



# Entering the Argentinian Market

As a Finnish Industrial Sector Company

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## **ABSTRACT**

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This thesis examines the most important factors to consider when entering the Argentinian market as a Finnish industrial sector company. The thesis introduces foreign market entry modes and the factors affecting the selection of entry modes. The Argentinian market environment is introduced and explored with the Hofstede's six dimensions model and the PESTL analysis tool.

To support the theoretical framework, qualitative data was collected by interviews. The research results showed that the most important factors to consider when entering the Argentinian market as a Finnish industrial sector company are the political and economic instability of the country, and forming strong business relationships with local partners. The data revealed that it is also vital to conduct a thorough market research to learn about Argentina's corporate taxation policies and existing export/import regulations, permits, and certificates.

The results also revealed that it is recommended for a Finnish industrial sector company to have a good market entry strategy and a finance strategy, use export entry modes, and to enter also e.g. Brazil and Uruguay and not have Argentina as the only market in South America. It was also recommended to enter Argentina with a long-term plan, as it may be challenging to reach quick profit in the cyclical economic environment.

The reliability and validity of this research may be questioned due to the lack of multiple interviews and the lack of sources in English language about the Argentinian market environment. Nevertheless, the results of the thesis provided useful information regarding the important factors to take into consideration as a Finnish industrial sector company entering the Argentinian market.

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Key words: internationalization, market entry, entry modes, market research, Argentina, Finland, the industrial sector

## CONTENTS

1	INTRODUCTION .....	6
2	RESEARCH PLAN.....	8
	2.1 Thesis topic.....	8
	2.2 Purpose, objectives and research questions.....	8
	2.3 Theories and concepts.....	9
	2.3.1 Theories .....	9
	2.3.2 Concepts .....	10
	2.4 Methodology .....	11
	2.5 Content overview .....	12
3	THEORETICAL FRAMEWORK.....	14
	3.1 Internationalization.....	14
	3.2 Foreign market entry modes .....	15
	3.2.1 Export modes .....	16
	3.2.2 Intermediate modes.....	17
	3.2.3 Hierarchical modes.....	18
	3.3 Factors affecting the choice of entry mode .....	19
	3.4 Market research .....	21
	3.5 Conceptual framework .....	24
4	ARGENTINA.....	26
	4.1 Business customs in Argentina .....	26
	4.2 Hofstede's cultural dimensions .....	27
	4.3 PESTL analysis.....	28
	4.4 Corporate taxation in Argentina.....	33
	4.5 Trade relationship: Argentina and Finland .....	33
5	DATA ANALYSIS.....	34
	5.1 Data collection.....	34
	5.2 Interviews.....	35
	5.2.1 Inderfor Oy .....	35
	5.2.2 Embassy of Finland, Buenos Aires.....	37
	5.3 Quality of the research .....	41
6	RESULTS, RECOMMENDATIONS AND CONCLUSIONS .....	43
	6.1 Results .....	43
	6.2 Recommendations .....	46
	6.3 Conclusions .....	48
	REFERENCES .....	51
	APPENDICES.....	55

Appendix 1. Interview with the CEO of Inderfor Oy.....	55
Appendix 2. Interview with the Commercial Counsellor of the Embassy of Finland, Buenos Aires .....	56

**ABBREVIATIONS AND TERMS**

COVID-19	Coronavirus disease: COVID-19 is a severe respiratory disease caused by a coronavirus called SARS-CoV-2. It was first identified on 31 December 2019, in China and classified as pandemic in March 2020. By December 2020 more than 63.5 million cases had been confirmed with the total death count of 1.47 million. (WHO. 2020.)
M&A	Mergers and Acquisitions
GV	Greenfield Ventures
PDI	Power Distance Index
IDV	Individualism versus Collectivism
MAS	Masculinity versus Femininity
UAI	Uncertainty Avoidance Index
LTO	Long Term Orientation versus Short Term Normative Orientation
IVR	Indulgence versus Restraint
IMF	International Monetary Fund
WTO	World Trade Organization
GDP	Gross Domestic Product
ILO	International Labour Organization
VAT	Value Added Tax

## 1 INTRODUCTION

This bachelor's thesis discusses the findings of a qualitative research made for Finnish companies that are looking to internationalize their business and are operating specifically in the industrial sector.

The author of this paper was living in Argentina at the time of starting the thesis writing process, therefore she chose to research the market entry of Finnish companies to this specific foreign market. The industry was narrowed down to companies of the industrial sector, as Argentina is globally one of the biggest producers of agricultural commodities and has vast manufacturing capabilities (The World Bank. 2020). Argentina's main products of import in 2019 were 4.8% motor vehicles, 4.2% parts and accessories for tractors and motor vehicles, 3.5% electrical devices for line telephones and telecommunications (Import-Export Solutions. 2020). This indicates the need for local production of these named products. The country is the fourth largest natural gas producer in Latin America and has the third largest shale gas reserve and fourth largest lithium reserve in the world, thus it provides great availability of needed raw materials and resources for companies of the industrial sector (Import-Export Solutions. 2020).

Even though the current Coronavirus disease (COVID-19) pandemic may bring some economic challenges for Argentina, new business opportunities have already risen e.g. in the healthcare and packing industries (Kauppayhdistykset. 2020). For Finnish companies Argentina offers a potential market in technology, IT-solutions, telecommunication, energy and industrial sectors. Only five years ago Argentina opened its borders again for international business activities, meaning its market still has great gaps in many sectors – making it highly potential (Trade Associations. 2017).

The focus of this thesis is on discussing the phenomenon of internationalization, foreign market entry modes, the process and factors affecting the choosing of the entry mode, market research, and introducing the Argentine business environ-

ment. As a conclusion, recommendations will be given on what are the most important factors for a Finnish industrial sector company to consider when entering the Argentinian market.

## **2 RESEARCH PLAN**

This chapter introduces the thesis topic. The purpose, objectives and research questions, alongside with relevant theories, concepts and used methodology are explained.

### **2.1 Thesis topic**

Argentina holds the second largest manufacturing ability in South America (World Business Culture. 2020) thus, it is a highly potential market to operate in for the industrial sector companies. This research covers the risks and challenges of entering the Argentinian market, analyzes what is the best entry mode to choose when entering, and provides an overlook of the market itself.

The topic of the thesis is significant because it is essential for companies looking to internationalize, to find the best market entry mode and conduct a thorough market research. This thesis will broaden the knowledge of Finnish industrial sector companies on what are the possible entry modes to choose when entering the Argentinian market and what are the common risks and challenges.

The author of this research will gain knowledge about internationalization, foreign market entry modes and the industrial sector of Argentina and Finland when conducting this research. The author will familiarize herself with the state of the market of the industry in question and with the Argentine business environment.

### **2.2 Purpose, objectives and research questions**

As there are various ways for a company to choose to internationalize, this research seeks to find the best possible ways for a Finnish industrial sector business to enter the Argentinian market. The purpose is to be able to provide practical recommendations.

The main objective of this research is to investigate how Finnish companies, specifically in the industrial sector, could successfully enter the Argentinian market. This is to make the reader more aware of the current possibilities as well as challenges in the Argentine market. The sub-objectives of the research are to identify main risks and challenges Finnish companies might face when entering the market and share experiences of Finnish companies that have already entered the market.

The primary research question that this thesis seeks to answer is:

- What are the most important factors to consider as a Finnish industrial sector company when entering the Argentinian market?

The sub-questions the research seeks to provide answers to are:

- What are the common challenges for a Finnish industrial sector company when doing business in Argentina?
- What is the current market situation of the Argentinian industrial sector for Finnish companies?
- What is the common entry mode used by Finnish industrial sector companies when entering Argentina?

## **2.3 Theories and concepts**

This chapter discusses the three key theories of this research. The theories are internationalization, foreign market entry modes, and market research. The industrial sector as a concept is also defined in this chapter.

### **2.3.1 Theories**

#### **Internationalization**

Internationalization is the process of expanding a company's operations to international markets with the possible aim of increasing one's market share (In-

vestopedia. 2020). Internationalization can be viewed as an end-result or a company value. Increasing one's involvement with markets outside its domestic region will make a company more internationalized. (Albaum G. 2011).

### **Foreign market entry modes**

Foreign market entry modes refer to entry modes that are chosen to be used when a company enters a non-domestic market. Common examples of these entry modes are exporting, licensing, partnering with strategic alliances, acquisitions, Greenfield ventures and Brownfield investments. (Hollensen. 2007.)

### **Market research**

Market research is a process of gathering, analyzing and understanding essential data and information about a market a company desires to launch a product or service in. A market research collects information about past, present and potential customers for the specific product or service, spending habits, characteristics, location, the specific industry in whole as well as the existing and possible competitors. (Entrepreneur. 2020.) Some tools that are often used to support the market research process and deeper studying of the sociocultural, political and legal environments are the PESTEL and SWOT analysis (Speth C. 2015, 4-6; Pestle Analysis. 2016).

## **2.3.2 Concepts**

### **The industrial sector**

Industrial sector, also called as the secondary sector is one of the three sectors that a country's economy is made up of (figure 1, page 11). The industrial sector utilizes the end products of the primary sector to produce a complete product. Some common divisions of the industrial sector are industrial equipment, steel production, energy industry and telecommunications. (Economy Watch. 2010.)



FIGURE 1. The three sectors of the economy

## 2.4 Methodology

Qualitative research methods are used as the primary data collection method for this thesis. Data will be collected from previous researches, internet sources, articles and governmental websites. A qualitative research will be conducted in the form of an interview.

The qualitative data collection method was chosen for this research because it is commonly used to study fields such as business, communications and psychology. (Saldaña J. 2011, 4.)

The aim of the qualitative research is to interview Finnish companies operating in the industrial sector and have already entered the Argentinian market. The interviews will be conducted in order to gain proper insight and empirical information about the actual process, risks and challenges of entering the Argentinian market. By sharing real-life experiences, the objective of the interviews is to encourage Finnish companies to enter the foreign market and provide tools for a successful market entry. Using interviews as a data collection method is highly effective when wanting to document individual's or group's perspectives, opinions and experiences (Saldaña J. 2011, 32) thus it is the chosen data collection method for this research.

Due to COVID-19, holding face-to-face interviews is not possible at the time of writing this thesis. The interviews will be conducted via email, Skype/Zoom or other virtual platform. A possible challenge that the author might face during the

data collecting is that companies might not have the time to be interviewed. Other factors that might affect the reliability of this research are the lack of Spanish language skills of the author, reliability of internet sources and the epistemology of the author or interviewees.

## 2.5 Content overview

Figure 2 below demonstrates the thesis process and structure, highlighting the three upcoming chapters.

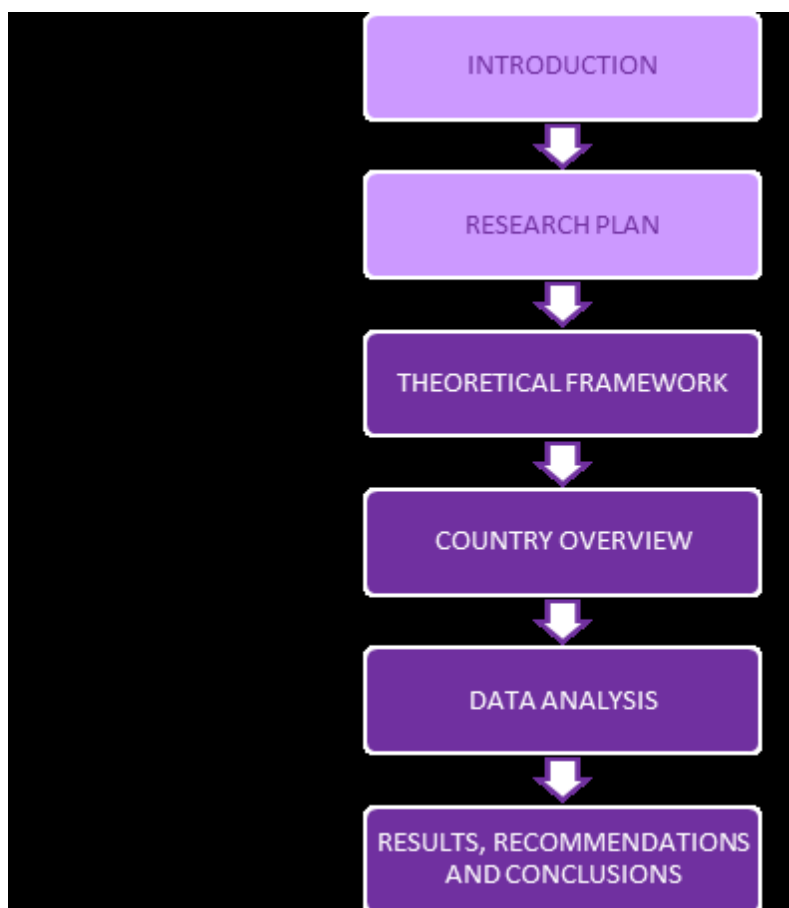


FIGURE 2. The thesis process

The upcoming chapter of this thesis will focus on introducing the theoretical framework. Suitable market entry modes will be discussed as well as the factors affecting the selection of the entry mode. The theoretical framework will be supported by a conceptual framework in the end of the following chapter.

The fourth chapter will examine the Argentinian market, providing general country information as well as analyzing its business environment and customs. A PESTL analysis will be used as a market analysis tool.

The fifth chapter of this thesis introduces the data analysis of the qualitative research interviews, followed by discussion of the results, recommendations and conclusions. List of references and appendices are found at the end of the thesis. Appendices include full questions of the interviews presented in chapter five.

### 3 THEORETICAL FRAMEWORK

This chapter discusses the theories, key concepts and tools relevant to the research. A conceptual framework of the theory is presented in the end of this chapter.

#### 3.1 Internationalization

The main motive for a company to internationalize its operations is to increase its global market share and footprint. Internationalization provides new, possibly more profitable markets that benefit companies in their competitive positioning (Hollensen. 2007, 19; Investopedia. 2020). However, Chambers P. (n.d.) claims the search for more profitable markets is not the only driver for internationalization. There are few major drivers for international expansion and they are shown in the table below.

TABLE 1. Drivers for internationalization (Hollensen 2007, modified)

Drivers for internationalization	
Market drivers	<ul style="list-style-type: none"> <li>- similar customer needs</li> <li>- global customers</li> <li>- transferable marketing</li> </ul>
Cost drivers	<ul style="list-style-type: none"> <li>- scale economies</li> <li>- country-specific differences</li> <li>- favorable logistics</li> </ul>
Competitive drivers	<ul style="list-style-type: none"> <li>- interdependence between countries</li> <li>- competitors' global strategies</li> </ul>
Government drivers	<ul style="list-style-type: none"> <li>- trade policies</li> <li>- technical standards</li> <li>- host government policies</li> </ul>

### 3.2 Foreign market entry modes

Entering a foreign market requires a company to carefully assess the best way to enter the market. This means a mode of entry needs to be chosen. According to Hollensen (2007, 292), choosing the best market entry mode is vital for a company, as making an “ill-judged” entry mode selection in the early stage of the internationalization process can threaten the company’s future. It is common for the company to later change the entry mode, and this can be even seen as necessary in today’s fast changing market environments. Hollensen (2007, 292) mentions a study made in 2002, by Petersen and Welch, that found companies often combining entry modes to meet their specific foreign market entry needs.

Hollensen (2007, 292) notes that foreign market entry modes can be classified in three separate groups: export modes, intermediate modes and hierarchical modes (figure 3). Export modes characterize as 100% externalized with low control and risk with the highest flexibility. Hierarchical modes are 100% internalizing and have the highest control and risk with low flexibility. Intermediate modes position in between these two.

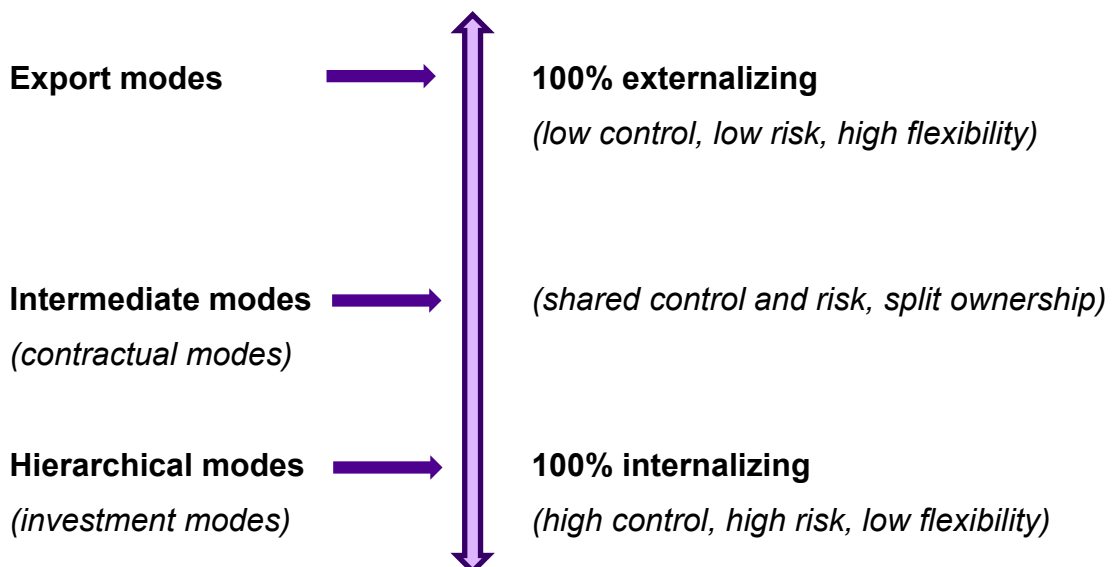


FIGURE 3. Classification of foreign market entry modes (Hollensen 2007, modified)

Eight market entry modes suitable for companies of the industrial sector will be further explained in this chapter. These entry modes are exporting (direct, indirect and cooperative), licensing, partnerships and strategic alliances, mergers and acquisitions, Greenfield ventures and Brownfield investments. All of these entry modes have both advantages and disadvantages which are also presented in this research.

### **3.2.1 Export modes**

Exporting is the sales of products and services abroad while the manufacturing is done in the country of origin. This is the most common internationalization market entry mode. The advantage of exporting is that it is usually low cost since the company does not have a need to use resources to establish operations in the foreign country thus exporting is also a fast and low risk mode of entry. The disadvantages are that when exporting, a company is required to distribute and market their product or service and this is done through contracts and agreements with local businesses. This means that a company has very little control over the operations and process occurring outside its domestic market. (Hollensen. 2007, 310.)

Hollensen (2007, 311) suggests that when using export entry modes a company needs to decide which operations it will outsource and which will stay in control of themselves. Even though exporting can be done in various forms, three major groups can be identified. The groups are direct export, indirect export and cooperative export.

#### **Direct export**

When direct exporting, the producing firm is in control of exporting activities and is in direct contact with the partners in the foreign market. The producing firm often takes care of documentation, delivery, and pricing policies of the sold product. Direct export is commonly done through distributors or agents. (Hollensen. 2007, 317-322.)

**Indirect export**

The producing firm is not in control of the exporting activities in indirect exporting. Another domestic firm, for example an export house or a trading company, is hired to perform these activities. The producing firm is commonly not involved with the foreign sales of their product. Five main indirect export entry modes are export buying agent, broker, export management company, trading company and piggyback. (Hollensen. 2007, 311-317.)

**Cooperative export**

According to Hollensen (2007, 323) in cooperative exporting, the producing firm makes collaborative agreements with other firms, for example export marketing groups. These agreements involves the performance of their export functions.

**3.2.2 Intermediate modes****Licensing**

Expanding business internationally by licensing involves two parties from different countries. One company gives another company distinct rights or resources in exchange for payment. These rights and resources may include copyrights, patents, technology, managerial skills or other essential factors needed to produce the product/ service. (Lumen Learning. n.d.)

The advantage of entering a market with licensing is that it gives a company the ability to reach new markets relatively easily that might be otherwise closed by trade restrictions. Licensing is also a fast, low risk and low-cost entry mode. (Lumen Learning. n.d.)

Similar to exporting, according to Branch (2006, 491) one of the disadvantages of licensing is that the company has less control of the operations occurring in the foreign country. Another disadvantage of licensing is that the licensee might become a competitor of the licensor. Licensing agreements may also arise corporate cultural clashes between the two parties.

### **Partnerships and strategic alliances**

Forming partnerships and strategic alliances with a local business is also a way to enter a foreign market. Strategic alliances involve contractual agreements with two or more parties stating their will to cooperate towards a common goal. (Albaum, Duerr, and Strandskov. 2011.)

Albaum, Duerr and Strandskov (2011) state that the advantages of forming strategic alliances to enter a foreign market are that the local partner has knowledge about the market, culture and customs. Chosen local partners may have competitive advantage in their local market, a reputable brand name or existing relationships with their customers. A company can benefit from these when entering a foreign market through a partnership. Other advantages are that the costs are shared between the partners and the risks are decreased. Some countries might even require foreign companies to form partnerships with local businesses to be able to enter the market.

As well as the previously mentioned entry modes, Albaum, Duerr and Strandskov (2011) mention that forming partnerships results to the company losing the direct control of operations. This entry mode also has higher costs than exporting or licensing. Strategic alliance agreements may also arise corporate cultural clashes between the two parties.

### **3.2.3 Hierarchical modes**

#### **Mergers and acquisitions**

Mergers and acquisitions (M&A) are business agreements between two parties. Mergers refer to two companies of relatively similar size that form a new single unit. Acquisitions refer to a larger company that combines with a smaller company to adapt the operations of the smaller company. M&As are attractive as they give the company a fast access to a new market with already established operations. The disadvantages of M&As are that they are often costly and high risk. (CFI. n.d.) According to the Saylor Academy (n.d.) previous studies show that 40-60% of M&As fail in terms of increasing the company's market value by more than the invested amount.

### **Greenfield ventures**

Greenfield ventures (GV) are new established wholly owned subsidiaries. GV is a high risk, potentially high cost and a slow entry mode. When launching a new subsidiary, it is required for the company to study the local market and culture. The advantage of GV is that it gives the company full control over its own operations. GVs have a tendency to attract employees as new facilities are often preferred. (Investopedia. 2019.)

### **Brownfield investment**

Defined by Investopedia (2019) Brownfield investment means that a company enters a foreign market by purchasing or leasing an existing facility. Compared to the GV, Brownfield investment is a lower cost entry mode as the facilities have already been constructed. This is also a time-saving factor. The disadvantage of a Brownfield investment is that the land purchased or leased has been used before and may be contaminated from prior activities. If leasing a facility, there might be restrictions on what kind of improvements can be made.

## **3.3 Factors affecting the choice of entry mode**

Hollensen (2007, 298) introduces four factor groups that affect the company's choice of entry mode. The four factor groups are internal factors, external factors, desired mode characteristics and transaction-specific behavior. These four factors will be explained in this chapter.

### **Internal factors**

Hollensen (2007, 299) explains internal factors to refer to anything under the control or within a company. These factors may be tangible or intangible. Common internal factors are firm size, international experience and the product/service.

Hollensen (2007, 299) states that a small firm size may indicate the lack of necessary resource in which case export entry modes are suggested. As the firm size grows a hierarchical entry mode may be adapted. Also, the characteristics of the product has a great impact on the choice of market entry mode. For example the value/weight ration and composition are important factors when deciding

where the product is to be manufactured. Hierarchical entry modes are often used for highly complex or technical products as marketing may be too problematic to handle for intermediaries. Hollensen (2007, 299) notes that there is also a distinguished difference whether entering a market with high- or soft-service. Soft services require higher control hence hierarchical modes are favored. Interaction between the company and customers is essential.

### **External factors**

External factors refer to any tangible and intangible circumstance or situation that is not under the control of the company but do have an effect on the decisions made within the company. Common external factors affecting the choice of market entry mode are 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 small number of relevant intermediaries available. (Hollensen. 2007, 300-301.)

Hollensen (2007, 300-301) implies that a great sociocultural distance between the home country and the host country may lead into a company choosing indirect export modes and strategic alliance agreements. It gives the company more flexibility and comfortability in the unfamiliar business environment. Exporting entry modes are also commonly preferred in a situation where the foreign market has a high risk as the commitment of resources is low. Whereas, if the size of the foreign market is large it has a greater possibility for growth hence companies commonly prefer to establish Greenfield ventures or Brownfield investments. In smaller sized markets exporting or licensing is often chosen as the entry mode. Hollensen (2007, 300-301) also explains that hierarchical entry modes are favored when the foreign market has tariffs or quotas on imported goods. When the target country has high product and trade regulations/standards, intermediate entry modes are commonly used. Although this may also encourage companies to use hierarchical entry modes, specifically when there is a great amount of product adaption needed. Hierarchical entry modes are also often preferred if there are only a small number of relevant intermediaries available, as the hierarchical modes reduce possible opportunistic behavior. Lastly, if the market has intensive competition, Hollensen (2007, 300.301) states that companies prefer exporting entry modes as they do not involve great commitments.

### **Desired mode characteristics**

Risk averse, control, and flexibility are the three desired entry mode characteristics according to Hollensen (2007, 301-302). The first characteristic is risk averse. Risk averse decision makers will favor exporting modes or licensing as they have lower financial and management commitments. However, these low risk entry modes do not have as high potential to growth and development opportunities as higher risk entry modes. The second desired characteristic is control. Decision makers who value control prefer hierarchical entry modes opposed to exporting and intermediate modes. Commonly the more control an internationalizing company has, the more risk and commitment is present. The last characteristic desired is flexibility. Hierarchical and intermediate entry modes entail lower flexibility than exporting modes.

### **Transaction-specific behavior**

Transferring tacit know-how is the best possible in hierarchical entry modes. A company must evaluate the importance of tacit know-how in their operations and manufacturing process and based on that make a decision whether it is of great value or not. If tacit know-how is not seen as a value, exporting modes may be considered. (Hollensen. 2007, 302.)

## **3.4 Market research**

Hollensen (2007, 153) argues that information is the “key ingredient” when developing a successful internationalization strategy. To obtain familiarity of customers, competitors and market environment a thorough market research is required. Hollensen (2007, 154) stresses that the key information needed in a market research are the ranking of country markets according to their market potentiality, defining and evaluating local competition, analyzing existing political risks, acquiring knowledge about trade barriers, and evaluating the cultural and physical distance between the home country and the potential market.

### **Hofstede’s six dimensions model**

The Hofstede model of national culture examines the culture of countries with six different dimensions. These six dimensions are based on a research conducted

by Professor Geert Hofstede and his team. Hofstede defines national culture as following: “the collective programming of the mind distinguishing the members of one group or category of people from others”. (Hofstede Insights. 2020.)

The six dimensions of the Hofstede model, according to Hofstede Insights (2020), are the Power Distance Index (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance Index (UAI), Long Term Orientation versus Short Term Normative Orientation (LTO), and Indulgence versus Restraint (IVR).

According to Hofstede Insights (2020), the PDI dimension refers to the fact that individuals in societies are not equal, and expresses the culture’s attitude (expectations and accepting) towards these existing inequalities. The DVI dimension describes the degree of independence a society maintains amongst its members, whereas the dimension of MAS refers to “what motivates people, wanting to be the best (masculine) or liking what you do (feminine).” The fourth dimension (UAI) describes the extent to which a society feel threatened by uncertain or unknown situations and have formed principles and establishments that try to avoid these events, and the fifth (LTO) dimension explains how every society needs to sustain some links to its own past whilst dealing with the challenges of its present and future. The sixth dimension of Hofstede, the IVR, measures the extent to which individuals of a culture try to control their desires and impulses.

This research uses the Hofstede model (chapter 4.2) to demonstrate the six cultural dimensions of both Argentina and Finland. This will provide valuable knowledge to the reader of the similarities and differences of the cultures of these two countries. However, this research will not examine the cultural dimensions in depth. The deeper examination and evaluation of the cultural similarities and differences is to be done by the company when conducting the market research. This information is of great value when entering a foreign market as it will help understand the consumer behavior as well as the behavior of possible business partners (Entrepreneur. 2020).

### PESTL analysis

The PESTL analysis is a common analysis tool to be used when doing a market research. PESTL analysis evaluates a specific country or region by examining its political, economic, sociocultural, technological, and legal environments. The PESTL analysis has different forms, currently the most common version is the PESTEL analysis, which adds a sixth factor; the environmental factor. This research will not focus on the environmental factor as concepts related to it can differ greatly depending on the specific industrial field in question. Figure 4 below demonstrates the components the PESTEL analysis is built of.



FIGURE 4. Demonstration of the PESTEL analysis ([www.business-to-you.com](http://www.business-to-you.com))

In this research (chapter 4.3), instead of a theoretical framework, the PESTL analysis is used as a method to analyze the environment of Argentina regarding Finnish industrial sector companies. In the actual market research process an international market researcher may be hired by the company to carry out a PESTL analysis. In the market research process there is a need to make a PESTL analysis to identify the environment for a specific company. (Pestle Analysis. 2016.)

### SWOT analysis

According to Speth C. (2015, 4-6) the SWOT analysis is a complete analysis of the current situation of a company or country (figure 5, page 24). SWOT analysis evaluates the internal strengths and weaknesses as well as the opportunities and

threats that the company or country faces. Strengths include internal competences and positive situational factors, weaknesses include internal limitations and negative situational factors. Opportunities are favorable external factors whereas threats are unfavorable external factors. (Speth C. 2015, 4-6.)



FIGURE 5. Example of a SWOT analysis (www.50MINUTES.com)

Like the PESTL analysis, SWOT analysis is also an analysis tool used in the market research process. It is extremely vital for a company to analyze its strengths, weaknesses, opportunities and threats in order to develop a successful strategic plan to enter a new foreign market. (Speth C. 2015, 4-6.)

### 3.5 Conceptual framework

A conceptual framework is an analytical tool used to provide a more comprehensive understanding of the phenomenon discussed. It visually explains the key concepts and theories researched. (Walden University Libraries. 2020.) Figure 6 (page 25) demonstrates the theoretical framework of this thesis.



FIGURE 6. The conceptual framework: Finnish industrial sector company entering the Argentinian market

## 4 ARGENTINA

This chapter briefly introduces the Argentinian business environment. A short description of common business customs and the six cultural dimensions of Hofstede and a PESTL analysis are presented. However, as mentioned in chapter 3.4, when deciding to enter the Argentine industrial sector market, a more thorough research (than the following presented in this thesis) of the country, and its environments and culture is needed.

### Overview

**Region:** South America

**Area:** 2,780,400 km<sup>2</sup>

**Population:** 44,495,000

**Capital:** Buenos Aires

**Language:** Spanish (96.8%)

**Currency:** Argentine Peso, ARS, \$

**Corruption Perceptions Index:** Rank: 66/180, Score: 45/100

(World Data. n.d.; Transparency International. 2019.)

### 4.1 Business customs in Argentina

As often mentioned by both Hollensen (2007) and Albaum, Duerr and Strandskov (2011) a common reason for the failure of entering a market or a great risk especially of the intermediate entry modes is an occurrence of a cultural clash between the home and the host country. To avoid this, it is vital to gather information about the culture and common business customs of the host country.

According to the Cultural Atlas (2020) it is important to schedule business appointments well in advance before the desired date and arriving promptly to scheduled meeting is essential. Argentines perceive punctuality as respect for other's time and attention. However, meetings might not begin nor end at the arranged time. In these cases, it is perceived as rude to show sense of urgency.

When greeting someone in a business environment, it is advised to greet one with appropriate title according to occupation and education level. In a business meeting the visiting senior executive is to be seated opposite to their Argentinian senior executive counterpart, Cultural Atlas (2020) suggests.

Small talk before beginning the actual meeting is not uncommon. People interrupting one another is also common in the Argentine business culture. This is perceived as showing interest and enthusiasm. When doing a sales pitch, Argentinians tend to be more responsive to soft selling than confrontation. Final business decisions are often made by people with a higher status although ideas can be generated by all employees. (Cultural Atlas. 2020.)

Forming personal relationships with business partners is significant before making any business transactions. Cultural Atlas (2020) notes that it is common to hold business meetings in informal venues such as bars and restaurants, though promises or commitments made in such environments are needed to be later confirmed in a formal environment. Networking is not common in Argentina. Instead the locals utilize their contacts and relationships and help other upon request. To form a deep relationship, it is advised to be transparent and talkative.

When doing business in Argentina it is important to consider one's dress attire. The common business dress code according to Cultural Atlas (2020) is conservative, dark-toned suits or dresses.

## **4.2 Hofstede's cultural dimensions**

As mentioned in chapter 3.4, this research gives a short introduction of the cultural similarities and differences of Argentina and Finland. This chapter provides a visualization of the Hofstede's six cultural dimensions to give the reader a brief example of how the countries compare with each other.

A country's/region's culture plays a great role in how people behave and expect to be treated like in business environments. Figure 7 (page 28) demonstrates the similarities and differences with the Argentinian and Finnish cultures according to

the country comparison of Hofstede Insights (2020). In figure 7 Argentina is displayed as blue and Finland as purple.

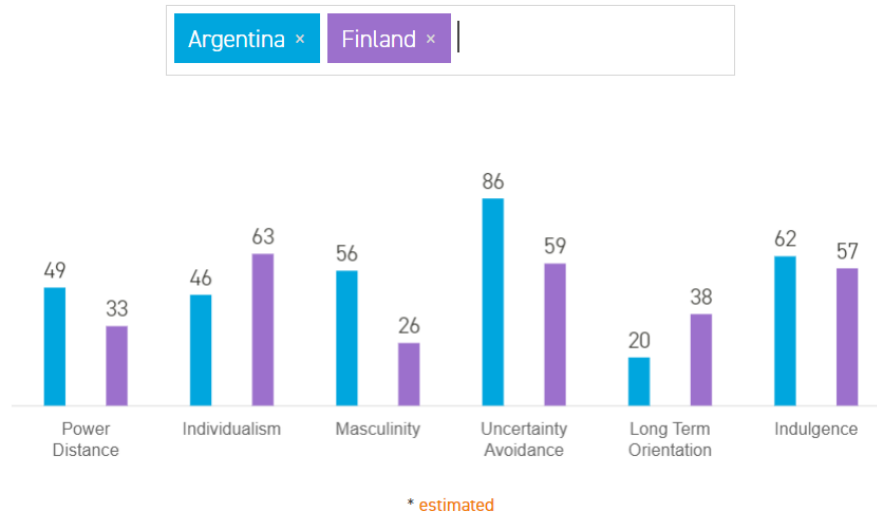


FIGURE 7. Country comparison (Hofstede Insights. 2020)

It can be seen from figure 7 that Argentina and Finland are relatively similar when comparing Hofstede's six cultural dimensions. Both countries rank close to middle in PDI and IVR. With PDI this means that both countries have a fairly similar extent of accepting the societal inequalities, and IVR meaning both countries have a relatively similar control of desires and impulses. In IDV Finland ranks above 50 and Argentina below 50, meaning Finland's culture is noticeably more independent than Argentina's. The greatest difference seen between these two countries is the MAS dimension, Finland is perceived more as a feminine country whereas Argentina is more masculine. In the dimension of UAI both countries rank higher than 50 meaning both have a strong need for rules. For both Argentina and Finland LTO dimension measures below 50 meaning they are viewed as normative cultures, respecting traditions, and focusing on achieving quick results. (Hofstede Insights. 2020.)

### 4.3 PESTL analysis

Like mentioned in chapter 3.4, this research introduces the Argentinian market environment briefly, using the PESTL analysis as an analysis method instead of

a theoretical framework. When a company is considering entering the Argentinian market, a more thorough and business field-specific PESTL analysis is needed to be done. As this thesis research does not focus in one specific field of the industrial sector, the following PESTL analysis is left vague.

According to PestleAnalysis.com (2016) there are six essential questions that need to be considered when doing a PESTL analysis. This research will carry through with these six questions. The first question is “What is the political situation of the country and how can it affect the industry?”, this will be examined in the political factors. The second question which will be examined in the economic factors is “What are the dominant economic factors?” The third essential question is “How much importance does culture have in the market and what are its elements?”, and it will be inspected through the social factors. The technological factors in the PESTL analysis examine the question “What technological innovations are likely to pop up and affect the structure of the market?” And lastly, the legal factors are analysed through the question “Are there any current legislations that regulate in the market or can there be any change in the legislations?”

### **Political factors**

Porter (1985) defines the political factors in a PESTL analysis to describe how and to what extent a country’s government interferes the economy of an industry. These interferences include government policies, political stability and instability, corruption, trade barriers and regulations, taxation policies, and labour laws.

According to The Economist (2020), and The World Bank (2020), Argentina has a history of political instability. The government has tight controls over finances and managing the country’s currency pressure. To restore political stability, Argentina is relying on the help of the International Monetary Fund (IMF) in 2020. The current COVID-19 pandemic has increased the political instability.

Argentina’s CPI rank is 66/180. This means the country ranks as the 66<sup>th</sup> least corrupt nation out of 180 countries. The corruption index of Argentina is 45/100. The corruption index measures how corrupt a country’s public sector is perceived to be relative to other countries/territories. (Transparency International. 2019; Trading Economics. 2020.)

Argentina is a member of the World Trade Organization (WTO) multilateral trade agreement and is one of the MERCOSUR countries. (SICE. n.d.)

Argentina has a vast amount of corporate taxes. Taxation is high for both domestic companies and companies operating from outside of Argentina. Taxes to be paid include income taxes, municipal taxes, social security taxes, value added taxes, export and import taxes, and foreign currency taxes. (Jebsen & Co. 2019.) More about Argentina's corporate taxation can be found in chapter 4.4.

### Economic factors

The economic factors that should be taken into account when assessing the potentiality of a market are the economic growth, exchange rates, inflation rates, interest rates, purchasing power of consumers, and unemployment rates. (Porter. 1985.) Figure 8 below demonstrates the current economic environment of Argentina with the previously named economic indicators.

Overview	Last	Reference	Previous	Range	Frequency	
<b>GDP Growth Rate (%)</b>	-16.2	Jun/20	-4.2	-16.2 : 5	Quarterly	
<b>GDP Annual Growth Rate (%)</b>	-19.1	Jun/20	-5.2	-19.1 : 16.2	Quarterly	
<b>Unemployment Rate (%)</b>	13.1	Jun/20	10.4	5.9 : 20.8	Quarterly	
<b>Inflation Rate (%)</b>	37.2	Oct/20	36.6	-7 : 20263	Monthly	
<b>Inflation Rate Mom (%)</b>	3.8	Oct/20	2.8	0.2 : 6.5	Monthly	
<b>Interest Rate (%)</b>	36	Oct/20	37	1.2 : 1390	Daily	
<b>Government Debt to GDP (%)</b>	89.4	Dec/19	86	34.5 : 167	Yearly	
<b>Government Budget (% of GDP)</b>	-3.8	Dec/19	-5	-6.4 : 3.7	Yearly	
<b>Consumer Confidence (points)</b>	40.9	Nov/20	38.8	28.44 : 60.97	Monthly	
<b>Corporate Tax Rate (%)</b>	30	Dec/20	30	30 : 35	Yearly	

FIGURE 8. Argentina: Economic Indicators (Trading Economics 2020, modified)

According to World Bank (2020), Argentina is one Latin America's largest economies. The Gross Domestic Product (GDP) of Argentina is approximately

US\$450 billion. World Bank (2020) states that the historical cyclicality of Argentina's economy and the increase of institutional complications have a negative effect on the country's development. Due to the ongoing COVID-19 pandemic Argentina's GDP has declined by 16.2%, which is the largest in the country's history.

Having a large territory, Argentina obtains fertile lands, significant lithium and gas reserves, thus has great potential in the sectors of renewable energy and agriculture. The World Bank (2020) also states that Argentina has substantial opportunities in manufacturing subsectors, high-tech industries and innovative services.

### Social factors

Social factors that need to be assessed in the PESTL analysis include demographic characteristics, customs and norms, and the values of the society. The social factors also consist of population growth rate and age distribution (figure 9). Income distribution, career attitudes, safety emphasis, health consciousness, lifestyle attitudes, and cultural aspects are also part of the social factors of the PESTL analysis. (Porter. 1985; B2U. 2016.)

## Population

> <a href="#">Population:</a>	44,939,000
> <a href="#">Population per km<sup>2</sup>:</a>	16.16
> <a href="#">Life expectancy males:</a>	Ø 73.1 years
Life expectancy females:	Ø 79.9 years
Birthrate:	17.0 ‰
Deathrate:	7.6 ‰
Males/Females:	48.8% : 51.2%

FIGURE 9. Population of Argentina (World Data. n.d.)

A more descriptive analysis of the cultural customs and norms affecting the corporate culture is given in chapters 4.1 and 4.2.

### **Technological factors**

According to B2U (2016), the technological factors of the PESTL analysis include technology incentives, the level of innovation, research and development activities, automation, and the amount of technological awareness of the country's population.

According to the Global Economy (2020), Argentina's Innovations index was 31.90/100 in 2019. The world's average Innovations index of 129 countries was 36.31 in 2019. The Innovation index calculates the country's innovation activities in institutions, human capital and research, infrastructure, market sophistication and business sophistication, technology outputs, and creative outputs.

Argentina's population is 44 million people and approximately 30 million people have access to internet. According to Statista (2020) 70% of the Argentinian population had access to internet in 2019, in comparison the percentage in Finland was 94% in 2019.

The Argentinian agricultural sector is midst a technological revolution by the support of biotechnology and cloud and mobile-based application innovations. A satellite-based risk-management data analytics tool is digitalizing the agricultural businesses. (Launchway Media. 2019.)

### **Legal factors**

The legal factors of the PESTL analysis defined by Porter (1985) may often overlap with the political factors. The legal factors differ in the sense of being more specific. Legal factors consist of employment laws, consumer protection laws, patent laws and regulations, and health and safety laws. B2U (2016) recommends companies to have legal advice to help dealing with the legal factors when entering a new market.

Implied by the International Labour Organization (ILO) (n.d), Argentina has specific labour laws and regulations which must be obliged. These laws and regulations cover issues such as payments, employments contracts, hours of work, maternity and other leaves, minimum age and protection of young workers, equality, and trade union regulations.

#### **4.4 Corporate taxation in Argentina**

Argentina's corporate taxation is highly complex, according to Jebsen & Co. (2019). There are multiple taxes to be paid for a non-resident corporation operating in Argentina. Starting from January 2021 the income tax is 25% which of non-resident corporations must only pay taxes on Argentine-source income. The standard value added tax (VAT) in Argentina is 21%. Other VATs are 5%, 10.5% and 27%. Argentina's government has also set taxes on export duties on services (5%) and a 30% tax on purchases of foreign currency. Other corporate taxes Finnish industrial sector companies should consider are taxes on social security, estate, and the municipal rates. There is also an existing turnover tax, however industrial production activities may be exempt from paying this tax.

#### **4.5 Trade relationship: Argentina and Finland**

Stated by the Web Archive (2014), there are four main bilateral agreements affecting the trade relationship between Argentina and Finland. These four agreements are the Agreement on Trade which has been effective since 1935, the Agreement on Trade, Technology and Industry Cooperation, active since 1980, the Agreement on Investment Protection established in 1993, and in 1994 an agreement made on the Avoidance of Double Taxation.

The main products of export from Finland to Argentina in 2018 include appliances and electrical equipment, machines, mechanical devices, industrial instruments, paper, and vehicles. The trade value of export from Finland to Argentina in 2018 was 136 million USD. (OEC. n.d.)

## **5 DATA ANALYSIS**

The primary research question this thesis aimed to answer is “What are the most important factors to consider as a Finnish industrial sector company when entering the Argentinian market?” The methodology used in this research was a literature review of previous studies and existing theories related to the subject and a qualitative research was done in the form of interviews. The qualitative research was conducted to strengthen the theoretical framework. Interviews were chosen to be the research method as it provides a possibility for the interviewee to give a more thorough answer compared for example to a closed-ended survey.

### **5.1 Data collection**

The author chose to interview Finnish industrial sector companies that are already operating in Argentina. The author believed this will provide useful data for companies looking to enter the market, thus answering the research question of what the most important factors are to consider. The author also decided to interview an employee of the Embassy of Finland in Argentina to collect data about the most important factors entering the market for a business in any industry. Although this does not provide answers completely connected to the research question (which is aimed specifically for the industrial sector companies), this may provide vital information which is not known by representatives of industrial sector companies, but only by a person who has knowledge of the overall market environment in Argentina.

Six interview requests were sent by email to Finnish industrial sector companies. These companies were chosen by the factor that the author believed them to be operating in Argentina based on information found from the internet from company webpages, articles or governmental webpages. The initial research plan was to collect data from a specific field within the industrial sector e.g. machinery manufacturers, paper manufacturers or electricity production. This would have provided a more valid and reliable research and results. The author had to

change the original research plan due to the lack of company responses to the interview requests.

From the interview requests sent one response was negative, three did not reply and two were interviewed. There were two interviews held for this research; Inderfor Oy and the Embassy of Finland. The interviews were held in October and November in 2020 via WhatsApp. The language used in the interviews were English and Finnish.

## **5.2 Interviews**

### **5.2.1 Inderfor Oy**

The person interviewed was Darío Rodríguez, the CEO of Inderfor Oy. Inderfor Oy is a Finnish forestry and machinery company founded in 1999. Inderfor Oy in Argentina operates as an agency for smaller Finnish forest machinery companies. Inderfor Oy is the main company and has its headquarters in Helsinki. The company has a branch office in Rosario, Argentina, a small company in Uruguay which sells spare parts, and an office in Misiones, Argentina, where its main customers are.

Rodríguez represents Finnish and few Swedish forest industry SMEs. The company has machines in Argentina (Misiones and Corrientes), Uruguay and Brazil. Inderfor sells for example harvesting heads, water harvesters, grapples, sawmill machinery, and machines/distinguishers to avoid forests from burning. (Rodríguez. 2020.)

#### **The decision to internationalize**

The main goal for Rodríguez when entering the Argentinian market, was to be able to transfer not only the high-quality Finnish technology, but also the Finnish know-how. For Rodríguez, the country choice of export was determined by the fact that he had readymade connections, relationships, and country knowledge of Argentina, as he is originally from Tucuman, Argentina. (Rodríguez. 2020.)

**The mode of entry**

Inderfor Oy buys machines from many different Finnish SMEs, and exports them to Argentina. Inderfor Argentina imports them and sells them to customers/distributors. When a product is extremely high of value the company uses a different strategy; the customer buys and pays for the product in advance and Inderfor gets commission for the export/import process from Finland to Argentina. (Rodriguez. 2020.)

**The main challenges**

Rodriguez (2020) says, “if you can do business in Argentina, you can do business everywhere.” He states that there are problems with the permits of products in the import process, as well as issues related to sending money abroad. In the initial stage Inderfor had problems dealing with corruption in Argentina, so finding the right location for the company’s operations was essential. Inderfor currently operates from a smaller port which makes it more easy to avoid corruption. Rodriguez notes that these types of issues make it hard to find companies in Finland, who would want to finance projects in Argentina.

**Inderfor’s strengths in the international market**

Inderfor’s strength is that they are a Finnish company, operating both in and from Finland. And as Finland has a well-known positive reputation, this makes Inderfor perceived as trustworthy in the eyes of Finnish and foreign customers. When a project in question is bigger, when dealing with operations to/from Argentina, it is important especially for Finnish business partners/clients, to know the management of a company, to know the finance is guaranteed and where the money comes from. The question of where the money comes from is also crucial information for the Argentinian officials. Building trust makes it easier to get companies to finance these projects and has made it possible for Rodriguez to agree on for example personalized payment agreements that suit both the Argentinian and Finnish business customs. (Rodriguez. 2020.)

**The current market situation**

Rodriguez (2020) says that the competition between Argentina, Uruguay and Brazil makes the market tough, as Uruguay has a more stable economy than

Argentina, and Brazil is very competitive in terms of quality of machinery. This means that often Argentina has lost its business deals to Brazil in the competition.

### **Future opportunities**

Rodriguez (2020) states that as there are often problems with import restrictions in Argentina, issues with taxes and labor laws, it makes the market challenging. He would not advise companies to enter solely the Argentinian market, but instead choose Argentina as a part of a bigger market in South America, e.g. Argentina, Chile, Brazil and Uruguay. Rodriguez states that there are many opportunities in the market especially for Finnish companies in mining, forestry, renewable energy, and engineering know-how.

### **The main factors to consider**

Rodriguez (2020) notes that there are two main things to consider when entering the Argentinian market. The first thing to consider is that it is hard for SMEs to enter this kind of a market because a normal buyer in Argentina does not have the access to finance, or the cost of the financing is high. The second important thing to consider is that an important share of the Argentinian economy is what is considered “grey or black economy”, so if you are dealing with money that has not been paid taxes of, you will not be able to transfer that money.

Rodriguez (2020) notes that success is possible when entering the Argentinian market, but it is extremely important to consider the local labor laws and tax regulations. Rodriguez’s opinion is that Finnish SMEs entering the Argentinian (or Brazilian or Uruguayan) market have to make sure that they are serious about it and need to have a clear financing strategy and preferably would have many years of business experience.

### **5.2.2 Embassy of Finland, Buenos Aires**

Heta Pyhälähti is the Commercial Counsellor of the Embassy of Finland in Buenos Aires, Argentina. Her main task is to help and advice Finnish companies with everything related to doing business in Argentina, Uruguay and Paraguay. Pyhälähti also keeps updated about the current economic situation of these three

countries and works maintaining and building the Finland-image. (Pyh lahti. 2020.)

Pyh lahti (2020) estimates that at the moment there are about 10 Finnish subsidiaries and about 30-40 Finnish companies operating with local partners in Argentina. In addition, there are some unreported Finnish companies in Argentina which the embassy or Team Finland are not aware of. These companies might be operating through agents and/or other partners and through other neighboring countries.

### **The main challenges for Finnish companies entering the market**

In Pyh lahti's (2020) opinion the biggest difference between Argentina's and Finland's business environment is that the economy in Argentina is extremely cyclical. The cyclical economy as well as the bureaucracy makes doing business in Argentina more challenging.

Previously there have been projects organized by the Argentinian government which have lowered the normally existing trade barriers and regulations, and this has made it more possible for international enterprises to enter the market. However, during the current presidency the automatic import licenses have increased and there is a need to do a lot of negotiating to get products through the customs. The challenges faced depend on the operational model of the company. If you are operating with an Argentinian agent, where do you get the dollars for importing? Previously Finnvera has offered Finnish companies an export insurance/guarantee which guarantees the exportation but at the moment, due to the economic situation of Argentina, Finnvera does not offer this service anymore. (Pyh lahti. 2020.)

Another factor which may be challenging for Finnish companies is that doing business in Argentina is emphasized in forming personal relationships and it requires being present and having good contacts. The presence can be also done through a representative or an agent.

When good relationships are formed, Finnish companies have a great possibility to succeed in the Argentinian market. (Pyh lahti. 2020.)

### **Differences between the Argentinian and Finnish corporate cultures**

As mentioned in the previous paragraph, forming personal relationships is more important in Argentina than in Finland and the business culture is more hierarchical. Finnish people are more "matter-of-fact" -people and in Argentina it is more important to form relationships. Pyh lahti says this requires a lot of meetings in person and the process may be slow. The dress code is more conservative in Argentina than in Finland. Pyh lahti also comments that work used to be done normally from 9-18 and remote work used to be an unknown term (however, the COVID-19 pandemic reformed this). (Pyh lahti. 2020.)

### **Commonly used entry modes**

The most common entry modes used by Finnish companies when entering the Argentinian market are partnerships and agents. Pyh lahti comments that the best way is to have an importer who purchases your product. (Pyh lahti. 2020.)

### **The most important factor to consider**

In Pyh lahti's (2020) point of view the most important thing to consider when entering the Argentinian market is the cyclical economy and the importance of having a local business partner. Pyh lahti states that the second important factors are e.g. technical issues, restriction issues and import issues.

### **Offered help and support**

Help and support is offered for Finnish companies entering the Argentinian market. Help and support can be found from the Embassy of Finland, Team Finland, and the Argentine-Finnish Chamber of Commerce. Also, local law firms and consultants offer their help and they are recommended to be used. Monetary support can be applied from Business Finland and Finnpartnership. These benefits and supports are for market researches and for finding local business partners. Help for finding local partners is provided also by Business Finland (Business Finland is part of Team Finland) (Pyh lahti. 2020.)

### **Future opportunities**

Even though Argentina's economic environment may be challenging, it does bring opportunities with it. It has not been uncommon for companies to reach

great profits when the economy rises. This requires the company to have its operations, certificates and business partners prepared as when the economy rises it has been witnessed to do so quite rapidly. Businesses have benefited from this cyclical economy so greatly that it can make up for the bad times. Companies which are able to make a long-term commitment to build business in Argentinean market, for example 10 years, can succeed in this cyclical environment. Pyhälahti emphasizes that it is possible to find opportunities when you have built good business relationships, and you are persistent. The best time to enter the Argentinian market is before the increase of the economy, but as the state of the economy changes rapidly it is difficult to estimate when that will happen. (Pyhälahti. 2020.)

Pyhälahti (2020) states that opportunities can be found for example in the sectors of healthcare, energy production, agriculture, bioeconomy, and high-tech services that provide added value to an Argentinian partner. According to Pyhälahti Argentina also wants to develop its forest and circular economy, but the challenge lies in investing. The best way to enter these markets would be with a local partner. The potential fields of business for Finnish companies in Argentina according to Pyhälahti are agrology, mining, ICT-solutions, and digitalization. Argentina is not very competitive in the manufacturing sector due to taxes and surcharges. Pyhälahti notes that outsourcing ICT consulting like software coding is relatively cheap and there are a lot of well-educated people in Argentina, so this could be utilized.

### **Possible effects of the COVID-19 pandemic**

According to Pyhälahti (2020), it has been estimated that the COVID-19 pandemic will show as a decrease of 12% in the Argentine economy. The pandemic has hit the country worse than many others since the country's economic situation was not good to begin with at the start of year 2020. COVID-19 has created a wave of bankruptcy and affects negatively to the economy of Argentina.

Pyhälahti (2020) comments that the judicial system of Argentina is threatened and confiscations of land areas are worrying. The pandemic has been affecting the economy greatly, and the political reaction to the virus of going "health first" (instead of economy first) has not been good for Argentina's economy.

Pyhälahti (2020) sees the positive factors brought to Argentina by the pandemic to be that the business culture is starting to be more accepting towards working remotely and it has also pushed companies to be more innovative with new technological solutions. For example the healthcare sector has gone through an increased digitalization, development and modernization. In addition, the pandemic may have also changed Argentina's business culture to be more "relaxed", in the way that initial meetings with possible business partners may be held virtually. However Pyhälahti notes that it is still necessary to hold face-to-face meetings in order to form a long-lasting business relationship.

### **5.3 Quality of the research**

Analyzing the quality of a research is an essential part of the data analysis chapter because there are often various factors affecting the reliability and validity of a research. Reliability and validity are terms commonly used to analyze quantitative studies, however, Lincoln and Guba (1985) argue that these terms are also crucial for qualitative research analysis. According to Lincoln and Guba (1985) credibility, neutrality, consistency, and applicability are also essential criteria for the quality analysis of a qualitative research. Lincoln and Guba (1985) and Mishler (2000) argue that in qualitative research the terms reliability and validity could be replaced by the term "trustworthiness".

The fact that the author of this thesis managed to conduct only two interviews, only one of them being a company interview, decreases the trustworthiness of this research. The data of this research is based on two sources meaning the research findings cannot be generalized. Another factor affecting the quality of this study is the constructivism paradigm of qualitative researches introduced by Crotty (1998). The constructivism paradigm proposes that knowledge is socially constructed and is prone to change depending on circumstances. In this study the constructivism paradigm may possibly be shown in the interview answers. In addition, the epistemology of both the people interviewed and the author may affect the research results.

Other factors that may have a negative effect to the quality of this study may be that the author was not able to record the interviews held via WhatsApp audio call, thus the author had to rely on memory and notes written during the interview. Also, the lack of Spanish language skills of the author may have limited the sources used in the literature review part of this study.

As there are multiple variables affecting the quality of the study, the lack of various interviews being the most important one, the trustworthiness (i.e. the reliability and validity) can be questioned.

## 6 RESULTS, RECOMMENDATIONS AND CONCLUSIONS

This chapter introduces the research results and findings based on the literature review and the conducted interviews. Based on these findings, recommendations of what are the most important factors to consider as a Finnish industrial sector company when entering the Argentinian market will be presented. Lastly, the thesis is brought to a close with conclusions.

### 6.1 Results

The main research question of this study was “What are the most important factors to consider as a Finnish industrial sector company when entering the Argentinian market?” The results of the conducted interviews indicated that the most important factors to consider are the cyclical economy and other finance related issues, the importance of forming good business relationships with local partners, the possible issues with export/import permits, product permits and certificates, trade barriers, taxation, and labour laws in Argentina. (Pyh lahti. 2020; Rodriguez. 2020.)

The first sub-question the research sought to find answers to was “What are the common challenges for a Finnish industrial sector company when doing business in Argentina?” As a conclusion from both Rodriguez (2020) and Pyh lahti’s (2020) interviews it can be noticed that the most common challenges are finance-related, issues with restrictions/permits (especially permits for spare parts), the differences between the Argentinian and Finnish corporate cultures, and country related issues such as corruption.

The second sub-question of this study was “What is the current market situation of the Argentinian industrial sector for Finnish companies?” The interviews revealed that the current situation of the Argentinian market is challenging. This is due to the unstable and cyclical economy of the country. This impacts the industrial sector making the competition between Argentina, Brazil and Uruguay more demanding. And, due to the economy, in this competition Argentina is not in a

strong position. (Rodriguez. 2020.) The currently ongoing COVID-19 pandemic makes the Argentinian economic environment even more tough but it has brought positive factors to the market as well. Some positive factors brought by COVID-19, according to Pyhälähti (2020) are the digitalization and modernization of business operations, and the Argentinian business culture is becoming more relaxed regarding forming business relationships.

In the interviews both Rodriguez (2020) and Pyhälähti (2020) comment that currently there are many opportunities for Finnish companies. The best opportunities may be found in mining, forestry, energy-production, agriculture, and high-tech services.

The results for the second sub-question cannot be considered as completely valid as both interviewees were talking more about the overall situation of the Argentinian business environment instead of only the market situation of the industrial sector companies.

The third sub-question in this research was “What is the common market entry mode used by Finnish industrial sector companies when entering Argentina?” The most common entry modes used are direct exporting, partnerships and agents. According to Pyhälähti (2020) the most common way for Finnish companies to do business in Argentina is through agents or partnerships. She also claimed that the best way to enter the market is to find an importer to purchase your product. Inderfor operates in Argentina by direct export entry mode.

The theoretical framework of this thesis supports the findings of the qualitative research. It can be noticed from the research that common internationalization drivers for Finnish companies entering the Argentinian market are the market drivers. These market drivers are mainly the customer needs of the host country. The entry modes used by Finnish companies doing business in Argentina are primarily export modes or intermediate modes such as partnerships.

The factors affecting the choice of entry mode which can be concluded from the research data aligns with the theoretical framework introduced in chapter 3.3. The internal factor affecting the entry mode choice Finnish companies tend to have is

that the companies entering the market are SMEs. SMEs preferably choose export modes since the risks are smaller due to low financial and management commitments. Also the product size and cost plays a crucial part in the selection of the entry mode. As mentioned by Rodriguez (2020), Inderfor has a strategy for changing the entry mode when a product of a bigger size or cost is purchased from Finland to Argentina.

The theoretical framework of external factors affecting the entry mode choice suggest that when the foreign market is a high-risk country and the sociocultural difference is great, the best entry mode choice is exporting. The findings of the qualitative research support this theory. Argentina is a high-risk country with political and economic instability, with a contrasting culture compared to Finland, thus Inderfor and, according to Pyhälahti (2020), other Finnish companies doing business in Argentina have chosen to use export entry modes. Hollensen (2007, 300-301) argues that when the foreign market has high tariffs or quotas for imported good, hierarchical entry modes are to be chosen. The study made does not support this theory, as most Finnish companies enter the Argentinian market by export modes or partnerships (Pyhälahti. 2020). The theoretical framework also implied that when transferring tacit know-how it is not recommended to use exporting as the company loses control over the operation, however Rodriguez (2020) mentioned that he exports Finnish high-tech know-how to Argentina to support the quality of the technology and machinery exported.

The research results of this thesis support the stated importance of making a detailed market research when a company is looking to internationalize its operations. From the five key components of a market research mentioned by Hollensen (2007, 154), the most important factors according to the research findings are political risks, trade barriers and the cultural distance to the potential market. The research data emphasized the importance of Finnish companies educating themselves about the Argentinian business customs, as the cultures of the two countries are nearly opposite. It can be understood from the research data that making an in-depth PESTL (or PESTEL) analysis is highly essential for Finnish industrial sector companies looking to expand to Argentina. The PESTL analysis will give vital information about the county's complex taxation policies, economic

environment, laws and regulations, and cultural customs and norms. Both interviewees highlight the challenges regarding these named factors when doing business in Argentina, and conclude that Finnish companies are able to succeed when they have clear financial strategies and good knowledge about the local corporate culture in order to form long-lasting business relationships.

The purpose of this research was to be able to provide practical recommendations on how a Finnish industrial sector company could successfully enter the Argentinian market. The objective of this research was to provide Finnish industrial sector companies knowledge about the current possibilities and challenges in the Argentinian market. The sub-objectives were to identify the main risks these companies may face when entering the market. Both the purpose and objective and sub-objectives of this research were successfully reached by analyzing the data collected from the interviews. Recommendations are presented in the following chapter.

## **6.2 Recommendations**

Based on the theoretical framework, and the research findings which support the theory, recommendations of what are the most important factors to consider, how to potentially succeed, and what are the following steps for a Finnish industrial sector company looking to enter the Argentinian market will be offered.

As the research results state, the best opportunities in the Argentinian market for Finnish industrial sector companies are in the fields of mining, forestry, energy-production, and agriculture. It is advised that Finnish industrial sector companies would not choose Argentina as the only market to expand internationally to, but instead include Argentina to a larger market e.g. Argentina, Brazil and Uruguay. This is to ensure stability in the company's finances, having a more competitive positioning, and having a larger consumer market.

The initial step for a Finnish company (of the fields named in the previous paragraph) considering internationalizing its business and expand to Argentina, is to

do an extremely in-depth market research. It is recommended in the market research process to put emphasis on the PESTEL and SWOT analysis. By doing this, the company will obtain vital information about the challenges of the political and economic instability of Argentina, laws and regulations considering exports and imports, product certifications, labour laws, and corporate taxation. This will enable the company to make a thorough market entry strategy, choose the best suitable market entry mode, and create a finance strategy. This will increase the possibility of a successful market entry. To get support for the financial and legal processes in Argentina, it is recommended that Finnish companies contact Business Finland or Finnpartnership.

Based on the interviews held, it is recommended that a Finnish industrial sector company that is not looking for a rapid profit and success, but instead is ready to make a long-term plan and invest to a market, to enter Argentina. Since the Argentinian market is challenging, the person responsible for the internationalization process preferably has business experience of many years.

Studying the corporate culture of Argentina before making the market entry is vital. The Argentinian business culture values forming relationships with potential partners. Since it may be challenging for a Finnish company to find local business partners if one does not have prior contacts in the country, it is advised to contact Business Finland, which offers help finding local partners for Finnish companies. The Argentinian business customs embrace initial meetings to be held face-to-face, thus a Finnish company may want to consider using a local company representative or agent to attend these meetings.

Based on the recommendations given in this chapter, figure 10 (page 48) provides a visualization of the suggested internationalization process for a Finnish industrial sector company, in order to successfully expand its business to Argentina. Figure 10 demonstrates the theoretical framework of this thesis and combines it with the theory-supporting research results.



FIGURE 10. Internationalization process for Finnish industrial sector companies expanding business to Argentina

### 6.3 Conclusions

The aim of this thesis was to find out the most important factors to consider when a Finnish industrial sector company is looking to enter the Argentinian market. The study and data collection for this topic was made through interviews and a research about the relevant theories.

The target country was introduced, its local culture was examined by Hofstede's cultural dimensions, and the market environment was studied by making a PESTL analysis. The data gathered from the interviews support the importance of conducting a country research and acquiring knowledge about its culture and customs before entering a foreign market. When doing business in Argentina, it is recommended for Finnish companies to find local business partners and build strong relationships.

As the PESTL analysis completed for this research shows, the Argentinian business environment entails political and economic instability, and complexity with laws and taxation. Both interviewees mention these named factors to be the main challenges for Finnish companies when doing business in Argentina. Due to the challenging economy and overall business environment in Argentina, the most commonly used market entry modes for Finnish companies are export modes.

The data collected from the interviews show that the most opportunities for Finnish industrial sector companies lie within the fields of mining, forestry, (renewable) energy-production, agriculture, bioeconomy, and high-tech services.

The reliability and validity of this research is affected greatly due to the lack of multiple interviews. The trustworthiness is also affected by the fact that the research did not focus on one specific industrial sector field, but instead viewed it as a whole. For this reason, it is recommended for a Finnish industrial sector company entering the Argentinian market to follow with a more thorough and field-specified market research. The reliability and validity of this study could be also affected by the limited sources found in English, and the lack of Spanish language skills of the author.

Finnish industrial sector companies have positive opportunities in Argentina, but a company may consider entering multiple South American countries simultaneously instead of only Argentina. A thorough market research is needed to conduct, with preferably a researcher whom is skilled in the Spanish language. A profound PESTEL and SWOT analysis are needed to be done. The economy of Argentina should be studied carefully, and the market entry should be done considering the cyclical economy, timed just before the increase in the economy. Finnish industrial sector companies should enter the Argentinian market using export entry modes to avoid unnecessary risks. Based on the results of this study, which state the incredibly challenging market environment of Argentina, an interesting future research could be done on how the Finnish companies are maintaining their success in the market throughout the ups and downs of the cyclical economy.

To conclude this research, while the reliability and validity of this research may be questioned (due to the lack of multiple interviews and the lack of sources in English language about the Argentinian market environment), the aim and objectives of the research were reached, and the results provided useful information regarding the important factors to take into consideration as a Finnish industrial sector company entering the Argentinian market.

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## APPENDICES

### Appendix 1. Interview with the CEO of Inderfor Oy

1. What is your company's main product/ service?
2. What was/were the main reason(s) to enter the Argentinian market?
3. Which entry mode did the company use to enter the Argentinian market and why?
4. What were the main challenges when entering the Argentinian market?
5. What are the strengths and weaknesses of the company in the international market?
6. Can you describe the current situation of the Argentinian industrial sector market?
7. What opportunities in the future do you see for the business in Argentina?
8. Would you recommend other Finnish companies to enter the Argentinian market? Why or why not?
9. Do you have any tips for Finnish companies considering entering the Argentinian market?

Appendix 2. Interview with the Commercial Counsellor of the Embassy of Finland, Buenos Aires

1. What is your role in the Embassy of Finland?
2. How many Finnish businesses are there currently operating in Argentina?
3. What are the main challenges Finnish companies face when entering the Argentinian market?
4. What are the main differences between the Argentinian and Finnish corporate cultures?
5. What is/are the main entry mode(s) used by Finnish companies entering the Argentinian markets?
6. What is the most important thing to consider when entering the Argentinian market?
7. What kind of support is offered for Finnish companies entering the Argentinian market?
8. What opportunities in the future do you see for Finnish businesses in Argentina?
9. How do you think the ongoing COVID-19 pandemic affects the Argentinian markets?