilities, even if comprehensive planning might pay off. Furthermore, their limited experiences will result in many unknown situations and thereby force them to improvise to create solutions. As firms age, experimentation becomes an increasingly likely choice for developing and using dynamic capabilities. The use of *imitation* to learn is unrelated to firms' age, and can also be viewed as a mode for developing dynamic capabilities (Ibid.). Young firms use imitation as a means of acquiring new knowledge because of their relative inexperience and lack of knowledge, while older firms copy ideas from competitors to get new inspiration of doing things.

### 2.2.3 Networks

Some firms internationalize into foreign countries due to personal relationship, other internationalize due to business relationships where the firm follows key customers or competitors (Khanna et al., 2005). Much of a company's ability to initiate and carry through international operations is thanks to the entrepreneur's international personal and business network, and the networks will largely determine how fast a firm's internationalization will develop when a business opportunity is discovered (Oviatt & McDougall, 2005; Madsen & Servais, 1997; Moen & Servais, 2002; McGahey et al., 1997; Johanson & Vahlne, 2009). The networks can facilitate and accelerate firm's internationalization by acting as a substitute for resources that entrepreneurs cannot otherwise access. Good networks can help a company to overcome barriers and reduce the risk of doing business in unknown foreign countries. Firms are able to develop access to important market knowledge through the networks and thus enhance their competitive advantage and improve overall performance. Firms with an international network can enjoy a learning advantage and will find it easier to go abroad than firms whose partners are domestic firms (Sharma & Blomstermo, 2003). When comparing the patterns of INVs and BGs with more traditional global firms, the formers' internationalization is characterized by rapid and extensive development of networks to facilitate market entry (Jones et al., 2011).

Oviatt and McDougall (1994; 2005) also emphasize the importance of networks to internationalize early, because they help entrepreneurs to identify international business opportunities. Networks appear to have more influence on the entrepreneurs' country choice than the psychic distance of the countries. Especially important is the strength of networks as a determining factor with regard to the speed of internationalization. The strength refers to the strong and weak ties of the network. It is the weak ties that are the most important type for internationalization, because they concern the ties with customers, suppliers, and other business related persons. Weak ties require less investment and are not as time-consuming as strong ties to maintain. They are weak because the intensity as well as the duration of interaction with each individual actor abroad is limited and many of these ties are indirect and involve intermediaries such as the Internet to connect otherwise disconnected actors. These kinds of ties can grow relatively quickly and are a vital source of information and know-how for the firm. Weak ties also supply more new knowledge than strong ties, because knowledge of firms involved in weak ties is dissimilar to that of strong ties. Firms in strong ties adapt to each other and develop a similar knowledge base. Firms engaged in weak ties are in a better position to search for new knowledge, because they enjoy greater autonomy. If network ties are already in place when the entrepreneur discovers an opportunity, the internationalization may occur with unusual speed, and if the ties are yet to be established, the internationalization will most likely be slower (Sharma & Blomstermo, 2003; Oviatt & McDougall, 2005). The network tie thinking is equivalent to Johanson and Vahlne's (2009) business network model of firm internationalization. The two authors of the Uppsala internationalization model revised the stage model in

light of the ever changing business environment, which today is viewed as a web of relationships and networks, rather than as a neoclassical market with many independent suppliers and customers. The revised model focusses on developing a more general business network model of firm internationalization, where business networks should be considered as market structures in which the internationalizing firm is embedded (Ibid.).

### **2.3 External factors influencing internationalization**

External factors such as developments in information technology, new production technology, and the reduction of trade barriers are all examples of contributing factors to the increasing numbers of early international companies (Oviatt & McDougall, 1994; Madsen & Servais, 1997; Moen & Servais, 2002; Aspelund, 2005 among other). The changed market conditions during the last decades has facilitated an active, dynamic and globalized external environment that has reduced the transactions costs of foreign market expansion, even for small firms. New production process technology has resulted in the possibility that small-scale operations may also be economically sound, and that is why specialization, customization, and niche production are viable alternatives in today's markets. Developments in the area of information and communication technology have made the world market more accessible, especially for small firms, at low cost by the use of the internet. The internet has also made it possible to collect, analyze, and interpret information about international markets in an extremely fast and easy manner (Madsen & Servais, 1997). Knight and Cavusgil (2004) emphasize that globalization has made the world market more homogenous and international business easier by enabling international sourcing, production, and marketing as well as cross border alliances for product development and distribution.

Madsen and Servais (1997), among others, have considered the role of national setting on early firm internationalization. They found in their study, that early internationalizing American firms all belonged in the high-tech industry. Therefore they argue that because the American market is so large, it is big enough for many small players to operate in, consequently it is only the high-tech companies, with special niche products, that need the vast international marketplace to operate in. Opposite, countries that are smaller with developed and open economies, such as in Scandinavia, have more low-tech firms that have internationalized early, because the domestic markets have not been big enough. Madsen and Servais (1997) also highlight that in Scandinavia, and other small countries, companies and educations are much more internationally oriented and have higher language proficiency than, for example in America or England. When these external aspects are taken into account, it is easy to see, that traditional barriers presumed to have governed the whole internationalization process only two to three decades ago, have been significantly reduced in todays globalized world, thus making it easier for small companies to internationalize. Whereas technology enables faster internationalization, competitors encourage or even force it upon companies. According to Oviatt and McDougall (2005), companies have been motivated to

take proactive steps in order to gain advantage of technological opportunities in foreign countries, because of the fear that competitors will respond quickly to a new product introduction, and thus prevent the company in going international, if it started out in the home market first.

## 2.4 Emerging markets literature

In the following section, the literature on emerging markets will be addressed. This section is included to get a better understanding of what role developing countries (and China) play in companies' internationalization. The literature is based on research conducted from primarily Asian economies.

With the liberalization of trade and the opening of markets to foreign imports, consumers in developing countries and emerging economies are becoming better informed about product choices and more demanding in terms of product quality and value for money. Developing countries offer attractive markets for consumer goods and high growth potential, however, they also fall short in providing the necessary institutions to support basic business operations (Meyer and Yen, 2004). When companies from developed countries want to do business in developing countries and emerging markets, they should be cautious about adopting a view of developing countries as "less" developed countries, assuming that these markets are at an earlier stage of the same development path that the western countries have gone through. Many developing countries have evolved differently due to globalization, e.g. leapfrogging due to technology. Therefore companies need to rethink their normal marketing frameworks before applying them to these countries (Arnold & Quelch, 1998; London & Hart, 2004; Khanna et al., 2005; Meyer & Yen, 2004).

Emerging markets have other consumer market structures than developed countries. This is because emerging markets have a population composition consisting of many poor people that ultimately fills a significant proportion at the bottom of the population pyramid, while there are a few affluent people at the top, thus making little room for the middle class. When income per capita in developing countries increases, the pyramid will become taller, thinner, and more pear shaped, making the middle class the largest consumer segment, also known as the "middle-class effect". It is the middle class that triggers the demand for most mass consumer goods and their related inputs (Lasserre, 2007). The middle class' income increases faster than the average income, which triggers a rapid increase in demand for goods and consumer products. When companies from developed countries want to sell products in developing countries, they need to be aware of the different consumer market structures. Khanna and Palepu (2006) divide the product markets in developing countries into four distinct tiers (for figure see appendix 20). The top tier consists of a small *global* customer segment. This segment wants product of global quality and are willing to pay, and can pay, top prices for them. The next layer consists of the *glocal* segment who demands products of global quality but with local features and at a cheaper price than global prices. The *local* tier of the pyramid wants locally adapted products at local prices. The bottom tier is inevitably placed at *the*

*bottom of the pyramid*. This segment is only able to buy the most inexpensive products because of their deeply rooted poverty (Khanna & Palepu, 2006; Jeppesen, 2009; London & Hart, 2004).

To find the right approach and strategy for doing business in developing countries can be hard, due to the different business environment and different consumer tastes. In China another factor companies also need to have in mind, is the rapidly changing environment (Woetzel, 2011). Due to the rapid economic growth and urbanization, small cities of today are tomorrow's fast growing markets and already big cities will become even bigger. Due to China's large geographical area, the population speaks different languages and dialects and has different cultures, religion and preferences. There are also huge income gaps from the rich east coast cities to the rural areas in central and west China (Ibid.).

#### **2.4.1 Institutional based view**

Doing business in developed countries differs significantly from doing business in developing countries and emerging markets, even among developed countries, there are significant differences in terms of how competition is organized, as discussed earlier in reference to the U.S. and Scandinavian markets (Peng et al., 2008; Madsen and Servais, 1997). The institutional environment is of importance, as it pays attention to the influences of a country's institutional framework. Institutions can be broadly classified as formal (such as law and regulations) and informal ones (such as norms and cultures) whose task, amongst others, is to reduce transaction cost by reducing uncertainty. The informal institutions and culture are particularly important to a strategy in developing countries. Culture is viewed as a part of the informal institutions in the environment that support formal institutions and institutional arrangements (Redding, 2005 in Peng et al., 2008). Institutions are much more than background conditions, they directly determine how a firm formulate and implement strategy and how it creates competitive advantage (Hoskisson et al., 2000). No matter the size of the firm, firms operating in developing countries will be exposed to institutions and cultures that are remarkably different from the country they used to do business in (Ibid.).

When China opened up its economy in 1978, the Chinese firms could neither rely on a clearly defined institutional environment, nor on a set of routines suited for doing business (Reusswig & Isensee, 2009). Therefore, personal and business networks were a core step to overcome the uncertainties. Chinese entrepreneurs started to build social networks (*guanxi*) facilitating business relations that were based on trust, where relations could be networks to family, friends, and colleagues etc. (Ibid.). China has managed to sustain economic growth in the last three decades despite relatively under developed formal institutions. Peng et al. (2008) suggest that it is due to the interpersonal networks and alliances (*guanxi*) cultivated by managers in the society, that have served as informal substitutes for formal institutions, and thereby helped to grow the firm. Where formal institutions are weak, informal ones will come into play and reduce uncertainty and compose a larger role in driving firm strategies and performance (Hoskisson et al., 2000). Guanxi are relationships defined as "social connections" based implicitly on mutual interest and

benefit. The explicit purpose of *guanxi* is to build a long-term relationship, rather than one that lasts only the duration of an interaction or a single contract. This distinguishes *guanxi* from simple bribery, which many Westerners confuse it with (Reuswig & Isensee, 2009). In the early stages of market development, institutional theory is dominant in explaining impacts on firm strategy, but as markets and institutions mature, transaction cost theory and the resource based view becomes more important to explain firm strategy in emerging markets (Hoskisson et al., 2000).

#### **2.4.2 Transactions cost theory**

When using transactions cost theory (TCT) to explain firm internationalization in emerging economies, it is often useful to link the perspective with institutional theory, because emerging economies have presented new challenges to overcome TC problems (Wright et al., 2005). According to the TCT, firms select the international mode of entry that provides them with the most efficient form of governance, thus international market entry decisions are made in a rational manner, based on an analysis of the costs of the transaction (Hennart, 2001). Firm's entry into foreign countries can be purely market-based, for example arm's length exports using independent distributors. They can also be hierarchical processes, where exchange takes place within the company. Lastly, it can also be hybrids of both market and hierarchy, and thus take the form of contracts, such as licensing and franchising (Hennart, 2010; Williamson, 1975 in Wright et al., 2005; Zacharakis, 1997). According to the TCT, firms select the international mode of entry that provides them with the most efficient form of governance (Hoskisson, 2000). Where the transaction cost of markets is high, a hierarchical governance mode will most likely enhance efficiency. But as the hierarchal governance structure has its own bureaucratic cost, the most optimal governance choice requires a trade-off between the transaction cost associated with the market entry mode, a firm's need for control, and the governance cost of hierarchy (Hoskisson, 2000; Hennart, 2001; Zacharakis, 1997). This applies whether it is to do with integrating a production subsidiary, sales subsidiaries or using the market to coordinate activities. TCT argues that firms should organize themselves to minimize transaction cost, therefore firms should be able to estimate future returns and decide how to organize themselves to increase economic returns. However, when talking about SMEs with limited resources, many are not able to conduct foreign direct investments (FDI), even though it presents the best solution to decrease TC for the firm. Addition, it is also difficult for entrepreneurs, unfamiliar with a new country, to identify the end buyers, which discourages the pure market form of transacting (Zacharakis, 1997). Thus, entrepreneurial firms often use an export agent, as one of the first hybrid methods. The asymmetric information between the entrepreneur and the export agent can have positive implications for the success of their relationship. Each party possesses valuable information that the other party can utilize, the export agent wants a good product to sell and the entrepreneur wants a knowledgeable and skilled salesperson. Each party's contribution is hard to value, but critical for overall success (Ibid). However, both parties may be motivated to act opportunistically to reduce their respective TC (Eisenhardt, 1989 in Zacharakis, 1997). Adverse

selection will occur when one party misrepresents its abilities to the other, and will thus likely damages the relationship and ultimately hinders entry success.

### 2.4.3 Resource-based view

When small resource constraint firms from developed countries want to do business in developing countries, they need to plan alternative strategies to organize themselves, the resource-based view (RBV) justifies this perception best (Peng, 2001). As reviewed in the theories of internationalization, the RBV has played an important role in the emergence of international entrepreneurship. The RBV has helped explain why firms differ, and how some achieve idiosyncratic resources and capabilities to sustain competitive advantage and are able to succeed abroad rapidly, without going through different the stages suggested by the stage model. The RBV suggests that outstanding tacit knowledge about global opportunities and the equally outstanding capability to leverage such knowledge, in a way not matched by competitors, is likely to provide the firm with a competitive advantage in foreign markets (Peng, 2001; Oviatt & McDougall, 1994; 2005). The RBV proposes that competitive advantage and superior performance are embedded in organizational behavior and actions, which include simple routines and competencies in organizing and directing the firm. These resources vary between companies and therefore different firm strategies emerge (Barney, 1991). The RBV has helped entrepreneurs specify which resources they can leverage. Compared to their larger competitors such as large multinationals, entrepreneurial firms cannot afford to compete on tangible resources, only on intangible *resourcefulness* (Peng, 2001, p. 818), which is the ability of doing more with less. An example of such resourcefulness is when entrepreneurs attempt to translate their micro interpersonal ties with managers at other firms into improved macro organizational performance. This especially relates to emerging countries where formal institutional (e.g. laws and regulations) are weak, so informal institutional (e.g. interpersonal ties and guanxi) may play a more important role in facilitating economic exchange and hence make a more significant impact on firm performance. The RBV suggests that the social capital embedded in these ties, networks, and contacts can be regarded as an intangible resource that is difficult to replicate, thus giving start-ups possessing such ties a significant advantage (Ibid.).

## 2.5 Hypotheses

Having reviewed theories on how different kinds of firms internationalize, two hypotheses are formulated in line with the first sub-RQ: *How do companies vary in their motivation and aspiration for internationalizing to China?*

**Hypothesis 1a:** *A new venture will from inception seek to derive significant competitive advantage from the use of resources and the sale of output in multiple countries. A new venture internationalizes to reduce the dependency of the domestic market.*

**Hypothesis 1b:** *An older established company will conduct a slower internationalization process, due to its path dependency towards old habits of doing business within familiar markets. Internationalization is caused by domestic downturns, and therefore the firm seeks a more solid market platform by expanding business into new markets.*

Having reviewed the theories on how the internal influences affect firm internationalization and emerging market literature, two hypotheses are formulated in line with the second sub-RQ: *How do companies use their internal capabilities; entrepreneurship of the managers, knowledge and learning capabilities, and networks in the initial phases of the internationalization to China?*

**Hypothesis 2a:** *A new venture will due to limited resources and no experience rely heavily on entrepreneurship of the managers, knowledge and learning capabilities, and networks in the initial phase of the internationalization to China to overcome institutional differences.*

**Hypothesis 2b:** *An older established company will rely on entrepreneurship of the managers, knowledge and learning capabilities, and networks in the initial phase of the internationalization to China to overcome institutional differences. However, as the company is faced with a new institutional environment, different from its familiar markets, the company will need to develop new capabilities.*



### 3 Methodology

#### 3.1 Research philosophy

According to Guba (1990) a paradigm is defined as *“a basic set of beliefs that guides action, whether of the everyday garden variety or action taken in connection with a disciplined inquiry”* (Ibid., p. 17). Or as Corbetta (2003) describes it: *“The paradigm constitutes a guide by providing scientists not only with a map but also with some of the directions essential for map-making”* (Ibid., p. 3). Without a paradigm a science will lack orientations and all methods and techniques will be equally legitimate. According to Guba (1990), there are four leading paradigms: positivism, post-positivism, critical theory, and constructivism. The paradigms are categorized from three basic questions: Does reality exist (ontology)? Is it knowable (epistemology)? How can we acquire knowledge about it (methodology)? This thesis will operate in the postpositivistic paradigm, because in relations to organizations and their operating environment, the key concept of the postpositivistic paradigm is to find the most suitable and efficient organizational design for the present situation of the company (Mintzberg, 1985 in Darmer & Nygaard, 2011).

Postpositivism is developed through the main criticism of positivism. Ontologically, postpositivism is characterized as a critical realism, meaning that reality exists, but can never be fully apprehended. It is impossible for humans truly to perceive it because they are influenced by their feelings and values (Darmer & Nygaard, 2011). However, there is no doubt that reality is “out there” (Guba, 1990). Epistemologically, postpositivists advocate a modified objectivism, where objectivity remains a “regulatory ideal” that can never be achieved in any absolute sense. In the search to uncover the reality, postpositivists strive to be as neutral and objective as humanly possible. The methodology in the postpositivistic paradigm is modified in an experimental manner where examination should be conducted in more natural settings, using more qualitative methods to describe and get closer to the reality, than in the positivistic paradigm (Ibid.). According to the postpositivistic perspective, the case study is especially a good method when the researcher of the case needs to determine what solution is the best for the company in the present situation (Darmer & Nygaard, 2011).

#### 3.2 Research strategy

The thesis will apply an abductive research approach (Dubois & Gadde, 2002; Saunders et al., 2009; Easterby-Smith et al., 2008). According to Dubois and Gadde (2002), an abductive research strategy *“is a process where theoretical framework, empirical fieldwork, and case analysis evolve simultaneously”* (Ibid., p. 554), thus the relationship between theory and data is an interactive process where theory cannot be understood without empirical observation and vice versa. Researchers constantly go back and forth from one type of research activity to another and between empirical observations and theory, which helps to expand the understanding of both theory and empirical phenomena, in practice the process is likely to be repeated (Ibid.).

The thesis' research question has undergone an abductive approach. It has used both a deductive and inductive strategy. I started out to identify the phenomenon of interest by taking a point of departure at the cases in coordination with some preliminary hypotheses and assumptions. Afterwards, I started to review relevant theories and literature on internationalization and emerging markets from an academically perspective, consequently the hypotheses were adjusted, and then the data collection was carried out. After having collected the data, induction presented new knowledge and information on how to apply theory, thus expanding the understanding of the theory and empirical cases. This way the research strategy's theoretical, empirical and analytical focus employed in the thesis has continuously been adjusted and attuned as the cases evolved (the main elements of the abductive research method are illustrated in appendix 21). Two hypotheses have been developed to each sub-RQ based on the literature review and the abducted research question and sub-RQs. The hypotheses will be tested and the data will either validate or falsify them. As Flyvbjerg (2006) state, the case study is useful for both generating and testing of hypotheses. The testing of hypotheses relates to the question of generalizability of case studies, which in turn relates to the question of case selection, which will be elaborated on below.

### 3.3 Research design

The thesis will conduct a qualitative case study design of Thise and LM. According to Flyvbjerg (2006) the advantage of the case study is that *"it can close in on real-life situations and test views directly in relation to phenomena as they unfold in practice"* (Ibid., p. 235). A case study is ideal to understand the historical context of the companies that have led up to the decisions that are currently being enacted out. The aim is to explore and explain Thise and LM's initial phases of internationalization planning to China, how the opportunity is discovered and *what actions that are taken during the initial phase of planning and preparation*. A case study design is chosen because the main units of analysis are relationships and internal factors in the organizations, according to Easton (2010), these are difficult to access in other types of designs, e.g. surveys. A case study can provide a large amount of qualitative data which can be written up as a case study, offering insights into the nature of the phenomena (Ibid).

A methodological choice for the thesis is to conduct a two-case case study. According to Yin (2009) it is desirable to conduct multiple-case designs over single-case design, when you have the choice and resources. Even if you can only conduct a two-case case study, the chances of producing a good case study will be better than using a single-case design, because the analytic benefits from having two or more cases can be substantial. The two cases will furthermore be able to supplement each other by filling out potential gaps and thus provide the thesis with better responses, where one case may fall short. Single-case designs are more vulnerable, because *"you will have put all the eggs in one basket"* (Ibid., p. 61). To maximize the utility of information from small samples cases, Flyvbjerg (2006) argues that cases should be selected on the basis of expectations about their information content. The two cases analyzed in the thesis can

therefore be constituted as “critical cases.” A critical case can be defined as having strategic importance in relation to the general problem. A critical case is to achieve information that permits logical deductions: *“If it is valid for this case, it is valid for all (or many) cases”* or *“if it is not valid for this case, then it is not valid for any or only few cases”* (Ibid., p. 230). Though random sampling will offer representativeness, a random sample will often not be able to produce this kind of insight. Flyvbjerg (2006) argue it is more appropriate to select few cases chosen for their validity. When searching for critical cases, it is a good idea to look for either “most likely” or “least likely” cases, that is, cases likely to either clearly confirm or falsify propositions and hypotheses (Ibid., p. 231). Thise and LM were selected on an information oriented selection basis, and chosen because they “most likely” would confirm the hypotheses stated in the thesis. Thise and LM can also be characterized as maximum variation cases, which are cases that vary on different dimensions as size, form of organization, history, resources, age etc. Instead of seeking representativeness through equal probabilities, maximum variation cases seek it by including a wide range of extremes (Ibid.). The method works well in places where a random sample cannot be drawn, e.g. when the sample size is very small. The two cases offer unique insights in relation to their strategies and processes and will provide the thesis with a representative result due to the different backgrounds and set-ups; Thise is the second largest organic dairy in Denmark, and LM is a newly establish firm. The cases are representative in the sense that they represent a sample of the Danish companies working in the organic food industry. There exist many Danish organic food companies, from small ones the size of LM to the larger ones such as Thise, which have a high likelihood of starting an internationalization strategy to China in the future. Therefore, the lessons learned from this thesis should be useful for other companies as well.

Due to the timeframe of the thesis and the case study method, a cross-sectional study is applied. A cross-sectional study is a “snapshot” in time of a particular phenomenon. I am analyzing the current state (strategies, considerations, relationships, and opportunity etc.) of the cases as they are right now. However, history of the firms will be used to provide a thorough case description and to understand past, present and future internationalization motives and wishes.

### **3.4 Data collection**

The data collection consists of qualitative primary data, in particular interviews, conversations, and e-mail correspondences, as well as secondary sources such as academic journals, reports, and articles.

#### **3.4.1 Primary data**

Primary data used in the thesis is collected as semi-structured interviews, informal meetings, and e-mails with key persons from the two case companies. The primary qualitative data have provided the thesis with important knowledge about the firms’ structures, history, and events in the companies that have led up to present decisions. The interviews and e-mail exchanges have been especially important to gain information on the cases, because the public data in the media has been rather limited. The companies’ own material,

such as their homepage, has also revealed little as it is very much consumer orientated as opposed to being a rich source of back office information. The initial contact concerning the cases was established by writing an e-mail to the companies to present the subject of the thesis and ascertain if they were interested in participating. After the contact was established, and both companies had accepted, I coordinated a contact person in each of the companies who I could communicate with directly. In Thise my contact was Klaus Sall, who has been Thise's consultant and business developer for 17 years, and in LM I was directly in contact with Silvia Wulff, who is the owner and the establisher of LM. To get general information about the companies I have been communicating with them via e-mail, but to get in-depth knowledge about their internationalization planning I have conducted semi-structured interviews. The places of the interviews were chosen by the interviewees, which were primarily in informal environments such as cafes. One of the meetings with Klaus Sall was at Thise dairy in Jutland, where I was given a tour of the dairy plant and a presentation about Thise's history, including the business mentality and approach.

According to Kvale (2008) the aim of the qualitative interview should be to collect information, which captures the meaning and interpretation of phenomena in relation to the interviewee's viewpoint. Semi-structured interviews are appropriate when it is necessary to understand the basis for the respondents' opinions and beliefs about a particular matter or situation. The aim of the thesis is to understand Thise and LM's earlier experience, organizational capabilities and future strategies, thus understanding what has led up to present decisions. Therefore qualitative semi-structured interviews were preferred over other interview forms and qualitative data collection methods. The interviews were also a good tool to gain a holistic understanding of the companies. Due to the relatively small size and organizational set-up of the case companies, it has been enough to interview only individuals from the companies, as the companies do not have multiple departments that coordinate the internationalization activities.

According to Easterby-Smith et al. (2008), because all researchers have some kind of presumption or level of understanding prior to an interview, researchers often enter the interview with some key questions, however as the questions are likely to change as new and interesting areas are uncovered during the interview, the researcher may want to tailor the questions depending on the interviewees' response (Ibid.). Therefore the semi-structured interviews were structured using a topic guide, which is a résumé of the main areas of interest that were to be explored, based on existing literature and theories (Darmer & Nygaard, 2011). Under each theme I prepared some questions, so I was sure I had some guidance if the conversation did not naturally cover all the necessary themes. Additional to the themes, I prepared a checklist to tick off as the subject and questions were discussed. That way I was certain that every theme was covered. The semi-structured interview is thus designed so it will cover the general areas of interest but also allow unforeseen areas to emerge.

The initial conversations I had with the two companies were not recorded, but notes were taken to make short summaries. The semi-structured interviews were electronically recorded while I took notes, and after the interviews, they were transcribed into summaries. If something was unclear in the interviews or I had additional questions, I wrote e-mails to follow up on the questions afterwards. The length of the informal conversations and semi-structured interviews varied from approximately one hour to two hours (see appendix 1 for interview overview and appendix 2-11 for summaries of interviews, informal conversations, and e-mails).

### **3.4.2 Secondary data**

The secondary data used in the thesis has primarily been used to analyze the internal and external environment in relation to the two cases. As written before, there is a limited amount of data that has been produced about the two cases, so very little was openly available except that from their homepages and articles from various news agencies found on the internet. Data on the external environment consist of various journals, reports, and articles. The internationalization theories and literature originate mainly from courses taken at the MSc in Business and Development Studies at Copenhagen Business School, as well as academic journals and books from the EBSCO database and the library at Copenhagen Business School. Chosen theories of firm strategy in developing countries and emerging markets theories are mainly based on research conducted from Asian economies, including China.

## **3.5 Analytical method**

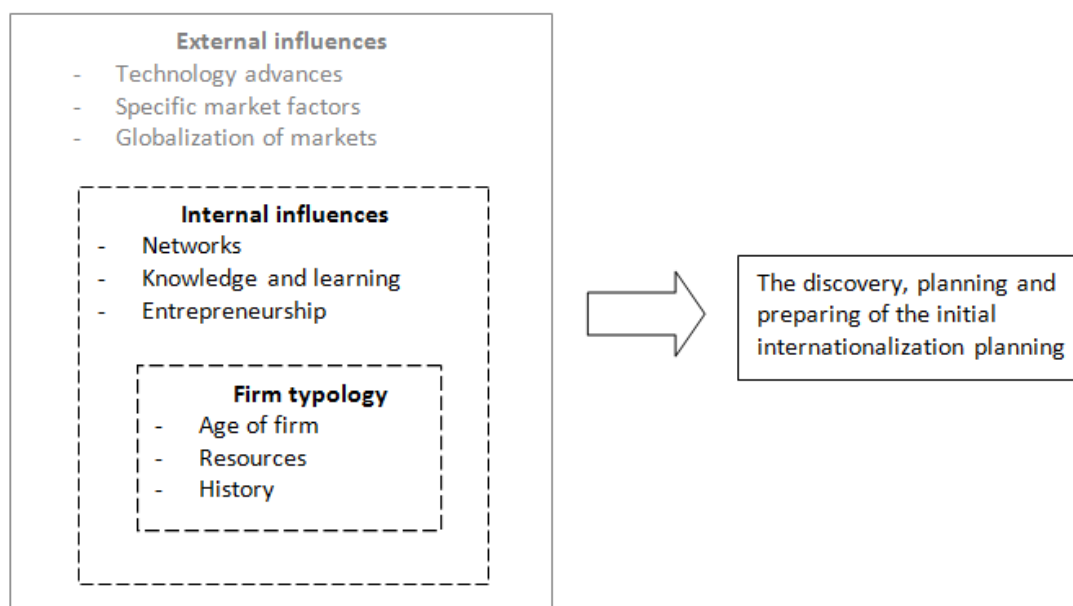
This section will first describe the different parts of the analytical framework and after present the operationalization of the analysis.

### **3.5.1 Analytical framework**

The evolving framework is a cornerstone of abductive research strategy. As Bryman (1995 in Dubois & Gadde, 2002) states, a theoretical concept provides the researcher with a set of general guidelines when entering the empirical world. Dubois and Gadde (2002) suggest the use of a tight and evolving framework. The tightness reflects the degree to which the researcher has articulated his or her presumptions, that includes hypotheses developed from existing literature and theories. The reason the framework should evolve during the study is because empirical observations inspire changes of view concerning theory and vice versa. Applying the knowledge acquired from the internationalization and emerging markets literature, this section proposes an analytical framework that addresses the variables affecting Thise and LM's initial internationalization planning to China. The purpose of the analytical framework is to support the process of answering the research question and sub-RQs, eventually achieving a better understanding on how the initial phases of the internationalization of Danish organic food companies wishing to go to China are discovered, planned, and prepared.

The developed framework is inspired by Oviatt & McDougall's (2005) and McGauhey et al.'s (1997) frameworks of factors that influence companies internationalization. It consists of three boxes (see figure 2): *External influences*, *internal influences*, and *firm typology*. The external influences box represents the external factors that affect the internationalization of firms, such as technology advances in transportation and communication, the globalization of markets, and specific market characteristics. However, the external influences box is shaded to indicate that it is not part of the main analysis, but that it still influences and motivates the companies. The external influences will be addressed in the contextual presentation. The focus of the analysis will be on the firm typology, based on the firms' history, resources, and age, because the typology will impact on the motivation and aspiration for internationalization. The other focus will be on how the companies use their internal capabilities (use of entrepreneurship knowledge and learning, networks). That will eventually influence, on what actions are taken during the initial phase of planning and preparation. The internal influences and firm typology boxes are dotted to indicate, that all the boxes are affected by and dependent on each other.

**Figure 2: Analytical framework**



### 3.5.2 Analytical approach

The thesis' analysis will take its point of departure in a presentation of the case. More specifically, this will involve a contextual presentation of Thise and LM's operating environment in Denmark to get knowledge about the push-factors to internationalization, and a market presentation of the Chinese market to know the pull-factors of internationalization. The analysis will invariably use secondary sources such as reports and academics papers as a backdrop, in order to maintain focus. The case presentation of Thise and LM will present the companies' histories, internationalization experiences, and motivations. Primary data such as

interviews and e-mail exchange have been used to describe the two cases (Wulff, 2012a; 2012b, 2012c; Sall, 2011; 2012a; 2012b; 2012d), as well as internal and external secondary sources.

The main variables of the analytical framework will be analyzed independently, drawing on information gained from the primary data. To determine which typology the companies are, the analysis will draw on internationalization literature, where the main focus will be on Oviatt and McDougall's (1994) INV theory and the Uppsala model by Johanson & Vahlne (1977), but will draw on other researchers as well. The analysis of the companies' internal capabilities (entrepreneurship, network, and knowledge) will draw inspiration from leading researcher on the subject such as Oviatt and McDougall (1994; 2005), Madsen and Servais (1997), Autio et al. (2000), Moen and Servais (2002), Knight and Cavusgil (2008), Aspelund (2005) and Johanson and Vahlne (1977) among others. The discussions will answer the sub-RQs of the thesis in light of the findings from the analysis, and the stated hypotheses will either be rejected or validated. The internal and external validity of the thesis will lastly be discussed, depending on the outcomes from the discussion.

### 3.6 Construct validity and reliability

The following section will discuss the validity and reliability of the research. The *construct validity* and the *reliability* will be addressed in the following section. The *internal* and *external validity* of the thesis will be covered subsequently to the discussion.

To secure the methodology used to study the research question, an assessment of the analytical framework's construct validity is necessary. Yin (1989 in Drucker-Godard et al., 2001) proposes three methods to improve the construct validity of qualitative research: the first is to use a number of different sources of data to support the theories, and thus facilitate data triangulation. As accounted for earlier, the empirically data is a mix of primary and secondary data. The second method is to establish a "chain of evidence", enabling the reader to follow the derivation of data from the initial stages to the conclusions. This is accounted for in the analytical method. Lastly, I have sent case descriptions and part of the analysis to the case companies for verification by the interviewees.

To demonstrate the reliability of the research results, over time and across a community of researchers, is an important consideration for the thesis. Evaluating the reliability of the thesis and its results, consists of establishing and verifying that the various processes involved, is able to be repeated by different researchers over different time periods, and that the researchers will be able to arrive at the same findings and conclusions (Drucker-Godard et al., 2001). For other researchers to be able to follow the same procedures the paper has embarked on, primary and secondary data have been saved electronically. The

primary data (electronically recorded interviews and e-mails) has been attached on a CD enclosed in the thesis.

It is always important to be aware of what stake a person or a company has in any particular case. Therefore the persons interviewed are of course potentially subject to participant bias, which may threaten the validity and reliability of the findings. Due to the presumptions and prejudice I as a researcher may have, observer bias is also important to be aware of. As I operate in the postpositivistic paradigm, objectivity remains a “regulatory ideal” that can never be achieved in any absolute sense, however, postpositivists strive to be as neutral and objective as humanly possible in their research to uncover the reality (Guba, 1990). Secondary sources should always be handled with care due to the different stake and biases. To gather reliable data about market information in China can be difficult, though information about China has become more accessible in the last few decades. The media in China is still under control from the Chinese government, so data from and about China should always be considered with certain healthy skepticism, because they could be politically biased or conclusions could be based on incorrect information. In trying to get reliable data, I have used various sources from international bureaus and researchers, which will be used in the contextual case presentations.

## 4 Case presentation

This chapter will present the case of the thesis starting with case presentations of Thise and LM, which will focus on the company structure, internationalization experience and motivation. After that, the operating environment of Thise and LM's will be presented.

### 4.1 Lovemade

LM was established in September 2010 by Silvia Wulff in Copenhagen. Becoming a mother, she experienced that the only pre-made baby food she could buy in the supermarket was long-life canned and powdered food. She wanted to give her children organic, healthy, and fresh food, but in her busy daily life, she found it difficult to find time to make it herself. She then came up with the idea, that she could cook a big portion of baby food and freeze it into smaller portions. This homely habit quickly developed into a business idea, and thus the idea for LM started. To kick start the project, LM received help in the form of start-up funding, to the amount of DKK 640,000 from the Danish Veterinary and Food Administration's innovation fund<sup>1</sup> and later on, LM got an investment of DKK 1.8 million from CAT Science Park<sup>2</sup>, a privately held investment company. Besides Silvia Wulff, LM employs an assistant and a part time graphic designer.

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<sup>1</sup> <http://www.foedevarestyrelsen.dk/english/Pages/default.aspx>

<sup>2</sup> <http://www.catscience.eu/>



LM's products were created by the two Danish well-known chefs, Mikkel Maarbjerg and Nikolaj Kirk who developed six different recipes of organic baby food. The products are produced at a food manufacturer in Sweden. Silva tried to find a production facility in Denmark, but due to very strict production facility requirements in organic food production, the best match was found in Sweden. LM's products came on the Danish market for the first time in May 2011, and are currently sold in Kvickly, Irma, SuperBrugsen, Supermarché, Mad&Vin, Torvehallerne, Irmatorvet.dk, nemlig.com, and OSUMA.dk. The price of one container of 190g is DKK 18 making the products almost twice as expensive compared to conventional baby food.

At the moment, LM only sells its products in the Danish market, but is interested and in the process of starting exports to other countries. From November 2011, LM started to exhibit its products at a food showroom in Shanghai owned by a joint venture between DC Companys and the Danish Consulate General in Shanghai. DC Companys<sup>3</sup> is a consultancy company started by a Dane and a Chinese, and has offices in Denmark and China. The purpose of the showroom is to promote high-quality Danish food products to Chinese importers, distributors and retailers, and to expand awareness for Danish quality food and beverage products in China. Besides China, Silvia Wulff is currently in dialog with people about exports to the Middle-East, Germany, Finland, and Sweden. LM is planning to launch its products in ICA supermarkets in September 2012 (Wulff, 2012c). ICA is one of the largest players in the Swedish market with a market share of 36 percent (ICA, 2012).

One of the most prominent reasons why LM is attempting to internationalize so fast after establishment, is according to Silvia Wulff to increase sales and thereby income. Selling more products would result in economies of scale, which would make the raw materials, production, transportation, and distribution cheaper. By having more capital, LM would also be able to develop new products, and having a larger product selection would, in theory, also make it easier to sell more products. According to Silvia Wulff (Wulff, 2012a; 2012b) it has always been in the business plan that LM should start exporting to other countries relatively fast after establishment. Silvia's reason for this decision is, among other things due to the small size of the Danish market for organic baby food. One aspect of this is the price of the products compared to conventional baby food. Another aspect is that Danish babies start to eat "normal" food already when they are about eight months old. Compared to Sweden and China, babies and small children eat baby food up until they are about three years old, thus the period in Denmark is rather dramatically shortened compared to other counties. Another reason to why export would be necessary from early on is because Silvia has experienced, that it is a common understanding among Danish mothers, that to buy premade baby food for your children instead of making it yourself, will characterize you a "bad mother".

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<sup>3</sup> <http://www.dccompanys.com/>

Silvia Wulff thinks that restricting the firm to only sell in Denmark would be too risky due to the size of the market. Silvia considers the Danish market as a test market, to gain some experience before exporting, both in relation to experiencing “how to do business” in general, because she is a novice in the business and secondly, to test products and marketing schemes. Since LM’s products came on the Danish market in May 2011, the sales have been growing, however not as fast as Silvia had hoped for. It was thus a combination of seeking new market growth and “need for survival” that Silvia agreed to travel to China to search for possible agents in collaboration with DC Companys.

## 4.2 Thise

Thise Mejeri is a cooperative, presently owned by 82 Danish organic farmers in Jutland and has about 125 employees. Thise was established in 1988 by dairyman P. E. Pedersen in Thise (Jutland), where the only office and production facility is also located. When Thise was established in 1988, organic dairy products were a rather new thing, consequently in the beginning Thise had a difficult time selling its products due to high prices and lack of demand amongst the Danish population. However, as time passed, Thise began to win market shares. In 1997, the dairy was taken over by P. E. Pedersen’s son Paul Johannes Pedersen and his partner Erik Ellebæk, they continued the production of organic dairy products and Thise is today Denmark’s second largest dairy, with a production of about 88 million kilo of milk in 2011 and about 85 different dairy products. Thise’s revenue has been increasing during the last five years from a about DKK 360 million in 2007 to DKK 539 million in 2011. However due to increasing expenses the profit fell from DKK 13 million in 2010 to DKK 5.5 million in 2012 (Thise Mejeri, 2011; Jørgensen 2012).

In Denmark, Thise’s biggest customer is Coop who has about 1085 supermarkets such as Kvickly, Irma, Fakta, SuperBrugsen, and Brugsen. Apart from that, Thise sells products to catering companies and dairy to other companies for industrial production e.g. ice cream production. According to Klaus Sall (Sall, 2011), Thise has about 50 percent market share of the organic cheese and yogurt market and 25 percent of the organic milk market in Denmark. Because the products are 100 percent organic, some products, e.g. milk, can be twice as expensive as conventionally produced products.

Normally, players in the dairy industry rely on economies of scale to increase revenue, but Thise has (also) chosen to rely on small-scale advantages. After all, there are some benefits associated with being a small producer, e.g. maneuverability and fast response time to consumer demand. Combined with the desire and ability to develop new products, Thise is able to produce a production batch down to 300 pieces. For a small manufacturer like Thise, the production does not need to be particularly large before the amount is profitable (Thise Mejeri 2012, Sall, 2011). Thise also adapt products to certain export countries, e.g. Greenland’s population has a high number of lactose intolerant consumers, so Thise developed milk without lactose.

Thise relies on high quality and good taste in all its products, and that should, according to themselves (Sall, 2012a), be enough to sell products. This belief is also the reason why Thise only spends a limited amount of money on marketing. Thise only advertises through supermarket advertisement sales materials, and does not make any commercials in television, radio etc.

The primary market is Denmark, accounting for 83 percent of the total sales in 2011. The remaining 17 percent were exported to 11 countries: Germany, Netherlands, Sweden, France, Greenland, Belgium, Italy, South Korea, United Kingdom, Austria, and Spain. Germany and Netherland were the biggest export countries accounting for 53 percent and 38 percent of the total export. The products that are sold to the export countries are butter, cheese, consumer milk, and milk sold to other dairies. Thise commenced its first export in 1996 to Germany, up until then, the Danish market had been sufficient.

Thise's internationalization strategy so far has been export from Denmark to its export markets. Thise is not interested in running dairy plants outside Denmark or to make any foreign investments. Thise has invested a large sum of money in improvements of machinery and production facilities from 2005-2008, and therefore does not wish to make any foreign investment at the moment, but instead strengthen the solidity of the dairy (Sall, 2012a; 2012d). Its export operations have always been through an "acquaintance" of Thise. This acquaintance has either been a person who knows Poul Pedersen or a person who has shown interest in Thise's products and wants to export them to another country.

Thise is currently planning exports to China with Business Welders (BW) as its mediator, and according to Klaus Sall, other distance markets as Brazil is also underway (Sall, 2012d). Business Welders<sup>4</sup> is a newly established company from Aarhus by Bjørn Andersen, Martina Liu and Vivian Deng. Martina Liu and Vivian Deng are Chinese, but lives in Denmark and have taken their Masters and MBA's in Denmark (Andersen & Liu, 2012). The reason for looking at new export markets is because Thise is producing about 20,000 tons excess supply of milk every year. The milk surplus has forced Thise to look beyond the Danish market and the nearby EU-markets (Sall, 2012c). Before the financial crises, sales were increasing and Thise got involved with more organic dairy farmers, but from 2008, Thise experienced a decline in profit in Denmark and in its export markets, because consumers replaced the organic milk with conventional products that were half the price (Attrup, 2012). At the moment, the milk surplus is sold for a very low price to other companies for further processing, therefore Thise would prefer to sell the milk abroad at a higher price, as refined dairy products. In the beginning, it would be "normal" products such as milk powder and UHT milk, but later on more high-value localized products could be developed special to the market (Sall, 2012d). Due to low transportation cost, Thise would be able operate profitably. According to Klaus Sall (Ibid.) the price to ship UHT milk (dry container) to Finland would be the same as to China, because the export intensity

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<sup>4</sup> <http://businesswelders.dk/>

from China to Denmark is much higher than the export intensity from Denmark to China, thus many empty containers return to China, and therefore the price is accordingly lower.

An additional reason that has motivated Thise to internationalize to China (and Brazil) is due to the fact that Arla, who are Denmark's largest dairy and Thise's largest competitor, has been able to pay its dairy farmers DKK 16-17 cent more than Thise in 2011, where the difference in 2010 was only DKK 7-8 cent (Jørgensen, 2012). Even though Arla also had experienced a decrease in sales in Denmark, Arla has been able pay higher prices because of its large export of the excess milk sold as milk powder to distance markets such as the Middle-East and China, where Thise instead was forced to sell its excess milk at a comparable lower price to other dairies for further processing.

What is similar for both Thise and LM is that they will target their products to the high-end middle class and affluent part of the population in China (Wulff, 2012b; Sall, 2012d). Because of the products' naturally higher prices, the products will appeal to the wealthier and educated consumer segment. Compared to the size of the Chinese market, both companies will only be able to sell relatively few products, and they will therefore not translate their labels into Chinese, only English, and will also not apply for the Chinese organic certificate, but rely on the Chinese to read English and recognize the EU organic label (the green leaf).

### **4.3 Contextual presentation**

This chapter will give a brief contextual presentation of Thise and LM's operating environment to give a picture of the push and pull factors the cases face. The chapter will present the Danish organic food market as well as a presentation of the Chinese context to give a picture of some trends in food market: the organic food market, dairy market, and baby food market.

#### **4.3.1 Danish context**

The market share for organic products in Denmark is among the highest in the world, with a share of 7.5 percent of total grocery sales in 2011 (Willer, 2012). The total turnover of organic food in retail shops has been increasing in Denmark from 2003-2011 (see appendix 12), and numbers from 2012 are most likely to follow the same trend (Vorre, 2012). The main reason for the positive attitude towards organic food has been, and still is, the significant attention the Danish government has devoted to the sector with various support programs during the late 1900s and start 2000s (Ibid). Though the Danish market for organic products is growing and has been growing since 2003, the growth has slowed down compared to before the financial crisis in 2008, especially for the dairy industry where the Danish dairies have felt the decreased consumption. Numbers from Statistics Denmark (2012a) show a slight decrease in the total turnover for organic dairy products from 2009 to 2010, but started to increase again in 2011 (see appendix 13). In the organic baby food category, there was a bigger decrease in turnover after 2008, but in 2011 sales were almost up on the same level as 2008 (see appendix 14).

The latest numbers from Statistics Denmark (2012b) (see appendix 15) show that the export of Danish organic products has more than tripled in five years, from DKK 252 million in 2005 to DKK 857 million in 2010. The total Danish food export lies around DKK 70 billion, so the organic export currently accounts for a relatively small amount, but it is a fast growing niche. Today, about 63 percent of the organic products are exported to only two countries, Germany and Sweden, where Germany has by far the largest share with 44 percent. Only about three percent is exported outside Europe (Statistics Denmark, 2012b; The Trade Council, 2012a; Hjelm & Sandøe, 2011). Conventional Danish food companies have already experienced success in the Chinese market; the largest are Arla and Danish Crown (The Trade Council, 2012a), but according to Statistics Denmark (2012b) the only registered export of organic food to China has been in 2009 with the very small amount of DKK 38,000, but with a relatively substantial increase to DKK 99,000 in 2010.

### **4.3.2 Chinese context**

Today, China has the world's second largest economy (Elliott, 2011). China's extraordinary economic growth during the last three decades has however resulted in huge negative environmental and health problems. Air and water pollution are among the most dramatic effects in urban areas, and soil erosion, deforestation and desertification in rural areas (Reusswig & Isensee, 2009). The environmental problems are derived from the industrial production, as well as an increase of the middle class with 100-200 million people (Ibid.). China's leaders have responded to these issues by making sustainable development a priority on the political agenda, which is clear in China's 12<sup>th</sup> five-year plan. This five-year plan seeks to transform China's economy from an investment-led powerhouse, focused exclusively on GDP growth, to a sustainable model that balances growth with social harmony, and innovation with environmental protection (Li & Woetzel, 2011). With the 12<sup>th</sup> five-year plan, China should also depend on increased domestic private consumption to drive its economy forward (Roach, 2012). The urban middleclass will be the biggest driver of this transition (Reusswig & Isensee, 2009; Farrell et al., 2006). The rapidly increasing living standards have resulted in an incredibly fast urbanization. Today, about 600 million Chinese live in cities, but if the current urbanization trend continues, it is expected that nearly one billion people will live in China's cities by 2025 (Woetzel et al., 2009).

#### **4.3.2.1 Food market**

As the Chinese incomes rise, they demand greater quantities. However, when income reaches a saturation point, the demand for quantity diminishes, and hereafter most additional food spending is spent on higher quality, convenience, safety in food, and health (Gale & Huang, 2007). This seems to be the case with the top tier of Chinese households. The demand for quality by high-income households has fueled recent growth in food retail and sales of premium-priced food products. Another contributing factor to this evolving trend is the increasing publicity about food scandals in the Chinese media. The local food and beverage industry continues to be involved in food scandals and cases of poor food hygiene. The melamine

milk scandal in 2008 was the most comprehensive, where at least six babies were killed and hundreds of thousands of babies were sick (LaFraniere, 2011; Barboza, 2010). Food safety, has due to the many scandals, become a top priority on the political agenda and has led to a number of new laws and measures, including the new Chinese Food Safety Law that was launched in 2009. The law was implemented in order to set rules of inspection, supervision and unified standards in order to ensure consumer protection (The Trade Council, 2012b).

#### **4.3.2.2 Organic market**

In China, the majority of the Chinese produced organic products has always been exported to foreign markets (Yuhui, 2011). But since the mid-2000s, the Chinese organic sector began to focus on the domestic market, and since then, the domestic market consumption has been growing steadily (ITC, 2011). According to the USDA Foreign Agricultural Service Organic Report (Lagos et al., 2010), the total organic food purchases accounted for only 0.01 percent of China's total food consumption, but it is estimated that the organic food sector will develop fast within the next 10 years, accounting for 1-1.5 percent of the domestic food consumption. If this happens, China will become the fourth largest national market in the world for organic products (Sternfeld, 2009).

While most Chinese consumers are believed to be very price sensitive in food-buying decisions, an increasing number of people are willing to pay premium prices, raising the demand for "green" and organic products and products with health benefits. Thøgersen and Zhou (2012) state that the Chinese perceive organic food as healthier, safer, better in taste, and better for the environment, and the main reasons for not buying organic food are high prices, limited availability, and lack of knowledge about organic products. Organic products such as vegetables, fruit, and tea are often produced in China, but more specialist products are imported from other countries, making the latter even more expensive (Yuhui, 2011). Therefore it is higher income and education (knowledge about organic products in general) that determines consumers' ability to buy these products. This demand for food quality and safety has been an important driver of the food market in China and has thus created new market opportunities. However, many Chinese organic producers have a bad reputation among the Chinese consumers, because organic standards are poorly enforced and the administrative system fails to stop illegal activity (Lagos et al., 2010). The sales numbers of organic food are highest in Beijing, accounting for one third of the total domestic market value, followed by other mega cities such as Shanghai and Guangzhou. The consumption in China's first-tier cities is growing rapidly, but due to an increasing concern about food safety, second tier cities have also become interested in buying organic products. The main channel for organic food sales are specialized stores, supermarkets, and home delivery systems (Ibid.).

#### **4.3.2.3 Dairy market**

China's dairy consumption has increased significantly during the last decade (see appendix 16), but despite high growth rates, the per capita consumption, especially in rural areas, is still very low. China's urban per capita consumption is about 14 kg while per capita consumption in rural China is less than 4 kg, compared to developed countries, where the average per capita consumption of dairy products is over 200 kg. China's dairy market sees further growth potential as demand most likely will continue to increase for many years to come (Lagos et al., 2010; Beckman et al., 2011). Despite the overall increase in dairy consumption in China, consumer confidence in domestic dairy products has not yet recovered from the melamine scandal, due to the constant reports of new discoveries. Consequently, foreign suppliers have aggressively tapped into the market making the term "imported" become a guarantee of food safety (Beckman et al. 2011). Thus, the Chinese, including the less wealthy, have shown an increased interest in buying foreign imported brands. Since 2008, imports of milk powder have accounted for nearly all the growth in the Chinese's milk powder consumption. According to USDA Foreign Agricultural Service (Ibid.), China's imports of fluid milk and milk powder will continue to rise through 2012. This increase is driven by overall strong dairy demand and a superior safety image over local supplies. Some Chinese dairy manufacturers have begun to produce organic milk products the last few years, Yili in 2007, Mengniu in 2008 and other milk brands followed in 2009 and 2010. These try to address the food safety concerns of high-end consumers. However, constrained by the strict certification process and high technology requirements, domestic organic milk production is unlikely to grow rapidly in the near future (Lagos et al., 2010). The top five players in the drinking milk market in China hold about 63 percent of the market share, whereas the market for milk formula is more segmented, with the top ten players holding about 65 percent of the market (see appendix 17) (Agriculture and Agri-Food Canada, 2012).

#### **4.3.2.4 Baby food market**

China has the world's largest population, but due to the one-child policy that was implemented in 1979, China does not have the largest group of babies and young children, aged 0-4, in the world (Agriculture and Agri-Food Canada, 2011). Today, India has about twice as many children in the group aged 0-4 than China. However, the 65 million large group of children in China aged 0-4 has a retail value of baby food that is much bigger than India's, and will develop at a much higher growth rate in the coming years (Agriculture and Agri-Food Canada, 2011). As China's economic development will continue in the future, the country's increasingly large middle class will stimulate the ongoing consumption of baby food products, as this consumer group is willing to pay a premium for better quality products to their only child or "little emperors," as they are called in China (Chandler, 2004). The sales value of baby food has increased considerably over the last five years. According to Research and Markets (2011) the baby food sales value increased by 122% from 2007 to 2011, from USD 3.2 billion to USD 7.1 billion (Ibid.). Agriculture and Agri-Food Canada (2011) projects the market will almost double again in 2015 (see appendix 18).

The main reason for the continued rise in the baby food market is the increase in urban average incomes. Another contributing factor is that the Chinese labor market in recent years has experienced an increase of working mothers, which has resulted in declining breast feeding rates (Ibid.). Furthermore, the lack of time for preparing baby food at home and parents' concerns towards nutrition have also contributed in the growing demand for pre-made baby food. The Chinese baby food market is highly concentrated, with the top three players holding 79.1 percent of the total market value. Nestle is the leading player in the Chinese baby food market generating a 43.1 percent share of the market's value. Heinz accounts for a further 25.6 percent of the market, Hangzhou Beingmate accounts for 10 percent, and the last 20 percent is occupied by other smaller players (Datamonitor, 2011).



## 5 Analysis

Considering the knowledge acquired from the literature review and case presentation, this chapter will according to the analytical framework analyze how Thise and LM's firm typologies together with the companies' internal capabilities affects the initial internationalization planning to China.

### 5.1 Firm typology

According to the internationalization theories reviewed in the literature review, companies will based on their histories, resources and age differ in their motivation for internationalization. At opposite ends of the scale lie the traditional Uppsala stage internationalization model (Johanson and Vahlne, 1977) and the Global Start-up model, the most radical type of INV (Oviatt & McDougall, 1994). I will use the models as a guide to analyze how far the firms follow one or the other course asserted by two internationalization models.

#### 5.1.1 Lovemade

As described in the case presentation, LM is a newly established company with only three employees and a limited amount of tangible resources, thus a micro company. LM does not have ownership over its production facility, but has instead outsourced production to a supplier in Sweden. Likewise, LM has outsourced product development, and external distributors undertake transportation and distribution. By using external experts and services to undertake upstream and downstream activities, LM gain cost, quality, and flexibility benefits. Hence, LM derives competitive advantage in the coordination of multiple value chain activities. The minimal use of internalization and the greater use of alternative transaction governance structures is a general feature that distinguishes new organizations from older ones (Oviatt & McDougall, 1994).

Because LM is a very small and young firm, it could be expected that LM would follow the stage internationalization model to reduce risk and uncertainty, thus take smaller steps in the course of internationalization due to fewer resources. However, there are certain examples where LM's internationalization strategy does not fit the Uppsala model. First, export to other markets was part of LM's business plan from the beginning, and already half a year after LM's products came on the market, Silvia Wulff went to China to promote the products and to find a Chinese agent (Wulff, 2012a). According to the Uppsala model (Johanson and Vahlne, 1977), China is not characterized as a culturally or geographically close market compared to Denmark, but a country where the psychic distance is high due to differences in language, culture, and business practices, therefore internationalization should rather start with exports to neighboring countries (Ibid). Secondly, where the incremental internationalization should be regulated by the experience-based accumulation of foreign organizational knowledge, LM has leaped out in the planning of internationalization to different markets without having any previous experience from other markets other than Denmark. The firm typology of LM fits better with an INV which is *"a business organization that,*

*from inception, seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple countries*" (Oviatt & McDougall, 1994, p. 49). It should be made clear that LM has not started to export to China (or other countries) yet, but the recent update from Silvia Wulff was that: *"I am in full swing, and I have just had a meeting with DC Companys again. There are many interested in China, but it is difficult because of the frozen products"*<sup>5</sup> (Wulff, 2012c). I will characterize LM (or LM's aspirations), based on Oviatt and McDougall's (1994) four categories of INVs, as a Multinational Trader, because LM seeks to serve many countries via export, while constantly searching for opportunities where its networks are established. However, as LM coordinates more value chain activities across borders than just logistics, the typology vaguely resembles the characteristics of a Geographically Focused Start-up with the ambition to export to various countries. LM is nevertheless not a Global start-ups, the most radical type of the INVs, because this kind of firm tries to develop significant competitive advantage from the extensive coordination among multiple organizational activities from locations all over the world. LM only coordinates activities in a geographically restricted location. LM is still a very young venture (under two years old), and therefore many things can still happen this year and in the years to come.

According to Aspelund's (2005) definition of small international firms, LM's internationalization motive fits with that of an *early international* firm (Ibid., p. 102). An early international firm internationalizes to reduce the dependency of the domestic market. According Silvia Wulff (2012c), she has from the beginning planned to export fast after establishment because the Danish market is too small:

"I am not sure we can survive if we only focus on the Danish market, it is simply just too small and fragile. We are located in Coop now, but if we are "thrown out" of Coop, we lose our basis of existence on the Danish market"<sup>6</sup> (Ibid.).

Because of the small size of the Danish market, LM would neither be able to take advantage of economies of scale, which would be important for cheaper food products, cheaper manufacturing process, and cheaper distribution:

"Everything is about economies of scale, you realize that pretty quick (...) and that will never be the case with [the sale of] baby food in the Danish market, no matter how well the sales will be, I do not believe that the Danish market is big enough. I see [the Danish market] as a test market, and it is really good to start out in Denmark, (...) but it has always been in the business plan [to export to other markets] from day one"<sup>7</sup> (Ibid.).

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<sup>5</sup> See appendix 11 for the original citation in Danish

<sup>6</sup> See appendix 5 for the original citation in Danish

<sup>7</sup> Ibid.

Another reason for planning to export this fast after establishment is due to the growth potential in other markets, because of a different attitude to buy pre-made baby food:

“You kind of realize how small the food market is in Denmark, and how few options there actually are, when you start to look at other markets. In particular with the baby food, due to cultural aspects, it seems obvious to me to look at e.g. Sweden and Germany because these countries just consume more baby food”<sup>8</sup> (Wulff, 2012c).

Silvia Wulff does not see national borders as an obstacle, but international markets as a business opportunity, no matter where the country might be located. LM’s coordination of activities is unique because it involves the use of tacit knowledge coming from the dedicated entrepreneurship of Silvia Wulff, which will be analyzed later.

### 5.1.2 *Thise*

Thise is a mature middle-sized company established in 1988. It is a cooperative, presently owned by 82 Danish organic farmers and has about 125 employees. Thise has its own production facility as well as product development. The dairy owns some transportation vehicles such as tankers and refrigerated vans, but most distribution is handled by Coop. Thise has export experience from some export countries, with Germany and Holland as the most important ones. Thise has a minimal export to South Korea, but other than that, the export has been focused around the European countries until last year, where Thise began planning internationalization to Brazil and China.

Because of Thise’s age, the venture cannot be considered a *new* venture, but fit the characteristics of a Late International, due to its late and limited internationalization (Aspelund, 2005). Thise’s internationalization process has developed in line with the slow, incremental internationalization pattern presented by the Uppsala stage model (Johanson & Vahlne, 1977), where firms first gain experience from the domestic market before gradually moving on to more culturally and geographically distant markets. After Thise’s establishment in 1988, Thise’s focus was to build up its brand and organization in Denmark, and in gaining larger market shares of the Danish organic dairy industry annually. Thise started its export to Germany around 1996, eight years after establishment, which means Thise was not a *new* venture when it began its first export. The neighboring countries England, Sweden, and Holland succeeded in the following years, and today, Thise is in the planning phase of starting up exports to Brazil and China. Johanson and Vahlne (1977) argue that firms tend to operate in markets close to existing knowledge and remain domestic unless provoked, pushed, or pulled by an event. According to Sall (2012c):

“The milk surplus that Thise has is a challenge that has forced Thise to look beyond the Danish market and the nearby EU-markets. Thise is now exploring the Brazilian and evidently the Chinese market. The

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<sup>8</sup> See appendix 5 for the original citation in Danish

milk surplus is making the dairy less competitive to its milk suppliers which are the farmers and owners of Thise”<sup>9</sup> (Sall, 2012c).

What triggered Thise’s expansion of export to distant markets was a downturn in the Danish market as well as in Thise’s other important export markets. By exporting to high growth markets such as the Chinese, Thise is looking for a more solid market platform to secure high milk prices to its farmers, instead of relying on the Danish market which accounts for over 80 percent of the total sales. Thise’s motivation for expanding its business into new markets also fits with Aspelund’s (2005) typology of Late Internationals.

According to Johanson and Vahlne’s (1977) four successive stages of a firm’s international expansion, Thise has only gone through the two first stages which are 1) no regular export activities and 2) export activities via independent representatives or agents. The two last stages, 3) the establishment of an overseas subsidiary and 4) overseas production and manufacturing units, are of no interest to Thise, with regard to undertaking in countries other than Denmark. Having subsidiaries or production facilities overseas would also compromise Thise’s small-scale advantage, because it would lose its maneuverability. According to Klaus Sall (Sall, 2012a), FDI in China is not relevant, because it would not be economically justifiable.

“Thise has in the period from 2005-2008 invested very large sums in buildings and machinery. Because of the tightening that has happened after the financial crisis in the autumn 2008, the dairy has enough financial resources for current investments, but does not want to make investments outside of this range, but rather to strengthen the dairy’s solidity. Therefore, FDI is presently not an option, regardless of how such a strategy might look on paper. What initially motivated Thise to increase its export, is the excess quantity of about 20,000 tons of milk, which currently is sold with very little profit”<sup>10</sup> (Ibid.).

Thise does not know the potential for the Chinese market yet and has no connection with any Chinese dairy farmers to form a joint venture. Klaus Sall also highlights the problems that international dairies have faced in China in the melamine scandals with their local partners, as another reason not to make FDI. Thise’s plan for the Chinese market is to find an agent or distributor who can represent Thise’s values in China, the same strategy Thise has used in the other export countries. The most optimal way would be *“to work with someone who was personally motivated to work with organic food”*<sup>11</sup> (Sall, 2012d).

## 5.2 Internal influences

### 5.2.1 Entrepreneurship

International entrepreneurship emphasizes the importance of the decisions-makers in initiating and driving the firm’s internationalization, especially in SMEs where often the owner or another key manager is responsible for driving the process. Therefore factors such as personal background, experience, knowledge,

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<sup>9</sup> See appendix 4 for the original citation in Danish

<sup>10</sup> See appendix 10 for the original citation in Danish

<sup>11</sup> See appendix 6 for the original citation in Danish

and business style of the key individuals are very important for success (Madsen & Servais, 1997; Knight & Cavusgil, 2008; Oviatt & McDougall, 2005). The entrepreneur's international network and knowledge will be analyzed in relation to the two cases afterwards. Because *entrepreneurship of the manager, network* and *knowledge* are closely related to one another, the analysis of the three aspects will consequently sometimes overlap.

#### 5.2.1.1 Lovemade

In 2009, Silvia Wulff decided to quit her job as a production manager in the TV and film industry to start to work full time on the LM project. Silvia did not have any experience as an entrepreneur or any experience in the food sector or even with export. Although she did not have any relevant experience from her education or former jobs, she could use her experience and capabilities she acquired from working in the film industry, which is to organize and structure work, delegate tasks, and reach goals. Furthermore, Silvia says that she is "*good at making things happen*" (Wulff, 2012a). The entrepreneurial ambition is something Silvia married into. According to Silvia, she got the inspiration and courage to start LM from her husband, who has started up various IT companies (Ibid.).

When LM's products came on the market in Denmark in May 2011, it was first of all difficult to get the consumers' attention to the arrival of the new product, because of LM's limited marketing budget. In addition, it was and still is a big challenge to get the consumers to look in the freezer for the products, because baby food is normally located next to the diapers. Consequently Silvia Wulff had to use alternative and innovative ways, to market the products and spread the word for the new frozen product on the market. The result was the so called "mommy parties" where LM gave 150 free sample packaged to 150 group of mothers, thereby reaching about 900 mothers. This way the parents would get familiar with the products by tasting and evaluate the products. The concept was rather expensive and logistically challenging but a very effective way to get the consumers to know the product (Pedersen, 2012).

Because Silvia Wulff did not have any experience with export from before and due to the company's limited resources, she has been forced to throw herself into the whole internationalization project, learning while doing (Wulff, 2012b). This follows Zahra et al.'s (2006) proposition, that the younger the firm, the more likely it will use improvisation as a learning method. LM does not possess the resources that would allow the firm to plan activities or to experiment with different possibilities. The only experiences Silvia has with the food sector and export, is what she has picked up during the last one and a half year, so she has faced unknown situations and thereby forced to improvise to create solutions. LM has not succeeded in actual export yet, so up until now, Silvia Wulff does not know what the most optimal method is and what the strength and weaknesses are of the way she does business:

"The advantage is probably that I do not have all the decision-making processes [of a larger firm]. But as you know, I have never done it differently, so I do not know exactly what it is that works. I have no

experience with export, so I cannot really say what works and what wont, until I have succeeded with any of it"<sup>12</sup> (Wulff, 2012b).

The entrepreneurial drive that Silvia Wulff possesses has resulted in the wish for a fast internationalization of LM's products. Thus her lacking of former experience and knowledge for export is compensated by her passionately motivation and ambition for the success of LM. Silvia Wulff emphasizes that the success with the export project not only relates to her as an entrepreneur or the amount of resources, but:

"In a start-up phase, [the success] is in fact influenced by chance and coincidence, and most of all due to networking. It is so beneficial when you talk to people in the industry, because they have done it before and they have a lot of experience (...)"<sup>13</sup> (Ibid.).

Silvia has been proactive in her working methods, e.g. going to the organic food exhibition BioFach, but to meet the right people in the business has often been a coincidence. The export project to China was also quite a coincidence. Silva Wulff did not imagine that it would be one of the first countries that she wanted to start export to.

"Considering China [as an export destination] was mainly because I got a call from DC Company. I could maybe have considered using some resources on it at some point, but the reason I did it so early was because I was contacted by DC Companys and invited to the showroom"<sup>14</sup> (Ibid.).

When she was contacted by an acquaintance under half a year after LM's products came on the market, she could not let the chance go by, and traveled to Shanghai to promote the products. It was likewise a coincident that a Finnish agent passed LM's stand at the BioFach fair and showed interested for the products (Ibid.).

#### **5.2.1.2 Thise**

Thise's entrepreneurial focus was for many years aimed towards the domestic market, because Thise wanted to develop a strong foothold in the Danish market, and build up a sustainable relationship with the biggest client Coop, therefore exports had a low priority. From the mid-1990s where Thise started to export to other European markets, internationalization to every country has more or less followed the same pattern. The way the internationalization opportunity is discovered is not so much due to a proactive entrepreneurial discovery, instead internationalization opportunities are always started by external initiatives. Thise's role is thus to enact upon and exploit the business opportunity put forward by external party.

Thise has never started exporting to a foreign country without having a person to introduce the new market. According to Klaus Sall, *"there needs to be a relationship. I do not think there is a way around it. It*

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<sup>12</sup> See appendix 5 for the original citation in Danish

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

*does not start with a strategic decision*<sup>15</sup> (Sall, 2012d). Thus, Thise needs a mediating person, which could be an acquaintance of Poul Pedersen or an external person. After the internationalization opportunities has been introduced and Thise, the mediating person starts to search for a good agent, importer, or retailer in the particular country. When a good match is found, Thise will strive to develop a good long-term relationship with that agent, importer, or retailer. Thise is taking it slow to make a well-considered decision when conducting exports. According to Klaus Sall,

"Thise does not wish to make a huge strategic investment in a new market, but rather to find a partner whom Thise can build up a long-term partnership with"<sup>16</sup> (Ibid.).

Thise would rather work systematically, slow, and with a long-term goal to acquire the necessary knowledge about the market and partners, than take a quick irrational decision.

"Things at Thise initiate from a dialog. If we think what is being said sounds reasonable, we can talk again. This approach (...) is certainly an element to why Thise is where it is in the Danish market today"<sup>17</sup> (Ibid.).

Thise's philosophy is that "things take time" and does not want to rush into business with the wrong partner, e.g. it took over a year before Thise had an actual and profitable export to Holland, and over ten years before Thise had an actual and profitable export to Germany (Ibid.). According to Klaus Sall, Thise's business style has a lot to do with trust. It is very important for Thise to develop a good long-term relationship, even though it will take time to get it right, because,

"The more strategic and sizable the relationship, the busier you are, the greater the risk that you do not know each other [and that the relationship could end badly]"<sup>18</sup> (Ibid.).

Thise has almost 20 years of experience in exporting to around ten different countries, primarily in Europe. This experience has resulted in certain entrepreneurial capabilities in the planning and driving of the internationalization process in the company. The way Thise is driving its export project is a collaborative team effort with the mediating person, who has introduced the new market, but still having Klaus Sall as the project coordinator.

### 5.2.2 Knowledge and learning

Knowledge and learning are expected to have a great impact on a firm's international growth, in that the firm must apprehend, share, and assimilate new knowledge in order to compete and grow in markets, in

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<sup>15</sup> See appendix 6 for the original citation in Danish

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

which they have little or no previous experience (Oviatt & McDougall, 2005; Autio et al., 2000; Knight and Cavusgil, 2004).

#### 5.2.2.1 Lovemade

As Oviatt and McDougall (1994; 2005) argue, firms do not need organizational experience or routines to enter their first markets early. LM as a newly established company has no experimental knowledge but wanted to internationalize fast. This desire for a fast internationalization fits with the view by Autio et al. (2000); that young firms can learn new knowledge and routines faster than old firms, because they lack the deeply rooted administrative heritage of older businesses and therefore do not need to unlearn embedded routines. LM's inexperience is an advantage for the speed of internationalization, which Autio et al. (2000) defines as *learning advantages of newness*. The younger the firm is when it first internationalizes to foreign markets, the more quickly it can learn and grow internationally. Because LM is a small new firm with no experience, it does not need to unlearn embedded routines, which becomes more difficult as firms get older and larger. Therefore the new knowledge that LM acquires, will be embedded into the company's knowledge base immediately, and will not conflict with existing knowledge or routines, but instead lead to new routines. Because LM is a small company with three employees there is no bureaucracy where knowledge can get lost or decisions disappear. Knowledge in the company is easily shared and decisions can quickly turn into action, e.g. Silvia Wulff knew that she was going to export to foreign markets eventually and therefore a version of the Danish homepage has been translated into English.

Because Silvia Wulff does not have any previous experience from working in the food sector or in exports, she has used her networks to acquire important market knowledge and learn about the different export markets. LM's inexperience is also a reason for why LM's internationalization opportunities have been initiated by foreign initiatives, as was the case with China. However, export to the Swedish market was different:

“For the Swedish market I have been proactive myself. I have even sent out presentations (...) and asked around to get information. I hired a guy who knew a lot about the Swedish market, on a consulting basis for a month to investigate the [baby food] markets. He made a report about the Swedish [baby food] market, and then I subsequently sent out presentations to make contact [to importers and retailers], so it has actually been quite similar to the [approach I used in] Danish market”<sup>19</sup> (Wulff, 2012b).

It was obvious to export to the Swedish market because LM's products are produced in Sweden, making transportation cheaper. It has also been easy to obtain reliable information about the market, and the short traveling distance to Sweden, has made it easy to go talk to potential partners. LM's approach to the

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<sup>19</sup> See appendix 5 for the original citation in Danish



Swedish market is purely market-based because the market is transparent, with similar market conditions as the Danish.

In the Danish market, LM is in close contact with the consumers (the parents who buy the products) to gain knowledge and learn about consumer preferences and wishes. LM can do this easily, quickly and free of charge through the social media, as its Facebook profile. Silvia thinks this is a good way to create dialog with the consumers, and prefers this to an expensive professional market survey: *“We can see what people answer on Facebook. You are able to get an answer on a concrete question, when you are in dialog with the consumers this way”*<sup>20</sup> (Wulff, 2012b).

### 5.2.2.2 Thise

A reason for Thise’s incremental internationalization and delayed international expansion is due to a lack of organizational foreign knowledge. Thise has never started to export to foreign countries, without having a partner that Thise can gain relevant knowledge from. As already stated by Klaus (Sall, 2012d), *“there needs to be a relationship. (...) It does not start with a strategic decision”*<sup>21</sup> (Ibid.). Thise’s internationalization fits with the idea that a company increases its foreign market knowledge over time primarily through experience, and then after a while, starts to expand to more culturally and geographically distant markets. Thise’s international growth is not only regulated by the accumulation of foreign organizational knowledge, as suggested by the traditional stage model, but is also dependent on the amount of time, that Thise has devoted solely to domestic operations (Oviatt & McDougall, 2005). The time from establishment to Thise’s first export was about eight years, and the time from establishment to the beginning of the export planning to China and Brazil was over twenty years. This suggests that Thise could be subject to administrative heritage and bureaucratization of older businesses, which implies that Thise must unlearn routines rooted in domestic operations before new internationally oriented routines can be learned (Autio et al., 2000; Sapienza et al., 2006). The internationalization to China has required different routines, different resources, and different external relations, than Thise has been used to. For example, Thise has been compelled to develop English product information sheets on various products, according to Klaus Sall *“we have it on some products but we do not have it on milk powder (...). We do not have all that in place yet, but we are starting to develop it now”*<sup>22</sup> (Sall, 2012d). In China, Thise has experienced that the Chinese agents, that BW has established contact with, want different information and documentation than its other European customers have asked for.

“The Chinese, they have asked for a variety of documents, for example, a document called, Certificate of Origin, according to the authorities in China and Hong Kong, it is no longer necessary. But it is still a

<sup>20</sup> See appendix 5 for the original citation in Danish

<sup>21</sup> See appendix 6 for the original citation in Danish

<sup>22</sup> Ibid.

custom that companies provide it, so we have to have it anyway. (...) So we need to figure out how to get that”<sup>23</sup> (Sall, 2012d).

Because Thise has never been used to this business practice before, the process of acquiring the correct documents has taken a long time. Another example of where Thise could suffer from administrative heritage is in relation to the development of an English and Chinese homepage. The homepage is a quite important tool for Martina Liu and Vivian Deng (from BW) when contacting potential Chinese agents. Because Thise is an unknown brand outside Denmark (and some European countries) Martina Liu and Vivian Deng need to have the homepage to refer to for further information about Thise’s history and values, and also to “prove” that Thise is a real company from Denmark (Andersen & Liu, 2012).

Thise has gained its primary experience through exporting to the neighboring markets, but has also exported few products to South Korea. Klaus Sall will however not define South Korea as a real export country, but more like a try out or test market, where very few products are sold (Ibid.). Thise can therefore not use its former knowledge and experience from the South Korean market to make the process in China easier. Thise can however use its years of experience in finding partners to find the best and most suitable partner in China. Thise wishes to find a partner to develop a good long-term collaboration with, and in the long term also develop products especially for the Chinese market, which is the way Thise does business in Denmark with its biggest client Coop.

Zahra et al. (2006) argue that established companies need to break old habits, by replacing them with new ones. Thus Thise needs to develop and improve its capabilities, when faced with a different way of doing business. It can be argued that Thise has used experimentation to learn and develop its capabilities through the years, and want to continue to do it. However, using controlled experiments to drive change limits the firm to its sphere of knowledge and thus requires more time to develop change processes (Ibid. p., 940).

### 5.2.3 Networks

Networking is a powerful tool for all entrepreneurs. To have and be part of a good network is vital for companies that wish to internationalize into foreign markets. Especially for SMEs with limited resources, a good network can help firms to develop access to markets and provide the entrepreneur with important knowledge, especially the role of asymmetric information can have positive implications (Oviatt & McDougall, 2005; Madsen & Servais, 1997; Moen & Servais, 2002; McGahey et al., 1997; Johanson & Vahlne, 2009).

#### 5.2.3.1 Lovemade

Besides being proactive herself (entering the Swedish market and actively going on trade fairs), Silvia Wulff has used her network to discover international business opportunities and gain knowledge about exporting. Her network is a mix of both strong and weak network ties (Sharma & Blomstermo, 2003; Oviatt &

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<sup>23</sup> See appendix 6 for the original citation in Danish

McDougall, 2005). In the internationalization planning to China, the dependence of a strong network tie with DC Companys is important for LM to get a foothold in the Chinese market. Silvia Wulff and Søren Kirketerp have been part of each other's weak network for a long time. Therefore, when DC Companys opened up the food showroom in Shanghai, Søren Kirketerp saw a business opportunity for a joint collaboration, thus the weak tie was activated. DC Companys then became an important player, as an active export agent in LM's internationalization planning to China. Due to LM's limited resources and non-existent network in China (besides that with DC Companys), the relationship between the parties will probably increase the likelihood of a successful entry. DC Companys can contribute with an in-depth knowledge of the market that LM does not possess. LM's key account manager in Shanghai, Michael Poulsen, speaks both Danish and Chinese and is functioning as a middle man by facilitating the dialog between LM and the potential Chinese agents, retailers, or importers. Silvia Wulff (Wulff, 2012b) emphasizes that the advantage with DC Companys, is that all meetings are conducted by LM's key account manager, Michael Poulsen.

"He has held meetings with Lotus and Mitsubishi (...) I do not know if they are wholesalers or what who are, I barely know what they are, but that is the cool thing about them [DC Company]"<sup>24</sup> (Ibid.).

So Silvia does not need to use a lot of time and energy to get familiar with every agent, she just forwards the contact details of the Chinese agents to DC Companys, who then handles the initial dialog and follows up with meetings further down the line.

As LM sells organic products, Silvia uses the weak network tie to Økologisk Landsforening (the National Association of Organic Products). Økologisk Landsforening, among other things, arranges export campaigns to different exhibitions for organic food companies. LM took part in a Danish delegation that went to the organic food fair, BioFach, in Nuremberg in February 2012. On the fair, Silvia got in contact with several interested agents from China, Germany and Finland. Silvia forwarded the contact details of the Chinese agents to DC Companys who could then follow up on any leads with meetings. LM could therefore use its relation to Økologisk Landsforening, to get in touch with potential customers.

As weak ties are not as time-consuming as strong ties to maintain, being a small new resource constrained company like LM, Silvia Wulff often uses weak network ties to gain information about export experiences and market knowledge from other companies, friends, and acquaintances. Because she has no previous experience in the field, she draws on every source of help she can get, and is not afraid to ask people for advice:

"It's probably my advantage that I do not mind to ask people for help. I often ask people *"hey, can you help me?"*, or *"can you tell me more about this and this and this"*, or *"can I buy you a cup of coffee so we*

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<sup>24</sup> See appendix 5 for the original citation in Danish

*can brainstorm on a particular matter*". It is so important [to talk to people] because networking can lead to so much"<sup>25</sup> (Wulff, 2012b).

Therefore she will often meet with people who can give her information, insight, and know-how on certain matters. Silvia can then use this knowledge to "copy" the successful elements of that individual's decision process and pick out the most valuable sources of information, thereby reducing the risks of doing business. This corresponds with Zahra et al.'s (2006) view, that young firms use imitation as a means of acquiring new knowledge because of their relative inexperience and lack of knowledge.

LM's use of networks to support its internationalization, also corresponds with Oviatt and McDougall's (2005) view on networks, that they "*help entrepreneurs identify international opportunities, establish credibility, lead to strategic alliances and other cooperative strategies*" (Ibid., p. 544). The RBV suggests that the social capital embedded in network ties and contacts can be regarded as an intangible resource that is difficult to replicate. Silvia uses *resourcefulness*, the ability of doing more with less (Peng, 2001), in translating her micro, interpersonal ties with managers and friends at other firms into improved macro organizational performance.

### 5.2.3.2 Thise

Thise has never started exporting to foreign countries without having some kind of relationship with the country first. Thise relies on external parties to discover business opportunities in foreign markets. This way, the external person/mediator can contribute with in-depth knowledge of the market that Thise does not possess (Sall, 2012d). This was also the case with the Chinese market. In November 2011, BW contacted Thise with a proposal for a collaboration to find an agent or importer for Thise's products in China. Because of Thise's milk surplus and China's increasing milk consumption, Thise found the Chinese market interesting, and BW started to work on getting Thise's product to China. The relation to BW is very important for the internationalization to China, especially because Thise want to find a Chinese business partner to develop a good long-term sustainable relationship with. Although BW is a newly established consultancy company, with no real export experience, BW will use the two Chinese employees' wide networks in China to find an agent or retailer, as well as their knowledge about the Chinese business environment and practices.

BW has provided Thise with important market knowledge about Chinese supermarket practices. Compared to Danish supermarkets, the Chinese downgrade products long before the "best before" date. Knowing this, Thise is able to decide on which products to export to China. Except UHT milk and milk powder, only few products from Thise's current product assortment will be appropriate for the Chinese market, due to the long transportation time (about one month).

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<sup>25</sup> See appendix 5 for the original citation in Danish

Beside the strong tie to BW, Thise also uses its weak network ties to get information and knowledge about the challenges and opportunities in the Chinese market. Klaus Sall has an acquaintance in Urtekram (a Danish organic food producer), Peder G. Jessen, who exported products to China in 2009. Klaus Sall contacted him to hear about his experiences with the Chinese market, because it is *“interesting to learn from those experiences”*<sup>26</sup> (Sall, 2012d). Peder G. Jessen told him that:

“Urtekram had been content with the sale, but had discontinued the work due to two issues: The test sale had not represented or evolved into a market breakthrough with an economy which allowed further investment”. And “Urtekram had not been able to identify a local representative who would be able to develop the sale further”<sup>27</sup> (Sall, 2012b).

Klaus Sall also got some recommendations about which products to introduce and that Thise should search for a reliable distributor to handle the products properly (Sall, 2012d). Thise has also used its weak ties to the Central Denmark Region’s Trade Office (Region Midtjylland) and Trade Danish Council to get information on practical and legal matters involving export to China.

Thise’s competitors can also be seen as part of Thise’s weak network, because Thise has partly been motivated to export to China due to comparable higher milk prices than its biggest Danish competitor, Arla. Thise has witnessed how Arla has succeeded to go through the financial crisis with higher profits (Arla, 2011), which partly has been due to exports to high growth markets such as China.

“When Arla has been able to charge higher milk prices for the last two years, it has much to do with Arla operating in the international market. It is clear that Arla cashed very strongly in on its milk powder in that period, because the world prices increased, and Arla was just able to deliver to the international market. Thise, on the contrary, was just operating in Denmark and was very dependent on its biggest customer Coop. So it became clear, it has actually been clear for a long time, that this makes Thise very dependent on the market conditions that exist in Denmark and Germany”<sup>28</sup> (Sall, 2012d).

By “copying” or following Arla’s success, Thise wish to find new ways of getting more money for its surplus milk and thereby being able to pay its dairy farmers more.

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<sup>26</sup> See appendix 5 for the original citation in Danish

<sup>27</sup> See appendix 9 for the original citation in Danish

<sup>28</sup> See appendix 6 for the original citation in Danish

## 6 Discussion

This chapter will answer the two sub-RQs in light of the foregoing analysis and then validate or falsify the two stated hypotheses. The thesis' internal and external validity will be discussed in the end.

### 6.1 Sub-Research Question 1

To answer the first sub-RQ; *how do companies vary in their motivation and aspiration for internationalizing to China?* The analysis showed that because of Thise and LM's set-ups, their histories, resources and age, the two companies' motivation and aspiration for internationalization differ.

LM's firm is characterized as an INV, more specifically as a Multinational Trader because LM's ambition and aspiration from the beginning has been a fast internationalization to many countries. Because LM coordinates more value chain activities across borders than just logistics, LM can vaguely be characterized as a very small Global Start-up. It should however be noted, that LM has not yet started to export to other countries, but is in close dialog with interested Chinese agents and importers, and are planning to launch in some Swedish supermarkets in September 2012. LM's internationalization has been a strategic decision, which has been part of the business plan from when LM was established. Silvia Wulff says that she does not think LM will survive in the Danish market due to the market characteristics; the Danish market is too small for a product like LM's due to the few babies that are being born, its comparable higher price, and the Danish culture and tradition *not* to buy premade baby food. So for the company to survive and increase profit, LM needs to sell in markets other than just Denmark. LM's way of conducting business includes simple routines in organizing and directing the firm. As previously mentioned, LM's size and age results in dynamic decision-making and the resulting actions are occurring far quicker than many larger firms. Due to LM only having three employees, with Silvia Wulff as the main driver, it is consequently the same people who make the decisions as the ones who execute them. In the case of any potential internationalization to China, the benefit of being a small company is that the decision to start exporting to was taken quickly by Silvia Wulff, and then all necessary planning and preparation could begin immediately after, translating material into Chinese and investigating the transportation cost from Denmark to China and so on, so LM would be ready, when the first contact to the Chinese agents was established. However, due to LM's limited resources things can also on occasion progress slowly, because Silvia's lack of experience, she has to learn while doing.

Thise is characterized as a Late International, because Thise is an older more mature firm which has conducted a relatively slow incremental internationalization, focusing primarily on the Danish home market during the first many years, afterwards exports to its neighboring countries. Thise's internationalization does not originate from a strategic decision, meaning that the exports to various countries are not planned in advanced. As previously highlighted, Thise has never started exporting to a foreign country without

having a person to introduce the new market opportunity demonstrating caution but also a propensity to slow progress and growth if necessary. The Danish market and nearby EU-markets has for a long time been sufficient for Thise, and one might believe that Thise would have been reluctant to export to China, was it not for the decreasing profit during the financial crisis. As a result, Thise has been forced to look beyond its existing export market and instead target high growth markets such as China and Brazil. This is an indication as to Thise's economic reasoning when BW presented a proposal to Poul Pedersen. Thise's way of conducting business with collaborative partners has developed through years of slow-growth orientated operations.

Thise has good experience from its way of doing business in Denmark and other key export markets, and wants to apply this way to the new export opportunities as well (Sall, 2012d). They wish to find a Chinese partner whom they can initially develop a good relationship with, and in the long-term maintain this mutually beneficial relationship while also potentially develop products especially towards the Chinese market. Thise's internationalization to China has been affected by the path dependency associated with old habits, such as doing business within familiar markets. Thise has faced different ways of doing business in China (and Brazil) than the company is used to from the neighboring markets, so Thise must continue to adjust to the new practices.

The two firms' production set-ups have also influenced their aspiration for internationalization. As Thise runs its own dairy and production facility, the internationalization strategy has so far been exports from Denmark to its export markets. Thise is not interested in running dairy plants outside of Denmark or have representative offices in other countries, because the export volume is just not big enough to justify this. Thise has also invested a large sum of money in improvements of machinery and production facilities from 2005-2008, and therefore needs to strengthen the solidity of the dairy (Sall, 2012a; 2012d). LM, on the other hand, has outsourced its production to a company in Sweden, thereby making the supply more flexible. LM can therefore better control the supply in relation to the demand. It is more difficult for Thise to adapt to the market demand, due to receiving the same supply of milk every day from its farmers. When there is a downturn in the market, as Thise has experienced lately, excess milk is sold for a very low price to other companies for further processing. It is more difficult for Thise to regulate the supply, both when they need more and as highlighted, produce too much. Another aspect influencing Thise's decision-making process is its organizational structure. Poul Pedersen needs to present the Chinese export project to the farmers, who are also the owners of the dairy, so they can agree upon the matter (Sall, 2012c, appendix 4). This makes the decision-making process more time consuming compared to LM, who can make the decision on the spot.

The dynamic and globalized external environment in the last couple of decades can also play a big role in explaining the two companies' different take on internationalization. There have been many improvements

in the transportation and communication industry from when Thise was initially established in 1988, compared to the establishment of LM in 2010. The internet has made it possible for companies such as BW and DC Companys to communicate quickly and easily with people on the other side of the world. Technological advances in the transportation industry have made it much cheaper and faster to travel, and thus made it profitable for small companies from Denmark to sell their goods in distant markets. Thise was established and began its internationalization in a different time period, where country borders were much more distinct. Therefore Thise's internationalization developed according to the stage base approach, beginning with the neighboring markets in order to decrease the risk and psychic distance. LM was established in a modern globalized world where the internet and various communication and transportation options were already well developed.

Because of Thise and LM's limited resources and knowledge about China, they are not capable of or interested in making any FDI or a pure market entry. Taking the companies' context into consideration, an export strategy to China is a good way to test the market. None of the companies have any experience with the market in question and therefore do not know the potential, positively or negatively. Making larger commitments would create both the start-up and a pullback from the Chinese market more expensive and complicated. Instead both companies have allied themselves with export agents, BW and DC Companys, which are familiar with operating in the Chinese market. Using export agents will make the international expansion more affordable, as well as increasing the likelihood of successful entry, because the export agents can contribute with in-depth knowledge of the market that Thise and LM simply do not possess.

After having discussed the first sub-RQ, it is possible to validate the first hypotheses:

**Hypothesis 1a:** *A new venture will from inception seek to derive significant competitive advantage from the use of resources and the sale of output in multiple countries. A new venture internationalizes to reduce the dependency of the domestic market.*

**Hypothesis 1b:** *An older established company will conduct a slower internationalization process, due to its path dependency towards old habits of doing business within familiar markets. Internationalization is caused by domestic downturns, and therefore the firm seeks a more solid market platform by expanding business into new markets.*

## 6.2 Sub-Research Question 2

To answer the second sub-RQ: *How do companies use their internal capabilities; entrepreneurship of the managers, knowledge and learning capabilities, and networks to other companies in the initial phases of the*



*internationalization to China?* The analysis showed that both case companies used their internal capabilities in the initial phases of the internationalization.

Due to LM's limited resources, the driving factor behind LM's internationalization is in the form of intangible knowledge associated with Silvia Wulff. As she is the owner of the company, her ambitions for LM and its potential to succeed, means that she commits a huge amount of time and energy on the project. It can be argued, that Silvia compensates for the lacking former experience with her passion, motivation and ambition. She can nevertheless use her skills learned from her former job, in the movie industry, to coordinate and plan LM's activities. Her coordination skills are especially useful when she needs to acquire and organize information on all the potential export countries. One of the biggest advantages of being a small company is, according to Silvia Wulff, in the decision-making process, because she is the only one to decide on which markets to go for, there is no bureaucracy or superiors to go through, to get things accepted. One might argue that she is in fact a spokesperson when it comes to activating or driving interest in the brand, as it is in fact her passion that attaches itself to the brand and the message behind it, a message consumers will ultimately buy into.

Being a small company nevertheless also has its disadvantages, because Silvia ultimately has the responsibility for everything, and with only two employees and a limited amount of resources, often things can move slowly from an operational perspective. Silvia often uses her weak network ties to gain knowledge about exports and markets, specifically acquiring knowledge from other companies, friends, and acquaintances. As she has no previous experience in the field, she draws on all the help she can get, and is not afraid to ask people to share their internationalization experiences with her. In the initial internationalization planning, it can be argued that LM has benefitted from its inexperience due to the *learning advantages of newness* (Autio et al., 2000). Because LM is a small new firm with no experience, it does not need to unlearn embedded routines, which as mentioned, become more difficult as firms get older and larger. Therefore the knowledge that LM acquires, will be embedded into the knowledge base immediately, and will rarely conflict with existing knowledge or routines, but instead lead to new routines and capabilities.

Thise's has, compared to LM, much more experience with export and has almost 20 years of experience in exporting to around ten different countries, primarily in Europe. This experience has resulted in certain entrepreneurial capabilities in the planning and driving of the internationalization process in the company. Due to this way of doing business, Klaus Sall is also sure that Thise would not have begun initiating the internationalization process to China, if not BW had contacted Poul Pedersen. As Thise's profit from its home markets has decreased compared to before 2008, Thise needed to look for alternative ways to sell its excess supply of milk more profitably. Therefore, the export proposal from BW to Thise was well-timed. Considering China as an export market has also been motivated by Arla's ability to pay higher milk prices to

its farmers, thus Thise's network, including its competitors, has motivated Thise to seek new market opportunities away from Denmark and the nearby EU-markets. Thise has also used its network to Urtekram to gain knowledge about the Chinese market, and its network ties to the Central Denmark Region's Trade Office (Region Midtjylland) and Trade Council of Denmark to get information on practical and legal matters involving export to China.

Thise's internationalization process to China has started relatively slow. Because BW is a new company with no real export experience, BW has used some time to get familiar with all the matters concerning export (Sall, 2012d). Besides that, Thise also needed some time to adapt to the different business practices that the Chinese market offers. Thise has encountered a different way of doing business than it has been used to from its other export markets. When Thise has exported products to its neighboring countries, the agents and retailers in these countries knew whom Thise was, or were able to independently verify with relative ease. In China however, the onus is on Thise, as they are required to document their existence to be able to build up trust with the Chinese agents. The Chinese agents want different documents, even though the documents and certificates are not legally needed. However, Thise needs to follow the local business practices and traditions in order to develop the necessary level of trust to develop and grow a relationship. Thise wants to provide BW with the documents, but as Thise has not been used to this form of trust before, it has taken a long time to acquire and provide them to a suitable standard. This suggests that Thise could be subject to administrative heritage of older businesses, which implies that they must unlearn routines rooted in domestic (and neighboring countries) operations before new internationally oriented routines can be learned (Autio et al., 2000; Sapienza et al., 2006).

What is characteristic for both companies is that the internationalization opportunity to China was initiated by foreign initiatives. LM was contacted by an old acquaintance of Silvia Wulff, while Thise was contacted by a person outside its network. What is also characteristic for both companies is that internationalization to China would probably not have been initiated right now, if an external individual had not presented the possibility. This is however due to different reasons. Even though internationalization to other countries was part of LM's business plan from the beginning, China was not expected to be one of the first countries, instead LM would have focused on the Swedish and German market. China became interesting because Silvia was contacted by Søren Kirketerp (from DC Companys), who had been part of her weak network for a long time. When DC Companys opened up the food showroom in Shanghai, Søren Kirketerp saw a business opportunity for joint collaboration and contacted Silvia, thus activating their weak tie. Therefore one might suggest that her network to DC Companys was the primary reason for considering internationalizing to China so soon after establishment. Thise would not have begun to plan internationalization to China now if the possibility had not been presented by BW. As mentioned, Thise never starts exporting to foreign

countries without having a partner to gain relevant knowledge from. There needs to be some kind of relationship with the country, it does not start with a strategic decision on Thise's part.

As described in the literature review, China's institutional environment is quite different from the Danish. So Thise and LM who are unfamiliar with the Chinese business environment, need to work with people that know how it functions. It is therefore important for the success of Thise and LM's internationalization to China that the companies have employed Chinese speaking individuals whom understand the nuances of doing business in China. Normally, when Thise and LM get in contact with companies and agents in Europe it is not necessary to hire native speaking people because English is sufficient. Even though the Chinese agents speak English, Thise and LM are not familiar with the business culture in China, and thus they would probably experience difficulties to find and develop good ties with the potential Chinese agents while being in Denmark and not speaking Chinese. Therefore the companies are depended on their export agents to develop their business in China.

When Silvia Wulff was at the BioFach fair she made contact with various Chinese agents, but instead of handling the contacts herself, she forwarded all the details to DC Companys. LM's key account manager is able to handle the dialog with the Chinese agents much easier than Silvia, both in relation to face-to-face meetings, but also in relation to matters concerning export to China, where DC Companys has far greater knowledge.

To reduce the relationship risk of using export agents, Silvia knows hers personally, because they are old acquaintances. Thise, on the other hand, did not know the export agent from before which has resulted in a slower up-start phase, where the two parties used some time to get to know each other. In order for both companies to reduce relationship risk of doing business in China, they have used export agents that are Danish and Chinese. BW consists of Bjørn Andersen and two Chinese, Martina Liu and Vivian Deng who all live in Aarhus. Martina Liu and Vivian Deng have worked for Mærsk in China, and have taken their education in Denmark, so they understand both the Danish and Chinese way of doing business. DC Companys also consists of both Danish and Chinese founders, with offices in Copenhagen and in Shanghai. By having export agents who know both the Danish and Chinese business environment, Thise and LM are better able to handle the dialog with the Chinese agents, most likely reducing the risk of information getting lost in translation.

BW is partly relying on Vivian Deng and Martina Liu's networks (guanxi) to find a Chinese agent, importer or retailer for Thise. They have contacted all their relatives, friends, and acquaintances who work with import and other relevant areas. According to Vivian Deng (Deng, 2012) this approach will help them to work more efficiently. Due to the many players in the Chinese market, their guanxi will ideally help them in distinguishing themselves from others, making the contact with the companies easier. Their guanxi will

therefore hopefully create a shortcut in finding agents for Thise (Andersen and Liu, 2012). One can take from this point, that having and building *guanxi* in China can be considered extremely important for business, as Vivian Deng says "*one more friend, one more road*" (Deng, 2012). It is especially important that Vivian Deng and Martina Liu have some kind of relationship with the Chinese agents, due to Thise's brand being completely unknown in China, but also because BW is not physically located on Chinese soil. If Vivian Deng and Martina Liu did not have some kind of relation to the Chinese agents, they would probably not be so willing to listen when they contacted them.

LM's approach to find a partner in China is a bit different compared with Thise's. LM is working with DC Companys who run the Danish food showroom in collaboration with the Danish Consulate General in Shanghai, therefore LM's products are exhibited in the showroom in Shanghai, where Chinese agents and importers can look at and taste the products. This way, the interested agents can easily talk to LM's key account manager in Shanghai and see its products in greater detail, thereby developing a form of legitimacy and trust with the Chinese buyers from an early stage. Besides the contacts that Silvia Wulff had acquired from the organic BioFach fair and agents acquired through the food showroom, DC Company is also using its *guanxi* to get LM's products into the Chinese supermarkets. Silvia Wulff says that one of the owners of DC Companys has a relative who is a wholesaler to City Shop (a supermarket chain for the more affluent consumer segment), and is in an ongoing dialog, with the aim of getting LM's products listed there (Wulff, 2012b).

In summary, due to the different typologies of the companies discussed earlier in sub-question one, Thise's and LM's initial internationalization phases have been planned differently. As a young company, LM's *learning advantages of newness* have been an advantage for the speed of internationalization, while Thise's internationalization to China has started slower due to the administrative heritage and path dependency associated with older businesses. Applying this to Thise, one might conclude that Thise has been faced with different ways of doing business than it has experienced in the past. Thus, Thise needs to break old habits, by replacing them with new ones. It can be argued that Thise has used experimentation to learn and develop its capabilities through the years, and want to continue to do it. However, using controlled experiments to drive change have limited the firm to its sphere of knowledge, and have thus required more time to develop change processes. As Silvia Wulff did not have any experience with export from before and due to the company's limited resources, she has been forced to throw herself into the whole internationalization project. Silvia has proceed without a roadmap, learning while doing, thus undertaking improvisation as a learning method, which can suggest a faster learning processes. Both companies have used imitation as a learning strategy. LM has used it as a mean of acquiring new knowledge because of its inexperience and lack of knowledge, while Thise has "copied" Arla, its biggest competitor, to get new inspiration of doing things.

Due to the companies different firm typologies, the entrepreneurial capabilities of the key individual have been used differently. Because of LM's size, the entrepreneurship is individualized to Silvia Wulff. Her advantage lies in simple routines in organizing and directing the firm. Silvia uses *resourcefulness*, the ability to do more with less (Peng, 2001), in translating her micro, interpersonal ties with managers at other firms and friends into improved macro organizational performance. Thise's entrepreneurial advantage lies in its way of conducting business with collaborative partners, which Thise has developed successfully through years of operations and past collaborations. The responsibility for planning and preparing is spread across several more shoulders when one considers the level of individual responsibility within Thise. Both companies have used their networks to other companies in the discovery of the business opportunity, and in acquiring knowledge about the Chinese market. Thise is relying heavily on BW's *guanxi* in China to find a long-term partner and Silvia Wulff has used DC Company's food showroom in Shanghai as a facilitator to find a Chinese agent, while also finding agents herself. The use of external collaboration partners (export agents) has been especially important for both firms to overcome the institutional differences that are connected with doing business in China. In the initial phase of internationalization, much of the work is done by the export agents due to the limited resources of both companies and the lack of market knowledge concerning the Chinese market.

After having discussed the second sub-RQ, it is possible to validate the second hypotheses:

**Hypothesis 2a:** *A new venture will due to limited resources and no experience rely heavily on entrepreneurship of the managers, knowledge and learning capabilities, and networks in the initial phase of the internationalization to China to overcome institutional differences.*

**Hypothesis 2b:** *An older established company will rely on entrepreneurship of the managers, knowledge and learning capabilities, and networks in the initial phase of the internationalization to China in order to overcome institutional differences. However, as the company is faced with a new institutional environment, different from its familiar markets, the company will need to develop new capabilities.*

## 6.3 Validity

### 6.3.1 Internal validity

Internal validity consists of being sure of the relevance and internal coherence of the results produced by the study. Researchers must ask to what degree their inferences are correct, and whether or not *rival explanations* are possible, whether variations of the variable that is to be explained are caused solely by the explanatory variables (Drucker-Godard et al., 2001). Examining rival explanations is to ensure that the observed outcome was in fact the result of some other influences, other than the hypotheses are suggesting. Being aware of possible rivals, I have in the data collection attempted to collect evidence about

other possible influences, thus reducing investigator bias (Yin, 2009). Because the thesis focus has primarily been on explaining the internal influences in the firms, there could be possible external influences that have affected the cases. In the analytical framework and in the description of context of the cases I have put forward the most important external influences to explain the push and pull factors of firm internationalization. Although no systematic analysis has been conducted on how the context and external influences have influenced the framework, it has shaped the overall lens through which the variables have been analyzed.

Another way to strengthen internal validity is through *pattern matching* which compares an empirically based pattern with a predicted one or more. If the pattern coincides, the results can help a case study to strengthen its internal validity (Yin, 2009). Pattern matching occurs in the following matter: *“if, for each outcome, the initially predicted values have been found, and at the same time alternative patterns of predicted values have not been found, strong casual inferences can be made”* (Ibid., 137). Against the background of the literature review, hypotheses were developed. Having analyzed two cases in accordance with the analytical framework, the discussion provided me with the answer to validate the two hypotheses, thus, the empirically pattern through the analyzed case studies corresponds with the predicted explanation, thereby empirically validate the hypotheses, it strengthens the framework’s internal validity.

### 6.3.2 External validity

The external validity of a research describes the degree of generalizability of the study’s findings and conclusions beyond the cases in question. A number of different techniques may be used when generalizability from case study should be possible, for example using several case studies to vary the contextual characteristics of qualitative research and to limit or control as much as possible the particularities of individual cases (Yin, 1989; Eisenhardt, 1989; Guba and Lincoln, 1994 in Drucker-Godard et al., 2001). Repeating a case study will normally help to reach a *theoretical and literal generalization*. In repeating a study, cases can be selected to predict the same results (literal replication) or to predict different results, but for anticipated reasons (theoretical replication). The results of the qualitative study may then be compared or contrasted according to the characteristics, either identical or different, of the cases available to the researcher. Another way assure the external validity of the research is to compare results with the work of other researchers (Eisenhardt, 1989 in in Drucker-Godard et al., 2001), so as to interpret single or few case studies in a different way. The two cases were selected because of their contrasting situations, different age, size, income etc., and due to their different set-ups, the companies’ typologies would most likely illustrate contrasting strategies in internationalization process (theoretical replication). I further wanted to examine how the companies use their internal capabilities in the internationalization to China; here the cases would most likely also show different results, but for anticipated reasons.

To have been able to provide a broader picture of Danish organic food companies initial internationalization planning to China, more case companies could be preferred. Thus, another way to examine the research question would have been to apply both quantitative data, as a survey among Danish organic food companies and then test the results against two in-depth qualitative case studies. But due to the timeframe of the thesis, more than a two-case case study would not have been manageable for one person to conduct. Instead maximum variation cases were used, because the method works well in places where the sample size is very small.

As stated in the research design, due to the timeframe of the thesis and the case study method, a cross-sectional study has been applied, thus a “snapshot” in time of a particular phenomenon. I am analyzing the current state (strategies, considerations, relationships, and opportunity etc.) of the cases as they are right now. The findings are context and firm specific, so some aspects will therefore not be the same as for other companies, thus firms’ internal capabilities differ from firm to firm. But when comparing results of the thesis with the work of other researchers (Oviatt & McDougall, 2005; Madsen & Servais, 1997; Moen & Servais, 2002; Knight & Cavusgil, 2004; McGauhey et al., 1997 among others), there are many examples of how firms use internal capabilities to plan internationalization, thereby strengthen the external validity of the results. However, generalizability over time will probably impede the external validity. First, the economic situation in the world will most likely change, for better or for worse, and thus result in a different context for the companies, causing more or less motivation to internationalize to other markets. New political decisions as export support programs could also result in faster internationalization of the firms. Firm specific characteristics could also change due to increased income, external investments, or by hiring new managers or acquiring new networks. As analyzed and discussed, entrepreneurial capabilities are important in the discovery, planning and preparing of the initial phases of internationalization.

An extensive amount of literature and case studies written about internationalization processes of SMEs have been dealing with high-technological firms in e.g. the computer, communication, or pharmaceutical industry (Sapienza et al., 2006; Johanson & Vahlne, 2010; Madsen & Servais, 1998; Oviatt & McDougall, 1994). It would therefore pose some interesting challenges when considered from a perspective associated with the food sector. Both companies operate in the organic food industry which can be categorized as niche industry. Compared to conventional products, organic products have a much higher innovative and technological advantages. Especially LM’s frozen organic products are innovative because they are the first ones in the (Danish) market. According to Silvia Wulff (Wulff, 2012b) many importers in various countries have been very interested in LM’s products due to the high quality and innovative way of thinking baby food, but because the products are frozen the transportation, storage, and marketing becomes complicated. These also develop and produce innovative products, in relation to food products. These can leverage its small-scale advantage to try out new different products, which larger dairies find a waste of

time to make. Therefore the organic food products can on some points be compared to other companies working with high-technology products, due to Thise and LM's innovativeness in the food industry. However, as the transportation of food is more expensive, slower, and more demanding to transport than software or computer device, the internationalization process will most likely be slower. All-in-all, internationalization theories have been applicable to the case of organic food products.



## 7 Conclusion

The overall research question for the thesis was: *How is the potential for internationalization to China discovered by Danish organic food companies, and what actions are subsequently taken during the initial phase of planning and preparation? -A case study of Thise Mejeri and Lovemade.* To answer the research question two sub-RQs were asked; the first was to analyze how the typologies of the firms impact on their motivation and aspiration for internationalizing to China. The second was to analyze how the companies use their internal capabilities (entrepreneurship of the managers, networks to other companies, and knowledge and learning capabilities) in the initial phases of the internationalization to China. Two hypotheses were developed to each sub-RQ, and as emphasized in the previous discussions, empirical support was found for all the hypotheses underlying the theoretical framework.

Having analyzed the two cases in relation to relevant internationalization theory, it was argued that LM's motivations and aspirations for internationalization fits with the characteristics of an INV, more specifically a Multinational Trader or a very young Geographically Focused Start-up. LM wants to internationalize early to survive, because the domestic market is not big enough for its products. Due to Thise's history of incremental and geographically close internationalization, Thise follows some of the stages of the Uppsala model and can be characterized as a Late International. Thise has been forced to expand export to distant markets, because of a downturn in the Danish market and important export markets.

Due to the companies' different firm typologies, the internal capabilities have been used differently. Because of LM's size, the entrepreneurial advantage lies in the coordination of activities, which include simple routines and competencies in organizing and directing the firm. Silvia uses *resourcefulness*, the ability of doing more with less, in translating her micro interpersonal ties with managers at other firms and friends, into improved macro organizational performance. Thise also uses its network to improve its organizational performance, but Thise's biggest entrepreneurial advantage lies in its way of conducting business with collaborative partners, which Thise has developed through years of operations. As a young company, LM's *learning advantages of newness* has been an advantage for the speed of the initial internationalization planning, while Thise's internationalization planning to China has started slower due to the administrative heritage and bureaucratization of older businesses. Thise has needed to break old habits of doing business. Due to Silvia Wulff's lack of experience with the food sector and export, and limited resources, she has been forced to learn while doing, thus undertaking improvisation as a learning method. Both companies have used imitation as a learning strategy. LM has used it as a mean of acquiring new knowledge because of its inexperience and lack of knowledge, while Thise has "copied" Arla to get new inspiration of doing things. Both companies have used their networks to other companies in the discovery of the business opportunity and in acquiring knowledge about the Chinese market. The use of external

collaboration partners (export agents) has especially been important for both firms to overcome the institutional differences that are connected with doing business in China.

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**Appendix 1****Interview overview**

<b>Interviewee</b>	<b>Date</b>	<b>Location</b>	
<b>Klaus Sall, business developer, Thise</b>	9 December 2011	Thise Mejeri, Thise	Mix of informal conversation and semi-structured interview (2h)
<b>Silvia Wulff, owner of Lovemade</b>	5 January 2012	Copenhagen	Mix of informal conversation and semi-structured interview (1h)
<b>Silvia Wulff, owner of Lovemade</b>	9 March 2012	Copenhagen	Semi-structured interview (1h)
<b>Bjørn H. Andersen and Martina Liu, Business Welders</b>	15 March 2012	Aarhus	Mix of informal conversation and semi-structured interview (2,5h)
<b>Klaus Sall, business developer, Thise</b>	15 March 2012	Aarhus	Semi-structured interview (1,5h)

## Appendix 2

### Summary of informal meeting with Klaus Sall, business developer at Thise

**Date:** 9 December 2011

**Structure:** Informal meeting

**Duration:** 2 hours

**Place:** Thise Mejeri

The meeting with Klaus Sall was an initial meeting to present myself and to hear about the company, and what her general plans was with internationalization to China and other countries. The information gain from the meeting is summarized below. The meeting was not recorded electronically, but the summary is made from notes taken during the conversation.

#### 1. Firm description

The dairy was established in 1988 by dairyman P. E. Pedersen and taken over by his son Paul Johannes Pedersen and his partner Erik Ellebæk in 1997. Thise Mejeri is a cooperative, presently owned by around 80 Danish organic farmers in Jutland. Thise Mejeri produces 100% organic dairy products and has about 85 different products e.g. butter, milk, and cheeses. In Denmark, Thise sell its dairy products to Coop, and apart from that, Thise sell products to catering companies and to the industry. Every day the raw milk are picked up from the farmers and brought to the dairy in Thise, the milk are then processed and developed into milk or other dairy products. Thise has some milk tankers, some of them are relatively small to separate the milk from certain cows to specific products, and delivery vans of its own, but Coop also picks up the milk and distributes it stores all over Denmark.

#### 2. Marketing

Thise does not rely on economy of scale, instead Thise rely on small-scale advantage. Thise can produce a production batch down to 300 pieced. The dairy rely on high quality and good taste in all its products, and that should be enough to sell the products. Thise only spend a very little amount of money on the marketing of its products, actually Thise does not have a marketing department in the firm. Thise only advertise through its customers e.g. if the supermarket advertise the dairy products in their sales materials, and do not make any commercials in television, radio etc.

#### 3. Product adaption

Thise adapt its products to certain export countries. For example to Greenland where the population has a high share of lactose intolerance consumers, Thise has developed a milk and cheese without lactose. Due to Thise's ability to produce very small productions, Thise can quickly respond to a customer (retailers) wishes

without the fear of making a huge mistake and lose a lot of money. These love to develop new products and have around 85 products.

#### **4. Export and internationalization**

In 2011, 83% of These's products were sold in Denmark, making Denmark These's primary market. The rest 17% were exported to 12 countries: Sweden, Greenland, Germany, Nederland, Finland, Belgium, Austria, Italy, France, Spain, Bulgaria, and South Korea. Germany is the biggest export country counting for 53% of the total export. Despite the relatively small size of the dairy, These has a global take on its export strategy. At the moment, These export some dairy products to South Korea. Brazil, the Middle-East as well as China are currently under investigation as potential export countries. The reason for looking at new export markets, besides the high growth rates in the target countries and growth in consumption, is due to 20,000 tons of excess milk. Before the financial crises, sales numbers were increasing and These got involved with more dairy suppliers, but due to the financial crisis from 2008, These has experienced a decline in sales in Denmark and in its near markets. The excess milk is sold for a very low price to other companies for further processing. Therefore there is a wish to sell the milk abroad to a higher price as drinking milk, cheese and other dairy products. These has just started a collaboration with Business Welders (Bjørn Andersen and two Chinese who live in Denmark) to find a reliable Chinese business partners for These.

## Appendix 3

### Summary of informal meeting Silvia Wulff, owner of Lovemade

**Date:** 5 January 2012

**Structure:** Informal meeting

**Duration:** 1 hour

**Place:** Copenhagen

The meeting with Silvia Wulff was an initial meeting to present myself and to hear about the company, and what her general plans was with internationalization to China and other countries. The information gain from the meeting is summarized below. The meeting was not recorded electronically, but the summary is made from notes taken during the conversation.

#### 1. Firm description

Lovemade was established in September 2010 by Silvia Wulff. Becoming a mother, she had experienced that there was not any pre-made baby food on the market besides canned and powdered food. In the wish to give her children healthy fresh food in a busy daily life, she came up with the idea to make frozen organic baby food that you could buy in the supermarket. Lovemade's products came on the market in May 2011. The products were launched in Kvickly, Irma, SuperBrugsen, Supermarché, Mad&Vin, Irmatorvet.dk, OSUMA.dk and Føtex. However due to too little sales, Føtex did not want to sell Lovemade's products after three months.

She got the courage and inspiration to start up LM from her husband who is an entrepreneur himself and have started up many it-companies. Though him, Silvia got information and help with the whole process of starting up a new company which she did not have any experience doing. In start-up support, LM received 640.000 DKK in support from the Danish Fødevarestyrelse's innovation fund. LM's products are produced in Sweden. Production facility was tried to be found in Denmark, but due to very strict production facility requirements in organic food production and the fact that the factory should be able to produce meat, fish, fruit, and vegetables, no one in Denmark could undertake that. The production time, transportation and distribution takes about one month from the plant in Sweden to the products are in the freezer in the supermarkets. A survey conducted some month after LM's products came on the market, about 10% of the target group knew about the product. Sales numbers have increasing since the start, but too slow.

#### 2. Barriers to growth in Denmark

- Danish babies start to begin to eat normal food already from they are 8 month old. In Sweden for example, baby and small children eat baby food up until they are 3 years old.

- It is a common thought among mothers in Denmark, that to buy baby food for your children instead of making it yourself, is defining you as a bad mother, and other mothers will “judge” you for it.
- People are not used to look for baby food in the freezer because baby food usually is located next to the diapers in the supermarket.
- Frozen food is by some people perceived as something not fresh and not as healthy as fresh food.
- Inconvenient to have frozen baby food with you instead of long lasting products.
- Price: The cost of one container of 190g is 18 DKK, often sold 2 for 29 DKK. Compared to “normal” canned baby food the price is almost twice as high.

### **3. China**

LM originally wanted to start export to Sweden, but Søren Kirketerp from DC Companies contacted her about her possibilities for export in China. DC Companys has a showroom to promote Danish food in China, which is a joint venture with the Danish consulate general in Shanghai. Possible export to other countries as to the Middle East, through an acquaintance of hers, and Germany and Sweden where Silvia has been proactive herself.

## Appendix 4

### Internal document from Thise

**Author:** Klaus Sall

**Date:** 9 March 2012.

**Subject:** Summary of information meeting: Thise export project to China. I have only extracted the parts that are relevant. The full document has been enclosed in the attached CD.

### Introduction

*“The milk surplus that Thise has, is a challenge that has forced Thise to look beyond the Danish market and the nearby EU-markets. Thise is now exploring the Brazilian and evidently the Chinese market. The milk surplus is making the dairy less competitive to its milk suppliers which are the farmer owners of Thise.”*

Thise is now producing 30-40 tons of UHT milk per week, while the production of powder is only in bulk and in lower amounts.

### Hong Kong /Dansk Hjemmeproduktion (DH)

Thise has been contacted by DH. They would like to distribute Thise Milk Powder in Hong Kong. Paul introduced and asked for opinions. There was agreement around the table that any exclusivity which DH was granted by Thise at this point in time should not include mainland China.

### Presentation of Chinese export project

Photos were taken by Mogens in order to allow Paul to present the export initiative to the farmers / owners of the dairy. Klaus will update on meeting

## Appendix 5

### Summary of interview with Silvia Wulff, owner of Lovemade

**Interview with:** Silvia Wulff, owner of Lovemade

**Date:** 9 March 2012

**Structure:** Semi-structured interview

**Duration:** 1 hour

**Place:** Copenhagen

I prepared some questions under each theme that were to be explored, to get information on the establishment of LM's and its internationalization in general and to China. The findings are summarized below. The full interview is on the attached CD.

#### 1. Establishment of LM

LM received a start-up help of DKK 640,000 from the Danish Veterinary and Food Administration's innovation fund and later on, LM got an investment of DKK 1.8 million from CAT Science Park, a privately held investment company. The biggest problem with LM's products is that they need to be in the freezer, because baby food normally is located next to the diapers. She wish to get more investors and the financial support would be used in marketing. But the funding she has tried to get is too specific and is often not aimed at marketing activities. She could also use extra capital to products development, having more products would also help promote LM's products, it is difficult to only have six of the same kind of products. The disadvantage of being new and small company is the resource constraints related to it. In getting market knowledge she uses feedback from Facebook and the exhibitions LM participate in instead of making expensive market surveys.

#### 2. Entrepreneurship

Silvia has not any experience in the food sector or export business from former jobs or education. She is totally new in the business. Her former job was in the film and media industry. Her drive for establishing LM was the wish to create healthy organic easy food for her children. She explains why she thinks she wanted to export this fast after establishment is because of the small market in Denmark for organic baby food due to cultural reasons. She thinks that only being in Denmark would be too risky, so considering exporting so early after establishment is primarily due to survive. But due to LM's few resources she has been feeling her way forward in the export phase, learning while doing. The advantage of having a small company is in the decision-making process. Silvia is the only one to decide on what markets to go for and also the responsible one to make things happen. Silvia considers the Danish market as a test market. It has always been in the strategy that LM should be exported to other countries from day one.



### 3. Use of networks

Being a little new resource constrained company is LM, everything also has to do with chance, e.g. networking and meeting the right people in the business. She has been proactive in getting contacts in Sweden, whereas she was contacted by her acquaintance from DC Companys about the Chinese market. Silvia uses her network to find business opportunities in other countries as was the case with China. She also uses her network to get information on “how to export” because she does not have any experience in the food industry or with export. She often has working lunches with acquaintances to get relevant information on specific matters. Using her network is especially important because she does not have that many resources to “buy” the knowledge.

### 4. Internationalization to other markets

Silvia knew when she started LM, that there were other markets that would be more willing to buy premade baby food than Denmark, e.g. Germany or Sweden. China became interesting because Silvia was contacted by DC Companys. The reason for considering China so early was only due to DC Companys, she thinks that she would have considered China at some point, but would have focused on Sweden and Germany to start with. Germany: Silvia was contacted on the BioFach exhibition from an organic German supermarket chain, Basic, she then got in contact with the wholesaler and is now in dialog with them about getting then LM’s products in the Basic chain. Sweden: Silvia started to send presentations out to different supermarkets and agents. Silvia compares the strategy as the same as the Danish one. She got in contact with ICA supermarket. ICA wants to set up freezers in 15 of Stockholm’s largest supermarkets in the baby section. Silvia also has some contacts to some organic café’s and stores in Sweden. The goal is to slowly get it in the Swedish market. Finland: A wholesaler is interesting to import LM products. Silvia did not consider Finland as a country, but it was luck and coincident that an agent passed by LM’s stand at BioFach.

### 5. Internationalization to China

LM has around 10 contacts to Chinese agents and buyers through DC Companys. Silvia went to BioFach in Nuremberg, Germany (arranged by Økologisk Landsforening), where she also got in contact to potential Chinese agents which she forwarded to DC Companys. DC Companys now have a Danish-Chinese man, Michael Poulsen, sitting in Shanghai, working as a key account manager for LM. He is working as a middle man having meeting with potential customers and getting information from LM that the agents request. It was necessary for DC Companys to have a “physical” person sitting in China to have meetings with potential customers.

#### Citations from the interview used in the thesis:

See attached CD: LM 9 March part 1, minute 1.40:

*"han har holdt nogen møder med Lotus og Mitsubishi (...) jeg ved ikke om det er en grossist eller hvad de er, jeg ved dårligt nok hvad de er, men det er jo det fede ved af dem (DC Companys)"*

See attached CD: LM 9 March part 2, minute 0.43:

*"Grunden til at jeg har valgt at fokusere på eksport så tidligt er fordi at jeg kan se, det går ligesom op for en når man laver en fødevarevirksomhed i Danmark, hvor lille markedet er, og hvor få muligheder der faktisk er på det danske marked, når man begynder at undersøge lidt hvordan de andre markeder er, i sær med baby mad, også i forhold til kulturen, så er det også oplagt for mig, da man bare spiser mere baby mad både i Sverige og Tyskland."*

See attached CD: LM 9 March part 2, minute 1.20:

*"Kina var jo også sådan lidt på grund af at jeg blev ringet op af DC Companys. Det kunne sikkert godt være at man ville have brugt nogle ressourcer på det på et tidspunkt, men grunden til jeg gjorde det, Så tidligt, var fordi jeg blev ringet op og inviteret ud på det her showroom."*

See attached CD: LM 9 March part 2, minute 1.45:

*"Jeg er ikke sikker på vi kan overleve, hvis vi kun fokusere på det danske marked, der er det simpelthen bare for lille og skrøbeligt Vi ligger i Coop nu, hvis vi ryger ud af Coop nu, så mister vi jo nærmest vores eksistensgrundlag på det danske marked."*

See attached CD: LM 9 March part 2, minute 2.24:

*"Det hele handler om volumen, det går ret hurtigt op for en (...) og det vil der jo ikke være på det danske marked på noget som helst tidspunkt i forhold til baby mad uanset hvor godt det så kommer til at gå, så tror jeg ikke det danske marked er stort nok. Jeg ser lidt på det som et test marked, og det er jo rigtig fint at starte ud her i Danmark, (...) men det har været i forretningsplanen helt fra start af, fra day one".*

See attached CD: LM 9 March part 2, minute 3.38:

*"I en opstartsfase, så handler det jo faktisk også en del om tilfældigheder, og i høj grad om networking. Det giver så meget når man taler med folk inden for branchen, de har jo prøvet det før og de har jo en masse erfaring med deres produkter i Tyskland og Sverige."*

See attached CD: LM 9 March part 2, minute 4.02:

*"Det er jo nok min fordel at jeg har ikke noget i mod at sige "hey, kan du hjælpe mig?" "kan du fortælle mig lidt mere om det og det og det, eller må jeg købe dig en kop kaffe eller et eller andet hvis du gider brainstorme med mig på det og det områder. Det er så vigtigt for alt, networking kan jo føre til alt."*

See attached CD: LM 9 March part 2, minute 4.59:

*"Sverige har jeg selv været opsøgende og der har jeg selv sendt præsentationer ud (...) Så har jeg forhørt mig sådan lidt, jeg har ansat en fyr som har underøgt marked lidt, som kendte en masse til det svenske marked. Ham har jeg ansat på konsulent basis i en måned. Han har så lavet en rapport hvor der står en masse om det svenske marked. Så har jeg så efterfølgende selv sendt præsentationer ud og taget kontakt, så det er faktisk været lidt det samme som det danske marked."*

See attached CD: LM 9 March part 2, minute 21.30:

*"Min fordel er nok at der ikke er alle de der beslutningsprocesser. Jeg har jo aldrig prøvet det anderledes, så jeg ved jo ikke præcis hvad der virker. Jeg har jo ikke det store erfaringsgrundlag for eksport, så det kan jeg ikke rigtig sige nu, før man ligesom lykkes med noget af det."*

See attached CD: LM 9 March part 2, minute 24.20:

*"Vi kan jo også se hvad folk svarer på Facebook, og altså nogle helt konkrete ting når man er i dialog med forbrugerne og ude på messerne."*

## **Appendix 6**

### **Summary of interview with Klaus Sall, business developer at Thise**

**Date:** 15 March 2012

**Structure:** Semi-structured interview

**Duration:** 1.5 hours

**Place:** Aarhus

I prepared some questions under each theme that were to be explored, to get information on Thise's internationalization in general and to China. The findings are summarized below. The full interview is on the attached CD.

#### **1. Motivation to internationalize to China**

The reason for looking at new export markets is because Thise is producing 20,000 tons excess supply of milk every year. The milk surplus has forced Thise to look beyond the Danish market and the nearby EU-markets. Before the financial crises, sales were increasing and Thise got involved with more organic dairy farmers, but from 2008, Thise experienced a decline in sales in Denmark and in its export markets, because consumers replaced the organic milk with conventional milk. At the moment the 20,000 tons of excess milk are sold for a very low price to other companies for further processing, therefore Thise would prefer to sell the milk abroad at a higher price as refined dairy products. Thise's revenue has been increasing during the last five years from a about DKK 360 million in 2007 to DKK 539 million in 2011. However due to increasing expenses the profit fell from DKK 13 million in 2010 to DKK 5.5 million in 2012. An additional reason that has motivated Thise to internationalize to China (and Brazil) is due to the fact that Arla, who are Denmark's largest dairy and Thise's largest competitor, has been able to pay its dairy farmers more than Thise in 2011. Even though Arla also had experienced a decrease in sales in Denmark, Arla was able pay higher prices because of its large export of the excess milk sold as milk powder to distance markets as the Middle-East and China, where Thise instead was forced to sell its excess milk at a comparable lower price to other dairies for further processing. Thise would prefer to sell the milk abroad at a higher price as refined dairy products, in the beginning it would be normal products as milk powder and UHT and later on more high-value localized products. Thise should still focus on branding itself as organic and high quality, and hopefully it will be enough to win over the Chinese consumer.

#### **2. Challenges with the Chinese market**

Thise has experienced a different way of doing business in the China than they are used to from their other export markets. Because Thise is an unknown company in China, Thise needs to do different measures to create and develop trust with Chinese agents and companies. The Chinese agents need to get different

documents from Thise even though the documents and certificates are not needed from official site. The Chinese contacts need to be sure that Thise is an organic dairy doing what it says it does. Thise needs to follow local practices and traditions in order to develop trust. Thise needs to document its existence. Thise will want to help to make the process work smoothly, but has not been used to this way of trust issues before. Thise's others export partners did not need documents on different matters but just to Thise's word for it. Thise has never experiences the same requirement and information that the Chinese agents want from Thise. Thise needs to provide documents on all sorts of matters that other European customers have never asked of. Compared to Brazil, which Thise is also trying to export to *"China is just culturally more difficult to do business with."*

Even though Because Business Welders is a new company in the export business, BW could have been better prepared with knowledge about which documents Thise needed to have to present for the Chinese, making the process smoother.

### **3. Use of network**

Besides using Business Welders to find a Chinese partner, Thise are using its network to gain market knowledge about China. Klaus Sall has an acquaintance in Urtekram who exported products to China in 2009 with help from the Danish Trade Council. Klaus Sall's contact in Urtekram, Sales and Marketing Director of Urtekram Peder G. Jessen, shared his experienced with him about the Chinese market. Peder G. Jessen told him that the company currently does not export to China, because Urtekram could not find a suitable Chinese partner. Klaus Sall further got some recommendations about packaging should be at in English or Chinese for the Chinese customers to understand the content, and that Thise should only introduce familiar products which the Chinese already know. Furthermore, Thise should find a reliable distributor to handle the products properly.

While the collaboration with BW about export to China was underway, Thise was contacted by Dansk Hjemmeproduktion (DH) who wanted to sell Thise's products in Hong Kong. An agreement was relatively fast settled and DH got exclusivity to sell Thise's milk powder in Hong Kong (not mainland China) from 2012-2014. DH will not become an agent, but importer and buyer of Thise's products. This deal went fairly quick and is characterize as a weak tie because of the limited time involved in the relationship. The collaboration was not as time-consuming as the collaboration with BW. Because of the set up with DH, Thise should not find a Chinese partner to engage in a long-term relationship.

### **4. Thise's way of doing business**

The export to all Thise's export countries has been through an "acquaintance" of Thise. This acquaintance has been a person who knows Poul Pedersen or a person who has shown interest in Thise's products and wants to export the products to another country. Klaus Sall explains this way of doing business with a sentence: *"everything at Thise starts with trust"*. A business relationship starts with having a meeting with a person, if Poul Pedersen likes what he hears, they can meet again and maybe start working together. Thise will not begin to export to another market unless Poul Pedersen has a relationship with a person or a person has introduced a potential market to him. Klaus Sall explains that *"there needs to be a relation, it does not start with a strategic decision"*. Thise has never started to export to other countries without having some kind of relationship with a mediator first, and will according to Klaus Sall probably never happen in another way. Thise's philosophy is that "things take time" and does not want to rush into business with the wrong partner, e.g. it took over a year before Thise had an actual and profitable export to Holland, and over ten years before Thise had an actual and profitable export to Germany. Thise's internationalization is not a huge strategic investment in a new market, but it is a testing to find a long term partnerships. Thise would rather work systematic, slow and long-termed to acquire the necessary knowledge about the market and partners, than take a quick irrational decision.

#### Citations from the interview used in the thesis:

See attached CD: Thise Klaus Sall 15 March, minute 6.00:

*Når Arla har været i stand til at give en højere mælkepris de sidste to år, så er det i meget høj grad fordi Arla er på det internationale marked. Men det har været karakteristisk at i den periode cashede Arla meget kraftigt ind på deres pulver (vallepulver), når verdensmarkedspriserne steg på det, så kunne Arla bare levere til det internationale marked. Og Thise de sad bare hjemme i Danmark og var meget afhængig af en kunde, Coop, (7.13) og det blev meget tydeligt, og det har jo på sin vis været tydeligt længe, og det gør dem afhængige af de konjekture der lige nøjagtigt hersker i Danmark og i Tyskland."*

See attached CD: Thise Klaus Sall 15 March, minute 23.30:

*"Kina er bare kulturelt en meget mere vanskelig samarbejdspartner end Brasilien er."*

See attached CD: Thise Klaus Sall 15 March, minute 25.25:

*"Det er interessant at lære af de erfaringer der ligger der."*

See attached CD: Thise Klaus Sall 15 March, minute 31.45:

*"Thise er ikke i gang med at lave en kæmpe stor strategisk investering i et nyt marked. De er i gang med at lave en langsigtet afprøvning af at finde nogle kunder som vil det her."*

See attached CD: Thise Klaus Sall 15 March, minute 32.35:

*"Desto mere strategisk og massivt man går ind, jo mere travlt man har, jo større er risikoen for at man ikke kender hinanden."*

See attached CD: Thise Klaus Sall 15 March, minute 33.29:

Så det at arbejde systematisk, langsigtet og langsomt er også en beskyttelse mod at tage for hurtige beslutninger, for dem som er virkelig grådige, de har ikke tid til at vente, de har ikke tid til at tage det roligt, de vil noget hurtigt. For at komme ud over denne grådighed, *"så vil jeg gerne arbejde sammen med nogen som var personligt motiveret for at arbejde med økologi."*

See attached CD: Thise Klaus Sall 15 March, minute 36.27:

*"Det har vi på nogen ting, for det første har vi det ikke på engelsk på mælkepulver (...) vi har simpelthen ikke det der på plads." Det er vi i gang med at udvikle.*

See attached CD: Thise Klaus Sall 15 March, minute 40.46:

*"Ting oppe på Thise starter med at man snakker med hinanden. Og hvis vi så synes det som bliver sagt lyder fornuftigt, så kan vi jo snakke lidt videre. Og den tilgang, den tålmodighed er jo også det der gør at de... det er hvert fald et element i at Thise er der hvor de er på det danske marked i dag."*

See attached CD: Thise Klaus Sall 15 March, minute 43.43:

*"Der skal være en relation, det tror jeg ikke der er en vej udenom. Det starter ikke med en strategisk beslutning."*

See attached CD: Thise Klaus Sall 15 March, minute 55.25

*"Kineserne, de har spurgt om en lang række forskellige dokumenter, for eksempel et dokument der hed, certificate of origin, ifølge de kinesiske og Hong Kong'ske krav, så er det ikke nødvendigt. Men det er markedets kutyme, så derfor er vi nødt til at have det alligevel. Så selvom det ikke er krævet, så mener folk at det er krævet. Det blev afskaffet i år 2006, tror jeg, men det kører stadigvæk, det synes folk at det skal de have med. Så må vi (Thise) se hvad vi kan gøre."*

## Appendix 7

### Summary of informal conversation and semi-structured interview with Bjørn Andersen and Martina Liu, Business Welders

**Date:** 15 March 2012

**Structure:** Informal conversation and semi-structured interview

**Duration:** 2.5 hours

**Place:** Aarhus

I prepared some questions under each theme that were to be explored, to get information on how Business Welders use its guanxi to find a partner for Thise and what opportunities and challenges they see for Thise in China. The findings are summarized below. Recording of interview is on the attached CD. The interview is on the attached CD.

#### 1. What guanxi means in finding potential agents

Martina Liu and Vivian Deng find potential agents in two ways: one is to contact people they know from school, family, family friends, and then if their friends know anybody who could be relevant for the project. Another way is to look online and search on relevant websites to find companies and get to know what their qualifications is and their size and scope, experience with importing. They are looking for both organic and conventional companies and a mix. It is also luck which persons you come in contact with, how much they are willing to help you. Martina has contact to 2-3 agents and Vivian has contact to 3-4. A cultural difference in China compared to Denmark is that a person is not so willing to give you a chance if you do not have a relation or a connection with the person from before. And because they are sitting in Denmark and cannot meet with them in persons, it is important to have some kind of relationship and to build up a trust relationship with the agents. Currently Martina and Vivian are building up a relationship with the potential agents by providing them with information on Thise, which can be legal documents and certificates which state that Thise is a “good company” and is what it says it is e.g. Danish organic certification and EU certification. Vivian and Martina are working on to translate Thise’s homepage into English and Chinese. That would definitely help to “convince” people that Thise is serious about the export and get information about Thise. According to Martina, because of the Chinese culture, Chinese people like brands and names, if you have that it will help to reduce the risk and the Chinese will trust you more. For Thise to appear more trustworthy, it would have been better if the website and various documents would have been ready from the beginning. Thise is in the process of finding all necessary papers because Thise has not been used to providing these papers before.



## **2. Biggest challenges for Thise in China**

The challenges depend on Thise's ambition. Thise will only be able to provide a very little amount and that is why Martina and Vivian do not recommend that Thise translate the packing into Chinese and do not apply for the organic certificate because it will be too costly and comprehensive process. In China, it will work without it. If Thise want to put themselves into the level of high quality, high price, that kind of products, it will be very often that the potential customer will be able to read English and recognize the European organic certificate and what that means. It all have to do with time and money and cost and benefit, so right now it will only be English packaging and no organic certificate. Thise need to figure out what it wants in the Chinese market, which kind of products and eventually which consumers. According to Bjørn's understanding of Thise, Thise did not know if the price should be price premium or lower.

## **3. Dairy and organic food in China**

After the melamine scandal in China, all the foreign companies are getting a big share of the Chinese market, especially the New Zealand companies due to export/import agreement between the countries. The organic market is growing in China, especially the vegetables and fruit. There are many organic online shops due to the cheap transportation of the goods. But still many "normal" Chinese do not know what organic means. The trend in the supermarket is that more and more organic products are filling the shelves. More and more people understand the concept of organic, because people are learning from all the food scandals in China. People want to go back to the old way and simple way of producing food without additives and chemical and gen technology. The media is telling people about the organic concept plus a lot of knowledge online.

## Appendix 8

### E-mail from Vivian Deng, Business Welders

**Date:** 2 April 2012

**Subject:** Guanxi in China

I have extracted the relevant part from the e-mail.

Hi Lin,

How are you doing? I was trying to find some less subjective answers for your questions. Later on, I realized that as a Chinese who experiences guanxi every day, it is impossible to be less subjective. Therefore, I can just write down some of my personal opinions to you.

#### 1. What role does guanxi play in China?

Guanxi plays a very important role in most of the Chinese everyday life, especially in work (new graduates need guanxi to find jobs; People need to have guanxi when they want to change jobs or earn more money). Guanxi even plays a role when Chinese find their girl/boyfriends or husband/wife.

I think there are various reasons which are related to this situation:

- 1) Huge population and high level of competition makes "only depend on myself" impossible.
- 2) Building Guanxi can be a short-cut to make changes happen.
- 3) The old social "hierarchy system" are rooted in Chinese blood. To know more people with higher social status and higher achievements is something most Chinese are proud of.
- 4) Culture reason. In China, we say "*one more friend, one more road*".

#### 2. How do you use it in your work with Thise?

We will certainly contact our friends who are in export/import or other relevant areas. I think it will help us to work more efficiently and directly. Also, since Chinese economic is undergoing fast developing which makes many "immature" companies or business people play in this market. Our guanxi will help us to go to the companies with enough credits and reputation. I think guanxi is not a mystery or confusing in China. In most cases, it works just like how "network" functions in Western countries. However, for some other cases, it may also cause political corruptions, economic disorders or business inefficiency or malfunctions.

Vivian Deng

**Appendix 9****E-mail from Klaus Sall, business developer at Thise****Date:** 16 January 2012**Subject:** China Urtekram experience

I have extracted the relevant part from the e-mail. The full e-mail has been enclosed in the attached CD.

Dear All,

I had a talk with the Sales and Marketing Director of Urtekram Peder G. Jessen and asked him about their experience with export for China <http://www.urtekram.dk/om-urtekram/> who has an annual turnover of about 300 million DKK <http://www.gmofri.dk/nyheder-fra-oekologi-og-erhverv/2011/maj/urtekram-17-11.aspx>.

They have had a 6 month test sales in one of the small chains about 2 years ago. He appreciated very much the ease of exporting to China in the handling at the Chinese harbor and little paperwork - that was at least true for those dry products which they exported. He also appreciated very much the very low transportation cost. He found the shipping cost to be less than when exporting to e.g. Finland. His explanation for these low costs was that there are so many empty containers going back to China. Urtekram had been content with the sale, but had discontinued the work due to two issues: The test sale had not represented or evolved into a market breakthrough with an economy which allowed further investment. They had not been able to identify a local representative who would be able to further develop sales.

Klaus Sall

## Appendix 10

### E-mail from Klaus Sall, business developer at Thise

**Date:** 3 January 2012

**Subject:** Export til Kina

I have extracted the relevant part from the e-mail. The full e-mail has been enclosed in the attached CD.

Kære Lin,

#### 1. Grunde til Thises eksport-strategi

##### Citations from the interview used in the thesis:

*"Det der i første omgang motiverer Thise til øget eksport er en mængde på ca. 20.000 ton mælk som afsættes uden nogen særlig fortjeneste. Det er attraktivt at afsætte denne mængde med en normal fortjeneste i stedet. Thise Mejeri har i årene 2005-2008 investeret meget store millionbeløb i egne bygninger og maskiner. På grund af de stramninger der er sket efter finanskrisen i efteråret 2008 har mejeriet finansielle ressourcer til de løbende investeringer, men ønsker ikke at foretage investeringer uden for denne ramme, men derimod at styrke mejeriets soliditet. Derfor er "Foreign Direct Investment" FDI ikke en mulighed pt. uanset at en sådan strategi evt. på papiret kunne se attraktiv ud."*

#### 2. Troværdig samarbejdspartner

Det bliver igen og igen nævnt at kinesiske virksomheder er så profit-orienterede, at det kan være vanskeligt at opnå en fælles forståelse af kutyme for forhandlinger, aftaler og samarbejde. Både Arlas, Nestlés og Fonterras samarbejdspartnere i Kina har været involveret i Melaminskandalen og dermed bragt deres brands i større eller mindre miskredit. Identifikation af en partner som kan håndtere relationer til myndigheder, og som har etableret handelsforbindelser bliver ofte fremhævet som en nøgle til det kinesiske marked. Inden for den økologiske branche finder man mange mennesker som har taget værdibaserede valg. Branchen er endvidere udsat for betydelig kontrol (økologi-kontrol). De to forhold tilsammen øger sandsynligheden for at man kan finde en troværdig partner hvis man søger blandt sådanne virksomheder (mennesker).

Klaus Sall

**Appendix 11****E-mail from Silvia Wulff, owner of Lovemade****Date:** 24 May 2012.**Subject:** Update on export

I have extracted the relevant part from the e-mail. The full e-mail has been enclosed in the attached CD.

**Hvordan går det med eksporten til Kina og andre lande?**

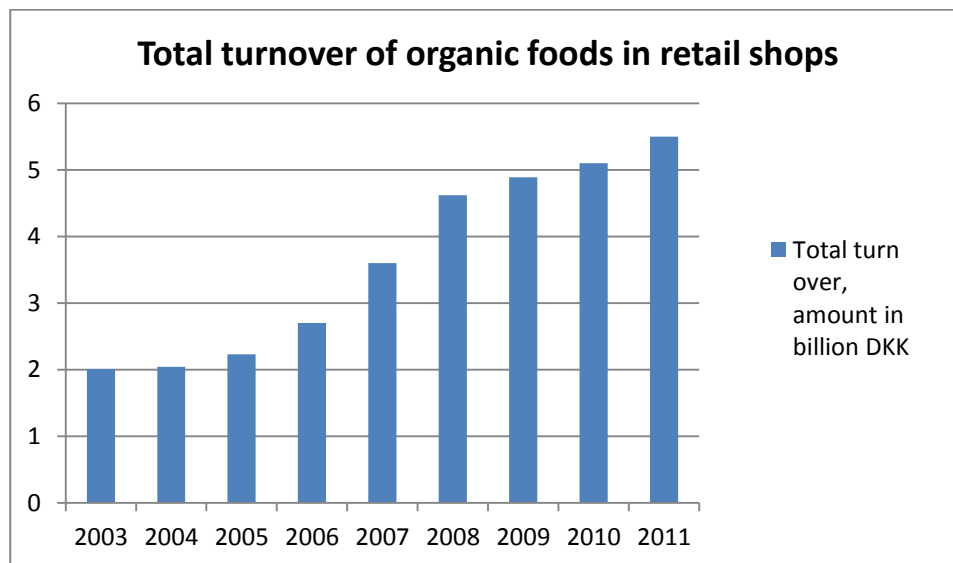
*"Jeg er i fuld gang, har lige haft møde med DC Companies igen. Der er flere interesserede i Kina, men det er svært med frost."*

"Jeg har fundet en salgs samarbejdspartner i Sverige, og vi planlægger lancering i nogle ICA test butikker i september."

Prøver at få hul igennem til de tyske grossister, men der er svære at få i dialog.

**Appendix 12**

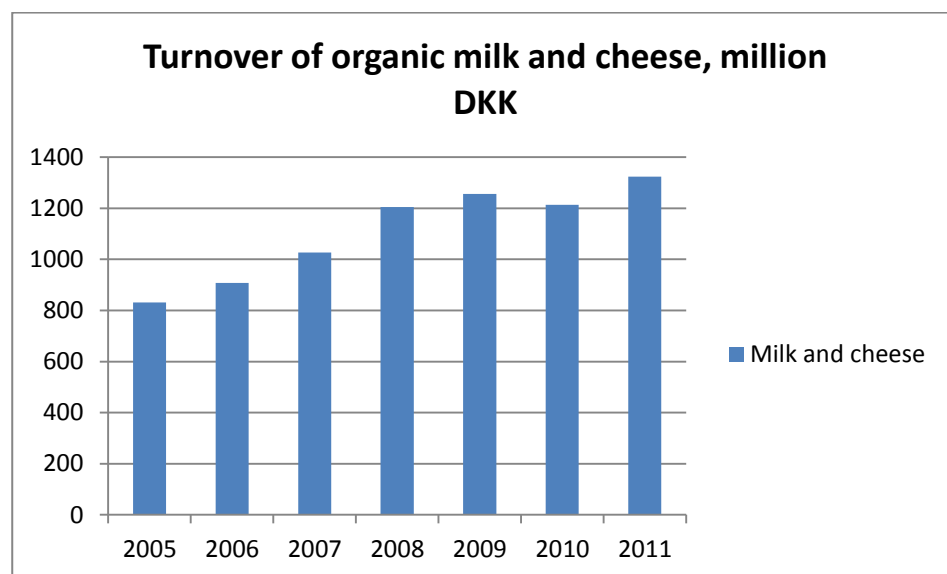
Total turnover of organic food in retail shops in Denmark from 2003-2011



Source: Statistics Denmark (2012a): <http://www.statistikbanken.dk/OEKO3>

**Appendix 13**

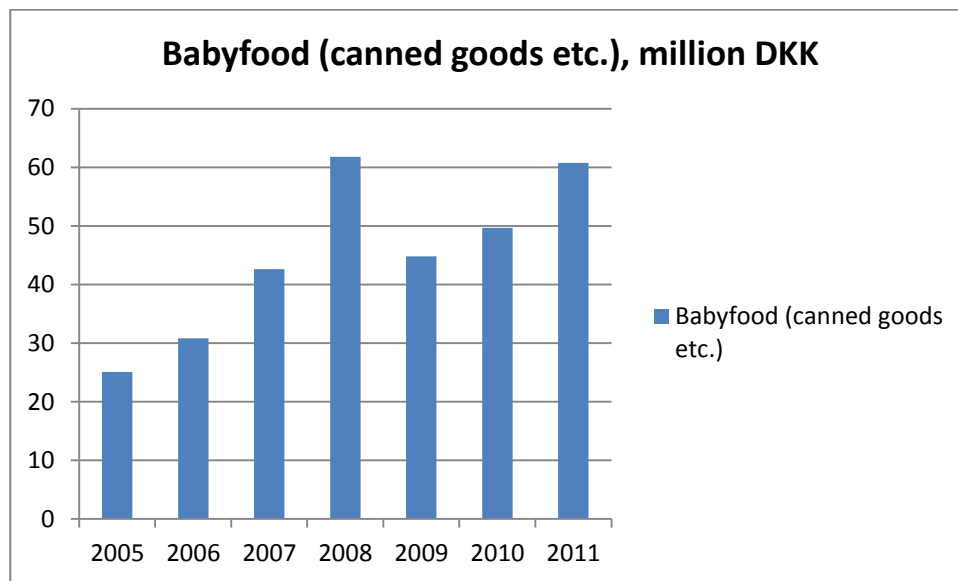
Total turnover of organic milk and cheese in Denmark from 2005-2010



Source: Statistics Denmark (2012): <http://www.statistikbanken.dk/OEKO3>

**Appendix 14**

Total turnover of organic baby food in Denmark from 2005-2010

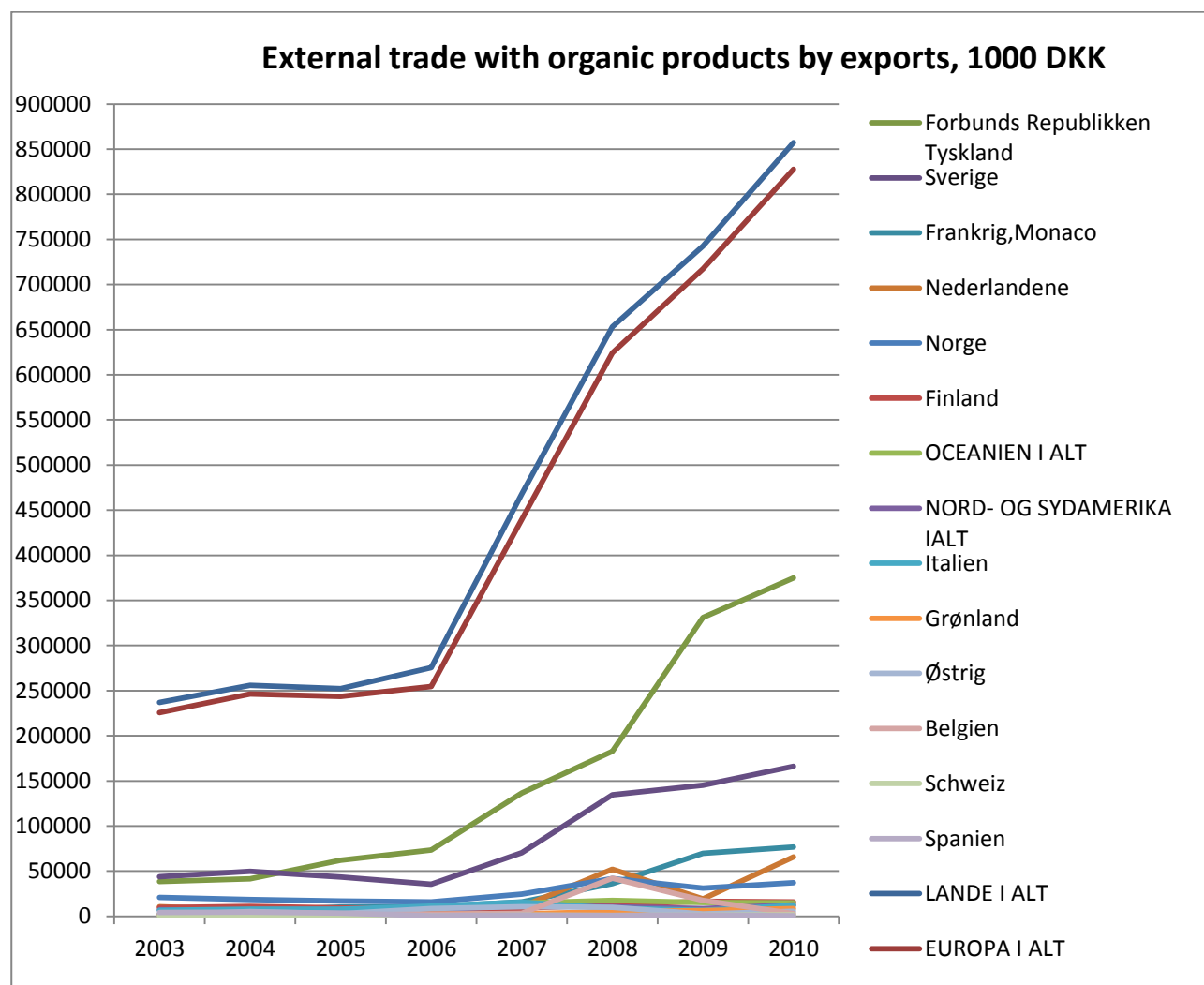


Source: Statistics Denmark (2012): <http://www.statistikbanken.dk/OEKO3>



## Appendix 15

Danish Export of organic products to selected countries in the world from 2003-2010



Source: Statistics Denmark (2012b): <http://www.statistikbanken.dk/OEKO4>

**Appendix 16**

Retail value of dairy markets (USD million) from 2005-2010

	2005	2006	2007	2008	2009	2010
<b>Total Dairy Products</b>	15,002	17,790	20,553	21,466	23,574	27,432

Source: Lagos et al. (2010)<sup>29</sup> and Beckman et al. (2011)<sup>30</sup>

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<sup>29</sup> 2005-2009: Exchange rate between USD and RMB: 1 USD to 6.7 RMB.

<sup>30</sup> 2010: Exchange rate between USD and RMB: 1 USD to 6.388 RMB.

**Appendix 17**

Top companies' shares of drinking milk and milk formula in China (by Global Brand Owner) - Retail value % breakdown in 2010

<b>Top Company Shares of Drinking Milk in China (by Global Brand Owner) - Retail Value % Breakdown</b>	<b>2010</b>	<b>Top Company Shares of Milk Formula in China (by Global Brand Owner) - Retail Value % Breakdown</b>	<b>2010</b>
China Mengniu Dairy Co Ltd	23,6	Mead Johnson Nutrition Co	11,7
Inner Mongolia Yili Industrial Group Co Ltd	20,4	Danone, Groupe	9,8
Hangzhou Wahaha Group	9	Hangzhou Beingmate Group Co Ltd	9,2
Want Want Group	5,7	Inner Mongolia Yili Industrial Group Co Ltd	7,9
Bright Food (Group) Co Ltd	4,6	Pfizer Inc	7,4
Wonder Sun Dairy Co Ltd	2,2	Yashili International Holdings Ltd	6,6
Beijing San Yuan Foods Co Ltd	2,1	Abbott Laboratories Inc	5,5
Nestlé SA	1,5	Synutra Inc	2,5
China Dairy Group Ltd	1,2	Nestlé SA	2,3
Sichuan New Hope Agribusiness Co Ltd	1,1	Global Dairy Holdings Ltd	2,2
Total	71,4	Total	65,1

Source: Agriculture and Agri-Food Canada (2012)

**Appendix 18**

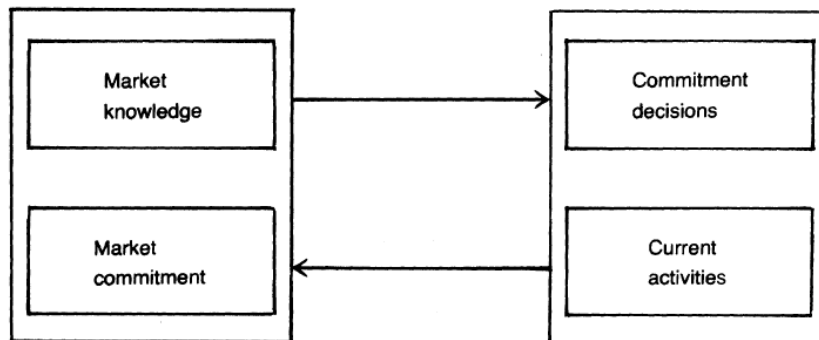
Retail value of baby food market (USD million), from 2007-2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total Baby Food Market</b>	3,338	4,185	4,989	6,049	7,473	8,966	10,611	12,455	14,540

Source: Agriculture and Agri-Food Canada, 2011.

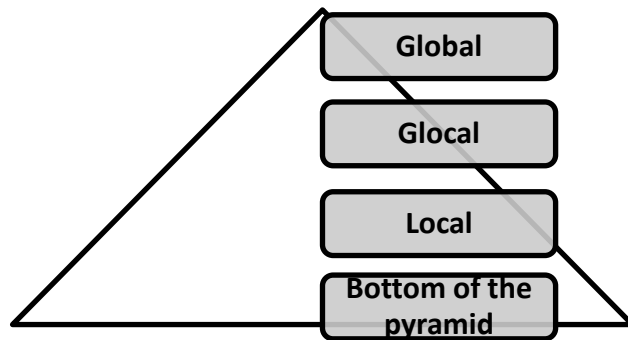
**Appendix 19**

The Uppsala model (Johanson & Vahlne, 1977)



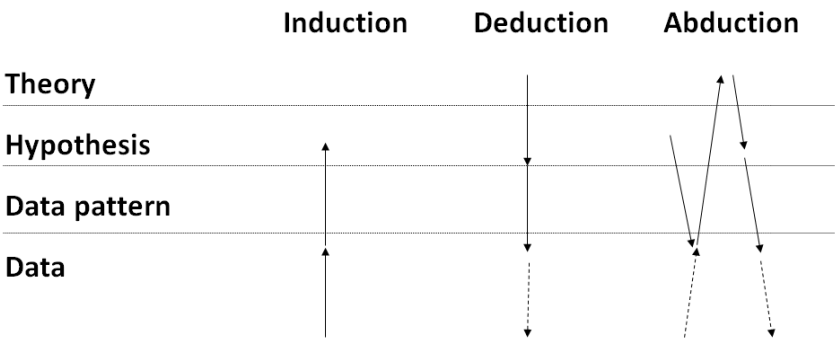
**Appendix 20**

Four-tier structure of markets (Khanna & Palepu, 2006)



Appendix 21

The main elements of the abductive research method (Wad, 2010)



Sources of inspiration: Alvesson & Sköldberg 1994:45, Ragin 1994:57.

## Appendix 22

### Summary of thesis

The aim of the thesis is to contribute to the knowledge about how the potential for internationalization to China is discovered, and to analyze what actions there are subsequently taken during the initial phase of planning and preparation. This was done through a two-case case study of Thise Mejeri and Lovemade. The first chapter of the thesis introduced the thesis' problem field; the research question and sub-RQs and delimitations. The literature review focused primarily on the Uppsala internationalization stage model (Johanson & Vahlne, 1977) and International New Venture model (INV) (Oviatt & McDougall, 1994). The two frameworks were chosen because they explain, in a complementary fashion, the internationalization process of small firms. The stage theory is intended to cover the traditional internationalization, while the INV model explains why some firms initiate international activities early after establishment. The literature review was then continued by taking a closer look on internal influences that impact the internationalization of firms, and was finished by reviewing the external factors influencing internationalization including emerging markets literature. With point of departure in the literature review, four hypotheses were developed in accordance with the two sub-RQs.

The thesis' third chapter clarified the methodological choices taken in the thesis; the philosophy of science, research strategy, design and empirical data collection. The chapter also put forward the analytical framework and approach, ending with addressing the construct validity and the reliability of the thesis. Chapter four presented the case of the thesis, starting with a presentation of the two case companies, Thise and LM. After that, the operating environment of Thise and LM was briefly presented, to give a picture of the push and pull factors the cases face. Chapter five analyzed the variables of the analytical framework, the typology of the firm and the firm's internal capabilities. The analysis laid the foundation for chapter six, the discussion, where the sub-RQs and hypotheses were discussed and validated. Lastly, the thesis was concluded in chapter 7, by presenting the thesis findings.

Having analyzed the two cases companies on the basis of the framework, the thesis concludes that newly established firms, in the case of Lovemade, need to internationalize early to survive. Older more mature companies, in the case of Thise, have been forced to expand export to distant markets, because of a downturn in the Danish and neighboring export markets. Due to Thise's incremental and geographically close internationalization, Thise has been forced to break old habits of doing business when faced with a different institutional environment. Due to Lovemade's lack of experience with the food sector and export, the company has been forced to learn while doing. However, because Lovemade is a small new firm with no previous experience, it does not need to unlearn embedded routines, thus benefiting from learning advantages of newness. Both companies have used their networks to other companies in the discovery of the business opportunity and in acquiring specific knowledge about the Chinese market. The use of external



collaboration partners (export agents) have especially been important for both firms, to overcome the institutional differences that are connected with doing business in China.