

Lappeenranta University of Technology

School of Business

International Marketing Management

Dongchuan Ye

**ENTRY MODE CHOICE OF FINNISH STARTUPS ENTERING
CHINESE MARKET IN TABLET INDUSTRY**

Supervisor/Examiner: Professor Sami Saarenketo

Professor Olli Kuivalainen

ABSTRACT

Author: Ye Dongchuan

Title: Factors influencing the entry mode choice of Finnish startups entering Chinese market in tablet industry

Faculty: School of Business

Major: International marketing management

Year: 2016

Master's Thesis: Lappeenranta University of Technology

99 pages, 6 figures, 7 tables and 2 appendices

Examiners: prof. Sami Saarenketo

Professor Olli Kuivalainen

Keywords: internal factors, external factors, entry modes choice, SMEs, China, tablet industry

Since the implement of opening policy, the overall economy of China has maintained rapid and stable development, which has now makes China become the world's second largest economy. China, it is to become the largest overseas market for many large global enterprises from various industries, this naturally also includes the Tablet PC industry that raised in recent years.

The purpose of this thesis is to analyze different internal and external factors that influence the entry mode choices of Finnish SMEs in tablet industry entering Chinese market. The goal is to find out the suitable entry modes for the Finnish tablet or other relevant SMEs entering Chinese market. Qualitative analysis is the main research method in empirical part of this study. The interviews were carried out with the case company and other two Finnish business organizations in China.

The result of the study indicated that the internal resource and external business environment affect the entry modes choices much more than other factors for SMES. The exporting mode and sales subsidiary could be a better choice for SMEs entering Chinese market. Furthermore, firms should fully learn the Chinese market combine with its own background before making decisions.

ACKNOWLEDGEMENT

First of all, I would like to give the highest expression of gratitude to both of my supervisors -- Professor Sami Saarenketo and Professor Olli Kuivalainen. Thanks for helping me with the whole process of my masters' thesis with your valuable advice. Secondly, I would thanks the CEO of EVE-Tech Oy and all other members of the startup teams of the firm who make this thesis really happen. Besides on the case firm, I must thanks Samuli Sulander from Finnish Business Council Beijing and the Commercial Counsellor Jari Seilonen from Finpro, who provide my information and advice for my thesis. Also I appreciate for my friends Weiting Le and Ni Hao who provide me the suggestions with the format and grammar of this thesis.

Finally, I would sincere thanks my family, especially my parents who support me in every aspect with my whole master's studies. I love you all.

Dongchuan Ye

Lappeenranta 11.2015

ABBREVIATIONS

| | |
|------|----------------------------------|
| CEO | Chief Executive Officer |
| COO | Chief Operating Officer |
| EJV | Equity Joint Venture |
| EU | European Union |
| FBCB | Finnish Business Council Beijing |
| IDC | International Data Corporation |
| MNE | Multinational Enterprise |
| SME | Small and medium enterprises |
| VPN | Virtual Private Network |
| WFOE | Wholly Foreign Owned Enterprise |
| WTO | The World Trade Organization |

TABLE OF CONTENTS

| | |
|---|-----------|
| 1 INTRODUCTION | 1 |
| 1.1 Background of the thesis..... | 1 |
| 1.2 Aim and research questions..... | 3 |
| 1.3 Definitions and Delimitations..... | 3 |
| 1.4 Theoretical framework..... | 4 |
| 1.5 Methodology and research design..... | 7 |
| 1.6 Structure of the thesis..... | 7 |
| 2 ENTRY MODE CHOICE IN STARTUPS | 8 |
| 2.1 Characteristics of Startups..... | 8 |
| 2.2 Entering Chinese market..... | 9 |
| 2.3 Factors affecting the entry mode decision..... | 11 |
| 2.3.1 Internal Factors..... | 11 |
| 2.3.2 Desired mode characteristics..... | 14 |
| 2.3.3 Transaction cost economics (TCE)..... | 16 |
| 2.3.4 External factors..... | 17 |
| 2.4 Different types of entry mode..... | 24 |
| 2.4.1 Export modes..... | 25 |
| 2.4.2 Intermediate entry modes..... | 27 |
| 2.4.3 Hierarchical modes..... | 29 |
| 3 EMPIRICAL ANALYSIS OF THE CASE COMPANY | 32 |
| 3.1 Research method and data collection..... | 32 |
| 3.2 Case description | 34 |
| 3.3 Case analysis..... | 39 |
| 3.3.1 Analysis of Internal factors..... | 39 |
| 3.3.2 Analysis of External factors..... | 48 |
| 3.4 Benchmarking with Jolla Ltd..... | 65 |
| 4 DISCUSSION AND CONCLUSIONS | 71 |
| 4.1. Summary of major findings..... | 72 |

| | |
|--|-----------|
| 4.2. Managerial implications..... | 76 |
| 4.3. Limitations and suggestions for further research..... | 78 |
| REFERENCES..... | 81 |
| APPENDICES..... | 90 |
| Appendix 1..... | 90 |
| Appendix 2..... | 92 |

TABLES

| | |
|---|----|
| Table 1. Data collection information | 34 |
| Table 2. T1 tablet specs (Source: EVE-Tech) | 36 |
| Table 3. EveT1 compare with Samsung Galaxy Tab (Source: Eve-Tech).. | 37 |
| Table 4. Six-Factor Country Risk – China (Source: IHS Global Inc. 2015).... | 52 |
| Table 5. Comparison between Jolla Ltd. and Eve-Tech Oy. | 68 |
| Table 6. Major findings of internal factors affecting entry mode choice | 72 |
| Table 7. Major findings of external factors affecting entry mode choice | 73 |

FIGURES

| | |
|---|----|
| Figure 1 Theoretical framework of the study..... | 6 |
| Figure 2 NPD's tablet shipment forecast..... | 53 |
| Figure 3 China to outgrow global tablet shipments in 2014-15..... | 57 |
| Figure 4 Sales volume of tablets in Chinese market..... | 58 |
| Figure 5 Market share held by tablet operating systems in China in 2014, by share of internet traffic..... | 61 |
| Figure 6 Exchange rate between Chinese yuan renminbi (CNY) and Euro (EUR)..... | 63 |

1 INTRODUCTION

This first part of the thesis presents the introduction of this study. It contains the background overview, aim of the study and research questions, definitions and delimitations, theoretical framework, methodology research design and whole structure of the paper.

1.1 Background of the thesis

During the last two years one of the most hot topics that discussed in business life has been Microsoft acquired Nokia's devices & services business, and license Nokia's patents and mapping services. (Microsoft 2013) In the past, Nokia has been recognized globally as the glory brand of Finland in technology industry, but now they have lost their most representative mobile phone business section. But on the other hand, with the support of Finnish government, there are many other startups in similar industries gradually into people's attention all over the world. (Sulopuisto, 2014) Increasing number of SMEs in Finland are involved with international business and are connected to the global markets, which means due to the limitation of domestic market in Finland almost every Finnish firms will face the challenges of internationalization. (Saarenketo, 2002)

The rapid development of Chinese economy makes China replaced the position of Japan to become the world's second largest economy 5 years ago. Nowadays, when the USA's economy can't grow fast enough to attract the investors and labors, EU is facing the problem of the euro currency continued to depreciate. China as a huge market remained stable economic development, and demonstrated a great opportunity for foreign enterprises. (Green, 2012) Great opportunity of Chinese tablet market has attracted many large enterprises within the industry, such as Apple,

Samsung and Google. Meanwhile, some small and medium enterprises would also like to gain some market share in this market, for example Jolla Ltd.

Successful entering Chinese market can bring huge profits to the company. China's huge population base determines the number of consumers in this market more than other individual market, rapid and stable development of China's economy also increased consumer spending levels. In many cases, Finnish Startups at the outset already realized the importance of the Chinese market. "China has the largest and most rapidly expanding smartphone market in the world" Said by Jolla's Chairman, Dr. Antti Saarnio. The company established operations in Chinese market in a very short time when they started internationalization, now Jolla has their office and R&D in Hong Kong China. (O'Hear, 2012)

Since Apple launched iPad in 2010, the demand of consumers for tablet PCs were exploded, many companies getting into the global tablet market since that time. The iOS and Android operating system come out on top in the fierce competition, but when Microsoft participate into this game with their Windows system, the whole situation is difficult to predict. (Choi et al., 2012) Since the tablet industry is an emerging industry that raised up in modern years, there are very less specific academic researches focused on the internationalization of typical enterprises in tablet industry. While the studies on Startups in such industry are even less.

Researchers have focused on the decisions of entry mode choice for decades, since it's essential for companies to expand their business overseas. (Brouthers, 2013) Based on the expected contribution to profit is the general rule for the choice of entry mode. There are four groups of different factors affecting the foreign market entry mode decision, which includes internal factors, external factors, desired mode characteristics and transaction-specific behavior. (Hollensen, 2011) In each group, there are detail factors such as firm size, international experience in internal factors

and sociocultural distance and market size in external factors. Accordingly, it's necessary for the firms to understand those factors that affect the entry mode decisions, and choose the most suitable entry mode in internationalization process, those decisions can affect the future operation deeply. (Lu, 2002)

1.2 Aim and research questions

The aim of the thesis is to gain deeper understanding of the impact of internal and external factors on the entry mode choice of Finnish startups in tablet industry entering Chinese market.

Research question (Goal):

How do the Finnish startups choose their entry mode when entering Chinese tablet market?

Sub-questions (Objective):

1.2.1 What is the role of internal factors in the choice of entry mode?

(Organizational/ownership structure, firm size, international experience, product, risk averse, control, flexibility)

1.2.2 What is the role of external factors in the choice of entry mode?

(Sociocultural distance between home country and host country, country risk/demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition, a small number of relevant export intermediaries available, industry)

1.3 Definitions and Delimitations

Entry mode: "An institutional arrangement for the entry of a company's products and services into a new foreign market. The main types are export, intermediate and hierarchical modes." (Hollensen 2011)

SMEs: “First, SMEs are at a resource disadvantage compared to large MNEs; SMEs are highly sensitive to external challenges; SMEs vary from other types of firms in terms of their ownership structure.” (Laufs, Schwens, 2014)

Theoretical delimitations:

Factors affecting the choice of foreign market entry mode include internal factors, external factors, desired mode characteristics and transaction-specific behavior. (Hollensen 2011) All these factors are applicable to both large MNEs and SMEs, but due to the equivocal of SMEs researches, this thesis will focus on SMEs. Consider for the research target is SME and Chinese market, some factors may not so important or applicable for this specific area, such as organizational/ownership structure factor and a small number of relevant export intermediaries available factor. So the discussion about these two factors will be much less than others, and these won't be analysis in empirical part either.

Methodological/empirical delimitations:

The thesis focuses on the case company which is a Finnish startup company in tablet industry. The company was chosen due to the characteristics of the company is very representative in this industry. The firm has just established and released their first product in 2014, in less than a year, the company has already begun preparations for international. Therefore, the results of this study are not covered all industries in Finland and it only concentrates on the entry modes that suitable for entering Chinese market.

1.4 Theoretical framework

The theoretical framework of the thesis direct response showing the theoretical elements contained herein the study through the following figure. The read can

visually see the direct and indirect connections of each basic theoretical elements and how they impact each other's roles.

The internal factors and external factors are the main theoretical elements in this study, which has been placed in upper boxes of the figure. According to the analysis of the impact of different factors then get the result of which entry modes in the bottom boxes should be chosen. The export modes, intermediate modes and hierarchical modes are totally different entry modes, by analyzing the impact of the appropriate internal or external factors, it can be very helpful to select the suitable entry modes.

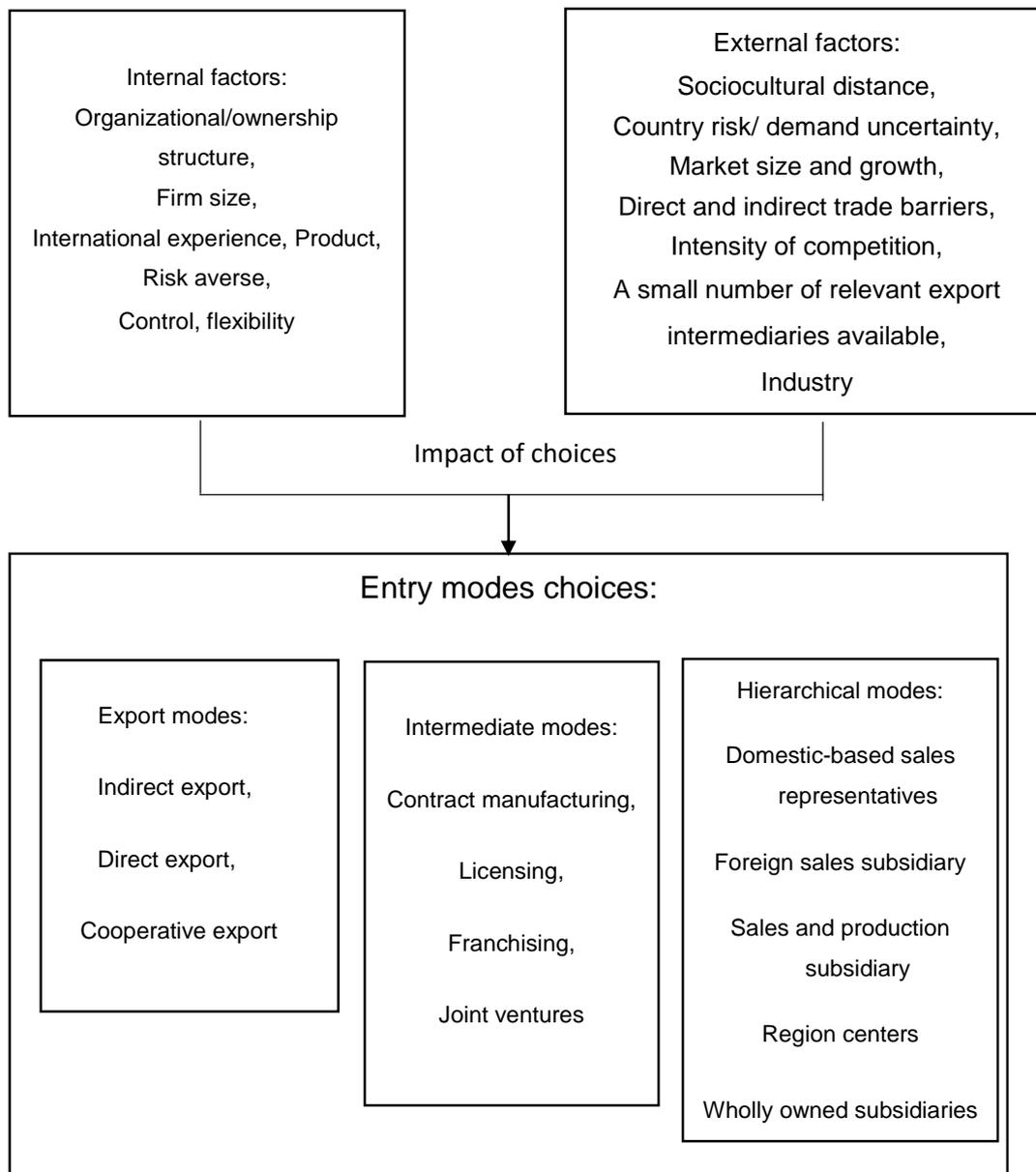


Figure 1 Theoretical framework of the study

The above figure shows the theoretical framework of this paper. There are several factors in both internal and external factors that affect the choice of foreign market entry modes for startups. When those factors change, the choice of different entry modes (export modes, intermediate modes and hierarchical modes) will be changed correspondingly as well.

1.5 Methodology and research design

There are three parts of information in the research. The first part is a theoretical study, which is a patch of collecting pervious academic studies and research papers related to the internationalization of SMEs. Next is the empirical analysis that is done as qualitative research. The interview of the CEO and other staffs of the case company will be done to collect the data of internal information as well as external information about the firm. The last part is a collection of secondary data, which includes articles or papers from publications, news and online information related to case company and Chinese tablet market as well as the who business environment. The information of another company Jolla Ltd. will also be collected for the benchmarking purpose, based on their background and experiences in Chinese market.

1.6 Structure of the thesis

The first following part is the literature review. It contents certain results and argument from previous research articles related to SMEs and international foreign market entry modes choice. Different internal and external factors as well as various kinds of entry mode related to Chinese market will be introduced in that part. The next part is the practical part of this paper, which is the qualitative research section. In this part, the detail information of the case company – Eve-Tech Oy will be given, furthermore readers can also find out the research methodology and benchmarking research with Jolla Ltd. The last part of the paper consists the summary and discussion of the whole study, and also the suggestion for the future study.

2 ENTRY MODE CHOICE IN STARTUPS

This is a theoretical chapter based on many previous researches that includes 4 parts introducing the entry mode choice of SMEs. First there is introduction of SMEs' characteristics, then some issues about entering Chinese market will be present. The third part figures out different internal and external factors that influencing the entry mode choice, and last part will elaborate different types of entry modes in detail.

2.1 Characteristics of startups

Oviatt and McDougall (1994) argued that when discussing the international business, not only large multinational enterprises are in the key position, the small new ventures are also an important group.

Establishing a wholly-owned foreign Greenfield requires strong funding support. However, in a certain extent, contractual agreements (e.g. licensing) limit the supervision of new markets. (Hill et al., 1990) Due to the limitation of resources, SMEs need more considerate how to utilize their resources most effectively. On another Hand, the sustained competitive advantage achieved by the firms mostly based on their specific resources and capabilities. (Barney, 1991)

Compare to MNEs with strong financial and human resources, SMEs have a large disadvantage in terms of resources based view. (Erramilli & D'Souza, 1993, 1995) They may not have funding to establish the competency managerial-control structure in target country which limited the control of the subsidiaries. And sending the employees from home country to host countries is another challenge for the SMEs. (Calof, 1994) Lack of resources, limiting the SMEs gets benefits from target market and more limited internationalization scope (Buckley, 1989)

There is very little knowledge about international business, political and technological environment in which SMEs become extremely sensitive when facing the challenges of the external environment. These factors contribute to the unpredictability. (Cheng, Yu, 2008) This unpredictability makes the decision making process of the SMEs differ from the MNEs which also reflected in the literature on choice of entry mode of SMEs. (Erramilli, D'Souza, 1993, 1995)

Most of the corporate structure of SMEs are family owned businesses or friend partnership. Such structure leading companies follow the founder's ideas and goals in strategic direction, which makes the personal needs, values and so on mixed in the decision making process. (Kotey, 2005) When firms be internationalized, the owners think they can control the activities of the internationalization and select the entry mode. With the effect of the corporate structure mentioned before, the owners naturally will not be willing to choose establish the joint venture, because it will distract their decision making rights. (Fernandez & Nieto, 2006)

The majority of the existing literature of foreign market entry mode choice has focused on large multinational enterprises (MNEs), even though small and medium-sized enterprises (SMEs) and MNEs have a significant difference. The current situation of research literatures regarding SME foreign market entry mode choice is ambiguous. (Laufs, Schwens, 2014) Agarwal and Ramaswami (1992) also argued at least in part that knowledge is limited concerning with how SMEs make critical decisions when enter foreign markets. Due to this limitation, the knowledge learnt from the MNEs can't easily transfer to SMEs directly. (Shuman, Seeger, 1986).

2.2 Entering Chinese market

Since the introduction of "open-door" policy in 1979, Chinese market has become an important market in the eyes of foreign companies. There are two most common modes that foreign enterprises use entering Chinese market are equity joint

ventures (EJvs) and wholly foreign-owned enterprises (WFOEs) after 1980s. In 1990s, WFOEs replaces EJvs to become the most popular mode entering China. The reasons caused this change includes three factors. There are too many EJvs with a disappointing performance in the market, the inherent advantages of WFOEs and a less uncertainly environment and regulations of the government. (Deng, 2011) In addition to selecting the appropriate mode to enter the Chinese market, another important factor to consider is called “guanxi”, which is Chinese pronunciation of relationship, and more deeply it means connections or interpersonal relationships. It is defined by Davies (1995) as “the social interactions within the network place and its members in the equivalent of an infinitely repeated game with a set of people they know.”

Academic researchers of guanxi have continued for more than decades, many western scholars hope to find out the benefits of guanxi while doing business in mainland China. However, guanxi perceived by western people still unclear and it is not the really meaning in mainland China. Two kinds of guanxi are popular in mainland China, which are culturally rooted favor-seeking guanxi and another one is institutionally defined rent-seeking guanxi. (Su, 2001) Both two types of guanxi are important to consider when foreign firms prepare to expand the business in the mainland Chinese market. Building the relationship in advance is always helpful to get a deal with the business partners.

The guanxi can provide at least 3 benefits for foreign enterprises in Chinese market. First, the firm can more easily get a variety of information sources, such as market trends, potential business opportunities, government policies and regulations; second, it allows the company to achieve more resources, such as advertisements approval , approval of applications to the provincial and central governments, employees recruitment, securing land; The last benefit is transaction smoothing,

such as improve the brand image of the firm, smooth collection of payment and arrangements of smooth transportation. (Davies et al, 1995)

2.3 Factors affecting the entry mode decision

This part presents the role and impact of internal and external factors in the choice of entry modes for firms in the internationalization.

2.3.1 Internal Factors

Organizational/ownership structure

Before the companies start the internationalization process, they must find out a suitable organizational structure to manage their foreign business activities more effectively when enter the host countries. (Anderson, Gatignon, 1986) It can help the company minimize controlling and monitoring costs (Williamson, 1985) and there is positive relationship between the ratios of outside directors, owner controlled firms and the selection of higher-risk-higher control modes of entry. (Rhoades, 1997)

Firm size

Firm size to a large extent reflects the ability of corporate resources, which has a significant impact on the choice of foreign market entry mode as well. It can be measured by the staff numbers and turnover. (Horst, 1972) On this point, smaller firms usually have less options compare with larger ones, as their limit own resources doesn't allow them to establish the fully owned subsidiaries, which involving very large investments and corresponding high level of risks. (Koch, 2001) The more abundant management, technology, financial, and skills resources the firm has, the more choices of their entry mode choice. The managers with a higher level of resource commitment may select the entry mode from a wider range of choice than managers who with low resource commitment. Consequently,

regardless of company's size, the high-commitment firm is more likely to select equity entry modes. (Root, 1994)

Hollensen (2011) also point out that though small and medium size companies hope to have a higher degree of control in host countries and a large number of resource commitments there. However, most of these companies can only select export mode as they don't have enough resources that allow them to achieve the control and resource commitments. Based on this, export entry mode is more suitable for SMEs, as the company continues to grow, the hierarchical model is recommended for future development.

International experience

Management team's international experience of the firm had a significant effect on foreign market entry mode selection. (Burgel, Murray, 2000) A wealth of international experience of managers can be very helpful for the company to reduce the uncertainty and spends of target market, meanwhile increases the likelihood of corporate committing resources to foreign markets, which facilitates hierarchical modes for example the wholly owned subsidiary. (Hollensen, 2011) And according to Rhoades (1997) positive relationship shows up between the diversity of board background and the selection of higher risk-higher control entry modes.

On the other hand, the experience of using a specific entry mode can also affect the decision with the perceived use of a particular entry mode. Managers often prefer to select an entry mode that they has successfully benefited from previous market entry experiences, as the manager's choice of entry modes may be subject to scrutiny (Koch, 2001)

From SMEs' perspective, they may not have enough management potential and international experiences to establish the wholly owned foreign subsidiaries or joint

ventures in foreign markets in a short time. Therefore, the export entry mode is most likely suitable for them. (Koch, 2001) Furthermore, international experience gained from similar countries that with low perceived psychic distance is positively associated with the choice of a high control level of entry mode. For example, to establish the wholly owned subsidiary. (Hollensen, 2011)

Product

Products from different industrial sectors have distinct characteristics and differentiation, and these distinctive properties of products that the company is pushing to host countries effect the choice of entry mode a lot. Different products may be impacted by many factors, such as brand, advertising, ancillary services, economies of scale, shipping costs, technology transfer, existing know-how and other factors, which led to different choices of entry mode. A product over another product makes the company absorb the higher costs in the host country. (Hollensen, 2011 P323) The product can be a physical product, but also can be a service, both of them has a significant difference in the choice of entry mode to foreign markets. (Ekeledo, Sivakumar, 1998)

Highly differentiated products give the advantage of a high degree of freedom of pricing strategy decision. Some products in some countries undertake a very high tariffs and transportation costs, but still can maintain a competitive advantage in the target market. (Root, 1994)

The advantage of product differentiation allows the company to raise prices beyond the cost exceeds the normal profit. (Hollensen, 2011) Therefore, the product of high differentiation in favor of export entry mode, while the low differentiation ones makes company to choose local production in host country or contract manufacture and equity investment. (Root, 1994)

2.3.2 Desired mode characteristics

Risk averse

Risk is the challenge that every company in the process of internationalization must face. (Hill, Kim, 1988) The company's management's attitudes of bear risk or risk-averse will generate a series affected foreign market entry mode choice. The direct impact on this attitude include the firm's financial resources, human resources, and company's strategy and competition situation in the target market. (Koch, 2001)

The characteristics of SMEs (e.g. Limited resources, sensitivity to external influences and ownership/organizational structure) directly affect the firm's ability to commit to the host country market, to deal with risks there, and to ensure the degree of control on business activities in foreign market. (Laufs, Schwens, 2014) Because of the limited financial and personnel resources of SMEs (Brouthers, Nakos, 2004), managers usually choose some low-risk entry mode, with respect to SMEs, MNEs have enough resources to choose some relatively high risk entry mode. (Koch, 2001)

Export mode (including direct exports and indirect exports) and intermediate mode (licensing and franchising etc.) that involving low resources commitments will normally be the choice of those managers who wish to avoid the risk. The joint venture would be a good choice to share the various risks and costs in host countries, such as local recruitment, establishment of local networks. (Hollensen, 2011)

Control

Entry mode such as export mode and intermediate mode indeed decreased the level of risks that managers wish to avoid, but meanwhile the firm also sacrifices the control of foreign markets business activities. With these entry modes, the firm will have very low or even no degree of control of the product or service marketed in host countries. To some extent, the joint venture would restrict the level of control

as well, especially in the case that company's objectives or strategies differ with their partners'. (Hollensen, 2011)

On the contrary, hierarchical modes, for example the wholly owned subsidiaries provide the most control in host country market. (Peinado et al., 2007) But these entry modes require high irreversible resource investment and more susceptible to environmental uncertainty and risks. (Hill et al., 1990) If the uncertainty of environmental raise, these firms may also choose entry modes with low degree of control but more flexible. (Kim, Hwang, 1992; and Luo, 2001)

Furthermore, according Hollensen et al. (2011) the turnover factor of the firm has significant impact for the choice of high control entry mode (wholly owned subsidiary). And the personal networks and the international activities stopped, are the factors for the company to choose intermediate mode (joint ventures and strategic alliances).

Flexibility

Discussion of flexibility are more or less linked to risks mentioned above. The international market is always full of uncertainties and risks, in the process of internationalization the firms need to have enough flexibility to face these market uncertainties. In the general case, SMEs are much more flexible in order to minimize the perceived risks that related to the host country. (Pinho, 2007)

High level of flexibility entry modes includes exporting, licensing, local branch office and temporary project office. The lower level of flexibility entry modes contains full Acquisitions, dominant equity investment and Greenfield ventures. These two groups entry mode can be contradictory for company to choose, which means highly flexible entry mode means low degree of control. Conversely, entry modes with high level of control refers to less flexibility. (Ahsan, Musteen, 2011)

2.3.3 Transaction cost economics (TCE)

In the previous foreign market entry mode related academic researches, there have been extensive studies with Transaction cost economics (TCE) perspective, and there are a considerable part of the researches that focused on the study of SMEs. (Laufs, Schwens, 2014)

Some of the previous studies have found the evidence of the relationship between transaction costs and its impact on foreign entry mode choice. On the other hand, some scholars argued that if cultural differences impact transaction-cost-based mode choices or not. (Brouthers, 2013)

To minimize controlling and monitoring costs, firms select a certain organizational structure according to TCE. Foreign investment's asset specificity large extent become the factor affect SMEs foreign entry mode selection. When investment specificity is higher, the firm's commitment in terms of entry mode that allows the SMEs to internalize the investment risk. (Laufs, Schwens, 2014)

Since the limits of resources, the transaction cost has an important impact on entry mode choice of SMEs. SMEs making bigger asset-specific investments usually prefer equity entry modes, and with more developed internal control systems normally prefer equity entry modes. SMEs always choose non-equity entry modes entering countries with high environmental uncertainty. When equity modes predicted by transaction cost theory, SMEs that used equity entry modes of entry significantly get a better performance compare with those with non-equity modes; conversely when transaction cost theory said now should use non-equity modes, SMEs used non-equity entry modes have better performance than who using equity modes. (Brouthers, Nakos, 2004)

2.3.4 External factors

Cultural distance

Cultural environment and cultural distance which includes language difference, religion, degree of democracy, industrial development and so on has an important influence on international business activities. (Begley and Tan, 2001) Different cultural backgrounds directly determine the consumer attitudes of consumer groups. The same product may have different values in customers' eyes from different countries. (Ilhéu, 2009)

Some companies' products can be successful in one country, but also may fail in another country just because they cannot integrate into the local culture. This is the impact of cultural distance. Among the factors of cultural distance, the language difference has the least impact of business activities, the differences in religion, degree of democracy and industrial development have a much greater effect on entry mode choice. (Dow, Larimo, 2009)

The cultural factors influence the entry mode choice a lot in international business environment. It is more likely when the perceived sociocultural distance between home and target country getting greater, the firms would avoid the direct investment shift to choose joint venture or other low-cost methods, such as agents or an importer. This decision allows the firms have relatively high flexibility and low resource commitments. (Hollensen, 2011)

"To do effective business in China you must be willing to adjust to Chinese – style commerce, rather than waiting for the Chinese to suddenly adopt western practices just because we think they should" (Engholm, 1994). For most Western companies, when they decided to establish a joint venture with their Chinese partner, but sometimes they find it difficult to understand and handle their Chinese partners in a

short time. This may be because when consider in long-term orientation, China has the highest score than other countries. (Barkema, Vermeulen, 1997)

It's clear that Finland has totally different culture with China. One biggest different factor between Finnish and Chinese business culture is people from Finland with the culture called deal-focus cultures which makes the people are more tend to task-oriented. The Chinese businessman's just the opposite, they are relationship-focused which are more people-oriented. (Gesteland, 1999)

For example, Chinese people are more willing to build the friendship before the business, and in most cases they prefer to discuss the business at the table of the banquet rather than the officially meeting room. This is referred to "Guanxi" that be mentioned in the previous part of the paper.

Gesteland (1999) also argued that there are two iron rules of international business. The first one is "In International Business, the Seller Is Expected to Adapt to the Buyer"; the second one is "In International Business, the Visitor Is Expected to Observe Local Customs".

Those two rules are quite applicable to most cases especially in Chinese market, as it is much different compare to the western markets or even other Asian market. For example, because of some political considerations, the Chinese mainland government blocked many famous social networking and video websites. This means you can't visit Google, Facebook, Twitter and YouTube without virtual private network (VPN) in mainland China. Instead China has its own local websites to replace those webs mentioned above, such as Baidu, RenRen, Weibo and Youku. And Chinese people are much more familiar with those local brands. Besides of China, those international websites are important platforms for many enterprises outreaching their firms and products, but it won't works in China, so find out the right

promotion method and platform is very necessary in mainland China. In a word, figure out what is the real demand of Chinese consumers and how to arouse their interest of a new brand are very important for the company to consider.

Risk

In addition to the sociocultural distance between home and host country, another factor affecting the decision of foreign market entry mode choice is the country risk and market/demand uncertainty. (Hollensen, 2001) It includes the risk of political, economic, legal, tax, operations, security and other aspects that related to company's operating in the host country.

Risk level of target countries is inextricably linked with resource commitment, which means when more resources the firm has invested, the greater risk of losing valuable resources if the foreign market engagement fails. (Laufs, Schwens, 2014) Based on this point of view, it is more likely the level of risk can be relative decreased when business activities involved a partnership in host countries. For example, the full investment of establishing Greenfield subsidiary concerning with more risk than build the partnership to set up joint venture in same host country.

When perceived risk is high, by restricting resource commitments in that particular country, the firm can limit the potential risks to a certain extent. (Hollensen, 2001) From resource-based view, SMEs are in resource disadvantage compare with MNEs, they don't have so much resources that allow them to make mistakes. It is important for SMEs to consider how they can diversify the risk in response to challenges that arise from the institutional context, despite their limited resources. And how they can bundle their resources when expand to several countries. (Laufs, Schwens, 2014)

Demand uncertainty is another factors affect the entry mode choice when the firm facing the new market that with less knowledge compare with domestic market. In general, in order to reduce congestion costs, most firms choose a higher capacity of fixed inputs when uncertainty increases. (Banker et al, 2013)

Market Size and growth

The market size and growth can be understood as the market potential of the target country, which is also an important factor determine the investment to host country. (Choi et al, 1986) The entry and investment mode can provide long term profits to the firm in high market potential countries, compare with the non-investment modes, economies of scale and consequently lower marginal production cost can be achieved through the opportunities. (Sabi, 1988) Some researchers also find out that market growth is positively related with cooperative entry modes rather than wholly owned subsidiaries (Morschett et al, 2010)

It's very difficult for the countries with relatively low market potential to attract the foreign firms and investments. But the MNEs that have global presence may willing to enter those countries to achieve their growth and market shares. (Agarwal, Ramaswami, 1992) Therefore, in order to reduce the risks and achieve stable returns, it's better for the SMEs to concentrate on the countries with large market size and high growth potential to be their initial internationalization targets. For example, with the population reaching up to 1.35 billion, China definitely has the biggest market size over the world, and according to Flurry Analytics that Chinese consumers purchased at least 24% of all the wireless devices in the world. (Melissa, 2013)

In countries with high market potential, the firms can consider setting up a wholly owned sales subsidiary or take part in a majority-owned joint venture. With these activities, they allow the management of the firm to direct plan the market

development more effectively, which is also much easier for controlling. It's better to supply the markets with small size and low growth potential through exporting or a licensing agreement, especially when they can't be served efficiently from a neighboring country. (Hollensen, 2011)

Direct and indirect trade barriers

The trade barriers include direct and indirect trade barriers. The most common direct trade barrier is tariffs involve import taxes, and indirect trade barriers include safety regulations, import and export licenses, and currency devaluation. Trade barriers always favor local firms and discriminate against foreign ones and it also has an impact on entry mode choice and operation decisions. (Hollensen, 2011)

Most enterprises and national governments are hoping that reduce or even eliminate trade barriers in order to gain greater benefits when conducting international business activities. Compared to large enterprises, SMEs are more likely need to obtain benefits from removal of trade barriers. The 146 WTO members have agreed to reduce trade barriers among themselves. (Mühlbacher, et al, 2006) For example, the overall level of China's tariff reduce down from 14.7% before join the WTO to current 9.8%. Compare to other developing countries, China's import tariffs already at a low level.

The main impact of Trade barriers that limit the entry mode of foreign companies to enter the local market. High tariffs make sales prices of imported goods much higher than the local counterparts, which makes the foreign firms lost the price advantage in the host country. (Ekeledo, Sivakumar, 1998)

Non-tariff barriers could force foreign entrants into the local supplier partnership, thus contributing to a contractual agreement as an entry model. (Douglas, Craig, 1995) When face of high Trade barriers in target market, for the small and medium

enterprises, a better way is to consider a joint venture, looking for local suppliers or other contractual arrangements with local firms, which can reduce the cost of inputs and risks. (Hollensen, 2011)

Intensity of competition

The intensity of competition is usually measured by the number of competitors in the host countries. A large growing emerging market will attract competitors from around the world to enter. For example, since Apple launched iPad to Chinese market, the Android tablets raise up quickly just after iPad, even many traditional PC manufactures begin to produce Android tablet or portable PC, such as ASUS, Lenovo. The degree of intensity of competition also has a deep effect on the company's decision to select the suitable entry mode. (Huang, 2000)

Moreover, the intensity of competition in the target countries affected companies' entry mode choice, but also affect the necessity for innovation and product characteristics. (Laufs, Schwens, 2014) When facing with fierce competitive environment, companies must adjust product features, more innovative and set up reasonable pricing strategy to apart from the competition. For example, according to IDC analyst Dickie Chang (2013), compare with iPad, Android tablet gain a strong advantage of cheaper price and seizure Apple's China tablet market share. Conversely, when the competition is not so intense in host countries, the firms would not be necessary to make such a big change.

When the competitive intensity is high in host country the company would avoid internalization, because the market did not seem to be so profitable, so there is no need to spend too much of the resource commitments. Therefore, under the same conditions of a variety of other factors, the higher the intensity of competition, the firm should choose entry mode as the export modes, which involve lower resource commitments. (Hollensen, 2011)

A small number of relevant export intermediaries available

Burgel and Murray (2000) argued that small technology-based startups choose entry modes that were not resource intensive, which means they prefer intermediaries more than other modes. But under such a condition, there will lead to another problem, which is if there are only small amount of relevant export intermediaries available in host country what the firm should do.

In this case, the market of the host countries is subject to the opportunistic behavior of the few export intermediaries, in order to reduce the scope for opportunistic behavior, the hierarchical modes is a good choice. (Hellensen, 2011 P325)

Industry

Industry also has a very significant impact on SMEs' foreign market entry mode choice, different entry modes are preferred in each industry. (Erramilli, D'Souza, 1993) Many previous researches have revealed disparities entry mode choices between service and manufacturing firms. (Laufs, Schwens, 2014) From a macro point of view, a variety of industries can be put into three categories, manufactured goods (e.g. automobiles, tablet, and toys), hard services (e.g. computer software, advertising, and equipment leasing) and soft services (e.g. fast food restaurants, hotels, and hospitals). (Ekeledo, Sivakumar, 1998)

The characteristics of manufacturing industry are the product is tangibility, storability, separability, and homogeneity. Firms in this industry always prefer Licensing, exporting, foreign manufacturing agreement, joint venture, and sole ownership as entry mode to host countries.

The product of hard services industry differs from the manufacturing industry is because its features of intangibility, storability, separability, homogeneity, depends

on a physical object for storage and export. Firms usually choose licensing, exporting, management contract, joint venture, and sole ownership to be the entry mode.

Also as part of the service industry, soft services and hard services are very different. Characteristics of soft service industry is the product is intangibility, perishability, inseparability, and heterogeneity. Based on this, franchising, management contract, joint venture, and sole ownership are the entry modes that preferred by firms in this typical industry. (Ekeledo, Sivakumar, 1998)

In previous researches, the majority of studies focus on service industries, while some study firms in the manufacturing industries, and a few consider mixed industry cases. And studies that deep into industry characteristics and their influences on SMEs' entry mode choice are largely lacking. (Laufs, Schwens, 2014) For instance, tablet PC industry as a burgeoning new industry in recent years after the smartphone industry, which includes hardware manufacturing and software services. But now there are almost not much academic researches focused on firms in this specific industry, which attracted many key players, such as Apple, Google and Microsoft.

2.4 Different types of entry mode

The foreign market entry mode is the preparation for the company's products, services, technology and other resources to enter into a new foreign target market. (Hollensen, 2011) There are many types of foreign market entry modes for firms to choose, such as exporting, contractual manufacturing, joint venturing, and establishing a wholly-owned Greenfield subsidiary. (Pan, Tse, 2000) According to Bradley (2002), the entry modes are roughly divided into three groups: Export entry modes (i.e. Indirect export, Direct Agent/Distributors and Direct Branch/ Subsidiary), Contractual entry modes (i.e. Licensing, Franchising, Service or management

contracts and Contract manufacture or Co-production agreements) and Investment entry modes (i.e. Solo venture: new establishment, Solo venture: acquisition and Joint venture: new establishment/ acquisition).

Hollensen (2011) also divided these modes into three groups. The first group is Export modes, which include indirect export modes, direct export modes and cooperative export modes/ export marketing groups. Second group is Intermediate modes, including contract manufacturing, licensing, franchising and joint ventures/strategic alliances. The last group is called Hierarchical modes that include domestic-based sales representatives, foreign sales subsidiary/foreign branch, region centers and wholly owned subsidiaries.

As compared to Bradley's groups, Hollensen's contains more modes and more in detail, the thesis will be based on Hollensen's classification of the entry mode groups.

2.4.1 Export modes

Enterprises through export entry modes can transfer products manufactured at home or third country indirectly or directly to target market. Exporting is the most common method for early internationalization. (Hollensen, 2011) The firms entering foreign markets rapidly and early usually use modes like distributors or exporting, which involving lower resource commitment. (Shrader, 2001) For SMEs, they must control over their own export channels well to achieve the success. (Choo, Mazzarol, 2001)

Indirect export

Indirect export can be a first option for the firm to choose, as it involves with very low resource commitment. (Root, 1994) It occurs when the firm uses an independent middleman in its home country to export the products. (Hollensen, 2011) Because of this characteristic, it has become the preferred mode for many SMEs.

In this mode, the company's sales turned into a kind of domestic sales, these intermediaries will sell the company's products after buying to foreign markets. All sales activities in foreign markets are under the control of middlemen. (Grünig, Morschett, 2012) This is a mode involving every low resource commitment, but the company lost control of foreign markets. (Ahsan, Musteen, 2011)

Direct export

Through direct export mode the company directly delivers their products to the customers in target markets, it can be the entire final customers or intermediaries (importers) located in host countries. (Grünig, Morschett, 2012) In this mode, the firms can implement the exporting activities through the distributors or agents in host countries. (Hollensen, 2011)

Distributors can get the exclusive rights to act as the exclusive representatives of the firm in host market. Normally, they have their own sales networks and channels, and they have adequate rights to select the customer segmentation and also to set the conditions for sales, which includes prices, place etc. Agents are unlike the distributors, as they sell the products of exporter to customers with the name of and on behalf of the exporter, all arrangements concerning with financing, credit and promotion, are directly done between the buyers and the exporter. The agents make profits from the commissions paid by the exporter. (Grünig, Morschett, 2012) The firm can get market knowledge and access to local experience easily through this mode, but the firm still has low degree control of the market price. (Hollensen, 2011)

Cooperative export

Cooperative export mode refers to the collaboration between the firm and other export marketing groups concerning the exporting functions performance. This is a common mode that used among SMEs when they trying to enter foreign markets for the first time. The motivation of SMEs to participate in this group is the

opportunity to marketing a complementary product program to larger buyers effectively. Firm can achieve the benefit of costs and risks sharing through this mode, but there is still risk of unbalanced relationships as very member has different goals. (Hollensen, 2011)

2.4.2 Intermediate entry modes

Distinguished from export entry modes, the intermediate modes involves the knowledge and technology sharing and exchange between partners to achieve product sales in the host country. And it also differs from the hierarchical entry modes as the control and ownership also being shared, so there is no full ownership. (Hollensen, 2011)

Contract manufacturing

Contract manufacturing allows the firm outsourcing their production or production technology to an external partner, which makes the company can concentrate on other sectors of business, such as R&D, marketing, services etc. It is flexible for the firm as if the firm is not satisfied with the quality of the product from partner (manufacturer), they have sufficient freedom to switch to another one. There is also some disadvantage of this mode, as the subcontractor may become the competitor at the end of the contract, and sometimes, it is difficult to transfer production know-how. (Hollensen, 2011) There is also an interesting phenomenon that in China there are thousands manufacturers, and because of overproduction, the excess products sold directly to consumers by the manufacturers. (Lamb, Hair, McDaniel, 2009)

Licensing

Licensing allows the firm to use the foreign production without substantial investment, which means there is no huge resource commitment involved. And not only production, in some cases, the licensor can also immediately gain an advantage from licensee's marketing and service network. (Hollensen, 2011)

If other conditions were the same, licensing can take less risk than establish a wholly owned subsidiary. (Laufs, Schwens, 2014) Compare with other modes, substantial resources doesn't required for licensing, which makes it suitable for SMEs. (Grünig, Morschett, 2012) The disadvantage of this mode are the licensor have low control over licensee operations and licensee may become the potential competitor when the agreement expires. (Hollensen, 2011)

Franchising

Franchising is more often used in outlet-based business models, for example the retail stores, restaurants and hotels. (Grünig, Morschett, 2012) Compare with licensing, franchising involves a higher degree of control and also lower risk and cost for the firm (franchiser), as franchises invested in equipment and know-how. (Hollensen, 2011)

But there is also certain disadvantage of this mode, as the franchisee is independent contractor, there is no hierarchical control over the franchisee's operation, the franchisee has freedom to manage their own store. (Grünig, Morschett, 2012)

Joint ventures

There are two types of joint ventures, which is contractual non-equity joint venture or an equity joint venture. The difference is the equity joint venture refers the establishment of a new company, while non-equity joint venture is contract relationship between two partners. (Hollensen, 2011)

Joint ventures makes it possible to allow the partners sharing all elements of business operation, even including R&D and patents. On another hand, partners bear the risks and costs together as well. (Hollensen, 2011) Furthermore, the local partner is more familiar with the market condition and understanding of customers, and it accelerates the process of doing business in host country. (Grünig, Morschett,

2012) The firm need to pay attention to the cultural differences, as it may lead conflict in the management. (Hollensen, 2011) But Cheng (2008) argued that for less experienced SMEs, the equity joint ventures can be helpful to reduce cultural barriers.

2.4.3 Hierarchical modes

Hierarchical modes are differ from the other two groups of entry modes as the firm can direct control or own the foreign entry mode or organization (subsidiaries) in host country market. This mode normally require much higher resource commitment for the investment. (Hollensen, 2011)

Domestic-based sales representatives

With this model, the company can directly contact with the end customers by using own sales personnel who have knowledge not only about the company's product and services but also the target market to achieve better control of the entire foreign sales process. (Groucutt, Leadley, Forsyth, 2004) Meanwhile, it gives the flexibility for the sales staff to arrange the sales activities in most important ones as they normally responsible for more than one markets. The downside is this mode involves relatively high cost, especially the travel cost. (Hollensen, 2011) So this mode is not suitable for the SMEs.

Foreign sales subsidiary / foreign branch

By establishing the foreign sales subsidiary in host country, the firm can transferring greater autonomy and responsibility to subsidiaries and get closer to the customers. On another hand, the firm can also gain the tax advantage in some cases. This is an independent unit in the host country that governed by the national law of the host country. (Hollensen, 2011)

Differ from the sales subsidiary, the sales branch is an extension unit and a legal part of the parent company, which is not a separate legal unit in the host country. It is governed by the national law of the parent firm. It is not so flexibility compare with others. (Hollensen, 2011) Establishing a foreign sales subsidiary gain more advantage compare with branch office. A foreign sales subsidiary profits may be taxed by the host country at a lower rate than those of branch office. And sometimes incorporating abroad expense is lower than establishing branch office. (Grosman, 1981)

Region centers

This option may be a suitable choice for the geographically focused start-ups, as they initially focused on serve the specialized needs of a particular region in the world. This mode also provide a competitive advantage for the firm, as there is certain tacit knowledge and it is socially complex as well, so it's hard to imitate a successful coordination of value chain activities for competitors in that specific region. But with the regional management, it may limited national-level responsiveness and flexibility. (Hollensen, 2011)

Wholly owned subsidiaries

When discuss this mode, there are always two types of choice for the firm to consider, including acquisition or Greenfield. (Slangen, Hennart, 2007) To establish the wholly owned Greenfield investment in host country, the firm need to afford all the costs and risks. (Hill et al., 1990). It is especially suitable when production logistics is the key industry success factor, and the plants or sub-companies can be built to meet the firm's own interests. But it is very slow process to enter the target market compare with acquisition. With acquisition option, the firm can earn the local market knowledge and experience in short-time and benefits from the existing marketing network. But it is also an expensive option and there may have communication problems between two firms. (Hollensen, 2011)

Some researchers found both acquisition and Greenfield investment can develop the ability of SMEs to deal with the institutional challenges in host country (Brouthers, Nakos, 2004; Cheng, Yu, 2008).

3 EMPIRICAL ANALYSIS OF THE CASE COMPANY

The aim of the study is to gain deeper understanding of the impact of internal and external factors on the entry mode choice of Finnish Startups in tablet industry entering Chinese market. Thus, to provide a validated reference of how to choose the suitable entry mode for other Startups in similar industries when they planning their internationalization strategy to China.

This chapter are divided into two parts. The introduction of research method and the case company are the first part, and the second part includes the detail analysis of this case with the benchmarking with another experienced Finnish company -- Jolla Ltd.

3.1 Research method and data collection

A suitable research method helps the understanding and analysis of the study. This study is a qualitative research in purpose of finding out how different internal and external factors affecting the choice of foreign market entry modes choice for Finnish tablet SMEs when entering Chinese market. Since the aim of the research is to analyze and compare the influence of different factors that affecting entry modes choice, so qualitative research method can be the most suitable method for this research.

Compare with quantitative research using empirical measurements, statistical analysis and modeling methods, the qualitative research is done with using logical inference and historical comparison methods. Qualitative research generally select the small sample as objects to carry out the in-depth interviews to clarify the issues and explore the meaning.

According to Higgs and Titchen (1995), there are three different principal research paradigms in qualitative research, which includes the empirico-analytical, interpretive and critical research paradigms. These paradigms allow the researchers to use different ways as well as from different levels and directions to analyze things and phenomenon. Scientific method is a basic research method of empirico-analytical research that has been widely applied to many researches. Deductive logic as the root of this method makes the researches to make a conventional conclusion after analyze and test the results of things that in observation. (Neuman, 1994) Based on the research goal of this study, the scientific method will also be used in this research.

Another important element for qualitative research is the data collection. Interviewing, focus groups, narratives and participant observation are the common methods to get the data for research purpose. (Flick, 2009; Fossey et al., 2002) Interviews help the researchers to get the Interviewees subjective view of things. Focus groups focus on the group interaction and discussion on one topic. Observation through researchers' eyes to get the information of what they see about the participants or research targets. (Fossey et al., 2002)

The research target (case company) of this study is single individual, so interviewing is the most suitable data collection method for this research to get primary data. Besides on this, the secondary data will also collect through articles or papers from publications, news and online information to supplementary the required data for study.

An interviewing was done with the CEO and other key staffs of EVE-Tech Oy on 24th February, 2015 to collect the data about the company itself as well as their view of Chinese market. The interview were sound recorded and converted into text. For

the purpose to get primary data of real-time information in Chinese market, Finpro and Finland Business Council Beijing (FBCB) are selected to answer the interview questions through e-mail. Finally, Samuli Sulander from FBCB answered the questions through e-mail in July, 2015. The Commercial Counsellor Jari Seilonen from Finpro also answered the questions in the same month via e-mail. In order to have better result of the benchmarking, there is also an e-mail about interview questions send to Jolla Ltd., but there is no response from that firm. Integrate the information above, the secondary data will be collected for research purpose.

Table 1. Data collection information

| Organization | Organization Property | Interview method | Respondent's position | Interview time |
|----------------------------------|------------------------------|-------------------------|------------------------------|-----------------------|
| Eve-Tech Oy | Startups | face to face | CEO, CMO, COO | 24/02/2015 |
| Finpro | Consulting Service | e-mail | Commercial Counsellor | 03/07/2015 |
| Finland Business Council Beijing | Government organization | e-mail | Coordinator | 01/07/2015 |

The table 1 shows the basic information of the primary data collection, which includes the detail of the organizations that participated.

3.2 Case description

Eve-Tech Oy is a new Finnish startup company in tablet industry, which just established in February 2014. The headquarters of the company is located in Helsinki Finland and its contract manufacturer is located in Shenzhen China.

Co-founders of the companies are mainly university students, who invest the company from their own pockets and get commercial loans from Finnish banks. The motivation for them to establish this company is that they are not satisfied with the current tablets in the market, they wish to bring the devices that are really good looking with great performance and comfortable price to the customers. The limitation of the Finnish domestic market and the convenience of e-commerce make the company decided to go internationalization initially. Considering the agreement with the case company, the information of sales revenue and volume are confidential for this moment, but if from the view of sales pace in the past two batches, the company is doing very well.

Based on the vision of the company, the first product was launched on 09th November, 2014, which is a tablet PC called T1. It runs full Windows 8.1 operating system, which is different from most of the popular Android tablets in the market now. In current market, the tablets with Windows system are basically launched by traditional PC manufacturers, such as Asus, Lenovo. Eve-Tech can be one of the few non-PC companies, which focus on Windows system. The following table shows the specs and configuration of T1 tablet.

T1 specs:

Table 2. T1 tablet specs (Source: EVE-Tech)

| | |
|--------------------------------|--|
| Display | 8" IPS HD 1280x800 LCD |
| Processor | Intel© Bay Trail Z3735F 1.8 GHz |
| RAM | 2GB |
| Memory | 32GB |
| Battery | 4300 mAh |
| Camera | 5MP rear camera, 2MP front camera |
| Wireless | 802.11 n |
| Bluetooth | 4.0 |
| Sensors | GPS |
| Ports & Connections | Micro-USB 2.0, 3.5mm audio, speakers, up to 128 GB SDXC card |
| System and license | Windows© 8.1, Microsoft Office |
| Size | 130mm x 216mm x 9mm |
| Weight | 395g |

It is clear to see from the above data, the specs of T1 is much better than most of the cheap Android tablet, and even it is better than high-end level Android tablet. After product is released, the company organized a price conjecture event on Facebook, the 5 people who get the right price, can win a free T1 tablet. The following picture shows Eve-Tech compared T1 with the representative product of Android tablet, the Samsung Galaxy Tab 4.

Table 3. EveT1 compare with Samsung Galaxy Tab (Source: Eve-Tech)

| Eve T1 | Galaxy Tab 4 8.0 |
|----------------------|-------------------------|
| Intel 64-bit 1.8Ghz | ARM 32-bit 1.2Ghz |
| 2GB RAM | 1.5GM RAM |
| 32GB ROM | 16GB ROM |
| 8" HD IPS | 8" AMTFT |
| 5MP & 2MP Cameras | 3MP & 2MP Cameras |
| Windows 8.1 | Android 4.4 |
| Desktop capabilities | No desktop |
| MS office license | No office license |
| Soft suede black | Hard white plastic |
| 159 EUR | 259-289 EUR |

The price of T1 tablet is 159 EUR, which contrary to a lot of consumers' expectation. It is quite low price with such high specs. Based on this, the price become one of the core competitive advantages of the company. Their pricing strategy is to decrease the margin, but increase the volume of sales. The final result shows this strategy is indeed applicable – the company's first and second batch of products were both sold out in 48 hours. It is very good sales performance, but it also shows the downside of the company that need to be improve, which is their relatively low production capacity.

The T1 tablet is designed in Finland, and manufactured in China by company's contractual OEM (original equipment manufacturer). As the company is a startup firm, they don't have enough funding for more productivity, so the crowd funding can be used in future to get more financial support.

Now the only channel for customers to get this tablet is from the Eve-Tech official website. The management team of the firm has already target to the global market from the start. All the products are direct send to the final customers from the factory in China though the company's contractual logistics partner companies. Now the company already attracted and get many customers all over the world.

There are no third party online stores platforms cooperated with the company for this moment, as well as the retailers. Because of this, the official website has already been translated into 5 different language -- English, Russian, Finnish, Traditional Chinese, and Spanish to better serve consumers from different regions. But for long term consideration, the third party platforms have been taken into consideration for the management team of EVE-Tech. The CEO mentioned about this in the interview as following:

“Yes, that is something we are thinking for internationalization. It can be our web stores in countries like Russia, China, and India. We think maybe use Amazon in Europe. For specific countries, we want to use localization campaign, they are more flexible than Amazon is. You can use their service point also.”

Eve-Tech promote its product through their own website and the social media platforms, such as Facebook, Twitter and Instagram. Furthermore, they also put some presses on some magazines and some IT news media deliver the information to consumers as well. The CEO of Eve-Tech talked about the company's marketing strategy as:

“It is like various marketing, we try to marketing though Facebook, our webpage. We have different campaigns, first you know the people guess the price and others. Compare our price with other products, use the price reference. We also put some presses on some magazines. We want to start a community product development,

make the cases for our products, and we will get the idea from the customers, like what color you like, what the shapes you prefer.”

Currently, the company is planning the community product development, which means to cooperate with other Finnish firms (Marimekko, Rovio) to have special cases for T1 tablet. Those surfaces can make the tables with more Finnish elements and differential from others. In this way the company can better borrow the brand effect of other well-known Finnish brands, so it can attract more customers from other customer groups. Meanwhile it also makes the product line more abundant.

3.3 Case analysis

This part includes the practical analysis of the internal and external factors that influencing the entry mode choice of the case company. The analysis are done based on the theoretical part in pervious charters of the paper.

3.3.1 Analysis of Internal factors

Firm size analysis:

Eve-Tech Oy is a startup firm just established more than 1 year, and now there are 7 employees, so the firm size is quite small even compare with many other startup enterprises. But all the basic key positions of the management team has the right person in charge, so that to keep the company running in good performance.

Indeed in Finland, the scale of thousands of employees, is considered a big business. There are many small and medium enterprises in Finland, some have dozens of people, and even one or two people. These active SMEs but also an important part of the country's competitiveness. For example, to enhance mobile experience smoother software company Tuxera, is a leading global file system software developers and suppliers, the company had a total of only a dozen people,

was able to account for 90% of global market share, even China's Xiaomi phone is its customer. No evidence shows MNEs 100% has good performance than SMEs. Sometimes, SMEs did much better than MNEs.

Another good example is the Finnish gaming company Supercell. Due to the outstanding performance of the two games "Hay Day" and "Clash of Clans", it got Japan's Softbank capital injection, Supercell executives has thus become the highest income people in 2013 in Finland. Creative director Mikko Kodisoja 2013 salaries and capital gains totaling 170 million euros, topped the charts in Finland personal income; CEO Ilkka Paananen 169 million euros places among the second. Supercell s Web site home page statement that the company has experienced great changes since it established in 2012, but "we believe that power of 'small', small means you can reduce administrative costs. Therefore, the company has been kept small as possible." So far, the company has a global team of only 150 people. (Xu, 2015)

Since the manufacture sector outsourcing to contractual manufacturer in China, so the task for the management team and R&D people is about design, administration, control and monitory. Currently the company's structure is quite simple. The CEO talk about the business model and company as following:

"We have a contract manufacturer right now, and some consultants as well, then we got our marketing team, and designers, we design our Finnish product here, then it's sold online through our web store. Maybe we start to deal with some retailers in future."

Connect with the argument of Koch (2001) and Root (1994) in previous chapter of this paper. Because of the limitation of resources, SMEs have much less choice on entry modes, most cases the manager will choose export mode entering host

country. From this point of view, export entry mode can be a good choice for Eve-Tech Oy entering in Chinese market. But it should be note that the contractual manufacturer is just locate in mainland China, which means the company can direct serve the local market, the product can deliver to final customers straight from the factory.

Products made in China are sold in China, so the “export” statement does not exist, based on this, to establish sales subsidiary/office in mainland China might be a better choice. It is because of this particularity, selling T1 tablet in the Chinese market will be easier than other countries by reducing the intermediate links. The sales office doesn't require huge investment like wholly owned subsidiaries, and it can also improve the level of control in Chinese market.

International experience analysis:

Eve-Tech Oy is a young startup firm, also does their management team is quite young, as they are university students. The CEO of the company is just doing his bachelor's thesis at the moment. Compare with entrepreneurs of many other startup firm who had prior work and business experience, Eve-Tech Oy just relevantly lack the real international business experience.

According to Koch (2011) and Hollensen (2011) mentioned in chapter 2.3.1, international experience of the management team has significantly effect on the foreign market entry mode choice. Since experienced managers can help the company to reduce cost and risk in the process and choose a very suitable entry mode based on their previous successful experience. Management team of Eve-Tech are mostly university students, some of them are still in studying. They indeed have an international and cross-cultural study environment with people from different cultural background, but they also relevantly lack of real international business, especially the knowledge about the Chinese market.

Koch (2011) also argue that SMEs may not have enough management potential and international business experience to establish the wholly owned subsidiary in short period. So export entry mode is the recommend one for SMEs.

The internationalization experience of management team of Eve-Tech is relevantly limited currently, the company itself is at the initial stage of internationalization, and lower resource commitment entry mode is more stubble for this moment. For example exporting in order to gain experience before making direct investment to host country. Because of the particularity of this case, export entry mode is completely a good choice for Eve-Tech entering many other markets, but for Chinese market, the product is already manufactured there, so establish sales office maybe better choice to serve the local Chinese market.

Product analysis:

The tablet T1 with windows operating system is the current product of the company, which is also the only one for this moment. The next new product launching is in process, it will come to the customers in short time. Tablet as the smartphone derivatives made a lot of market share in recent years. Mainstream operating systems of tablets on the market are iOS and Android, but T1 is running with Windows 8.1 operating system (nowadays it can be updated to Windows 10 for free). Consider the product introduction in chapter 3.2, T1 has a very good Hardware configuration, even better than hardware configuration of some high-end Android tablets, and T1's price is much lower. Windows system although ranked third in market share, but with the gap between the top surface of iOS and Android is still very large (see Figure. 4).

The CEO of Eve-Tech explained the reason choosing Windows system instead of another two operating system as following:

“It more like traditional computer compare with iPad, it has full version of windows, so you can do anything that you can do with your PCs. It is for professionals also, you can play computer games, so it is like for techy guys, but it is for people who want to have a portable computer with them, so not just a table. Because in our market research, we find out many people don’t have a tablet, because they don’t see value on tablet, because they have the smart phone, then have tablet means too much sense for them, there is no additional value for them.”

As the startup company, it makes more sense for us to enter windows market first, because there is much less competition, it is easier for us to differential business compare with other companies, when we get bigger we may enter Android.”

Depend on the words above, it’s clear to see the management team of the company has chosen a less competitive market to reduce competitive pressures. It’s quite reasonable strategy for the startups, since the less competition means more opportunity and more profits.

In chapter 2.3.1 mentioned that the product differentiation is also very important for the company to consider when choose the entry modes. In general, the big differentiation product has significant different features and advantages compared to the competing products is more adapt for export mode, the small differentiation products may more suitable to take local production in target countries.

As mentioned above, T1 tablet has significant differentiation in operating system perspective compare with mainstream tablet PCs sales on market with iOS and Android. Now the situation of Windows tablets on the market is like in addition to Microsoft's own Surface series, the others are mostly made by traditional PC manufacturers, for example the ASUS and Lenovo, there are almost no smartphone

manufacturers turning into tablets with Windows system. Surface Pro series launched by Microsoft are middle or high-end products, its configuration is quite good and has a unique appearance, so that the price is relevant high. T1's pricing is very low, although Windows tablet itself is most for business people and students, but it's clear to see the consumption level of target population of Surface and T1 is certainly different.

If only look at the appearance, T1 tablet looks similar with Google Nexus 7 Series, and the appearance features still not very clear, customers can't recognize the case material is not plastic. And at this moment there is only black color available, which makes the customers has no choice on personalized color.

According to Ekeledo, Sivakumar (1998) that physical product and service product have significant difference in the choice of entry mode. Tablet should belong to the physical product, but it also need to be noted that there is after sales service included in the product, which is the recessive component contained in the product. No one will buy a product without aftersales guarantee. The CEO discussed the aftersales like this:

"Now we only have office in Finland, so we need to do best to control the initial production quality in factory, we send people to the factory for inspection purpose you know, to minimizing the failure rate of products. It's a good question to ask, what is your opinion?"

Strengthen production supervision can indeed reduce the failure rate of products, but no one can 100% guarantee there won't be any problem of every product. So aftersales service is necessary for the company, but consider the limitation of the resource, outsourcing this service to a reliable local partner would be a good choice. This method are also used by many MNEs, such as Nokia, Apple and Samsung.

From the product point of view, the company is already using the contract manufacturing entry mode for production, and consider about the aftersales service, outsourcing to third party is recommend. Product's system is very different with mainstream tablets, perhaps it will attract to specific groups of customers, but appearance differentiation of T1 is not obvious.

Risk averse analysis:

The company now using contractual manufactory for production and export mode to reach the customers. The risks can exist like some accidents or emergencies occurred by manufacturers or logistics partners, changing macro environment in host countries and so on. The COO of the company thinks they can manage and avoid risks very well at least for this moment.

"Yes, for sure. Now it's easier for us to control the risks compare to what I thought originally, there is much you can do, you can manage the risks."

Hill and Kim (1998) has argued that risk is the problem for every firm in their internationalization process. Laufs and Schwens (2014) also figured out the manager's attitude affect a lot on the choice of entry mode. Export mode that been used by Eve-Tech is relevantly low degree of risks compare with other entry modes. Somehow it's because of the limitation of resource to choose this mode, but it's indeed suitable for many SMEs. Their management personals also has a positive attitude facing and avoid the risks, it is a good signal for the entrepreneurs as no one can success with afraid of risks. Anyway, find out the suitable entry mode for the company to reduce the risk level as low as possible is necessary for the management team to consider.

If the company consider to maximize decrease the risk, the export mode is indeed the best entry mode choice for this initial stage, but it also reduces the company's control level of the target market to a large extent. This will be discussed in the following text.

Control analysis:

The funding for establish the company are all from the co-founders' own pocket and the bank loan from Finnish banks, there is temporarily no investors as the CEO thinks it can guarantee the control of the operation of the company. From the internal perspective, the co-founders which are also the managers have full control of the company's operation, since there is no investors or board of directors to interfere with their decision. He said:

"We found this company from our own pockets, and some loan from Finnish banks. So there is no investors. We don't want investors right now, they may not willing to share the vision of us."

From the external perspective, now the company need to control their contractual manufacturer, logistics partners and distributors. For this moment, it can be said the company has very little control of the business activities in target markets. As the manufacturer is located in China, the company also has very limited control of the production, as it's impossible to send people every day or week to the factory for inspection.

According to Peinado et al. (2007) and Hill et al. (1990), hierarchical modes, for example the wholly owned subsidiaries provide the most control to the host country, which requires large investment. In simple terms, entry modes involve high resource commitment can provide high degree of control of the host countries, so conversely,

those entry modes with low resource commitment has lowest control level, for example the export mode.

It's not very realistic for the company to establish the wholly owned subsidiary, as there is not enough funding and also very less knowledge about the target market. If the company willing to have more control of the host country for this stage, establish the sales office in host country and have 1 or 2 local employees is a good choice. It won't involve too much investment and meanwhile it can also increase the control level of the production of manufacturer.

Flexibility analysis:

Eve-Tech is a startup firm with only 7 employees at this moment. Production and distribution have been outsourced to third party organizations, the headquarters of the company focused on product design, management and marketing. As a startup itself is relevant more flexible than MNEs, the CEO of the company talk about their flexibility as:

“That is our core advantage, we are super flexible, and we have 7 employees. We don't like MNEs invest a lot of money to do something, then there is no regret chance.”

Pinho (2007) elaborated the SMEs is much more flexible for the purpose to minimize the perceived risks that related to the host country. Ahsan and Musteen (2011) point out in their research that exporting, local branch/sales office and temporary project office have higher flexible level than full acquisitions, dominant equity investment and Greenfield ventures. Combine with the entry modes discussed in “Control analysis” in the above-mentioned, it can be summarized as entry modes with high level of flexibility means lower level of control.

On the contrary, entry modes with low degree of flexibility means higher degree of control. The exporting mode that Eve-Tech is using now is very flexible, since they can deliver the product from factory to end customers almost all over the world through their logistics partners. And it's easy for the firm to avoid the risks in host countries, as they can quickly withdraw from the risky market.

From the flexibility perspective, it's good for the company continuing use exporting mode for current stage and also for short-term further development. But with the growth and internationalization of the firm, higher level of control entry modes to host country can be taken into consideration.

3.3.2 Analysis of External factors

Sociocultural distance between home country and host country analysis:

China as a rapid developing country in Asia, there are a lot of differences in both the geographical and human culture compare with Finland in Nordic Europe. Cultural differences between these two countries also reflect most of the cultural differences between the Eastern and Western countries. The CEO of Eve-Tech talked about Chinese market in his eyes as:

“That is very interesting market I have to say, when I look at the companies like Xiaomi. We like China as emerging market. We need to study more about the culture, its opportunity to offer the product from Finland and maybe we make some specific projects for China. We notice the Chinese guys are really like the marimekko style, so we think make pre-order campaign in China with marimekko case. We will try to do best marketing in China.”

It seems the management team of Eve-Tech already start to learn some knowledge about the Chinese market, they know it is a totally different market compare with domestic market in Finland. Samuli Sulander from FBCB also mentioned this sociocultural distance as:

“Culture here is very different to Finland and usually Finnish companies find it hard to deal with it.”

In chapter 2.3.4, there is already briefly discussed some differences between Finland and China. Deal-focus vs. relationship-focus can be the biggest difference in business culture. The company also need to pay attention to the “Guanxi” theory which has very deep effect when doing business in China or with Chinese. Cultural differences are not only reflected in the business culture, but also reflects in the political environment and human culture.

China has a large population base, the government attaches great importance to political stability, and this contributed to the particularity of the Chinese market. The mainstream social networking sites in Western countries, such as Facebook, Twitter, YouTube and even Google all have been blocked by network monitoring department of the China government. These websites are used by most foreign firms as their promotion method and also the communication platform with customers, but unfortunately they are officially not work in mainland China.

People cannot directly get access to these sites in mainland China, in spite of the VPN is still helpful to reach those websites that been blocked. But most Chinese citizens may not to do so, because there are local websites that can instead of those ones. Chinese government’s this behavior just created business opportunities for some local enterprises. Chinese firm RenRen take Facebook’s place in China,

Weibo replaced Twitter, Youku substitute YouTube and China's largest search engine website Baidu perfect replaced Google's function for Chinese people.

When discuss the online shopping behavior, Chinese consumers also have their own interests. Some international online shopping platforms like Amazon and eBay all have their subsidiaries in China with their Chinese version websites. But it's still difficult for them to compete with two biggest local online shopping platforms, which are Alibaba Group's Taobao.com, and Jingdong Group's JD.com. These two online shopping websites are always the first option for almost every Chinese consumer who use online shopping platforms. This is why many large foreign companies opened their flagship stores on these two sites. It can be said, if the foreign firms (both SMEs and MNEs) are willing to success in Chinese market, these local websites are important methods and platform for promotion and communication.

Besides on the political factors, another important factor need to be taken into consideration is the language. Although Finnish as the official and mother tongue of Finland, English has a high penetration rate in Finland, so most Finns can speak English. The fact in China is English as a required course for schoolchildren, and even college students, also looks largely gained popularity. But in fact, majority of Chinese people cannot speak English, most people in work and public services only speak Chinese (Mandarin), such as taxi and bus drivers, cashiers in shops. As the final customers, they also willing to read and speak in Chinese rather than English, so how to successfully cross the language barrier is the question need to consider for the firm.

Concerning with this common problem for most foreign firms entering Chinese market, FBCB Samuli Sulander and Commercial Counsellor of Finpro Jari Seilonen shared their opinions and suggestions for the Finnish Startups as following:

“Learn Chinese, find Chinese partners and adapt to Chinese culture and do not expect Chinese markets to be easy/gold mine for you.”---- Samuli S.

“Be sure you understand the market well enough, be prepared for long term commitment, no quick gains. Yet lots of opportunities.”---- Jari S.

Based on the words above, and combined with the company's own background. The solution can be build partnership with the local partners, for example joint venture, but this mode doesn't suitable for the startups and also as the managers of Eve-Tech are not willing to share the control of the company. The second option is establish a branch/sales office in China and send the Finnish employee who knows Chinese culture well and also speak Chinese or direct hire a local Chinese employee. Using the local social network communication and online shopping platforms is also very important for the company to consider. This can be very helpful for the company to cross over many obstacles and expand the business in China.

Country risk/ demand uncertainty analysis:

With the stable and fast development of Chinese economy, the country risk of China has been getting smaller and smaller compare with other developing countries. For example, according to the country report published IHS Global Inc. in January 2015, China get the medium ratings with the Comprehensive score 2.90. The detailed information can be seen from the following table.

Table 4. Six-Factor Country Risk – China (Source: IHS Global Inc. 2015)

| Six-Factor Country Risk - China | | |
|--|-------|----------------|
| Risk | Score | Description |
| Political | 2.50 | MEDIUM |
| Economic | 3.00 | SIGNIFICANT |
| Legal | 3.25 | SIGNIFICANT |
| Tax | 3.00 | SIGNIFICANT |
| Operational | 3.00 | SIGNIFICANT |
| Security | 2.75 | MEDIUM |
| Overall | 2.90 | MEDIUM |
| 12-Month Rating Trend | ▼ | Negative Trend |
| Note: 1 = minimum risk, 5 = maximum risk. Ratings form part of enhanced Country Analysis & Forecast suite of services. | | |
| Sovereign Risk Ratings - China | | |
| Medium-Term | 20(A) | Good Quality |
| Sovereign Risk Outlook | ▶ | Stable |
| Note: 0 = minimum risk, 100 = maximum risk. Ratings form part of enhanced Economic and Sovereign Risk services. | | |

In every factor mentioned in this table, China get the points around 3, which is quite averaged, not low but also not high. Sovereign risk outlook is stable, this means China can provide a stable business environment for the foreign investors. Besides on this table, there are many foreign enterprises in tablet industry successfully expand their business in China, for example, Apple and Samsung, and most of the tablet products on the market is made in China. So from the reality of the results it's clear that China's market potential is enormous.

Demand uncertainty of the host country can also be one of the common risks when the company has very less knowledge of the target market. It usually happens to the new product that with little or even no market reference, for example the radical innovation high-tech product. For the tablet product and the market, there is already several years' knowledge from the researchers or Medias. China as an important market for many firms, it get a lot of attention. From the IDC report (2014), tablets demand of Chinese is growing very well, even the growth of global tablet market slow down. According to NPD DisplaySearch (2014) the cause of slower growth, a large part is because the rapid growth of larger phones and cheaper notebooks.

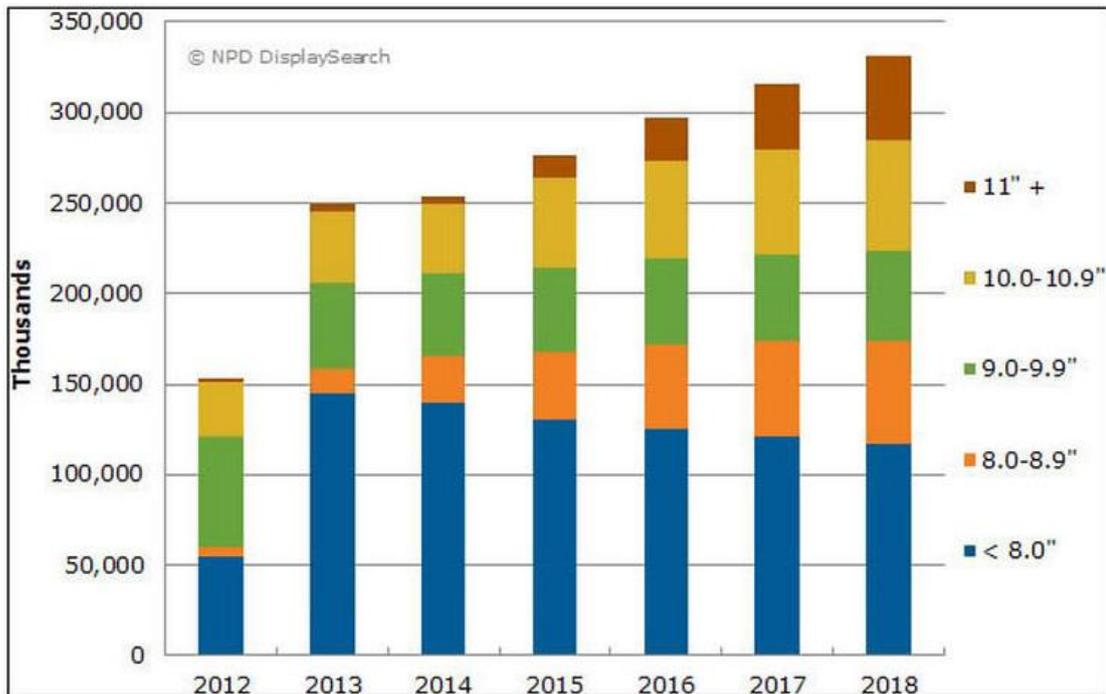


Figure 2 NPD's tablet shipment forecast (Source: NPD DisplaySearch)

Figure 2 shows the tablet shipment divided by the screen inches of the tablet. Based on this forecast, the shipment volume of tablets with or under 8 inches small screens will decrease year by year, and those with big screen will increase step by step. This shows that the consumer demand for small-screen tablet is decreasing.

This forecast is quite reliable, since Apple's new iPhone 6 Plus with an 5.5 inches increased screen size already taken a lot of market share of its own iPad mini. (Miller, 2014) T1 tablet from Eve-Tech is just the product with 8 inches screen, from this point of view, the future maybe not so optimistic, so to enrich its product line, launch the large-screen tablet would be a good choice for the future development.

From the above text and according to IDC's report, Chinese tablet market growth staley compare to global market, the risk level of this market is moderate for company to enter, and the demand uncertainty factor doesn't apply to Chinese market in this specific industry. Chinese market is still the key market for many big

players in tablet industry and it is continuing attract more and more foreign SMEs, for example Jolla Ltd..

According to Laufs, Schwens (2014) and Hollensen (2011), when the business activities involves the partnership in host country, the risk level will relevantly decrease, since the risks can be shared by the partners. For Eve-Tech in Chinese market, now their only partner there is the contract manufacturer, so if the company choose to enter the Chinese market completely, find the partners in every aspect of a business activities and build reliable network is quite necessary.

Market Size and growth analysis:

China as the world's second largest economy, and also because of China's huge population base, which laid the China has a huge consumer market. It has become an important market for many global companies in various industries. There are more than 10 global large size companies in IT industry doing their business of tablets in China. Such as Nokia, Apple, Samsung, Microsoft, Google, Amazon, Lenovo, ASUS, Acer, Huawei, Teclast, Onda, LG, HTC and ZTE. Meanwhile, some SMEs and emerging Brands also shows their interests in Chinese market, such as Jolla, Vido and Xiaomi. It has been mentioned in chapter 2.3.4 by Agarawal and Ramaswami (1992), the countries with low market potential is very difficult to arouse interest of foreign companies to invest. There are so many foreign and local firms invested in Chinese market, this phenomenon is sufficient proved that Chinese tablet market is a worthy market with big potential to enter.

Among the many international companies, there are significant numbers of Finnish firms doing their business in Chinese market through different operating model as well. The Finpro commercial counsellor Jari Seilonen mentioned the recent situation of Finnish companies in China as:

“There are some more than 400 Finnish companies with legal entities in China, main hub being Greater Shanghai, secondly Greater Beijing and third Southern China.”

Samuli Sulander from FBCB also indicated the detail information about the situation of Finnish firms in Beijing, which is the capital city of China, he said:

“In Beijing there are estimated 50-60 Finnish companies of various industries. Some are doing well some are doing not so good.”

Over 400 Finnish companies operating in China can obviously explain and prove that China has a large enough market, and it has attracted many Finnish companies from various industries to do business in China. Based on his words there are some firms don't have very nice performance there, but no matter what, it can be seen that they realized the importance and attractiveness of this market, that's why they expand their business to China and working hard on it.

When discuss the market growth of Chinese market, FBCB's Samuli Sulander and Jari Seilonen from Finpro said:

“Chinese market is rapidly growing so it is necessary that Finnish companies are in China. We believe that Chinese markets will grow at least till 2021.”----- Samuli S.

“It is still growing fast especially if you compare the situation globally, offers plenty of opportunities but difficult to enter the market. Also regulatory environment is little by little coming stricter.”----- Jari S.

It's clear that both of them from two different organizations believe that the Chinese market will maintain the speed of growth at least for many future years. And compare with the global economy, Chinese market even grow faster. This phenomenon also

reflected in the Tablet PC industry when compare Chinese market with global market, especially when the performance of global market decline.

It's not optimistic for many tablet enterprises to see the global market last year, but the Chinese market's performance makes everyone satisfied. According to the report from IDC (International Data Corporation) (2014), the global tablet market only grow 7.2 percent, which is 52.5 percent drop compare with the same period in 2013, especially iOS shipments volumes got 12.7% negative growth. Turning to Chinese tablet market, the shipments reached 1.86 million units in May 2014, which is 14.6% gain over the same period in 2013. On this point, China's tablet market shows a high market potential compare with global market. For example, analyst Daniel Ives (2015) from FBR Capital Markets predict that China will become Apple's largest market by revenue in two years.

NPD DisplaySearch (2013) compared the growth potential of Chinese tablet market and some other markets. The report shows that, according to the current situation of Chinese tablet market, most future growth for tablet shipments will come from the China and Asia Pacific regions. In 2015, 50 percent of the global tablet PC segment will come from these regions, and it will continue increasing to approximate 60 percent by 2017. And the forecast shows in comparison with China, North America and EMEA region (Europe, the Middle East and Africa), which combined will fall to 36 percent in 2017. The following figure also shows the tablet shipments in China and in worldwide market.

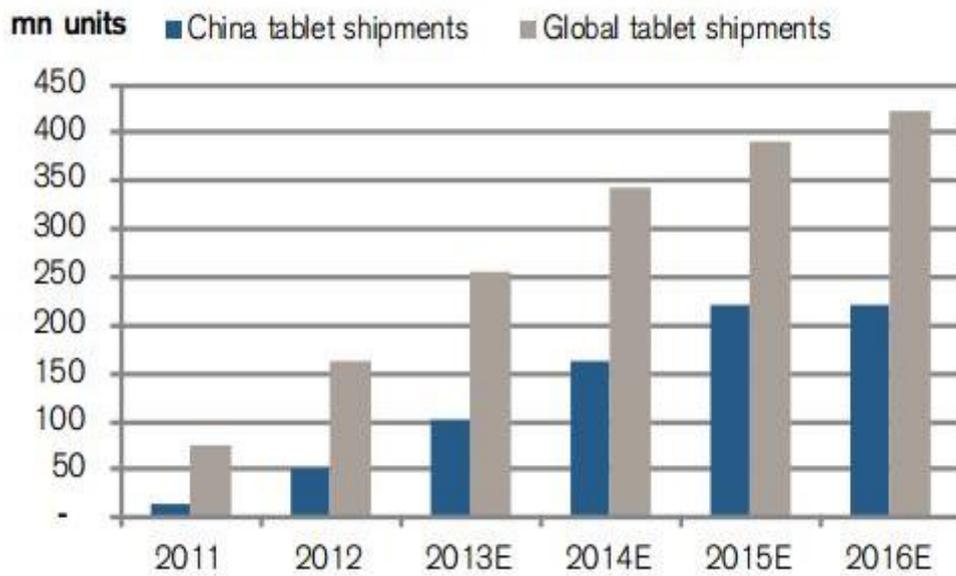


Figure 3 China to outgrow global tablet shipments in 2014-15 (Source: Credit Suisse estimates)

This figure clearly shows the tablet shipments in China and in worldwide market. Start from the year 2014, the tablet shipment volume in China already substantially equal to half of it in the global market, which means Chinese market takes half of the world's shipments volume. This also proves that China's tablet PC market maintained a good momentum of growth, it's a good market for Eve-Tech to enter. Besides of shipments volume, Chinese Research Company Analysys International (2014) gives the report shows the sales volume of tablet PC in Chinese market from 2012-2014.

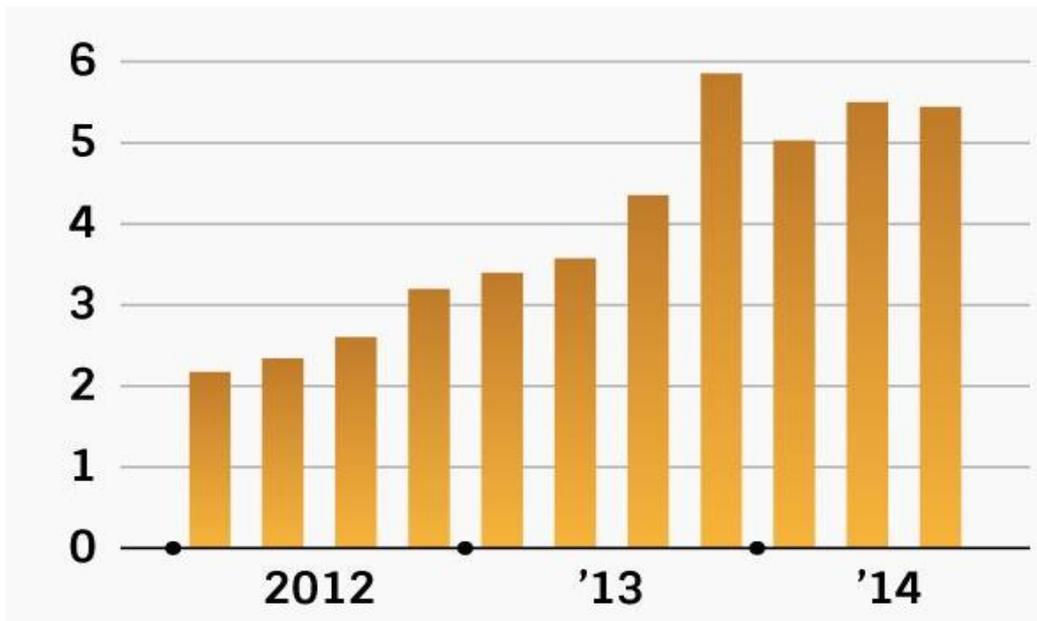


Figure 4 Sales volume in millions of tablets in Chinese market (Source: *Analysys International*)

The sales volume in Chinese market maintained rapid and steady growth from 2012, reached the highest volume at the 4th quarter of 2013. In 2014, the sales volume decreased around 0.5 millions of units but still two consecutive quarters of stable with the number of approximate 5.5 millions of units.

According to the data and information from the reports of various research companies, Chinese tablet market has a big market size with stable demand and growth. Eve-Tech Oy may enter Chinese market as soon as possible, as there are already many big players there.

Hollensen (2011) claims the company can consider establishing wholly owned sales subsidiary or majority-owned joint venture in the market with high market potential. The benefit is it allows the management team of the firm to plan the business in host country more effectively and improve the level of control. But for Eve-Tech Oy, there is no such resource based support for them to establish owned sales subsidiary nor majority-owned joint venture. So the recommendation is the company can compare

Chinese market with other markets then decide how much they are willing to invest in such market, and for current stage to continue using export mode and consider establish the sales/branch office there.

Competition analysis:

As can be seen from the above analysis, with the good condition of Chinese tablet PC market, it has attracted a large number of Tablet PC manufacturers joined this competitive war, every firm wants to take some market share there when the global market is weak. Currently the tablet PC market competition in China is undoubtedly intense, but some emerging companies will always have the means to seize a place in the highly competitive market. A very good example is the Chinese local electronics firm called Xiaomi, which just started to sell their first tablet on 1st July 2014.

Based on the report from IDC, until the third quarter of 2014 in Chinese market, Apple still ranked the first place with over 29 percent market share, at the same time Xiaomi already had a 7.6 percent market share with just 3 months sales, and it's just 0.6 percentage behind second place Samsung. Chinese local firm Lenovo and Huawei took the fourth and fifth placed vendors. The analyst also point out the success factor of Xiaomi may be the brand awareness and customer groups that they have established in the smart phone market, and low price is another important factor. (IDC, 2014)

Another biggest surprise of the tablet market in 2014 should be Nokia, who announced a return to the consumer devices business with its new tablet, the Nokia N1 after they lost the mobile devices business. N1 tablet was manufactured by the contract manufacturer Foxconn, Nokia cleverly avoided the acquisition agreement with Microsoft by using licensing. N1 is a highly configurable Android tablet, compare with others in market, it definitely can be the premium high-end tablet

segment. But the price of N1 is just \$249 before tax, which is \$150 less compare with iPad mini 3. This price makes it become a strong competitive product compare with Mi Pad from Xiaomi, which sells with \$243 in Chinese market.

Analyst of Trefis team also figured out that according to the current situation of the tablet market, innovation and price should be the two main factors that driving tablet sales. T1 tablet from Eve-Tech also has a high configuration with low price, but with Windows system, the price can be a competitive advantage based on the analysis above. The CEO of Eve-Tech also talked about the company's competitive advantage as following:

“Design, performance and low price. As startups we don't have thousands employees and invest a lot in development, it's easy for us to stay in competitive price. The distribution model is also one side as there is not a lot of players inside, the product direct deliver to customers from the factory.”

Although Apple took the first place in market share, but since their own iPad is the only one product running with iOS system. Android with its open source policy has been used by many tablet companies. Windows has big market share in PC and laptop market, but in tablet there is still big gap compare with iOS and Android.

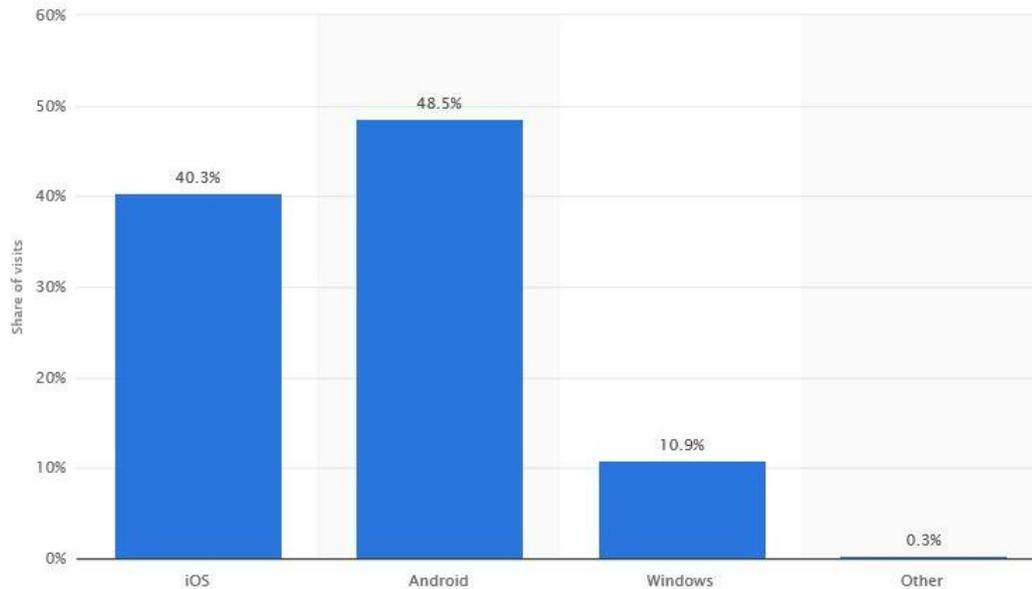


Figure 5 Market share held by tablet operating systems in China in 2014, by share of internet traffic (*Source: Statista 2015*)

The figure clearly shows the market share of tablets divided by operating system. Android, with its large number of hardware manufacturers, gained the market leader position. Apple's iOS system, with its large amount of high-quality apps and friendly user experiences, is just behind Android by about 8 percentage points.

Although the Windows system is in third place, it is still 30 percentage points less than iOS. With the release of Windows 10, tablets with the Windows system may usher in a new opportunity. Here, it should be noted that iOS only operates with iPad, but Android operates with many brands, such as Samsung, SONY, HTC, so if the market share is divided by the brand of hardware, Apple Inc. with iOS should be the market leader. Although there is a large gap for Windows, that just reflects the market share of the other two systems has basically approached saturation, and there is much room for the growth of Windows.

There is no doubt tablet market in China is a very competitive market, but still there are many new companies fast grow in such environment. It has been mentioned chapter 2.3.4 by Hollensen (2011), when the competition in host market is high, the export entry mode can a good choice for the company, since it involves lower resource commitments. Windows is not open source system like Android, so there is no possibility to make it so unique (Nokia has Z-launcher, Xiaomi has Mi UI), the company should consider how to make more features for the product, to find the right balance between price and product features is very important to success in Chinese market.

Direct and indirect trade barriers analysis:

Every country to a certain extent has its own trade barriers for protecting the development of the local firms, China is no exception. But these barriers are reduced or even eliminated after China's accession to WTO. Furthermore, consider the tablet is manufactured by Eve-Tech's Chinese contract manufacturer, which means the products are direct ready for sell just after they are manufactured in the factory in China. So the company doesn't need to consider too much about the tariff, which is the biggest trade barrier.

In recent environment, another more important factor for the company to consider is the euro currency devaluation in recent years. Finland as the only member of the Eurozone in Nordic region, will naturally affected by the depreciation of the euro.



Figure 6 Exchange rate between Chinese yuan renminbi (CNY) and Euro (EUR)
 (Source: European Central Bank)

In this figure shows the exchange rate between two currencies (CNY and EUR) from June 2008 to May 2015. In 2008, 1 EUR equal to over 11 CNY at the top point, but now 1 EUR just equal to 6.9 CNY. In the past six year-end, the euro against the yuan reduced the 4 yuan.

The most direct impact of euro devaluation on euro-zone is it increased the exports. The European Union (EU) wish to stimulate the funds out of banks to carry out the entity economic or other investment through the easing monetary policy, to revitalize the economy of euro-zone. Current entry mode used by Eve-Tech is just the export entry mode to reach most of their customers worldwide, it's a good choice for the company under such economic condition.

Consider the Chinese market, if the company wish to invest more into this market, for example, establish the sales/branch offices or increase investment in production capacity. They need to consider more about the exchange rate to make reasonable

decisions, since the same office or product in China is much more expensive than before by using euro.

Industry analysis:

The spring up of tablet industry more or less connected with the smartphone and laptop industry, as tablet is more like a derivative of these two products. Nowadays the mainstream tablet is running with mobile operating system iOS and Android, this explained why most tablets comes from the traditional smartphone companies, such as Apple and Samsung. While Windows system are an exception, most tablet running with Windows 8.1 are manufactured by traditional PC companies, such as Lenovo, Asus and Acer. This may cause by the major impact of Windows systems on the traditional PCs and laptops.

Tablet is a tangible manufactured goods, with software service inside the operating system. From a macro point of view, it should be attributed to the electronics manufacturing industry, so the entry modes used by electronic products is indeed applicable to tablet products. With the similarity of smartphone and laptops, the entry modes used by these two typical products can be good reference for tablet products.

According to Ekeledo and Sivakumar (1998) mentioned in chapter 2.3.4, firms in manufacturing industry always prefer Licensing, exporting, foreign manufacturing agreement, joint venture, and sole ownership as entry mode to host country. Among these entry modes, N1 tablet from Nokia is a good example for licensing. Eve-Tech already use foreign manufacturing agreement (contract manufacturing) in China for production, and exporting as the main entry mode to reach the customers outside Finland. It's interesting that currently there is no joint venture in smartphone or tablet industry, only acquisition happens, for example, Sony acquired Ericsson and Microsoft acquired mobile devices business of Nokia.

Consider the industry and the current situation of the company itself, continuing using contract manufacturing and export modes are good choices for Eve- Tech Oy in this stage. For long-term future development the sole ownership or branch/sales offices can also be taken into consideration.

3.4 Benchmarking with Jolla Ltd.

Jolla Ltd. is a mobile company established in 2011 in Finland with 5 co-founders, 4 of them have over 10 years working experience in mobile and communicate industry. The CEO of Jolla Ltd. Jussi Hurmola worked in Nokia for over 12 years responsible for ecosystem construction of SymbianS60, N series and MeeGo. When Jolla was first established, Nokia gave a small amount aid of intent, but the money was not enough. As mentioned in chapter 1.1, at that time Finnish government started to increase support for science and technological company, hopes to retain talent and increase employment. Jolla to secure for themselves such support.

Jolla's first product is the mobile phone introduced in November 2013. It is a smartphone running with Sailfish OS, which built on the heritage of MeeGo system. 20th November, 2014, this company introduced the Jolla tablet project which also equipped with Sailfish OS to the public for crowd funding, they planned to launch it in second quarter 2015. And because Jolla team mostly from Nokia, so in industrial design, Jolla will remain Nokia's high standards in appearance but also make their phones and tablets unique. With 4 years growth, the company have now 125 employees working in Helsinki and Tampere, Finland and Hong Kong, China. (Jolla, 2015)

As the management team of Jolla are all experienced professionals, they know how important is Chinese market and they have enough funding support, so they established their first overseas office in China which are thousands of miles away

from Finland. Not like many other startup company to establish their first overseas office in European countries.

In 2011, Jolla choose Chinese mobile phone chain operator DIXINTONG.com as their first partner in China, and Chinese market will be the key to its success. Chairman of Jolla Antti Saarnio who is leading the China operating team said he believes the Chinese market also need a new smartphone and tablet. They received the feedback from partners in China are 99 percent positive, that Chinese mobile phone sales channels and China's telecom operators are hoping have other options beyond Android and iOS. He said that China is a big market, but they more stress is placed the Chinese market is a very dynamic market, which means that newcomers will get more opportunities. *"If you look back two years ago, China's mobile phone and tablet market are very different. There will be a dramatic change in two years, we hope to become the promoter for changes in the next two years."* Antti said. (Tencent Tech, 2012)

In the process of familiar with the Chinese market, Jolla learned two things: the first is to show respect to Chinese partners, in order to get the respect from them; the second is to choose the right partners, these partners will be very understanding Chinese market, so they can provide Jolla the right methodology to success in Chinese market.

Antti think Xiaomi provides them with a good example of that a new thing in China may soon be successful. This means Jolla also have the opportunity. Jolla and Xiaomi have many similarities, they are both to adopt a new way to enter into this market. *"But Xiaomi phone doesn't have its own operating system, they are based on Android, and we have a separate operating system and our own UI. This is a big difference."* Said Antti. Jolla probably learn Xiaomi that maintain a high update

frequency on their own released MeeGo system, and unite together MeeGo developers around the world to maintain the system, to get more support.

The reason to choose Jolla Ltd. as the benchmarking target is because Jolla Ltd. is also a startup company from Finland in the same industry. More important is Jolla choose Chinese market as their first target market of internationalization to set up the office and R&D center there. Based on the background information of Jolla above, it's clear that the two companies have approximate same goals in Chinese market but with different background and strategy. It make sense for research purpose to compare the two companies.

From the management team's point of view of Eve-Tech Oy, they don't treat Jolla Ltd. as their competitor at all. As they think they have the tablet with different operating system, and different pricing and marketing strategy. But the experience of Jolla entering Chinese market can be very good reference for Eve-Tech to learn. The following table shows the comparison data between the two companies according to different aspects.

Table 5. Comparison between Jolla Ltd. and Eve-Tech Oy.

| | Jolla Ltd. | Eve-Tech Oy. |
|--|---|--|
| Establishing time: | 2011 | 2014 |
| Firm size: | 125 employees; Office in Tampere, Helsinki Finland, Hong Kong China | 7 employees; Office in Helsinki Finland |
| Resources commitment: | Relevant lavish resources | Limited resources |
| International experience: | Experienced professional in the industry with much experience | University students with little business experience |
| Product: | Smartphone and tablet with Sailfish OS (MeeGo) | Tablet with Windows 8.1 operating system |
| Control of host country: | High level | Low level |
| Flexibility: | Middle level | High level |
| Marketing channel: | Official web site, partners (distributers), Facebook, Twitter. Chinese local channel: Weibo, Tieba | Official web site, Facebook, Twitter. Chinese local channel: none |
| Knowledge about Chinese market: | High degree | Low degree |
| Operating situation in China: | Local office and R&D center, local partners | Contract manufacturer |
| Current using foreign market entry modes: | Export modes (direct and indirect exporting), local branch/sales offices | Export mode (direct exporting) |
| Market visibility in China: | Middle level | Low level |

The table above intuitively shows the detail comparison from different perspective between Jolla Ltd. and Eve-Tech Oy. Both of the two companies are startups from Finland, which selling tablet worldwide. The difference is Jolla tablet equipped with their own Sailfish OS (MeeGo), T1 tablet is running with Windows 8.1 from Microsoft. Both of them have system differentiation when iOS and Android are mainstream.

The founders of Jolla Ltd. are most experienced professionals from Nokia, but the founders of Eve-Tech are most university students, who have much less experiences than Jolla staffs. Jolla was established on 4 years ago, which makes them accumulated experience, knowledge about Chinese market, resources and brand awareness. Also because of the establishing time gap, Jolla already have 125 employees, meanwhile only 7 employees in Eve-Tech. Jolla have built the offices and R&D center in China, but Eve-Tech has now only the office in Finland, this makes Eve-Tech has low control level of the host country when Jolla can control the Chinese market in relevant much higher level.

As Eve-Tech only use exporting as entry mode, Jolla already built the offices in China, Eve-Tech may be more flexible when problems which occurred in host country. With using local social media platform and the partnership built with DIXINTONG.com and other partners, Jolla already have marketing networks in Chinese market, which can help them expand their business there more convenient. In contrast, Eve-Tech now only have contract manufacturer in China in charge of production, no marketing networks or channels there. This is also the reason that Jolla has higher market visibility level than Eve-Tech in Chinese market.

Overall, Jolla as a startup company from Finland has successfully established their office and operated in China for years. There are many things EVE-Tech Oy can learn from Jolla Ltd. from different aspect, such as their business model and their strategy. One good example is Jolla use crowdfunding to solve their problem of

insufficient funds of its Jolla tablet project, it indeed worked and raised certain amount of money for Jolla. For the same shortage of funds of EVE-Tech, these are the points that they can learn and imitate. If the management team of EVE-Tech can summarize reasons of success and failure of other companies in same industry or market, it can make their efficiency greatly improve.

4 DISCUSSION AND CONCLUSIONS

Rapid and stable development of China's overall economy and the tenacity of the Chinese currency, has made China the world's second largest economy, but also made the mainland China market an important strategic market for many large or small foreign-funded enterprises. Even for some companies, the firm's operations in the Chinese market directly affects the overall development of the whole company, so both from a strategic point of view or an opportunity perspective, China is a crucial market for a company that wants to take the internationalization route.

Tablet PC as the derivative of smart phones and personal laptop, has a pivotal position in today's electronics market. Substantially all of the smart phone firms or PC companies have their own tablet PC products. This makes tablet PCs an emerging product quickly occupied most of the world market in recent years. While consumers have functional requirements on product, they also more portability and price requirements, which make tablets more likely to replace the role of laptops in the future.

Finland is a world famous science and technology strengths nation, with a large number of large and medium-sized technology companies. Under the government's policy encouragement, there emerged of a considerable number of new startup companies in the field of electronics and IT. The European market does not look too optimistic for tablets compared to the Chinese market, and therefore startup companies should seize every opportunity to get customers in China. Based on that, what entry mode Finnish Startups can choose entering Chinese market in tablet industry is a topic worthy of study.

In the 4th chapter, it includes three parts that will elaborate the summary of major findings, managerial implications and limitations and suggestions for further researches.

4.1. Summary of major findings

This part summarizes the major findings of the empirical research that integrate with the theoretical part of the study. The result will intuitively present in tabular form in table 3 and table 4.

Table 6. Major findings of internal factors affecting entry mode choice

| Internal factors | Apply to EVE-Tech Oy | Influence level of factor | Suggestion of entry mode choice |
|---------------------------------|-----------------------------|----------------------------------|--|
| Firm size | Startups / small | High | Exporting mode |
| International experience | limited | Middle | Exporting mode |
| Product | Tablet product | High | Exporting mode, contract manufacturing |
| Risk averse | Avoid risk | Low | Exporting mode, JV |
| Control | Low control degree | Middle | Exporting mode, local sales office/ branch |
| Flexibility | High flexibility | Low | Exporting mode |

This table is the summarizing information of the impact of internal factors on entry mode choice applying to the case company EVE-Tech Oy itself. There can be seen that the influencing level of different internal factors and corresponding suggested entry modes.

Table 7. Major findings of external factors affecting entry mode choice

| External factors | Apply to Chinese market | Influence level of facotr | Suggestion of entry mode choice |
|---|---|----------------------------------|---|
| Sociocultural distance between home country and host country | Huge cultural differences | High | Local sales office / branch, (JV) |
| Country risk / demand uncertainty | Low risk level / low uncertainly level | Middle | Exporting mode, local sales office / branch |
| Market size and growth | Big size / Stable high growth rate, high market potential | High | (WFOE), local sales office / branch, exporting mode |
| Direct and indirect trade barriers | Exchange rates, tariffs, government policy | Middle | Exporting mode, local sales office / branch, (JV) |
| Intensity of competition | High level | Low | Exporting mode |
| Industry | Tablet industry | Low | Exporting mode, local sales office / branch |

The above table shows the major findings of the external factors affecting the entry mode choice applying to Chinese market in tablet industry with their influencing degree. The suggestions with brackets means the less optional choice (not recommend to the company) considering the background and situation of EVE-Tech Oy.

The research question of this study is “*How do the Finnish startups choose their entry mode when entering Chinese tablet market?*”

From the above two tables, it's clear to find out how much degree that different factors affecting the entry mode choice. Initially there are 7 internal factors introduced in theoretical part of the study, they are organizational/ownership structure, firm size, international experience, product, risk averse, control, flexibility. Considering the background of the case company that it is a startup with only 7 employees, the organizational/ownership structure is not applicable to it. The rest 6 factors were the internal factors that affect the selection of entry mode for the case company in different degrees.

There were 7 external factors presented in the theoretical part , which includes sociocultural distance between home country and host country, country risk/demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition, a small number of relevant export intermediaries available, industry. After combining the detailed background of the Chinese market, it is a big size market with many intermediaries and middlemen active in different regions in China with almost all the products, therefore the factor of a small number of relevant export intermediaries available is not applicable here.

The EVE-Tech Oy itself is using the contract manufacturing in China and exporting mode for this moment to serve the customers from all over the world. And benchmarking case company Jolla Ltd. uses the exporting mode and local sales office/branch, and even build the R&D center in China.

Combining the information shown in table 3 and table 4, the main suggestions for Finnish startups in tables or relevant industry that wish to enter the Chinese market are implementing exporting mode and build the local sales office/branch. It depends on how much resource commitment the company has or wishes invest in China, and also how much control degree of the market the company wishes to have.

There are two sub research questions of this study, they are: 1) *What is the role of internal factors in the choice of entry modes?* 2) *What is the role of external factors in the choice of entry modes?*

From the internal factors perspective, the firm size and the product factors affect the entry mode choice a lot for the SMEs. This is because to a large extent, firm size direct respond to the company's resource commitment ability. No matter consider the knowledge, personnel or financial resources, those are all key factors influencing the entry mode choice. For example, in many cases, the MNEs have enough resource to build the WOFE, but the SMEs can only use exporting due to the limited resources. Product is another key factor, since the entry modes used for tangible product are not applicable to the service product which is intangible.

In general, factors include firm size, international experience, product, risk averse, control, and flexibility all have different level impact on firm's entry mode choice. And moreover, the final results shows that all the six internal factors point to the exporting mode as the choice for the company for the entry mode choice.

In terms of external factors influence, sociocultural distance between home country and host country and market size and growth have the highest level impact on the choice of entry mode for the company to consider. The reason is that Finland and China have very much different cultural background, no matter the business environment or consumer habits or consumption ability are very different compared to Finland as well.

And Chinese market is a big size market with stable and high speed growth compared to the domestic market in Finland, so how to satisfy the big demand from such market is very important for the managers of Startups to consider. As mentioned in the previous parts of this study, exporting mode is quite useful and

suitable for startups to use at the initial stage of internationalization, but if the company wishes to overcome the cultural difference quickly and better serve the market, finding reliable local partners and build local sales office/branch there can be better good choices.

Overall, external factors including sociocultural distance between home country and host country, country risk/demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition and industry all affected the choice of entry modes in different level. Most of the six factors make the company's decision to select exporting mode and build local sales office/branch.

4.2. Managerial implications

The company's management decision-making not only decide the company entering Chinese market with which entry modes, but also affect the company's future development direction and strategies after getting into the market. The managers should consider both internal and external factors with their experiences and the actual market situation, making the strategy that can quickly respond to changes of the market's environment with less resource cost.

The competition of Chinese tablet market is getting more intense as the smartphone market. Whether it is in product innovation or formulating pricing policies, every player in this industry and market can do everything possible to attract more customers. Some of them had good performance but some have failed, this explains there are some successful strategies that can draw on the company's management. To learn the positive strategies from the firms like Xiaomi and Jolla can make the case company works more effective when adapt to Chinese market.

One of the most considerable issues for Finnish SMEs to enter Chinese market is the market size. Because China's market capacity is large, in tablet industry the

enterprises tend to be small, how to achieve the convergence in the production capacity and regional development needs to be taken into consideration for the managers. Some cases show some companies fail to obtain trust from customers precisely due to the small scale of the firm or their business. Limited production capacity is also one problem to the EVE-Tech Oy. But from the production capacity issues point of view, sometimes limited capacity may allow the company to have more gains and a great success. The following example may help the managers to figure out the solutions.

Xiaomi and Meizu are Chinese local smartphone and tablet SMEs, they both have their own UI based on Android OS. Their greater common ground but also the key to their success is the high cost-effective, which means the customers can buy the product with very low price but high specs. For example, the newest smartphone M2 just launched by Meizu in July 2015, only sells for 599 CNY, which equal to 88 EUR. The price of other brands like Samsung which has same specs of M2 may cost 3 times more. Because of low prices, and their low production capacity, both of these two firms used hunger marketing strategy. They open from time to time on their own official website a certain amount of products for sale, and every time the products are sold out within 5 or 6 minutes. They rarely advertise in mass media, but their potential customers and fans are getting more and more. Product of EVE-Tech also match the trait of high cost-effective, hunger marketing can be a good choice for the managers to use in China.

Consider the relatively limited international experience of the management team, seeking the help and support from professional third party organizations when entering Chinese market is also good option.

Samuli Sulander from FBCB made it clear that they can provide a lot of help for the Finnish companies in China. He said:

“We usually don’t help Finnish companies to get into China, but we help Finnish companies already in China and provide support to them. Finpro and Tekes help companies to come to China”

Indeed Finpro can provide support to companies in various industries to enter the Chinese market, however they charge but there are also some free services. Finpro’s Commercial Counsellor Jari Seilonen said:

“We help companies to understand business opportunities, we provide information on suitable service providers if they want to enter china and need e.g. consulting services, and we also provide free of charge advice to help companies to start their internationalization.”

Both FBCB and Finpro are professional organizations operated in China for years, they can help company managers to solve many problems with their experience when they are ready to enter the Chinese market.

In short, the competition is so fierce in this industry and market, in addition to providing products that meet consumer needs, enterprises also must consider how to effectively attract potential customers and how effectively sustainable development in this special markets. For the managers of EVE-Tech Oy, there are still many things for them to learn of this market.

4.3. Limitations and suggestions for further research

The research method used in this study is the qualitative research. The nature common limitation of qualitative research is also applied to this study, which is it cannot be generalized and it may also built-in bias.

Qualitative research is often subjectively designed by the researchers, this makes the research more or less affected by personal biases of a particular researcher. And more important is that the research target of qualitative research is often a specific phenomenon, which cannot be applied to more frequent phenomena. (Atieno, 2009)

The research target of this study is a Finnish startup called EVE-Tech Oy in tablet industry, the research analyzed the role of internal and external factors affecting the entry mode choice entering mainland China market. And finally gave advices of which entry modes may suitable for case company to choose in their internalization decision-makings.

The techniques used in the research are face to face interview and questionnaire sent by e-mail to gather the high quality primary data for analysis purpose. The interview was sound recorded and transferred into text by the author to avoid the unclear answers. In general, the result got from this research is validity and reliability.

There are quite many researchers analyzed the entry modes choices related topics with the attention on MNEs, the researches on SMEs is still limited which need to improve. (Laufs, Schwens2014) Especially considering there are more and more startups raised up in Finland that are encouraged by government policies, many of them are in IT and electronic products industry. China has become the important market for many firms to consider in their internationalization, but the researches on Finnish enterprises in China is also very limited. So it's necessary to have more researches on this topic which contribute to both academic and practical significance.

The future related researches can expand the study target more widely, which means to have more factors involved or carry out on more case companies in the study. And the tablet industry is derivative of smart phone and laptop industries, so at current stage, many researches direct apply the result get from another two industries to tablet industry. I think that it is somehow not advisable as it's short of rigor, because there is still many difference among these three industry and every industry has its specific characteristics. There is no joint venture established ever in this industry, the future researches can try to find out the cause of this phenomenon.

Based on the findings of the study more researches will be conducted on this emerging (tablet) industry. It's necessary for the researchers to carefully analyze those industries, find the common characteristics of these related industries when choosing the entry modes in internationalization, and finally summarize the references for SMEs in related industries. It is also recommended for the future researches to get deeper in regional perspective, as Hong Kong, Macao, mainland China and Taiwan have different environment and policies, each of them can be used as individual regional target for future researches.

REFERENCES

- Agarwal S., Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International Business Studies*, 23(1), 1–27.
- Ahsan M., Musteen M.,(2011) Flexibility, learning, and control: entry mode choice under uncertainty. *Current Topics in Management*, Vol. 15, 2011, pp. 199-224
- Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), 1–26.
- Atieno P. O. (2009). AN ANALYSIS OF THE STRENGTHS AND LIMITATION OF QUALITATIVE AND QUANTITATIVE RESEARCH PARADIGMS. Masinde Muliro University of Science and Technology, Problems of education in the 21st century Volume 13, 2009
- Banker D. R., Byzalov D., Plehn-Dujowich M. J. (2013). Demand Uncertainty and Cost Behavior. *THE ACCOUNTING REVIEW*, Vol. 89, No. 3, 2014, pp. 839–865
- Barkema, Harry G. and Freek Vermeulen (1997), What Differences in the Cultural Backgrounds of Partners are Detrimental for International Joint-Ventures?, *Journal of International Business Studies*, 28(4), pp.845-864.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99.
- Begley, Thomas M. and Wee-Liang Tan (2001), The Socio-Cultural Environment for Entrepreneurship: A comparison Between East Asian and Anglo-Saxon Countries, *Journal of International Business Studies*, Vol. 32, N° 3, pp.537-553.
- Buckley, P. J. (1989). Foreign direct investment by small and medium sized

enterprises: The theoretical background. *Small Business Economics*, 1(2), 89–100.

Burgel, O., Murray, G. C. (2000). The international market entry choices of start-up companies in high-technology industries. *Journal of International Marketing*, 8(2), 33–62.

Brouthers, D. K. (2013). A retrospective on: Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies* (2013) 44, 14–22

Bradley, F. (2002). *International Marketing Strategy* 4th Ed. Essex: Pearson Education Limited.

Brouthers, D. K., Nakos, G. (2004) SME entry mode choice and performance a transaction cost perspective. *ENTREPRENEURSHIP THEORY and PRACTICE*, 1042-2587 Baylor University

Cairns A. L. (2013), Global Demand Remains Strong for Tablet PCs Heading into 4Q13, *Smith Market Blog*. [E-document]. [Referred on 12th of May 2015]. Available at: <http://www.smithweb.com/en/201310251326/market-blog/global-demand-remains-strong-for-tablet-pcs-heading-into-4q13#.VVG7NnmJiU>

Calof, J. L. (1994). The relationship between firm size and export behavior revisited. *Journal of International Business Studies*, 25(2), 367–387.

Cheng, H.-L., & Yu, C.-M.J. (2008). Institutional pressures and initiation of internationalization: Evidence from Taiwanese small- and medium-sized enterprises. *International Business Review*, 17(3), 331–348.

Cheng, Y.-M. (2008). Asset specificity, experience, capability, host Government intervention, and ownership-based entry mode strategy for SMEs in International Markets. *International Journal of Commerce and Management*, 18(3), 207–233.

Choo, S., & Mazzarol, T. (2001). An impact on performance of foreign market entry

choices by small and medium-sized enterprises. *Journal of Enterprising Culture*, 9(3), 291–312.

Choi JY., Shin J., Lee J.(2013), Strategic demand forecasts for the tablet PC market using the Bayesian mixed logit model and market share simulations. *Behaviour & Information Technology*, 2013 - Taylor & Francis

Choi, Sang-Rim, Adrian E. Tschoegl & Chwo-Ming Yu. 1986. Banks and the world's major financial centers, 1970-1980. *Welwirtschaftliches Archive*, 1: 48-64.

Davies, H.: (1995), *China Business: Context and Issues* (Longman Asia Ltd., Hong Kong).

Davies, H., T. K. P. Leung, S. T. K. Luk and Yiu-hing Wong: (1995), 'The Benefits of "Guanxi"', *Industrial Marketing Management* 24, 207–214.

Deng P. (2011) *WFOEs: The most popular entry mode into China*, *Business Horizons*, 2001 – Elsevier

Douglas, Susan P. and C. Samuel Craig. 1995. *Global Marketing Strategy*. New York: McGraw-Hill

Dow, D. and Larimo, J. (2009) 'Challenging the conceptualization and measurement of distance and international experience in entry mode choice research', *Journal of International Marketing*, 17(2), pp. 74–98.

Engholm, Christopher (1994), *Doing Business in Asia's Booming "China Triangle"*, New Jersey: Prentice Hall, Inc.

Erramilli, M. K., & D'Souza, D. E. (1993). Venturing into foreign markets: The case of the small service firm. *Entrepreneurship: Theory and Practice*, 17(4), 29–41.

Erramilli, M. K., & D'Souza, D. E. (1995). Uncertainty and foreign direct investment: The role of moderators. *International Marketing Review*, 12(3), 47–60.

Ferna´ ndez, Z., & Nieto, M. J. (2006). Impact of ownership on the international involvement of SMEs. *Journal of International Business Studies*, 37(3), 340–351.

Flick U. (2009) *An Introduction To Qualitative Research Fourth Edition* Sage. Copyright © 1995 Rowohlt Taschenbuch Verlag GmbH, Reinbek bei Hamburg.

Fossey E., Harvey G., McDermott F., Davidson L. (2002). Understanding and evaluating qualitative research. *Australian and New Zealand Journal of Psychiatry* 2002; 36:717–732

Gesteland R. (1999) *Patterns of Cross-Cultural Business Behavior, Marketing, Negotiating and Managing Across Cultures*. Copenhagen Business School Press, 1999

Green A., (2012) *China: One Big Market... and a Still-Huge Opportunity*, investment [E-document]. [Referred on 26th of January 2015]. Available at: http://www.investmentu.com/article/detail/31032/china-big-market-huge-opportunity#.VMY9C_4cTIU

Grosman M. A. (1981) *Foreign Sales Subsidiaries*. Digital Commons at Loyola Marymount University and Loyola Law School 4 *Loy. L.A. Int'l & Comp. L. Rev.* 43

Groucutt J., Leadley P., Forsyth P. (2004) *Marketing: Essential principles, new realities*, Kogan Page Publishers

Grünig R., Morschett D. (2012) *Developing International Strategies: Going and Being International for Medium- sized Companies*, DOI 10.1007/978-3-642-24725-5_8, Springer-Verlag Berlin Heidelberg 2012

Higgs J, Titchen A. (1995) Propositional, professional and personal knowledge in clinical reasoning. In: Higgs J, Jones M, eds. *Clinical reasoning in the health professions*. Oxford: Butterworth-Heinemann, 1995; 129–146.

Hill, C. W. L., Hwang, P., & Kim, W. C. (1990). An eclectic theory of the choice of international entry mode. *Strategic Management Journal*, 11(2), 117–128.

Hill, C. W. L., & Kim, W. C. (1988). Searching for a dynamic theory of the multinational enterprise: A transaction cost model. *Strategic Management Journal*, 9, 93–104.

Hollensen S. (2011) *Global Marketing A decision-oriented approach*, fifth edition, Pearson Education Limited, Chapter 9-12, P322-P404

Hollensen S., Boyd B., and Ulrich D. A. M. (2011) The Choice of Foreign Entry Modes in a Control Perspective. *IUP Journal of Business Strategy*.

Horst T (1972), "Firm and Industry Determinants of the Decision to Invest Abroad: An Empirical Study", *The Review of Economics and Statistics*, Vol. 54, No. 3, pp. 258-266.

Huang. L. (2000). *Choice of Market Entry Mode in Emerging Markets: Influences on Entry Strategy in China*. 2000 by the Haworth Press

IDC (2014) China Tablet Shipments Rose by 14.6% Year-on-Year in May, Driven Mainly by Android Tablets with Phone Functions [E-document]. [Referred on 6th of May 2015]. Available at: <http://www.idc.com/getdoc.jsp?containerId=prCN24987114>

IDC (2014) The global tablet market is slowing down [E-document]. [Referred on 6th of May 2015]. Available at: <https://gigaom.com/2014/11/25/the-global-tablet-market-is-slowing-down-says-idc/>

Ilhéu M. F. P. (2009). Cultural Characteristics and Effective Business in China. P.O. de Pablos, M.D. Lytras (eds.), *The China Information Technology Handbook*, 189-210.

Kan M. (2014) Xiaomi rises fast in China's tablet market, but Apple still top dog.

PCWorld. [E-document]. [Referred on 20th of May 2015]. Available at: <http://www.pcworld.com/article/2846152/xiaomi-rises-fast-in-chinas-tablet-market-but-apple-still-top-dog.html>

Kim W. C. and Hwang P. (1992), "Global Strategy and Multinationals' Entry Mode Choice", *Journal of International Business Studies*, Vol. 23, No. 1, pp. 29-53.

Koch, A. J. (2001). Factors influencing market and entry mode selection: Developing the MEMS model. *Marketing Intelligence & Planning*.

Kotey, B. (2005). Are performance differences between family and non-family SMEs uniform across all firm sizes? *International Journal of Entrepreneurial Behavior & Research*, 11(6), 394–421.

Lamb C., Hair J., McDaniel C. (2009) *Essentials of Marketing*. Cengage Learning Inc., 2008

Laufs K., Schwens C. (2014). Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda, *International Business Review*

Luo Y. (2001), "Determinants of Entry in an Emerging Economy. A Multilevel Approach", *Journal of Management Studies*, Vol. 38, No. 3, pp. 443-472.

Lu, J. W. (2002). Intra- and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies*, 33(1), 19–37.

Melissa (2013). Chinese Influence in the Mobile Industry is Growing [E-document]. [Referred on 6th of May 2015]. Available at: <http://www.bluecloudsolutions.com/articles/analysis-smart-phone-tablet-market-china/>

Microsoft (2013). Microsoft to acquire Nokia's devices & services business, license

Nokia's patents and mapping services. Microsoft News Center [E-document]. [Referred on 26th of January 2015]. Available at: <http://news.microsoft.com/2013/09/03/microsoft-to-acquire-nokias-devices-services-business-license-nokias-patents-and-mapping-services/>

Miller M., (2014) Apple iPhone 6 Plus trumps the need for an iPad Mini. ZDNET [E-document]. [Referred on 12th of May 2015]. Available at: <http://www.zdnet.com/article/apple-iphone-6-plus-trumps-the-need-for-an-ipad-mini/>

Morschett D., Schramm-Klein H., Swoboda B. (2010) Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice? *Journal of International Management* 16 (2010) 60–77

Mühlbacher H., Leihns H., and Dahringer L., (2006) *International Marketing: A Global Perspective*, Third Edition. Learning 2006 Chapter 1: Challenge of Globalization

Neuman WL. (1994) *Social research methods: qualitative and quantitative approaches*. Needham Heights, MA: Allyn and Bacon, 1994.

O'Hear S., (2012) MeeGo's 'Saviour' Heads To China: Jolla Signs Deal With Chinese Retailer D.Phone, *techcrunch.com* [E-document]. [Referred on 26th of January 2015]. Available at: <http://techcrunch.com/2012/07/16/meegos-saviour-heads-to-china-jolla-signs-deal-with-chinese-retailer-d-phone/>

Oviatt, B., Mcdougal, P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*. 25(1), 45.

Pan, Y., Tse, D. K. (2000). The hierarchical model of market entry modes. *Journal of International Business Studies*, 31(4), 535–554.

Peinado S. E., Pla-Barber L. and Hébert L. (2007), "Strategic Variables that Influence Entry Mode Choice in Service Firms", *Journal of International Marketing*, Vol. 15, No. 1, pp. 67-91.

Pinho, J. C. (2007). The impact of ownership: Location-specific advantages and managerial characteristics on SME foreign entry mode choices. *International Marketing Review*, 24(6), 715–734.

Rhoades L. D. (1997). The role of ownership and corporate governance factors in international entry mode selection. *Academy of Management Proceedings '97*

Root, F. R. (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass, Inc.

Saarenketo, S. (2002), *Born Globals - Internationalization of Small and Medium-Sized Knowledge-Intensive Firms*. Lappeenranta: Lappeenranta University of Technology.

Sabi, M anijeh.1 988. An application of the theory of foreign direct investment to multinational banking in LDCs. *Journal of International Business Studies*, 1 9 (fall):4 33-48.

Shrader, R. C. (2001). Collaboration and performance in foreign markets: The case of Young high-technology manufacturing firms. *Academy of Management Journal*, 44(1), 45–60.

Shuman, J. C., & Seeger, J. A. (1986). The theory and practice of strategic management in smaller rapid growth firms. *American Journal of Small Business*, 11(1), 7–19.

Slangen, A., Hennart, J.-F. (2007). Greenfield or acquisition entry: A review of the empirical foreign establishment mode literature. *Journal of International Management*, 13(4), 403–429.

Statista (2015) Market share held by tablet operating systems in China in 2014, by share of internet traffic [E-document]. [Referred on 6th of May 2015]. Available at: <http://www.statista.com/statistics/271291/market-share-held-by-tablet-os-china/>

Su C., Littlefield E. J. (2001). Entering Guanxi: A Business Ethical Dilemma in Mainland China? *Journal of Business Ethic* 33: 199–210, 2001.

Sulopuisto, O. (2014), Finland poured €133m into startup funding last year. [E-document]. [Referred on 26th of January 2015]. Available at: <http://www.zdnet.com/article/finland-poured-eur133m-into-startup-funding-last-year/>

Trefis Team (2014). Nokia Explores Opportunities In Tablet Market With N1. TREFIS [E-document]. [Referred on 20th of May 2015]. Available at: <http://www.trefis.com/stock/nok/articles/266343/nokia-explores-opportunities-in-tablet-market-with-n1/2014-11-21>

Whitney L., (2014), Tablet demand slows in wake of larger phones, cheaper notebooks. Regardless, shipments of larger-screened tablets will rise over the next several years, says market researcher NPD DisplaySearch. CNET, [E-document]. [Referred on 12th of May 2015]. Available at: <http://www.cnet.com/news/tablet-demand-slows-in-wake-of-larger-phones-cheaper-notebooks/>

Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: The Free Press.

Xu Q. (2015). Finnish companies do not seek "grow bigger" just "doing fine", *Economic Information* [E-document]. [Referred on 05th of August 2015]. Available at: http://jjckb.xinhuanet.com/invest/2015-03/20/content_541613.htm

APPENDICES

Appendix 1.

QUESTIONNAIRE (Face to face interview with EVE-Tech Oy)

Questions for CEO:

Internal factors:

1. When was the company established? What is the motivation?
2. What is the company's structure?
3. What is the business model of the company?
4. Why choose tablet with windows OS?
5. What is the competitive advantage of the company and the product? (Compare with iPad and Android tablet)
6. How the company get the funding?
7. Are you will to take risks?
8. Do you think the company is flexible to face different kind of problems?

External factors:

1. Why company go internationalization? What is the motivation?
2. What is the company's marketing strategy? (4P)
3. How many countries have the company already get in?
4. What is the strategy you use to get in those countries?
5. How you think about the Chinese market? (Economy, Market, Culture...)
6. What is the plan after you enter Chinese market? How will you operate there?

Others:

1. How you see Nokia's failure?
2. How you compare EVE-Tech with Jolla? Do you think you are competitors or not?
3. How you see the company's future?

Questions for Other staffs:

1. What is your duty in the company? How long have you been in the company?
2. Why you join this Startup Company?
3. What do you think about entering Chinese market?
4. How you see the company's future?

Appendix 2.

QUESTIONNAIRE (E-mail interview for FBCB and Finpro)

Dear officer,

I am master student from Lappeenranta University of Technology, major in International marketing management. I am doing my master's thesis concerning how the startups (EVE-Tech Oy) in Finland entering Chinese market in tablet industry. Based on that, I know you already operated in China for years, so you may have a lot of experiences and knowledge about the Chinese market. I have some questions below, can you please kindly take some time to help me answering them?

I am really appreciate your help and support.

If you have any questions concerning with those questions, please do not hesitate to contact me via e-mail or +358414968001/+8618581844778. Thank you very much again for taking your time. Hope to hear from you soon.

With Best Regards,

Lappeenranta University of Technology

School of Business

Dongchuan Ye

Questions:

1. How is the situation of Finnish enterprises in China?
2. How you help the companies get into China?

3. How you think about the Chinese market? (Economy, Market, Culture...)
4. What is the strategy the Finnish startups normally use to get in China?
5. Which city (Beijing, Shanghai, Guangzhou, Chengdu) would you suggest the startups to locate their first office in China? Why?
6. What suggestions would you give to the Finnish startups that willing to enter Chinese market now?