

**THE EFFECT OF NETWORKS TO ENTRY MODE
CHOICE AND THE MODERATING ROLE OF
INSTITUTIONS - FINNISH SMES ENTERING LATIN
AMERICA**

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ABSTRACT

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<p>Globalization has increased companies' focus on international and even distant markets, with technological solutions as the fueling force. As small and medium-sized enterprises (SMEs) are vital for societies, their internationalization is an interesting research topic. Entry mode decision is considered one of the key decisions SMEs make when entering new markets. Further, the role of networks and host country institutions in the decision-making process of SMEs is still up for debate and more qualitative research on the topic is needed. This research aimed to discover how SMEs' networks influenced their entry mode decisions when entering distant markets that have varied institutional settings.</p> <p>The distant market in this research is Latin America, a big emerging market that is only beginning to be targeted by Finnish SMEs. The research used a multiple case study method by interviewing six sales managers or entrepreneurs from Finnish SMEs about their internationalization to Latin American markets. The formal and informal institutions of the target markets were investigated with three independent tools. The results were analyzed by using thematic analysis, with applying ATLAS.ti -program for data coding. The relationship between networks and entry mode choice was studied, considering the host market formal and informal institutions.</p> <p>The results revealed companies using mostly formal networks decided to use direct export via host country intermediaries to access local resources. When the companies were able to use informal networks as well, they could choose direct export via company owned channels. Entrepreneur's informal networks allowed the company to choose greenfield investment as the company had more knowledge about the target market. Institutions had a moderating effect on the relationship between networks and entry mode choice. Less developed formal institutions led to decreased trust in formal networks and direct entry mode. Additionally, the challenges created by informal institutions were combatted with forming deeper and more personal networks.</p>	
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TIIVISTELMÄ

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<p>Globalisaatio on kasvattanut yritysten kiinnostusta kansainvälistymiseen, jopa kaukaisille kohdemarkkinoille, teknologisten ratkaisujen siivittämänä. Koska pienet ja keskisuurat yritykset (pk-yritykset) ovat elintärkeitä yhteiskunnille, niiden kansainvälistyminen on mielenkiintoinen tutkimuskohde. Markkina-avausstrategian valintaa pidetään yhtenä pk-yritysten tärkeimpinä päätöksinä uusille markkinoille laajentuessa. Verkostojen ja kohdemaan instituutioiden rooli pk-yritysten päätöksentekoprosessissa on edelleen epäselvä ja lisää kvalitatiivisia tutkimuksia aiheesta tarvitaan. Tämän tutkimuksen tavoite on selvittää miten pk-yritysten verkostot vaikuttavat markkina-avausstrategiaan niiden laajentuessa kaukaisille markkinoille, joissa on vaihtelevat instituutiot.</p> <p>Tähän tutkimukseen valittu kaukainen markkina on Latinalainen Amerikka, suuri kehittyvä markkina, joka on vasta alkanut olla suomalaisten pk-yritysten kohteena. Tutkimuksessa käytettiin monitapaustutkimusta haastattelemalla kuuden suomalaisen pk-yrityksen myyntipäällikköä tai yrittäjää kansainvälistymisestä Latinalaiseen Amerikkaan. Kohdemarkkinoiden virallisia ja epävirallisia instituutioita tutkittiin kolmen itsenäisen työkalun avulla. Tulokset analysoitiin temaattisella analyysillä, käyttäen ATLAS.ti -ohjelmaa tietojen käsittelyyn. Verkostojen ja markkina-avausstrategian välistä suhdetta tutkittiin, huomioiden kohdemarkkinan viralliset ja epäviralliset instituutiot.</p> <p>Tulokset toivat ilmi, että yritykset, jotka käyttivät enimmäkseen virallisia verkostoja, päättivät käyttää suoraa vientiä kohdemaan välikäsien kautta, hyödyntääkseen paikallisia resursseja. Kun yritykset voivat käyttää myös epävirallisia verkostoja, ne pystyivät valitsemaan suoran viennin yrityksen omien kanavien kautta. Yrittäjän epäviralliset verkostot mahdollistivat yritykselle ulkomaisen investoinnin uuteen toimintaan, kun kohdemarkkinasta oli enemmän tietoa. Instituutioilla oli hillitsevä vaikutus verkostojen ja markkina-avausstrategian väliseen suhteeseen. Kehittymättömät viralliset instituutiot vähensivät virallisiin verkostoihin ja suoraan vientiin luottamista. Epävirallisten instituutioiden aiheuttamia haasteita kompensoitiin luomalla syvempiä ja henkilökohtaisempia verkostoja.</p>	
Asiasanat Verkosto, instituutio, Latinalainen Amerikka, pk-yritys, kansainvälistyminen, markkina-avausstrategia	
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CONTENTS

LIST OF TABLES AND FIGURES	6
1 INTRODUCTION	7
2 THEORETICAL FRAMEWORK	10
2.1 Entry modes.....	10
2.2 Networks.....	12
2.3 Formal and informal institutions.....	14
3 METHODOLOGY	17
3.1 Multiple case study.....	17
3.2 Case selection	18
3.3 Data collection.....	20
3.4 Data analysis.....	21
4 RESULTS	24
4.1 Overview.....	24
4.2 Formal networks	25
4.2.1 Customers	25
4.2.2 Government agencies.....	27
4.2.3 Sales agents and distributors	28
4.3 Informal networks	30
4.3.1 Family networks	30
4.3.2 Friend networks.....	31
4.4 Formal institutions.....	32
4.4.1 Index of Economic Freedom	32
4.4.2 Laws and rules	34
4.5 Informal institutions.....	36
4.5.1 Culture.....	36
4.5.2 Corruption	40
5 DISCUSSION	44
5.1 Theoretical contributions	45
5.2 Managerial implications	46
5.3 Limitations and future research directions	47
6 CONCLUSION.....	50
REFERENCES.....	51
APPENDIX 1 Interview questions.....	57

LIST OF TABLES AND FIGURES

Figure 1 Theoretical model.....	16
Figure 2 Theoretical model.....	24
Figure 3 Nordic countries Economic Freedom Index.....	33
Figure 4 Latin American countries Economic Freedom Index	33
Figure 5 Country Comparison Tool 2020.....	37
Figure 6 Country Comparison Tool 2020.....	37
Figure 7 Country Comparison Tool 2020.....	38
Figure 8 Corruption Perceptions Index.....	41
Table 1 Case companies	19
Table 2 Entered companies and population of Latin America	20
Table 3 Formal and informal networks of the companies	25

1 INTRODUCTION

In Finland, 99,8 percent of companies are small to medium-sized enterprises or SMEs (“Yrittäjyys Suomessa,” 2021). Thus, SMEs are an essential part of the economy and an important asset for building a successful future. As Finland is a small country with limited markets within its borders, there is a need for companies to internationalize. This puts the internationalization decisions of Finnish SMEs in the spotlight. For this reason, I have chosen SMEs as the object of this study.

Internationalization theories have a long past, dating back to the 1950s and 1960s. First, the theories focused only on multinational enterprises (MNEs). (Matlay, Ruzzier, Hisrich, & Antoncic, 2006) Yet, it has been noted that small and mid-size enterprises (SMEs) differ from MNEs and thus the theories used for MNEs might not apply to SMEs. Unique challenges that SMEs face include small resources (Tang, Tang, & Cowden, 2017), a low level of legitimacy (Chen & Hambrick, 1995), and a lack of international experience (Galkina & Chetty, 2015).

The target market in this research is Latin America. Latin America is an area of 20 countries, that is spread through Central, North, and South America. It is an emerging market, which is one of the reasons why there has not been a lot of research about companies entering the area. Especially with the Mercosur trade agreement between the EU and four Latin American countries, the interest in the area has been on the rise (Kalajoki & Nuotio, 2019). Finnish SMEs had business in 2019 mostly in Europe, Russia, the USA, and China. Of all Finnish SMEs, 24 %, meaning 68 000 companies, did some type of business abroad in 2019. Yet only 6 % of these companies had business in the Americas when excluding the USA and Canada. To compare, 64 % of companies had business in the Nordic countries, 23 % in Russia, and 20 % in the USA (Kuismanen, Malinen, & Seppänen, 2019). Because Latin America is both physically and psychically distant market from Finland, it is not completely surprising that Finnish SMEs have not found Latin America. Yet, there is great business potential in the area and it is considered friendly for businesses (“Latinalainen Amerikka pysyy kiinnostavana suomalaisille tuotteille ja ratkaisuille,” 2020).

The Uppsala theory of internationalization explains that companies first choose countries that are nearby at the start of their internationalization. Later on, they expand to more distant countries gradually. The entry mode choices of the companies are based on the uncertainty level of the country targeted (Johanson & Vahlne, 2009). Nowadays, distant markets are more reachable than ever due to technological advancements. This makes us look at the decisions related to distant market entries more closely and ponder whether they follow traditional internationalization paths (Philippe & Léo, 2011). Furthermore, the emergence of born-globals, companies that begin internationalizing from the start of the company, and even to distant markets, have challenged the internationalization theories (Cavusgil & Knight, 2015).

Many studies have validated that networks are a vital part of entry mode choice when entering nearby markets (Bell, 1995; Coviello & Munro, 1995, 1997; Galkina & Chetty, 2015). Yet when it comes to distant markets, the conclusions are more varied. Some studies highlight networks as an influencing element in distant market entry mode choice as well (Moen, Gavlen, & Endresen, 2004). On the contrary, strategic reasons like market size and suitable industry structure have been found to influence the companies' decision-making instead (Ojala, 2008). As most of the studies focus on MNEs, there is a lack of knowledge about SMEs' entry mode decision-making. Especially understanding about SME entry mode decision relating to institutionally distant markets is missing (Laufs & Schwens, 2014).

Host country's formal institutions, meaning laws and regulations, as well as informal institutions, like culture and corruption, influence the internationalization decisions of companies. The effects can be negative by creating barriers for entry, or positive by developing the companies capabilities and knowledge about markets (Kaufmann, Hooghiemstra, & Feeney, 2018). There is a correlation between networking and institutions, as both are constructed and upheld by people.

As networking is a complicated and dynamic concept, qualitative research with either one or more case companies has been suggested as a fitting research setting for further studies. When examining processes, the "how" questions are more suitable for discoveries than "what" questions (Galkina & Chetty, 2015). This is why I have chosen a multiple case method for the study so that new and interesting themes might occur from the data.

For these reasons, the research question for this research is:

How do SMEs' networks influence their entry mode decision when entering a distant market with varied institutional settings?

In this research, I used data from transcribed interviews of entrepreneurs or sales managers from six different companies. The data was supplement by company-related documents like annual reports, news articles, and financial statements. Furthermore, I used three different tools to understand the Latin American countries' formal and informal institutions. I used thematic analysis to inspect how companies used their formal and informal networks in the internationalization process to Latin America.

When the companies had strong informal networks, direct entry mode via company owned channels was an option. Yet, if the companies did not have enough informal networks, they resulted in using formal networks and thus choosing to use only direct entry mode via host country intermediaries like sales agents and suppliers. In the case where the entrepreneur had strong informal networks, the company chose to use greenfield investment. In the analysis, formal and informal institutions emerged as important moderating effects influencing the networking behavior of the companies. The Latin American countries

have very different institutions and relation to them than Finland. Because of bureaucracy, culture, and corruption, all the case companies had to use local sales agents or distributors, even if the sales manager or entrepreneur was familiar with the target market.

At the end of this paper, my main findings are reviewed. I discuss how the results relate to theory and point out future research avenues. I consider the limitations of my study and ways to better research. I give practical suggestions for managers and entrepreneurs and reflect on implications for the Finnish economy and society.

2 THEORETICAL FRAMEWORK

2.1 Entry modes

When a company starts their internationalization process to a target country, they need to choose an entry mode. An entry mode as a term has had a mostly consistent definition since the 1980s (Sharma & Erramilli, 2004). For this research, I will be using the definition of an entry mode by Sharma & Erramilli (2004, p. 2) as follows: “a structural arrangement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly-owned operations).”

The importance of choosing an entry mode has been highlighted as one of the main decisions affecting companies' success with internationalization (Laufs & Schwens, 2014; Pedersen, Petersen, & Benito, 2002; Philippe & Léo, 2011). Currently, entry modes in the context of SMEs have not been researched as widely as with MNEs (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017; Laufs & Schwens, 2014). The unique features of SMEs may offer both advantages and challenges in the internationalization process and consequently in choosing a suitable entry mode. The challenges of smallness are combined with the learning advantages of newness, which is one the biggest assets SMEs have. In the context of entry modes, the compensation of these two sides of SMEs has not been researched extensively (Laufs & Schwens, 2014).

Furthermore, SMEs are not a heterogeneous group and the choices they make may differ depending on the age of the firm, whether they are categorized as born global or not, or finally, based on the industry type they are in, for example, service compared to manufacturing. Additionally, the possibility of an entrepreneur's human capital affecting SMEs' entry mode decisions has not been established affirmatively (Laufs & Schwens, 2014). As this avenue of research is fairly new, there are still likely unrevealed factors remaining that impact SME entry mode consideration. In entry mode literature, the decision-making process has gotten little attention (Game & Apfelthaler, 2016).

Entry modes are usually divided into two groups: non-equity modes and equity modes of entry. Equity modes consist of joint ventures, greenfield investments, wholly-owned subsidiaries (WOS), meaning operations where substantial resources are invested in the internationalization process. The modes in the other grouping require less investment as non-equity modes comprise of exporting and contractual agreements, for example, licensing and franchising (Brouthers & Nakos, 2004; Pan & Tse, 2000; Schwens, Eiche, & Kabst, 2011). Another way to distinguish between entry modes is between indirect and direct modes, as is presented in the Uppsala theory. Indirect mode is export through

independent representatives, in which situation the company does not have any direct dealing with the target market, whereas direct modes include sales subsidiary, production, and manufacturing (Johanson & Wiedersheim - Paul, 1975). Even within entry modes, multiple ways of selling can be found. For example, direct exporting can be divided into direct entry mode via company owned channel and direct entry mode via host country intermediary (Yaşar, 2015). For the purpose of this research, I have decided to categorize the entry modes from both points of views: non-equity and equity-based modes as well as different exporting modes.

The question of how and why SMEs choose an entry mode is still up for debate. One way to look at the issue is the resource-based view. This theory supposes that companies have heterogeneous and immobile internal resources, such as assets, capabilities, and knowledge, which help them compete in the markets. These resources can be human, physical, or organizational in nature, not just financially measurable assets. The responsibility of the firm is to use these resources to their maximum potential and try to gain a competitive advantage. With the help of the resources, this can be achieved, no matter what kind the economic or market situation is (Barney, 1991). These assumptions are also a base for the business network view, as networks can be seen as resources (Johanson & Vahlne, 2009).

This theory was further developed by Sharma and Erramilli (2004) to create a resource-based explanation of entry mode choice. They propose that entry mode choices are affected by the company's existing resources. In their theoretical platform, they offer reasons why companies choose from seven different entry modes, the modes being indirect exporting, direct exporting via host country intermediaries, direct export via company owned channels, contractual modes (licensing, franchising), production joint venture, marketing joint venture and wholly-owned subsidiary. Two of the four explanatory factors the model introduces are linked with the location decision, namely the likelihood of establishing a competitive advantage in either production or marketing operation in a target market. The two other factors are connected to the ownership decision, that is the ability to transfer advantage generating resources in either production or marketing operations in a target market (Sharma & Erramilli, 2004, pp. 3-11).

In addition to the resource-based view, another way to examine entry mode choices is the transaction cost theory. Transaction costs come from when a company faces environmental and behavioral uncertainties, which force them to modify agreements (Rindfleisch & Heide, 1997). Relating to entry modes, when an area is considered to have high environmental uncertainty, SMEs prefer to choose non-equity entry modes. Consequently, when the environment is seen as having a low uncertainty level, equity modes of entry are more common. The country's uncertainty level consists of different factors like the political and social situation, as well as the risks created by the economic position (Brouthers & Nakos, 2004).

2.2 Networks

Companies do not operate alone in their environment and their decisions are not only based on strategic planning. Rather, they interact with various networks, establishing multiple relationships, both informal such as family and friends as well as formal business relationships with customers, sales agents, distributors, and other stakeholders. These networks affect the decisions that companies make, including the choice of which foreign market to enter and the type of entry mode used (Coviello & Munro, 1995, 1997). In this research I will be using the definition of a network as follows: “network of a firm consists of its set of direct, dyadic ties and the relationships between these ties, with the firm at the center of the network as the focal actor” (Hite & Hesterly, 2001, p. 277). Networks can offer new international opportunities which companies can utilize. These opportunities can explain the often seemingly chaotic and illogical decision-making of SMEs (Coviello & Munro, 1995, 1997).

The network theories date back to the 1970s and 1980s when multiple researchers started emphasizing the importance of networks (Johanson & Mattsson, 2015). The Uppsala theory, or stage model, supposes that companies learn first from home markets before moving onto international markets. The companies first choose markets that are close to them, either geographically or culturally before venturing onto more distant markets. When entering a market, the company first uses low commitment entry modes and through gathering knowledge about the market, moves onto high commitment entry modes. In the Uppsala theory, companies are a part of, and learn within networks, creating knowledge, trust, and commitment. They can use these new resources to advance internationalization by finding new opportunities and decreasing the uncertainty involved with them (Johanson & Vahlne, 1977, 2009). The revisited Uppsala theory, which evolved through 40 years, was developed into a dynamic model by adding capability-creating processes. The changes within companies and their networks are the sources of their capabilities. The importance of networks is emphasized both in the original and revisited model (Vahlne & Johanson, 2017). One of the most common criticisms for this model is that it is too deterministic (Bell, 1995). The Uppsala model is based on multinational enterprises, and therefore it has been challenged whether it is applicable for SMEs (Bell, 1995; Oviatt & McDougall, 1994).

Mattsson and Johanson (1988) introduced the network model of internationalization in which the inter-organizational relationships were emphasized as a crucial part of internationalization. As with the Uppsala model, firms were seen to grow organically and evolve gradually over time. Customers, distributors, suppliers, competitors, and government form the network from which the company can obtain resources needed for internationalization. With internationalization activities, relationships deepen and new ones are created (Mattsson & Johanson, 1988). Relationships that the SMEs create, help them

with their internationalization activities and reduce their liabilities. By increasing trust, sharing information, gaining knowledge, and committing further in the relationships the SMEs overcome the liability of outsidership (Nahapiet & Ghoshal, 1998). Certain elements are missing from the model, for example, taking into account the effect of the entrepreneur as a decision-maker, external uncontrollable variables, or the driving force of customer and government networks on internationalization (Chetty & Blankenburg Holm, 2000).

Networks can be measured in numbers, but just as important is how deep the relationship is. Embeddedness is the measurement of trust, reciprocity, and adaptations in an inter-organizational network relationship, and there has been evidence that it can improve companies' international performance. This leads to a necessity of looking at both the quantity as well as the quality of networks a company has (Ratajczak-Mrozek, 2017).

As SMEs have challenges because of their small resources and often lacking international experience, they can use networking capability as a way to compensate (Galkina & Chetty, 2015; Johanson & Vahlne, 2009). A study by Kenny and Fahy (2011) provided evidence that international performance is enhanced by network human capital resources in the context of high-tech SMEs. Additionally, Stoian, Rialp, and Dimitratos (2017) found that utilizing inter-organizational networks had a positive impact both on SME internationalization and knowledge about foreign markets. Furthermore, foreign market knowledge influences SMEs' innovative behavior positively and innovative behavior, in turn, affects international performance positively. The authors speculate this could be because SMEs keep an open mind about their operations, they can change entry modes when needed. Yet only the existence of inter-organizational networks is not enough to improve the international performance of SMEs, but they must also utilize relationships proactively. This is an important notion, as many SMEs might have access to networks but fail to capitalize on them (Stoian, Rialp, & Dimitratos, 2017).

Networking capability can enhance international opportunity exploitation of SMEs, which might lead to increased performance on the international markets. Even the entering into geographically distant markets, which might be psychically distant as well, can be more successful with the help of networking capabilities. Thus, networking with other SMEs and other useful actors both in the local and foreign markets is recommendable to SMEs (Karami & Tang, 2019). Interacting with partners who have local knowledge of the foreign markets has the possibility of increasing the firm performance (Lu & Beamish, 2001). Moreover, evaluating and actively developing the network strategies of the firm is advisable (Coviello & Munro, 1995, 1997). Yet, as opportunities might arise from unplanned encounters, too strict networking plans are not ideal, rather adding possibilities for spontaneous meetings is preferable (Galkina & Chetty, 2015).

It should be noted that network capability alone will not be sufficient for international operations' success. Other capabilities are needed, including marketing, technological, customer understanding, and dynamic capabilities

(Gabrielsson & Gabrielsson, 2013). Moreover, there has been evidence that a larger number of partners might hurt the speed of internationalization (Nummela, Saarenketo, & Puumalainen, 2004). Additionally, successful companies can be formed without the founders' existing networks (Rasmussen, Koed Madsen, & Evangelista, 2001).

Galkina and Chetty (2015) combined effectuation theory and the renewed Uppsala model in their research about the unplanned nature of SME networking in the context of internationalization. Their study's data was recovered from seven Finnish SMEs, which makes the study's results very interesting for this research. The results of their study indicate that the SMEs do not plan their networking, rather they are open to new possibilities through random encounters. These possibilities are more influential in the target market selection process of SMEs than choosing a market based on the institutional environment or location benefits. The companies will enter a new market if there is a network through which they can grow their business. Their research states that companies' networking strategy is both effectual as well as causal. They observed that the longer the company is in the market, the more they lean towards causal logic (Galkina & Chetty, 2015). This is consistent with research about early internationalization companies moving towards causal decision-making with time (Nummela et al., 2004).

To summarize, networks are a vital part of companies' internationalization. In the current literature, they are emphasized as a capability that companies need to learn and develop, rather than merely a resource a company can acquire. SMEs likely use networks differently from MNEs with less planning and more flexibility, which might be due to their small size and low hierarchy.

2.3 Formal and informal institutions

Formal institutions are the government's laws, policies, procedures, regulations, and rules, which affect the business dealings of companies. Informal institutions are the country's norms, culture, level of corruption, and political ideologies. (Kaufmann et al., 2018). The government and other authorities create and enforce rules and regulations, contrary to informal institutions which are regulated by the people in the country. Thus the informal institutions might be harder to measure or pinpoint, as they have often been a part of the society for an extremely long time and are followed unconsciously (Crossland & Hambrick, 2011).

Formal institutions can influence how companies perceive certain markets. For example, if there is a lot of rules at a certain target market, it might not be seen as an attractive market. Additionally, if the rules seem to be affecting the business negatively, it will create barriers to entry. It is not only the rules that matter, but also whether or not they are enforced. If a government does not enforce its rules, people start to feel distrust towards the government. This might lead to cheating and corruption, as the citizens do not see a reason for obeying

rules (Kaufmann et al., 2018). As formal institutions can affect companies' perceptions of target markets, it is consequently plausible that the formal institutions influence networking actions of internationalizing companies as well.

Culture is a part of every country's informal institution. In the context of this thesis, I am using the definition of culture interpreted by Geert Hofstede as follows: "Culture is the collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede, 2011, p. 3). As this thesis includes many countries, when talking about culture, I will refer to the Latin American general culture. As I will explain in the Data and Research Methods -chapter, there is a widely accepted view that Latin America has its own unique culture that is spread throughout the countries (Wilkie, Aleman, & Ortega, 2001).

To measure and compare countries' cultures to each other, Geert Hofstede created cultural dimensions theory, including six dimensions by which to estimate part of the culture (Hofstede, 2011). Power distance expresses the inequality between people for example in companies, families, and society. Another dimension is individualism, which is a concept where people tend to care for themselves and see themselves as individual units. The opposite is collectivism, where people are born into families or other similar groups, which they prioritize over themselves. The third dimension is masculinity, which is the opposite of femininity. When high on masculinity, the country has big differences between the roles and behaviors of women and men. Next is uncertainty avoidance, which means the ability for people to cope with new and surprising situations. When high on this scale, society creates laws, regulations, and norms that people are expected to follow without question. Another dimension is long-term orientation, meaning the society's attitude in decision-making is based on either the past or future. When high on the dimension, the people are willing to make changes and not stick to traditions, and effort is seen as important for success instead of luck. The last dimension is indulgence, which describes how much society approves of enjoying oneself and having fun. High on the scale means the country sees leisure and freedom of speech as important, and more people see themselves as happy (Hofstede, 2011). In this paper, I use the cultural dimensions theory to compare Finnish and Latin American cultures to each other.

Cultural distance between countries, meaning there is a greater difference in the cultures of the countries, has often been found to create a barrier for internationalization to a new host country, and even to harm the performance of some companies. On the contrary, firms can become more innovative by transferring practices to culturally distant locations and thus learning more (Beugelsdijk, Kostova, Kunst, Spadafora, & van Essen, 2018). Companies have been found to invest less in foreign markets when cultural differences are bigger (Berry, Guillén, & Zhou, 2010).

One of the most influential informal institutions is corruption. It is known to be a challenge that companies consider when entering markets. When a target market has a lot of corruption, the companies might not be as interested in entering the country (Kaufmann et al., 2018). Corruption can be defined as illegally or

unethically exploiting power to achieve something for yourself. Corruption is negative for democracy, the economy, the environment, and the people. It can involve any members of society from officials and politicians to businesspeople. In the business context the way corruption manifests is often by companies bribing authorities to gain information or secure sales (“What Is Corruption?,” 2021). When corruption is common in a society, it is likely to affect the networking between companies and authorities.

A study by Moreira and Ogasavara (2018) suggests that both formal and informal institutions need to be taken into consideration when companies are making decisions about internationalization. The study was conducted with companies entering Latin American markets and their specific notion was that when entering this market area, institutional factors are highly relevant (Moreira & Ogasavara, 2018). It has been suggested that informal and formal institutions should be considered concurrently, as they influence each other (Berry et al., 2010).

The effect of institutions on entry mode choice is still unresolved, as direct influence has not been found. Yet, a moderating effect of institutions on the relationship between SMEs’ decision-making criteria and entry mode choice has been presented (Schwens et al., 2011). I hypothesize that institutions moderate the relationship between networks and entry modes. As informal and formal institutions are created and maintained by people, consequently, the individuals in the host country are a part of the local institutions. All networks consist of people, which makes it natural to assume that networks are affected by institutions. These relationships are shown in my main proposition, visualized in Figure 1. My research focuses on finding out how these variables influence each other and whether there is a correlation between them.

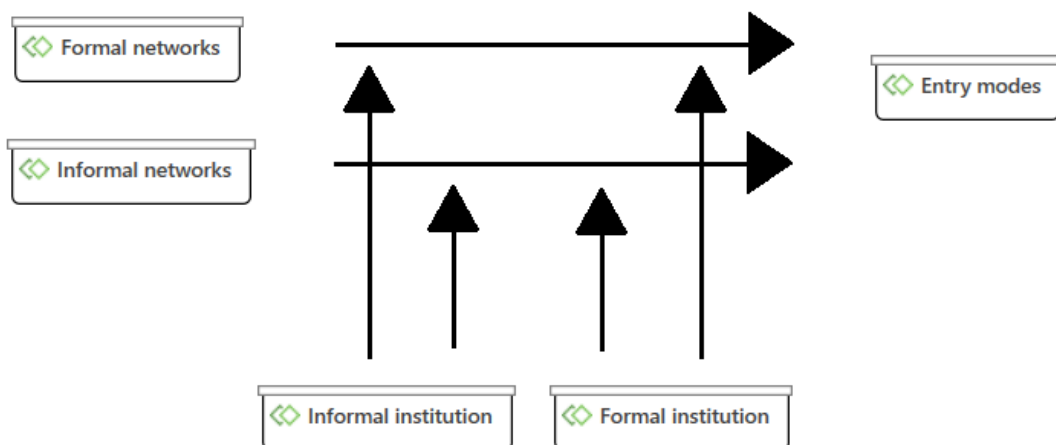


Figure 1 Theoretical model

3 METHODOLOGY

3.1 Multiple case study

I used a multiple case study strategy in this research, meaning that theory was built from analyzing empirical evidence from several companies (Eisenhardt & Graebner, 2007). Case studies can be used to create theories, which in turn can be later on tested and confirmed in quantitative research. From case studies, it is possible to discover new relationships, factors, and ultimately hypotheses. Multiple case studies allow for comparing the cases and determining whether a phenomenon pertains to only one case or is more generalizable (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). As my interest was how SMEs conduct their decision-making, multiple case study strategy was fitting for the research. It put the companies' experience in the center and allowed for them to describe their decision-making process from multiple angles. From this data, I could build a new theory.

Case studies, such as this one, can include either quantitative or qualitative methods, or a combination of the two (Eisenhardt, 1989). The data for this research was gathered from semi-structured interviews conducted with Finnish SME entrepreneurs or sales managers. The interviews created textual data, that can be analyzed. The interviews had questions that open the conversation but can lead to different paths based on the interviewee's answers and spontaneous follow-up questions asked by the interviewer. The aim is to understand the phenomenon that is researched and potentially find new answers and viewpoints (Kelly, 2010).

The gathering of the data is not done only before the analysis, but both processes can be done simultaneously. It is possible that for example some of the questions being asked from the interviewees might change, or additional information might be asked from them afterward. For theory building, this type of action is acceptable, as all cases should be analyzed and exploited to the fullest. After every interview, notes, arising questions, and informal observations should be written down, and pay attention to them before the next interview (Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

In the case study strategy, choosing the cases should not be random. This is because there is such a small number of cases, that if they are chosen randomly, they are less likely to be representative. Therefore, purposive sampling is more appropriate for the case study method. There is a possibility of bias in purposive sampling, which the researcher should consider when planning the research method and practicalities (Eisenhardt, 1989; Seawnght & Gerring, 2008).

Three things to consider when planning research are reliability, validity, and representativeness. Reliability is often proved if the research can be done again and the same results emerge. For qualitative research, this is often more

challenging than for quantitative research, as the data might not be as visible and measurable. There are ways to add reliability to research, for example, justifying with theory all decisions made by the researcher and documenting all data and phases of research. This way the process is more transparent and thus more reliable (Chapman & McNeill, 2005).

Validity is the measurement of whether the data gathered answers the research question. The researcher needs to make sure that there is a real correlation between the data and the phenomenon that they are researching. There is, for example, a possibility that people answering questions are not being truthful or that they did not understand the question correctly. Representativeness is about the matter of whether the people who are studied in the study are a representation of the generic group of this kind of people. This issue is usually combatted by using sampling methods (Chapman & McNeill, 2005).

All three of these qualities were important factors when I considered how to implement my study. I started with planning the research with my supervisor and getting to know the university guidelines about research. Avoiding plagiarism and making sure data privacy was considered at every step were some of the main focuses. I presented my progress to colleagues and supervisors at seminars and adjusted the research based on feedback. I consider the execution and limitations of my research in the discussion section of the paper.

3.2 Case selection

For the research, I chose Finnish SMEs who had business in Latin America as subjects. My main criterion was that the companies had to be Finnish SMEs, meaning they have under 250 employees. They also needed to have current business in Latin America, either in one or more countries. I looked for potential candidates online and contacted them directly. Furthermore, with the help of The Finland Chamber of Commerce, a message was sent to their members, in which suitable companies were asked to participate in the research. The current Covid-19 pandemic has put a strain on companies, and many did not have time to take part in the study. Eventually, I interviewed six Finnish companies. The interviews were done via online video communication platforms Zoom and Microsoft Teams, due to the meeting restrictions caused by the pandemic. The interviews were recorded to be transcribed later.

The companies and interviewees wanted to stay anonymous, as some of the topics discussed included sensitive information. I planned the research so that the identity of the company and interviewee stayed unidentified, and the companies will be referenced in this study only by code names. Three of the companies are manufacturing companies, two of them are IT-service companies and one is an educational service company. In two of the cases, I interviewed the entrepreneur, as they did not have a Latin American sales manager due to the small size of the companies. In the other four cases, I interviewed the sales manager in

charge of all the Latin American sales. Later on, in this paper, I will refer to the companies based on the letter given to them in the table below, as there is only one representative per company and thus it is clear who is speaking.

Table 1 Case companies

Company	Employees	Industry	Interviewee	Duration of interview in minutes
A	18	IT-services	Entrepreneur	90
B	54	Manufacturing	Sales Manager	108
C	7	IT-services	Entrepreneur	66
D	200	Manufacturing	Sales Manager	87
E	15	Education services	Sales Manager	50
F	35	Manufacturing	Sales Manager	58

I have chosen to use the widely accepted definition of Latin America that includes 20 independent countries; Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Even though the countries have differences regarding size, political situation, and economic status, the countries recognize belonging together because of their unity in language, religion, culture, and bureaucratic similarities. There are other definitions of Latin America, yet they are not as widely accepted and include non-independent areas, which belong for example, to Europe (Wilkie et al., 2001). Latin America is a distant market to Finland, both physically and psychologically. Psychic distance means “the factors that make it difficult to understand foreign environments”, such as culture, language, and religion (Johanson & Vahlne, 2009, p. 1412).

All the companies have business in Latin America, some only in one country and others in multiple countries. Of the 20 countries that belong to Latin America, 15 were countries that at least one of the companies interviewed had business in. These included all the bigger and more influential countries, so it is fair to say that the scope of countries is sufficient for this research. Of these 20 countries, 94,0 % of the total population is within 15 countries used in the research. The population of the countries is presented in the table below. The number of case companies entered into each country is shown in the table. In addition to the current situation, some companies were in the process of discussing expanding their business into other Latin American countries, which can be witnessed from the table as well (Population total - Latin America & Caribbean, 2019).

Table 2 Entered companies and population of Latin America

Country	Entered companies	Almost entered companies	Population in millions
Argentina	3		44,94
Bolivia	1		11,51
Brazil	4		211,05
Chile	3	1	18,95
Colombia	4		50,34
Costa Rica	0		5,05
Cuba	0	1	11,33
Dominican Republic	1		10,74
Ecuador	1		17,37
El Salvador	0		6,45
Guatemala	2		16,6
Haiti	0	1	11,26
Honduras	1		9,47
Mexico	4	1	127,58
Nicaragua	1		6,55
Panama	0		4,25
Paraguay	1		7,04
Peru	4	1	32,51
Uruguay	4		3,46
Venezuela	3		28,51

3.3 Data collection

In two of the cases, I interviewed the entrepreneur, as the companies were so small that the entrepreneur was involved in the international sales and the company did not have a sales manager in charge of Latin America. In the other four cases, I interviewed the person in charge of Latin American sales. They were usually quite independent in their role, meaning that they could make plans and decisions about the expansion to Latin America quite freely. One of the sales managers works as a light entrepreneur, meaning they do not have a work contract with the company. Yet the person was still managing the international operations of the company for Latin America. All the managers are very knowledgeable about the decision-making process of the company they are in and are experts on sales to Latin American markets. The preliminary questions were sent to the interviewees beforehand, which meant that they had time to go through them and discuss with other members of their company if they were not sure about the answers to the questions.

The interviews lasted between 50 minutes and 110 minutes. As the interviews were semi-structured, the length of the interview depended mostly on the interviewees' interests and knowledge. As the interviewees had different roles in the companies, some of the questions needed to be posed differently. Ultimately the themes of the interviews were the same, divided into three parts: background, the process of internationalization, and Latin American markets. The specific

questions can be found in the appendix at the end of this thesis, to create transparency.

From six interviews, three were held in Finnish and three in English. This was done because three of the interviewees did not speak Finnish, as their native language was Spanish. Some of the questions needed to be explained in more detail to the interviewees, and sometimes it took them longer to consider how to describe concepts in English. Some of the Spanish words and phrases they used had to be clarified, although I had studied Latin American and Spanish culture and language beforehand. The main challenge in the interviews was to stay neutral and not to lead the interviewees, but rather let them tell their stories.

To analyze the formal and informal institutions of the target countries I used three different tools: The Index of Economic Freedom (Index of Economic Freedom, 2021), Hofstede's country comparison tool (Country Comparison Tool, 2020), and Corruption Perceptions Index (Corruption Perceptions Index, 2020). I chose these tools because of their independent and transparent origins, meaning they are not influenced by governments or politics. With the help of these tools, I examined the institutions of Latin American countries and compared them to the interview data. The tools were appropriate for the study as information about all or most of the Latin American countries in this research was provided by the tools. The information was current and when compared to other sources, seemed reliable.

3.4 Data analysis

In qualitative analysis, the researcher collects empirical material and interprets it to create new theories or test and understand the existing ones (Denzin & Lincoln, 2008; Eisenhardt, 1989). Especially in the instance of case studies, analysis is the core of theory building, as it is the glue that joins the vast amount of textual data to the eventual conclusions. It might be more challenging than analyzing numbers (Eisenhardt, 1989). The analysis can be both critical and humanistic, meaning that it has multiple sides to it and can be understood in a variety of ways (Grossberg, Nelson, & Treichler, 1992). For the analysis, I used thematic analysis. Thematic analysis is flexible and can be used to analyze small amounts of data. It is suitable for a semi-structured interview method like used in this research. In thematic analysis, the researcher searches the text for codes and then combines them to bigger themes (Braun & Clarke, 2012).

The six interviews held were recorded and verbatim transcribed. Before and after the interviews, I gathered information about the company and the person being interviewed from online sources such as websites, social media sites, news outlets, and annual reports. This data was used in the analysis in addition to the interview transcription data. Since some of the data was originally in Finnish, I translated the quotes used in this research into English. During the interviews, I wrote down notes and observed which type of new information arose

from the conversation. Additionally, I evaluated whether the questions asked gave me useful information, or if I needed to change some wording in the questions.

With the often staggering amount of information that the qualitative method produces, some system needs to be used to help the analyzing of the data. Finding patterns is one helpful way to handle the data. This method can reduce the number of analyzer's biases and premature conclusions influencing the conclusions (Eisenhardt, 1989). The first part of the process is coding. Codes are either words or short phrases which the researcher decides on and then adds meaning to them. This could be written textual data or visual images that the researcher has collected. The part of the text that is assigned to the code can be bigger like a paragraph of text or just one word, or anything between. The important part to understand is that coding is not giving a description of something, it needs to be also connected to something, like theory or concepts. There can be multiple rounds of coding, where each time the codes both increase and get refined (Saldaña, 2021).

I entered all the data into the ATLAS.ti-program, which can be used for managing large amounts of data. The next phase was coding the data to find categories and themes. The codes I used for this research came from the existing literature. For example, institutions and different concepts related to them, like culture, corruption, laws, and regulation were used as codes. I went through all the important aspects of the existing theories, mainly entry mode, network, and institution related, and coded the data. Already during the interviews, I had written down new topics that had arisen from the interviews, and these were used as codes as well. Together, over 250 codes were found from the data.

Choosing the codes is done by the researcher, which makes it very personal. There are several different criteria when choosing the codes. One of the most obvious ones is similarity, meaning that something happens in the same way in the cases. The opposite can also be a criterion: when things happen predictably in different ways. How often or rarely things happen can be noteworthy, as can the order of events. Furthermore, events corresponding to some theme or other event can be a criterion for coding. Lastly, something causing the other to happen, called causation, is a possible reason for creating codes (Saldaña, 2021). As can be deduced from these multiple ways of choosing a code, coding is not simple or something that can be done with a book in hand. It takes creativity and point of view from the researcher to be able to conduct quality analysis. When creating codes and analyzing the text, anomalies are important as well as similarities. There might be important new knowledge in exceptions to the case. This is why the more critically and with an open mind the researcher investigates their material, the better results it might yield. For this research, I looked at the data many times from different angles to create an unbiased view of the material.

After the material has been coded, the next phase is synthesizing. This means new codes can still be assigned and the existing ones combined into categories. The main difference between codes and categories is that codes are often

more specific and realistic whereas categories tend to be a bit more abstract and general. The first codes created can become subcodes later on, when multiple codes seem to have similarities (Saldaña, 2021). After the first round of coding, I formed categories by joining codes that were linked to each other by some means. Here the different ways how networks influenced entry mode decisions started to arise. This eventually led to the main themes, that provided the theoretical model presented in the results section.

4 RESULTS

4.1 Overview

Of six companies, five used exporting as their entry mode and one greenfield investing. From the five using exporting, two companies did export through host country intermediaries and three companies did export through both host country intermediaries as well as through company owned channel. The networks that affected the entry mode choice can be divided into two groups, formal and informal networks. Informal and formal institutions were found to be the moderating effect that influenced network creation and maintenance. Figure 2 presents the connections between the variables. Formal networks influenced the decision of choosing direct exporting through host country intermediaries, whereas informal networks influenced the choice of exporting through company owned channels. In the case where an entrepreneur had informal networks, the company chose greenfield investment.

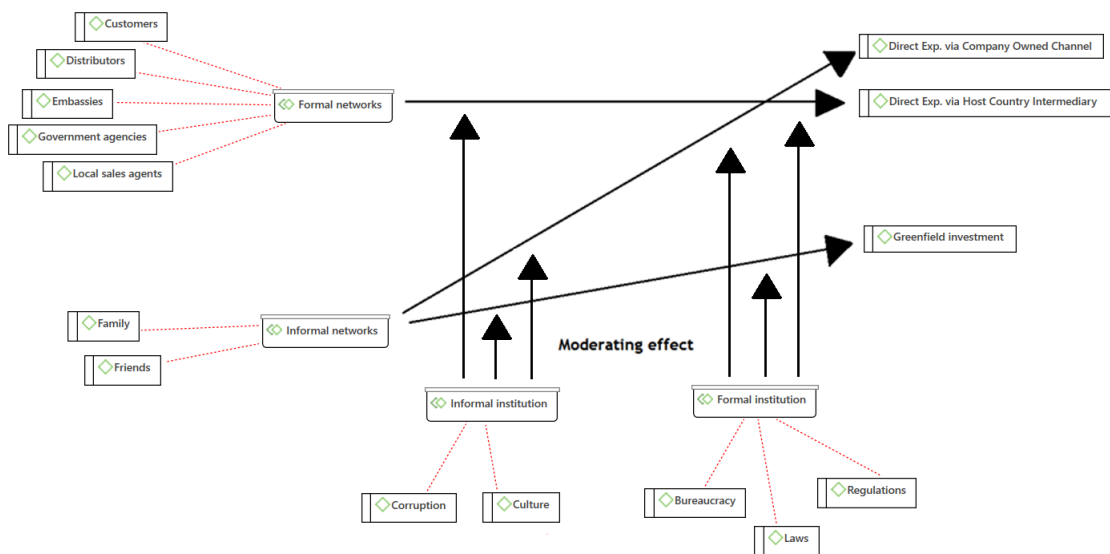


Figure 2 Theoretical model

Table 3 shows all the different types of formal and informal networks the companies used in their internationalization to Latin America and the entry modes they chose. The only network all the companies had in common was some type

of a sales agent, although they had somewhat different roles in the internationalization process.

Table 3 Formal and informal networks of the companies

Company	Formal networks	Informal networks	Entry mode
A	Consultant Customer Development Bank Embassy Government agency Sales agent	Acquaintances Friends	Direct Exp. via Intermediary
B	Customer Embassy Sales agent	Family by marriage Friends	Direct Exp. via Intermediary
C	Customer Sales agent	Family of entrepr.	Greenfield investment
D	Distributor Government agency Sales agent	Family by marriage Friends Former colleagues	Direct Exp. via Owned Channel Direct Exp. via Intermediary
E	Consultant Customer Embassy Government agency Sales agent	Acquaintances Family Former colleagues	Direct Exp. via Owned Channel Direct Exp. via Intermediary
F	Government Agency Partner company Sales agent	Family	Direct Exp. via Owned Channel Direct Exp. via Intermediary

4.2 Formal networks

Formal networks consist of relationships the company has with banks, companies, governments, and different partners (Birley, 1985; Coviello & Munro, 1995). All the case companies had some types of formal networks. These included banks, consultants, customers, distributors, embassies, government agencies, local sales agents, and other partners. Some of the companies used these formal networks to do sales, while others mainly for sales supporting activities.

4.2.1 Customers

Two of the companies listed demand as a reason for going to Latin American markets. One of them had customers and sales agents who had been interested in their products and the other had distributors that had wanted to sell their products forward. These customer networks can also be seen as a reason for

choosing the entry mode. If the company already has direct contact with the end customer, there is no need for them at that moment to start a joint venture. Direct exporting is a viable option in a situation where the partners have already expressed their willingness to co-operate, and the practical circumstances do not prevent exporting.

In the case of a sales agent asking for permission to sell the products, exporting through a sales agent is a working solution. Yet the companies need to be able to trust the partner to give them the products to be sold, as they will represent their products:

“Then, under demand, I suppose, I mean someone in the country, for example in Mexico, asks to us, I would like to sell your products. Okay, we are going to talk, we have a discussion, and if no one is selling, then I give to the distribution and terms of our contract.” Company D

“Well I think in the beginning it was more like, we wanted to manage everything from here, but, the business growing in the way that we were actually getting these requests from potential distributors or partners, let’s say, orders, who worked with us, and then we needed to find a solution how to open the opportunity for them to work with us without compromising us too much, you know, without knowing them and without having any reference.” Company E

From both of these cases, it is clear that the customer or distributor relationship was the driving force for the choosing of an entry mode. The customer can be a reason for choosing an entry mode in another way too. Sometimes the customers expect certain aspects from the company to do business. This might mean that they would not accept that the company is for example in a joint venture relationship or that the company has ownership in the host country. This might be for legal reasons as well as trust-related reasons. In this type of case choosing exporting as an entry mode creates trust, transparency, and cooperation:

“Well, maybe it started out with, I could say, quite customer-based, because in a way, what the customer expects, demands, we build it based on that, so in a way, of course, the rules in our industry, we don’t have subcontracting, or in a way, it is important that we are responsible for all the manufacturing and everything, as this is a confidential product.” Company B

Even though this was a more extreme case example, customers can affect the entry mode choice in multiple ways. One company mentioned that they have made preparations for the possibility of opening a subsidiary if the customers demand it. There is a possibility that a Latin American company would rather make a contract with a subsidiary, a company registered in the country, than a Finnish company. Even though this had not happened yet, the Finnish company was ready to establish a subsidiary, even if it was not the ideal choice for them. To conclude,

customers have a direct and indirect influence on the entry mode decision of the companies.

4.2.2 Government agencies

Finland, as other countries as well, supports the internationalization actions of companies. Even though their efforts are often focused on bigger companies, there is help offered for SMEs as well. Companies can apply for financial help or loans from government agencies such as Business Finland, Finnvera, and the Centre for Economic Development, Transport and the Environment. These organizations offer other additional services like information, consulting, and contacts. The services can be in both Finland and the host countries, especially if the country has an office (“Team Finland Network’s Financing Services,” 2021).

Six countries in Latin America have a Finnish embassy: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The embassies often manage other neighboring countries’ embassy duties as well (“Suurlähetystöt, pääkonsulaatit ja kunniakonsulaatit maittain,” 2021). These embassies have a wide network in their respective countries, for example, with politicians, companies, and government representatives. Depending on the situation, the embassies can help Finnish people and companies. Furthermore, there are honorary consuls from Finland or Sweden in many countries, and these figures can have contacts with the local networks as well.

All the five companies, which had exporting as their entry mode had used some type of help from the Finnish government. As one of the reasons for choosing exporting as an entry mode was cost-efficiency, governmental support has a clear effect on the entry mode chosen. One company clearly stated that without outside funding they would have had to make other types of schemes for their funding:

“If you think about the outside services, you can see that we have been a very good customer for Business Finland, Finnvera, ELY-center, so we have utilized these traditional public funding sources quite well. And it is good, that these have existed because if you would look at like our last five year’s financials without these types of instruments, this company would look a lot different.” Company A

The benefits received from government agencies can be other than financial help as well. As the people working for agencies such as Business Finland or embassies have often spent a great amount of time in the market area, they have intimate knowledge about the conditions in the market. Furthermore, their own channels in social media and access to events and local representatives can be of use to the Finnish SMEs entering the market:

“So yeah, a lot of promotion, a lot of work together, a lot of like for example marketing and then always highlight these SMEs that are working. So yeah, I think, a lot of good work on the government on internationalization.” Company E

“But only like share information and contact, not any like financial or anything like that. No, only information, contacts, project.” Company F

The embassies can help the company to find other networks that they are not able to access themselves. This could be for example sales agents, distributors, or customers. These networks are extremely valuable, as it is more likely that they can be trusted because the embassy has already knowledge and experience about them. The companies using embassies mentioned that the earlier the contact is made to the embassy, the better. This way the trust-building starts right away, even before the company has entered the host market:

*“...then we have used the honorary consuls and embassies to find these (contacts)”
Company B*

“... for sure the embassies are a kind of a back-up for Finnish companies if there are problems you can always turn to the embassies... Many times, we have said out loud that it is better to get to know when we have no problems than to meet when there are problems, in a way, we have a good collaboration with them, and it works very well.” Company B

“Well, the embassies have been very useful.” Company E

In addition to Finnish government agencies, some of the companies had been in contact with the host market agencies. The interviewees described that this was a harder relationship to build, as there is no responsibility for the host country agencies to help a Finnish company. Still, as Finland has a positive reputation, the agencies might be open to helping Finnish companies and creating collaboration between the government and even local companies. This kind of help can also guide the companies to choose a direct entry mode:

“...from this country’s public administration, we have gotten all the help, support, opening of doors, networks to our disposal, anything we have realized to ask for ... by showing the Finnish company papers and passport, it seems to me that it makes managing affairs easier. Compared to a US company coming there, that arouses more opinions there.” Company A

4.2.3 Sales agents and distributors

Companies often use sales agents to increase their marketing and sales efforts in the target market. The sales agent represents the company that hires them and sells their product to end customers. The companies use them when it is challenging for the company to make sales using their personnel, or when they want to expand to a capacity where the current employee base is not capable of making all the sales by themselves. Distributors are another type of sales agent, that are

usually used in the manufacturing industry. They represent the product, but usually, instead of selling it directly to end customers, they find local sales operators like stores to sell the product. The sales agents and distributors can be in charge of a wide range of activities like marketing, customer service, product maintenance, and physical sales (Cavusgil, Yeoh, & Mitri, 1995). The interviewed companies mainly used the sales agents to find the end customers:

“And of course, partly they, partly the representative helps with that, with finding the right people to talk to.” Company B

“A local agent is good to have in Mexico, but more for creating contacts.” Company D in a news article

“Our way has been to hire people who have networks.” Company A

The sales agent or distributor networks guide the companies towards choosing direct entry as their entry mode. As these formal networks handle the sales and marketing activities, the company can easily and with minimal effort and investment enter the market. The contracts made with sales agents are often commission-based, meaning the agent gets paid based on how well they market and sell:

“It is mostly commission-based contracts that we have so we offer incentives to partners, local partners and it is commission-based.” Company E

With time, the company might get to know the market better and get acquainted with the end customers more. This is essentially a situation where formal networks can lead to informal networks, as through sales agents or distributors the company familiarizes itself with the customers. If the connection between the company and the customer develops, there is a possibility of not needing the sales agent at some point:

“When I was changing the distributor, we were working parallel to develop the dealers of that distributor. ... And as we were already working with the dealers at the same time, I was appointing the distributor and, in the end, what happened was, we removed the distributor and we worked directly with dealers. ... And actually, now is working more or less well. Is complex and maybe we have questions about that, part of the challenges. But it is working much better than I was expecting.” Company D

If a company can reach this position, it has more advantages. Getting closer to customers develops the company’s understanding of the market and speeds up the feedback about products and marketing. Furthermore, as sales agents and distributors receive payment for their services, the company can reduce their costs if they can sell directly to customers. Additionally, as explained in the informal networks -part, informal networks can lead to increased sales.

4.3 Informal networks

Informal networks were used especially for making direct sales via company owned channels. All four sales managers interviewed had some type of family and friends connection to Latin America. This helped with their understanding of the culture, practices, and of course language of target markets. It also helped the companies to make direct sales, as in Latin America personal connections are a big part of being able to create the kind of trust needed for closing sales.

4.3.1 Family networks

Out of six cases in the study, only one had chosen greenfield investment as an entry mode: company C. This is not surprising as SMEs usually favor non-equity modes of entry, due to a lack of financial resources and experience. Yet, the interesting difference between this case and the others was the entrepreneur's personal connection to the target area. This was the only case company where the entrepreneur had a close family connection to the target market, compared to the other cases where only the sales manager had a personal connection to the target market:

"I got married in 2015 to a diplomat and we returned to the home country, as diplomats tend to do. Before that I had a long career working for an international consulting company, I worked for 10 years as a project management consultant."
Company C

The entrepreneur had good connections to Finnish and other European business-people and entrepreneurs, which helped with creating the company. This was further advanced with the entrepreneur's extensive experience in the industry which had helped with building connections. Before deciding to establish the company, the entrepreneur learned to speak fluent Spanish, which was of use when developing contacts in Latin America.

Interestingly, this company had used fewer formal networks than the other companies, for example, almost not at all the services of government agencies, embassies, or consultants. This suggests that personal, informal connections, as well as the entrepreneur's intimate knowledge of the language and culture of the country, led to choosing of greenfield investment, an equity-based entry mode.

All four sales managers had some type of family connection to the area, either by being native or through marriage. Understanding of the local language, culture, and business aspects leads them to be able to use export as an entry mode, as they could easily form networks within the host market. Networks were highlighted as the main component when doing business in Latin America:

“Contacts, contacts, contacts.” Company A when asked how they reached their customers in the markets

“Oh, networks are essential when internationalizing to Latin America.” Company E

With the family networks and by knowing the right people, the companies were able to do both direct export via intermediaries as well as via company owned channel. In Latin America, people expect you to be trustworthy and have some connection to the area before they make direct sales with you:

“But we have partners, and we have colleagues there that are like if you can say offering our solutions. And we do through partners or the end customer. We contact directly to the customer. ... Then some of the people, they know, many people speak English, but normally how they contact is Spanish. I think this is one of the skills that should have, I think it’s better to have one native speaker that can make, I think it’s easier to make better relationship when you speak the language.” Company F

4.3.2 Friend networks

Friends, former colleagues, acquaintances, and other types of social networks are often more informal but still highly important relationships in the business context. They can be used for gathering information, getting access to needed contacts, and making sales. The companies used these types of contacts in many stages of the internationalization process. The first stage was before the internationalization process had even started:

“So, we found a lot of these like connections and of course this, that we had contacts and thus we were able to very quickly determine that we can move forward on this. We found people, who know people. They weren’t really related to me or other decision-makers, but like acquaintances’ acquaintances and so on and that’s where it started.” Company A

“I think there was interest and there were already some connections within, let’s say within the board members, they have had some, let’s say previous, well, because some of them were also working... it was more that Latin America was more like the Spanish speaking countries so, they did something with Spain and then it opened a new world completely to Latin America and once that was opened the response was so good that they started.” Company E

Some of the sales managers had been working in the host market area before and they had relationships with former colleagues there. Especially when these contacts were from the same industry as the current company, they could use them for making sales. This helped with choosing direct export via company owned channel as an entry mode, as the company resources to do marketing and sales

in the area. Additionally, the knowledge and experience about the host market and industry assisted with getting in contact with the right people:

“I have been working supporting the internationalization of companies so I worked with different companies who facilitate their growth into Latin America. ... I actually started as a consultant, I did the market research, I did like this internationalization project in a way, it was more like understanding the different like potential customers that we could have all around Latin America.” Company E

“Well, I knew already those companies personally, essentially because I was asking for a job from most of them. But I already had a contact most times, the owner of the company or someone relevant in the company.” Company D

Word-of-mouth marketing is a way to build verified industry knowledge and it generates leads that could result in sales (Jones, Suoranta, & Rowley, 2013). Often recommendations are done by people that know the company personally, that are more like friends than anything else. Several of the companies mentioned that word-of-mouth was more important for their sales and contact building than marketing through channels such as social media or websites.

“Well, our best like reference is satisfied customers. They actually recommend us to their friends. And these are the best kind of contacts.” Company C

“Have you good referrals and like and I have seen that the main source of clients nowadays that we have is like the ones that have been told something about us.” Company E

4.4 Formal institutions

4.4.1 Index of Economic Freedom

The formal institutions' effect is especially high in countries where the government is less trustworthy. In the Index of Economic Freedom, we can see the rule of law levels of countries, meaning government integrity, judicial effectiveness, and property rights. The Latin American countries are lower on these levels than Nordic countries in general, as is shown in the figures below (Index of Economic Freedom, 2021). When countries have governments that cannot be trusted as much, they tend to have more regulation as well. There is also more corruption and citizens are more inclined towards deceitful and dishonest behavior. The countries that were mentioned in interviews for having especially undeveloped formal institutions were Brazil and Mexico. These countries also have lower levels of economic freedom, especially in the rule of law section. Latin America had

an average of 57.3, Brazil 49.3, and Mexico 43.0 in the rule of law sections, whereas Nordic countries had 87.4 and Finland 90.4 (Index of Economic Freedom, 2021). This gives a rough estimate of the differences between the formal institutions of Finland and Latin American countries.

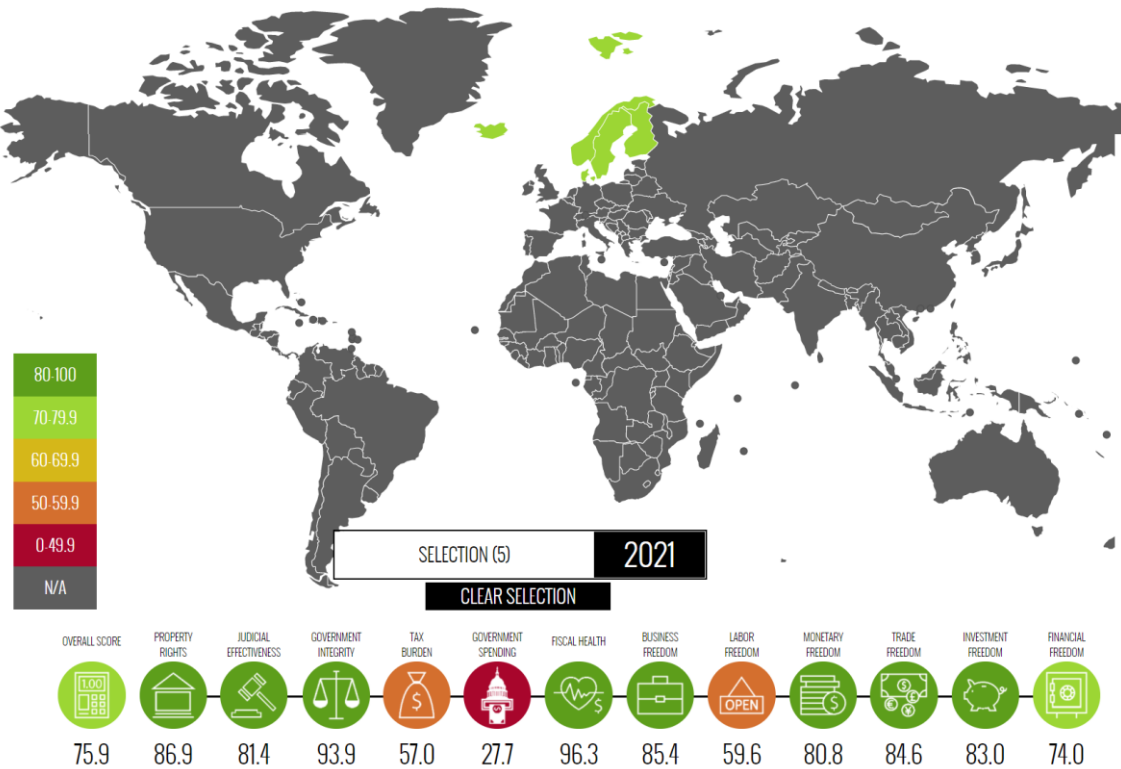


Figure 3 Nordic countries Economic Freedom Index

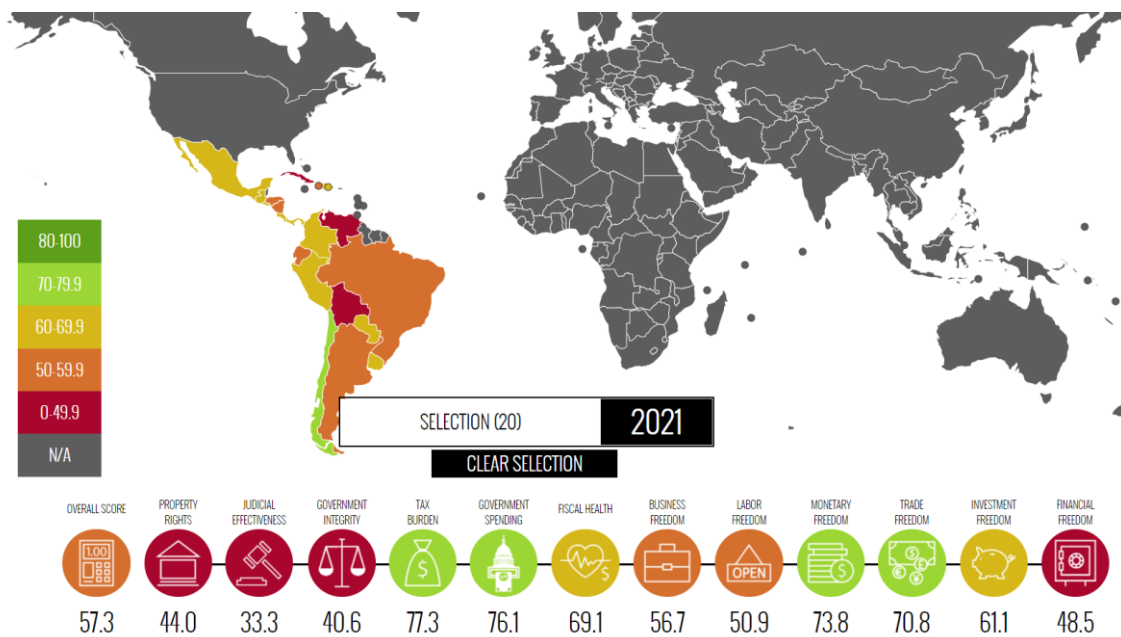


Figure 4 Latin American countries Economic Freedom Index

As the formal institutions create challenges and barriers of entry, the companies needed to consider what types of networks they needed to combat the situation. This ultimately affected the companies' entry mode choice as well. Case company C had the most trouble of all the case companies with formal institutions like laws and regulations. Their experiences with different representatives in Latin America were often quite negative:

"In here, one thing that surprises Finns is that every single authority has their own demands and they change daily." Company C

The regulations created by the authorities led to the company having challenges with formal networks. This caused them to not want to create and use formal networks, as they felt they could not trust them. Instead, they used informal networks to compensate. It is likely that if they had a better experience with formal networks, they would have built that network more.

Company C related that they had some difficulties with money transfers. European Union has strict money laundering regulations, which has an effect when a company has offices in both Europe and Latin America. The interviewee explained that the added expenses have affected their profits:

"Money transferring will be surprisingly big of a problem ... It is difficult and then if we use these banks' transfer services it takes weeks and it will create big expenses ... Finding out how to manage this monetary transaction in practice is extremely important." Company C

One of the ways the interviewees described the Latin American countries was that they are still in a state of development. Systems that work well in Finland, might not be even implemented in Latin America yet. Often this creates situations where there is no information about how practical matters will be handled. The rule of law being low also means that sometimes projects get delayed, as the system is not as quickly functioning as in Finland:

"Sometimes the projects, you can see with my colleagues that come faster some projects, and in Latin America, they like this is one process and we need to talk this and this. It's a quite long way of course how I mentioned before, they are in the process of develop." Company F

4.4.2 Laws and rules

Most of the interviewees mentioned challenges related to laws, regulations, and protectionism and additionally, the theme came up in a news article about one company's business venture in Mexico. One of the challenges is paperwork related to for example contracts made with customers as well as different types of

permits and licenses needed for business activities in the target countries. Because of the high level of formal institutions, the companies had to use a lot of time and energy for these things compared to when making business in Finland:

"...our customers are in part quite bureaucratic, I mean many are, we have quite extensive contracts and they need to take into account different things, they like everything to be on paper..." Company B

"And then it is more bureaucratic, it is another thing that is showing... and it is like an art form that you really need to learn how to handle... Some things are made insanely difficult, the kind of paperwork, and initials and stamps show up at the margins of papers, there is a lot of red tape like that in there." Company A

When the bureaucracy is more complicated, it influences the networking of the company. Formal relationships develop deeper as more contact is needed to combat the challenges. On the other hand, informal networks can be used for example in gaining knowledge about the current local laws and rules or to help with speeding up practical matters.

With those companies that export physical products, customs were mentioned as something that needed to be considered. For example, Brazil, a market known for being protectionist, can be costly for companies when bringing goods into the country. One of the companies had a challenge with trying to send their free merchandise to their customers:

"We are not delivering merchandise to Latin America because suddenly you get a problem in customs. If you send something free to Brazil, I mean you are not receiving money from sending that to Brazil, you need to say what is the cost and the person who is making the importation into Brazil needs to pay taxes to the government even if they don't pay anything to us. So, is quite stupid." Company D

Every country has its own laws as well as regulations and policies. These might differ even between cities. The problems they create are two-fold; first, they grow expenses for the company, and second, they make business slower. Additionally, if the country has a change in power, it might influence the laws and regulations as well. When asked about the biggest challenges the company has faced, here is what one of the interviewees answered:

"Well probably the biggest are the customs, I would say. And the local regulations. And since each one is different. Also, they can change, they change as the political situation changes in each country." Company D

Many times, the obstacles related to formal institutions are related to political instability or changes. As politicians and parties can their agendas, after an election, there is a possibility that the new people in charge can cancel projects or schemes that were started by the former leaders, and there might long periods

where current rules and regulations can be unclear or changing rapidly. The consequences of politics are seen in business life, which leads to companies having to consider forming formal networks that can give them knowledge about the political aspects as well.

“Actually, one of the other recommendations is like taking into account the government, because in Latin America they, some of the projects they start to build in for example 2021 and it involves the government, then some of the government is only four years. Then the government process, because all the elections and these start to have a big influence in the projects... Some projects change depending on who is in charge, when somebody develop one project, then change the person in charge, then the project maybe will be canceled or will be different or will get delayed. ... Well, some of the projects that involve the government take more time for the process because are like meetings, different meetings, part of the bureaucracy that they have.” Company F

“The situations in Latin America also change, in a way the political environment changes, and in a certain manner, it needs to be anticipated or prepared for ... the risks are quite dynamic.” Company B

4.5 Informal institutions

4.5.1 Culture

Countries' cultural differences can be compared with the Hofstede score, which is based on Hofstede's cultural dimensions theory. A country comparison tool can be used for this comparison. The first dimension, power distance, is quite low in Finland with 33 out of 100, compared to Latin American countries that have usually at least 60 out of 100 as can be seen from Figures 4, 5, and 6 (Country Comparison Tool, 2020). There is a huge gap in Latin American countries between the rich and the poor, as well as between a boss and an employee (Osland, De Franco, & Osland, 1999). The high level of power distance comes up in situations where a sales manager needs approval for decisions from above and or when dealing with older people who might expect a high level of respect:

“For example, for us, one deal got canceled in a way that the new entrepreneur was ready to buy the new product already, but then suddenly the father of the family said that don't buy this, it's too expensive.” Company D

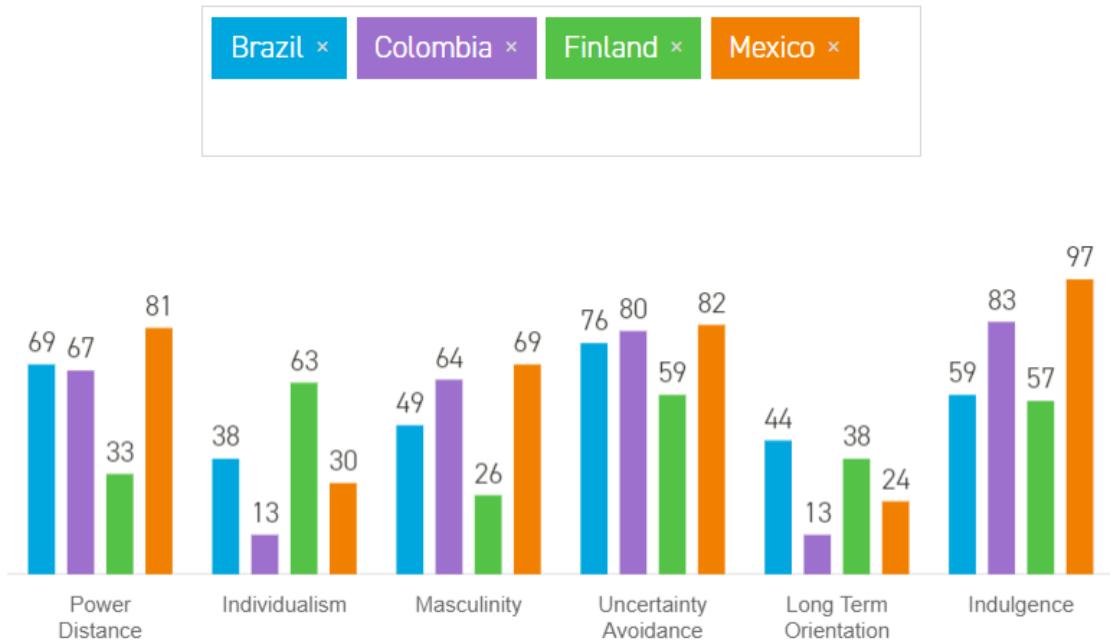


Figure 5 Country Comparison Tool 2020

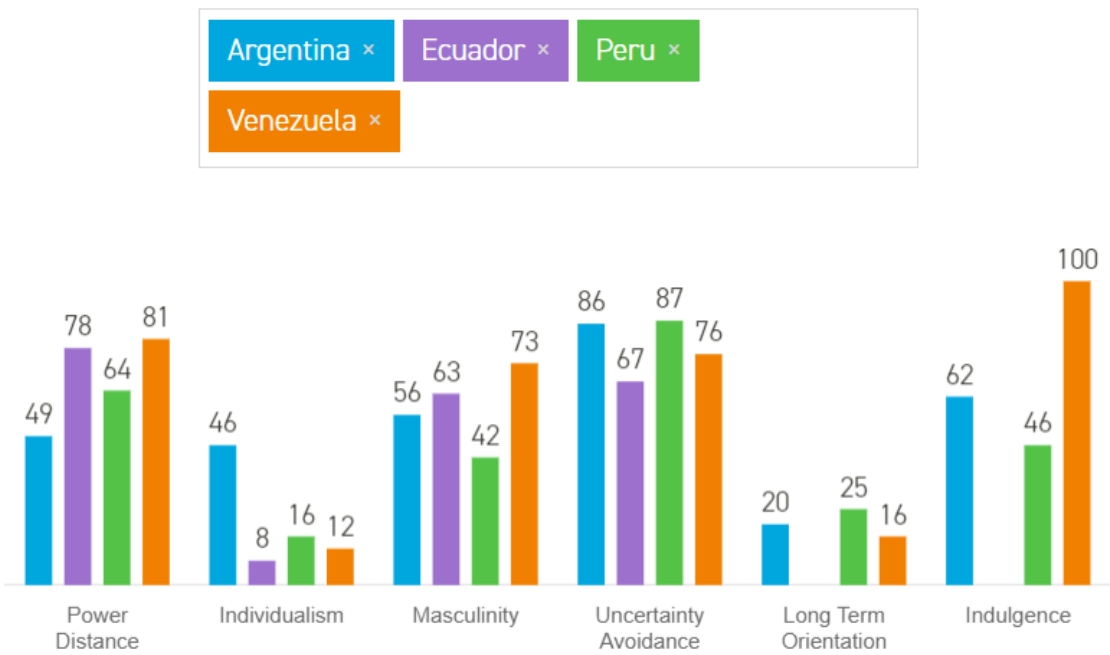


Figure 6 Country Comparison Tool 2020

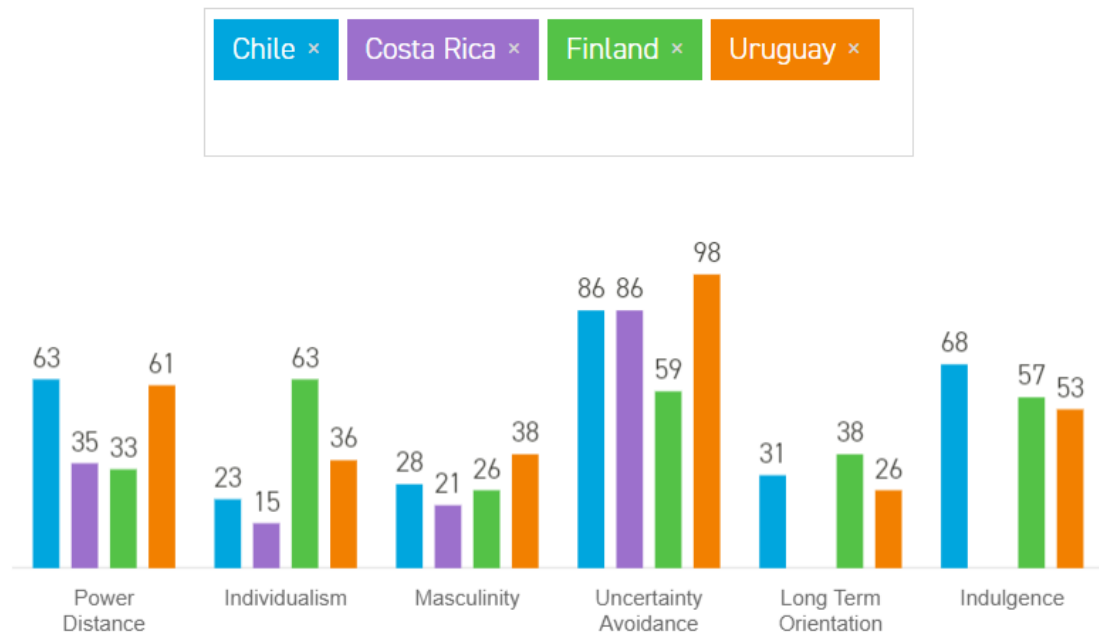


Figure 7 Country Comparison Tool 2020

A high level of power distance often emphasizes relationships, as the inequality of society needs to be combatted somehow. First, getting in contact with the decision-makers can be challenging, as the top management is further away from the workers. To be able to combat this challenge, more references or inside contacts might be needed to reach the correct person:

"Maybe to get to the right decision-makers, that could be one. A lot of people interested but then the one that makes the decision is not always in the loop. Whenever that person is in the loop and is interested, everything is possible ... for middle class, probably our products are too expensive, you know the gap in Latin America is so huge, you can find people with very low income but then could be a lot of interest, but our products are very expensive. So, the upper class, that market, to reach to them is always more challenging than the others." Company E

"Yeah, sometimes it's quite well and sometimes is, of course, some of the things that I now looked is like, now almost, everybody is doing home office, then they have many emails, then it's full of things. Sometimes it's hard to reach and find the right contact, but it's the job." Company F

Another dimension that varies in the comparison tool is individualism, which is relatively high in Finland with 63 out of 100, and low in the Latin American countries with 13-30 out of 100. Most Latin American countries follow these general levels, as Figures 4 and 5 show (Country Comparison Tool, 2020). In Latin America, collectivism is common, meaning people are more in the center instead of things, and leadership from above is normal (Granell, 2000). This was something that came up in the research as influencing factors related to their networking activities (Country Comparison Tool, 2020). Family is extremely important in

Latin America and thus it is mentioned at every turn as the interviewees described:

"This is an intensely family-bound, family-centered culture, so in other words, if you do, for example, a faux pas that you do not ask your business associate how their wife and kids are doing, it is considered rude." Company C

"...then they ask whether you have children and so on, you need to be in a way more ready for something like this, a different level of social contact than in somewhere else." Company B

Personalism is a concept that came up in all the interviews and is related to collectivism. In Latin America, people create personal relationships in business, and these relationships are the reason for complying with orders, making deals, sharing information, and are in general a necessity to succeed in business activities (Osland et al., 1999). The interviewees saw a clear difference between Finnish and Latin American attitude towards business relationships:

"... Latin American business culture, wherein a way being seen, being present, personal relationships are extremely important." Company A

"... it is different here, it is like more personal, that is the biggest difference in this, when you go there, stronger than anywhere here in Europe, you first sell yourself. Even your family and extended family." Company A

"In Finland, you don't even need to see the person, you can close the deal with a couple of emails, and you know they will be there and you know that what they are doing is what they will do and it's very practical but in Latin America, it's not like that. For good and bad, because it's also a different level of relationship with your associate and with your business and with your client so. They're like family, close to family." Company E

The biggest influence collectivism had on the networking activities of the Finnish companies was that they had to use a lot more effort on the networks rather than for example, product portfolio. Even formal networks like sales agents or distributors would require getting to know them on a personal level, to be a part of their inner circle. Thus, the line between formal and informal networks gets blurrier. Informal networks could be used to gain more advantages that might be acceptable or even possible in Finland.

With the third scale masculinity, the Finnish culture could be classified as feminine, as it scored only 26 out of 100 on the masculinity scale, whereas most Latin American countries scored much higher as shown in Figures 4 and 5. There are a couple of exceptions as shown in Figure 6, which should be noted, even though they are not the biggest markets in Latin America (Country Comparison Tool, 2020). Mexico, the second-biggest market in Latin America, is known for

being highly masculine. The experiences related to masculinity can differ between people depending on which countries they have done business in. In the best-case scenario, there are no challenges at all and in the worst cases the toxic masculinity and the sexism related to it can have consequences for the business:

“What surprised me, is that I have female salesmen and more than once I have run into a nasty phenomenon that the potential customer has suggested that the sales could be closed if the thighs would be opened. It is, especially for women, this environment is really challenging.” Company C

“...I don't know, I don't feel that we have had any challenges there, we have just been doing business.” Company B

With close relationships being so emphasized in the Latin American market, especially women can meet challenges with the masculine culture. Both the entrepreneur and sales managers need to be aware of these aspects of the culture. Both women and men might be expected to carry out a certain role, meaning the behavior with both formal and informal networks is moderated by the role.

The last interesting dimension is uncertainty avoidance. As illustrated in figures 4, 5, and 6, it is high in all Latin American countries (Country Comparison Tool, 2020). This aspect is related to the rule of law mentioned in the formal institution -chapter. In countries with high uncertainty avoidance, there is a tendency to create a lot of laws and regulations, to keep the balance and avoid new situations. It doesn't mean that the rules would be followed, there is only an emotional need for them (Hofstede, 2011). Especially the gap between social classes and general inequality in most of the countries generates a situation where people do not see abiding by the rules as advantageous (Osland et al., 1999).

With uncertainty avoidance, changes can be difficult to accept. Thus, offering new solutions to customers can be challenging as they might be more comfortable with the current situation. Furthermore, forming new relationships is not always easy either. A lot of contact needs to be had and firm trust created between the partners before decisions can be made:

“So, in Latin America to close a deal it takes a lot of effort, a lot of time, and a lot of expertise, it's not that easy. Therefore, it is difficult to find a partner that you can have absolutely like, you know like, you will, who you will be absolutely sure that is the right partner, will create the right connections and will create the right entry market and attract the right customers.” Company E

4.5.2 Corruption

Another informal institution that could be observed in the analysis was corruption. This phenomenon exists in all countries more or less yet is more common in Latin America than in Finland. Below is a map showing countries' corruption

levels, Finland having 85 out of 100, when 100 is the best score. To compare, Mexico has 31, Brazil 38, Colombia 39, and Argentina 42 out of 100 (Corruption Perceptions Index, 2020). With few exceptions, Latin American countries experience corruption much more than Finland.

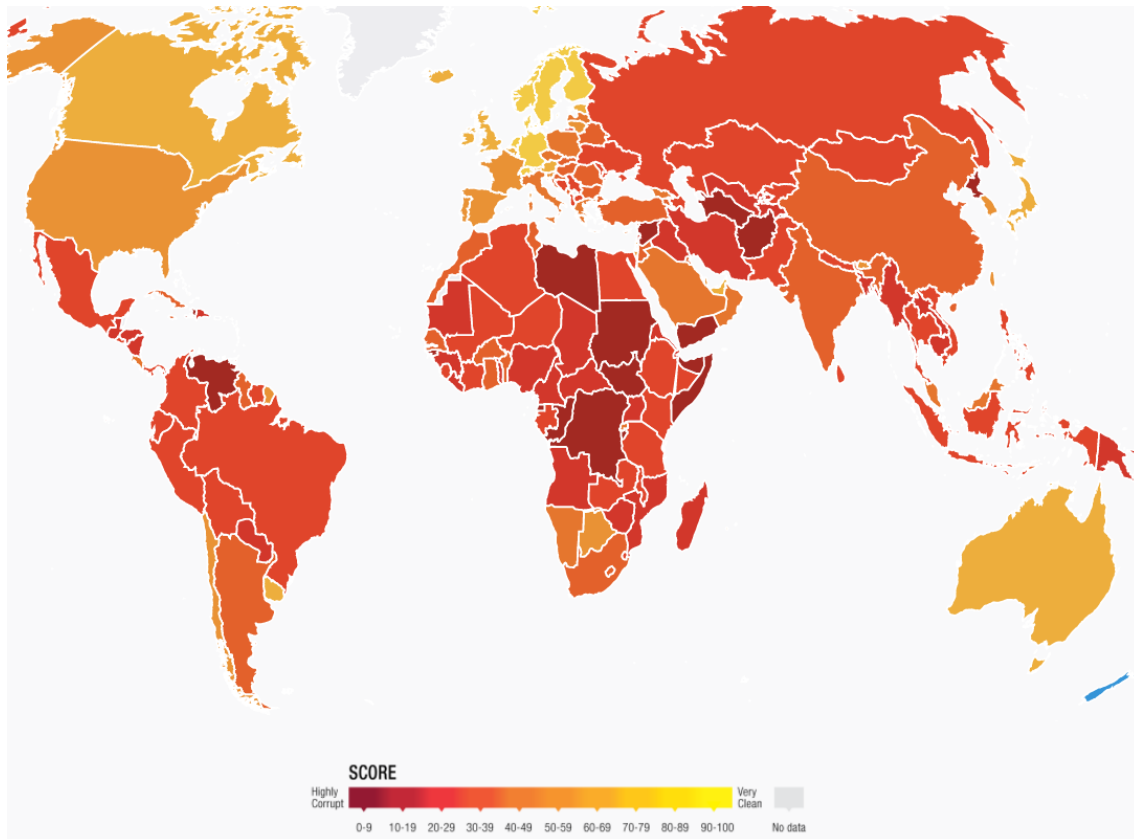


Figure 8 Corruption Perceptions Index

Corruption in Latin America was acknowledged by all interviewed companies, even though not all of them had been affected by it. There is also a different attitude towards lying or cheating in Latin America than in Finland, to some extent it is approved and even expected. Actions that could be seen as illegal or unethical in Finland can be accepted in Latin America as normal practice:

“Most of the people are not trying to cheat you, maybe, but if they find the opportunity to take advantage of a situation, they will try to do it. Well, that is some kind of a conflict with honesty mentality that you mostly have in Finland. Surely you have people that are corrupted, as in any part of the world, but the way you are watching at the world is different.” Company D

Consequently, the companies needed to interact with Latin American contacts differently than they would in Finland. Matters that are meaningful when doing business in Finland like being on time, always being truthful, and focusing on details, were not as vital in Latin America. When contacting formal networks, the

Finnish companies first needed knowledge about what the local practices were, to not be confused on what is accepted and what is not.

When doing business in Latin America the companies had an option to better their position by choosing illegal or unethical methods, meaning resulting in corruption. All the interviewed companies had decided to stay on the legal path, even though it might mean that their financial growth was smaller or their competitors might get an advantage over them. For some companies, this was an important part of their values and for others, it had not even crossed their minds:

“This corruption is a thing that needs to be addressed, it is a really unhealthy phenomenon and I am very proud that I have been able to keep our company out of this matter.” Company C

“Actually, we are not dealing with some things that maybe you could think are complex in Latin America like corruption or something like that or even security in terms of someone stealing something or... we don't have that kind of problems. But in all these years ... I was never involved in any kind of situation. Company D

Especially when choosing partners or interacting with sales agents and distributors, the interviewees advised caution. If contracts or deals were made too quickly, there was a possibility of being cheated or misunderstandings arising. Fancy offices or websites were not considered the measure of trustworthiness, but rather referrals from other trusted contacts or own experience through time were favored. In all different aspects of business, choosing the right partner to work with was highlighted as crucial:

“Use the time for finding a lawyer you trust, I could list multiple lawyers who are not trustworthy, erm, who take your money but then don't carry out anything.” Company C

The experiences of companies are not identical. Even though some companies had experienced trouble with cheating and corruption, others can be lucky enough to not encounter challenges. This can also be due to the company's experience in the Latin American market, with more knowledge it is possible to prevent unwanted situations. Corruption can be seen in many different ways that are not always directly affecting the business:

“...but they are selling to others, so sub-contracting in a way and we found out that sometimes they sell out these products like maybe two-three times more expensive than the original price to the final customer. So, we still see lots of corruption in a way ... unfortunately we see all of that as well.” Company E

“Well, in a way, to our process, to our delivery, in all, we never have any problems, neither about corruption.” Company F

Corruption as an informal institution influenced the networking of some of the companies, the result being that they felt they could not easily trust formal networks. They judged that they had to meet their contact person face-to-face, compared to Finland where they were able to interact with contacts fully online. This meant that even formal relationships had to be quite deep and more time was needed to form them. Mutual trust was the key factor that enabled the companies to eventually use the formal networks in their entry into the market.

5 DISCUSSION

In this study, I researched how networks influenced the entry mode decision of SMEs entering distant markets with varied institutional settings. For the context I chose Finnish SMEs entering Latin American markets. The data is comprised of six transcribed company interviews as well as three tools measuring institutional factors of host markets. I formed a theoretical model based on international business literature. Next, I analyzed the data with thematic analysis and used ATLAS.ti -program for coding. The analysis showed results that confirmed my theoretical model and revealed new information.

My research question was “how do SMEs’ networks influence their entry mode decision when entering a distant market with varied institutional settings?”. The main conclusion was that a company having mostly formal networks resulted in them choosing direct exporting via host country intermediary. If the company also had strong informal networks, they could use direct exporting via company owned channel as well. There was a difference between an entrepreneur’s informal network compared to a sales manager’s informal network, where the entrepreneur chose an equity mode of entry compared to other companies who chose non-equity modes.

Formal and informal institutions had a moderating influence between the networks of the company and their entry mode choice. Formal institutions in the target market such as laws and rules created challenges for companies in practical issues. To combat these challenges, the companies had to put more effort into building and maintaining their networks. In the case where formal institutions were less developed, the dependence on formal networks and direct entry mode was decreased. The host market’s informal institutions, meaning culture and corruption level, led the companies to emphasize the importance of networks and especially informal networks. Both formal and informal institutions contributed to the relationship between networks and entry mode, as deeper and more informal networks provided new entry mode opportunities for the companies.

My research question was answered as a relationship between networks and entry mode choice was found. Further, the effect institutions had on this relationship was discovered. The understanding of how SMEs choose entry modes when entering distant markets is still in its infancy and more qualitative studies are needed on the matter (Laufs & Schwens, 2014). Networks are one of the possible explaining factors for entry mode choice both as a resource and as a capability (Galkina & Chetty, 2015). Additionally, formal and informal institutions have been proposed to influence companies’ internationalization (Berry et al., 2010; Moreira & Ogasavara, 2018). My results add to the existing literature, as I will explain in the next chapter.

5.1 Theoretical contributions

My research advances three aspects of international business: entry mode choice, network theories, and institutions. My findings are in line with the resource-based view of entry mode choice, where resources are seen as the main factors influencing the entry mode decision. The RBV suggests that when a company can independently gain vital resources in the host market, it will choose direct exporting via company owned channels. Yet, if it is not able to access the resources by itself, the firm is more likely to choose direct exporting via host country intermediaries (Sharma & Erramilli, 2004). According to my conclusions, this causality is partly determined by the networks the company has. When a company has informal networks, it is more likely to be able to attain the needed resources. On the contrary, when the company uses mainly formal networks, it will need to use intermediaries to reach its main resources in the host market.

Transaction cost theory posits that SMEs choose non-equity modes of entry when they observe the market to be high in environmental uncertainty, and only choose equity modes of entry when they estimate uncertainties to be at low levels (Brouthers & Nakos, 2004). As this theory is about the subject perceiving of the market, not objective uncertainties, it opens up the questions, who is looking at market conditions. Results from my study offer a view that when the entrepreneur is closely familiar with the host market, through experience, knowledge, and networks, the company is more likely to choose an equity mode of entry. Oppositely, if solely the sales manager in charge of the market area knows the market intimately, the market is viewed as more uncertain and thus a non-equity mode of entry is more preferable.

Ojala (2008) has presented that strategic reasons are the main driver of decision-making for SMEs when considering distant markets. My results partly contradict this notion, as the companies in my research were highly influenced by their networks. Even though the companies did have a general goal of growing their business, their decision-making was not guided solely on strategic reasons. Rather, my results correlate with the effectuation theory presented by Galkina and Chetty (2015), where companies first use effectual tactics in networking and decision-making and only later move onto causal tactics. I advance the effectuation theory by offering institutions as a moderating factor influencing the networking of the companies.

The company that chose greenfield investment as an entry mode, faced challenges with the formal institutions and consequently with formal networks. Because of this, a non-equity entry mode like direct export was not as attractive for the company. In other words, the less developed formal institutions contribute to companies not utilizing formal networks and non-equity entry modes as much. This is in line with earlier findings that the higher risk level of formal institutions leads to SMEs choosing equity-based entry modes (Schwens et al., 2011). In the light of my findings, institutions are a factor that needs to be studied more in the context of networks.

An interesting part of my findings was that entrepreneur's networks had a different effect from sales manager's networks. There have been notions in the literature that an entrepreneur's human capital might be a causal factor in the SME entry mode decision process. Due to the small size of SMEs, the entrepreneurs have a bigger role in the decision-making of the companies when compared to MNEs (Laufs & Schwens, 2014). My results suggest that when examining entrepreneurs, their unique capabilities in networking should be considered, as they might lead to advantage-giving resources like informal networks.

5.2 Managerial implications

For SME entrepreneurs and managers this research offers multiple implications, especially when considering Latin American and other emerging markets. By using informal networks, the company can reach customers directly without a need for intermediaries, which can potentially increase their profits. Furthermore, the entrepreneur's informal networks can help them choose an equity-based entry mode as the intimate knowledge about the target market lessens risks related to the market entry.

When informal networks are not available, the company should actively acquire formal networks from various sources. These can be for example from visiting events, contacting embassies, using customer referrals, or meeting government agencies. When formal networks have been created, the next step is to develop them into informal networks by moving the relationship onto a friendship level. This will allow the company to choose direct entry mode via company owned channels, as intermediaries are no more the only way to enter the market.

Sales managers and entrepreneurs must research the host market's formal and informal institutions before entering the market. To gain this knowledge, there are two choices: either immerse yourself in the host country's culture and conventions or hire people who already have the knowledge. Either way, making assumptions about the target market's institutional factors without real information can be risky and lead to unnecessary challenges.

Relating to Latin American markets specifically, some factors need to be considered before entering the market. The formal institutions are very different from Finland, which might surprise when starting business actions in Latin America. As the rule of law is weaker, it has implications on practical matters like contracts, customs, transporting, and financial activities. Generally speaking, the laws and rules are more intricate and complex than in Finland, yet people might not follow them as strictly. Finding strong networks can help with managing the challenges created by formal institutions. When building formal networks, it is necessary to be more cautious than in Finland and not take things at their face value. Real trust needs to be formed between the two parties, as otherwise there is a possibility of not getting the needed benefit from the relationships, or in the worst case, getting a negative result.

The culture of Latin America differs from Finnish culture on multiple fronts. When forming networks, it helps to be aware of the particular elements of the culture, mainly high levels of collectivism, masculinity, power distance, and uncertainty avoidance. Family and community are important in Latin America, which shows in situations where the family can affect decision-making or opinions are asked from people in your collective. Contrary to Finland, family is often mentioned even in the business context. It is important to ask about the family of your contacts and to be able to share about your own. What might surprise many Finns entering Latin America, is that business contacts often want to create a personal relationship with them. Consequently, something that started as a formal network connection can develop into an informal connection. This can be a huge advantage in the markets, and help the SME gain more networks, knowledge, and resources.

Latin America's high power distance level combined with higher levels of masculinity means that it might be more challenging to reach the top decision-makers in companies, especially without informal networks. The decision-making chain can be longer than in Finland, as employees often need approval from above. To overcome this challenge, researching the potential customers and finding out how they make decisions is crucial. Assuming that your contact is automatically in charge of closing the deal is a mistake. Patience is a virtue, as finalizing sales can take a lot longer than expected.

The high level of uncertainty avoidance in Latin America is related to formal institutions as well. As people are afraid of change, they rely on laws, rules, and regulations. For Finnish companies, it is advisable to familiarize themselves with the local conditions, as the amount of needed paperwork or permissions can be surprisingly high. On the contrary, even though there are a lot of laws and rules, the people are not as inclined to follow them as in Finland. This is why it is recommendable to use networks to find out how the bureaucracy works in practice to avoid unnecessary work.

The last recommendation for companies considering entry to Latin America is to acknowledge the importance of language. If the entrepreneur can learn the local language, it is preferable. If not, the sales manager in charge of the market should know the language of the target market. As Spanish is the main language of most Latin American countries, the value of having the skill to speak it is a great advantage. The access provided by learning just one language is enormous, thus making Latin America a very attractive market.

5.3 Limitations and future research directions

A researcher is a person, just like everyone else. This leads to the question: can research ever be unbiased and neutral? The answer is probably no, but there is the possibility of the researcher doing their best in recognizing their prejudice and taking precautions to prevent it from affecting the results of the research.

Next, I will take a look at my research critically and try to find both the positive and negative features. There are always limitations to the research, as resources are not endless. Yet I believe I did the best I could in the circumstances that we live in currently, which are affected by the current Covid-19 pandemic.

In this research, all interviews were recorded and verbatim transcription was used to make sure of reliability. I have added the interview questions in the appendix. I used coding for the analysis, which helped me to see the data more clearly and make connections more visible. The power quotes I have included in the study help with bringing the data closer to the reader.

In the context of my topic, there is a possibility that there are other factors influencing entry mode decisions. For example, the industry, age, or ownership structure of the companies might affect their decision-making. As this was qualitative research answering a question of “how” rather than “what”, the need to control other affecting variables was not central. Rather, the goal was to uncover new and interesting factors and phenomena from the data.

Because half of the interviews were done in English, which was not the native language of either interviewee or interviewer, there is a possibility for misunderstanding or misinterpretation. This effect was reduced by sending the questions to the interviewees beforehand and discussing the meaning of the questions in the interviews if needed. I believe the diversity of the interviewees added to the quality of the data. If all the interviewees would have been Finnish, their view of the differences between Finnish and Latin American would have been one-sided. This way I was able to get a broader understanding of the institutional differences.

As there is a limited number of SMEs having business in Latin America, I had to be careful with purposive sampling of the cases. I used networks to find the companies, and some of the companies reached out to me as an email request was sent to them. Therefore, the companies in this research may differ from the general mass of companies, as their willingness to participate in the study might give an indication, for example, about higher interest in networking. Yet, I carefully investigated the companies chosen for the study to make sure they fit the criteria of the study. Moreover, the number of participants in this study was quite low, due to the challenges of acquiring interviewees. More participants might have increased the relevance of the study, though it must be mentioned that the interviews done for the research were fairly long and extensive.

There are several ways future research can be done. First, future research could study networks’ influence on other entry modes than presented in this research, for example, joint venture or wholly-owned subsidiaries. As SMEs tend to choose non-equity entry modes, it would be interesting to learn more about companies choosing equity entry modes. Second, studies that focus on a single industry would give more knowledge about how those companies use networks specifically. It might even be fruitful to compare industries to each other, for example, a highly technological industry versus a more traditional industry. Third,

other distant and emerging markets should be studied, such as Africa or Southeast Asia. These areas have unique features but might present similar challenges for SMEs as other emerging markets.

6 CONCLUSION

With this research, I wanted to highlight Finnish SMEs' internationalization, as it is one of the cornerstones of Finland's future prosperity and economical success. In the 2010s, with the fall of Nokia, a huge Finnish technology company, the importance of SMEs to employment and society's stability has been recognized (Lane, 2016). Thus, to support Finnish SMEs' entering to new markets, further insight into how they choose entry modes is significant information. The effect of different types of networks on the entry mode decision was revealed in my study, providing ways to utilize networks in the internationalization of companies.

The second intention of this study was to look into Latin America, an emerging market that has been mostly unresearched in the Finnish context. Latin America is an interesting and highly potential market area for Finnish companies, that has not been exploited enough. Concerning this distant market area, both formal and informal institutions were uncovered and their influence on network creation and upholding was detected. Differences in culture, habits, procedures, and bureaucracy were presented, with distinguishable differences found between Finland and Latin America.

I hope that this research will give Finnish SMEs needed information about entering distant markets, and about how to use networks in their entry mode decision process. Finally, I want to mention that all interviewed companies had reached their main goals in Latin American markets and were planning to expand their business in the area. The companies had gained financial profits, significant knowledge about internationalization to distant markets, and a reputation as a global company.

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APPENDIX 1 Interview questions

Part 1: Background

1. Please state your name and title.
 - a. Which are your areas of responsibility in your company?
 - b. Can you describe your education and work background?
2. Could you talk about the establishing of your company?
 - a. When was your company established?
 - b. How many employees does your company have?
 - c. Is your annual revenue under 50 million and balance under 43 million?
 - d. Does your company own any parts of other companies or vice versa?
3. In which industry do you do business?
 - a. Which are your most important services or products?
 - b. In which Latin American countries do you have business actions?
 - c. In which areas do you have business outside of Latin America?

Part 2 The process of internationalization

1. When did you start the internationalization process in Latin America?
 - a. What were the reasons behind the decision to enter the Latin American market?
 - b. Do you have a personal connection to Latin America through, for example, family, education, work, travel, networks?
2. Which entry mode/modes did you choose at the start of the process?
 - a. Which aspects were relevant for you when making the decision?
 - b. Did you contemplate other ways of entering the market?
 - c. Has the entry mode changed after the initial entry?
3. Did you involve any consultants/partners or other outside services in the process?
 - a. Did you get help from the Finnish government?
 - b. What about Latin American governments?
4. How did you view the risks related to this market entry when making the decision?
 - a. Do you hold a similar or different viewpoint now?
5. What was your main goal(s) with internationalization?
 - a. Have the goals been achieved?

Part 3 Latin American markets

1. How would you describe the Latin American business culture?
 - a. Are there differences or similarities to Finnish culture?

- b. In your opinion, are there some key skills or knowledge a company needs before entering the Latin American markets?
2. How is your experience with communication and language(s) in the Latin American markets?
 - a. Which are the positive and negative sides?
 - b. Is it necessary to know the local language(s)?
3. How did you reach your customers in the Latin American market?
 - a. Did you use any networks?
 - b. Which marketing channels did you use?
4. Which were the biggest challenges related to Latin American markets specifically?
 - a. How did you manage the challenges?
 - b. Did your entry mode have a positive or negative effect on these challenges?