



**THE EFFECTS OF DISTANCE ON FINNISH FOOD INDUSTRY COMPANIES  
DOING BUSINESS IN THE SOUTH KOREAN MARKET**

Lappeenranta–Lahti University of Technology LUT

Bachelor's thesis

2022

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Examiner: Post-doctoral researcher Heini Vanninen

## ABSTRACT

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### **The effects of distance on Finnish food industry companies doing business in the South Korean market**

Bachelor's thesis

2022

34 pages, 3 figures, and 1 appendix

Examiner: Post-doctoral researcher Heini Vanninen

Keywords: Distance, cultural distance, multinational company, food industry, international business

The objective of this bachelor's thesis is to explain the effect of distance through the four dimensions of distance. The effects are conducted on Finnish companies in the food industry that are doing cross-border activities or planning on entering the South Korean market.

The theoretical portion of this thesis consists of the concept of distance and its multiple dimensions in the context of international business as well as Hofstede's cultural dimension. The empirical portion of this thesis has been conducted as a qualitative case study. The research material was collected through a semi-structured interview from Organization X, a Finnish public-sector operator. An organization that works on providing funding and internationalization services to companies planning or in the process of expanding globally.

The results of this thesis are based on the answers that were given on the effects of distance by the interviewee from Organization X. The results can be used to for Finnish companies in the food industry that are in the process of expanding into the South Korean market.

## TIIVISTELMÄ

Lappeenrannan–Lahden teknillinen yliopisto LUT

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### **Etäisyyden vaikutus suomalaisten elintarviketeollisuuden yritysten kansainväliseen liiketoimintaan Etelä-Korean markkinoilla**

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34 sivua, 3 kuvaa, ja 1 liite

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Tämän kandidaatintutkielman tarkoitus on selittää etäisyyden vaikutukset eri dimensioiden kautta. Vaikutusta tutkitaan suomalaisiin elintarvikealan yrityksiin, jotka osallistuvat kansainväliseen toimintaan tai suunnittelevat Etelä-Korean markkinoille siirtymistä.

Tämän tutkielman teoreettinen osuus koostuu etäisyyden konseptista ja sen useasta dimensiosta kansainvälisen liiketoiminnan näkökulmasta sekä Hofsteden kulttuurillisista dimensioista. Tutkielman empiirinen osuus on toteutettu kvalitatiivisena tapaustutkimuksena. Tutkimusmateriaali kerättiin Organisaatio X:n haastattelulla. Organisaatio X on suomalainen organisaatio, joka toimii julkisella sektorilla tarjoamalla rahoitusta ja kansainvälistymiseen liittyviä palveluita yrityksille, jotka suunnittelevat kansainvälistymistä.

Tämän tutkielman tulokset pohjautuvat organisaatio X:n vastauksiin liittyen etäisyyden vaikutuksiin. Tutkielman tuloksia voivat hyödyntää toiset suomalaiset elintarvikeyritykset, jotka pohtivat viennin aloittamista Etelä-Korean markkinoille.

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# 1 Introduction

There are costs and risks to doing international business. These barriers are created as a result of distance and not just by the geographic distance between countries, but multiple dimensions of distance. These distances all result in the desirability or in most cases the undesirability of a foreign market in the eyes of foreign investing. The increase in technological advancements specifically information technologies, has in some ways closed the distance between countries. However, in some cases it has led to the misassumption that as communication between countries has brought us closer, it has also homogenised or assimilated countries in the perspective of business. This couldn't be more wrong as businesses must continue to carefully evaluate these factors of distance among other analytic tools before making international investment decisions. (Ghemawat, 2001)

Studies have shown that internationalization is more likely to occur in small, open economies like that of Finland's, than in countries with larger home economies. The home countries constricting market size plays a significant factor in speeding along the internationalization process especially with multinational enterprises that have outgrown their domestic market. The objective of expanding companies through international acquisitions and mergers and eventually reaching scale economies has also been partially created due to increasing technological advancements and worldwide competition as well as the merging of consumer tastes. (Benito et al. 2014) So far, a total of two hundred Finnish companies have entered the South Korean market and of those 200 around 40-50 are operating in Korea. Currently South Korea is Finland's third largest trading partner in Asia preceded by China and Japan. Finland's main exports to South Korea have been electronics, machinery, wood and paper products. (Finland Abroad, 2022) These exports have steadily increased to 2 billion Euros before the pandemic in 2019. The South Korean market is highly sought after due to it rapidly growing with millions of consumers. (Business Finland, 2022b) South Korea has a population of

over 50 million people and Seoul the capital of South Korea has a population of over 10 million people making it the 2<sup>nd</sup> largest city based on population. (Lee, 2012) South Korea had an annual import of 581 billion Euros in 2021. (Business Finland, 2022b) All of this is what makes the South Korean market so alluring and full of potential. However, entering the South Korean market has proven to be tricky due to tariffs, differing practices and international divergent standards. (Finland Abroad, 2022)

### 1.1 Research Objectives and Research Questions

The subject of this thesis is the concept of distance specifically in the perspective of international business between Finnish companies and the South Korean market. The objective is to discover how the concept of distance affects Finnish companies particularly those in the food industry, which are entering or participating in cross-border activities in the South Korean market. This will help Finnish companies planning to enter the South Korean market evaluate the desirability of the market by analysing the challenges and advantages different dimensions of distance bring to international activities in South Korea. However, the results of this research can be used to help other Finnish companies in different industries to evaluate the effects of distance when entering the South Korean market.

The following question is the main research question designed to support the objective of this thesis as it will answer the question of what the overall effects of distance are, positive and negative.

*Q1: What is the effect of distance in Finnish food industry companies in the South Korean market?*

The following sub-questions are created to support the main question and to gain a more in-depth view on the effects of distance. They will highlight which dimensions of distance Finnish companies must take note of for the challenges or opportunities they bring. These questions will also give an answer regarding the future outlook of the internationalization of Finnish food industry companies into the South Korean market. As the objectives for this thesis was to study the desirability of the South Korean market through the concept of distance these questions will help solve this.

*Q2: How do the different dimensions of distance challenge Finnish food industry companies doing business in the South Korean market?*

*Q3: What opportunities does the South Korean market present to Finnish companies in the food industry.*

## 1.2 Research Limitations

This research has a limited view on the effects of distance in international business as it is focused on Finnish companies working in the food industry. The research has been conducted based on Organization X, a Finnish organization that offers services for funding and international growth to companies in different industries including the food industry. Therefore, this research might not apply to all food industry companies as well as other Finnish companies outside of the food industry as they have not been the focus for this research.

This research has been conducted on the current effects of distance in international business between Finland and South Korea in Summer 2022. As such the analysis made in this thesis might not be applicable in all situations as the world of business is constantly changing. The short length of a bachelor's



thesis is another limitation to this study as it cannot go too in depth into the research objective.

This thesis is a qualitative study, meaning it is conducted around an interview. The interviewee represents their own point-of-view on the subject and can only talk of facts they are aware of. For this thesis there is one interviewee who can only speak on the internationalization cases he has worked on at Organization X.

### 1.3 Research Structure and Key Concepts

This research paper is structured to begin with an introduction, which introduces the main objectives, research questions, limitations, structure, key concepts, and theoretical framework of the thesis. The theoretical portion will follow right after. This portion is focused on the theories and literature reviews on the topic of cultural distance, cultural dimensions and South Korean. The theoretical part is followed by the empirical portion which includes the research methodology and methods used in this thesis. After this the research material and its results are introduced. This research paper is concluded with the answers to the research questions and the conclusion.

Next is the initial presentation of the key concepts that have an important role in this thesis. The following concepts will be introduced more in detail later on in the chapters of this thesis.

*Distance in International Business:* The concept of distance in international business refers to measurement of differences between a pair of countries. (Hutzschenreuter et al. 2015)

*Cultural Distance:* At its core it is the degree to which a pair of countries share cultural values, norms, and beliefs. (Ghemawhat, 2001)

*Administrative Distance:* The degree to which countries share historical and political ties as well as governmental policies. (Ghemawhat, 2001)

*Geographic Distance:* The degree of physical distance between a pair of countries as well as differences created through access to waterways, the size of a country and topography. (Ghemawhat, 2001)

*Economic Distance:* The most influential attribute to economic distance is the difference in national wealth between a pair of countries. (Ghemawhat, 2001)

*Hofstede's cultural dimensions:* A framework developed by Geert Hofstede that consists of six dimensions used to operationalize and conceptualize culture. (Hofstede, 2011)

#### 1.4 Theoretical Framework

The theoretical framework for this thesis is based on Finnish companies in the food industry that have started expanding into international markets, specifically the South Korean market. The differences and similarities of these two countries are evaluated through the concept of distance and Hofstede's cultural dimensions which will be introduced in the next part. All this combined create the opportunities and challenges Finnish companies undergo in the foreign market. These are the effects of distance in international business between South Korea and Finland.

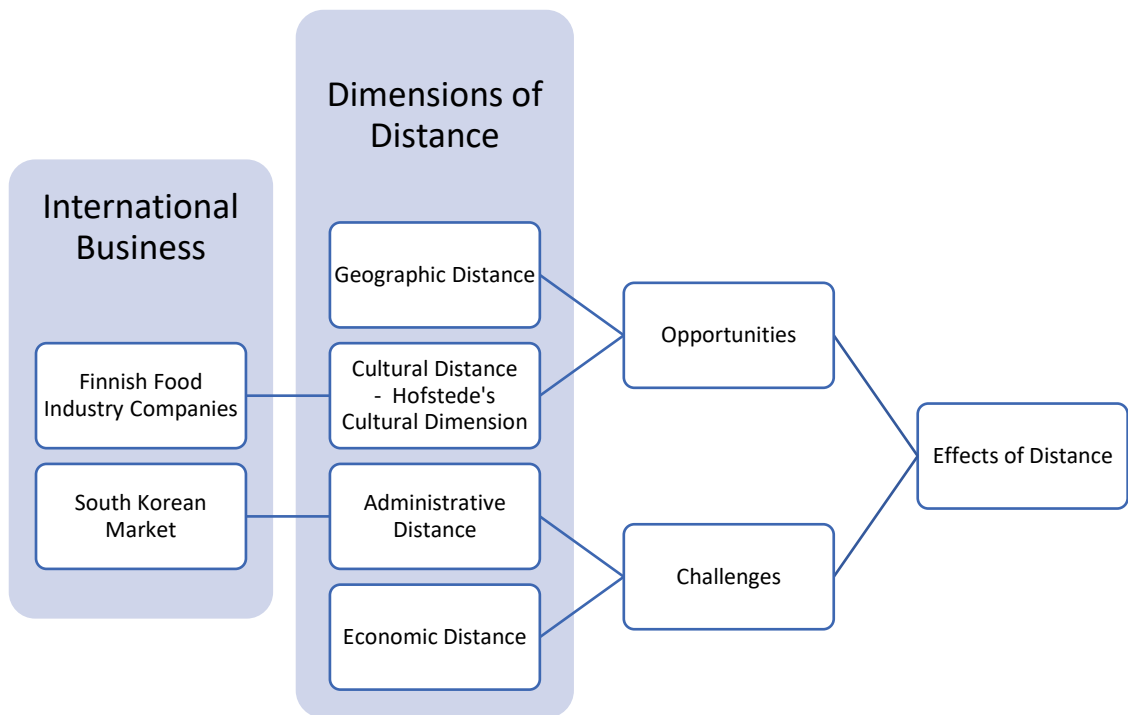


Figure 1. Theoretical Framework

## 2 Distance in International Business

The concept of distance in international business is referred to as the degree of variation between a pair of countries. These distance-related differences often lead to communication challenges and disruptions in the flow of information (Hutzschenreuter et al., 2015) thus resulting in misunderstandings and friction (Shenkar et al., 2008). These complicate the process of achieving success as well as sustaining it in a foreign market. According to previous research done on the effects of distance in the international business it has been proven to affect the relations between headquarters and their subsidiaries, international performance, intraorganizational knowledge exchange and market selection as well as foreign entry-mode selection processes. (Hutzschenreuter et al., 2015)

Previous existing research focuses primarily on the negative consequences as well as costs corresponding with the increase of distance. On an organization level distance is linked to the liability of foreignness and the addition of costs that come with participating in business practises abroad. With individuals it is argued to result in challenges in communications and in the worst-case lead to misunderstanding through miscommunication. However, it is important to note that highlighting only the negative outcomes of distance can easily lead the false narrative where it is the sole outcome of distance. It is important to also consider the “value of diversity” which is the concept of value added through differences between countries. (Verbeke et al., 2017, p.18) Studies also often focus on the distance between a pair of countries and particularly the cultural distance. There is notably more research on the effects of a cultures values and beliefs than there are other dimensional attributes. (Beugelsdijk et al., 2015)

Pankaj Ghemawat reasoned distance can be categorized into four basic dimensions: geographic, cultural, economic, and administrative. (Ghemawat, 2001) The dimensions of distance have often been viewed through other less

holistic perspectives that focus most commonly only on culture, while the remaining bulk of analyses can often be referred to as psychic distance. In an article by Hutzschenreuter, Kleindienst and Lange distance was categorized in six dimensions in comparison to Ghemawat's four dimension. Their dimensions had the edition of institutional, psychic, and other distances. (Hutzschenreuter et al., 2015) This thesis has used the four basic dimensions presented by Ghemawat. These dimensions will be introduced more in detail in the follow sub-chapters and visualised through Figure 2 as each dimension is determined by a collection of different attributes and factors.

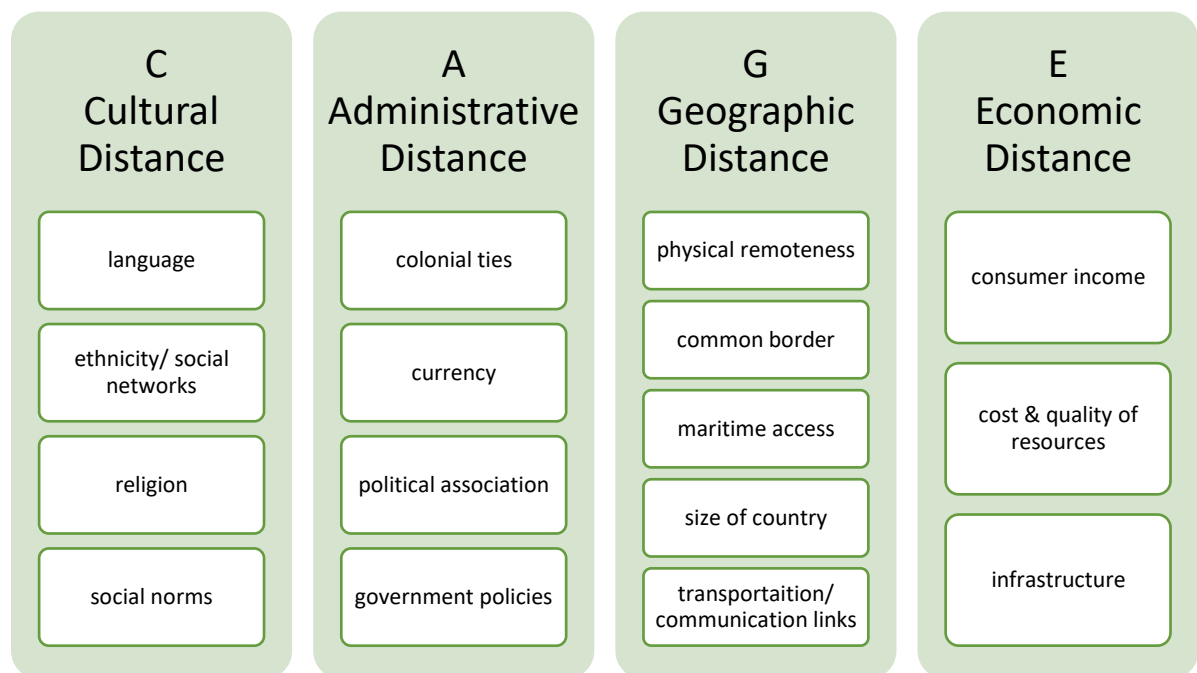


Figure 2: The CAGE Distance Framework (Ghemawat, 2001)

## 2.1 Cultural Distance

Culture by one of its earliest definitions is the “*complex whole which includes knowledge, belief, art, morals, customs and any other capabilities and habits acquired by man as a member of society*” (McCort et al. 1993) The culture of a country meaning its religion, beliefs, race, social norms, language among other

aspects create distance from countries with differing cultural attributes. For example, countries that share a common language are three times more likely to participate in trade with one another. Some aspects of cultural distance can be easily perceived such as language while some are unspoken customs and norms that individuals outside of the culture will find difficult to comprehend. (Ghemawat, 2010) Common strategies businesses use to reduce the influence of distance are by either selecting culturally similar markets or by opting for low-risk entry modes such as exporting goods. Other strategies include increasing the cultural awareness of leading figures in the company or by (Beugelsdijk et al., 2015)

According to Ghemawat, cultural distance is often visible in consumer preferences especially in instances where a choice must be made between a familiar product and a foreign substitute. Culture affects the consumer tastes particularly in the food industry. Religion plays a part in what foods are allowed and what is forbidden. Similarly, there are foods and ingredients that are unfamiliar in the way they taste or how they are used correctly. This means there is no demand for the product. (Ghemawat, 2001) There have been changes in the way products, especially meat products are viewed which has led to changing food preferences. Even though meat consumption has increased (Xiong et al., 2008) studies have shown that food safety has risen to be an important factor that drives demand for South Korean consumers. This can be seen in their defensive reaction to meat contamination cases over the years. These outbreaks resulted in a drop in demand as those products were avoided due to the health risk they presented. (Jin, 2008)

## 2.2 Administrative and Political Distance

Administrative and political distance are defined by the historical and political ties shared between countries or lack thereof. These ties have been shown to

influence the willingness to trade between countries and according to studies done the link of colonization between countries is shown to increase trade by 900%. This is visible in countries like France, Spain and England who still have maintained trade connections with their former colonies. However, it is important to note these kinds of ties must be free of any hostility to gain the benefit of increased trade. In instances like with the European Union, there is also a 300% increase in trade between countries due to a preferential trade arrangement and common currency. Practises such as this are done to alleviate the pressure of administrative and political distance between countries. (Ghemawat, 2001)

The aspect of individual governments and their policies in this dimension of distance create the most common barrier for international business. Usually this is done through the target market's restrictions on foreign direct investment, tariffs, quotas, and target countries preferential favouritism towards domestic industries. A country's government often take these steps to protect domestic industries. The criteria for this kind of protection can be that they provide employment to a vast number of citizens, they reflect the countries patriotism or are necessary for national security, they produce products that are staples or use the countries natural resources. (Ghemawat, 2001) These protective regulations either deter foreign competition completely or result in additional costs. (Beugelsdijk et al., 2015) In the case of South Korea and their food industry, it is heavily protected by tariffs and regulations in key markets to preserve public producers and to pursue food security. Most notably South Korea has kept high tariffs in the meat, dairy and rice sectors as well as production subsidies in most of the other sectors. (Beghin et al., 2003) There is a Free Trade Agreement between South Korea and the European Union which lead to most of the duties to be removed. (Busines Finland, 2022b)

## 2.3 Geographic Distance

The most obvious attribute of geographic distance is the physical distance between countries. The closer a pair of countries are to one another the simpler it will be to participate in international business. However, this dimension also includes other aspects such as having a common border or access to good sea or river access for logistical reasons. Weak transportation links and differences in climates also influences this dimension as well as the size of the country and its topography. (Ghemawat, 2001) These geographic attribute result in higher transportation and coordination costs. In addition to transportation infrastructure, organizations must also be aware of the importance of proper information networks as the proper knowledge of a foreign environment is valuable. (Beugelsdijk et al., 2015)

South Korea, officially referred to as the Republic of Korea, is located in East Asia. South Korea shares a land border with the Democratic People's Republic of Korea more commonly known as North Korea, and maritime borders with Japan and China. (Lee, 2012) The air travel distance between Finland and Korea is around 7000 kilometres. (DistanceFromTo, 2022) Both air cargo and maritime transport are ways of transportation of goods between South Korea and Finland.

## 2.4 Economic Distance

The last dimension according to Ghemawat is economic distance. This dimension is affected mostly by consumer income or wealth as it has an effect on the level of trade the country participates in. Affluent countries are more likely to participate in international business as there is a positive correlation between the GDPs per capita of a country and their trade flows. Economic distance should be acknowledged when an organization wished to achieve economies of scale. Focusing on countries with a similar economic background is key as recreating



their existing business model in an ill-fitting economy result in no competitive advantage. Different countries have quality and cost differences on resources such as human, financial, and natural resources. These differences create an advantage for economic arbitrage due to the possibility of exploiting the differences in costs between markets. (Ghemawat, 2001)

South Korea's economic growth started in the 1970's and still holds the title of being one of the fastest growing developing countries in the world which makes it increasingly desirable in the eyes of businesses looking to make foreign investments. South Korea's economy is currently developed mixed economy, ranking as the 4<sup>th</sup> largest in Asia as well as the 10<sup>th</sup> largest economy in world based on their GDP of 1,5 trillion Euros. It is also predicted to be among the largest and most influential economies of the 21<sup>st</sup> century. (Business Finland, 2022) South Korea's latest reported consumer price index (CPI) was 108.74 in July 2022 which has increased from the previous year's result. (Kosis, 2022) In comparison Finland's consumer price index is 113.94 (Trading Economics, 2022) which is much higher. Consumer price index shows the current average cost of products and services, and it can be used to measure inflation. As Finland index shows a higher figure it proves that the cost of products is also higher in comparison to South Korea.

### 3 Hofstede's Cultural Dimensions

According to Hofstede, culture can be defined in its simplest form as a “*collective programming of the mind that distinguishes the member of one group or category of people from others*” (Hofstede, 2011) As mentioned previously, most studies focus on the dimension of distance and more specifically the differences between cultural beliefs and values. This point of view is important as the inability to appropriately adapt and deal with cross-cultural differences lessen the effectiveness of business practices. (Beugelsdijk et al., 2015)

A well-known index created by Kogut and Singh operationalizes cultural distance based on the absolute differences between dimensions of culture presented by Hofstede. (Beugelsdijk et al., 2015) Hofstede's cultural dimensions are the most extensively used to operationalize and conceptualize culture. (Soares et al. 2007) The dimensions of culture have evolved over time to the six dimensions of distance presented by Hofstede in 2010. These six dimensions of culture are large versus small power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance versus uncertainty acceptance, long term versus short term orientation and finally indulgence versus restraint. For each dimension of culture, every country has been scored in relation to one another. The results of each dimension in the case of Finland and South Korea can be compared side-by-side in Figure 3.

Hofstede's cultural dimensions do not correlate with each other as they are statistically distinct, resulting in an extensive number of possible combinations. However, there are combinations that are more common than others. With the way results are comprised, dimensional attributes will not apply as strongly to some countries as will to others. An aspect that should be taken note of while analysing Hofstede's dimensions is the impact of national wealth as it has been proven to correspond with specifically with power distance and individualism. (Hofstede,

2011) In the next sections each dimension of culture will be explained through contrast between opposing cultures with high- and low-level results in a specific dimension. The results of Finland and South Korea will also be presented and analysed.

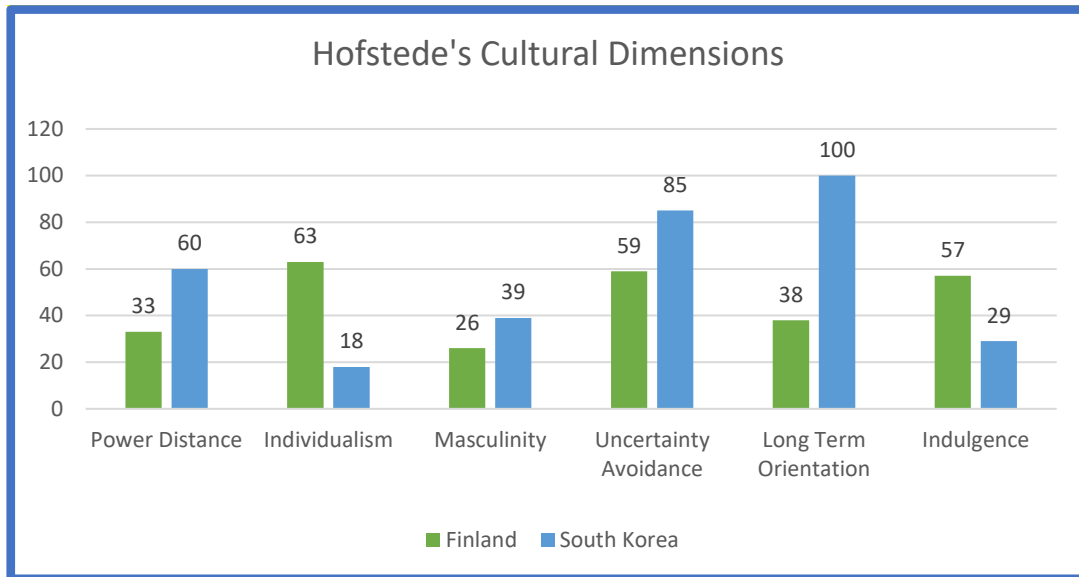


Figure 3: The Cultural Dimensions of South Korea and Finland (Hofstede Insights, 2022)

### 3.1 Power Distance

Power is an important aspect of culture as it is a fundamental part in all relationships and plays a role in the creation of hierarchical institutions such as families, schools and the community as well as organizations. It also plays a valuable role in the success or failure of organizational processes (Daniels & Greguras, 2014) At its core, power distance measures the level of inequality and power imbalance in a society. This dimension is defined by the expectation and acceptance of unequally distributed power in organizations as well as institutions. There is no society void of any inequality, however some cultures accept it more than others. More specifically this dimension is determined by the degree to which

less powerful members will accept inequality. Therefore, Hofstede suggests that for larger power distances to occur it must be condoned by all members of a culture, both leaders and followers. (Hofstede, 2011) It is important to note power distance can be mistakenly viewed as a shared value in a culture when in reality it varies between individuals, groups and organizations. (Daniels & Greguras, 2014)

As it is shown in Figure 3. the power distance level of Finland (33) is around half of the level of power distance shown for South Korea (60). South Korea's power distance is above average, and the country can be classified as a hierarchical society. This is visible for example in the way negotiations are held, decisions made and how people are addressed and greeted. People higher up on the hierarchy initiate meetings, are expected to sit in the head position and make the final decisions. They are greeted with a bow and titles are used as a show of respect instead of first names. South Koreans are also not comfortable dealing with foreign officials of different rank. For successful negotiations to be had both parties should be of similar rank. (Lee, 2012)

### 3.2 Individualism

Individualism and its counterpart, collectivism together create the dimension of culture that is the degree to which people in a culture integrate into groups. In individualistic societies immediate family is viewed as the expected extent one should have ties to. However, in collectivist societies people are part of more extensive and cohesive groups well beyond immediate family and even extended family. (Hofstede, 2011)

As Figure 3. shows South Korea (18) is a collectivist country while Finland (63) is more individualistic. In collectivist cultures people strive to maintain harmony and stress the importance of loyalty, belonging, and respect. (Hofstede, 2011) This has a visible effect on individual decision-making process as the opinion of others takes

precedence. As consumers, members of a collectivist culture will consider social acceptance while individualist cultures look to fulfil personal interests. (Kim et al., 2013)

Inhwa is a key aspect of Korean culture that influences business practices. Maintaining Inhwa, means maintaining harmony which is often an important part of collectivist culture. Inhwa has its roots in Confucianism which promotes the importance of harmony between people, especially those of different classes. It is the mutual drive to save face by showing respect or care and concern depending on which side of the power spectrum you stand. Inhwa is usual in countries like South Korea that have large power distances as it requires members of less power to show loyalty and respect to those higher up in the power hierarchy like one's parents and elders as well as, employers, supervisors, and organizational leaders. (Lee, 2012)

Kibun is another important part of South Korean culture and is influential factor in local business practises. Kibun is defined as "*a mood or feeling of balance and good behaviour*". (Lee, 2012) It is a part of the culture to work towards maintaining an ideal environment for a stable Kibun both in one's personal and business side of life. People will avoid disruptive behaviour, direct refusals as well as sharing bad news and emphasize respect as upkeeping others Kibun is just as important as maintaining their own. This means foreign companies must look at non-verbal cues or body language to understand the ambiguous answers they might receive. Collectivism and Kibun is also visible in the negotiation processes in South Korea. It takes longer to reach decision as everyone's values and opinions must be considered. To maintain Kibun decisions are preferable made in the interests of everyone. (Lee, 2012)

### 3.3 Masculinity

Masculinity versus femininity is the dimension which refers to the, sometimes unconscious, allocation of values between the two genders. A masculine society values success and achievements. This system is put in place in schools and continues into work life. In feminine societies caring for other is the most valued and thus success is measured through quality of life. The difference between the two sides of this dimension is what drives them. (Hofstede, 2011) From the business point of view, feminine societies emphasize teamwork and management level decision are made to accommodate employees and provide flexibility as wellbeing is the scale by which success is counted by. (Al-Alawi & Alkhodari, 2016) South Korea (39) and Finland (26) both fall in the feminine side of the spectrum in this dimension.

### 3.4 Uncertainty Avoidance

Uncertainty avoidance refers to the culture's resilience towards ambiguity. It is the level of comfort people feel towards unfamiliar and unknown situations. A country with high uncertainty avoidance works to avoid such situation by strictly enforcing beliefs, behaviour and rules and laws. On the other hand, research has shown that cultures that lean more towards uncertainty acceptance are tolerant to differing opinions and have less regulations in place. (Hofstede, 2011)

In the case of Finland (59) and South Korea (85), uncertainty avoidance is more present in South Korean culture. As previously explained South Korea has strict regulations especially regarding food products. This is one example of the effects of uncertainty avoidance as there needs to be a guarantee of an acceptable product lifecycle. This also why the lack of knowledge regarding foreign products often reflects poorly during the purchase decision making process. (Kim et al., 2013) With no trusted source or previous knowledge on for example how to use a

product or what it tastes, there is no initial confidence in the brand or its products. Therefore, South Koreans are less likely to purchase foreign products that they perceive to be a highly uncertain. This due to there being a negative relationship between the intent to purchase and the perceived risks. (Park et al., 2005)

### 3.5 Long Term Orientation

The dimension of long-term orientation was added later as the fifth dimension in 1987 based on a study conducted by Michael Harris Bond which showed a correlation to economic growth. (Hofstede, 2011) According to Bond long-term oriented culture valued perseverance, effort towards slow success, adaptability, humility, and a sense of shame. However, short-term oriented cultures share a respect for traditions, concern for social responsibilities, the act of protecting face as well as stability. (Hofstede et al., 2010, p.205-209) According to Figure 3. Finland (38) has a short-term oriented culture while South Korea (100) has a long-term oriented culture.

The previously introduced aspects of culture, Kibun and Inhwa, refer to maintaining harmony and balance. Both of which share the need to save face. (Lee, 2012) Chemyon is the concept of “*Korean face*”, it is applied to almost everything in Korea when participating in social interaction. It guides on how to act within a specific social setting or status, and it is said to reflect a person’s competence as it is needed to maintain social relationships. Social formality is highly valued which is why there is a concern for the possibility of losing face due to of humiliation or shame. (Kim & Yang, 2011) The experience of shame is shaped by a society’s culture and is affected by the individual’s status. The act of maintaining face is a behavioural norm that is expected to be followed by all members of a society. Shame is also not seen as just an individual burden for it also extends to the individual’s family. (Lee, 1999)

### 3.6 Indulgence

The final dimension of culture is indulgence versus restraint. This dimension is based on core aspects that have not been already covered, happiness, leisure, and control over oneself. (Hofstede et al., 2010, p.236-239) An indulgent society encourages the gratification of almost all human desires associated with happiness while a restrained society pushes to control and regulate gratification through norms and laws. (Hofstede, 2011) In a work environment, indulgent societies have different expectations than restrained societies. A smile is a custom greeting in indulgent societies while a serious expression is respected in restrained societies. (Hofstede et al., 2010, p.244-247) Finland (57) has a higher level of indulgence than South Korea (29).



## 4 Research Methodology

This portion of the thesis is used to explain the research method used. The research material will also be described further bellow. The research results will be discussed in more detail through the analysis conducted in the sixth chapter.

### 4.1 Research Method

Qualitative methods are used in this thesis to answer the given research question on the effects of distance. The methods in qualitative research are unlike quantitative research methods as the study results are based on collected and analysed non-numerical data. One of the recognized benefits of qualitative research is that it allows the study to view the context within decisions and actions taken in the study subject, as human decision making in most cases can only be understood through this context. Though these methods of research analyse a smaller sample size, it is analysed more in depth. (Michael, 2019, p. 5-10) The qualitative research method used in this study is a case study which is by definition a “detailed analysis of a single unit, as a person or community, stressing development factors in relations to environment”. Case studies are often used to research the causes of phenomenon an linking these cases to their outcomes. Case studies also have high conceptual validity which is the degree to which the particular research guarantees to be an addition to existing knowledge on the study in question. (Flyvbjerg, 2011)

### 4.2 Research Material

The following will be a short introduction on the target organization on which the results on this thesis are based on. This is done to get a better understanding of

the results as well as putting the results in context with the target organization. Organization X will be referred to as such to retain the anonymity of the organization. Organization X is a Finnish organization founded in 2018 that employs 760 specialists in 40 locations worldwide and has 16 offices in Finland. Organization X is a public-sector operator working as a part of a larger network of organizations all working on the common goal of helping companies expand and thrive in their international operations through innovation funding and internationalization services. The organization offers funding, internationalization services, guidance, and information as well as promoting networking for companies in various stages of business.

The interviewee has worked at Organization X for six-and-a-half years as they started in 2016. They are currently working as a contact person for international services in Seoul, South Korea. They are an advisor on food and consumer products as well as general market advice. Their main focus is on the consumer business side of things which includes all consumer products, but they also work with ingredients that are in relation with the business-to-business side. The interviewee deals with everything from food products to entertainment and has worked at Organization X's South Korean location from the very start of their employment.

In this thesis the interview has been conducted via a Microsoft Teams call and is a semi-structured interview. Semi-structured interviews have a combination of the characteristics of structured and un-structured interviews. This type of interview provides sufficient structure to keep the interview on track by addressing the needed points related to the study while leaving room for open commentary for the interviewee to offer new perspectives to the study. Semi-structured interviews give both parties of the interview the freedom to expand on subject outside of the pre-formulated question frame. (Michael, 2019, p. 148-149) This type of interview arrangement often yields to multidimensional streams of data. (Galletta et al., 2013, p. 24)

Having a thought-out interview frame assured that the most important questions were brought up in a clear manner. The interview frame was created around the research questions of this thesis. The questions were organised so that interview started with questions on advantages and challenges in the South Korean market in general and moved on to the main questions on each dimension of distance. Finally, the interview ended with a final question on the interviewees vision on a prospective future for Finnish companies entering the South Korean market. Before the interview ended the interviewee was also given a chance to bring up possible points they wanted to emphasize or might have forgotten to add earlier in the interview. The interview questions were sent beforehand to the interviewee and the interview was carried-out on the 12<sup>th</sup> of July 2022 at 9.00 Eastern European Summer Time (EEST) or 15.00 Korean Standard Time (KST). The interview took 34 minutes and was recorded in order to have a more precise recollection of the answers given by the interviewee.

The interview questions can be found in both English and Finnish in Appendix 1. There are 14 questions in the interview frame in total, excluding the sub-questions. The interview was conducted in Finnish at the request of the interviewee as it is their first language, and they were made aware of the fact that this research will be conducted in English. There might be minor differences in word choices due to the nature of translation. However, this has been considered in the translation process.

## 5 Results

This chapter will discuss the findings of this research based on the research questions presented in the beginning of this thesis and the answers given in the interview process. To simplify the results of this research, the most important topics of discussion have been presented according to each dimension of distance.

### 5.1 Effects of Cultural Distance

The interviewee was asked on their experiences and knowledge regarding the effects of cultural distance in international business in Question 9: *How has the cultural distance between Finland and South Korea affected international business practices?* The interviewee also answered this question in passing when they contemplated the advantages, disadvantages and driving factors Finnish companies have when entering the South Korean market. These were answered in Question 3: *What advantages do Finnish products have? What are these advantages in comparison to similar local products?* Question 4: *What are the driving factors for choosing South Korea as a potential market? Can you name a common deciding factor? And finally Question 5: What kind of challenges have Finnish businesses faced in the South Korean market?*

According to the interviewee, Finnish food products have advantages attributes that are often capitalized on when business market and introduce new products to the South Korean consumers. Finland's "*biggest trump card*" is the purity of its nature, cleanliness of its waters and air since all this factors in Finnish agriculture and natural products. As previously mentioned, South Koreans have become more conscious on food safety which in turn has significantly increased the demand for healthier products (Jin, 2008) There is a boost in demand for not only healthier

products but also organic and premium quality products. (Business Finland, 2022c)

*“People are searching for premium products; they are interested in quality and not just cheap products. There is a common recognition for food products’ safety. There are these scandals where people have found not-so-good ingredients from their food which has opened consumers eyes to look more closely at what they purchase.”* – Interviewee

This gives Finnish food products a demand to fulfil. Finland has an incredibly positive image in the eye’s South Korean consumers (Business Finland, 2022c) which help in the introduction phase of a product.

South Korea has a collectivist culture so when it comes to consumers’ purchasing habits the opinion of others weighs on decision making. In addition to this South Korean culture ranks high on uncertainty avoidance. New foreign products will not have trusted sources for reference to ease the uncertainty (Kim et al., 2013) which causes challenges according to the interviewee.

*“People don’t know us or our products. Food preferences are different so they might no know how these products are used or eaten or how they taste. Think of Finnish food, no one knows what it is so there is a big challenge for marketing it in order train consumers.”* – Interviewee

According to the interviewee, lack of brand awareness is a definite challenge. Even Finnish bigger brands such as Valio and Fazer are unknown to South Korean consumers. Therefore, companies must contribute towards marketing. Having a sizeable marketing budget is an important key factor in curbing the cultural aspect of uncertainty and spreading awareness of an unfamiliar product. This is something Finnish companies unfortunately often forget to plan for. According to the interviewee the social acceptance towards Western products has changed over the latest decade. The market has opened up for foreign sellers and people’s images of foreign products has changed towards a more positive light.

*“If we look 10-15 year back no one was looking for Western food products but now they are trending, and people’s notions have changed” – Interviewee*

However, it is important to note that consumer preferences continue to change as such the importance of a brand’s name value has also been shown to be on the decline. (Business Finland, 2022c)

There is a language barrier in place between Finland and South Korea as the two countries do not share a common tongue. The presence of a language barrier in addition to the large power distance present in the South Korean society, both affect negotiation and decision-making practices. (Lee, 2012)

*“The language barrier is one big challenge. In many big firms English is not necessarily widely spoken or English communication is externalized to an employee with a lower standing in the company that doesn’t have a say in decision making. When everything is translated to someone on a higher standing who can make decisions there can be all kinds of communication errors” – Interviewee*

*“Hierarchy has a strong presence in Korea, it’s very top to down. Decisions are made on top so you have to get in contact with them and get them on your side.” – Interviewee*

The hierarchical society in Korea decisions are always made at the top of the power scale and South Korean might feel uncomfortable when dealing with someone of a different rank when it comes to negotiating. This is related to Inhwa, which was introduced earlier. The need to maintain harmony and avoid shame by showing respect and care. (Lee, 2012) This combined with a lack of understanding due to translation errors complicates the negotiation process and leaves room for misinterpretations and lengthens the agreement process.

Another thing companies must consider is how the Korean collectivist culture presents itself in Korean business culture. One of the ways it is apparent is in business meetings and the business-relationship building processes. (Lee, 2012) South Korean companies appreciate and expect at least one face-to-face meeting

before agreeing to any deal as business is based on trust which cannot be given to a faceless partner.

*"It doesn't matter how much you communicate through email; decisions are made in person. This is normal. If you expect discussion to move forward one of the negotiating parties must visit the other to converse, go eat barbecue and drink a glass of soju"* – Interviewee

However, an important thing to note according to the interviewee is that if all this is recognized, and an effort is made, negotiations can be efficient. There must be respect and appreciation from Western companies toward Asian culture. (Tabalujan, 2008).

*"I would say that Finland and Korea, we have a lot in common. In comparison to Japan, Koreans are very straight-forward. It isn't made complicated, if they are interested, they can proceed to a contract and products can be brought over... Koreans are quick in decision making when they are interested in the product"* – Interviewee

Exporting is the most common entry mode for Finnish food industry companies entering the South Korean market. Most of this has to do with price which will be explained in the effects of economic distance later on. When using this entry mode, companies are suggested to look for a local importer to partner-up with. The importance of finding the right partner is emphasized by the interviewee. It is recommended that Finnish companies physically come to South Korea to meet with potential partners through a local agency that has the right connections. In South Korea introductions done by a third party which in this case is the agency, is proof of the company's trustworthiness to a potential partner (Lee, 2012). This can lead to a long lasting and great partnership.

## 5.2 Effects of Administrative and Political Distance

The interviewee was asked about their understanding of administrative and political distance and its effects in international business in Question 10: *How has administrative or political distance between Finland and South Korea affected international business practices?* Just like with the previous dimension of distance, the interviewee expanded their answer on administrative effects when they discussed the challenges Finnish business have come across in Question 5: *What kind of challenges have Finnish businesses faced in the South Korean market?*

The cultural dimension of uncertainty avoidance explains South Korea's need for strict regulations especially towards food. (Kim et al., 2013) Even though the EU and therefore Finland shares a Free Trade Agreement with South Korea, there are still high tariffs in place for some product groups. (Business Finland, 2022b)

*“There are categories like meat and dairy products that have a lot of restrictions. If you want an import license for Finnish beef for example the process will most likely take up to ten years. We just received the import license for chicken and eggs early this year. It took, was it seven years. It is not an easy or quick process.”* – Interviewee

These regulations are in place not only for uncertainty avoidance but also to preserve local production by deterring foreign companies with high tariffs or with export bans. There is sense of protectionism towards domestically produced products and foreign competition is not always welcome.

According to the interviewee a rough guide to exporting is that if something is accepted in the European Union it is most likely accepted in South Korea. There are exceptions to this rule, however. Some examples of unexpected regulations were given by the interviewee:

*“Surprisingly, South Korea can be even more strict with regulations than Finland and the EU. As an example, I can mention blueberries. We think that Finnish*



*blueberries are very clean but here they view it has having too much radiation. Korea is about ten times stricter with radiation limitations than Finland” – Interviewee*

*“Another interesting example is salmiakki. Here it cannot be viewed as candy. They see it as a medicinal product. It has ammoniac so it belongs in Chinese medicine, it cannot be candy.” – Interviewee*

Politics has a role in negotiations between countries. The South Korean market is relatively untouched by western countries and its potential lies in the fact that there isn't an abundance of competition yet. However, Finland is not the only country to realize this and there is a line of countries trying to obtain export licenses. South Korea also wants to receive these same benefits which makes negotiating country-to-country impossible.

*“If we wanted an import license for a new category of product, Korea would then want to mutually get to bring something else to the EU. It is intertwined in this political game in which we have to negotiate. It's not just between Finland and Korea but also between Korea and the EU.” – Interviewee*

### 5.3 Effects of Geographic Distance

When asked about the effects of geographic distance in Question 12: *Has geographic distance between Finland and South Korea affected international business practices?* the interviewee saw the biggest challenge to be physical distance that affects the logistical side of product shipment. Finland has a direct connection to South Korea by air and out of other European countries, Finland also has the shortest distance. As both countries are located by the sea, they also have access to maritime transportation.

*“Because our products are so clean and free of any preservative the usual shelf-life of our products is a maximum of one year.” -Interviewee*

The average maritime route can around 3-4 month or even more to travel to South Korea. This does not leave much time for the product to be sold and used which is an issue as most partners won't accept products that have less than 9 months of shelf-life left. This is due to the risk of the product not selling before it has gone bad. On the other hand, transportation through airway is much faster than by shipping. This, however, is when companies are faced with the issue of price as air cargo is very expensive.

#### 5.4 Effects of Economic Distance

The interviewee was asked about the effects of economic distance in Question 11: *Has economic distance between Finland and South Korea affected international business practices?* Just like with all of the other dimensions of distance, the interviewee talked about the influence of economic distance when they were asked to discuss the most common challenged in Question 5: *What kind of challenges have Finnish businesses faced in the South Korean market?*

The consumer price index which was introduced in the theoretical portion of this thesis, proved that Finnish pricing is on average higher than South Korean pricing. This has created a challenge for companies planning on export to South Korea as prices can be three times as much in Finland. This makes competing based on price difficult. (Kosis, 2022 & Trading Economics, 2022) The interviewee went as far as to strongly dissuade the exportation of products that have existing domestic competition. As a higher price in relation to other comparable products within a market is difficult on its own. This is without adding on the additional challenge of selling a foreign product.

*“Everything we sell is expensive, yes it limits the possibilities of what we can sell. We cannot sell anything cheap as it cannot compete. Even though there are consumers ready to pay for quality it is still a restricting factor.”* -Interviewee

An advantageous attribute of Finnish products is their premium quality which is in demand. It is important to note that there are quality products produced domestically in South Korea as well. This means not every market will have an open spot for Finnish products.

*“We have exceptionally good craft beers in Finland, however, there is now way for us to compete in that market. But then there are niche markets like alcohol-free beers which have been a success.” -Interviewee*

Finding the correct niche product while still playing to Finland's advantages is a sure-fire way of avoiding issues with pricing without having to compromise quality.

## 6 Conclusions

This closing chapter is to conclude this thesis by discussing and answering the main research question and the sub questions presented in the beginning of this thesis. I will begin with the sub questions and work up to the main question as it will be answered partly by the sub questions.

*Q2: How do the different dimensions of distance challenge Finnish food industry companies doing business in the South Korean market?*

As it was introduced in the theoretical portion of this thesis, Finland and South Korea have quite a bit of cultural distance between them. Based on the Hofstede's dimensions you can tell that a majority of each culture's attributes vary from one another. The only cultural dimension the two had in common was their inclination towards a more feminine culture. This was visible also in the results portion of this thesis. While South Korea identifies with collectivism and uncertainty avoidance, Finland has an individualistic culture and leans more towards uncertainty acceptance. These aspects of South Korean culture have an effect on purchasing decisions. A products social approval, brand awareness and previous knowledge on its usage and taste all affect whether a purchase is made. With foreign Finnish food products this was proven to be a challenge.

Another challenge present in the cultural dimension of distance was with the presence of a language barrier. According to the interviewee South Korean companies don't always have English speaking employees who are also able to make decisions. As is usual with translations, there is a window for mistakes that can lead to miscommunication between when information is carried from the Finnish companies to the lower-level English speaking employees and finally to the upper-level leaders who make the final decisions. With the additional difficulties cause by South Korea's hierarchical society, Finnish companies must

be able to contact the correct people in order for decisions to be made while keeping the South Korean cultural aspect of Inhwa in mind which dictates the need for maintaining harmony in all aspects of life.

The challenges caused by administrative and political distance are mostly related to South Korea's governmental policies. South Korea has very strict regulations in place for some product groups such as meat and dairy. Other product groups are mostly free of tariffs due to the Free Trade Contract between the European Union and South Korea. The regulations and tariffs are in place to assure the safety of foreign products as well as to protect domestic industries from unwanted competition. Another challenge caused by administrative distance has to do with the political back-and-forth that is present in the negotiations for export licenses. These are not only held between Finland and South Korea but also with the European Union.

The challenge of geographic distance between Finland and South Korea has to do with the logistical issues of shipping products. Even though Finland and South Korea have a direct airway to one another, and both reside in locations where maritime shipment is accessible, the physical distance is long or in the case of flying, too expensive. Finnish food products pride themselves of being natural with no preservative which lessens their shelf-life. When they are shipped issues can arise if the shipment doesn't arrive on time as food products go bad easily.

The last dimension is economic distance. In the case of distance between Finland and South Korea, price proved to be a challenge. The average price of products in Finland is shown to be higher than those in South Korea. The higher price of Finnish products restricts what is profitable to sell. It isn't enough to focus on just the good attributes of Finnish food products as there are domestic companies also focusing on providing high quality products. This means Finnish companies must find a specific niche in order to be successful. An example of this was given by the interviewee and Kukko's alcohol free beers.

*Q3: What opportunities does the South Korean market present to Finnish companies in the food industry.*

The opportunities presented by distance was something that had not been the main focus in previous studies conducted on the effects of distance in international business. The results portion of this thesis proved that the South Korean market provides plenty of opportunities for Finnish companies in the food industry and that the effects of distance are not all negative in nature. As the interviewee stated, there is room for constant growth and potential as long as companies are prepared to look for the perfect business partner and invest in proper marketing.

Currently Finland exports more food products to South Korea than they do to Japan, and this will most likely double in size due to the new export license Finland received for chicken and eggs this spring of 2022. This makes South Korea Finland second largest Asian market for food products. South Korea is still particularly new market for western foreign investors and sometimes it is overlooked in favour of other bigger Asian markets like China. However, this means that the market is not yet full of other European competitors leaving room for Finnish companies to thrive. The opening of South Korea market to foreign companies is a relatively new occurrence that happened in the last two decades. As a result, the consumer preferences of South Koreans have vastly changed as well and the appreciation for western products has slowly increased. Today these products are viewed as trendy. This is another reason why the South Korean market provides lots of potential.

Finally due to past scandals in the food industry, the importance of food safety has risen as important topic in South Korea. South Koreans rising appreciation for quality products is perfectly in line with what Finnish food industry companies have to offer. While the demand for food products without artificial additives or preservatives is rising, the interest in a brand's name value is decreasing. This benefits Finnish products as results have proven there to be no previous knowledge

of Finnish foods in the minds of South Korean consumers which has hindered their introduction to local consumers.

*Q1: What is the effect of distance in Finnish food industry companies in the South Korean market?*

In some cases, challenges are only initial and have an easily obtained resolution or they will eventually be resolved with time, resilience, and hard work. An example of this is the South Korean consumers lack of knowledge on Finnish food and brands. Even though brand values have been a key factor in the purchase decision-making process. However, just like consumer preferences change, these can also shift with time. Currently South Korean consumers are moving toward a more indifferent approach towards a foreign brand's name value. This challenge is also overcome slowly with every new product introduced into the market.

The overall effects of distance have been proven to be both opportunistic and challenging by nature. Finnish food industry companies face a multitude of challenges when exporting their products to South Korea. The challenges vary from market restrictions and regulations to miscommunications and social norms. However, there is a window for opportunity for food industry companies that find the right niche product that fits into the South Korean market.

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## Appendix 1. Interview Questions

- 1) What is your job at X? / Mikä on työtehtäväsi X?
  
- 2) How long have you been working for X? How long have you worked in South Korea? / Kuinka kauan olet työskennellyt X? Kuinka kauan olet työskennellyt Etelä-Koreassa?
  
- 3) What advantages do Finnish products have? What are these advantages in comparison to similar local products? / Minkälaisia etuja suomalaisilla tuotteilla on? Mitkä nämä edut ovat verratessa samantyyppisiin paikallisiin tuotteisiin?
  
- 4) What are the driving factors for choosing South Korea as a potential market? Can you name a common deciding factor / Mitkä tekijät tekevät Etelä-Koreasta potentiaalisen markkina-alueen? Pystytkö nimeämään päätekijän?
  
- 5) What kind of challenges have Finnish businesses faced in the South Korean market? / Minkälaisia haasteista yritykset ovat kohdanneet Korean markkinoilla?
  
- 6) What has been the biggest challenge so far? / Mikä on ollut suurin haaste tähän mennessä?

- 7) Can you describe the process of entering the Korean market as a Finnish business? On average, how long does the process of entering the Korean market take? / Voisitko kuvata markkinoille pääsyn prosessia suomalaisten yritysten kohdalla. Osaatko yleisellä tasolla määritellä kauan prosessi kestää?
  
- 8) What is the most common market entry mode? Why is it the most common? / Mikä on yleisin markkinoille pääsykeino? Miksi se on yleisin?
  
- 9) How has the cultural distance between Finland and South Korea affected international business practices? / Miten kulttuurierot ovat vaikuttaneet Suomen ja Etelä-Korean väliseen kansainväliseen liiketoimintaan?
  
- 10) How has administrative or political distance between Finland and South Korea affected international business practices? / Miten hallinnolliset tai poliittiset erot ovat vaikuttaneet Suomen ja Etelä-Korean väliseen kansainväliseen liiketoimintaan?
  
- 11) Has economic distance between Finland and South Korea affected international business practices? / Miten taloudelliset erot ovat vaikuttaneet Suomen ja Etelä-Korean väliseen kansainväliseen liiketoimintaan?
  
- 12) Has geographic distance between Finland and South Korea affected international business practices? / Miten maantieteellinen etäisyys ovat

vaikuttaneet Suomen ja Etelä-Korean väliseen kansainväliseen liiketoimintaan?

13) How do you see the future of international business between Finland and South Korea? / Miten näet Suomen ja Etelä-Korean välisen liiketoiminnan tulevaisuuden?

14) Do you have any other points you would like to bring up in this interview? / Onko sinulla muuta mitä haluaisit nostaa esille tässä haastattelussa?