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**THE EFFECT OF DISTANCES BETWEEN COUNTRIES ON
INTERNATIONAL MARKETING**

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ABSTRACT

Some research argues that companies start the internationalization process with psychically close countries, and after gaining knowledge and experience, they move to more distant countries. The structure for this process explains the uncertainty that companies would face in unknown markets. Also, it is believed that companies learn easily about foreign countries when the psychic distance between home and the target country is minimal. The definition of psychic distance is often used as a synonym with cultural distance. These distances are different phenomena, but have proven to overlap. International business is also affected by a business distance that exists between different countries.

Many different studies can be found for these phenomena; therefore the framework of this study is to investigate how the distances between countries affect the international marketing. The empirical part of this study will use a desk study and qualitative and quantitative methods. The desk study will focus on the analysis of different cultural distance theories. The quantitative method will analyze the psychic distance between Finland and twenty-four countries, using an Internet survey. The qualitative method will make a deeper analysis of South Korea as a case country because it is proven to have a long business distance to Finland.

The results of this study suggest that different distances have varied affect on international marketing. Markets within the target country might offer excellent business opportunities for a company, even though there would be a great business distance between the home and target countries. Also this study points out that the use of different cultural distance theories should be done with careful consideration because theories offer varied results.

KEYWORDS: business distance, cultural distance, psychic distance, market entry, South Korea

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ABBREVIATIONS AND EXPRESSIONS

CO ₂	Carbon Dioxide
DIMOS	Direct investment marketing operations
DIOS	Direct investment operations
DIPOS	Direct investment production operations
e.g.	Abbreviation for Latin “ <i>exempli gratia</i> ” which means “for the sake of example”
etc.	Abbreviation for Latin “ <i>et cetera</i> ” which means “and so forth”
GNP	Gross National Product
HTML	Hypertext Markup Language
i.e.	Abbreviation for Latin “ <i>id est</i> ” which means “that is”
IEA	International Energy Agency
Korea	The Republic of Korea, also known as South Korea
KOGAS	The Korea Gas Corporation
Ltd.	Private Limited Company
MOS	Marketing operations
NIMOS	Non-investment marketing operations
NIOS	Non-investment operations
NIPOS	Non-investment production operations
PHP	PHP Hypertext Preprocessor
POS	Production operations
SPSS	Statistical Package for the Social Sciences
URL	Universal Resource Locator
WWW	World Wide Web

1. INTRODUCTION

1.1. Effect of the Business Distance on Market Entry

It has been noted that companies' internationalization pace has long been rapid, and the business community as a whole has turned to internationalized. One reason for this is that internationalization process has less limits than before. For example, psychic distance and lack of information might not limit international business decisions, if one has correct relations. (Nordström 1991: 32, 33, 180.) Interactions between continents are more common with individuals, and especially at the business level. Attitudes and the reaction to foreign business have changed through increasing knowledge and experience. Geographical distance is not causing as major obstacles as earlier because companies have found financial options for business transactions. Minor transportation costs can be created if products are manufactured in the country where demand is great, even if the main company situates in a different country. Also networking has created many opportunities for companies to market themselves and to create relationships. The world is starting to shrink and globalize and therefore it is easy to contact distant places. With the help of Internet, companies may contact potential customers and partners quickly through e-mail and video negotiations. The world's largest economies and trading systems are becoming even more integrated. Increase of world trade and foreign direct investment reflect the rise of international influence on industry structure and ownership of value-added facilities. The borderless world is assessing the speed and response to changing external factors. (Ellis & Williams 1995: 85.)

There are numerous factors influencing markets and market environment. Companies have possibilities that will affect their actions and strategies in markets, but it is impossible to affect most factors, such as economical changes in the home or central markets, and the amount and structural change of potential customers. Not only a company's own, but also competitors' old and new actions affect international markets, and main political decisions and legislations affect the domain. (Lotti 2001: 54.) Many forces and factors influence a company's decision process over the entry and operation

mode. The decision process includes discovery of these factors, measurement of a company's strengths, and evaluation of a company's direction over a future planning period. For a clearer view, the factors influencing decision process have been divided into external and internal factors. (Root 1994: 28 – 29.) External factors include marketing, production and environmental factors, whereas the latter includes products, resources and commitment factors. Luostarinen presents few of these factors in his research: the small size of home markets, and market openness in home or foreign countries. These factors can act as a united reason for internationalization. (Luostarinen 1989: 68 – 75.) Luostarinen shows in his study that increasing openness of small-size markets correlate with the increase in the number of exporting firms (Luostarinen 1989: 92). Sometimes a company might have foreign contacts before the real internationalization process, which mainly influences market selection. Whether the selection of a country is based on contacts, geographical closeness, or any other reasons, it is important for a company to know how national differences affect internationalization.

Target countries are not always similar to a company's home country, but some companies are willing, at some point, to enter distant countries, create relationships, and face competition there. Cultural differences affect entry strategy decisions, and entry mode choice is partly depended on the cultural distance between countries (Kogut & Singh 1988). Effects of cultural distances are difficult to analyze if the distances are unknown, and the problem is that the differences of countries are difficult to evaluate. These variations can be analyzed by the countries' economical, cultural or psychic distances. Afterwards it would be easier for a company to estimate the sales product and its integration into the target market in order to decide the choice of entry mode, to plan a marketing program, and to control the operations. Cross-cultural communication affects all aforementioned actions, but this is not always correctly understood. (Root 1994: 224.) It has been proven that the period of time and the quality of relationships matter in business communication. Therefore being involved in a market does not automatically increase market knowledge. (Karppinen-Takada 1994: 171.)

Root (1994: 32) has mentioned that when cultural distances between the societies of home and target countries differ greatly, international managers are more inclined to feel ignorant about the target country and fearful of their capacity to manage production operations there. He also mentioned that cultural distance creates high cost for information acquisition. Nowadays the high cost of information acquisition can create great opportunity for companies to understand specific cultures and countries. After understanding a country and its market, companies are better able to plan entry modes and operations realistically. It is quite a generalization to suggest that managers are inclined towards culturally distant countries, because when one is aware of cultural distances, and lacks information, one normally gathers more information. All countries vary, those both culturally distant and close. Therefore there is risk for a company to assume it has all the necessary information, especially in the case of culturally close countries. The psychic distance paradox argues that operations in psychically close countries are not inevitably easy to manage because assumptions of similarity can prevent learning about critical differences (Lane & O'Grady 1996). When two quite similar forces, psychic and cultural distances, affect international market, they are to same extent affected by similar factors. Different studies tend to emphasize the importance of different factors, depending on the framework used in the studies.

Many researchers (Hofstede 1991; Luostarinen 1989) have created scales for countries' distances, and they recommend different operation modes for different levels of distances, or for stages of internationalization. Differences and distances between countries have been topics for many interests. The idea of formatting reliable methods for analysis of a country's differences might create a hope for a decrease in uncertainty while conducting international business. Nordström (1991) indicates that perceived uncertainty and the degree of 'foreignness' are the sum of information availability and lack of knowledge of local business conditions, customers, bureaucratic procedures, foreign exchange-rate fluctuations, tariff, and non-tariff barriers. (Nordström 1991: 20.) Luostarinen (1989: 124 – 125) defines that generally the distances are bound together with differences between home and target countries. He also states that distances between countries are assumed to have an impact on the level of knowledge. Also Shenkar (2001: 523) points out that cultural distance decreases as firms learn more

about a market. The concept of cultural distance varies with different research, but the mostly used concept is a combination of different factors, e.g. economical, psychic, cultural and institutional distances. The cultural distance has been described by Luostarinen (1989) to be part of the concept of business distance, which also includes the economical distances of countries. He mentions that great cultural distances are seen through the difficulty of obtaining, identifying, transmitting and recognizing international business impulses between countries (Luostarinen 1989: 132). Root (1994) has presented the idea that cultural distance can also be thought of as an environmental factor. Cultural values, language, social structure and ways of life vary widely between countries and markets. (Root 1994: 30 – 31.)

1.2. Research Objectives and Questions

This study will include many methods and aspects because most of methods have some truth in them. Although researchers' points of views and information sources have been quite different, they had same problem which they strived to solve in order to explain and prove a country's distance in some visible way, with figures and values.

This study will also investigate issues regarding the following research question: *How does the distances between countries affect the international marketing?* In addition it will compare different studies made from cultural and psychic distances, and evaluate a company analysis of how different theoretical methods go hand in hand with operations at the Wärtsilä Power Plants. The research question will be examined with lesser question, divided as follows:

- How different distances are defined, and what different results can be found from distance theories?
- How does the use of distances differ in the international marketing?
- How do Finnish managers experience the psychic distance?
- How the business distances affect a company's market entry?

1.3. Definitions and Limitations

Research will be limited to to the effect of cultural, psychic and business distances. The study will investigate also the results of distances and how they are used in international marketing. This study will shortly examine the entry mode selections, but it will not include the selection of a market country nor the factors affecting this selection. It is proved that also other distances affect decision making in business (Dow & Karunaratna 2006), but this study will be limited to three distances. Nordström and Vahlne stated that cultural and psychic distances are completely different but overlapping phenomena (Nordström & Vahlne 1993: 10), whereas Hofstede (1991) used these terms as a synonym. This study will support the definition of separate phenomena, but because of their relation to each other, analysis will be made by a comparison of psychic and cultural distances. Empirical limitations have been also made. This study will concentrate on the distance analysis between Finland and other countries. Also a deeper investigation on the market and culture of the Republic of Korea (Korea) is made and this analysis will be based on the findings of a Finnish company.

This paper will not suggest how companies should create their decision while planning the entry mode. Also it will not make conclusions or opinions about marketing strategies or marketing operations. These sections need to be considered from a specific company's point of view. It would not be reliable if only general conclusions are drawn. Companies have different amounts of resources, experience and relationships, and they can only use this study as a ground work for their future actions. Part of the analysis on this research is based on industrial companies with business-to-business relationships, so it cannot be specified to all industries, which enter different countries.

Psychic distance is described in several ways, but there is one definition used in many studies: that the distance between the home and foreign market relates to the perception and understanding of cultural and business differences. Nordström and Vahlne (1994), O'Grady and Lane (1996) have used this same description in their studies, creating importance for psychic and distance as two different factors. Psychic has derived from the term psyche, referring to mind or soul. Therefore the basis of psychic distance is

formed by the mind's processing of perception and understanding, and distance relates to the similarity of differences in the degree of separation between two points. Psychic distance can also be seen as operationalized in terms of cultural and business distances. (Evans & Movando 2000: 311–312.)

Cultural distance has also many definitions. Luostarinen describes a country distance as the following: the more differences between the target country and the home country, the more distant one is from other (Luostarinen 1989: 124). Luostarinen continues his description that cultural distance is defined *“as the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to the knowledge flow and hence also to other flows between the home and the target country. A long cultural distance means that the cultural environments of the two countries are very different from each other.”* (Luostarinen 1989: 131 – 132.)

Business distance is described by Evans and Movando (2000: 311 – 312) as a factor containing economic, legal and political differences, and also variation in business practices, industry structures and languages. From Luostarinen's point of view (1989), the business distance is a combination of physical, cultural and economical distances. Therefore, if countries are physically, culturally and economically distant, then business distance differs greatly.

1.4. Earlier Research

Results and conclusions for every research are affected by the aspect selected by the researcher. Therefore there have been some conflicts, and some investigations have criticized other results. Information about possibilities and risks for the choice of entry mode, and factors affecting it generally, can be found. Also there are many different descriptions for cultural differences and factors, which will help this study's theoretical view. Much research exists pertaining to market entry (Root 1994; Davies, Hamill, Wheeler & Young 1989), international business (Buckley & Ghauri 1999; Czinkota, Ronkainen & Moffet 1999; Ellis & Williams 1995) and cultural differences (Hofstede

1991; Harris & Moran 1996). In addition the affect of psychic and cultural distances to international business has also been investigated (Karppinen-Takada 1994; O'Grady & Lane 1995; Shenkar 2001).

1.5. Structure of the Study

The background and the rational for this study are presented in the first chapter. In addition the effect of business distances on a company's market entry will be introduced. Also the research questions, problem and limitations are presented, and finally earlier studies and researches on the subject are examined.

The theoretical part will present different theories and methods relevant to the subject. It introduces different terms and reasons behind phenomenoms, and discusses the results and conclusions between studies. The theoretical section will begin with the second chapter, which will introduce the effect of cultural, psychic and business distances on the international business. All three distances will be introduced with deeper investigations. Chapter three describes different theories about the market environment and entry strategy. Marketing process will be discussed in the fourth chapter. Also factors affecting markets will be presented.

The empirical study binds the presented framework and starts the fifth chapter with an introduction of methodology. This chapter presents different study methods and introduces the structure of the approaches in this study. Chapter six will present the analysis for data collected by different methods. The seventh chapter presents the case study, and will create a deeper view on the cultural and psychic differences for the case company.

Final discussions and analysis are made in the beginning of the eighth chapter, and it continues with a summary of the study and presentation of major findings. Finally, this chapter offers suggestions for future research.

2. EFFECT OF THE DISTANCES ON THE INTERNATIONAL BUSINESS

In this chapter distance phenomena will be discussed separately in the light of its influence on international business. Distances examined consist of psychic, cultural and business distances. Finally this chapter will present studies which are made from these issues.

2.1. Definition of Psychic, Culture and Business Distances

There have been many studies done regarding psychic and cultural distances. Some of the researchers have been criticized for confusing these two phenomena. It is important to present a variety of definitions and aspects for these distances. Psychic distance is quite a complicated concept; therefore it has several definitions. Vahlne and Wiedersheim-Paul described it as *“the sum of factors preventing the flows of information from and to markets. Like the differences in language, education, business practices, culture and industrial development”* (Siirala 1993: 23). Later Vahlne and Nordström (1994: 42) redefined psychic distance as the following: *“factors preventing or disturbing the learning about and understanding of a foreign environment”*. Psychic distance has been seen as the difference in perceptions between buyer and seller, which is determined by three factors. These factors, cultural similarity, trust, and experience, can be divided into three levels: the national, organizational and individual levels. (Siirala 1993: 24.) One aspect of psychic distance made by Bradley and Sousa (2006) criticizes Hofstede’s method by using the term as a synonym for cultural distance. Bradley and Sousa (2006: 51) see psychic distance as an individual’s experience in the differences between home and foreign country and therefore it can not be measured with statistics on economic development, level of education or language. They argue that Vahlne and Wiederheim-Paul, and Luostarinen used these factors to indicate psychic distance; however they all used factors to measure cultural distance, even though they noticed the existence of psychic distance.

Cultural distance is the difference in the values between countries at a cultural level, and that is why these factors cannot be measured with the same indicators. Bradley and Sousa (2006: 52) emphasize that if psychic distance is measured at a national level, some important factors might not be shown because psychic distance gives a very subjective point of view. Hofstede has stated that culture is always a collective phenomenon (Hofstede 1991: 5), even though he based his culture distance study on surveys for individuals. Luostarinen (1989) investigated cultural distance differently than Hofstede. He set in order the results of the different values in each country, not by individual interviews and opinions. These values were based on each country's economical and educational development, and on the level of language.

The term business distance is used in this study, and its meaning is important to explain. Luostarinen (1989) clarifies business distance as a combination of physical, cultural, and economical distances. Therefore if countries are geographically and culturally close and a long positive economic distance exists between them, then the business distance is close. According to Luostarinen, some countries are more favourable as a target country for a company because of the differences in business distances (Luostarinen 1989: 138).

2.2. Effect of the Psychic Distance on Market Operations

Luostarinen has revealed in his research that Finnish companies usually start the internationalization process with physically and culturally close countries that have short business distances to Finland. Later these companies may enter countries with greater business distances (Luostarinen & Welch 1990). It is usually thought that closer countries are easier to enter and start the internationalization process than distant countries. According to Luostarinen, the information collected from culturally distant countries might be expensive and difficult, and in some cases impossible to do. (Luostarinen 1989: 132 – 133.) Companies might conclude that closer countries are easier to understand and offer a more familiar environment. O'Grady and Lane (1996) prove in their study the existence of a psychic distance paradox, which means that

starting the internationalization process by entering a psychically close country may result in poor performance and in worst case, to failure (O'Grady & Lane 1996: 309).

Nordström (1991) made a thorough survey of psychic distance in Sweden, and arranged forty minutes lectures about psychic distance before giving the questionnaires. Managers were asked to set index values between 0 – 100 for twenty-two different countries, which included most frequently entered markets by the firms studied. The index value 0 was assigned to a country experienced to be closest to Sweden in terms of psychic distance. The highest index value 100 was given to a country believed to be the most remote from Sweden, and the remaining countries were given intermediate values. After receiving answers, Nordström calculated the average index for each of the twenty-two countries. The average index values converged towards the ranking after about fifty questionnaires was reviewed. (Nordström 1991: 115 – 116.)

Nordström (1991) points out that the degree of international competition within industries affects the choice between wholly owned sales operations and independent representatives. This means that the global concentration ratio and the size and international experience of a company do not have significant influence. Industrial companies with international competition mainly select an approach using independent representatives and acquisitions. Nordström also writes that companies do not tend to use acquisition as an operation mode if the concentration ratio with the host country is high. On the other hand, the global concentration ration does not have significant effect on industrial companies' modes of establishing sales subsidiaries. (Nordström 1991: 177 – 179.) Nordström's research explains more the psychic distance than, for example research in the Uppsala model (Nordström 1991: 20 – 21). Vahlne and Wiedersheim-Paul note that companies tend to begin their foreign operations from nearby markets and in time continue towards distant markets. They also discover that companies enter new markets mostly through exports. They write that psychic distance is influenced by the following factors: level of development, level of education, differences between previous factors, cultures, and in everyday language and business language between home and foreign country. Also other existing links between the home country and the foreign market have influence on psychic distance on individual level, according to

Vahlne and Wiedersheim-Paul. Luostarinen refers to this analysis model in his research, and he also examines the cultural distance based partly on these factors. *“It is not only the geographical distance, but also the economic and cultural distance which have an impact on impulse exposure”* (Luostarinen 1989: 52).

As can be seen nowadays, some companies enter very distant markets, especially so called ‘born global’ companies. Vahlne and Wiederheim (1973 in Nordström 1991: 22) state that heavy manufacturing industries seem to enter more distant markets. They realize that some individual firms might behave differently from their results, when they emphasized that the evolutionary process of internationalization is the most typical (1974 in Nordström 1991: 24). Also Johanson and Mattson (1984) note, that the internationalization model is less valid when both the market and the firm are highly internationalized. They mention that companies are compelled to choose markets and entry strategies that differ from predictions, because competitive forces and factors in internationalized industries create a heterogeneous pattern of entry opportunities. (Johanson & Mattson in Nordström 1991: 25.)

Another view can be seen from the Uppsala’s internationalization model; it is assumed in the Uppsala model that when psychic distance increases, the knowledge reduces and perceived uncertainty rises. (Nordström 1991: 26.) Even though some types of experiential knowledge would reduce some uncertainty, this might not influence other uncertainty components (Kontkanen 2006: 201). The concept for psychic distance that Nordström used implies an assumption of a heterogeneous world - a world consisting of countries perceived to be different. (Nordström 1991: 26.) Companies have more information and quicker and easier access to knowledge. Furthermore the world is not as heterogeneous as it was before, and that is why firms are more willing to enter even distant countries with greater risks. Also there are more people with experience and knowledge of international business, and firms are able to use these experiences, e.g. international consulting firms. Also the existence of international trade reduces some of the barriers between cultures and regions. (Nordström 1991: 27 – 29.)

2.3. Cultural Distance as Part of the Business Evaluation

Kotler (2003) describes that social-cultural environment creates the beliefs, norms and values for every country and religion. It defines relationships and views of people themselves, others, organizations, societies, and for nature and the universe. Every society has subcultures, which include groups that believe in the same values. Marketers have possibilities to focus only on these subcultures and create operations for them. Individuals in societies have cultural values that are quite permanent, unlike secondary cultural values, which vary by time and situation. (Kotler 2003: 175 – 177.) Unlike Kotler, Luostarinen (1989) evaluates the effect of a country's cultural distance, not the subcultures or behavioural effects. He views distance as a barrier to impulse flows in both directions. He explains this promoting the idea that *“the number of impulse modes and the frequency of impulse exchange is usually smaller between two culturally distant than between two culturally close countries”* (Luostarinen 1989: 132). He also clarifies cultural distance as one country's point of view. For example, although Finns may view Sweden as the culturally closest country to Finland, it is not necessarily vice versa, because Swedishes might feel a closer cultural proximity with Denmark or Norway. This can be seen as one point where Luostarinen confuses cultural and psychic distances. If distance is understood as a subjective point of view, it is psychic distance, even though Luostarinen discusses this as a cultural distance. On the other hand, Luostarinen bases his study on objective factors: language, educational level and level of economic development. According to him, these environmental components have been noted to differ quite meaningfully between nations. He has specified cultural distance with these environmental factors and pointed out that environments in nations are more unknown if the differences in language, education and economics are great. Luostarinen points out that psychic distance is not constant because it varies with the development of related cultural factors, unlike geographical distance. Even though Luostarinen discovers the existence of psychic distance, he does not include it in his research. (Luostarinen 1989: 134 – 135.)

Hofstede is one of the well-known researchers who have studied the distances between different countries. His cultural distance rates between different cultures base on a data

collected by a survey. He refers to earlier social anthropology studies showing that “*all societies, modern or traditional, face the same basic problems; only the answers differ*” (Hofstede 1991: 13). Later the basic problems worldwide were suggested by Alex Inkeles and Daniel Lavinson as follows (Hofstede 1991: 13.):

- Relation to authority
- Conception of self: the relationship between individual and society and individual’s concept of masculinity and femininity
- Ways of dealing with conflicts, including the control of aggression and the expression of feelings.

Hofstede’s study (1991) differs from Luostarinen’s because he studied a survey devised for the multinational corporation IBM and its subsidiaries in over fifty countries. Hofstede points out that the survey reveals employees of IBM were similar in all respects except by nationality, and he explains that the effect of national differences stands out clearly in the employees’ answers (1991: 13). The results are analyzed using the same set of occupations (1991: 29). Hofstede names dimensions of culture as power distance (PDI), collectivism versus individualism (IDV), femininity versus masculinity (MAS) and uncertainty avoidance (UAI). These terms were already part of earlier social sciences, and Hofstede understood they would apply reasonably well to the basic problem area, which each dimension stands for. Using the survey, he characterizes each country by a score on each of the dimensions. Later Hofstede added a fifth dimension, a long-term versus short-term orientation discovered by Michael Harris Bond (Hofstede 1991: 14).

It is very interesting to compare the studies of Hofstede and Luostarinen because they take a different aspect on the same problem. Figure 1. shows that Hofstede divided cultural distance to four different factors, whereas Luostarinen combined the results from several factors to cultural distance. Luostarinen did not separate cultural distance in any way, but included several factors to economic development: level of paper consumption, number of telephones, level of energy and steel consumption, and level of industrialization. (Luostarinen 1989: 146.)

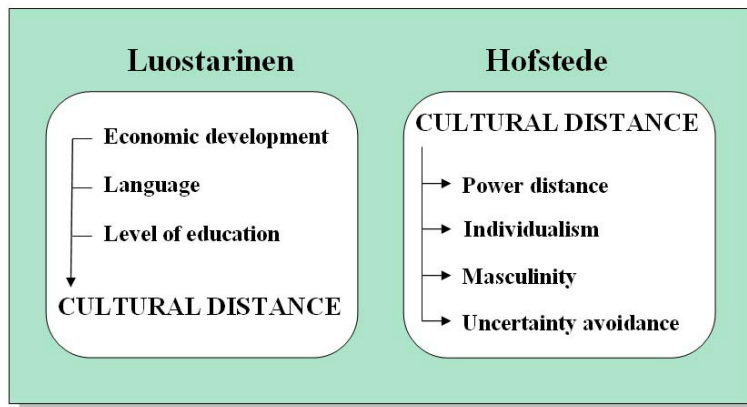


Figure 1. Difference between Studies of Luostarinen and Hofstede.

It can be questioned if Hofstede's and Luostarinen's researches are comparable with each others because Hofstede's does not compare different values to separate countries; results of four cultural dimensions describe the average behaviour people exhibit in different countries, whereas Luostarinen compares a country's distance from Finland and uses business aspects for his results, leaving behavioural factors aside. Luostarinen points out that the market pull force is stronger when the economic distance is greater in favour of the target country. Market-pull-force affects how a company enters a market in this country. And vice versa, when economic distance is disfavour for target country, it creates less interest for a company to enter the market (Luostarinen 1989: 136). Hofstede's factors, which can be used as prediction factors in power distance dimension, have the same point of view which Luostarinen use: geographical position, population and country's wealth (Hofstede 1991: 45 – 46). Hofstede differs in that he uses business views to describe the culture's everyday behaviour, not the individual consumer's view.

Hofstede defines power distance as the extent to which the less powerful members of institutions and organizations within a country expect and acceptance that power is distributed unequally (Hofstede 1991: 28). Therefore a country with a great power distance score has a clear hierarchical system and a desire for status consistency in society. On the contrary, a country with a small power distance score has a more equal environment. Inequality in society is undesirable and everyone has equal rights.

(Hofstede 1991: 32 – 38.) Hofstede points out that a country's PDI score can be predicted by three factors, a country's geographical latitude (higher latitude associates with a lower PDI), a country's population size (larger size relates to higher PDI) and a country's wealth (a wealthier country associates with lower PDI) (1991: 44). Collectivist societies can be described as societies in which the interest of the group dominates over the interest of the individual (1991: 50). Hofstede describes that personal time, freedom and challenge at the work place are very important factors for individualistic people. Whereas collectivistic people need for training opportunities and a good physical working condition, also they use entirely their skills in the job (1991: 52 – 53). Masculinity is shown strongly in cultures where people have opportunities for high earnings and get recognition for their work. A masculinity culture offers opportunity for advancement to higher-level jobs and creates challenging work. In a feminine culture employees have good working relationships with direct superiors and are able to cooperate with each other. Also people have an opportunity to live in a desirable area and have the security to work as long as they wish. (1991: 81 – 82.) Countries scoring high on uncertainty avoidance tend to have more precise laws than the ones with weak uncertainty avoidance. According to Hofstede, high uncertainty avoidance countries tend to be pessimistic about their possibilities of influencing decisions made by authorities. (1991: 126 – 127.)

People can co-operate successfully, even though they might be from very dissimilar cultures. Still there are some cultures that will co-operate with other cultures better than others. Hofstede's perspective is that most difficult cultures are ones which score high on uncertainty avoidance and on power distance. He thinks these cultures will not be forerunners and "*they may have to be left alone for some time until they discover they have no other choice but to join*" (Hofstede 1991: 237 – 238). Hofstede does not describe uncertainty on a deeper level. His argument is that in high uncertainty avoidance countries, people tend to think that differences are dangerous. (1991: 237 – 238.) Other research shows many factors affecting the perceived uncertainty. Kontkanen (2006: 24) made a study that includes a company's experience, risk-seeking attitude, dependence and volatility as part of the perceived uncertainty. Some doubt exists regarding the reliability of Hofstede's research because his conclusions were based on

one company's employees. There have been discussions that a specific company has its own business culture, and therefore the survey Hofstede used might not give a reliable view. His results cannot be generalized world-wide, although they may pertain to IBM's own business culture distance to its different subsidiaries. Even though Hofstede emphasized in his study that "*an organization is a social system of a different nature than a nation*" (Hofstede 1991: 18), he still includes a survey's results from only one organization as representing national cultures and their differences. Also the survey was made for a company in one industry; therefore it might be very different with other industries. For example, cultural differences between forest industry companies, or those located in completely different domains, might differ from an information technology industry. Additional note can be made from the collection of South African data that bases only on the white population. The data presents solely minority's opinions because 9,2 % of the population in South Africa is white (SouthAfrica.info 2006).

2.4. Business Distance

While Hofstede describes that other countries and cultures are more favourable for business because of the different culture factors, Luostarinen describes that the reason is the difference in business distance. (Luostarinen 1989: 138.) He commentates that business distance either favours or disfavors entry to a specific target market (1989: 137). Distance is assumed to impact the level of knowledge, and knowledge plays a main role in decision making in international business. Generally a company has less knowledge of a target country if the difference between the home and target country is large. And the less knowledge a company has, the more risky it is for that company to enter the market. According to Luostarinen, the type and the amount of country differences affect the type and scope of knowledge. For example, if business distance is short, then only a little general knowledge is needed. (Luostarinen 1989: 125 – 126.) Even though Luostarinen realizes the existence of different distance types, he does not separate them in the same way as Hofstede does.

2.5. Review on the Studies about Cultural and Psychic Distances

Cultural and psychic distances are studied extensively, and some of this is shown in Table 1. Table lists articles with critical and affirmative views. The most used study is probably the one with the most criticism: Hofstede's study on culture and organizations. Dow and Karunaratna (2006: 4) criticize the methodology of Kogut and Singh (1988) because they assume that all cultural factors contribute equally. Kogut and Singh included Hofstede's cultural factors in their mathematical formula. Dow and Karunaratna also doubt the validity of Hofstede's research. Shenkar (2001) found in his study that the values in the Kogut and Singh index are not updated by Hofstede or others. Kogut and Singh also made an invalid assumption of equivalence with Hofstede's study. While Hofstede points out that some of the four cultural factors are less disruptive than others, factors were used with equal significance in the study of Kogut and Singh. (Shenkar 2001: 525.)

Hansson, Sundel and Öhman (2004) investigated the Uppsala model, which consists of state and change aspects. They added a firm specific aspect based on different criticism they found in the Uppsala model. O'Grady and Lane (1996) investigated psychic distance and made an analysis of Canadian retail companies that entered the United States. The research focused on industry and company levels, not on the personal level. O'Grady and Lane found that companies, which enter psychically close countries as a first step to internationalization might perform poorly or experience business failure. They described this situation as psychic distance paradox. Some Canadian companies assumed that markets of the USA were similar with the markets of Canada. When markets were experienced as close, there was only a little information gathered, and the differences in the markets caused some serious problems for some companies. (O'Grady & Lane 1996: 310.) Bradley and Sousa (2006) present that psychic distance is based on individuals' perception of different countries. Ströttinger and Schlegelmilch (1998: 367) found that psychic distance is perceived remote when intensive business relations exist between countries.

Table 1. Earlier Studies about Cultural and Psychic Distances.

AUTHOR(S)	YEAR	SUBJECT	GAP	USED THEORIES	METHOD	RESULT
Dow, Karunaratna	2006	Developing a Multidimensional Instrument to Measure Psychic Distance Stimuli	Develop and test a broad selection of indicators that are referred as psychic distance stimuli.	- Hofstede (critical)	Country analysis	Practice of using a composite index scales on the Hofstede's study as the sole indicator of psychic distance stimuli isn't reliable enough. Geographic distance is still the single most influential 'trade inhibitor'.
Bradley, Sousa	2006	Cultural Distance and Psychic Distance: Two Peas in a Pod?		- Hofstede - Kogut & Singh	- Hypotheses testing	Psychic distance is based on individuals' perception of countries, where intensive business relations exist. No bigger impact of psychic distance on export ratio or export growth of companies.
Hansson, Sundel, Öhman	2004	The New Modified Uppsala Model	Uppsala model does not fully explain internationalization process and behaviour	- The Uppsala model (critical) - Network model	Interview	Uppsala model is missing important variables. It is only focused on the firm.
Shenkar	2001	Cultural Distance Revisited: Towards a More Rigorous Conceptualization and Measurement of Cultural Differences	Critical review of the cultural distance construct	- Transaction cost theory - Hofstede - Kogut & Singh index	Desk Research	Kogut and Singh index should be supplemented by long-term orientation. Cultural similarity measures should be used in conjunction with other results of cultural diversity. Cultural distance should be thought of as an independent and a dependent variable.
Ströttinger, Schlegelmilch	1998	Explaining Export Development Through Psychic Distance - Enlightening or Elusive	Empirical testing of psychic distance has been neglected	- Hofstede	Cross-national compare	Decision makers show high psychic distances toward countries, where intensive business relations exist.
O'Grady, Lane	1996	The Psychic Distance Paradox	Psychic distance affects choice of entry or performance in the new market	- Hofstede	Literature review Case studies Survey	Entering to psychically close countries is not always easiest, because of the psychic distance paradox. The significance of the differences is more important than their amount.
Kogut, Singh	1988	The Effect of National Culture on the Choice of Entry Mode	Relationship between culture and entry choice to solve country patterns of entry modes.	- Hofstede	Desk research	Entry mode selection is affected by cultural factors. Kogut & Singh created mathematical formula based on Hofstede's indices

3. MARKET ENVIRONMENT AND ENTRY STRATEGY

This chapter will begin with a short introduction for internationalization and entry mode. It will lead to different entry modes after discussing the decision process, which companies have to make while choosing an entry mode. Finally this chapter will explore factors that affect the decision process.

3.1. Market Entry Strategy and Internationalization

Internationalization is not a solution for every company, and some firms might be unwilling to react to international business impulses, if they have a mental commitment to domestic business and are satisfied with current domestic situations (Luostarinen 1989: 54). For a small and medium-sized firm, internationalization may present some problems. These may occur on a company or environmental level, whereas strategic consideration would present the previous level and compliance with government regulation the latter level. A company can evaluate its possibilities by rating its internal strengths and weaknesses. After risks involved have been considered, alternative entry strategies can be estimated. Most of the small and medium-sized companies that plan strategies for market entry consider four different strategies: indirect exporting and importing, direct exporting and importing, licensing and franchising. (Czinkota et al. 1999: 371 – 373.)

International market entry mode can be thought of as an arrangement made by a company. A company's different resources can be transferred to new target markets due to entry mode. These resources may include products, technology, human skills, management or an equivalent. An entry strategy can be created if a company wants to build a permanent market position and remain active in the international market for a long run (Root 1994: 25). Narrow perspectives present only two different methods in arranging entry to a foreign country: export of a company's products from a production base and the transfer of a company's resources. The products can then be sold directly

to consumers or manufactured by foreign companies. A wider perspective takes into consideration benefits and costs of every possibility and separates these two methods into lesser parts. (Root 1994: 24 – 26.)

Decision on entry to a foreign market is a result of many different phases in a company's management and employees. A company has to make strategies for each entry decision it will make, even if the operation includes a product or a market entry. Former entry means that a company offers a new product to a market it has operated before, whereas in the latter entry, a company enters a new market with product it has already supplied into other markets. (Root 1994: 23.) After planning the strategy for a specific product or market, a company has to gather all strategies together and form a strategy for the corporate international entry. Figure 2. shows different elements that affect international market entry strategy, according to Root (1994). A decision for a target market begins with evaluation of a company's products and foreign markets. Root points out that a company has to set objectives and goals in the target market. The selection of an entry mode is important, and it should be done from exports, contractual arrangements and investment modes. After selecting an entry mode, there is need for design a marketing plan, which may include price, promotion, and distribution plans. Finally a company must constantly control the process of planning the entry strategy. It has to evaluate all the phases in strategy planning and monitor performance in the target market, when the strategy is carried out in practice. It is also important to know that plan for international market entry is a continuing and open-ended process. (Root 1994: 23.)

Root (1994) divides entry modes to three main parts, where each has specific modes with different attributes: export, contractual, and investment entry modes. Export entry is the only mode where the final products are manufactured outside the target market. Indirect export uses middlemen, who normally locate in a company's home country and who does the actual exporting. Direct export is meant when a company does not have middlemen in a home country, but it might have middlemen in a target country. Direct export can be divided into two different parts: agent or export distributor, and direct branch or distributor. In the first part middlemen will market exported products, and in

the latter situation a company has its own operating units in the target country. Contractual entry modes are mainly vehicles for knowledge and transfer of skill, even though it might create opportunities for exporting. This mode consists of a long-term association between a company and an entity in a foreign target country. If a company will use a contractual entry mode, it will not have any equity investment.

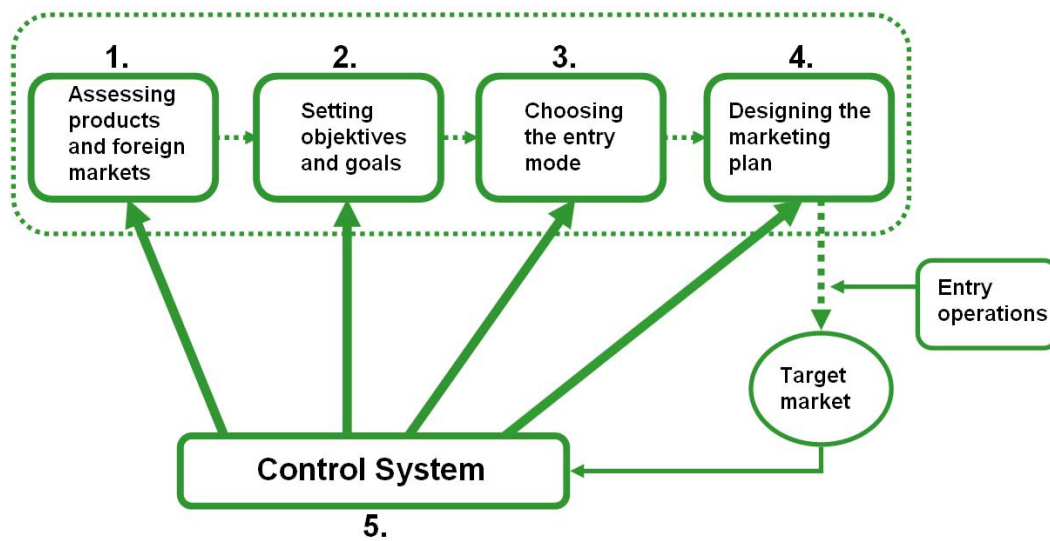


Figure 2. The elements of an International Market Entry Strategy (adapted from Root 1994: 23).

The licensing and franchising have similarities with each other, but the franchising includes more factors than licensing. Licensing is only a transfer of a company's industrial property, e.g. patents, know-how and trademarks, whereas in franchising, the company assists the franchisee in organization, marketing, and general management, with intentions to remain the agreement permanent. Also the franchising mode admits the use of company's name, trademarks and technology. (Root 1994: 27.) Investment entry modes mean that a company involves the ownership of manufacturing plants or some other production units in the target country. These subsidiaries might be only part of the product's manufacturing process, when they are only simple assembly plants, which import products from the parent company. Subsidiaries can also manufacture the entire product. These foreign subsidiaries can be part of sole or joint ventures. In sole ventures, the parent company has complete ownership and control, whereas in joint

venture, the ownership and control is shared together with the parent company and the local company. Sole ventures can start with new establishments or acquisitions. (Root 1994: 28.)

Luostarinen uses other methods for entry mode division. He separates operations into four different categories by combining functional and investment classification (Luostarinen 1989). Luostarinen refers to functional classification by two separate operation modes - production operations (POS), when product manufacture is transferred to the target country, and marketing operations (MOS), when final products are marketed abroad but manufactured in home country. Investment classification is characterized by non-investment operations (NIOS) and direct investment operations (DIOS). Unite of the NIOS and MOS constitutes NIMOS (non-investment marketing operations) and uniting of DIOS and MOS creates DIMOS (direct investment marketing operations). A conjunction of NIOS and POS creates NIPOS (non-investment production operations) and the conjunction of DIOS and POS creates DIPOS (direct investment production operations). (Luostarinen 1989: 107 – 109.) Luostarinen has included the following operations in different categories (1989: 109 – 111):

1. Non-direct investment marketing operations (NIMOS)
 - a. Indirect export operations for goods
 - b. Direct export operations for goods
 - c. Service export operations
 - d. Know-how export operations
 - e. Partial project export operations

2. Non-direct investment production operations (NIPOS)
 - a. Licensing operations
 - b. Franchising operations
 - c. Contract manufacturing operations
 - d. Turnkey operations
 - e. Co-production operations

3. Direct investment marketing operations (DIMOS)
 - a. Sales promotion subsidiaries
 - b. Warehousing units
 - c. Service units
 - d. Sales subsidiaries

4. Direct investment production operations (DIPOS)
 - a. Assembling subsidiaries
 - b. Manufacturing subsidiaries

Luostarinen describes the effect of physical, cultural and economic distances on the determination of the combined modes of international business operation (Luostarinen 1989: 163). Based on Luostarinen, operation modes of DIMOS and NIMOS are used in most opposite types of countries. Figure 3. shows that there is a greater probability for the company to use direct investment marketing operations when the physical and cultural distances are slight and the positive economic distance is great between the home and target country. Use of a non-investment production operation is more likely when physical, cultural, and negative economic distances are long between home and target country. If the cultural and negative economic distances are long, while physical distance is short between a home and a target country, then a company normally uses non-investment marketing operations. Long physical and positive economic distances together with a short cultural distance between countries, create possibility for a company to use direct production operations. (Luostarinen 1989: 165.)

short physical distance	MOS	NIMOS
long cultural distance	NIOS	
long negative economic distance	NIOS	
short physical distance	MOS	DIMOS
short cultural distance	DIOS	
long positive economic distance	DIOS	
long physical distance	POS	NIPOS
long cultural distance	NIOS	
long negative economic distance	NIOS	
long physical distance	POS	DIPOS
short cultural distance	DIOS	
long positive economic distance	DIOS	

Figure 3. Joint Effects of the Physical, Cultural and Economic Distances on the Determination of the Combined Modes of International Operations (Luostarinen 1989: 164).

Kogut and Singh (1988: 414 – 415) indicate that when the cultural distances are great between investing and entry countries, it is more likely that a company will choose a joint venture or wholly owned Greenfield over an acquisition. The same possibility exists in a situation where uncertainty avoidance is great in a culture of investing firm, regarding organizational practices. Acquisitions are used as an entry mode when local concentration ratios are high, especially when a company takes over a large share from the entry market. This also occurs when industries with very slow or fast growth are favoring acquisitions. (Nordström 1991: 85.)

3.2. Assessing Foreign Markets and Environments

Kotler (2003) has examined the evaluation of foreign markets. He brings out that all parties operating in markets are performing in a macro environment of forces and trends, which partly create the opportunities and threats. Companies need to monitor these forces and trends and then react to them. Kotler has mentioned a few global forces that might occur in foreign markets (2003: 161 – 162):

- Speedup of international transportation, communication and financial transactions affect rapid growth for world trade and investment.
- Movement of manufacturing capacity and skills to lower-cost countries.
- Rising economic power of several Asian countries in world markets will open new potential target market and increase the global competition.
- Rise of trade blocks, e.g. European Union and NAFTA signatories' influence on ease of access to new markets and the affect on relative costs of trading.
- Rapid privatization of publicly owned companies.
- Increasing ethnic and religious conflicts in certain countries and regions.
- Growth of global brands in food, clothing, and electronics.

These global forces may affect companies and consumers in the economic environment. Interaction between different global forces is important to realize when analyzing market environments. Kotler has divided these forces into six different sections: demographic, economic, natural, technological, political-legal, and social-cultural. Interaction between these factors will lead to new threats and opportunities in specific markets. (Kotler 2003: 161 – 162.) Other researchers have also realized these environments, but the division that Kotler made is one often referred to. Dibb and Simkin (2004) discuss the analysis of the marketing opportunity, not only the market environments. They introduce the following factors involved in marketing opportunity analysis:

- Business opportunity evaluating
- Environmental scanning
- Business capability and asset understanding

(Dibb, Simkin 2004: 176.)

Both Root (1994: 30 – 31) and Kotler (2003: 163 – 164) have emphasized the meaning of economical environment. Kotler describes that demographic environment is part of a macro environmental force. Demographic environment is usually analyzed and monitored before other forces, because market opportunity needs people. The size and growth rate of population in a specific region, and the educational levels, regional

characteristics, and movements are part of the macro environmental force. Root (1994: 30 – 31) gives a detailed explanation on the meaning of market economy and how it is dependent on the size of the economy, which is normally measured by gross national product (GNP). According to Root, economy size implies the level of performance and the relative importance of its economic sectors. Dynamics of the market economy relate to investment rate, growth rate of GNP, personal income, debt and credit availability, among other factors.

External economic relations are also valuable information for an analysis: direction, composition value of export and imports, balance of payments, debt service burden and exchange rate behaviour are important factors. Kotler describes the economical environment quite the same as Root, but Kotler probes deeper with his analysis. Trends in consumer-spending patterns and income patterns can give a marketer a good conception of a market's economical environment. Level and distribution of income and industrial structure vary between different countries. When investigating closely on industrial structure, it is better to divide economies into smaller parts, for example, subsistence economies, raw-material-exporting economies, industrializing economies, and industrial economies. Subsistence economies offer only a few opportunities for marketers, whereas the industrial economies are rich markets for all types of products. Raw-material-exporting economies export raw materials to foreign countries, and offer a good market for equipment, supplies, and luxury products for wealthier citizens. Industrializing economies demand new and different types of products because markets consist of a new rich class and a growing middle class. (Kotler 2003: 168 – 169.)

Also the political environment is mentioned by both Kotler and Root (1994: 30 – 31) as part of the market environment. Kotler sees that political environment is influenced by laws and agencies, and by groups that create pressure on organizations and individuals. Development of political and legal issues affects marketing decisions and sometimes laws might create new opportunities for business. It would be important to know the laws protecting competition, consumers, and society. Business legislation is meant to protect companies from unfair competition, protect customers from unfair practices, and to protect society's interest from unbridled business behaviour. Recently there has been

more new legislation affecting businesses. For example the European Commission has created a new framework of laws, which include competitive behaviour, product standards, liability and commercial transactions. Some countries have specific laws protecting their markets, which might be very different compared to other countries. A company needs to consider also the ethical side of its business. (Kotler 2003: 174 – 175.)

Affecting the political environment, the natural environment has risen to a critical factor in market environments. More people are concerned about greenhouse gas in the atmosphere and shortages of water, among other problems. There can be found opportunities and threats impacting the natural environment. Lack of raw materials, increased cost of energy, increasing pollution, and governments' changing roles are moving natural factors to different levels. Especially industries have had to follow new regulations by investing in pollution-control equipment and for more environment friendly fuels. If a manufactured product requires some of the raw materials that are in short supply, a company must face increasing costs. Also the increasing cost of energy affects companies' actions. Nevertheless, companies and marketers with solutions for environmental factors will have strong opportunities in those countries aware of environmental issues. (Kotler 2003: 169 – 170.)

Public and private sectors invest in technological development; therefore it is very important part of environmental factors. The technological environment, especially the amount of newly discovered major technologies, also affects an economy's growth rate. According to Kotler, following trends should be investigated in this environment while proposing, developing, and launching new products. This includes the pace of technological change, innovation opportunities, budgets for research and development, and regulations. Investigators and scientists are trying to accelerate the appearance of new ideas and their successful implementation. Market uncertainty is another threat for technological development; investment cost and threats are very high and the profit is uncertain. Regulatory uncertainty appears when a government does not approve certain technological products. (Kotler 2003: 170 – 174.)

3.3. Factors Affecting the Entry Mode Decision

Companies might have several objectives while entering a foreign market, including non-profit objectives. Davies, Hamill, Wheeler and Young (1989: 251) point out those objectives must be included in any model of the entry strategy choice. They have applied three different approaches on the entry, and development of an entry mode decision: the economic approach, the stages of development approach, and the business strategy approach (Davies et al.1989: 251). The economic approach emphasises rational behaviour, when entry and development modes are compared by costs and benefits. The purpose is to find options maximizing long-run profits, and then it will be determined both by risk and available return rate. High-control entry modes increase return and risk, and low-control modes reduce resource commitment and risk, but reduces return. (Young et al. 1989: 253.) The stages of a development approach connect with the entry mode decision for the internationalization process. When a company's internationalization increases, it needs greater financial and managerial resource commitments, with the shift towards entry and development strategies. (Davies et al.1989: 260.) *"The business strategy approach emphasises the pragmatic nature of decision-making in most organisations which arises from uncertainty and the need for consensus."* (Davies et al. 1989: 251.) Thus it differs from an economic approach and the stages of development approach, because they assume rational decision-making.

When a company creates a country operation pattern, it may use one or more operation methods simultaneously within the same foreign market (Luostarinen 1982: 129). For example, a company might establish a joint venture firm, and create a licensing agreement with it. Luostarinen has clarified some reasons why companies choose specific operation modes. He thinks that companies are not aware of all of the modes, or some modes are just more familiar than others (Luostarinen 1989: 113). Luostarinen points out that a decision is affected by uncertainty avoidance and risk escape. Kontkanen (2006: 199) found that socio-cultural, demand and behavioural uncertainties impact the operation mode choice. Companies tend to use more integrated operation modes when perceived demand and behavioural uncertainty increased. In some cases, however, companies used less integrated modes if they felt they had other ways to

manage the situation. Also Kogut and Singh (1988) think a foreign market's uncertainty affects managers' choices on overseas investing. Uncertainty is the unexplained country patterns in the selection of entry modes, and Kogut and Singh make clear that both firm and industry level variables relate to the choice of entry mode. (Kogut & Singh 1988: 417.) They separate firm level variables as firm's diversification, country experience, multinational experience, and asset size (1988: 419 – 420).

Root (1994: 36 – 37) divides firm level variables in more detail with external and internal factors. His point is that “*entry mode for a target or product country is the net result of several often conflicting forces.*” (Root 1994: 35.) Also a company's commitment to international business is affected by several factors, i.e. the role accorded to foreign markets in corporate strategy, the status of the international organization, and managers' attitudes. Many companies have greater commitment when the international experience increases. (Root 1994: 35.) Luostarinen uses also the division of external and internal system environments (1989: 50). External factors can be political, legal, socio-cultural and economical, and most of them are known and treated as constants in domestic business. But in the foreign business they are different and often poorly known or not known at all, and therefore these factors are treated as variables. As the environmental factors, the action alternatives vary in foreign countries. (Luostarinen 1989: 50.)

Luostarinen assumes that a company normally chooses operation alternatives that are well-known and do not need a high degree of resource commitment. Therefore he specifies that a company is not willing to use DIMOS as an entry mode because it needs more resource commitment than NIMOS. Table 2. shows different risks and uncertainties related to different investments. Luostarinen clarifies that if a company has started operation with NIMOS, it will most likely continue to utilize it, unless there is strong external stimulus. Other operations can be changed through organizational learning, or if resources are allocated towards international business activities. Also change appears when a company's reaction towards new international business impulses is strong. (Luostarinen 1989: 116 – 118.)

In Table 2. can be seen that financial commitment is small in the operation modes belonging to NIMOS, and in the licensing and contract manufacturing. Financial commitment is large in the turnkey, co-production and in the operation modes of DIMOS and DIPOS. Management commitment is large if a company uses co-production, assembling unit or manufacturing unit. Use of know-how export, sales promotion or service unit creates varied commitment, and other operation modes provide small management commitment. Market control is small with the use of indirect and direct exports, licensing or turnkey. Furthermore the control is large in the operations of sales promotion, assembling unit and manufacturing unit. Diverse market control is represented with the use of service and know-how exports, contract manufacturing, co-production, or warehouse and service units. Table 2. divides risks into financial and political risks. The financial risk is high if following operations are used: turnkey, co-production, operation modes belonging to DIMOS or DIPOS. A firm has low financial and political risk if it uses licensing, contract manufacturing or the operation modes from NIMOS. High political risk is gained if a company uses operations modes from DIMOS or DIPOS. Turnkey and co-production offer range between low and high political risks.

Table 2. The Matrix of Different Foreign operations and of the Major Characteristics of These Operations (Luostarinen 1989: 117).

		NIMOS				NIPOS				DIMOS				DIPOS	
Type of operation	Characteristic	Indirect export	Direct export	Service export	Know-how export	Licensing	Contract manufacturing	Turnkey	Co-production	Sales promotion	Warehouse unit	Service unit	Sales unit	Assembling unit	Manufacturing unit
		Financial commitment	very small	small	small	small	very small	small	large	large	large	large	large	large	large
Management commitment	very small	small	small	small - large	small	small	large	large	small - large	small	small - large	large	large	very large	very large
Market control	very small	small	small - large	small - large	small	small - large	small	small - large	large	small - large	small - large	very large	very large	very large	very large
Financial risks	very low	low	low	low	low	low	very high	high	high	high	high	high	high	very high	very high
Political risks	very low	low	low	low	very low	low	low - high	low - high	high	high	high	high	high	very high	very high

4. METHODS FOR INTERNATIONALIZATION

This chapter will present the marketing process and discuss how it affects the entry of a company. At the end of this chapter the factors that influence international markets will be presented.

4.1. Marketing Process as Part of the Internationalization

Not only has the description and content of cultural distance aroused conversation among researchers, but its influence on business has created different conclusions. Johanson and Vahlne (1992) argue that companies start the internationalization process from psychically close countries before they enter more distant countries. This is due to the uncertainty companies would face in the distant new markets. Also Luostarinen (1989: 142) states: *“Why bother to enter geographically, culturally and economically distant markets if there are alternative markets which are closer in all three aspects and for which the uncertainty and risk felt are much smaller.”* Luostarinen clarifies that business distance will diminish after a company’s first successful foreign entry, because the first entry is critical (1989: 143). This observe can be questioned, because he states that the closest markets are the easiest markets for a company to enter; thus there might be more critical market entries afterwards when a company is entering a distant, and therefore more difficult, market.

Johanson’s and Vahlne’s internationalization process describes phases of market entry, which companies follow when internationalizing. Lane and O’Grady (1996) describe this as a gradual process, learning through experience (Lane & O’Grady 1996: 309 – 310). The internationalization process is somewhat suspect by some researchers (O’Grady & Lane; Hansson et al.) because, so called, born global companies make their first market entry to a very distant country. Nordström (1991) sees criticism of the internationalization process because competitors have created international oligopolies in certain industries. A company’s actions relate to the action-reaction pattern of its

competitors, and therefore Nordström thinks that one should realize the competitive conditions in order to understand the actions of a single firm. (Nordström 1991: 26.)

After developing an entry strategy, it is necessary to create strategies and plans for operation while continuing business. Dibb and Simkin (2004) have created a four phase marketing process companies need to follow in every market where they will operate. They see marketing as a long process with a goal to identify market opportunities: to fulfill the customers' present and future needs, to be competitive compared to competitors, to differentiate the products, and to receive financial rewards from the business. Dibb and Simkin divide marketing process into four different stages, which are seen in the Figure 4. In the beginning of the marketing process, it is important to understand markets. A company must also make an analysis before it creates different marketing strategy. This stage has the same characteristics that Root uses in his marketing entry strategy process (see Figure 2. page 33). Marketing programming is the third stage of the marketing process and it includes factors from marketing mix: products, pricing, promotion, and people. Dibb and Simkin point out that a company should decide the programs that different marketing mix factors need. A marketing mix should not be developed before the market strategy, which includes the creation of segmentations and brand positioning. Implementation and control stage will be the final stage for the marketing process. In these stages a company has to set budgets and schedules, and divide different responsibilities for decided programs and strategies. The outcome has to be monitored because information received from it will help in future decisions. (Dibb & Simkin 2004: 5 – 6.) Before a company is able to make strategies, it has to know its customers, competition, environmental trends and organizational capabilities - in other words the marketing intelligence must be understood. It is significant to investigate different parts of the marketing intelligence more deeply and carefully. The result will most likely be more reliable if all the marketing intelligence parts are investigated holistically. (Dibb & Simkin 2004: 47.)



Figure 4. Marketing Process (adapted from Dibb & Simkin 2004: 5).

4.2. Factors Affecting Markets

Ströttinger and Schlegelmilch (1998) mention that operation in foreign markets does not mean only that a company will gain additional business opportunities; a company has to also face unknown challenges, e.g. differences in language, consumer behaviour, cultural standards, legal framework and purchasing power. Specific foreign markets might be seen as more attractive than others because of their similarity or dissimilarity to the home markets. (Ströttinger & Schlegelmilch 1998: 358.)

Markets are forever changing environment because there are new competitors, customers, partners and legislations that might enter and affect the structure of the current market. Companies need to understand the changes and factors that affect market; therefore the used operation mode is not always effective in all situations of

market change. Companies should go through the marketing process occasionally and evaluate markets in the light of any changes. Luostarinen (1989: 34) has created behavioural decision-making framework indicating the stages of processed decisions within companies. Companies' decisions and the actions based on them, have an effect on markets. Luostarinen describes the behavioural decision-making process to be composed of perception, reaction, search, and choice. These phases are done in the light of firm-related factors. The firm-related factors are influenced by a firm, and they indicate a company's ability to respond the challenge of foreign markets and its ability to exploit the alternative ways for doing business abroad. (Luostarinen 1982: 72 – 73.)

Luostarinen (1982) has included other factors in addition to home and target country environment that affect a company's decisions from inside and outside its operations. Factors inside the firm are divided into firm and decision making related factors (Luostarinen 1982: 23 – 24). Firm related factors can be viewed by structure, character, product, planning, and foreign operation related elements (Luostarinen 1982: 73). But unlike Luostarinen, Nordström (1991: 179) thought that a company's size has no significant influence on the average choice of an entry mode, whereas a company's international business experience might increase the probability for the use of acquisition instead of Greenfield investments. The missions and objectives of a firm are part of the company's planning (Luostarinen 1982: 95). Dibb and Simkin (2004) wrote about companies' objectives and the different business characteristics. The business structure will affect the nature of a market, which a company must evaluate.

Dibb and Simkin separate the business-to-consumers environment from the business-to-business environment, and they present some differences between these markets. There are several individuals, and sometimes departments, taking part in purchase decision making in business-to-business environment. In this situation, marketing programs have to be developed in a way that pleases all of the parties involved in the decision process. Other differences in the business-to-business decision process is that the risks involved are higher than in the consumer decision process, because the products are usually more specified. Also the process is more formal because business-to-business customers need to evaluate the duration of the product and the gained benefits from the company's point

of view. Figure 5. shows the different factors influencing the decision process in business-to-business buying. (Dibb & Simkin 2004: 35 – 37.) Dibb and Simkin explain that feedback is one important factor that is affected by problem recognition, product development, and by search, select and evaluation of supplier and product. Other possible influencing factors are environmental, organizational, interpersonal, and individual factors. All decisions involving market process cannot be done through the stages shown in Figure 5. Sometimes there is not time to gather research and information that would help decision making, e.g. if decisions are done spontaneously. Many people make decisions with the help of their own experience and instinct, or with the knowledge of others. It is still important to know the basic methods of investigating markets because these methods make the different market influencing factors visible. (Dibb & Simkin 2004: 47.)

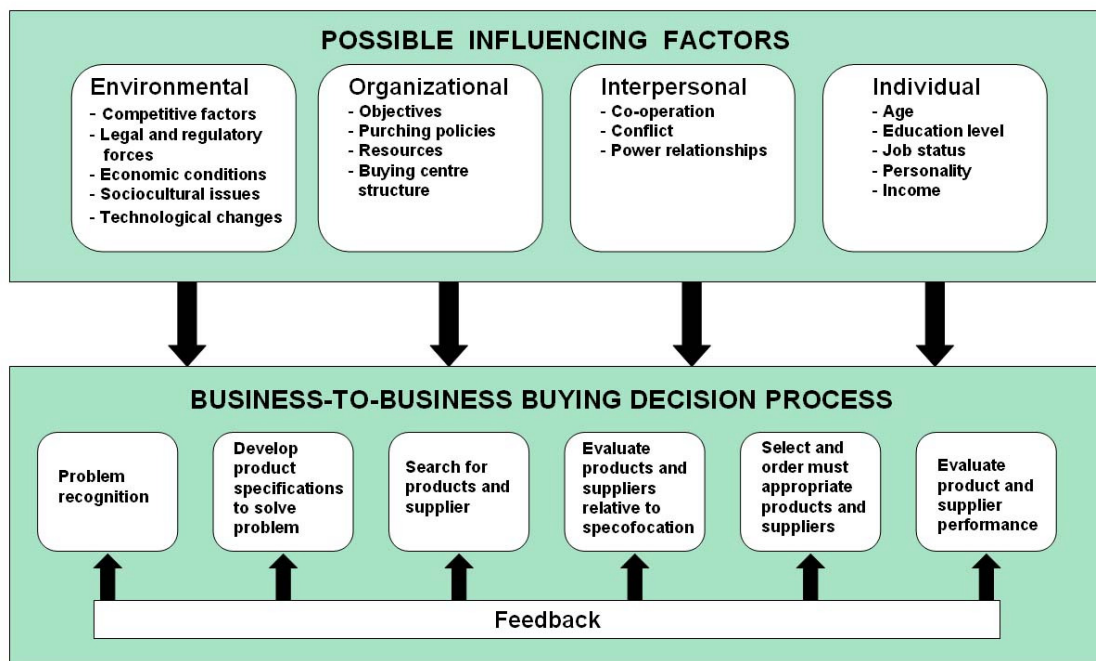


Figure 5. The Business-to-Business Buying Decision Process (Dibb & Simkin 2004: 36).

5. FRAMEWORK AND THE METHODOLOGY FOR THE STUDY

This chapter will introduce the framework for this study that is based on the earlier theoretical part. Also a theory for different research methods, which can be used for a study, will be presented. Finally this chapter will shortly introduce an empirical research design for this study.

5.1. Framework for the Study

This study will approach the business distance from an individual and cultural level and investigate how they affect the entry mode decision of a company. Several factors that affect a company's entry mode decision were presented in the theoretical part; however this research will focus only on the effect of psychic and cultural distances. Most of the values or views of the cultural distance theories evaluate the situation in the past time, therefore it is essential to observe what differences can be found if the results base on the present values.

Figure 6. introduces the framework for this study, which will present different researches of psychic and cultural distances in the present time. Both distances are closely related even though they offer different aspect on the distances. Based on the theoretical discussion, it was noted that cultural distance study of Hofstede (1991) and Kogut and Singh (1988) were criticized by several researchers (Dow & Karunaratna 2006; Shenkar 2001). The business distance study of Luostarinen (1989) provides cultural distance results from different aspect because it includes various factors affecting the distance. Economical differences are included as part of the framework because they were essential parts of the Luostarinen's business distance study. The theoretical description by Nordström (1991) will support this study's psychic distance analysis, together with the earlier psychic distance study (Siirala 1993). Organizational capabilities and marketing environment are part of the marketing intelligence and a

company should know these factors before creating its strategies (Dibb & Simkin 2004: 47).

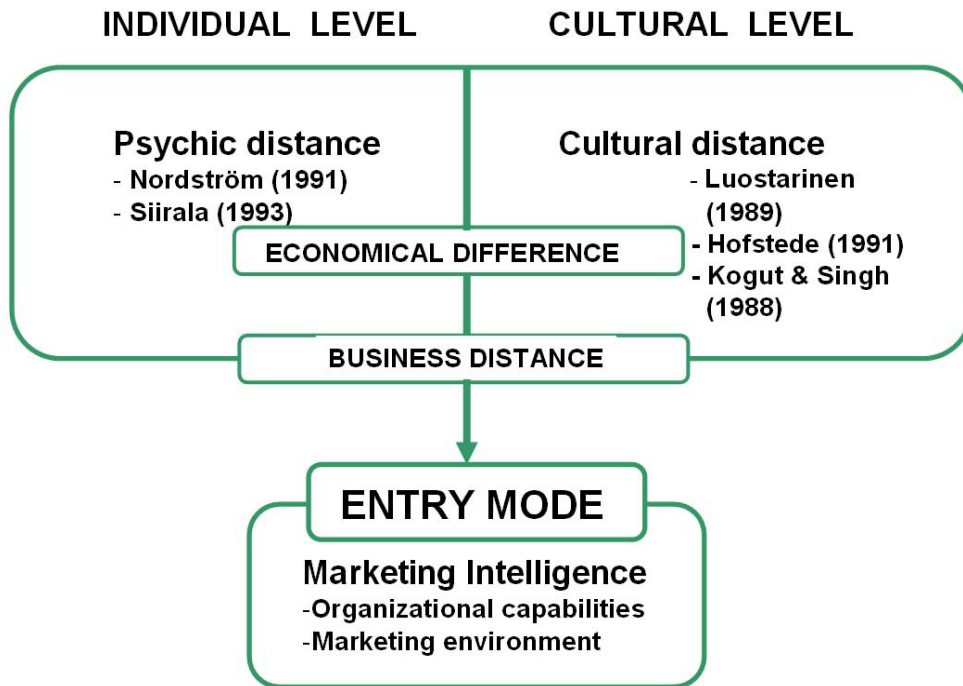


Figure 6. Framework of the study.

5.2. Different Methods for a Research

A marketing research locates and solves specific marketing problems with the help of essential information and collected data (Lotti 1994: 10). Five different phases determine the structure for a research, according to Lotti: the problem definition, creation of a research plan, data collection, data analysis, and a presentation of the results. (Lotti 1996: 27.) A research should be done impartially and truthfully and there should be caused no harm for the persons who give information. Different demands are required for a research, which are validity, reliability and objectivity (Hirsjärvi, Remes & Sajavaara 2005: 216). A researcher should be certain that the correct subject is examined as reliable as possible. The reliability is stronger when no hazard affects the

results; hazard can occur when a respondent remembers something incorrectly or chooses unintended answer. (Uusitalo 1996: 84.) Results should be the same if a research is done again in the same circumstances. Thus the results should not be affected by a person's own experience, values or attitudes. Objectivity of an interview can be tested by comparing whether the results are the same when an interviewer is different. (Hirsjärvi et al. 2005: 216.)

A research strategy is seen as an entity of a research method, and can be divided to three different parts: an experimental research, a survey research or a case study. The research method is part of the research strategy and will answer how the research is done. Frequently used methods, a qualitative and a quantitative research signal the character of the research target. (Hirsjärvi et al. 2005: 125 – 127.) Difference in a qualitative and a quantitative research is that previous uses material that is theoretically representative, whereas the latter research collects numerical data from defined sample. Different phases are clearer in the quantitative research because data collection must be done before data processing. Usually data is not changed or it will not have any additional factors after its process. These mentioned phases associate with each other in the qualitative research (Uusitalo 1991: 79 – 80). Also a mixed method approach can be used in a study, it *“focuses on collecting and analysing both quantitative and qualitative data in a single study”* (Creswell 2003: 210).

Researcher has possibility to make a desk study, when already existing data and materials are used. Existing data can be formatted suitable for a researcher's own study. Previous data can be difficult and problematic to unite with the researcher's own results, therefore this method might minor the reliability of the study. Materials can be used from research, statistics, different personal and business documents. (Uusitalo 1991: 48.) Desk study will be used in this study, because it is essential to analyze the original results in order to compare the results from cultural distance theories. One part of a qualitative study is a case study that collects detailed empirical data from one or more cases. Often the information for case studies are gathered through interviews (Yin 1994: 84). A case group should be small and they should interrelate with each others. (Hirsjärvi et al. 2005: 125.) Deeper analysis is possible to create when there is only one

case in a study. This study will focus only on one case and tries to create deeper understanding and analysis for market environment of one country.

5.3. Methodology used in the Study

Structure of the empirical part in this study will follow the phases in Figure 7. To gain reliable results this paper tries to find values that indicate the actual situation in the chosen countries. The desk study presents an analysis of the business and cultural distances. The business distance analysis is based on the study of Luostarinen (1989), and will evaluate it with the current business distances that are found in this study. The current business distance is calculated with the combination of the geographical, cultural and economical distances between Finland and twenty-four countries. The values of the different factors, for each country, are converted to standard score with the standard deviation and average result for the specific factor. The distance variables are realized with the comparison between the standard scores of Finland and other countries. The distance variables indicate the distance of a country value on the different factors compared to Finland. The sum of these factors creates the physical, cultural and economical distances (see Appendix 1.). The cultural distance analysis bases on the studies of Hofstede (1991), and Kogut and Singh (1988). Hofstede's study results are used as he has presented them in his publications (see Appendix 3.). Kogut and Singh calculated the cultural distances for different countries in the light of America's indices. This study will use the same mathematical form and calculate the cultural distances between Finland and twenty-three countries.

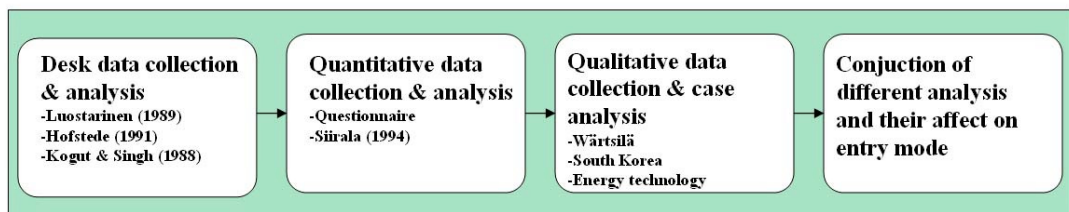


Figure 7. Structure of the Study.

The quantitative data introduces an analysis of the psychic distance, and the results are compared with the similar study by Siirala (1993). Questionnaire used in this study, investigated the psychic distances between Finland and twenty-four countries. The survey was arranged in the Internet; therefore the questions were encoded into Hypertext Markup Language (HTML), which is special computer language for a web page creation. Also HTML provided simple structure for the web page and made it possible for the participants to reply questionnaire easily. All answers received were directed to a specific e-mail address with a PHP-language, and later they were transferred to a SPSS-program. A pilot test was held to fifteen persons and few modifications were done based on the feedback. The final questionnaire (see Appendix 4.) consists of background information and international experience of the respondent, and of the background information of his or her company. The questionnaire was sent to 270 Finnish managers and the final respondent rate was thirty percent. Few answers were not included into results because the miss fill of the questionnaire.

The qualitative data for this study is collected with an interview and a case study. The interview used in this research followed the semi-structured interview that combines the advantages from the structured and non-standardised interviews. In the semi-structured interview the asked questions are usually specified, but an interviewer may ask beyond them. (Ackroyd & Hughes 1981: 71 – 72.) Analysis for the qualitative data will create deeper analysis on the Finland's cultural and psychic distances to South Korea. The study evaluates also operation modes and opportunities for Wärtsilä Power Plants. As a conclusion the different analysis and their affect on the entry mode are estimated.

6. CULTURAL AND PSYCHIC DISTANCES AND THEIR EFFECT ON ENTRY MODE

This chapter will introduce the empirical results for business, cultural and psychic distances between Finland and twenty-four different countries. Business and psychic distances base on one model, whereas cultural distance analysis will concentrate on two different models. All models will compare the effects of mentioned entry modes. Finally this chapter will introduce a case company's entry modes to different countries.

6.1. Business Distance and Operation Mode

Luostarinen (1989) based his business distance research on the factor values from Finland in 1976 – 1977. His research method might present the distance in the late 80's, but to gain more reliable results for the present time, values should be calculated with the updated sources. This study calculated rates for current situation using the same method that Luostarinen used. There are four distance clusters included in the results that Luostarinen described and determined in his study (Luostarinen 1989: 146). Appendix 1. offers more detailed description on the following indicators:

- Physical distance is the geographical distance between Helsinki and the capital cities of the target countries.
- Cultural distance is determined by the language, level of education and economical development. Language was scaled from 1 to 8, according to frequency of language knowledge in Finland. Educational level was measured with the enrolment ratios for university education (Luostarinen 1989: 135 – 136).
- Economic distance describes the size of GNP, GNP per population and the size of population.
- Business distance is calculated by the combined distance of geographical, cultural and economical distances (Luostarinen 1989: 148).

The four cluster values for selected countries were found from statistical Internet pages (CIA 2006, GNP 2005, Infoplease 2006, Thorsen 2006, UNESCO 2006). Comparison rates indicate countries' situation during 2000 – 2006. These results can be regarded as current situation because economical and cultural conditions change slowly. Table formulation for this study followed the same structure that Luostarinen used in his study.

“Values of these variables were transformed into ‘real’ distance variables (by dividing target country variables by the corresponding Finnish figures, excluding language and kilometres). Because of the great differences in the variance of the variables, it was found necessary to convert the data matrix from raw scores into standard scores. Because of the skewness in the distribution of data logarithmic transformation was used.” (Luostarinen 1989: 147.)

It is obvious that business distance has changed over twenty years, although the distance was examined in the same method. Few additional values were analyzed in this study because results are more reliable for the current situation when they are included. In the 1976, Luostarinen evaluated countries' cultural distances with paper, energy and steel consumption together with the number of telephones and the level of industrialization. For this study countries' cultural distances were estimated with few added factors: number of cellular phones and number of personal computers, because they indicate economical development nowadays more realistically than the number of telephones alone. As a comparison cultural distances between Finland and twenty-four countries were calculated with the original values that Luostarinen used. Difference for using original and additional values on the current cultural distances had only minor changes, and they can be seen in the Table 3. The cultural distances of only four countries were changed with the additional values while the results of other countries remained the same. The cultural distance of Brazil increased if the number of cellular phones and personal computers were included to calculation. On the contrary cultural distances of France, United Kingdom and United States decreased if calculations included the additional values. The analyses for the business distances in this study consist of the cultural distance with the additional values.

Table 3. Differences in the Values of Cultural Distances between Original and Additional Values.

Country	Cultural distance with original values (Index from 1 – 5)	Cultural distance with additional values (Index from 1 – 5)
Brazil	Distant (4)	Very distant (5)
France	Distant (4)	Average distant (3)
United Kingdom	Average distant (3)	Close (2)
United States	Average distant (3)	Close (2)

Appendix 2. shows the cluster of physical, cultural, economic and business distances for situation in the 1976 and in the 2006. Distances indicate countries' distances between Finland, and therefore they cannot be regarded as generally accepted. It can be seen in the Appendix 2. that some differences has occurred in the business distance during this time. The method of Luostarinen could be criticized for the generalizations he made while comparing several countries. According to him the high population indicate that country is economically advanced. However this is not always the case because there are some developing countries, which are overpopulated and economically poor at the same time. Luostarinen includes both the population and the size of GNP as part of the economical cluster, and their equal affect on the cluster might not state the economical distance realistically. Also historical and other factors that influence a country's situation are neglected from the Luostarinen's method. If the business distance between two countries would be closely analyzed, the results would be more accurate and reliable. Then again, it would take more time to create a deeper analysis for all chosen countries, but quantity can not substitute quality.

In the Appendix 2. can be seen that biggest changes in the business distances between the years 1976 and 2006, have occurred in France, United Kingdom and Russia. Russia's positive economical distance might be explained with its huge population growth compared to Finland. The GNP per person is 4 466 dollars in Russia, while Finland's GNP per person is 37 471 dollars (GNP per capita 2005). This rate is normally used as a national income and output measure, but in the method of Luostarinen, it has equal affect with other factors on economical distance. Luostarinen

clarifies that companies are more willing to enter economically larger than smaller markets, compared to economical situation in the domestic markets (Luostarinen 1989: 150).

Cultural distances of the countries can be evaluated with the combined modes of international business operations (see Table 2. page 43 and Figure 3. page 36). Using combined modes, it can be stated that DIMOS should be the most used operation mode in France, Germany, United Kingdom, Norway, Sweden and Netherlands. NIPOS should be most used operation mode in Russia, if the results from 1976 – 1977 are evaluated. This study will be critical on the Russia's current business distance rate and therefore any deeper analysis is not made.

6.2. Comparison of the Cultural Distances

Cultural distances are difficult to compare between the studies of Hofstede and Luostarinen, because Hofstede examined cultural distance by four factors: power distance, individuality, masculinity, and uncertainty avoidance. In the Appendix 3. can be seen that Norway (index 31), Sweden (index 31), Germany (index 35) and United Kingdom (index 35) have closest power distance indices to Finland (index 33). Hofstede noted that PDI and IDV rates are negatively correlated because countries, which score high on the PDI rate have also low IDV rate (1991: 54). Hofstede presented a reason for the correlation from economical development; when economical development is constant, relationship disappears between the IDV and PDI. (1991: 56.) Estonia (index 60), Poland (index 60) and South Africa (index 65) have the most similar individualistic indices with Finland (index 63). Individualistic cultures provide the privacy as well as equal laws and justice for everyone. Also the GNP rate per capita is high in the individualistic countries, according to Hofstede. (1991: 73.) The greatest rates on the GNP per capita in 2005 were in Norway, Denmark, USA, Sweden and Japan. If we observe the situation of Japan and USA, we notice the GNP rate per capita in USA is 43 734\$ and in Japan is 38 984 dollars. (GNP p.capita 2005.) In the Hofstede's research (see Appendix 3.) USA's individual index is 90, which is analogous

to Hofstede's argument of a strong GNP rate per capita. However Japan's individual index is only 46; therefore Japan is more collectivistic country even though its GNP rate per capita is high. Thus Hofstede's all characteristics of the four factors can not be accurate.

Hofstede's masculinity indices between Finland and chosen countries are remote compared to rates of power distance, individuality and uncertainty avoidance. The masculinity rate of Estonia (index 30) is closest with Finland (index 26), that is why both countries are more feminine than masculine societies. In the feminine societies, social gender roles overlap, hence both men and women are supposed to be modest and tender. (Hofstede 1991: 83.) Comparing the uncertainty avoidance indices (see Appendix 3.), it can be seen that Iran has exactly the same index with Finland (index 59), also Estonia's is very close (index 60). High uncertainty countries tend to have high stress rate and emotional need for rules and haste, according to Hofstede (1991: 125).

Estonia has closest values with Finland in most of the Hofstede's factors. Based on Hofstede's results Estonia can be thought as culturally close to Finland. As was mentioned earlier, Hofstede notes the most problematic nations to be the ones with very high uncertainty avoidance and power distance rates. According to Hofstede's results Russia, Poland, Japan, China, and India are recommended not to enter for a while. Hofstede neglects the meaning of a history and geographical closeness. From the Finland's viewpoint, Russia has been important business partner for long. Finland paid its war debt as technological products and created relationships in the industry at the same time. Therefore many industrial products are transferred and sold to Russia even though country's indices are high on power distance and uncertainty avoidance.

Kogut and Singh (1988) used their own method for analysing Hofstede's cultural factors. They created an algebraically index (see mathematical formula 1), and calculated the cultural distances relating Hofstede's country values to one specific country.

$$(1) \quad CD_j = \sum_{i=1}^4 \{(I_{ij} - I_{if})^2 / V_i\} / 4,$$

Mathematical formula is the sum of different cultural factors, which Hofstede used. In the formula, I_{ij} stands for the index of the i :th cultural dimension in j :th country. V_i is the variance of the index of the i :th dimension, f indicates the Finland, and CD_j is cultural difference of the j :th country from the Finland. (Kogut & Singh 1988: 422.) Rates for different countries have been calculated in the Table 4. with the mathematical index. The variances of the indices in the Hofstede's dimensions are following:

- Variation of the power distance index is 93 (Hofstede 2005: 56 – 57).
- Variation of the individualism index is 85 (Hofstede 2005: 91 – 92).
- Variation of the masculinity index is 105 (Hofstede 2005: 133 – 134).
- Variation of the uncertainty avoidance index is 104 (Hofstede 2005: 183 – 184).

Kogut and Singh assume that a company's entry mode will be a joint venture if the invested country is culturally distant from the home country (Kogut & Singh 1988: 422). This study calculated cultural distance between Finland and twenty-three countries using the mathematical formula by Kogut and Singh. The rates of the cultural distances are presented in the Table 4. and they indicate that Finnish companies entering China, Japan or Russia would most likely use a joint venture as an entry mode. According to these distances, the culturally closest country to Finland would be Estonia. Finland and Estonia appear culturally close also in the business distance study and in the indices by Hofstede. It is interesting to see Iran culturally closer to Finland than Germany (see Table 4.), whereas in the business distance study, Iran is one of the most distant countries (see Appendix 2.). The results of cultural distances indicate also that South Africa would be culturally closer to Finland than one of the Nordic countries, Denmark. Rate of the South Africa can be questioned because Hofstede gathered South Africa's results only from the white population (Hofstede 2005: 41). Also the business distance study shows that South Africa is culturally distant to Finland (see Appendix 2.).

Table 4. Cultural Distance between Finland and 23 Countries.

Country	Cultural distance	Country	Cultural distance
Estonia	0,2	USA	5,93
Norway	1,08	Italy	6,5
Netherlands	1,35	United Kingdom	7,19
Canada	2,85	Brazil	7,28
Sweden	3,41	Turkey	7,4
Iran	3,79	India	8,88
Germany	3,95	Poland	9,54
South Africa	4,2	South Korea	9,94
Denmark	4,31	Russia	14,73
Spain	4,33	Japan	15,99
Australia	5,24	China	17,21
France	5,92		

The studies of business and cultural distances and the rates of Hofstede present quite different results on the cultural distances. As a conclusion for the comparisons, Russia and Poland are culturally distant in all studies. The business distance values from 1976 and 2006 show that Brazil, Turkey, and Iran are culturally distant to Finland. The cultural distance study shows that Iran is surprisingly close, although Brazil and Turkey are rather distant to Finland. These results should not be thought to be reliable because, as it was mentioned earlier, Kogut and Singh assume all Hofstede's factors contribute equally and their mathematical formula based on this assumption. This can be also an explanation for the unexpected results for the cultural distances between Finland, Iran and South Africa.

6.3. Manager's Psychic Distance with Business-to-Business Experience

Nordström (1991) made a survey for Swedish managers to find out the psychic distances between Sweden and other countries. The questionnaire in this study will follow the same structure that Nordström used in his research (see Appendix 4.). Survey for this study was encoded to Internet and sent to Finnish managers. Survey was limited

for business-to-business companies that operate mainly in industry because there was not enough resource to process larger company amount. The business-to-business companies were selected if they had international contact in their business. The questionnaire was sent to top and medium level managers because they often have international experience, and therefore are able to define the country differences. The inquiry form was available in the Internet for three weeks and respondents had possibility to access page easily. The inquiry form was sent to 270 persons with 80 responses. Three answers were not included to psychic distance study because they had missing values. Reply percent was thirty and it can be regarded as reliable because Nordström pointed out that average result for countries' psychic distances does not change after fifty answers are given; bigger result raises only the reliability of the survey. (Nordström 1991: 115 – 116.) The results of this survey are compared with a similar study by Siirala (1993), who made a survey about Finnish medium level managers' psychic distances.

Siirala investigated psychic distances from the Finnish managers' point of view for 27 countries using Nordström's method. Siirala included Finland's most important export countries. The studied psychic distance in this research included only 24 countries, and some of them differed from Siirala's choices. A country selection of this study based on the most important partner countries in the 2005 and therefore it varied from Siirala's choices. Also some countries were not important for the psychic distance research, and they were left out from the survey. Feedback from a pilot survey revealed the difficulty of marking the psychic distances for 24 countries; therefore a greater country amount might have decreased the answer rate. The Internet survey was answered by 65 males and 15 females, from which 35 % were 41 – 50 years old, and 31,3 % were 51 – 60 years old. Most common educational background was technical (47,5 %) and economical (42,5 %) educations. Table 5. shows the countries included in the survey. According the experienced psychic distances in 1993 and 2007, countries are clustered into five different groups: very close, close, average, distant and very distant. Countries with 'very close' cluster had distance indices from 0 to 20, the indices of 'close' countries were between 20 and 40, indices of the countries in 'average' cluster were between 40 and 60, countries with 'distant' cluster had indices between 60 and 80, and

‘very distant’ countries had indices from 80 to 100. Difference with the results is that the study in 2007 found only one very distant country, whereas the study in 1993 showed four very distant countries. Average partaker felt most of the countries as close in both surveys.

Table 5. Results for Psychic Distances of the Surveys. Countries are divided into five clusters (20 points each). (Siirala 1993: 42.)

PSYCHIC DISTANCE 1993 STUDY					
Groups Countries	Very close	Close	Medium	Distant	Very distant
	Sweden Germany United Kingdom Denmark Norway	NL USA CH Austria France Belgium Italy Spain	USSR Canada Portugal Poland Japan Australia	Turkey Brazil Mexico Argentina	Chile India Taiwan Iran

PSYCHIC DISTANCE 2007 STUDY					
Groups Countries	Very close	Close	Medium	Distant	Very distant
	Sweden Norway Estonia Denmark Germany	United Kingdom Iceland NL Canada Italy USA Spain France Poland	Australia Russia	Turkey South-Africa Japan Brazil China India South Korea	Iran

Table 6. shows the average indices, which were found from both studies. Main difference is the greater index variation in the current psychic distances compared to psychic distances in 1993. Even though Sweden is felt psychically closest country in the results in 2007, the index 8.7 shows that participants weren't unanimous. If all answers would have placed Sweden as a closest country, the index would be close to 0. Perceived psychic distances have changed from the 1993 and currently Finnish managers feel Norway, Estonia and Denmark to be a bit closer than Germany. Siirala found in her study, that Germany was felt as second closest country. Also in her study

the Nordic countries were not felt as close as they are now. One explanation could be as a consequence of increased entries to distant countries; Finns feel the neighboring countries much closer than earlier because they have traveled to more distant countries. Travel frequencies were found from the survey in 2007 (see questions 13 and 14 in Appendix 4.). Most of the partakers have work assignment abroad for 100 days in a year, but their spare time travelling was smaller, mostly twenty days in a year. Survey showed that 32,5 % of the respondents have lived in one foreign country, and 22,5 % have lived in two or three foreign countries. Most of the respondents (38,8 %) had not lived in any foreign country. Also the nature of the relationships with foreign persons is intense because 40 % of the attendants have personal contacts monthly with foreigners.

Table 6. Results between the Studies of Psychic Distances.

	Psychic Distance in 1993		Psychic Distance in 2007	
	Country	Index	Country	Index
1	Sweden	3.3	Sweden	8.7
2	Germany	11.2	Norway	14.4
3	United Kingdom	12.1	Estonia	17.7
4	Denmark	12.7	Denmark	17.7
5	Norway	12.7	Germany	20.3
6	Netherlands	23.5	United Kingdom	27.2
7	USA	23.7	Iceland	27.3
8	CH	24.4	Netherlands	27.9
9	Austria	24.5	Canada	32.9
10	France	25.7	Italy	34.7
11	Belgium	28.4	USA	36.2
12	Italy	30.1	Spain	38.4
13	Spain	32.8	France	38.7
14	USSR	41.5	Poland	38.8
15	Canada	42.3	Australia	41.9
16	Portugal	43.5	Russia	43.9
17	Poland	54.8	Turkey	63.3
18	Japan	57.3	South-Africa	64.1
19	Australia	59.6	Japan	64.9
20	Turkey	65.1	Brazil	66.7
21	Brazil	76.5	China	69.1
22	Mexico	78.3	India	71.8
23	Argentina	79.7	South Korea	72.6
24	Chile	82.2	Iran	87.3
25	India	85.0		
26	Taiwan	85.3		
27	Iran	89.5		

It was interesting to notice that question 9 (see Appendix 4.) was difficult to answer for some partakers. Respondents were asked to name three most important target market countries of their company. Most of them named more than three countries, and some answered company's markets to be global or world wide. Obviously there was difficulty to determine which countries were most important for the company. It is hard to draw reliable conclusion for the result of this question. Respondents might not be aware of the company's most important target countries, even though the selection of respondents based on their higher position in a company. It was assumed that top management would understand the company's focus on most important markets. Another reason for the reply dispersion can be that respondents did not understand the meaning of the question. They might have thought the purpose to inquire the amount of countries where the company operates. Final explanation can be that companies take seriously all markets they operate. This conclusion does not seem to be reliable because normally companies have varying amount of financial and labor resources for different markets and operations; therefore the most important target country markets could be analyzed by the invested resources. This study however will assume that the answers for this question were not reliable, and neglect its results.

It was found that respondents have high foreign language knowledge (see questions 15 and 16 in Appendix 4.). Many of the respondents were able to speak several foreign languages or knew the basics of some languages. All respondents can speak English and only few mentioned they can not understand Swedish. German is spoken by 77,5 % and French by 27,5 % participants. Inquiry revealed that Russian (20 %) is more known language than Spanish (15 %), also Chinese is understood by 5 % of the respondents. Other known languages were Italian, Dutch and Norwegian. These rates might show the importance of communication with foreign languages. Also the knowledge on languages can indicate the need of companies for international contacts.

In addition to psychic distance, Siirala examined the perceived importance for eight different culture elements that influence international contacts. These elements were language, attitudes and values, politics, religion, history, education, social group (family and friends), art and aesthetics. She found that values and attitude were felt as the most

important culture element, and the second important element was language. Respondents felt that third important element was social organizations. (Siirala 1993: 94.) The same question was asked in the survey of this study (question 17 in Appendix 4.) and 50 % of the answers showed that values and attitudes were most important factors in international contacts. Language was viewed as the second important factor, and third important was education. People who had not lived abroad ranked the language as the most important factor in cultural relations, and the values and attitudes only as the second important factor. Then again people who had lived in one or more countries ranked the values and attitudes as most important factor. Also the religion and history were noticed if there was more experience on the foreign countries.

6.4. Entry Modes of Wärtsilä Power Plants

Entry modes of a Wärtsilä Power Plants to different countries were asked with a short e-mail inquiry (see Appendix 5.). The inquiry was sent to Wärtsilä's regional directors in the same twenty-four countries that were evaluated in earlier subchapters. Entry modes for only seven countries were received from different regional directors. These results can be seen in the Table 7.

Wärtsilä Power Plants began its operations in Australia through an agent, by selling first engine in 1989. Wärtsilä Marine had different agent in Australia than Power Plants, but nowadays Power Plants has its own network office. Operations in China started in 1988 from Guangdong province, southern region of China. Initially Wärtsilä used an agent, but set a legal entity to Hong Kong 1990, after its businesses grew. Wärtsilä has its own entity and headquarter in Shanghai because market trends and needs for capturing business in domestic have changed. (Kuo 2007.) Wärtsilä has operated in Estonia since 1996 and has not changed the operation mode: direct sales and export from Finland (Lindroos 2007). Wärtsilä Power Plants' first entry to Iran has not been registered, but the second entry was in 1968. Rough estimation can state that the first entry was on 60's. Wärtsilä has always used agency agreement in Iran and will most likely continue with it for some time. At a one point Wärtsilä has made a licence agreement for a small

engine type, and therefore a small assembly is built in Iran which Wärtsilä has no ownership. (Norrgård 2007.) Japan was entered in the same year as China in 1988 when the first power plant engines were sold through an agent. Wärtsilä Power Plants used the same agent which Marine had, but nowadays company has its own network office in Japan.

Wärtsilä Power Plants operated in Soviet Union since 1986 and after country's break-up, Wärtsilä has operated in Russia. First modes to Russia were Wärtsilä's own representative office and export from Finland. Nowadays there is own service and sales company, from which the previous is carried out by a local Russian company. Also export is currently used in the markets of Russia. (Lindroos 2007.) There are no clear registrations for Wärtsilä Power Plants first operation in USA, but steady operation started in 1987, when the first power plant sale was made in the Caribbean. In the beginning Wärtsilä used a network for broker and agency and nowadays sells directly to customers, even though brokers are still occasionally used. (Donnelly 2007.)

Table 7. Operations of Wärtsilä Power Plants in Different Countries (E-mail interviews 2007).

	ENTRY YEAR	ENTRY MODE	OPERATION MODE
AUSTRALIA	1989	Agency agreement (different than marine)	Own network office
CHINA	1988	Agent (legal entity 1990)	Own China entity
ESTONIA	1996	Direct sales and export	Direct sales and export
IRAN	1968 (second sale)	Agency agreement	Agency agreement
JAPAN	1988	Agency agreement (same as Marine)	Own network office
RUSSIA	1992 – 93 (1986 Soviet Union)	Own representative office and Export	Own sales and service company and export
USA	1987	Broker and agency agreement	Own USA entity

As a result, Wärtsilä made its first market entries to Soviet Union and USA. These countries were calculated to be both culturally and psychically distant countries for

Finland. According to business study (Appendix 2.), the cultural distance index for Russia is very distant, but business distance is average. Hofstede's indices show that Russia should not be entered as the first target country. Cultural distance study by mathematical formula revealed that Finnish companies should use a joint venture while entering Russia because the cultural distance is so long (see Table 4. page 60). According to Luostarinen, Finnish companies should use DIMOS operation modes entering to France, Germany, and United Kingdom (see Table 2. page 43). The study of psychic distance showed that Russia's psychic distance was average.

Geographical closeness does not give explanation for Wärtsilä Power Plants' entry to USA, but the study of business distance shows that the country is average distant with Finland (business distance rate was 2 in 1976 and 3 in 2007). Wärtsilä's entry to distant countries can be partly explained by its industry. As was mentioned earlier, heavy manufacturing industries seem to enter more distant markets. Therefore the behaviour of these companies is much more difficult to analyze because they behave differently from the results that were found earlier (Nordström 1991: 22).

7. EFFECT OF MARKETING INTELLIGENCE ON THE ENTRY MODE

This chapter presents the marketing intelligence of the empirical part. It introduces the organizational capabilities of Wärtsilä Power-Plants. This chapter continues with deeper observation on South Korea as a market, and finally presents the energy business as marketing environment combined with the firm and country level variables.

7.1. Wärtsilä Power-Plants in Energy Business

Wärtsilä was established in Tohmajärvi Karelia as a sawmill in the 1834 and 17 years later iron mill was built in the sawmill's place. Company was renamed as Oy Wärtsilä Ab in 1898. A license agreement for Turku factory generated first diesel engine in 1942 and later company merged to Lohja and Imatra. (Wärtsilä 2006.) Wärtsilä is divided to three sections: Power Plants, Marine and Services. There are a bit over 12 000 employees in the company and most are working in the service department. Wärtsilä has 130 offices around the world in over sixty countries. The turnover for Wärtsilä Finland was 2638,8 million euros in the year 2005, from which 710,3 million euro was net sales of Wärtsilä Power Plants. Main customers for Wärtsilä Power Plants are utilities, oil and gas industries, industrial manufacturers, and independent power producers. Company's future target is to maintain its position in customer groups, especially its leading position in heavy fuel oil markets. Other goal for Wärtsilä is to grow in developing countries in gas power plant sections. (Wärtsilä Corporation 2005: 2 – 3, 19 – 21.)

Wärtsilä Power Plants are based on engines that are reciprocated and therefore offer flexible and efficient operations in power plants' lifetime. Power plants are divided to three different sections: oil and gas power plants, and combined heat power plants. Oil power plants range from 1 – 300 MW and they are very efficient and reliable. Oil power plants are suitable for stationary, floating base load and stand-by applications. The benefits for these plants are the fast-track delivery and operation flexibility.

Gas power plants vary from 4 – 150MW and they are designed to perform with decentralized power production applications, both in intermediate and base load. The advantages in gas power plants are efficiency, fast loading and delivery, low emissions, simple design, and easy extension possibilities and maintenance. Combined heat and power (CHP) is a method that generates both electricity and heat. With CHP it is possible to use most of the energy in fuel, unlike in conventional power generation, where most of the fuel energy will be wasted. As shown in the Figure 8. the normal engine transfers only 45 % energy to electricity, whereas the CHP, uses 55 % of waste energy again; therefore another 45 % of electricity is received and only 10 % of total energy is wasted. The engine efficiency is only 45 %, but the efficiency of entire plant is 90 % with the use of CHP. As a combined advantage, the CHP plants are electrically efficient and environmentally friendly. Considering the demands of Kyoto Protocol and enabling emission trading, this method will most likely play important part in the energy markets. (Vaasa Wärtsilä 2006.)

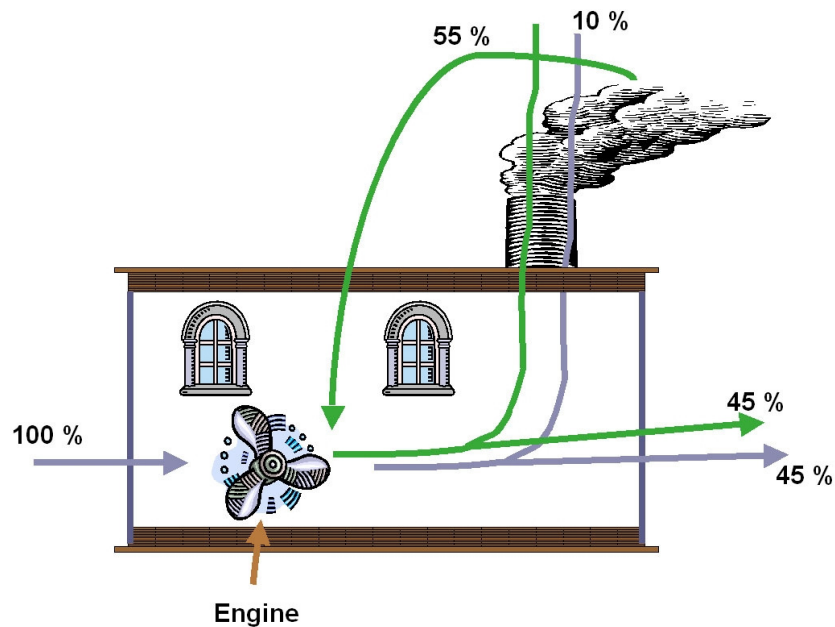


Figure 8. Combined Heat and Power plant.

7.2. South Korea as a Market Environment

“Korea is like a shrimp between two whales: if it isn’t nimble, either of the giants can eat it.” (Luova & Antikainen-Kokko 2006: 74.) This describes Korea’s international situation with China and Japan. Even though its foreign trade has grown tenth of percents in the last few years and its national economy is eleventh biggest in the world, it is still in the shadow of China and Japan. Japan and China are keeping the lead position in Asian economy and have affected Korea’s market and economy during its history. China affects to the development of energy and raw material markets, whereas Japan has shown an example for Korea’s development model and politics; objectives was to built on heavy industry and replace the import with domestic production. (Luova & Antikainen-Kokko 2006: 74 – 78.) The government has located the economical development as a first goal of its actions because it wants Korea’s economy to be productive and competitive in the foreign trade. Some have seen that the government has even neglected issues of equality and social safety to gain the resources for economical development (Vesterinen 2000: 230 – 247). Consequence for the government’s actions was country’s undeveloped and poor economy that has changed in time, despite the Asian economical collapse in 1997.

Korea’s land territory is over 99 000 km² and its different natural resources are coal, wolfram, graphite, molybdenum, and lead. Korea’s population is about 48,3 million nowadays, and is predicted to increase to 49,6 million by the year 2010 (IEA 2006: 52). There are almost 14 000 companies that are part of the Korea Importers Association (KOIMA). These companies are commission agents and importers for foreign companies and they handle over 83 % of the Korea’s imports. Korea has free-trade agreement only with Chile, but had similar negotiations with Singapore and Japan. Also energy sector negotiations for co-operation exist between members of Northeast Asian countries. (MOCIE 2006.)

Korea’s main industry is electronic, car and chemical industries, and its import products are mainly petroleum, groceries and machines. Main export products are electronic products, machines and motor vehicles, and steel and vessels. In the Table 8. can be

seen these different industry areas and Korea's main trading partners. Korea is very dependent on the foreign trade, even though it has only few main trading partners. The biggest import countries were China 19,6 % and USA 16,9 % in 2004. In the same year Korea exported mostly to Japan 20,6 % and China 13,2 %. (Nuutinen 2006: 5.)

Table 8. Korea's Industry and Main Trading Partners (Nuutinen 2006: 5).

Main Industry Products	Main Import Products	Main Export Products	Main Training Partners
Electronic industry	Petroleum/Crude oil	Electronic products	Japan
Car industry	Groceries	Machines, equipment	China
Chemical industry	Machines, equipment	Motor vehicles	USA
Ship building	Chemicals	Steels	Hong Kong
Steel	Metals	Ships / Vessels	Saudi Arabia
Textile		Textile	
Clothes		Clothes	
Footware		Footware	
Groceries		Fish	

Trade between Finland and Korea has increased during last few years. Main nature of the trade has been Finland's export with manufactured products 46 %, machines and equipments 3 5% to Korea. Finnish companies have extremely good business possibility in the shipbuilding, ICT-sector in three generation systems, environment technology, and in the spare time building. (Nuutinen 2006: 4 – 6.)

Korea's unemployment rate doubled and created one of the market risks and threats. Also many companies have fallen to bankruptcies and bank sector has its problems. (Nuutinen 2006: 4 – 6.) Conflict with North Korea causes a long-run risk for market and for example, if a company representative would travel to South Korea after visiting North Korea, he should have two passports because stamp from North Korea is thought as a political risk in South Korea. The countries have only truce because they have not solved their conflicts and North Korea is still provoking South Korea with border violation. (Rossi 2006.)

Korea's government has involved in different business activities and owns many enterprises from market. The government has chosen which companies may enter

different businesses and therefore pure competition has not existed for long time. Government gives financial support, tax encouragement bonuses, and different information services mainly to huge Korean companies (chaebols). Chaebols have a significant role in the country, and they form new businesses all the time because Korea's market has turned to more industrialized. For example Samsung is the biggest chaebols in Korea and is vital for Korean government. Fifth of all imports are done by Samsung and therefore government has tight relationship with it. (Sillanpää 2006: E3.) Other well-known chaebols in Korea are Hyundai, Lucky-Goldstar and SK-group. There have been many criticisms for chaebols' actions because they have monopolistic power and strong control for the Korea's economical environment. (Chen 1995: 155 – 163.)

7.3. Opportunities for Wärtsilä Power Plants in South Korea

Domestic competitor is favoured in Korea instead of the foreign company; even if foreign company would offer cheaper and more qualified products and services, Korean companies prefer domestic products. (Luova & Antikainen-Kokko 2006: 85.) Wärtsilä has managed to operate in Korea mainly because of its good reputation, rapid delivery time, and high quality (Rossi 2006). Wärtsilä's history in Korea shows a good example of a company that uses several different operation modes over time. At the beginning of its operations in Korea, Wärtsilä established a local trading agent in 1979. Three years later, Wärtsilä got a first order with container vessel from Korean market. In the beginning of the 90's Wärtsilä received many orders for offshore projects. In the 1986 Wärtsilä created a nine years license agreement with Ssang Yong Heavy industry. (Rossi 2006.) Agreement was year before country normalized its relations with socialist countries (Luova & Antikainen-Kokko 2006: 9). In 1994 company made license agreement for Heavy Hyundai Industry-EMD. Wärtsilä merged with NSD in Korea, and changed the name to Wärtsilä Korea Ltd in 2000. CISERV Korea Ltd. merged into Wärtsilä Korea Ltd. in 2006. (Rossi 2006.)

Wärtsilä Marine had the first operations in Korea while Wärtsilä Power Plants sold its first engines to South Korea only in 1994. Korea is very important for Marine because it reached the first place as the most important vessel manufacture country. Japan held this position before the year 1994 and in the near future China will most likely pass Korea in this industry. Wärtsilä Power Plants' first contact to Korea was by a purchase of French Scam Diesel, which had sold power plants to Korea (Rossi 2006). Wärtsilä Power Plants used then its own representative office that was under Wärtsilä Japan. This was the same office with Marine, but nowadays Power Plants has its own network office in South Korea. (Doktar 2007.)

It is important for Wärtsilä to be part of the Asian markets because Asia provides opportunities and increase of general competition. Even though it is challenging to operate in Korea, it can be seen as an important market for technology companies. Korea has become one of the most important countries in the world's gas markets, even though its main energy source is oil. Natural gas is used in Korea by industry and households and the usage is meant for production and heating. All gas is imported in the form of liquid natural gas (LNG) and nowadays country is the world's second largest importer of the LNG, with amount of 19 billion m² per year during last years. (IEA 2002: 8 – 13.) Since Korea do not have own natural resources, government planned that 33 % of the Korea's energy source would become from nuclear plants. It already built 120 new power plants during 1995 – 2006, and six nuclear generators are planned to be ready by the 2010, which means that country will have 24 nuclear plants. (Harris, Law 2005: 6.) Competition from foreign suppliers has increased in Korea because shipping cost for LNG is declined. Also energy demand is increasing in Asia and will bring suppliers near to Korea's energy market. Appendix 7. shows the gas pipeline networks in Korea. The technological area in Korea is situated mainly near the Pusan because there has been dockyard industry for a long time. Also the area of the capital, Seoul is very important for industries. (IEA 2002: 100 – 101.)

As seen in the Figure 9. Korea is very dependent on the gas import, and predicted situation in 2015 shows that country's need does not change. The gas demand is affected by the LNG price and because no international market price can be found for

gas, there are two different pricing methods in Korea: traditional and new method. Korea's government has a purpose to move to new method, although it takes a long time to carry out. Traditional pricing for LNG on long-term contracts is affected by the oil price; when the oil price rises or falls, the price of LNG does the same. New pricing method creates a floor and a ceiling for the price; therefore contracts and negotiations between a supplier and a buyer are confirmed on specific price level, even though the oil price would change. (IEA 1996: 59.) Government owns the Korean Gas Corporation (KOGAS), which is a monopoly of the LNG import in the country. Operations of the KOGAS have increased constantly and it has become the world's biggest LNG importer (IEA 2002: 95). It is predicted that KOGAS might lose its position as a monopoly because government had to slowly open energy markets for competition. (IEA 2002: 100 – 101.)

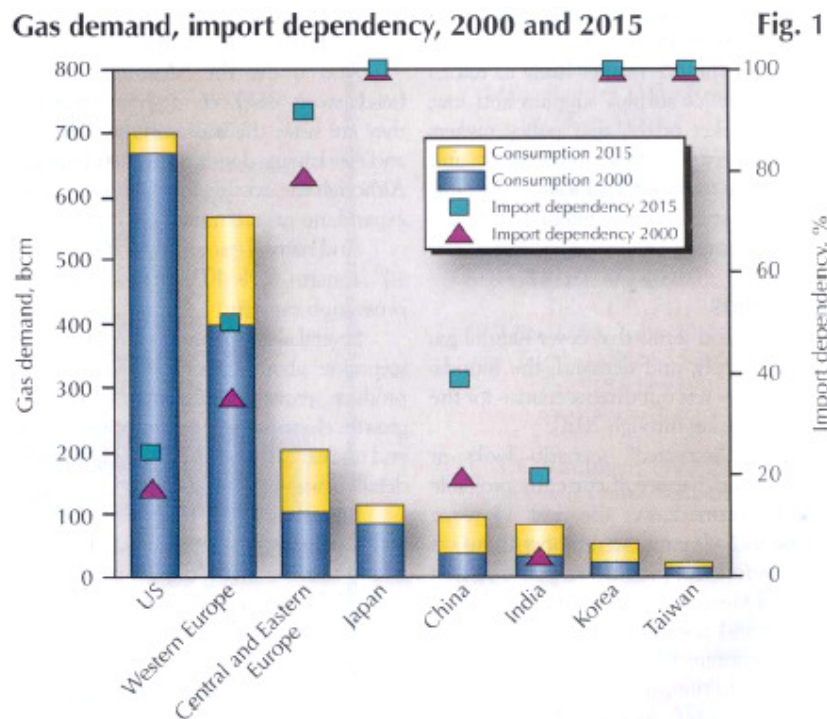


Figure 9. Gas Demand, Import Dependency, 2000 and 2015 (Harris, Law 2005: 4).

There is potential growth for a decentralized energy and CHP in Korea, but before planning any strategies, Wärtsilä Power Plants should mark both market drivers and

barriers for these factors. Figure 10. shows four key drivers and barriers that affect the market of decentralized energy in Korea. Since the environmental issues have risen as one of the important factors in the energy market, the public has pressured for usage of decentralized energy. Also after representing the 2nd Basic Plan of electricity demand and supply, there have been conversations about using the CHP and decentralized energy. Usage of a decentralized energy would also reduce bottlenecks of the transmission. Finally, Community Energy Service (CES) has been seen as a catalyst for investments of a decentralized energy. There are some barriers that affect Korea's energy markets; Korea's state monopoly is resisting the use of a decentralized energy and there is not much knowledge about the target achieving. Also current investment of a power sector is focused on the high-voltage transmission lines, and large remote nuclear plants. (WADE 2006: 21.) Environmental limits are very strict, which must be followed in the energy market of Korea. One reason is that the carbon dioxide (CO₂) emission in Korea has been extremely high and increasing, mostly because of country's energy markets.

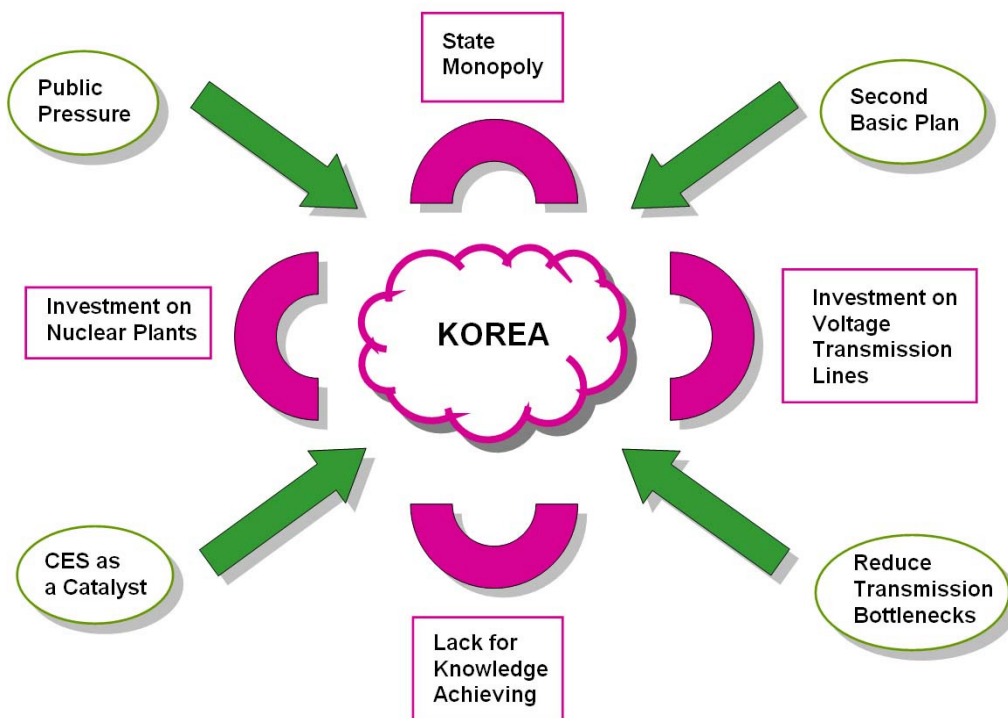


Figure 10. The Key Drivers and Barriers of Decentralized Energy in Korea (WADE 2006: 21).

7.4. Psychic and Cultural Distances of South Korea

Psychic distance between Finland and South Korea was found to be great in this study. Nevertheless, the psychic distance might decrease when individual's experience and knowledge increase. Most important cultural factors in Korea affecting relationships and communications are collectivism, hierarchy, indirect expressions and formality. Koreans have strong 'we-orientation' and the sense of interdependence. They also have conversational routines and kinship terms between non-siblings. Hierarchical order is inheritance from Confucianism and is influenced by age, and is displayed in nonverbal behaviour. Koreans are humble and tend to underestimate their own achievements. Also Koreans formality is shown in the way of addressing different terms. (Korhonen 2006.)

An interview with Ari Rossi (see Appendix 6.) the Information Manager of Wärtsilä revealed the importance of an individual's own activity on information collect. Rossi lived in Korea between 1994 and 1997 and helped with the build of a local service unit for Wärtsilä. (Rossi 2006.) Some specific cultural characteristics were seen in the country and the people. For example the admiration for Western countries existed and people approached easily Western people. Koreans valued for success and emphasized of success and status. Hierarchical order existed in Korea; people were carefully estimated by work titles, family ties, education, children, and by pay checks. Sons were important for family, partly because they were seen as the security for seniority. Rossi experienced that Korea has some similarities and differences with Finland. Former characteristics were that Koreans were loyal and conscientious, and latter characteristics indicate the politeness and the meaning for protection of a face. Especially strong protection was seen among the work community, colleagues, and superiors. Employees supported their work community in a conflict situation. Also the difficult to refuse or say 'No' was characteristic for Koreans. (Rossi 2006.)

An individual's experience of the Korean culture can be evaluated with the earlier researches. If the results from interview are compared with the Hofstede's four cultural dimensions (see Appendix 3.), it can be seen that Korea's individual index is very small (index 18). The interview showed also that Koreans prefer to work in a group and is

therefore a collectivist country. Korea's index in Hofstede's power distance was quite high (index 60), which can also be found in the interview; Koreans have clear hierarchical system and have desire for status consistency in the society. Korea's uncertainty avoidance index was also high (index 85). Countries with high uncertainty avoidance tend to have precise laws, and from earlier results it could be seen, that this is the case with Korea. Hofstede also defines that people in uncertainty avoidance cultures tend to think that differences are dangerous. However individuals in Korea were very keen of Western people and had no tension between them, according to the interview with Rossi. Korea can also be seen as a feminine country because its masculinity index was quite low (index 39), based on the study of Hofstede. In the feminine culture people are supposed to be modest and the relationships are important. (Hofstede 1991: 96.) Relationship was an important feature in Korea's culture, and therefore country might be more feminine than masculine country. (Rossi 2006.)

According to the business distance study, Korea is culturally average distant to Finland (see Appendix 2.), therefore Finnish companies would not enter Korea at the early stage of internationalization. Wärtsilä provides different example on this because it entered Korea in 1986, which is ten years earlier than its entry to Estonia. Estonia is culturally a close country to Finland, according to most of the studies in this research.

A survey for psychic distance (see Table 5. page 62) showed that Korea is a distant country. This can indicate that Finns do not have so much of knowledge on Korea because psychic distance usually decreases when information and experience increase. Most likely there must be several contacts with Koreans to decrease the Finns' psychic distance because opinions and characteristics can be difficult to receive in the beginning of the communication with Koreans. (Rossi 2006.)

8. SUMMARY AND CONCLUSIONS

Summary of the Main Findings

The aim for this study was to find out how the distances between countries affect international marketing. Theoretical framework based on the psychic distance theory of Nordström (1991), business distance theory by Luostarinen (1989) and on the cultural distance theories of Hofstede (1991), and Kogut and Singh (1988). The framework of this study included the marketing intelligence of Dibb and Simkin (2004) and different factors that affect the entry mode. Dibb and Simkin point out that before the creation of a marketing strategy, it is important to understand markets and create analysis for them. A case market of the study was South Korea, which was presented in the empirical part of the study.

This paper introduced also a desk study for the different results from distance theories. A long cultural distance can be seen as the difficulty of obtaining, identifying, transmitting and recognizing international business impulses between countries (Luostarinen 1989: 132). This study can not draw any conclusion, which countries are culturally remote to Finland due to the variation of the results. If the results of an individual country are based on the analysis of wider region the outcome will be unreliable because of the variation. It is better to focus the analysis only on the country in question. The comparison between cultural distance results is difficult mainly because Luostarinen, Hofstede, and Kogut and Singh used different methodology and had different aspect on the culture distance. The study of the business distance (see Appendix 2.) shows that Iran and Brazil are culturally distant to Finland, whereas Hofstede (see Appendix 3.) found that Russia, Poland, Japan, China, and India are culturally difficult to enter. The cultural distance study using a mathematical formula (see page 59) reveals that culturally closest countries to Finland are Estonia, Norway, Netherlands, Canada, Sweden, and Iran. Culturally distant countries to Finland are China, Japan, Russia, South Korea, and Poland according to the same method (see Table 4. page 60). The results from this cultural distance study should be used with caution because they were proven to be unreliable.

This study also investigated how Finnish managers experience the psychic distances between Finland and 24 countries. A method by Nordström was used and the results were compared with an earlier study of Siirala (1993). The questionnaire of the psychic distance was sent to 270 people and from those thirty percent replied. The results for the questionnaire (see Table 6. page 63) show that Finnish managers consider Sweden, Norway and Estonia as the psychically closest countries to Finland; whereas India, South Korea and Iran are felt as the most distant countries. Nordström and Vahlne (1994: 42) describe psychic distance as a factor that prevents or disturbs the learning and understanding of a foreign environment. Bradley and Sousa (2006: 51) investigated psychic distance as an individual's experience in the difference between the home and foreign country. Therefore results from the survey mean that Finnish managers do not have much knowledge and understanding on the environments of India, South Korea, and Iran. Instead they have individually felt to have knowledge and understanding on Sweden, Norway and Estonia. It has been shown that increase of knowledge might decrease some factors of the uncertainty and therefore these psychically close countries might not be felt risky to enter.

As a summary of the different study variation; analyzed cultural and psychic distances are shown in Table 9. between Finland and five countries. Germany is culturally and psychically close to Finland in most of the studies, with exception on Hofstede's masculinity rate. Values of Iran indicate the long distance between Finland in all studies except on the cultural distance study, and on the Hofstede's uncertainty avoidance rate. Japan is a country that has quite unanimous results, showing it is culturally and psychically distant to Finland. Results from business distance in 1989 show Russia as culturally close to Finland, but all other researches indicate a long distance between Finland and Russia. South Korea is a distant country and for example the cultural distance study indicates that Korea is fourth distant country to Finland. Hofstede's study is only one that shows some closeness between Finland and Korea; Korea's masculinity rate is rather close to Finland, which indicates that both countries are more feminine countries.

Table 9. Comparison of the different studies in five countries. *) indicate that a country was not part of the study.

STUDY (Rate variation)	GERMANY	IRAN	JAPAN	RUSSIA	SOUTH KOREA
Business distance 1989 (1 – 5)	2	4	3	2	*)
Business distance 2007 (1 – 5)	3	5	3	4	3
Hofstede PDI (Fin 33)	35	58	54	93	60
Hofstede IDV (Fin 63)	67	41	46	39	18
Hofstede MAS (Fin 26)	66	43	95	36	39
Hofstede UAI (Fin 59)	65	59	92	95	85
Cultural distance 2007 (0 –)	3,95	3,79	15,99	14,73	9,94
Psychic distance 1993 (0 – 100)	11,2	89,5	57,3	*)	*)
Psychic distance 2007(0 – 100)	20,3	87,3	64,9	43,9	72,6

This study also discussed how distances between countries affect international marketing, especially the entry modes of a company. According to Luostarinen (1989: 165), Finnish companies entering Germany or Sweden would use direct investment marketing operations, and companies that enter Russia would normally use non-investment production operations. Earlier operation mode includes sales promotion, warehouse-, service-, and sales unit, whereas the latter includes licensing, contract manufacturing, turnkey, and co-production. Based on the results of cultural distance study, Finnish companies are more likely to use a joint venture as an entry mode to China, Japan, Russia, South Korea, and Poland.

This study compared different distance results with a case study that concentrated on the market of South Korea. The case study shows that in the Wärtsilä Power Plants' market situation, the use of agencies is common in the culturally and psychically distant countries. Later the operation mode is changed to own entity or office, which can be explained with the increase of knowledge and understanding of the target market.

Luostarinen described that business distance either favours or disfavours an entry to a specific target market (Luostarinen 1989: 137). As seen from the example of Wärtsilä Power Plants there are many other factors influencing the market entry, which Luostarinen did not include in his research. The result of a business distances could improve the understanding for the market differences, but it does not directly mean that other markets would be easier to operate or enter.

Conclusions

The results of this study suggest that the effect of different distances vary in international marketing. The distances are only part of the factors affecting the entry mode decision of a company. Although business distance would be long between the home and target country, it might offer great business opportunities for a company. The case study observed that Wärtsilä Power Plants entered South Korea earlier than other closer countries. Furthermore this study points out that the use of different cultural theories and results should be given a careful consideration. Also it is important to understand aspects and methods that are behind these theories.

The results of the cultural distance comparison can be used as an information source. They bring the varied study results into attention; therefore the criticisms about investigated theories and methods can be found from this study before they are used in a research. It is necessary to investigate existing methods in order to create new ones. Whether markets are analyzed in a global dimension or only specific areas are included for analysis, a researcher has to decide whether to use existing method in analysis even though they would be obsolete.

The meaning of a psychic distance is important to understand because it influences person's decisions and actions. When a distance is perceived short, more understanding for countries exist and most likely the influence of the decisions and actions are better known. Although many different methods and values are calculated for the distances they do not fully explain the perceived distance of an individual or the decisions based on it. Rating the countries by cultural and psychic distances can be questioned because

the investigated studies give variable results. A country has own specific culture and environment despite it would have some similar characteristics with other countries. The different measured values of the cultural and psychic distances do not necessary indicate what operation mode would be the best. They rather show the attitude and the concept of globalization on individuals.

The case of South Korea proves the importance of a deeper analysis on different markets and environments. It was essential to analyze the operations of Wärtsilä Power Plants in Korea in order to find the organizational capabilities and industry. These affect the decision making of a company's entry and operation modes in a foreign country. Wärtsilä is an example of a heavy manufacturing company entering more distant markets. Other country examples in this study show that the common history between countries plays important role for a company's operations.

Suggestions for Future Research

The results of the psychic distance were compared with the earlier study of Siirala, and thus it is recommended to carry out a similar study later in the future. It would show the change in attitudes and understandings of Finnish managers over time. Furthermore it is suggested to create a study of the psychic distance using a qualitative method, which would differ from this and Siirala's psychic distance study. The different researches of cultural distances could be used as preliminary studies if there is a possibility to investigate a new method for culture analysis and for environmental affects on entry and operation modes. Also a business distance study would be important to create as a comparison for the results in this and Luostarinen's study.

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Appendix 1.

Independent Variable No.	Description
--------------------------	-------------

PHYSICAL VARIABLE	
--------------------------	--

- | | |
|----|---|
| 1. | Distance in kilometers from Helsinki to the capital city of the target country (Thorsen 2006) |
|----|---|

CULTURAL VARIABLES	
---------------------------	--

- | | |
|----|--|
| 2. | Newsprint consumption in kilos (UNESCO 2006) |
| 3. | Number of telephones (Infoplease 2003) |
| 4. | Steel consumption in kilos (CIA 2006) |
| 5. | Industrial activity as percentage of gross domestic product (CIA 2006) |
| 6. | Main language (Kielestä kiinni 2000) |
| 7. | Enrolment ratios for the third level of education (UNESCO 2006) |

ECONOMICAL VARIABLES	
-----------------------------	--

- | | |
|-----|---|
| 8. | Gross national product at market prices, US\$ billion (GNP 2005) |
| 9. | Gross national product at market prices, per capita, US\$ (GNP p.capita 2005) |
| 10. | Population size (CIA 2006) |

Appendix 2.

The Distribution of Countries into Different Distance Clusters. Comparison is done between years 1977 and 2005.

		1976 – 1977				2004 – 2005				
		Physical	Cultural	Economic	Business	Physical	Cultural	Economic	Business	
1	Australia	5	1	D+	2	Australia	5	2	C+	3
2	Brazil	5	4	D+	4	Brazil	5	5	VD+	5
3	Canada	4	2	D+	2	Canada	4	3	D+	3
4	Denmark	1	1	C	1	Denmark	1	2	C+	2
5	France	2	1	VD+	1	France	2	3	VD+	3
6	Germany	2	2	VD+	1	Germany	2	3	VD+	2
7	Iceland	3	3	VD-	3	Iceland	3	3	D-	2
8	Iran	3	4	C	4	Iran	3	5	D+	4
9	Italy	3	2	D+	1	Italy	3	3	D+	2
10	Japan	4	3	VD+	2	Japan	4	3	VD+	2
11	Netherlands	2	3	D+	1	Netherlands	2	3	D+	1
12	Norway	1	1	C	1	Norway	1	3	D+	2
13	Poland	1	3	D+	3	Poland	1	4	D+	3
14	Russia	1	2	VD+	1	Russia	1	4	VD+	3
15	Spain	3	2	D+	1	Spain	3	3	D+	2
16	Sweden	1	1	D+	1	Sweden	1	2	D+	2
17	Turkey	3	4	D-	4	Turkey	3	4	D+	3
18	United Kingdom	2	1	D+	1	United Kingdom	2	2	VD+	3
19	USA	4	2	VD+	2	USA	4	2	VD+	2
20						China*	4	5	VD+	4
21						Estonia*	1	4	D-	3
22						India *	4	5	VD+	5
23						South-Africa*	5	4	D+	4
24						South Korea *	4	3	VD+	2

Appendix 3.

Hofstede's score rank on four cultural distance factors (Hofstede 1991: 26, 53, 84, 113).
country values marked with * are from second edition (Hofstede 2005: 56, 91, 134, 183).

Country	PDI	Country	IDV	Country	MAS	Country	UAI
Denmark	18	South Korea	18	Sweden	5	Denmark	23
Norway	31	China*	20	Norway	8	Sweden	29
Sweden	31	Turkey	37	Netherlands	14	China*	30
Germany	35	Brazil	38	Denmark	16	United Kingdom	35
United Kingdom	35	Russia*	39	Estonia*	30	India*	40
Australia	36	Iran	41	Russia*	36	USA	46
Netherlands	38	Japan	46	South Korea	39	Canada	48
Canada	39	India	48	Spain	42	South-Africa	49
Estonia*	40	Spain	51	France	43	Norway	50
USA	40	Estonia*	60	Iran	43	Australia	51
South-Africa	49	Poland*	60	Turkey	45	Netherlands	53
Italy	50	South-Africa	65	Brazil	49	Iran	59
Japan	54	Germany	67	Canada	52	Estonia*	60
Spain	57	Norway	69	India	56	Germany	65
Iran	58	France	71	Australia	61	Italy	75
South Korea	60	Sweden	71	USA	62	Brazil	76
Turkey	66	Denmark	74	South-Africa	63	South Korea	85
France	68	Italy	76	Poland*	64	Turkey	85
Poland*	68	Canada	80	China*	66	France	86
Brazil	69	Netherlands	80	Germany	66	Spain	86
India	77	United Kingdom	89	United Kingdom	66	Japan	92
China*	80	Australia	90	Italy	70	Poland*	93
Russia*	93	USA	91	Japan	95	Russia*	95
Finland	33	Finland	63	Finland	26	Finland	59

Appendix 4.

Tervetuloa vastaamaan kyselyyn, joka koskee Suomen ja muiden maiden välistä psyykkistä etäisyyttä.

TEIDÄN TAUSTATIEDONNE

1. Sukupuolenne

- Nainen
 Mies

2. Minkä ikäinen olette?

3. Mikä on äidinkielenne?

- Suomi
 Ruotsi
 Englanti
 Muu, mikä?

4. Onko jommankumman vanhempanne ÄIDINKIELI ERI kuin Teidän?

- Kyllä
 Ei

5. Minkä alan koulutus Teillä on?

- Kaupallisen alan
 Teknisen alan
 Humanistisen alan
 Muun alan koulutus, mikä?

6. Ammattiryhmä, johon kuulutte?

Muu, mikä?

YRITYKSEN TAUSTATIEDOT

7. Mikä on yrityksenne nimi?

8. Mikä on yrityksenne toimiala?

- Teollisuus
 Rakentaminen
 Palvelut
 Kauppa, kansainvälinen kauppa
 Muu, mikä?

9. Mitkä ovat yrityksenne pääasialliset kohdemarkkina-alueet? (Valitkaa korkeintaan kolme maata)

- Suomi
 Saksa
 Venäjä
 Ruotsi
 Iso-Britannia
 Yhdysvallat
 Hollanti
 Kiina
 Ranska
 Italia
 Viro

Muu, mikä?

Muu, mikä?

10. Monessako maassa yrityksellänne on tytäryhtiöitä?

Appendix 4.

11. Kuinka monta prosenttia yrityksenne liikevaihdosta tulee ulkomaan kaupasta?

OMA KANSAINVÄLINEN KOKEMUKSENNE

12. Kuinka monessa maassa olette asuneet yhtäjaksoisesti yli 6 kuukautta Suomen lisäksi?

- 1 maassa
 2-3 maassa
 Yli 4 maassa
 En ole asunut ulkomailla

13. Kuinka monta päivää vuodesta olette TYÖTEHTÄVISSÄ ulkomailla?

noin päivää

14. Kuinka monta päivää vuodesta vietätte VAPAA-AIKAANNE ulkomailla?

noin päivää

15. Kuinka usein pidätte yhteyttä ulkomaille työtehtävissänne?

(Vastatkaa asteikolla 5=Päivittäin, 4=Muuataman kerran viikossa, 3=Muuataman kerran kuukaudessa, 2=Harvemmin, 1=En ollenkaan)

Yhteydet	5	4	3	2	1
Kirjeitse	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sähköpostitse	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Puhelimitse	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Henkilökohtaisilla tapaamisilla	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Muu, mikä?	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. Mikä on kielitaitonne?

(Vastatkaa asteikolla 5=Erinomainen, 4=Hyvä, 3=Kohtalainen, 2=Alkeet, 1=Ei ole osaamista)

16-a. Suullinen osaaminen:

Kieli	5	4	3	2	1
Suomi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ruotsi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Englanti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ranska	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Saksa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Venäjä	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kiina	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Espanja	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Muu, mikä?	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Muu, mikä?	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16-b. Kirjallinen osaaminen:

(Vastatkaa asteikolla 5=Erinomainen, 4=Hyvä, 3=Kohtalainen, 2=Alkeet, 1=Ei ole osaamista)

Kieli	5	4	3	2	1
Suomi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ruotsi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Englanti	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ranska	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Saksa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Venäjä	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kiina	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Espanja	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Muu, mikä?	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Muu, mikä?	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix 4.

17. Valittava seuraavista kulttuuria kuvaavista tekijöistä KOLME tärkeintä tekijää, jotka mielestänne vaikuttavat eniten kanssakäymiseen vieraan kulttuurin edustajan kanssa.

Tärkein kulttuurinen tekijä kanssakäymisessä
 Muu, mikä?

Toiseksi tärkein kulttuurinen tekijä kanssakäymisessä
 Muu, mikä?

Kolmanneksi tärkein kulttuurinen tekijä kanssakäymisessä
 Muu, mikä?

18. Psykkinen etäisyys 24 eri maalle.

Psykkinen etäisyys tarkoittaa henkilökohtaista näkemystä siitä, kuinka vieraaksi hän kokee toisen maan, kokemuksiensa ja näkemyksiensä pohjalta. Se arvioidaan asteikolla 0 - 100.

Alla on lueteltuna 24 maata. Tarkoituksena on mitata kokemaanne henkilökohtaista etäisyyttä kuhunkin maahan.

Merkittää arvolla 0 se maa, joka mielestänne on psykkinisesti LÄHEISIN Suomelle. Seuraavaksi merkitään arvolla 100 se maa, joka mielestänne psykkinisesti ETÄISIN Suomelle.

Täyttää loput maat luvuilla 0 ja 100 välillä riippuen siitä, kuinka läheiseksi koette maat Suomelle. Numerot on täytettävä siten, että SAMAA LUKUA EI saa käyttää KAHTEN KERTAAN, mutta antakaa arvo jokaiselle maalle. Arvot saavat olla mitä vain nollan ja sadan välillä.

Voitte katsoa esimerkin maiden etäisyyksien täyttämistä. Klikkaa ja katso oheista esimerkkiä "ESIMERKKI"

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Australia	Brasilia	Espanja	Etelä-Afrikka
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Etelä-Korea	Hollanti	Intia	Iran
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Islanti	Iso-Britannia	Italia	Japani
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Kanada	Kiina	Norja	Puola
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Ranska	Ruotsi	Saksa	Tanska
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Turkki	Venäjä	Viro	Yhdysvallat

Kiitokset vastauksestanne!

Jos Teillä heräsi joitakin kysymyksiä tutkimuksesta, voitte ottaa yhteyttä: minttu.koskinen@uwasa.fi.

Voitte myös antaa palautetta tutkimuksesta avoimena ja halutessanne nimettömänä.

Palaute alla olevaan laatikkoon:

LÄHETÄ

TYHJENÄ

Appendix 5.

Good day,

I am studying international marketing in the University of Vaasa and I am doing my Master's of Thesis about operation methods in culturally distant and close countries. I was given permission to use Wärtsilä as a case company in my Thesis.

I contacted you, because you have been marked as a regional director of (COUNTRY). I hope you are able and have time to answer following three questions:

- How long has Wärtsilä Power Plants operated in (COUNTRY)?
- What was the first operation method which Wärtsilä used in (COUNTRY) (use of agent, joint venture with another company, acquisition, export etc.)?
- What is Wärtsilä's operation method nowadays in (COUNTRY)?

I hope you are able to send me answer as soon as possible. If you are not aware of all of the questions, you may send only the answers for the questions you are able to answer.

Best Regards,

Minttu Koskinen

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Appendix 6.

Henkilötiedot

1. Ammattikuvanne
2. Onko nykyisessä tai aikaisemmassa ammatissanne ollut kansainvälistä toimintaa
3. Kuinka laaja kansainvälinen kokemus teillä on (kuinka monta vuotta olette mukana kansainvälisessä toiminnassa)
4. Minkälaisia kansainvälisiä kokemuksia Teillä on ollut työnne tai vapaa-aikanne puitteissa? (Henkilökohtaisia tapaamisia, sähköposti yhteyksiä)
5. Olitteko olleet yhteydessä Koreaan ennen Wärtsilä Power-Plantsin siirtymistä sinne?
6. Minkälainen ensimmäinen kokemuksenne oli Koreasta
7. Kuinka hyvin saitte tietoa Koreasta etukäteen? Mistä?
8. Onko tiedon saanti helpottunut kun olette olleet enemmän maiden kanssa tekemisissä, mistä luulette sen johtuvan.
9. Kuinka henkilökohtaisesti koette Korean nykyään maana, kuinka etäisenä? Miksi? Mitä yhteistä ja eroavuutta maalla on Suomeen verrattuna?
10. Onko Koreassa jotain tiettyä piirrettä, asiaa, arvoa tms. joka on erityistä juuri korealaisille?
11. Kuinka paljon seuraatte Korean tapahtumia nykyään
12. Muita asioita jotka tulevat mieleen

Yritystiedot

13. Minkälainen oli Wärtsilä Power-Plantsin ensimmäinen yhteys Koreaan? Tuliko aloite Suomesta vai Koreasta?
14. Kuinka paljon Power-Plantsin, Marinen ja huollon välillä oli yhteistyötä Koreassa?
15. Milloin Wärtsilä Power-Plants aloitti toiminnan Koreassa?
16. Mitä operointimuotoa Wärtsilä Power-Plants käytti? (Suora vienti, agenttien käyttö, yhteistyöyritys, valloitus l. acquisition)
17. Kuinka kauan kului sujuvan yhteistyön luontiin Wärtsilän ja Korealaisen yhteistyöyrityksen/asiakkaan välillä? Oliko ongelmia hallituksen, säännösten, kilpailijoiden tms. kanssa?
18. Mitä operointimuotoa Wärtsilä Power-Plants käyttää nykyään Koreassa?
19. Kuinka epävarma ja vaikea Etelä-Korea on markkina-alueena (mikä maa on epävarmempi, tai varmempi)
20. Muita asioita jotka tulevat mieleen

1. Ari Rossi works for Information Management in Wärtsilä Corporation
2. In the present work Rossi do not have much international communication, but he has long work history with international experience.
3. He has had wide, twenty years international experience.
4. Rossi has travelled in South America, Arabian countries and in Asia during his international contacts. He left for South Korea as an expatriate in 1994 to build up a local service unit, and he felt that earlier international experience eased the adaptation in some level.
5. Rossi did not have any personal connection to Korea before he left there. Only earlier contact there was family friends who lived in South Korea two years in 1987 – 1989
6. As many expatriates, he had cultural shock at some point. There were some activities for wives which eased the cultural difference (Nordic and International associations). Some problems existed with language, but Rossi gained some help in different situations.
7. Rossi received information about country through guide books, friends, offices in Korea and from interviews with local Finnish families. Wärtsilä arranged him and his wife a trip before their move, so that they could create a view for country's situation.
8. Rossi told that international experience can be helpful with the necessary information collect from different cultures, because the threshold to gather the information might become lower.

Appendix 6.

9. Rossi experienced that Korea has some similarities and differences with Finland. Factors to previous are that people are loyal and conscientious, and factors to latter are the politeness, protection for face and respect for the seniority. Especially strong protection was among the work community, the colleagues, and superiors. Korean supported their work community in a conflict situation. There could be seen some admiration for Western countries, people tend to approach Western people, but invitation to home was not done as easily. Speciality in Korean was that success and emphasizing success was important. E.g. youngsters might buy an expensive car instead investing to home. Status was important. Also the title was noticed and carefully estimated. Everyone's education, family ties, children (especially boys), and pay check were noticed. Wives took care for the family funds. They made investments and men did not have that much knowledge of it. Sons were seen as seniority security. One specific factor in Korean people is the company loyalty. E.g. Shipyards and car manufacture company's employees do not use other brands and it's their duty to be a 'broker' to their family and relatives. One cannot even get to dockyard with another brand car.
10. Rossi follows situations in Korea generally and has planned to travel there sometimes during his vacations. If he would go there again, he should be able to avoid the mines.
11. Rossi told that it was difficult to receive different opinions from Koreans at the beginning, but after time he learned to find it out by detour and learned to "read" the issues in communication.
12. Business introduction came from Finland and there was some straight sale. Through Wärtsilä's own products it became joint venture and licence agreements. Changing all the time. Korea is protected ground and government is careful on the companies entering there. First in 1990 it was feasible to establish an office to Korea. Licensees and agents did not have so big risk.
13. At first marine and power plants operated separately in Korea, but service acted as uniting factor for these two businesses. There were new employees hired to Wärtsilä. Power plant personnel were located Seoul office while Marine and Service office was located in Pusan. Nowadays the Seoul unit is closed.
14. Look at the notes
15. Look at the notes
16. Employees were good and loyal, and co-operation went well. They had a warm atmosphere and they seemed to enjoy their work. Korean had their own special feature at work; they did not do the jobs as was told, but quickly organized and changed the given task. They planned tasks long before started to work with it. But when their own negotiations were over, they were quick in their work, because everyone knew exactly what to do.
17. Look at the notes
18. There are some restlessness in Korea - threat for war, because North and South Korea has only armistice. Rossi had to have two different passports because he would be thought as security risk for nuclear power plants if he had passport stamp from North Korea.
When power plant was sold to North Korea, Wärtsilä had to get service people from China not from South Korea. Wärtsilä entered Korea quite well, with its good products, good customer care, relationships (correct title, so that you could negotiate with right person), reputation. There were risks during the economical crash, many companies went to bankruptcies.

Wärtsilä Marine is much powerful in Korea than Power Plants. Korea's huge dockyard offers great market for business. In 2004 Korea became world's largest shipbuilding nation

Appendix 7.

LNG Terminals and Trunkline Network (IEA 2002: 97).

