

How to enter the South Korean market from a viewpoint of a Finnish firm

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<p>Tämä on Anna Mäkelän opinnäytetyö, joka kirjoitettiin Etelä-Koreassa vuotena 2013. Tässä opinnäytetyössä tutkitaan miten Suomen yritykset laajentavat Etelä-Korean markkinoille, ja Etelä-Korean markkina-alueen ominaisuuksia. Tutkimus keskittyy vain siihen miten suomalaiset yrityksen laajentavat toimintaansa Etelä-Koreaan, ja pätee täten vain suomalaisille yrityksille. Työn empiirinen osa on tehty face-to-face haastattelulla. Haastateltavia on kuusi ja he ovat kaikki suomalaisista yrityksistä, jotka ovat laajentaneet toimintansa Etelä-Koreaan.</p> <p>Kansainvälistymisprosessi tutkii sitä, miten yritys laajentaa toimintaansa kansainväliselle markkina-alueelle. Yrityksen ominaisuudet kuten koko, kansainvälistymisaste, ja syyt kansainvälistymiseen, ovat tärkeitä siinä miten se pyrkii uudelle markkina-alueelle. On olemassa erilaisia laajentamistapoja, jotka voidaan jaotella seuraavasti: vientitavat, keskiasteen tavat sekä hierarkkiset tavat.</p> <p>Etelä-Korea on väkirikas maa Aasiassa, joka on edelleen sotatilassa Pohjois-Korean kanssa. Maan virallinen kieli on Hangul ja Etelä-Koreassa on erityisiä piirteitä, jotka tulee huomioida. Etelä-Korea on myös vahvan kilpailun ja protektionismin sisältävä markkina-alue.</p> <p>Haastatteluiden perusteella Etelä-Koreaan pyrkii jo kansainvälistyneet suomalaiset yritykset, joilla on jo toimintaa Etelä-Korean lähimaissa, sekä ne joilla on vaadittavat resurssit. Pääasiassa yritykset käyttävät aluksi myyntiedustajaa Etelä-Koreassa, jonka jälkeen he käyttävät hierarkkisia muotoja, kuten oman sisaryhtiön perustamista. Etelä-Korean ja Suomen välillä on iso fyysinen ja fysiologinen välimatka, ja ongelmia tuottavat yleensä HRM, korealaisten yritysten protektionismi, sekä kulttuurilliset ja kielelliset ongelmat. Kannattavuuden kannalta tärkeää on tehdä laajaa tutkimustyötä, löytää oikea markkinapotentiaali sekä oikeat liikesuhteet ja työvoima.</p> <p>Tulokset vastaavat odotettua, mutta työ olisi parempi jos haastatteluja olisi saatu enemmän. Haastattelujen saaminen osoittautua odoteltua hankalammaksi, ja tutkimus eteni oletettua hitaammin. Aihetta voi tutkia lisää laajentamalla haastateltuja yrityksiä muiden maiden yrityksiin ja vertailemalla niitä sitten suomalaisen yritysten laajentamisstrategioihin.</p>	
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<p>This thesis researches how Finnish firms enter the South Korean market and the characteristics of that market. This is a bachelor thesis by Anna Mäkelä, and it was written in South Korea during the year 2013. The research only concentrates on Finnish firms currently operating in South Korea and thus the results only correspond with Finnish firms. This thesis also contains six interviews from Finnish firms currently operating in South Korea, and the empirical part is based on those results. All interviews were done in South Korea.</p> <p>Internationalization process means the process how firms start their international operations. The firms' characteristics, motives and triggers are important in selection of entry mode. There are three entry modes divided by their degree of control and resource investment: hierarchical modes, intermediate modes and export modes.</p> <p>South Korea is an Asian country with big population that is still in a constant war with North Korea. The official language is hangul, and the country has peculiar characteristics. South Korea is a developed market where exists a strong competitiveness and protectionism of South Korean firms.</p> <p>The results of the interviews were that the firms who enter South Korean market are usually SME's with high internationalization degrees due to the resources needed. Most enter using a sales agent, an indirect export mode, and then will later enter using a hierarchical mode of building their own subsidiary. South Korea has a large physical and psychological distance with Finland. Most important success factors are extensive research, existence of real market potential, finding the right connections, and correct workforce. There are usually problems with the cultural and lingual barriers, HRM, and protectionism in South Korea.</p> <p>The results correspond with what was expected. Thesis would have been better if more interviews were done. Getting interviews proved to be harder than expected, and the thesis was written slower than was planned. In future this subject can be further researched by interviewing more firms, or firms from different nationalities.</p>	
<p>Internationalization process, Finnish Firms, South Korean market, Entry Mode</p>	

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1. Introduction

This bachelor thesis was a research about how Finnish firms enter the South Korean market. It was more of a desk study with small empirical aspect added to it.

The subject was decided due to interest in South Korean market and in the internationalization process. I have also done two exchange semesters abroad in South-Korea by the author. As such most of this thesis was actually written in South Korea, which was excellent for the writing process. The subject is really important too as South Korea is a continuously growing market which is getting more and more important for international firms. There are, however, many aspects which will hinder these firms if no market research is done. I used qualitative method, and most of the data were gathered through interviews of varies selected individuals.

1.1 Background to the study

I did an exchange student period in South Korea in Hanyang University in spring 2012. I mainly studied mainly courses about international business like transnational management and international marketing. Before this exchange period, I was planning on concentrating to bookkeeping as their specification. However, during the semester abroad, I realized that their passion did not lie there. Therefore I decided to instead study more about International Business and Logistics. Before going to the South Korea the first time, I had already studied Korean language and was hoping for a possibility of working there later on. When I returned back to Finland, I was suddenly struck with an inspiration of doing bachelor thesis about South Korea, and connecting it with something that I was passionate about – international business. Thus was born this idea of studying how Finnish firms enter the South Korean market. There was also the the opportunity to do a second semester in South Korea in Sungkyunkwan University, where I wrote most of this thesis.

1.2 The purposes and limitations of this study

The main objective of this thesis was to find out how Finnish firms tend to enter the South Korean market, and what would be the best way for them to do that correctly. One objective was that this thesis could provide information about the basics specific to the

South Korean market that one should take into account when preparing to enter this market. This thesis was not connected to one specific business area, but I tried to interview different businesses. If this thesis could have concentrate to only one business area, it might have been easier but then it would be more limited and there might not have been enough subjects to interview. The results of this research does not apply to every firm, but should be read more as a guide that could help the firm to develop their own entry strategies based of others' experiences

One of the biggest limitations for me was the fact that most of this thesis was done abroad in South Korea. There were many possibilities which might have, and some of them did, distract me from writing and producing the thesis. There was also the problem that it might prove to be harder to get counseling and advice about my work, as most of the contact had to be done through emails. I also forecasted problems with getting interviews from all parties. I was able to control the issue of the thesis not proceeding as planned by setting up a time. The problem about not getting enough advice was also controllable by setting up a timetable when I had to report to my adviser and I tried to follow it. But the problem with getting interviews was harder I could have gotten enough interview possibilities so that my thesis would not have been if some of them did not answer, but then there was few I interview possibilities so this did not work. Most of the business managers, or business owners, ignored the message sent to them.

One project limitation was the English skill of Koreans. There is a certain lack of English knowledge in Korea which is seen in the interviews done earlier with Koreans. This can lead to different answers from Korean managers and Finnish managers. They also tend to have different ways of analyzing business matters. Some Korean managers might misunderstand the questions, but this also applies to Finnish managers as the English is not their first language.

1.3 Research problem

The research problem was how Finnish firms enter the South Korean market and why do they enter this way? The research questions were following: 1. What is entry mode

Finnish firms usually use when entering the South Korean market? 2. Is it the best way to do it? 3. What are main failure factors to failed entry?

1.4 Research methodology

There are many important concepts in this thesis. All these concepts need to be understood in order to fully appreciate the theories. First key term is international business. According to Mr. Rugman and Mr. Collinson (2009, 27) "International business is the study of transactions taking place across national borders for the aim of satisfying the needs of individuals and organizations. " This means that the business is international business if they receive payments for their goods abroad their country border.

The term internationalization in business aspect means the process the by which company enters a foreign market (Rugman & Collinson 2009, 676). The internationalization is the process in which the end aim is to further the degree of internationalization of the company. The company also wishes to receive profits outside the home country border.

This brings us to a term international marketing. One definition of international marketing is that it's the process in which the company identifies the products and services that customers outside the home country wants and then provides them with at the right price and place (Rugman & Collinson 2009, 676). There are other definitions for international marketing. Cateora, Gilly and Graham (2009, 9-10) describe international marketing as "The performance of business activities designed to plan, price, promote, and direct the flow of company's goods and services to consumers or users in more than one nation for profit. " The international marketing is truly similar to domestic market, but in international marketing the company concentrates on countries outside its home country's borders, and the difference arises from the fact that the company must be aware of all the unique problems that marketing in foreign country brings and have knowledge about variety of different strategies on how to counter these problems (Cateora etc 2009, 9-10). International market entry is a truly important part of international marketing.

Entry mode refers to the way the firm initially enters the new market. Hollensen Sven (2011, 320) describes entry mode as follows: "An institutional arrangement for the entry of a company's product and services into a new foreign market." So it is the way the firm initially enters the new market. There are three main types of entry modes: export, intermediate and hierarchical modes (Hollensen 2011, 320). They all have different characteristics and different degrees of for example control or the resource needs.

South Korean market refers to market in Asia near Japan. South Korea's official name is Demographic Republic of Korea, but is mostly referred as South Korea. In this thesis, South Korean market won't include North-Korea, Peoples' republic of Korea.

A term Finnish business in this thesis refers to an enterprise which is established in Finland or has headquarters in Finland. Companies who have sales or subsidiaries in Finland, but the headquarters are outside Finland, won't be counted as Finnish businesses in this thesis.

1.5 Structure of the thesis

In the second chapter, I go through the theoretical framework of internationalization process and then introduce the South Korean market. This gave the framework that the interviews were based on. The chapter three is about the empirical research which was conducted as interviews with persons who are working for Finnish firms in South Korea. The chapter three introduces the process of the research and the firms. It also go through the findings. The last chapter is the discussion in which the evaluation of the research happens, and I analyzed the learning process received while I did this thesis. The chapter also goes through the validity and reliability of the research. It also includes further research suggestions and recommendations.

2. Theoretical frame of reference

This chapter explains the theoretical framework of this thesis. In this chapter, there will be different theories of internationalization process and market entries. The chapter will also give an outlook of South Korean market and help understanding the important aspects of that market.

2.1 Understanding of the internationalization process

The globalization causes many firms to attempt to expand their sales into foreign countries hoping for new profitable markets, to increase the firm's competitiveness, help to create new products, or access to latest technology and manufacturing innovations (Hollensen 2009, 6). This is why so many firms are now selling internationally. The internationalization thus occurs when the firm expands its R&D, production, selling or other business activities into international markets (Hollensen 2011, 50). Now a days most of the firms cannot be sustainable if they are only active in their home country. The competing firms might already be internationalized, and most of the time the home country is too saturated and small to be sustainable enough for the firm. Especially Finnish market is so small that it practically forces most of the Finnish companies to internationalize in order to be profitable.

There are also different stages in the internationalization process, and these stages can be categorized in many different ways. One way of defining company's degree of internationalization is to categories the companies as follows: no direct foreign marketing, infrequent foreign marketing, regular foreign marketing, international marketing, and global marketing (Cateora etc 2009, 17-20). Of course it's not possible to strictly categorize firms, but this will give us insight off what is the internationalization degree of the firm. In the no direct foreign marketing stage, the company does not actively try to reach customers outside its home country even though the company's products may be accessible for foreign customers for example through wholesalers (Cateora etc 2009, 17-20). This stage is now becoming easier to achieve due to the large sales volume in internet websites. They make it easier for all firms to sell their products outside home country borders. In the next stage, the infrequent foreign marketing, the company sells their products abroad with the intention of selling their possible domestic surpluses

(Cateora etc 2009, 17-20). This means that the company has for example seasonal products that they overproduced and now wish to sell to a different country entering the right season for their products. In the third stage, regular foreign marketing, the firm has permanent productive capacity concentrated to produce goods to be sold in foreign countries but the primary focus is still on the domestic market (Cateora etc 2009, 17-20). In this stage they are actively concentrating also on the foreign customers when before the international sale has just been an afterthought. International marketing is the fourth stage, and in this stage the companies are fully committed to, and involved, for example by material sourcing and planning globally, with international trade activities (Cateora etc 2009, 17-20). Most of the international firms are on this level as the last level is harder to reach as the last level requires a certain mindset from the firm. In the last stage, the global marketing, the orientation of the company is now more towards foreign markets and they treat whole world as one big market (Cateora etc 2009, 17-20). This is the stage when the firm can be called as a multinational company, MNC. The names of the degree of internationalization, and also the measurements, vary but the company must be aware of their degree of internationalization before they start the internationalization process. The company must also decide on what is the degree of marketing involvement and commitment it is prepared to make, and thus what degree of internationalizing it's heading towards to (Cateora etc 2009, 17-18). This decision will affect its internationalization process, as they now know how much effort and investment they should dedicate to this process.

2.1.1 Motives and triggers in internationalization process

As said before there are many different motives for internationalization, but they can be divided into two categories; proactive and reactive motives (Hollensen 2011, 50). The management needs to be aware of the motives which affect the firm's decision (table 1). In proactive motives the push toward internationalization comes from inside the firm while in reactive motives the firm reacts to pressures or threats in their home or host country and thus passively adjusts to them by changing its activities (Hollensen 2011, 50). As the names indicate, in proactive motives, the firm is more active than in reactive motives.

Table 1 The different motives why firms internationalize (Source: Hollensen 2011, 50-55).

Motives to internationalize(Source: Hollensen 2011, 50-55)	
Proactive Motives	Reactive motives
Profits	Competitive pressures
Managerial urge	Domestic market; small and saturated
Unique Product/ Technology competence	Overproduction/Excess capacity
Foreign market opportunities	Unsolicited foreign offers
Economies of scale	Extend sales of seasonal products
Learning curve	Promoxity to international customers
Tax benefits	Psychological distance

One of the proactive motives is the firm's desire for increased profits, but often, however, the forecasted profit is greater than the actual profit received as sudden influences, like high start-up costs, can affect the profits substantially (Czinkota & Ronkainen 2007, 283; Hollensen 2011, 51). This desire for the profit is the most basic one. Sometimes the attractive growth of certain market motives the firm to enter in hopes of higher profits like, for example, South East Asian markets and Eastern European markets (Hollensen 2011, 51). But this growth does not mean profits will be received. The second motive is the managerial urge which reflects management's desire and enthusiasm to drive the internationalization process forward and managerial attitudes are also critical in determining the firms export activities as the choice depends on them (Hollensen 2011, 51). In this motive, the management is thus the active urge behind internationalization and often these managers have international experience due to working or studying abroad. If they have studied or worked abroad, they have developed an international mindset so they lean more towards internationalization than managers who have only experienced life in the home market.

The company may also have a unique product or new technology that no one else yet has, or they might also have exclusive market information gained f.e through marketing research or contacts, but these competitive advantages are usually temporary (Czinkota & Ronkainen 2007, 283 ; Hollensen 2011, 52). Thus in this case the fast internationalization is the key and usually the firms with these motives internationalize through use of internet. The next motives are the learning curve and economies of scale. The firm can increase its output with the addition of new foreign market and climb more rapidly on learning curve which can also lead to reduced production costs in domestic market. They can also reach higher economies of scale due to the size of the new market which

causes the price of a one unit to decrease as the company's production scale increase. (Czinkota & Ronkainen 2007, 283-284.) These motives are usually used by the firms that have products that are easy to glocalize. This means that usually the inside of the product remains same globally while they only need to customize the outer parts. The last motive is the tax benefits; many foreign markets have a lower corporate taxation than in Finland which makes them more attractive markets for Finnish corporates (Hollensen 2011, 53). This is, for example, the reason why so many firms have internationalized to countries with lower income than Finland. However, WTOs (World trade organization) anti-dumping laws punish foreign companies if they sell their products at local markets so low-priced that the local companies cannot compete (Hollensen 2011, 53).

So reactive motives do not come from inside of the firm, but are caused by outside circumstances. The most common reactive motive is competitive pressure where the firm may fear losing the domestic market share to competitors who have benefited from internationalizing, or losing potential international markets to these competitors (Hollensen 2011, 53). If the competitors reach the market first, it will be harder for the firm to internationalize successfully afterwards. The next motive is stable or declining domestic markets, because the sales volume, or the firms' market share, is declining so that the only option to stay profitable is to internationalize (Czinkota & Ronkainen 2007, 284). With the declining sales, the firms must internationalize early enough due to internationalization process being costly.

One reactive motive can also be overproduction or excess capacity in the domestic market which motivates the firm to start short-term export activities in order to sell the excess products, but the short-term export activities might be difficult to repeat (Hollensen 2011, 54). This is mainly linked to the degree of internationalization where the company sells their excess products abroad. Unsolicited foreign offers means that a firm receives orders from abroad which motivates them to internationalize more, while in the extend sales of seasonal products the firm tries to prolong and stabilize the sale of their domestic seasonal products, with the use of different seasonal cycles (Hollensen 2011, 54-55). In many cases, the Finnish firms have internationalized due to the unsolicited offers. The seasonal sales products mainly mean products like winter gear.

The final major reactive motive is the proximity to the customers; the physical closeness to the foreign country can be stimuli towards starting operations in that foreign market (Czinkota & Ronkainen 2007, 284- 285) For example, many Finnish firms have first internationalized to Sweden, Russia or Estonia. Also many firms in USA internationalize mainly to Canada and Mexico. The perceived closeness can also be psychological instead of physical which means that the culture in the target country is perceived to be close to the home country (Czinkota & Ronkainen 2007, 284- 285; Hollensen 2011, 55). For example entering the German market is perceived to be easier for Finnish companies rather than the Swedish market despite the physical closeness.

But more than motives are needed for firms to internationalize. There are triggers, also called change agents, which finally trigger the firm's internationalization (Table 2) and there are internal triggers and external triggers (Hollensen 2011, 58). This is just Mr. Hollensen's way of dividing the triggers and is not absolute.

Table 2 Triggers of export initiation (Source: Hollensen 2011, 57-60)

Triggers of export initiation (Source: Hollensen 2011, 57-60)	
Internal triggers	External triggers
Perceptive management/personal networks	Market demand
Specific internal event	Network partners
Inward/outward internationalization	Competiting firms
	Outside experts

The first internal trigger is the perceptive management and personal networks which means that the management with international knowledge and right personal connections, gains early awareness of the opportunities in international markets (Hollensen 2011, 58). They will then trigger the internationalization process due to their fast reactions. Another major internal change agent is the specific internal event (Czinkota & Ronkainen 2007, 286). This international event might be for example building a factory in the country, or perhaps a change in management.

The first external trigger is the growth in the international markets (Hollensen 2011, 59). For example, when the China started to grow as a desirable market, many firms internationalized there straight away. Currently the desired market is the India and other developing countries. The firm's domestic distributors can also encourage the inter-

nationalization in order to increase their own sales (Czinkota & Ronkainen 2007, 286). The firm also might fear that they will lose their domestic distributors if they don't internationalize.

Many of the small firms make their decision to internationalize based on the collective experience of their stakeholders or the group of firms they belong to (Hollensen 2011, 59). The stakeholders might be organizations such as universities or government. One major external trigger is competing firms: many internationalize due to fear of the competing firm gaining competitive advantage in that particular market (Czinkota & Ronkainen 2007, 286; Hollensen, S. 2011, 60). It is truly important for the firm to keep being a step ahead of the competitors. The last external trigger is outside experts meaning that certain information from experts such as export agents, governments, and banks can cause the firm to internationalize (Hollensen 2011, 60).

2.1.2 Selecting the entry mode

Hollensen (2011, 320) describes entry mode as an institutional arrangement for the entry of a company's product or services into a new foreign market. Entry mode is thus the way the company actually enters the new foreign market in order to start operations there. There are three main types of entry modes: export, intermediate and hierarchical modes (Hollensen 2011, 320). These are three



Picture 1 Foreign Market Entry Strategies (Sources: Katsioloudes & Hadjidakis 2007, 283; Hollensen 2011, 317.)

different types of foreign market entry strategies and they give the firms different options (Picture 1). The entry modes can be classified using the degree of control they offer, the lowest degree of control being in export modes, the medium degree of control in intermediate modes, and the highest control degree in hierarchical modes (Kotabe & Helsen 2011, 297). It depends on the firm's strategy what degree of control they desire. In export modes, there is indirect and direct exporting as the figure one demonstrates. Export modes have the least amount of commitment, risk, control and profit potential for the firm. There is licensing, franchising, joint ventures and strategic alliances under intermediates modes. The last type is hierarchical modes that include direct investment, building subsidiaries and takeovers as in company acquisitions. The hierarchical modes offer the most profit potential and control, but they also have the highest risks factor and amount of resource commitments.

The choice of an entry mode is also influenced by different factors. There are internal factors, external factors, and the firm can also decide the entry mode using different perspectives such as transaction-cost economics (TCE), or resource-based view (RBV) (Hollensen 2011, 322; Kotabe & Helsen 2011, 294-298). Mainly the transaction-cost economics and resource-based views are tools for the bigger firms to use. The internal factors are company objectives, need for control, flexibility, internal resources, assets and capabilities, being risk-averse, and the product itself (Hollensen 2011, 323, Kotabe & Helsen 2011, 296-297).

Company objectives are a key influence in choosing the entry modes (Kotabe & Helsen 2011, 296-297). The company objectives usually change according to how big the company is. Also how risk-averse the company is influences the choosing of the entry mode; if they are risk-averse, they will prefer modes with low level of risk like export modes (Hollensen 2011, 326). A lot of the small SME's are more likely to choose modes with a low risk than LSE's. Also the type of product they sell can influence the choice.

Need for control is about what is the level of a control the company would prefer to have over their foreign operations and the degree of control correlates with the amount of resource commitment: the smaller the commitment, the lower control (Kotabe & Hel-

sen 2011, 297). This essentially means that the higher commitment you want the more capital and resources the firm should have. This can also limit the SME's from using the high control entry modes in the first place. This means that there is a conflict for firms between the level of commitment they are willing to make and level of control they desire in their foreign operations (Kotabe & Helsen 2011,, 297).

Internal resources, assets and capabilities also influence: the companies with tight resources or limited assets prefer modes with low level of commitment, and lacking international competence or capability might mean that the company loses opportunities. In order to fill this lack they might use strategic alliances, for example, in Asian countries. (Hollensen 2011, 323; Kotabe & Helsen 2011, 297.) Many firms use the strategic alliance as a way to gain important knowledge, but there is also dangers in these modes present due to the lack of control over the partner. But for example almost all airplanes are in strategic alliances.

Flexibility is about how much flexibility the firm wants to have in order to cope with changes, like new local competitors, that happen in the host country (Kotabe & Helsen 2011, 297). So it's hard to achieve both high flexibility and control. Flexibility in international marketing is the possible mean of a faster exit or fast changes in the product volumes.

There are also many external factors that can influence the choice of entry mode. The external factors are market size and growth, country risk, government regulations, cultural distance, competitive environment, and local infrastructure (Hollensen 2011, 324-325; Kotabe & Helsen 2011, 294-295).

Market size and growth is one key determinant of the firm's entry decision as usually larger target markets mean that the firms are usually more ready to commit resources (Kotabe & Helsen 2011, 294). This is understandable; bigger market size means a large potential while smaller markets might mean faster failure, and even if successful, might still have lower sales volume compared to the bigger markets.

Country risk is another major selection factor for firms as foreign market entry is riskier than operating in domestic markets (Hollensen 2011, 324). It is understandable as entering the new market means that there will be more factors to consider. Usually if there exists high risk, there are also possible high profits so firms might still internationalize.

Government regulations can affect greatly how the firm can enter the market as there exists direct and indirect trade barriers, like tariffs or quotas, on the imports (Hollensen 2011, 325). This is true in almost every single country with the exception being the EU, because there are practically no country borders in between countries in EU. Preferences for local suppliers encourage the firm to use intermediate modes, while in countries that have regulations with products and custom formalities, export modes are more preferred (Hollensen 2011, 325). The more developing countries might use more of the regulation that requires the firm to have a higher demand of product localization. Also some countries might have a high protectionism of their own firms which applies to the South Korea.

Cultural distance between the target country and the home country is also an important factor as the greater is the distance, the more the firms will prefer modes such as joint venture agreements or low-risk entry modes instead of hierarchical modes (Hollensen 2011,324). Some scholars however argue about the fact cultural distance truly having an impact (Kotabe & Helsen 2011, 295). But it is true that most firms will find it difficult to internationalize if the culture is too different as it demands more research and training.

Competitive environment in the local market is another driver for the firm (Kotabe & Helsen 2011, 295). If there is high intensity of competition the firms will tend to avoid internationalization, and if they internationalize, the company will prefer modes that involve low resource commitment (Hollensen 2011, 325). It's the same in home country; if there is high competition it means that there is higher barrier to the entry and the entry might be a failure due to the competitors being already strong.

Local infrastructure refers to a country's distribution system, transportation network, and communication system, and the poorer it is, the more hesitant the firms are to invest major resources (Kotabe & Helsen 2011, 295-296). This makes sense as the poor local infrastructure can affect the firm greatly; there might be a lack of educated workforce or a lack of suitable company partners or intermediaries. The markets can be classified into five different types of countries based on their market attractiveness as follows: *platform countries* like Singapore that can be used to gather intelligence and establish a network; *emerging countries* like Vietnam where it's important to build an initial presence; *growth countries* like China that push firms to build significant presence in order to get first mover advantages; the last category is the *maturing and established* countries like South Korea (Kotabe & Helsen 2011, 295-296). These all countries can be suitable for different types of firms and demand a different type of entry mode. In maturing and established countries, the firms tend to look for ways to further develop the market via strategic alliances, major investments, and acquisitions of competitors (Kotabe & Helsen 2011, 295-296). This is due to the competition being already high, and the market might also lack profit potential. Also if there are a small number of relevant intermediaries available, the market might be a subject to opportunistic behavior of the export intermediaries leading to the company preferring hierarchical modes (Hollensen 2011, 325). Using hierarchical modes, the firm gains more control and can reduce this behavior.

The transaction-cost economics (TCE) is a useful framework to use to resolve the entry mode selection, and this perspective looks at the given task as a "make-or-buy" decision which means that the firm either outsources that operation to third party agents or partners or they do it internally (Kotabe & Helsen 2011, 298). It is mainly a theoretical framework and might be harder to use for SME's. TCE argues that the choice of a desirable entry mode type from hierarchical to export modes depends on comparative transaction costs; what it means is that the firms tend to prefer outsourcing processes until reaching the point when the cost of outsourcing exceeds the costs of doing the operation internally (Kotabe & Helsen 2011, 298). This means that even if the firm might first enter the market using the export sales intermediate, they will prefer to build their own sales department when the cost of using the other firm is higher than the cost of building their own sales department.

Resource-based view (RBV) is based on the perspective that possessing the resources is not enough, but that the firm also needs to be organized in order to create competitive advantage of that resource, and according to RBV, entry mode should be considered in the context of overall strategic plan of the firm (Kotabe & Helsen 2011, 298). The resource-based view is useful as using it forces the firm to consider its resources and search what is the best and realize its sustainable advantages. The firms with inimitable comparative advantages prefer to expand with hierarchical entry modes in order to sustain that advantage and having a wholly owned subsidiary can also be used to capture and transfer knowledge in the firm (Kotabe & Helsen 2011, 298). If they enter using some other mode, there is possibility that the competitors find a way to learn how to imitate the advantage.

2.1.3 Export entry modes

The most common way of entering a foreign market is export modes where the firm's products are manufactured in the domestic or a third country market, and then transferred either directly or indirectly to the host market. The export modes include direct exporting, indirect exporting and cooperative export modes like export marketing groups. (Hollensen 2011, 335.) For some small and medium sized firms (SME's) this might be the only way of selling their goods outside home country's borders (Kotabe & Helsen 2011, 299). The reason for this is that usually SME's lack needed resources that other modes require. In exporting, a good partner is important so research needs to be done because the partner's mindset can indicate how much the product occupies the mind of this sales partner (Hollensen 2011, 335). This means how much effort and time the local company concentrates on marketing this particular product. The local company might market competitors' products instead.

In indirect exporting, the firm does not directly take care of their export activities in the target country, but instead uses a foreign company (Hollensen 2011, 335; Kotabe & Helsen 2011, 299). So they sell their product in the target market through an independent local firm. Indirect exporting is good if the firm has limited international aspirations or lacks resources (Hollensen 2011, 337). Many small firms prefer to use indirect exporting. In indirect exporting, the firm gets instant foreign market entry exper-

tise, and there is little risk involved for the manufacturer (Kotabe & Helsen 2011, 299). So this is a good way to test the market for the product. But in indirect exporting the manufacturer will establish little or no contact in the foreign market, gain limited information about the local markets, and might lack a way to identify potential partners for its products (Hollensen 2011, 337). Some companies are able to gain access to the export partners' information, but the firm gains no direct information. The firm has little control over marketing operations which means that the products may be sold through inappropriate channels, have poor promotion and services, and be priced wrongly (Hollensen 2011, 337). This is why the indirect exporting is usually not the way the firms, who have a strong desire for internationalization, will use.

In direct exporting, the firm sets up their own exporting department, and sells its products via a middleman in foreign country (Kotabe & Helsen 2011, 300). As according to the TCE, the firm will usually decide to do the operation internally when using the export agent is costlier. In direct export mode, the firm has more control which means that sales potential is greater and the company can build their own connections, but this approach demands more resources as the company now has to do the task that the indirect export sale agent would have done (Kotabe & Helsen 2011, 300).

In cooperative exporting, the company does collaborative agreements with other firms in export operations (Hollensen 2011, 335). This means that they do export activities together as it's more profitable for them than doing it individually. One of the most popular forms is a piggyback exporting, where the company uses the distribution network of another firm, for selling their goods in the foreign market (Kotabe & Helsen 2011, 300). This is similar to the indirect export modes as the rider also loses the marketing operations to the other firm.

As the export entry modes uses independent companies outside the firm, there exist some law complications and so the company should be aware that the termination laws differ between countries (Hollensen 2011, 348). For example China did not practically allow foreign firms to terminate their operations in China due to the protection of Chinese workers.

2.1.4 Intermediate entry modes

In intermediate entry modes, or contractual entry modes, the firm usually operates with another firm with whom their share ownerships and risks and the intermediate entry modes include licensing, franchising, contract manufacturing, joint ventures and strategic alliances (Hollensen 2011, 356). This means that the firm is also able to gain access to competitors' knowledge so many firms will use this mode if they lack some certain knowhow

In contract manufacturing, the manufacturing is outsourced and it enables the firm to have foreign production without having to build their own subsidiary (Hollensen 2011, 357). This means that the firm only outsources the manufacturing process. The firm also remains in control over other operations such as marketing mix and R&D which allows the firm flexibility in production flows and market exit (Hollensen 2011, 357-358.) The manufacturer might claim that they are producing as contracted, but are instead using child labor or using not permitted ingredients in the products, so it is important for firms to monitor the manufacturing process carefully.

In licensing, the firm, called the licensor, permits another firm, licensee, to use its intellectual property for agreed compensation in royalties (Czinkota & Ronkainen 2007, 291). Licensing is not resource demanding, allows the licensor a way to get past the import barriers or access to markets that are closed to imports, most of the other risks are on the licensee (Kotabe & Helsen 2011, 301.) So it's pretty low-risk entry mode for the licensor and thus appeals to many firms with low resources. But the profits can be low, the licensee might lack motivation or commitment, the licensor might not get paid, and they lose the control of the licensed product (Kotabe & Helsen 2011, 302). The licensor might also create its own competitor (Czinkota & Ronkainen 2007, 292). So there are many risks involved.

In franchising, the franchisor gives the franchisee right to use the franchisors trade names, trademarks, business models, and know-how in a given territory for a specific time period (Kotabe & Helsen 2011, 304). So they grant another business the right to do business in a specific way that they might have invented and many companies use franchising like Kotipizza and Subway. Franchisor gets a rapid entry and expansion in

the foreign market with a low risk and capital investment and a way to promote their company (Katsioloudes & Hadjidakis 2007, 250). They can also use the profits received from franchising to develop their local market. But the profits gained might be low, finding a suitable franchisee might be a problem, and the company loses control over their operations in the foreign country (Kotabe & Helsen 2011, 304). So this is a similar entry mode as the licensing.

In joint venture, the firm establishes a new entity in the host country with other partner(s) and the ownership, and the equity, is divided according to the contract made, and the major advantage is that it is less resource demanding than f.e licensing (Kotabe & Helsen 2011, 306). Many firms prefer this mode when they enter Asian countries. The firm also gets access to partner's skills and resources, but there might be problems with management, lack of control, lack of trust, and the fact that the partner might be a possible competitor in the future (Kotabe & Helsen 2011, 306). So it is a good way to enter the new market, but also has its risks.

Edwin Murray and John Mahon (1993) describe the strategic alliance as a coalition of organizations meant to achieve strategically significant, mutually beneficial goals (Kotabe & Helsen 2011, 315). Strategic alliances are very common between different airline companies. For example there is oneworld-alliance between eleven different airlines including Finnair and British Air (Oneworld 2012). Strategic alliances are made to pursue a common goal, and the logic behind strategic alliances relates to long-lasting alliance when as a firm you have to defend, to catch up, to remain, or to restructure (Katsioloudes & Hadjidakis 2007, 257). These kinds of alliances are not so common between businesses.

2.1.5 Hierarchical entry modes

In hierarchical modes, the firm completely owns and controls the foreign entry mode, but where the control lie changes between different types (Hollensen 2011, 386). Many firms, especially LSE's, prefer having a full ownership of their productions, but this mode is also the most recourse demanding.

The way to gain a subsidiary is through two routes: acquisitions or Greenfield operations, and in these the firm gains full control of operations, full profits, and sends a strong commitment signal to the local markets (Kotabe & Helsen 2011, 312). So the firm can be considered as more worthy investing in in due to its strong commitment. But in this mode the firm has full responsibility of all losses and setting wholly owned subsidiary is resource demanding (Kotabe & Helsen 2011, 312). So the firm must consider all costs carefully to see if it's worth to set up their own subsidiary. Acquisition is where the firm buys an existing firm in the target market so it gains access to rapid entry, existing distribution channel and customer base, and perhaps access to other company's brand name or reputation (Hollensen 2011, 394). For example Tesco acquired Homever, a local Korean firm, and this is reason why they had a successful entry to the Korean market (The Telegraph 2008).

But in acquisition uniting the different management styles and corporate cultures together might be hard (Hollensen 2011, 394). Lack of successful uniting can be a reason why the firm fails. A Greenfield operation means that the firm established new operations in the foreign country, and this is usually done if there are no potential firms to buy (Hollensen 2011, 394). Many firms prefer this over acquisition. There is also foreign direct investment where the firm invests money to foreign firm (Czinkota & Ronkainen 2007, 294.) So in this mode the company invests resources and gains some control over the foreign firm. Many of the governments also give incentives in order to increase the foreign direct investment in their country (Czinkota & Ronkainen 2007, 293).

2.2 Introduction to South Korean Market

The official name of South Korea is the Republic of Korea (in hangul *대한민국*, *Daehanminguk*), the state is a democratic state, the currency is South Korean won marked as ₩ or KRW, the official language is Korean, and they use a separate writing system called hangul (Finpro 2012). The fact that there is a complete different writing system makes learning the language harder. The area is 99,720 km², and the population is 48,8 million (Finpro 2012). This means that the population is far larger than Finland's while the country size is a lot smaller. The capital is Seoul with population of over 10,5 million (Official Seoul City Tourism 2012). This is why many of the busi-

nesses are concentrated around Seoul area, but this leads to Seoul area being really expensive. The neighboring states are China, Japan, and North Korea, and the most important export countries are China, USA, Japan, and Hongkong while the most important import countries are Japan, China, USA, and Saudi-Arabia (Finpro 2012). This means that if the firm gains access to the Korean market, they might also be able sell in the other countries easier. The level of corruption is considered to be low as according to the Transparency's international comparison, South Korea is ranked as 43rd among 183 countries (Finpro 2012). This means that there is a minimal country risk in South Korea. According to World Economic Forum's Global Competitiveness Index 2011-12, South Korea is ranked as 24th out of 142 countries (Finpro 2012). This means that the competitiveness level of South Korea is high which makes the entry harder.

The South Korea is part of the Korea peninsula, which it shares with North-Korea, People's Republic of Korea (Picture 2). The area was one united Korea until it was divided by Soviet and American zones in the Second World War and this lead to emergency of two separate sates in 1948 (Hoare 2010, 23-25). So this country was divided and Soviet Union and China occupied the other while America occupied the other part. North Korea in June 1950 attacked South Korea leading to a Korean war and the armistice, which is still in place, was agreed to in July 1953 (Hoare 2010, 23-25). So essentially, these two countries are still in war, which is a risk in itself.



Picture 2. The Map of Korea. Source: Official Korea Tourism Organization 2011.

After the war both Koreans started to recover, but it took time due to devastation that took place during the war in both states, and North Korea suffered more in a way as their economies were totally destroyed (Hoare 2010, 27-28). So both countries suffered greatly in the war. The North Korea became an authoritarian dictatorship while South Korea became democracy nation (Hoare 2010, 10-11). This led to the country it is today. When the Soviet Union collapsed, North Korea lost their major aid giver in 199 and was also then struck by natural from 1995 until 1998 (Hoare 2010, 29, 31-32.) This means that though the North Korea was first faster in its recovery, it failed to maintain that lead.

For South Korea the recovery was harder as the first president, Syngman Rhee, who was content to rely on international handouts, was ousted by student uprising in 1960 which led to military seizing power in 1961. The military leader changed South Korea from a primarily agricultural culture to industrialized one, and this created a surge in development of the economy (Hoare 2010, 32-34.) So the development was slower for South Korea, but in the end, went better. After recovering from the Asian economic crisis, South Korea became one of the leading states in economic power of the world and high-tech consumer goods producers (Hoare 2010, 34).

According to Kotabe and Helsen (2011, 295), the markets can be classified into five different types of countries based on their market attractiveness and they classified the current South Korean market as a maturing and established. South Korea also entered a free trade agreement (FTA) with EU on July 2011, and this agreement eliminate duties on nearly all trade in goods and address non-tariff barriers to trade (European Commission 2012). There is also a strict labor law in South Korea that should be noted and researched carefully.

2.2.1 Important cultural aspects of South Korea

This part will briefly look through some important aspects of South Korean's mental life. Values and taboos are discussed as well as the attitudes towards North Koreans and foreigners. There are many values and taboos in South Korea, and the first paragraphs will discuss the values and the last two will concentrate on taboos.

The Korea was described as “the eastern country of courteous people” by Chinese a long time ago (Hoare 2010, 36). The Korean culture is more courteous than the western one. But important aspect is that a person has not been introduced to them, they do not feel obligated to treat them friendly or courteously (Hoare 2010, 37). This is similar to how Finnish people treat strangers so it is easier for Finnish people to adopt. Also group identity, the sense of belonging and being “one of us”, is truly important for South Koreans and they will tend to try to create links, things like sharing a common city, common friends and so on, when they meet the first time (Hoare 2010, 38). It is thus important to establish links as they will be an important aspect in building a relationship. It can be harder for a foreigner as there are no family ties or shared home cities, but the ties can be found in for example shared hobbies or universities. The Koreans also can use a word “us” instead of “me”, even referring to their wife as “our wife” instead of “my wife” (Hoare 2010, 38). It is also common to hear someone referred as the children’s mother instead of a wife even by the husband. A foreigner can also be asked personal questions like age, marital status, education, and religion as the Koreans will try to place you in their hierarchy (Hoare 2010, 38). Many old traditions are still important, but western cultures have affected South Korea. For example seeing the traditional dress Hanbok being worn outside special festivals, is becoming rare as Koreans (Hoare 2010, 40). Just couple of years ago there were no H&M in South Korea, but now in year 2012, there were three in near central area. So it is common now to find popular foreign brands in South Korea.

One of the most important values in Korea is age, so if a person is older than you, you are expected to show them respect (Hoare 2010, 41). This applies to school friends or colleagues in work. The colleague might even abandon a younger colleague in mid conversation to talk with an older colleague (Hoare 2010, 41). In the family, the children are taught to respect the opinion of parents and grandparents. Even in public, older persons might approach a younger person to tell them something, or lecture them, and they are supposed to listen and acknowledge their opinion. There are many different ways to show respect; to not sit before an elder person has sat down, to offer elders your seat in a subway, or to not argue with them (Hoare 2010, 42). But in business life the rank outlives the age, so it’s important to know persons status in the firm.

Another important aspect is the attitudes towards females. Traditionally women were taught not to be independent, but be obedient to her parents, husband and son, but this is now changing as women are becoming more independent. But the idea of a male superiority and female submission is still visible, and the women are treated with less respect in public than males. (Hoare 2010, 37.) So the female person visiting South Korea should be aware that she might be treated differently than in her home country.

As in all countries, there are also taboos in South Korea. The South Koreans also try to not lose the face as in Japanese culture. This means losing your respect in the eyes of others by doing something that is considered improper like losing your temper or someone criticizing you in the presence of others. So do not push your opinions on Koreans or continue discussing a subject that they are diffident about, and do not lose your temper (Hoare 2010, 66). This is important as losing your temper makes Koreans hesitant about negotiating further with you.

There are other minor taboos that would be a good idea to recognize. One should never use the left hand to offer an object to someone as this is seen as offensive and thus its best to use both hands (Hoare 2010, 65). This should be applied to even handing over a document to your business partner. The number four (sa in Korean) has the same pronunciation as the word for death and is thus avoided, and some buildings do not have a fourth floor or the letter F replaces the number (Hoare 2010, 65). This means that when building an office or a factory, the number four should be avoided and replaced. Giving and receiving gifts is normal, but you should pay attention to packing as the gifts should always be wrapped and the color gold is the best color for wrapping (Hoare 2010, 66). It is also common courtesy to not open the present when the giver is still there, but to open when not in their presence.

There is the Demilitarized Zone between South Korea and North Korea where countries have large military presence (Hoare 2010, 35). The South Korea remains as an important aid giver to North Korea even though the North Korea still tries to intimidate the South Korea. There has been number of incidents in recent years that have made the relationship more suspicious. South Korea was attacked by North Korea in the year 2010 and many feared that this might incinerate a bigger war (Reuters 2010).

North Koreans recent nuclear program clearly brings more tension to the relationship. The North Korea also regularly threatens to attack the South Korea; for example in April 2012 they threatened to turn the provocation bases to ashes and attack the previous president of South Korea, and then in October 2012 to attack the South Korean border due to plans by anti-North Korea activists to launch propaganda leaflets to North Korea (The New York Time 2012; Fox News 2012). But the Koreans also tend to think South Korea and North Korea as one Korea, not two separate countries.

Most Koreans are extremely polite towards foreigners; will try to be helpful and make the foreigner feel at ease (Hoare 2010, 44-45). However, in reality many people might shy away from you when you ask for help as they are so terrified of speaking in English. Also there is now growing number of people against foreigners, and one major television channel even broadcasted one anti-foreigner television show in spring 2012. This is mostly lead by past experiences; South Koreans can be more suspicious of Japan and distrust Chinese people, but they are also suspicious of westerners, especially Americans (Hoare, J. 2010, 45-47).

Also almost all white foreigners are considered to be Americans at first, especially if they speak English well. There is an undercurrent resentment against the United States of America as their presence is well marked in South Korea; they have a military bases, and there has been a number of incidents that have involved American troops (Hoare 2010, 47-48). Many bars and pubs might even have signs outside that forbid American troops from entering due to various incidents involving drunken Americans. Also there is one district, Itaewon, which is mainly populated by foreigners and is more crime ridden than other parts of Seoul. But physical hate crimes against foreigners are rare in South Korea even though the foreigner might attract stares and get some comments.

2.2.2 Business culture in South Korea

The first generation of Korean's business leaders, industrial conglomerates, are called the Chaebols (Hoare 2010, 132). So most large chaebol owned firms are family affairs, with the founder's family exerting a great deal of direct executive authority (Finpro 2012). The biggest companies are also owned by these Chaebol's. There is tough com-

petition between companies which accelerated the product innovation cycle and product selection available for customers (Lee 2007, 272-273).

So it can be difficult to negotiate with these companies, or to buy these companies, as in addition to the executive board, the firm will also have to follow the orders from the Chaebols. The government has also been highly influential in helping the SME's grow and, for example, the economic boom 1986 to 1988 was caused when the South Korean companies implemented an export-orientated strategy under the government's protection (Lee 2007, 272-273). This means that the government has lot of influence in South-Korea, and it's important to have good connections with government officials. The government can also be very helpful for the firm desiring to enter the South Korea.

Traditionally South Korean businesses have high degree in both centralization and vertical hierarchy, and high-ranking officials have more power than subordinates (Finpro 2012). The decision making system varies strongly from the Finnish type which can cause some problems in the business culture. Due to this system and strong hierarchy in the culture, many Koreans are not familiar with independent decision making. South Korean corporates also usually have high hierarchy and, for example, titles with the family name are usual way of addressing people in business settings (Finpro 2012). This is also different from Finland where the titles are not usually used at all.

The working hours are different from Finland. The government mandated 40-hour, 5-day working week in 2004, but even then in 2010, South Koreans worked an average of 42 hours per week. The amount of annual holidays is officially 30 days, with 15 national leave days and 15 paid holiday days, but often workers have only 5 to 10 paid leaves per year and they also work during national holidays. (Finpro 2012.) This can be something that is hard for a Finnish expatriate to get accustomed to. Also many Koreans can work in until late in the evening and this can make it easier to communicate with Finnish headquarters. The time difference between Finland and Korea is six hours during summer time and, during winter time, its seven hours.

Conducting business meetings in South Korea is similar to Finnish meetings. It's important to arrive in time as it's a sign of respect and briefing partners through marketing materials both in Korean and English is important, but they also prefer starting the business meeting with personal conversations and exchanging business cards is vital (Finpro 2012). Conversations before business negotiations for Koreans do not mean having a small talk but actually getting to know the partner. Degree of trusts between business partners is important for South Koreans and they prefer having frequent contact with the same business partner (Finpro 2012). This means keeping in contact with the partner more than in Finland. It's also important to have written contracts which are as detailed as possible as South Koreans believe that contracts are flexible and rules are altered according to the situation (Finpro 2012). This is different as in Finland the contracts do not need to be detailed.

According to Sung-In Shin (2011) there is couple of important aspects one should take into consideration when entering a Korean market: leverage local experts in areas such as legal, accounting, public relations, and advertising, keep constant communication with the markets, and do extensive business analysis of South Korea. Others agree with this notion too. One of the most important success factors is that managers are aware of South Korean cultural value system, know the decision-making process, and understand that supplier-company relations are underpinned by trust based relationships (Lee 2007, 272). This means maintaining good relationship and having a stable network is important for the firm's success.

One truly important aspect of South Korea is losing the respect in the eyes of others as explained in the chapter of values and taboos in South Korea. This "losing face" also applies to business culture. Try to avoid being negative or losing your temper, and being dismissive of others opinions, and also try to avoid business partners unsuitable gifts (Hoare 2010, 135-136). Currently still more males occupy senior positions in business or industry in South Korea (Hoare 2010, 134). This can also be a very good opportunity for foreign firm as many women are highly educated and willing to prove themselves. Thus it can be a good decision to hire women instead on males.

2.2.3 The strengths and weakness of South Korean market

There are a lot of strengths in South Korean market. One is the fact that country has been reshaping its economy in order to neutralize itself from the weak global financial conditions (Finpro 2012). This is especially good for firms as it provides them with a more stable economy, and lessens the risks caused by instable world economic conditions. For an international firm, it's important that the country is part of the important global trade organizations. South Korea is a member of the United Nations, WTO, OECD, G-20, a founding member of APEC and the East Asia Summit, and now has several a Free Trade Agreements with EU and USA, and also several other FTA's (Finpro 2012). The fact that they have a FTA with EU means it is easier for Finnish firms to export and enter the market.

The primary contributor in South Korea's economy is service industry, and in 2010, it accounted for 58,2 % of country's gross domestic product, industrial for 39,4%,and agricultural for 2,6% (Finpro 2012). In Finland, the service sector accounted for 69,0% in 2010, industrial for 28,2 %, and agricultural for 2,9% (Tilastokeskus 2012). The market is thus really similar in South Korea and Finland. One boost to the South Koreans economy are the new policies, for example, in tax exemption, and financial incentives for both domestic and foreign business in service industries (Finpro 2012). This creates opportunities for Finnish firms.

There is also the fact that South Korea is the world's 5th largest nuclear power producer and desires to become major nuclear energy exporter (Finpro 2012). This could boost the country's economy as there is the fear of oil disappearing, and the need for nuclear energy increasing. However, there is the fact that in current market, the nuclear economy is considered to be more hazardous due to nuclear power plant accidents. Also green energy sources are more in high demand. But South Korea is also strong player in areas such as electronics, automobiles, machinery, steel, petrochemicals, and construction (Finpro 2012). Many people are familiar with South Korean brands such as Logitech (LG), Samsung, Hyundai, and so on. Most of the well-known Korean companies are technical goods companies.

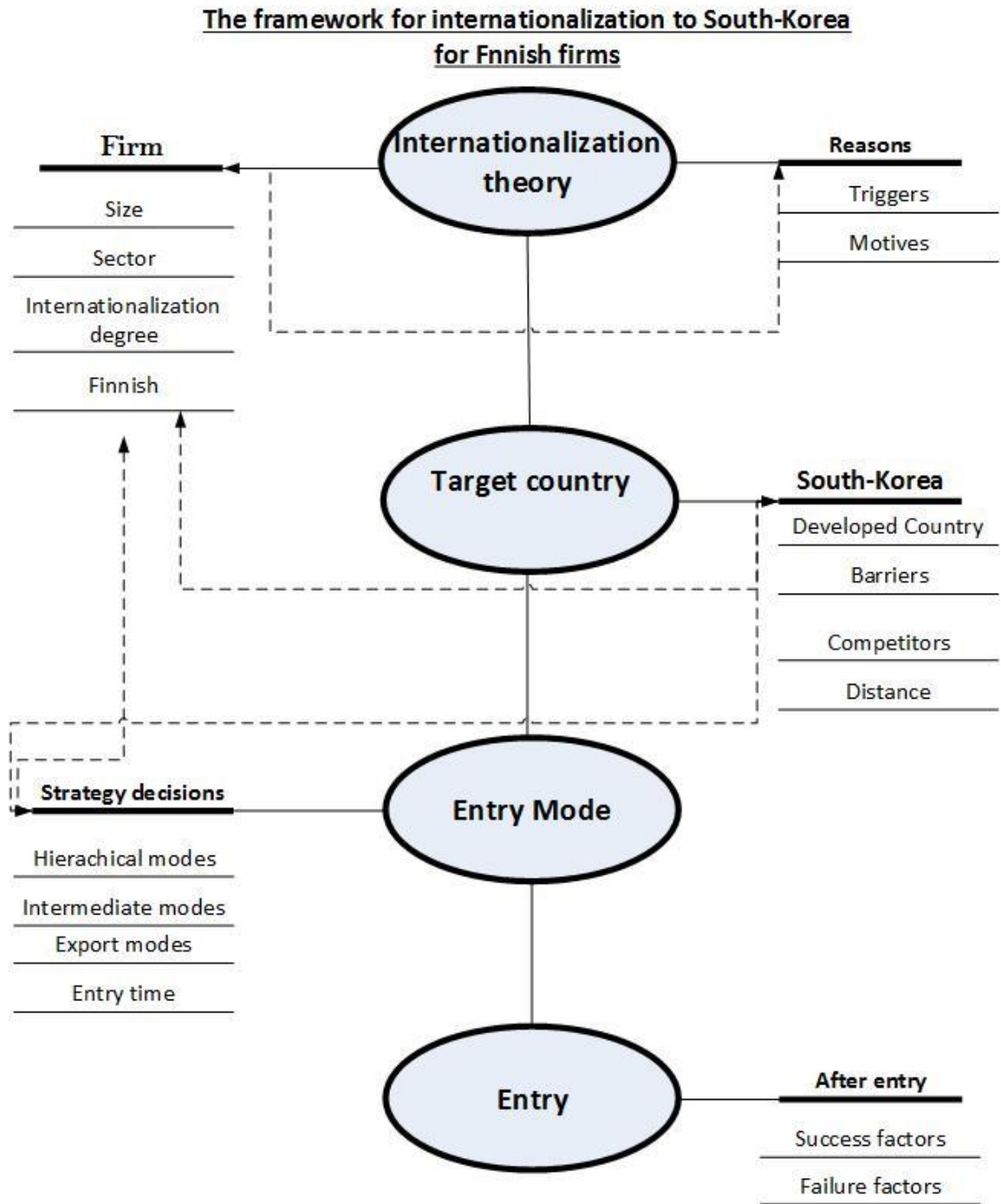
There are also weaknesses. One of the weaknesses is that the South Korean Government, especially the president, has a lot of power and the government programs shape the future of the country (Finpro 2012). So the firm should carefully follow the government's decisions in order to anticipate changes in competitors' strategies. Also, especially for Finnish companies, there are the difficulties coming from a different culture that most Finnish companies are not used to. The fact that most Koreans cannot speak English well complicates the entering that country for foreign firms. The population is also a rapidly aging with estimation that over 20% of the population would be 65 years of older by 2030 (Finpro 2012). This can make finding a suitable workforce difficult. And workforce is more and more unsatisfied, so strikes are common and they can often halt productions for weeks (Finpro 2012).

There is high inflation in South Korea, 5,3% in August 2011, and this increased pressure on the country's central bank to raise interest rates (Finpro 2012). So there is possibility that the country will raise taxes more and this will affect firms. North Korea's belligerence in times of military crises decreases South Korea's credit rating in stock market continuously (Finpro 2012). The South Korea is in continues stage of war with North which will cause many foreign firms to hesitate entering the market. South Korea also relies mostly on imported fossil fuels, and South Korea is the world's second largest importer of liquefied natural gas (Finpro 2012). This means that the increasing prices on imported fossil fuels will affect the economy greatly. Many houses are even now heated primary with gas which is something that a foreign firm should consider if they decide to establish their own subsidiary in South Korea. They should be aware that the expenses from heating the building can be more expensive than in Finland as the low temperature in South Korea in winter is similar to Finland.

Also it can be truly hard to find needed information from South Korea. Many documents are not available in English and, even if they are, the websites can be inaccessible at times. The official English websites for ministries have not been updated recently and are not in working order. Thus it is important to have a person who is able to speak Korea. It might be good idea to hire a firm to handle all legal issues in Korea for the foreign firm.

2.3 The framework

According to my research it seems that there are some important aspects that will influence what is the best entry choice for a firm (Picture 3).



Picture 3 The framework for the thesis about how Finnish firms internationalize to South Korean market.

The main theory is the internationalization process. This theory will provide basis on how, why and when the firms will internationalize. This theory is closely linked to the firm as the firm's internal factors will determinate how they will proceed with internationalization. The important internal factors are following; firm size, internationalization degree, business sector, and the fact that these firms are from Finland.

One of the main points in this thesis' framework is that the target country of firms' international entry is South Korea. South Koreans internal factors such as consumer culture, laws and taxes, labor force, competitors, and trade barriers will have an effect on what is the most suitable entry mode to the firm.

This links to next part in the framework: the firms' actual entry mode. The entry mode can be divided into three different modes; export modes, hierarchical modes, and intermediate modes. Once again the firms' internal factors will affect the entry mode, and there are also many important factors in South Korean market in regards of choosing the entry mode. The first one is the fact that South Korean market is a maturing and established which suggests that firms tend to enter the market via strategic alliances, major investments or acquisitions. The local competition is also usually fierce in these markets, and this is true in South Korea as the chaebols have established tough competition between companies.

The last part in my framework is the success or failure factors of the entry mode. There can be many reasons why the initial entry to the market has failed such as low profits in the market or failing to localize the products. In South Korean market, this can be a truly important success factor as products that are preferred by Finnish consumers are quite different from what Koreans prefer. Thus the products, and the marketing styles, all need to be carefully researched and then localized to suit the target country.

3. Empirical research

The research method was qualitative as my study is an interview study with carefully selected individuals. The data was gathered mainly through face-to-face interviews.

3.1 Data research method

As mentioned, the data research method was qualitative method as the information in this thesis could not be obtained well with quantitative methods due small market group and the research problem. The qualitative research is suitable when you are researching people's opinions, practices or history (Silverman & Marvasti 2008, 9). The qualitative researchers also conduct studies of their subjects in the subjects' natural settings trying to understand or interpret phenomena in terms of the meanings they gather from people (Denzin & Lincoln 2011, 3). The research problem in this thesis was best solved with face-to-face interviews rather than closed questionnaires as this subject has not been researched much before and I was gathering exploratory data. The aim of this research was to obtain what the business managers and business owners believe and practice, and then to connect that with the theory.

Thus the interviews were done as open ended questions, as those are used if the sample size is very small, so the exploratory studies don't need to be as structured as confirmatory studies (Silverman & Marvasti 2008, 144). Of course as in qualitative methods, the sample size is usually smaller and more concentrated of people's opinions thus the result is harder to apply to a big audience. The meaning of this study was not to provide general guidelines, but to do a study about how the Finnish have entered the Korean market and try to find similarities.

3.2 Data collection

First I contacted interview candidates with email (Appendix 1) and then mainly interviewed them face-to-face. Two people answered the interview questions by email and I interviewed one person was using Skype. I conducted these interviews in South Korea during May 2013 to August 2013. Mainly managers or owners of Finnish based firms were interviewed as they are the target group.

There were five different firms I interviewed for this. These firms were chosen based on the fact that they were all established in Finland. They were also different size, from different business sectors, and different ages. I selected them this way in order to gain different perspectives.

Table 3 General information about the interviewees

Information	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5
Summary of the interview	Appendix 4	Appendix 5	Appendix 6	Appendix 7	Appendix 8
Level of Expertise	Managing Director	Sales Director	Director	Anonymous	Site Manager
Nationality	Finnish	Korean	Korean	Finnish	Finnish
Business type	B2B manufacturer	B2B manufacturer	B2B	Anonymous	Manufacturer
Business Industry	Electronic Components and covers	Pulp and paper	Engineering and machinery	Anonymous	Valve technology
Location	South Korea	South Korea	South Korea	South Korea	South Korea
Length of the interview	70 minutes	40 minutes	--	30 minutes	--
Interview method	Face to face interview	Face to face interview	Email interview	Phone call interview	Email interview
Disturbance	No	No	No	Yes	No
Audio recorded	Yes	Yes	No	Yes	No
Written notes	Yes	Yes	No	Yes	No
Language used in the interview	Finnish	English	English	English	English

There are 28 questions that I asked from all interviewees. First ten questions were about the firms' basic background information, and the following 18 are concentrated on the internationalization process to South Korea (Appendix 2). The questions were all in English, and I asked all interviewees to answer in English, but one person answered in Finnish. I translated this interview to English (Appendix 4).

I recorded all of the interviews and I wrote notes during the interview in case the recording quality was lacking. All interviewees were notified of interview being recorded and agreed to it. This research was about the content and thus in the transcripts, I included only the summaries of the interviews. I analyzed the results were using normal means of analyzing the qualitative research. This means that first the result were themed according to the topics in question sheet: basic information about the firm and

the internationalization to South Korea. After this, the main ideas inside the answers were noted and categorized into smaller categories according to the questions. Then the answers were compared with other similar answers, and then compared to the theory. I mainly shortened the answers so that only the main idea behind each answer remained in the analysis part. I did not use any numerical analysis as there was not enough targets interviewed for it to be logical.

3.3 Summary of the main findings

The answers received in the interviews were similar to expectations. The summary was processed by areas as divided in the question papers; main information about the firms, and then their internationalization process to South Korea.

3.3.1 Main information about the firms

This chapter discusses what types of firms have entered the South Korean market. There were a lot of similarities with all interviewed firms even though their business sectors and industries were mainly different.

Table 4 The main facts about the interviewed firms.

The main facts about the interviewed firms.						
The firm	Business Sector in Korea	Business Industry in Korea	Main products	Size of the firm	Degree of Internationalization	Degree of Control
Firm 1	Sales, Manufacturer	Electronic components and covers	1. Electric components 2. Electro-technic covers	Finland: SME Korea: SME	High	Yes
Firm 2	Sales	Paper and pulp	1. Paper 2. Pulp 3. Timber	Finland: LSE Korea: SME	High	Medium
Firm 3	Sales Manufacturer	Engineering and machinery	1. Pulp, paper and power machinery	Finland: LSE Korea: SME	High	Yes
Firm 4	Sales	Anonymous	Anonymous	Anonymous	High	Anonymous
Firm 5	Sales Manufacturer	Valve manufacturing	1. Control valves	Finland: LSE Korea: SME	High	Yes

The five firms interviewed have all different industries (Table 4). However all firms also operate in sales, and most of them are also manufacturers. In some case, like in the case of Firm 2, the Korean subsidiary only does sales while the company has manufacturing operations in a different country (Appendix 5). The main products are also not similar, but that is to be expected due to the limited demand for Finnish firms in the South Korean market. The size of the firm in Finland is also always bigger than the Korean subsidiary. The South Korean subsidiary is usually pretty small, consisting of about 5 to a little over 50 workers. But what is shared with all the companies is high degree of internationalization in the firm. Almost all firms operate in over 20 countries outside Finland, most in over 30 countries. The companies' revenues also mainly come from outside of Finland. Most of the firms also place an importance of keeping a high degree of control over their international operations. This means that they mostly prefer to internationalize using hierarchical modes such as establishing subsidiary.

These findings show that the interviewed companies are big companies with high international degree and with desire for control over their own operations. This will slightly affect the following answers about the internationalization process as all these factors will affect the entry process of the firm. The shared similarity also shows that mostly big Finnish firms internationalize to South Korea and this might be due to the limited demand available, and the physical and physiological distance between South Korea and Finland. The smaller firms might also lack in the capital needed to internationalize. Also the industries that the firms are from, tell about the Finnish industry, which has mainly concentrated in manufacturing and around paper industry. All of the internationalized firms are older Finnish firms.

3.3.2 The internationalization process to South Korea

The most important part of this empirical research was to receive information about companies' internationalization process. First I will start with analyzing the motives mentioned in the interviews.

Table 5 Internationalization motives mentioned in the interviews

Mentions of internationalization motives in the interviews (Source of the motives: Hollensen 2011, 50-55)			
Proactive Motives	Men- tioned/N	Reactive motives	Men- tioned/N
Profits	5	Competitive pressures	2
Managerial urge	2	Domestic market; small and satu- rated	
Unique Product/ Technology com- petence		Overproduction/Excess capacity	
Foreign market opportunities	5	Unsolicited foreign offers	1
Economies of scale		Extend sales of seasonal products	
Learning curve		Promoxity to international cus- tomers	2
Tax benefits		Psychological distance	
<i>N: Number of mentions</i>			

There was couple of motives that were mentioned, or implied, in all interviews, and all firms had proactive motives, and about half of them had reactive motives (Table 5). They all mentioned profits and the foreign market potential as proactive motives. These two are the most basic motives for internationalization, and everyone mentioned in the interviews that there should be a real demand for the company's products in the intended market. There were also cases of gaining first mover advantage if entering the South Korea. Managerial urge was also mentioned as a motive. In one case, the managerial urge came from one internationalized manager who was in charge of the firm during that period, and in one case the company wanted to sell products in the Asia. From the reactive motives, the competitive pressure was mentioned. In these cases, there was the need to internationalize before the competitor gains a first mover advantage, or in order to equalize the advantage that the competitor had gained by operating in South Korea first. Also the motive of being closer to the international customers was also mentioned twice. One firm had also received foreign offers. Most of the firms had also been already selling products in the South Korea before entering the market.

The triggers are also an important point in the internationalization process of the firms. The table 6 shows what triggers have been mentioned in the interviews and as you can see, most of the triggers have been mentioned in the interviews.

Table 6 Mentions of the triggers of export initiation in the interviews

Mentions of the triggers of export initiation in the interviews (Source: Hollensen 2011, 57-60)			
Internal triggers	Mentioned/N	External triggers	Mentioned/N
Perceptive management/ personal networks	1	Market demand	2
Specific internal event	2	Network partners	
Inward/outward internationalization	4	Competiting firms	2
		Outside experts	
<i>N: Number of mentions</i>			

Almost all mentioned the inward/outward internationalization. Almost all have been selling products by using a sales agent in South Korea before deciding to enter the South Korean market completely. Also specific internal events had been mentioned such as the South Korean market opening for foreigners or solving an internal problem that had been preventing the entry (Appendix 4, Appendix 7). Also market demand had been mentioned, and the fear of competitor firms gaining first mover advantage by internationalization first. All of the internal triggers had been mentioned in interviews, while some triggers in the external triggers have not been mentioned.

The main question of course was the entry mode they used. With this question, there was some confusion so the answers might not be actually true. All the firms have entered using the hierarchical mode of having their own subsidiary (Table 7).

Table 7 The entry decisions of the firm based on the interviews.

The entry decisions of the firm based on the interviews							
	During the entry				Before the entry		
The firm	Hierarchical entry mode	Intermediate entry modes	Export entry modes	Time of entry	Used sales agent	The research done	Research data type
Firm 1	Own subsidiary			1995	No	Extensive research	Primary data Secondary data
Firm 2	Own subsidiary			2002	Yes	Extensive research	Primary data Secondary data
Firm 3	Own subsidiary			1995	Yes	Extensive research	Primary data Secondary data

Firm 4	Own subsidiary			2008	Yes	Extensive research	Primary data Secondary data
Firm 5	Own subsidiary			2000	No	Extensive research	Primary data

But as seen in the table, some of them have used the sales agent in South Korea before entering it. This means that they might have used export modes in reality first, before they decided to establish their own subsidiary as the cost of using the sales agent became higher than the cons of building their own subsidiary. So they all might have internationalized using the step-by-step internationalization that most SME's use. As seen in the table, two firms did not use a sales agent in South Korea before entering. What is important is that all the firms have done extensive research which was often this research was conducted during a period of years, and they all consider research to be truly important. Most have done primary research by actually having their own worker researching in the South Korea. They have also used secondary data. Most have used the data that the sales agent had as a guide line or they have networked with different experts in South Korea. As seen in the table 6, none of them had the internationalization triggered by an outside expert. This might be due to the firms' high degree of internationalization and the size.

One main idea of this research was also to try to find some peculiarities or difficulties in the South Korea market (Table 8). Many of the interviewees mentioned same things.

Table 8 The peculiarities of South Korean market as mentioned in the interviews

The peculiarities of South Korean market as mentioned in the interviews				
Main difficulties in entering the market	Peculiarities in the market	Difficulties with local government	Difficulties experienced hiring local workforce	Reason for preferring to use local workforce
- Human resource issues	- Firms not having long time planning	- Laws about owning properties	- English language requirements	- Expatriates too costly
- Strong competitors	- Customer-focused	- The labor laws	- Lack of special knowhow	- The knowhow
- Cultural and lingual barrier	- Strong protectionism of Korean firms	- Visa	- The reputation of firms being important	- Language skills
- Geographical location	- lack of individual decision making skills and leadership dependency	- VIP service received	- Difficulties finding workforce	- Cultural knowledge
- Lack of management	- The importance of relationship		- Importance of location	- Easier human resource man-

knowhow	network			agement
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Most of them mentioned the difficulties of finding correct workforce with the ability to speak English. Most of them also mentioned that South Korean workers are skilled, but that finding specific skills can be hard. Also the requirement of English skills makes it harder as most of Koreans lack fluent English skills. Also there is the cultural and lingual barrier between South Korean and Finland due to the culture, both in business and leisure, being so different. Also finding suitable geographical location was mentioned as being sometimes difficult due to lack of available factory buildings and the high cost. The lack of management knowhow has also hindered the internationalization process. Strong competitors were also mentioned as the problem which is because of South Korea being very nationalistic; the customers tend to prefer the South Korean products. There is also the protectionism of South Korean firms. So entering the South Korean market can be really hard as also winning over the customers can take time due to competitors being primary preferred.

One of the peculiarities (table 8) in South Korean market is the strong protectionism and the nationalism in the country. It is similar to Finland, but stronger. South Korea was also mentioned as being customer focused with customers demanding, for example, the products to be customized for them, the products to be delivered fast, and that the relationship between the firm and the customers being good. Also as mentioned before, the Korean workers might have problems with individual decision making skills and being more leadership dependent than Finnish workers. Due to relationships being regarded as important, networking is needed. As mentioned by one interviewee, the Koreans don't regard rules as rules, but will change what has been agreed based on the situation. South Korea is more flexible in this matter than Finland. So making contracts might prove to be hard.

There have also been some problems with the local government, but mostly the firms have received VIP treatment. Problems have been mainly with the laws about owning properties, the strict labor laws, and acquiring correct visa's for the expatriates. Most of the firms prefer to use local workforce due to expatriates being too costly to use and train due to their lack of cultural and lingual skills. As the table 8 shows, there have been problems with hiring the local workforce too. Most of the interviewed mentioned that the lack of English language skills being a problem. Also most of the Korean

workers are good workers, but in a standardized way and that finding special knowhow is hard. Also the reputation of the firm is important for Koreans so they tend to prefer well-known Korean firms, such as Samsung or LG, so the most talented workforce will choose them to work for. Also the location is important to Koreans. Some of the Finnish firms were located outside the Seoul so they had experienced problems with people being reluctant to work outside Seoul.

All the interviewees were also asked to give reasons why they think they were successful in their venture to the South Korea, and also provide some suggestions for the Finnish firms wishing to enter the South Korea market. This table shows the summary of those suggestions (table 9). As you can see, most of the suggestions are something usual for firms entering any other country.

Table 9 Success and failure factors in entering the South Korean market

Success and failure factors in entering the South Korean market			
Success factors	What to improve	Possible failure factors	Recommendations for other Finnish firms
<ul style="list-style-type: none"> - The right demand for products - Extensive research - International mindset - Company knowhow - Good training - Wide sales network - Customer orientated mindset - Market awareness - Quality products and services - The balance of mixing company's way of operating and local practices - Forward approach in communications - Clear plan and strategy 	<ul style="list-style-type: none"> - Investment earlier into the products sold in Korea - Hired own people earlier - Social media activities started earlier - Started the process earlier 	<ul style="list-style-type: none"> - Lack of demand - Lack of research - Lack of knowhow about Korea - Doesn't care about the customers - Found to be anyhow outsider or arrogant for the local practices - Not listening to the market - Limited demand for Finnish products 	<ul style="list-style-type: none"> - Research about Korea, culture, customs - Have actual demand - Choose the correct entry mode - Network between different business professionals from different businesses in order learn about the market from different aspects - Find the right people if you wish to enter via joint venture - Test the market with agents in order to analyze customer needs and competition - Enter with service business

Having a good strategy, clear planning, the right demand for the products, international mindset and customer orientated approach, and conducting a research were what was mostly recommended. Also then the failure factors were the opposites of the success factors such as lack of demand, lack of research, not listening to the market and the fact that the Finnish industry scale in South Korea is limited. Then the fact that as

networks are important in Korea being found as an outsider is a failure factor. Then what the interviewees recommended for future firms planning to enter the Korean market was interesting. Once again they recommended doing a research due to South Korean culture and Finnish culture being different in many aspects. Many of them also told that they had entered with agents at first so it seems that it's a good way to test the market at first. One should also network with South Korean firms and right professionals right from the start in order to learn about the market and to build relationships. They also advised that entering with a service industry first is better than entering with a manufacturer operation if possible.

4. Discussion

This chapter includes the final discussion of the thesis. The results were evaluated, the reliability and validity assessed, my own learning process discussed, recommendations and development proposals provided, suggestions for further research discussed.. This chapter is mainly about my own thoughts and ideas.

4.1 Conclusion of the main findings

So in conclusion to the research, there was a lot of interesting information gained. A lot of the firms who have entered the South Korean market are usually medium or large sized firms from different industries. They all operate in sales and most of them are manufacturers. The size of the South Korean subsidiary is usually pretty small, but the firms all have high degree of internationalization. Most of the firms also prefer hierarchical entry modes. The fact that all firms are usually big firms is probably due to the fact that internationalization to South Korea is resource demanding. The country physiologically and physically distant from Finland and there is high competition. These firms also usually have other operations in the nearby countries such as China or Japan. This means that in order to enter the South Korean market, you need to have enough resources, and it's is useful to have other operations in nearby countries in order to decrease the distance. The firms that enter the South-Korean market usually operate in the industries that are most successful in Finland. This is probably due to the fact that these industries are the most advanced ones, and the firms are usually bigger than in other industries thus they have more resources.

One of the most common motive is profits and the foreign market potential, but for those motives to lead to a successful entry one should make sure that there exists real market potential. The market for Finnish goods is slightly small in South-Korea, so it might be better first to internationalize to nearby countries in order to gain awareness for the products. And after the subsidiaries in nearby countries are successful, one could enter the South-Korean market little bit easier. Also one motive is gaining the first mover advantage in South Korea. There is a lot of competition in South Korea so if it's possible for the firm to establish the first mover advantage in that industry, it might protect it from the fact that Korean prefer Korean products over international

products. Also due to the distance between South Korea and Finland, and South Koreans preferring customized customer service and really close networks with their business partners, it is important to internationalize to South Korea if the firm prefers to be close to the international customers.

One important point is that in triggers, the most common one was the demand for the products. Most of the firms had already been selling products in the South Korea market by using sales agents before they entered the market physically, so it's important to again have the right demand. So then the actual entry mode for most of the firms was the export mode, and specifically indirect export mode, due to the use of sales agent. After that they all internationalized by building their own subsidiary, so by hierarchical mode. They all have internationalized using the step-by-step internationalization that most SME's use. And before the entry mode, they all did extensive research. They have used both primary and secondary data. The reason why extensive research is important is due to the peculiarities of South Korean market. And the step-by-step entry is important probably due to the fact that possibility of failure is big if there is no real demand and a lack of knowhow in the South-Korean business. And because entering the South-Korean market is resource demanding, the losses due to the failure can be significant.

Most of the firms had difficulties in finding correct workforce with the ability to speak English and still having the specialized skills. There is also the cultural and lingual barrier existing. Finding a suitable geographical location was mentioned as being sometimes difficult due to lack of available factory buildings and high cost. This then leads to more difficulties hiring the local workforce due to South Koreans preferring to work in Seoul. This means that using a South-Korean firm to recruit the potential workers might be a good idea. But as one interviewee said, the evaluation technics used by the South-Korean recruitment firms can lack a little, so one should find a good partner. Perhaps the firm should consult with other Finnish firms, who already have entered the South-Korean market, to find a good company to use in recruitment.

Strong competitors were also mentioned and then the fact that customers tend to prefer the South Korean products. The market is also strongly customer focused with customers expecting their demands to be fulfilled in a fast pace. There is also the fact that

the relationships between the firm and the customer must be good as customers prefer long relationships. The Koreans will also prefer networking with firms that are well-known and have a good reputation. And as networking is truly important, it's a problem for Finnish firms. Koreans are also more flexible in following the contract, so making contracts might prove to be hard. This is again why the research should be carefully conducted before the entry, and perhaps the firm should consider the possibility of buying an already existing Korean firm. This might make it easier for the customers to trust the new company, especially if the bought firm is a well-known firm in South Korea.

So in reality, the best way to enter the South Korean market is by having a good plan and having enough resources. There needs to be a lot of research done and that can be costly and the internationalization is also costly by itself. There also needs to be a really good product or a reason why the firm wants to enter the South Korean market due to the market for Finnish firms being limited and due to the strong competition in South Korea. And the actual entry mode is preferred to be the export market in order to gain information about the market and to realize the actual demand for the firm's product. It is also important to use a local partner in order to gain access to the networking system in South Korea. This way the customers will get familiar with the product. But then later, when the firm wants to really enter the South Korean market, it would be preferred to use the hierarchical modes due to some laws and the fact that it's safer for the firm when they own their operations fully. It might also be a good idea to use a hiring firm in South Korea to hire and search the workforce. At first also using the expatriates is a good idea, but later it's better to use South Korean workers due to their better knowhow of South Korea.

I did reach the conclusion I thought I would be getting according to my framework. I did notice that most of the things I mentioned in my framework were really important to the firms' entry modes. And I received the answers to my thesis question. What are entry mode Finnish firms usually used when entering the South Korean market? The answer to this is first they use the export mode, and will usually enter with a hierarchical mode in the later part. Is it the best way to do it? The reasons for this is the differences in the culture aspects, the problems with HR, the problems with laws, the

connections received, the possibility of doing research before the entry and to find out if there is real demand for the firm's products. And I would think this is the best way to enter the mode currently. What are main failure factors to failed entry? These were said to be mostly lack of research, no real demand, competition, the lack of knowhow about the South-Korean culture and thus doing something wrong.

4.2 Reliability and validity of the research

Reliability is measures the extent that the research yields the same result on repeated trials, it means the way the result was gotten remained consistent and that the results were trustable (Colorado State University 2013a). In this study, the interviews were done mostly face-to-face while one interview was done with Skype-program. The results of these interviews are similar due to the interview method being same. Two interviews were done through email which means that the interviewer was not able to ask more questions, give explanations, or make sure that all parts were answered. Thus the answers might have been different if those interviews would also have been done in face-to-face interviews. The result would have probably been mainly same, but more information could have been gained. There is also the problem that the Korean interviewees might have had problems with understanding the English while the Finnish interviewees might have had easier time due to their better knowledge of English. But the interviews were done in a short time period so the answers were similar. The situation had not changed drastically between interviews. Also, all interviewed worked for Finnish companies and were in leader positions. The fact that they were not all from the same nationality, gave a better insight and a different perspective. Also the interview question sheet remained the same and the questions were not changed. Also the way the interviews were recorded remains the same. This means that the results are reliable to an extent that the research was successful. Of course the results might change if this research was conducted couple of years later due to a change in the situation.

Validity refers to the degree to which a study answers to the specific concept that the research attempts to measure, and the internal validity means the way the study was done while external validity measures the extent that the results of the study are generalizable or transferable (Colorado State University 2013b). The way all the firms were

chosen was correct as all the interviewees work for Finnish firms and they all are from high positions. Also the fact that these are both Korean and Finnish nationalities means that there is more cohesive result gained. If only Finnish workers were interviewed, the results might have been biased. But then the fact that there existed a lack of English skills might mean that some results are not exactly what the researcher was hoping to achieve with that question. The interviews were conducted similarly enough that the results can be valid and the result gained does answer the research questions. This means that the internal validity is good. Concerning the external validity, the results are not only valid for these particular Finnish firms but the theory can be applied for all firms. The same entry mode used and recommend by most might change according to the firm. Also results mainly apply for Finnish firms, and mostly manufacturer firms, so if there is a need to gain more generalized results, then the research must be done with a bigger interview group.

4.3 Recommendations according to the research

My recommendations concerning the research are simple. I would have preferred to have more interviews so it would have been better for me to the research while not being enrolled in other courses at the same time. I still think that being in South Korea while conducting this is truly important as it gave me important insight and also opportunities to visit firms' offices here in South Korea. In the end the process of writing this thesis lasted me almost a year and one reason for that was the distractions that existed due to me living in South Korea. But I was able to experience is the distance between cities in Seoul and why workforce mainly prefers to work in Seoul.

One way to get my research better would have been interviewing also more firms outside Seoul. But it could be that most of the firms in South Korea are concentrated around Seoul. I also think it would have been better for me to work in cohesion with a firm like Finpro in order to gain access to their research and customer base. For a person who is interested in this topic, I would recommend doing this sort of research while doing an internship in a trade company in that particular country.

4.4 Suggestions for further research

One way to research this subject further would be to search which is the most entered industry section in South Korea and if there exists more market potential in some other industry. One way to further this research is to do individual research about the entry process for a specific business section. Due to all the firms being engaged in different businesses, the search result might be too wide. If in further research they would concentrate on only one entry mode, then the result could be more applicable.

Also one way to further research is to compare the entry modes in different Asian countries to the Korean entry mode. Also one way to search more about this matter would be to compare how, for example, German industries enter the South Korean market in order to research if there is any similarities or dissimilarities. I would say German businesses would be a good comparison due to the fact that the business culture and business industries are similar in Finland and German.

4.5 Author's own learning process

So when I started writing this thesis, I knew a lot about how the internationalization process works in theory. But I understood the process more due to this. I also learned more about South Korean business life than I expected and most of this information was gained through the interviews. Doing those interviews was slightly time consuming and somewhat scary, but I found interviewing really, really informative and important. I learned so much more in every single interview and I also gained new perspectives about how the mindset is different based on where you work in the firm and also if you are an expatriate or not. I also learned firsthand how the Koreans think and will answer the questions differently than Finnish people. I was expecting that, but it was still truly interesting to experience in person.

I also finally learned how to conduct a whole research by myself. I have done multiple researches since high school but this is the most time consuming one. I had to learn how to manage my time, and I will admit that I could have managed it so much better than what I did. But I believe that because I was living in South Korea while writing this report, it is much more meaningful. It might have taken more time than if I was

writing this in Finland, but now I was also able to experience what I was researching. I understood also that I have to concentrate more on my interview questions and make sure that everyone can understand them on the same basis. I also experienced some problems with the recording devices so I also learned that I have to be far more prepared than what I have been. Also in order to get the interviews I had to be persistent in many things; mainly in finding the potential interviewees and then arranging the interview. I learned that you have to be able to find the right organizations that you can use and really use the knowledge that the interviewees give to you. This all will help you find good persons to interview.

This report also finally put together everything I have been learning in my specification. My specification is international marketing and logistics and this report made me relearn and reread everything I had studied before. So I was able to finally understand some parts that I was unable to before, and also learn again some parts that I had wrongful information in.

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Appendix 1

The letter sent to the interview candidates

Dear ...,

I would like to request a short interview with you in regards of my bachelor thesis.

My name is Anna Mäkelä and I am a student of a Finnish university called Haaga-Helia University of Applied Sciences. I am currently a last year student who is currently completing a last exchange semester in Sungkyunkwan University in Seoul. My major is business and I am mostly concentrating on international aspects of business studies.

I am writing my bachelor thesis about Finnish based or owned firms who have entered the South Korean market. My study centers on their decisions to enter the market and what is the most suitable way to enter the South Korean market from a viewpoint of a Finnish firm. My research paper will also include a small chapter about the factors that affect how the firm succeeds in South Korean market.

I am sincerely interested in hearing how your entered the South Korean market and would like to hold a small interview with you. I hope it won't be a bother to you. I can do the interview through emails if more suitable to you. You can also choose whether you want your firm be introduced in the study or if you would like to remain anonymous.

I thank you for your attention and hope to hear from you soon!

With best regards,

Anna Mäkelä

Haaga-Helia University of Applied Sciences

Sungkyunkwan University

Email: anna.linnea.makela@hotmail.com

Appendix 2

The interview questions for the thesis by Anna Mäkelä, 21.4.2013.

Basic information about your firm:

1. Can you identify yourself and your firm?
2. If you can, then can I have your name, firm's name, and your position in the company?
3. What business section do you operate in?
4. When was your firm established?
5. How many employees does your firm have?
6. How is the management; is it lead by an owner or a director board?
7. How many other countries, excluding Finland and South Korea, are you operating in currently?
8. How do you operate in these countries? For example do you operate with agents, is there a subsidiary, do you operate through internet.
9. What are your main products?
10. How are the transportation costs of importing your products?

Internationalization to South Korea:

1. What are the reasons or motives behind deciding to enter the South Korean market?
2. What finally triggered the start of actually preparing to enter the South Korean market?
3. How much did you research about South Korea before entering? Do you regard research to be important in your successful entry?
4. Did you use any internationalization agent? Were they useful?
5. How did you enter the South Korean market? Agent, own subsidiary, joint venture..
6. How long was the whole process approximately?
7. What were the main difficulties you noticed when entering the South Korean market?

8. Did you experience difficulties with the local government? For example with visa applications or taxing?
9. Are there some peculiarities in South Korean market that you have noticed?
10. Did you have to customize your product specifically for South Korean market?
11. Do you use the same method in selling your products in South Korea as in Finland?
12. Do you use local workforce? How did you hire them?
13. If you use local workforce, did you experience difficulties in hiring Korean workforce?
14. Do you use expatriates? Did they experience any difficulties?
15. Do you generally prefer to use South Korean workers or expatriates?
16. What would you say are the most important success factors when entering the South Korea in your case?
17. Now that you have already entered the South Korean market, is there anything you would do differently?
18. How would you recommend other Finnish companies to enter the South Korean market?

Appendix 3

Summary of the face-to-face interview with Managing Director of Fibox, 26.04.2013, South Korea, Incheon

This interview was conducted in Incheon, South Korea, on Friday 26.04.2013. The interviewer was Anna Mäkelä and the interviewee was the managing director of South Korea's Fibox. The interview was conducted both in Finnish and English.

Basic information about the firm:

Fibox Ltd. does electric components and electrotechnic covers. Their products is B-to-B product so there is no direct sales to customers. Fibox does their own manufacturing, sales, and distributing. The firm was first part of Fiskars, which was established at the end of 1500, but in 1991, Tapani Niemi bought the part of the firm that was Fibox. He still owns the company so the company is privately-owned. The Fibox has 500-600 workers in Finland and little over 40 in South Korea. They currently operate in following countries; factories in Poland, Germany, South Korea and China. Sales offices in South Korea, Japan, China, India, Finland, Sweden, Denmark, Russia, Poland, Germany, Holland, France, Switzerland, England, USA. They also have regular business in 25 different countries such as Taiwan, Hongkong, Signapore, Australia, New Zealand, South-Afrika, and most of the European countries. Only 10-15% of their turnover comes from Finland.

They have internet website, but they mainly do their sales through phones, faxes, and emails. They also have stable customer relationships with their distributors, and regular customers as their end customers. The transportation costs of their products varies depending on the product. The transportation cost is about 1,5-3% to up to 7% . The cost is lower if the sales are inside the country that has a warehouse, and higher if it's between two countries or areas.

Internationalization to South Korea

Fibox entered the South Korean market in 1995. They first started the research about entering the market in 1993-1994. The person in charge that time had an international experience and was an expatriate from Finland. They have had their factory in three different locations in South Korea, and the current one is in Incheon. The company became profitable in South Korea in 1999 as the Asian financial crisis in 1997 affected the firm's entry.

The motives behind the entry were the following; there were already sales to Asian countries, the Korean market opened to international companies at the end of the 1980's, the fear of local competitors arising, and the desire of having the first mover advantage. They currently hold 40% of the market share of their products. The main reason was that the local competitors had a faster shipping period than Fibox when the company was shipping their products from other countries to South Korea. They first had a rented facility, but later bought their own property when the property owning laws were changed. They did not use agents or joint ventures due to a loss of control existing in those entry modes. For Fibox, all subsidiaries and units are self-owned. There were some problems encountered when entering the South Korean market. There were culture problems, personnel selection was unsuccessful, problems with leading Korean workers, and the management had a lack of knowhow in distributing the products. There was also not enough support from the headquarters.

Some barriers with laws, taxation, regulations, and local government were also encountered. There was never a problem with import taxation, but the main problem was with the labor force laws as for example firing the South Korean workers can be hard due to law. There has also been some problems with visas for the expatriates. Mainly there have been problems with the properties as it's hard to find a rentable factory space due to a lack of investor-owned properties. It's important to own the property as renting is expensive, but buying properties is expensive too. Finding office space is easier.

One peculiarity they encountered was that the South Korean firms did not have long-time planning, and expected to have products shipped really fast to them. Now the situation has improved in companies that have a younger workforce. There was also a strong protectionism in South Korea, and Fibox was one of the first fully foreign owned

companies in South Korea as most of the other companies entered via joint-ventures. The reason for this was that earlier in South Korea it was hard to operate as a foreign firm as there were some laws that forbid some operations such as owning an property. It's easier now to establish subsidiary compared to Japan, but it's easiest in China in a business section that does not have specific regulations. Also in South Korea, the workers might not have individual decision making skills. It's a more important for a leader to be present in all decisions, as the South Korean workers are less independent than Finnish workers. There is also no right or wrong in South Korea the same way there exists in Finland, but the most important thing is how everything is agreed about and what higher level decides. Also relationship network is truly important. The bigger, and more important the company is, the harder it's for it to work as it also has to respect every relationship it has with customers or other firms.

Fibox sales technique changes depending on the country as the way customers are divided is different in countries. In South Korea they also had to localize the products, and they also receive more detailed orders in South Korea than in Finland. So it's more important to customize the products according to each customer's preferences.

Currently they have one expatriate in their office. The H&R management is easier this way, and the company regards using expatriates as expensive and somewhat risky. However, one problem with the local workforce is that there is a lack of special knowhow. Everyone is trained similar way, and if a person does have special knowledge, they will prefer to work for a well-known Korean company in Seoul rather than a small sized Finnish company in Incheon. The firm's background and reputation is truly important for South Korean workers. Main problem is the lack of English language skills. According to interviewee, the reasons why Fibox was successful in Korea, are the following: they had an actual demand for their products and services in South Korea, and they had conducted an extensive research about South Korea and thus had local knowledge. If possible, the interviewee would have liked to invest earlier to products that are only sold in Korea.

The advice the interviewee gave to other Finnish companies was mainly to do proper research and have an actual demand for their products in South Korea.

Appendix 4

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Appendix 5

Email answers to interview questions by Director of Metso Paper Korea Inc, 22.05.2013, South Korea, Seoul

In this interview, the interviewee answered the questions through the email. This interview was conducted in Seoul, South Korea. The answers were received on 22.05.2013. The interviewee was Director of Metso Paper Korea Inc. The interview was conducted in English.

Basic information about the firm

The company is Metso Paper Korea Inc. and their business sector is Pulp and Paper making machinery and boilers for pulp line recovery and power generation plants. The firm was established in South Korea in April 1995, and it currently employs around 16 persons, and has two other sister companies in South Korea. It is managed by board of directors, and it's currently operating in 24 other countries excluding Finland and Korea. The main products are Pulp, Paper and Power machinery and after sales services. And the transportation costs of importing the products are international average or little less.

Internationalization to South Korea

The motive behind deciding to enter the South Korean market is the Korea being the biggest single country market in the middle of 1990s for Metso's paper machinery business. A couple of larger paper machine orders for a newsprint paper is what finally triggered the start of the South Korean market entry. One agent that works for paper industry introduced them to the South Korean market when their brand name was totally unknown. Few different sales have been utilized for 15 years and this have been very useful in developing the market information and making foundation for service business. Agent introduced and developed paper machinery business in the beginning. Later, Metso decided to operate by own subsidiary because of high demand of after sales services.

The whole entry process took approximately 5 years until takeover of main business. The main difficulties in entering the South Korean market were the fact that Japanese suppliers under the license with German and USA suppliers were dominant to Korean market in 70s to 80s. European supplier's direct approach was not well acceptable due to cultural and lingual barrier and geographical location for service.

During the entry, there were no particular difficulties experienced with the local government in South Korea, but the firm has noticed some peculiarities in South Korean market. Barrier in business culture between Korea and Finland is why Metso operates their own unit in Korea. Not much of the products have been customized specifically for South Korean market as production process is pretty similar internationally. However, the paper and board making machines are all customized according to the machine.

The sale policy and rules are the same when selling products in South Korea and Finland. The customer care is rather different as cultural habits are different. The local workforce is used and preferred, but there is no own blue collar engineer, but they utilize couple of the subcontractors if needed. No expatriate has been used since 2001. Language barrier was the main difficulty when expatriate worked in South Korea. Living cost is also too big especially the housing for foreigner family. The most important success factor in entering the South Korea was high productivity and quality based on world best technology which enables to secure good return on investment. Good and continuous technical support and development upon market needs was important. The Finnish companies willing to enter the South Korean market should be aware that the Finnish industry scale in Korea is not big. So it might be difficult to enter and be sustainable.

Appendix 6

Phone call interview with a Finnish manager, 24.05.2013, South Korea, Seoul

The interviewee or the firm has been disclosed due to the company policy. All mentions that might reveal the company has been omitted. This interview has been done in South Korea, Seoul, in 24.05.2013, using Skype Program as a phone call interview. Thus only the part of the questions concerning the internationalization to South Korea has been discussed.

Internationalization to South Korea

The main motive behind the South Korean entry was the market potential and market understanding. The company had presence for roughly 15 years through some local agents before entering South Korea by using hierarchical means. The company gained insight through the agents about how the market is developing. The company also made fairly thorough studies of the market potential and of the current supply-demand situation. The final trigger to the start of the entry to the South Korean market was getting the operation permit and solving internal issues that prevented the entry.

The company regards the research to be important in their successful entry. They did primary data research for several years and they analyzed the Korean market situation and the special characteristics of the market. They also networked quite a lot with different experts of South Korea, but did not use any internationalization agent. They first entered the South Korean market using general sales agent and then established a local service in Korea. Even now they still have local outsourcing relationship with the local agent. The whole process from the point entry announcement took a year before the operations were started.

The main challenging thing the firm noticed in entering the South Korean market was the hiring the finding and hiring of the talented people. Basically they noticed that it was somewhat difficult to a recruiter to find very talented workforce with good English skills. They experienced no major difficulties due to the extensive research conducted

prior to the entry. Dealing with the business visa application process was somewhat troublesome due to the nature of the firm. No other difficulties were experienced with the local government but rather than that some government officials or government related organizations were exceptionally helpful and professional. From the firm's perspective the most peculiar factor about South Korean market is that the Korea is really nationalistic. And most people have a strong tendency to prefer Korean products and services. The competitors' actions were peculiar during the firms' entry; they wished to make our entry to market very hard and the competitors renounced in order to discourage the local trade to support the firms entry. A lot of local customization was done in order to meet the South Korean customers' needs. The sale method is internally similar as the sale method in Finland, but there exists a lot of localization in the iterations, co-operation commercials with the local trade, and the way we co-operate it the trade.

They mainly use the local workforce, but they did use expatriates in the start as during the entry it was important to have a Finnish person in charge in South Korea. When the firm first entered, they outsourced the local workforce meaning that the local staff was employed by Korean company. They still have a mix of own personnel and outsourced personnel. The hiring process was not so difficult after the right potential workers had been identified. In the search, they used several recruiter companies which were somewhat difficult, and the methods used to assessment their skills and capabilities were found to be still somewhat immature. The good English language skill requirement also limits the possibilities.

The interviewee regards learning and understanding the market, both of the practices and of cultural aspects of doing business in Korea, as the most important successful factor in their entry. Also finding a balance between honoring the local practices, but still using your company way of operating and local practices, is a successful factor. Also a very forward looking stance in market communications, and making sure that the customers know you latent to the market well. Localization is also important, and being as close to the market and customers as possible. Finding out to be anyhow outsider, or arrogant for the local practices, can be worst mistake in the Korean market.

Now that the entry has been done, the firm would have started hiring their own personnel a little bit earlier as it was the first step towards changing the organizational structure in South Korea. The interviewee would have also improved their entry earlier by starting the social media activities at the earliest stage.

The interviewee gave recommendations for other Finnish firms. First recommendation is to find a network between different business professionals from different businesses in order to engage in a dialect and learning from the market from different aspects. Also it would be important not to rely on a single source of information but on a wider perspective of learning in Korea, and make a thorough study of the market before entering. The choice of choosing to use co-operation with local partners depends on the line of business whether but it is still important to have close relationships with a local partner in order to penetrate the market.

Appendix 7

Email answers to interview questions by Site Manager & Representative Director of Metso Valstone Inc, 14.08.2013, South Korea, Seoul

The interviewee answered the questions through email. The email answers were received 14.08.2013. The person interviewed is Manager & Representative Director of Metso Valstone Inc.

Basic information about the firm

The firm's name is Metso Valstone Inc and it's part of Metso Corporation. It operates in metal industry and valve manufacturing. Neles (later became part of Metso) was established in Finland 1956 and has been in Korea for over 20 years. Metso Valstone factory was founded 2000 and acquired by Metso 2012. Metso Valstone Inc has over 50 workers and the management in South Korea is by Representative Director. Metso Valstone Inc has factory operations in South-Korea. But the products are sold by Metso sales offices which cover over 30 countries. Metso Valstone Inc main product is control valves and typically the logistic costs add about 5-10% to the product costs in export business.

Internationalization to South Korea:

The reasons behind the decision to enter the South Korean market is large domestic market for industrial valves (petrochemical, chemical, refining and pulp & paper) as well as many contractors that buy valves for overseas projects for the same industries. The reason to acquire factory in South Korea was also the reasonable cost level and good acceptance of Korean made products in global market. The final trigger in the entry was a good business opportunity as it is a growth opportunity for the company.

The firm researched the local market as well as global market prior the entry. This was then the key point of the entry plan. They also did not use any internationalization agent. The entry for this firm was done when the firm purchased the factory, so the

current Metso Valstone Inc factory was own subsidiary from the beginning. And the process to acquire the Metso Valstone Inc was about 2 year project.

The main difficulties in entering the South Korean market were experienced to be language and human resource management issues. No difficulties experienced with the local government as South Korea actually gives VIP service for overseas companies investing to Korea. The firm noticed some peculiarities in the South Korean market. Compared to European or Finnish markets, the customer is really in charge. If you do not follow customer requests, it is easy to lose that customer (but if you follow, it often will become loyal customer). There was some customization done to the products, but not all customers require these customizations. The same selling method is used in South Korea and Finland.

Currently they prefer, and mainly use, local workforce hired by using references, web ads and headhunters. There is only one expatriate in the site to co-ordinate. Rest of the areas can be handled by normal business trip visits from other Metso locations. Some difficulties in hiring the local workforce were experienced because of the factory location being outside Seoul area. Also problem was English language requirement for many positions. But being an international company is a bonus as many Koreans like to work for international companies.

The interviewee regards that the most important success factor in their entry was clear plan, strategy to develop the company and good key managers to drive the teams. Improving the entry could have been done if most of the steps in the process when implementing the plan and strategy could have been done sooner or faster.

There were recommendations for the Finnish firms who wish to enter the South Korean market. Test the market first with Agents to see what the competition is like and what are the customer requirements. Another way is to enter via service business first if possible.