The International Expansion of a Multinational Company

---A Case Study of H&M

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Abstract

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Title: The International Expansion of a Multinational Company---A Case Study of H&M

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Problem: How did H&M go international and what factors did influence its expansion?

Purpose: The aim of this thesis is to describe the internationalization of H&M and to explain such way of expansion using different theories and theoretical concepts.

Method: In our thesis, we mainly used the qualitative method for our case study of H&M. Meanwhile, for the data collection, the documentary approach was applied.

Conclusion: As a retailer, H&M does not follow the standard pattern of establishment chain presented in the Uppsala model. Its establishment chain is composed of three stages: franchising, wholly owned sales subsidiaries and production offices. The company has developed strong macro-position within the clothes industry network and strong bonds with its external suppliers. The expansion decisions of H&M have been influenced by the factors included in the psychic distance concept.

Keywords: H&M, internationalization, retailing, establishment chain, network, psychic distance
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1 INTRODUCTION

As students of International Business and Entrepreneurship, we decided to focus our Master Thesis on internationalization process of a successful company. In his area we can not only put the theories we have learnt into practice and understand them better but also give some suggestion to other companies willing to learn a lesson from the success story.

Yet, what company should we write about? Now, when we are studying in Sweden, we hope to gain more knowledge about the Swedish market. Due to the domestic market size, Swedish companies mostly have to expand internationally if they want to grow and Swedish business environment is known for offering good access to relevant and reliable information. Therefore, we choose the Swedish company as our case study.

There are two main reasons for why we have decided to focus on H&M. Firstly, we have obtained much data about H&M, which we think are enough to support our thesis. Secondly, fashion retailing is always a hot topic, so writing about H&M will help us attract more readers. Further, H&M was established in Vasteras, where we are now studying, so we think it is interesting to write about this firm.

To sum up, in our thesis, we discuss the internationalization process of the international retailer H&M. We are also going to identify why this company expanded in such way.

1.1 Research Problem

How did H&M go international and what factors did influence its expansion?

1.2 The Aim of the Thesis

The aim of our thesis is to describe the internationalization of H&M and to explain the factors influencing its expansion through the use of different theories and theoretical concepts.

1.3 Target Group

The target groups of our thesis are the students who are interested in the internationalization process of firms as well as the researchers of international business field, and also the managers who hope to learn from those successful
international enterprises how they went international.

1.4 Brief Introduction of H&M

According to the data published on the official website, we know that H&M was established in Vasteras, Sweden in 1947 by Erling Persson. At the very beginning, when the first store was opened, it was actually given the name Hennes (the Swedish word for “hers”) because only women’s clothes were sold there at that time. Later in 1968, Erling Persson bought Mauritz Widforss, a hunting and gun store in Stockholm. Just from then, the men’s clothes began to be sold in the stores. Thus, soon Erling Persson gave his company a new name Hennes & Mauritz (H&M in short) instead. In the following years, H&M kept expanding continuously. Especially after 1982, it expanded with a high speed.

At present, H&M has already owned more than 1,500 stores in 28 countries. Among them, most are in Europe and the left ones are in China, Canada and the United States, Kuwait, Qatar and United Arab Emirates respectively. In addition, nowadays H&M has extended its products to children and teenagers, and also cosmetics under its own brand. Furthermore, apart from the traditional shopping in stores, H&M has begun to sell its products through catalogues and the Internet, which provides more convenience to customers.

As a successful company, H&M always sticks to its own business concept, that is, “to provide people fashion and quality at the best price” (Facts about H&M, 2007). For the fashion, it has its own design and buying department that creates the collections. As for the good product quality, H&M pays much attention on the control of quality and also tries to make its products have minimal impact on the environment and to control good working conditions in suppliers’ factories. About the best price, it is just achieved by “having few middlemen, buying in large volumes, having a broad, in-depth knowledge of design, fashion and textiles, buying the right products from the right market, being cost-conscious at every stage, and having efficient distribution”. Thus, H&M does not have its own factories. It just cooperates with around 700 independent suppliers in primarily Asia and Europe.

Nowadays H&M has around 68,000 employees all over the world and also has become one of the largest clothing retailers in the world.

1.5 Delimitation

In our thesis, we will mainly discuss H&M’s internationalization process and the factors behind such expansion. Since it was found impossible interview the company’s employees, we decided to use only the secondary sources, such as annual reports, press releases, etc. According to Ghauri and Grohaug (2002), the only use of
secondary data can be enough for thesis-writing. Yet, it is still believed that if we could add primary materials in our thesis, our paper would be more reliable, especially in the future analysis of the nature of those markets where H&M has established its stores.
2 RESEARCH METHODS

2.1 Research Approaches

In our paper, we are focusing on a successful Swedish clothing company H&M, describing its internationalization process and also the factors behind such expansion. According to Fisher (2004), if a researcher wants to obtain a broad and representative overview of a situation, the survey approach will be suitable. While if a researcher tries to get an in-depth understanding of particular situations, the case study approach will be appropriate. Thus, in our thesis we will choose case study as our research approach. Although “case studies inevitably lose representativeness, the power of the case study just lies in its capacity to provide insights and resonance for the reader and it is not true to claim that case studies lack generalisability” (Fisher, 2004, p52). Also Tony (1994b, cited in Fisher, 2004, p52) argues that “case studies do enable generalizations to be made about organizational process”. Yin (1994, cited in Fisher, 2004, p52) points out “those case studies can be used like experiments to test a theory. If the case study shows the theory to be untrue, then the rejection of the theory can be generalized”.

In the book Research Methods in Business Studies, a Practical Guide, the authors Ghauri, P. and Grohaug, K also mention two ways to conduct a research. These are qualitative method and quantitative method respectively and the comparison between them is given below:

<table>
<thead>
<tr>
<th>Qualitative Method</th>
<th>Quantitative Method</th>
</tr>
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<tbody>
<tr>
<td>Emphasis on understanding</td>
<td>Emphasis on testing and verification</td>
</tr>
<tr>
<td>Focus on understanding from respondent’s/informant’s point of view</td>
<td>Focus on facts and/or reasons for social events</td>
</tr>
<tr>
<td>Interpretation and rational approach</td>
<td>Logical and critical approach</td>
</tr>
<tr>
<td>Observations and measurements in natural settings</td>
<td>Controlled measurement</td>
</tr>
<tr>
<td>Subjective “inside view” and closeness to Data</td>
<td>Objective “outsider view” distant from data</td>
</tr>
<tr>
<td>Process oriented</td>
<td>Result oriented</td>
</tr>
<tr>
<td>Explorative orientation</td>
<td>Hypothetical-deductive; focus on hypothesis testing</td>
</tr>
<tr>
<td>Holistic perspective</td>
<td>Particularistic and analytical</td>
</tr>
<tr>
<td>Generalization by comparison of properties and contexts of individual</td>
<td>Generalization by population membership</td>
</tr>
</tbody>
</table>

*Table 1 Qualitative Methods V.S. Quantitative Methods*

Source: Ghauri and Grohaug, 2002, p.86
In some literature about research methods, it is often thought that structured and quantitative methods are more scientific and therefore better. However, on this book, the authors state that in a research, which method is more suitable just depends on the research problem and its purpose. Also for the two methods, they think that in some studies, research can be made on behavior, events, organizational functioning, social environments, interaction and relationships. In such cases, data may be quantified, but the analysis itself is qualitative. However, it is also quite common for researchers to collect their data through observations and interviews, which are usually related to qualitative research. As for the analysis of the research, the data collected in such a manner would be used in a statistical way. Besides, “qualitative research is a mixture of the rational, explorative and intuitive, where the skills and experience of the researcher play an important role in the analysis of data. It is often focused on social process and not on social structures, which is often the focus in quantitative research” (Ghauri and Grohaug, 2002, p.86).

Above all, in case studies, both of qualitative method and quantitative method can be used. However, in our case study of H&M, we are going to use mainly qualitative method. Here are the reasons. Firstly, according to Ghauri and Grohaug (2002), in business studies, when the writer wants to explore a problem through different variables which are difficult to measure statistically, the qualitative case study will be more suitable. Even it is feasible not to use any quantitative measurement to analyze and interpret the qualitative data. Besides, according to Fisher, “qualitative case studies which provide a broader and deeper understanding of processes may give an opportunity to work out the ways in which one variable is causally linked to others” (Fisher, 2004, p36).

2.2 Methods for Data Collection

According to Fisher, when we collect the data information, there are usually six methods which are often used. They are (Fisher, 2004, p53):
* Interviews
* Questionnaires
* Panels, including focus groups
* Observation, including participant observation
* Documents
* Databases.

At first, we intended to choose interviews and documentary as our research methods. However, during the process of searching for the relevant information, it was found to get them from the people of H&M directly was quite difficult. Finally, we decided to give up the ways of collecting the primary data. Although the first-hand information is usually important in an academic paper, we, at the same time, have already obtained a
lot of secondary materials. For example, on the official website of the company H&M, there are the annual reports from 1996 to 2008, the sales development, the press releases and so on. From the Internet, much news about the internationalization of H&M and also the business strategies which are being used have been found. Moreover, we have received some relevant articles, which could be helpful in our thesis. According to Ghauri and Grohaug, “many scholars recommend that all research should, in fact, start with secondary data sources. As Churchill put it, ‘Do not bypass secondary data. Begin with secondary data, and only when the secondary data are exhausted or show diminishing returns, proceed to primary data.’ Sometimes, secondary data provides enough information to answer the research questions. In such case, there is no need to collect primary data” (Ghauri and Grohaug, 2002, p78). Thus, in our opinion, the data which have been collected are enough to support our thesis writing. Maybe at this moment people will think whether those secondary data are reliable or not. Here we would like to say in our paper, we will only focus on the internationalization process of H&M and the relevant information about it should not be controversial. Therefore, that the method for data collection in our dissertation is only documentary is suitable.
3 LITERATURE REVIEW

3.1 The Uppsala Model

This model is a result of research carried out at the University of Uppsala in the middle of 70’s. The studies of several Swedish companies (Johanson and Vahlne, 1977) explained some patterns according to which firms made gradual investments in foreign markets.

There are three basic assumptions underlying the incremental model of internationalization (Forsgren, 2002). Firstly, the lack of knowledge about foreign markets is the main obstacle to international operations. Secondly, firms invest in foreign markets incrementally due to market uncertainty. And finally, knowledge is highly dependent on individuals and difficult to transfer to other individuals.

Johanson and Vahlne (1977) distinguish state and change aspects of internationalization. The present market commitment and knowledge influence decisions concerning the future commitment of resources and the way in which the company performs current activities, and they are, in turn affected by both current activities and commitment decisions. The process is described, thus, as a causal cycle.

![The internationalization process in the Uppsala Model](image_url)

*Fig. 1 The internationalization process in the Uppsala Model*

Source: Johanson, Vahlne, 1977

*Market commitment* and *market knowledge* are considered state aspects of internationalization. Market commitment can be analyzed with two factors: the amount of resources that have been committed and the degree of commitment. The former factor can be defined as amount of investment in the market, whether the latter
is explained as “the difficulty of finding an alternative use for the resources and transferring them to it” (Johanson and Vahlne, 1977, p. 37). Some kinds of resources can be easily sold or transferred, but there are also resources that are strongly integrated with other parts of the firm, and consequently, difficult to be directed to other activities. That can be resources invested in marketing and customer relations regarding specific products. It is important that not only the resources directly invested in the foreign country should be considered as a commitment in that market, but also the resources located in the home country and dedicated to the foreign operations. It is true that they can be transferred but sometimes the transfer would not be profitable.

Other important concept is market knowledge, that “relates to present and future demand and supply, to competition and to channels for distribution, to payment conditions and the transferability of money” (Johanson and Vahlne, 1977, p. 38). For the Uppsala model, it is crucial to distinguish between two different types of knowledge – the objective and the experiential. Whether the objective knowledge can be taught, the experiential knowledge can be acquired only through personal experience. The market knowledge considered in the Uppsala model is understood as the experiential knowledge and can be gained only when running international operations.

According to Johanson and Vahlne (1977), possessing experiential knowledge about market of operations is especially important in activities based on relations to individuals, such as management or marketing. It is experiential knowledge that gives a manager ability to perceive and formulate “concrete” opportunities, whether the objective knowledge concerns only “theoretical opportunities”.

Knowledge can also be divided into general and market-specific knowledge, and both of them are necessary for successful establishment and performance of foreign operations. General knowledge does not depend on geographical location of an activity, whether market-specific knowledge concerns “characteristics of the specific national market – its business climate, cultural patterns, structure of the market system, and, most importantly, characteristics of the individual customer firms and their personnel.” (Johanson and Vahlne, 1977, p. 39).

There is the following relation between market knowledge and commitment: since the knowledge is considered a resource, the greater is the knowledge about a foreign market in the company (in particular market-specific knowledge), the more important is the company’s market commitment.

There are also two change aspects of the internationalization – current business activities and commitment decisions. In case of current business activities, it is important to consider that there is often a time lag between the activities and their consequences, e.g. marketing activities must be repeated for some time in order to
influence the sales growth. The longer is the gap, the higher is the company’s commitment to the market. We can also assume that in case of complicated and differentiated products this commitment will be more important (Johanson and Vahlne, 1977). Current business activities are also the most important source of experience, especially when it is not possible to acquire it by hiring new personnel.

Commitment decisions depend on two factors: firstly, what are the decision alternatives and, secondly, how they are chosen. Commitment decisions can be consequences or problems or opportunities, and those usually can be solved or seen by people who have experience in working for the firm or for organizations with which the firm is interacting. There are two different effects of additional market commitments: an economic effect and an uncertainty effect (Johanson and Vahlne, 1977).

The Uppsala Model explains two important patterns in the internationalization of the firm (Johanson, Vahlne, 1990). Firstly, firms investing in foreign countries follow establishment chain presented below on the figure 2, which means that investments are made in small steps. On the beginning there is no regular export activity, then companies start cooperating with sales representatives who act as independent agents. When the firm acquires enough knowledge about the market it decides often to establish a sales subsidiary and later eventual production facilities.

![Establishment chain](image)

*Fig. 2 Establishment chain*
Source: own, based on Johanson and Vahlne, 1977

The second pattern explained by the model regards successive entering new markets. On early steps of the internationalization process, firms invest in countries with relative small psychic distance, that according to Johanson and Vahlne (2003) can be defined as communication problems resulting from differences in language, legal and political system, education levels etc.,. It means that companies start their expansion from countries they can most easily understand, and where the level of perceived uncertainty is relatively low.

The concept of psychic distance has been defined and redefined by many researchers. According to international business theory (Johanson and Vahlne, 2003) each country can be characterized by specific economic, institutional and cultural barriers to business. The last two of them are often analyzed in terms of psychic and cultural distance and are considered important obstacles for a firm planning its foreign market entry.
In 1973 Vahlne and Wiedersheim-Paul presented the definition of psychic distance as “factors preventing or disturbing the flow of information between potential and actual suppliers and customers”. Two decades later, Nordstrom and Vahlne redefined the psychic distance as “factors preventing or disturbing firm’s learning about the understanding a foreign environment” (1994, p. 42). In their opinion it is just learning and understanding that is crucial for formulating successful strategies in foreign markets.

In 1996 O’Grady and Lane incorporated into this definition some additional elements such as consequence of learning and obstacles to learning. According to their definition psychic distance is “…a firm’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there (O’Grady and Lane, 1996, p. 330).

According to Evans, Treadgold and Mavondo (2000), all those definitions do not adequately articulate two main elements of the concept that are “psychic” and “distance”. Since “psychic” derives from “psyche” which means “mind” or “soul” (Sykes, 1987) the definition should include “the perception and understanding of cultural and business differences, which forms the basis of psychic distance” (Evans, Treadgold and Mavondo, 2000, p. 377). However, both the perception and distance have been included in the definition of cultural distance, formulated by Lee as “international marketer’s perceived socio-cultural distance between the home and target country in terms of language, business practices, legal and political systems and marketing infrastructure” (1998, p.9), which according to Evans, Treadgold and Mavondo (2000) is synonymous to psychic distance. This opinion differs from findings included in the study of Nordstrom and Vahlne (1994) who argue that the concepts of “psychic distance” and “cultural distance” are different but overlapping.

However, even it researchers has not reached consensus whether we should treat psychic distance and cultural distance as the same concept or not, there is a distinction in terms of measurement of those phenomena. For the measurement of cultural distance, it is most common to use Hofstede’s (1983) dimensions of natural culture, which are: power distance, uncertainty avoidance, individualism vs. collectivism and masculinity vs. femininity. However, there is also a fifth dimension that, according to the information presented on the page www.geert.hofstede.com, has been added by Hofstede after an additional international study. The fifth dimension is based on Confucian dynamism, and regards Long-Term Orientation vs. Short Term Orientation.

The psychic distance, according to Evans, Treadgold and Mavondo (2000), is described in terms of “differences in language, business practices, political and legal systems, education, economic development, marketing infrastructure, industry structure and culture (p.377).

The assumption that additional commitment in foreign operations is made in small
steps has three exceptions (Johanson, Vahlne, 2001). Firstly, in case of firms that possess large resources, because the financial consequences of eventual failure are not as serious as for small companies. It means that these firms can make larger internationalization steps. Secondly, when market conditions are stable and homogenous firms can acquire market knowledge in other ways than experiential learning. And finally, in a case when the firm has gained considerable market knowledge, it can be generalized to markets with similar conditions.

The Uppsala model has been criticized for many aspects, mostly because it needs to be updated to new conditions, created by increasing global competition and accelerated technological development. Today, firms have to internationalize more rapidly than some decades ago and there is a need of new scientific models illustrating this process. Forsgren (2002) focused his critical review of the Uppsala model on the concept of learning applied by Johanson and Vahlne. He claims that the authors do not consider many important and useful types of learning, such as e.g. learning through imitation or acquisition of knowledge, i.e. the firm can hire people or acquire other organizations with necessary knowledge. But according to Johanson and Vahlne (1977), it is not so easy, because for running business, both firm experience and market experience are required. Therefore “persons working on the boundary between the firm and its market must be able to interpret information from inside the firm and from the market. The interpretation of one kind of information is possible only for one who has experience with the other part. […] The more the activities are production oriented or the less interaction is required between the firm and its market environment, the easier it will be to substitute the hired personnel or advise for current activities…” (Johansson and Vahlne, 1977, p.39).

In 2003 Johanson and Vahlne presented an updated model considering existence of business networks. The new model combines both experiential learning – commitment interplay from the “old” Uppsala model and the similar mechanism focusing on business network relationships.

3.2 Foreign Entry Modes

Charles W.L. Hill (2007), in his book International Business-competing in the global market place, discussed three basic entry decisions which a company must make if it wants to enter the foreign markets. They are which foreign markets, timing of entry and also scale of entry and strategic commitments respectively. Here are the details:

3.2.1 Basic Entry Decisions

3.2.1.1 Which Foreign Markets
According to Hill (2007), if a firm wants to extend its business to overseas markets, it must first evaluate the long-run profit potential of a nation. If the benefits, costs and
risks can be balanced well when it does business in a country, then this country can just be considered an attractive market. Here about the three elements benefits, costs and risks, the author explained them as follows:

The long-run economic benefits of running business in a foreign market mainly rest on the market size, the present purchasing power of customers of this market and also the possible purchasing power of consumers in this market. Sometimes a market is quite large if measured by customers’ numbers. In this case the living standards and the economic growth rates of this market have to be taken into consideration. As for the relationship between benefit and cost and risk, usually in politically stable developed and developing nations where free market systems exist, the balance can be reached more easily.

3.2.1.2 Timing of Entry
After a firm has chosen a foreign market to enter, the next thing it needs to consider is the time of entry. If this firm enters a foreign region before other foreign firms, then it can be thought an early entrant. However, if it enters the foreign market where other foreign firms have already established business, then it can be thought a late entrant. For the early entrant, who is usually called the first mover, according to the author, there are some advantages and disadvantages concerned. In the aspect of advantages, they are: the brand of the first mover will be known and accepted by customers much earlier, which can make this first mover capture the market demand. Also the early entrant has the advantage of cost, which can be used to cut the price to kick the rivals out of the market. Further, the switching cost can be created by the first mover. As for the disadvantages, the first one is that the pioneering costs are needed if a firm enters a foreign market earlier than others. That is to say, a firm has to pay much effort, time and expense to learn the game of that foreign market which is quite different from its home country. However, for the late entrant, it does not pay such costs, because it can learn from the success or failure of the former ones.

3.2.1.3 Scale of Entry and Strategic Commitments
Apart from the above mentioned two decisions, there is still one thing a firm has to take into consideration--- the scale of entry. That is to say, a firm can enter a foreign market on a large scale, which requires a strategic commitment or it can enter that market slowly. For the firm which enters a foreign market on a large scale, it can get the first mover advantage. However, at the same time, it must face the resulting risks and also the inflexibility. As for the small scale entry, it can give the firm more time to gather information about a foreign market and then help reduce the risks. Yet, it may not enjoy the first mover advantages.

In the book, the author further presented six different modes to enter foreign markets and they are exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host-country firm, and setting up a wholly owned subsidiary in the
host country respectively. Here are the details:

3.2.2 Foreign Entry Modes

3.2.2.1 Exporting
When a manufacturing firm wants to develop globally, it will usually choose to export its goods to other countries as the first step. The advantages are: this entry mode can help avoid the costs of setting up the manufacturing operations in the host country; it also can help this firm realize the experience curve and location economies. The disadvantages are: if it is much cheaper to produce the goods abroad, the exporting mode will not be suitable; exporting usually needs high transport costs; tariff barriers make exporting uneconomical and also risky; “when a firm delegates its marketing, sales and service in each country where it does business to another company, the problem will appear” (Hill, 2007, p488).

3.2.2.2 Turnkey Projects
This entry mode means that one side will handle everything of a project for the other side, and after the completion of this contract, the key to a plant will be given to this foreign client for operation. Turnkey projects are often used in the industries with complex and expensive production technologies, such as chemical, petroleum, and metal refining industry. The advantages are: the know-how is a valuable asset and with this mode, the side with high technologies can get great economic return. The disadvantages are: this entry mode does not provide long-term interest in the foreign country; a competitor may be created and also the firm with high technologies may be selling competitive advantage to a potential or actual competitor.

3.2.2.3 Licensing
“A licensing agreement is an arrangement where a licensor grants the rights to intangible property to another entity for a specified period, and in return, the licensor receives a royalty fee from the licensee” (Hill, 2007, p489). The advantages are: with this entry mode, the firm does not have to face the development costs and risks of establishing the operation directly in a foreign market; if a firm wants to enter an unfamiliar or political volatile foreign market, or if this foreign country has some entry barriers, or even if this firm wants to process some intangible property, but does not want to develop this by itself, it can choose this entry mode. The disadvantages are: with this mode, the firm will not have tight control on the licensee, which will be risky; usually a licensee does not want a multinational to support another licensee with its profits.

3.2.2.4 Franchising
It is a specialized form of licensing, but the difference is that the franchisor has the
right on how the franchisee should run the business. The advantages are almost the similar with what we have discussed in the licensing part, but this entry mode causes lower cost and risk. The disadvantage is that because of the distance, it will be difficult to realize its control, which may lead to quality problem.

3.2.2.5 Joint Ventures
A joint venture is usually owned by two or more independent firms in different countries. It is a popular entry mode. The advantages are: because of the joint of the local partner, the different culture, language and so on in the host country will not be an obstacle for a firm to enter this foreign country; the costs and risks can be shared among these joints; with this mode, the political considerations will not be a problem for a firm. The disadvantages are: this mode will make the firm give the control of its technologies to its partner; the firm will not have a tight control on the subsidiary with this entry mode; the shared ownership may cause conflicts and battles for control.

3.2.2.6 Wholly Owned Subsidiaries
In a wholly owned subsidiary, the firm will own the stock 100 percent. Usually there are two ways to establish this subsidiary. One is to set up a new operation in a foreign country, called Greenfield venture. The other is to acquire an established firm in a foreign country and then to produce its own items in this firm. The advantages are: it will have tight control on the operation and also will not lose its technologies to others; the location and experience curve economies can be realized; the subsidiary can be shared 100 percent. The disadvantage is that it is the most costly and risky method.

3.3 Retailer Internationalization
“Retailing consists of the sale of goods or merchandise from a fixed location, such as a department store or kiosk, or by post, in small or individual lots for direct consumption by the purchaser” (Wikipedia). According to John A. Dawson (2007), retailers’ internationalization is quite different from manufacturers’, and in his article Scoping and Conceptualizing Retailer Internationalization, he presented six aspects of difference in details:

3.3.1 Strategic objectives
For retailers, setting up new stores in foreign markets is a strategic way to increase the sales growth, although push and pull factors are often discussed as the reasons for internationalization. However, for many production firms, it is because of the search for lower cost that they just extend their business to other countries. Besides, in the aspect of retrenchment, for retailers, they usually choose to close the stores in foreign countries and only focus on the business in home market. While for manufactures, they behave quite differently. That is, they will try to reduce the operations in their
home country and establish more plants in foreign markets where the cost is much lower.

3.3.2 Local Nature of the Market
For an international retailer, no matter whether it is large or small in its size, the market is just local. That is to say, a retailer has to pay much attention to the nature of the market, such as the local culture, the local consumption situation and local customers’ buying behavior, because they all may be different from those of home market. However, for the manufacturers, they can just consider their markets as international or even global because the foreign operations often focus on the production things.

3.3.3 The Outlet is the Retailer’s Product
“The customer of a retail store . . . buys from the retailer . . . not goods but services, such as the retailer’s anticipation, transactions services, product mix, financing, delivery, and information”.
(Douglas, 1975, 220)
“In retailing the ‘product’ is in fact a ‘bundle of services’ . . . in a marketing mix which is not homogeneous across competitors”.
(Nooteboom, 1980, 18)

Dawson (2007) mentioned that a retailer was selling services rather than items. Thus, the sales outlet which should be designed to give the customers a desire of consumption can be called the product of the retailer. However, for manufacturers, their production plants are not considered as their products because the final view of their products is just the items they will sell.

3.3.4 Network Structure of Retail Organizations
An international retailer usually owns many shops which operate with a network. According to Dawson (2007), it is quite normal for a medium-sized retailer to have 500 or more trading units although they are usually not so big. However, the manufacturers are in a totally different situation. In France, Hecquet and Roualdes (1999) “in a study of firms between 1985 and 1993 showed that 55% of firms with more than 50 employees in manufacturing had only one establishment” (Dawson, 2007, p384). Furthermore, in the organizational structure of a retailer, the relationship between local units and the head office and also the links among the different local shops play an important role in the efficiency of a local unit. While in the manufacturing, the plants are more independent on each other. That is to say, the efficiency of a local unit more rest on the local management rather than the network among all the branches.
3.3.5 Large Number of Suppliers and Customers
A retailer usually owns a large number of suppliers and the relationship with those suppliers plays a crucial role in the nature of the retailing company. According to Dawson (2007), it is just said that the value is generated through “the management of relationships with suppliers and the creation of ranges of items for sale” (Dawson, 2007, p385). While for manufacturers, they are creating value through the selling of physical products. Besides, in manufacturing, the components are produced on the assembling line in the same way. However, in the retailing, the items can be assembled through different methods.

Next, as a retailer, the relationship with a large number of customers is also an important factor for its growth. That is to say, the retailers have to pay much attention to the contact with different customers of different countries. The items and also the outlets should be localized to meet the different culture of different regions. As for manufacturers, they behave totally different because they just try to standardize their products they have made.

3.3.6 Cost Structures
In the aspect of cost structures, retailing and production are also quite different from each other. The reason is that the natures of the firms and the competition between firms are not the same. Compared with manufacturing, the costs and competition varieties in retailing are much greater, because the demands and competitive processes are both local. Besides, the cost is more variable resulting from the price changes and the nature of consumer demands as well. In this case, the labor requirements in retailing is quite different those of manufacturing.

3.4 The Network Approach to Internationalization

Johanson and Mattsson (1988) explain the internationalization of industrial firms with aid of the network model, which describes markets as networks of relationships between players. The authors claim that this approach is superior to transaction cost based internalization theory and to the Uppsala internationalization process model.

Empirical findings presented by Johanson and Matsson demonstrate the existence of long-term relationships between customers and suppliers in industrial markets. One important reason is that firms need extensive knowledge about each other if they are to make serious business together. This knowledge is often dispersed through many different staff members, and consequently difficult to collect. The cooperation implies also contacts on several levels in organizational hierarchy. It takes time and effort to establish such contacts and to gain knowledge about the business partner.

The network approach has been developed by Hägg and Johanson (1982),
Hammarkvist, Håkansson and Mattsson (1982) and Johanson and Mattsson (1985, 1986). It presents the industrial system, composed of firms engaged in production, distribution and use of goods and services, as a network of relationships between the players. In the network, there is a division of work which causes dependencies and need for coordination between the firms. Firms develop various kinds of bonds – such as technical, planning, knowledge, social, economic and legal ones.

According to Johanson and Mattsson (1988) firms in networks have both complementary and competitive relations. Specific inter-firm dependence relations have different character compared with general dependence relations in the traditional model. These relations with other actors can be direct and specific, when firms have exchange relationships or indirect and specific when their direct counterparts have exchange relationships. It means that the system of specific dependence relations in which firms operate is complex and difficult to survey. According to the model of industrial markets, firm’s activities in industrial markets are cumulative process, i.e. that relationships are continually established, maintained, developed and broken. Activities in the network allow firm to develop relationships securing access to external resources and the sale of its output.

The position in the network is an important concept that characterize the relations of the firm to other members of the network. It is possible to distinguish between micro-positions and macro-positions. The former concerns relationships with a specific individual partner, the latter describes the relations to a network as a whole or to a specific section of the network. According to Johanson and Mattsson (1988) a micro-position can be defined considering the role the firm has for the other firm, its importance to the other firm, and the strength of the relationships between the firms. A macro-position depends on the identity of firms with which the firm has established network relationships, its role and importance in the network and on how strong relationships it has with other firms. The concept of position is important to define both firm’s relations to environment and important strategic possibilities and constraints.

Other important concept is degree of structuring of the network that describes the level of interdependency of positions in network. This interdependence is high in highly structured networks, where bonds between firms are strong, and positions of various players are well defined. On the other hand, when network is loosely structured, the bonds are weak and positions are less well defined.

When the firm expands internationally, it must establish and develop positions in relation to counterparts in foreign networks (Johanson and Mattsson, 1988). If this happens in a foreign network which is new for the firm, we can define this process as international extension, and when the company already has a position in the network, we talk about penetration. International integration takes place when the company aims at increasing coordination between positions in different national nets. We can
define the firm’s degree of internationalization examining the extent to which the company occupies certain positions in different international nets, and how strong and integrated are those positions.

Johansson and Mattsson applied the network model to analysis of the internationalization of industrial firms. According to this model, since the firm in the network gets access to resources controlled by other firms, its future development depends on its position in the network. For this reason, the analysis should consider two variables - the levels of internationalization of both the firm and the network.

The authors distinguish four different market situations characterized by level of internationalization of the firm and of the market. The Early Starter is the firm with few and rather unimportant relationships with foreign partners, when other market players have only few important international relationships. Later, when the firm becomes more internationalized while its market environment does not change, it becomes the Lonely International. If the market is characterized by a high degree of internationalization, the firm starting to internationalize can be described as a Late Starter. When it achieves higher level of internationalization, too, it becomes the International Among Others.

![Fig. 3 Internationalization and the network model](source: Johanson, Mattsson, 1988)

The Early Starter is a company with few and rather unimportant foreign relationships, assuming that other firms in the production net (suppliers, competitors etc.) are in similar situation. In this case the firm possesses little knowledge about foreign market and it is not possible to get this knowledge using network relationships. The Early
Starters often invest in nearby markets and they use independent agents rather than invest in sales subsidiaries. This strategy helps the company minimizing both risk taking and investment. Later, when sales volume increases and the company gains more experience about the market it can also increase its commitment.

When the firm is highly internationalized while its market environment is not, the company can be called The Lonely International. It has already gained knowledge about foreign environment and it has more possibilities for resource adjustments because of its former investments and because it has access to external resources. Due to these advantages, the international firm experience less difficulties when entering highly structured nets.

When the firm is not internationalized but its suppliers, customers and competitors are, it must have a number of indirect relations with foreign networks. Relationships on the domestic market with internationalized firms can “pull” the company to go international, e.g. as a complementary supplier in some big project. In this case, the company does not have to start with nearby markets, in particular because those markets can be already occupied by its competitors and highly structured. The Later Starter has a disadvantage in terms of knowledge about the market compared with its competitors and in terms of entering tightly structured nets. But it has less problems with trust than the Early Starter, because its counterparts has already experience in working with foreign entities.

The International Among Others is an international company operating in highly internationalized environment. In both cases of extension and penetration the company has a possibility to use positions in one net for bridging over to other nets. The production can be coordinated by specialization and volume of intra-firm trade increases. The level of knowledge about international markets is high, and the company has established sales subsidiaries and eventual production activities. The company has access to many external resources in different national nets. The most important is ability of coordination of activities in different markets.
4 CONCEPTUAL FRAMEWORK

Our thesis will focus on two research questions that are: firstly, how did H&M go international and secondly, what factors did influence its expansion.

As it regards the first question, we are going to use the concept of establishment chain proposed by Johanson and Vahlne (1990) in their article The Mechanism of Internationalization as the basic structure to discuss the internationalization process of H&M. That is, “at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow” (Johanson and Vahlne, 1990, p13). Meanwhile, we will further use the foreign market entries theory presented by Charles W.L. (2007) to supplement this establishment chain, because in this theory, more details on foreign entries are explored such as “what market to enter”, “when to enter that market”, what strategic commitment to that market” and also the six entry modes. However, H&M, as a retailing company, is quite different from the manufacturers in the internationalization, and in Dawson's article Scoping and Conceptualizing Retailer Internationalization, the six differences are talked about detailedly. Thus, we will also take them together in our analysis, as the factors which might influence the establishment chain. In the following diagram Figure 4, the integration of the above mentioned three can be seen clearly. Above all, we just want to find out a model that can be applicable to the internationalization process of the retailing company H&M. Besides, we are also going to present “the picture” of the company using the network approach – analyzing its position among suppliers and competitors, hoping to give the readers a much clearer view of a successful retailing company’s internationalization.

Next, in order to analyze and explain the factors that influenced the choices of entry modes, we want to use one concept, that is, the psychic distance. We are going to explore different aspects of psychic distance (such as economic, cultural, political etc.) and find out if they did have an impact on company’s commitment decisions.
Fig. 4 Conceptual framework concerning the question “how did the H&M go international”
5 EMPIRICAL DATA

5.1 Company’s profile and strategy

H&M, was founded in 1947 by Erling Persson, who had an idea to copy in Sweden an American concept of shops selling stylish clothes with low prices. The first store, “Hennes”, at that time offering only clothes for women, immediately attracted customers, and in next decades the company successfully expanded first in the domestic market and then internationally. The milestones in the company’s development have been presented in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>opening the first shop “Hennes” in Vasteras, Sweden</td>
</tr>
<tr>
<td>1964</td>
<td>opening the first shop in Norway</td>
</tr>
<tr>
<td>1967</td>
<td>opening the first shop in Denmark</td>
</tr>
<tr>
<td>1968</td>
<td>acquisition of MauritzWidforss, new brand Hennes and Mauritz, men clothes are added</td>
</tr>
<tr>
<td>1972</td>
<td>Stefan Persson (son) joins the business</td>
</tr>
<tr>
<td>1974</td>
<td>the company goes public (Stockholm stock exchange)</td>
</tr>
<tr>
<td>1975</td>
<td>cosmetics are added</td>
</tr>
<tr>
<td>1976</td>
<td>entry the first non-Scandinavian market - Great Britain</td>
</tr>
<tr>
<td>1977</td>
<td>clothes for teenagers are added</td>
</tr>
<tr>
<td>1978</td>
<td>clothes for babies are added</td>
</tr>
<tr>
<td>1980</td>
<td>acquisition of Rowell’s mail order company, introduction of sales through catalogue</td>
</tr>
<tr>
<td>1987</td>
<td>Margareta van den Bosch joins the company as design director</td>
</tr>
<tr>
<td>1998</td>
<td>the company starts online sales in Sweden</td>
</tr>
<tr>
<td>1999</td>
<td>the company starts online sales in Denmark and Finland</td>
</tr>
<tr>
<td>2001</td>
<td>the company starts online sales in Norway</td>
</tr>
</tbody>
</table>

*Table 2 Milestones in H&M development*

During the first 30 years of its existence, the company had a low-end image, and price was the most important element of marketing-mix. The positioning has been changed in 1980’s, when Stefan Persson became Managing Director and focused on improving quality, bringing new designs, advertising and reducing operational costs. He also employed the new design director – Margareta van den Bosch.

Today the company successfully realizes its business concept, which is “to offer fashion and quality at the best price”. According to the information presented in Annual Report 2007, this can be achieved by: “having few middlemen, buying in large volumes, having a broad, in-depth knowledge of design, fashion and textiles, buying the right product from the right market, being cost-conscious at every stage, and having an efficient distribution.”
The most important distribution channel are own stores, complemented by online shopping and catalogues. However, in September 2006 H&M began its expansion in Middle East in cooperation with franchise Alshaya. Operations through franchising are considered an exception from the expansion strategy of the H&M and were chosen because in the Middle East it is not possible to operate wholly-owned subsidiaries.

H&M expanded through organic growth, and it financed new market entries with own cash reserves. In 2007 the company managed more then 1,500 stores in 28 countries. Its development is not only fast but also profitable – during the last five years sales including VAT has increased by 73% and profit after tax by 139%. H&M aims at increasing the number of stores by 10-15% a year, and to increase sales at the existing stores.

5.2 Activities

5.2.1 Designing, buying and production

5.2.1.1 Designing

Until the 1980’s the company mostly bought products from its agents in Asian countries and then re-sold them in its stores. In 1987, the company striving to improve its positioning employed new design director Margereta van den Bosch and started to build a designers team. The new idea was to design and produce items that customers were demanding in the stores.

Today, the headquarters in Sweden employ around 100 internal designers and cooperate with around 50 pattern designers and 100 buyers. Together, they create the company’s collections, considering the three basic factors: fashion, quality and price. The basis for each collection are customer demands. According to Margareta van den Bosch “if it’s too complicated on a hanger and if it’s too avant-garde, maybe it’s not us. You can have everything, but you have to think about the right quantities” (Larenaudie, 2004).

H&M designers, average aged 30, come mostly from different European Countries, but there are also Americans and Africans. They are required to “constantly observe the trends in the fashion industry, street fashion, college fashion, and events, encounter different cultures, travel, visit exhibitions, flea markets, and films and keep eye on television and Internet” (ICFAI, 2008).

Although there are two main collections every year – the spring and the autumn one, H&M release many sub-collections in every season, so that each week customers can find something new in the H&M stores. Every concept, like Women, Men, Kids, Divided and Denim has its own team of designers, buyers, pattern makers, assistants...
and controllers. Their common goal is to produce garments according to consumer demands.

5.2.1.2 Buying and production

H&M does not own any factories and relies on network of external suppliers. Buyers, who are part of the designer process are in contact with 22 production offices, located in all countries with significant amount of production. Personnel working there have been selected locally, and their main task is to mediate between buying department and external suppliers. The initial reason for establishing production offices was that it helped avoiding miscommunications, because there were often differences between designers suggestions and final products. Now, when most of suppliers have known the requirement, main responsibilities of production offices include: “identifying new suppliers, placing orders with the right suppliers, negotiating price, ensuring suppliers maintained quality, minimizing transport times etc. (ICFAI, 2008, p. 6).

When H&M must order a new product, there is a following procedure: First, internal buyers specify production offices design, number of items required, material and other details. Production offices decide which suppliers possess facilities to produce desired items and send them specifications. After that, suppliers have 24 hours for preparing samples and sending them back to H&M. Usually, after approval of samples, they produce about 20 promotional samples and wait for reconfirmation of the order. The production offices send list of suppliers with the samples to buyers in Stockholm, who decide about who will receive the order taking in consideration price, quality, delivery times and the location (ICFAI, 2008). Usually fashion sensitive goods that must be delivered quickly, are produced by European suppliers, but f.ex. basic items can be ordered six months in advance and they can be produced in more distant locations. It means that there are two main supply chains in H&M: one concerning “rapid reaction”, used for fashion-sensitive items, and based in Europe and the second one, concerning cost-sensitive products, which mainly uses Asian suppliers. Thanks to developments in buying process, H&M has managed to reduce the average lead time by 15-20% which means more flexibility and less risk to buy wrong items. The company can acquire smaller quantities and restock quickly with the best selling clothes.

At the beginning, all production activities took place in Sweden. In 1960’s it was moved to other Scandinavian countries and to Great Britain, in late 1960’s to Italy and Portugal and in 1970 to some countries of Eastern Europe, like Poland, Hungary and Yugoslavia. In 1978 H&M began cooperate with Far Eastern suppliers and opened the first production office in Hong Kong (ICFAI, 2008).

In 2007, about two-thirds of the suppliers were based in Asia; half of these in China and half in Bangladesh, Cambodia, India, Indonesia, South Korea, Pakistan and Sri Lanka. The remaining one-third of suppliers had production in Europe, mainly in
Turkey. The remaining countries of manufacturing were Italy, Portugal, Greece, Bulgaria, Romania, Lithuania, Poland and England.

H&M does not announce publicly the list of its suppliers. According to the reports, since the company invests many resources in choosing and developing its suppliers, they are considered one of the most important assets. However, we know that H&M cooperates with about 700 suppliers, many of which have more than one factories. It means that manufacturing for the H&M takes place in about 2,000 factories. The H&M’s suppliers employ about 700,000 people, and many of them are big multinational companies (in particular those based in Hong-Kong, Taiwan and South Korea), that have production in many countries, including China. Range of cooperation differs among the suppliers. They usually cooperate also with other fashion retailers, and whether some of them produce for H&M only one item, others can manufacture many different products.

Since the H&M has developed its code of conduct, special social audits are carried out in order to ensure that all suppliers and their subcontractors respect working conditions in their factories. There are about 40 auditors employed in H&M production offices. For example in 2004, 2,717 inspections of suppliers and potential suppliers were made by the auditors, mainly in Asia, and one third of them were not announced. As a result of those inspections 16 factories were rejected and H&M does not place any orders with them. At the end of 2004 the list of manufacturers rejected by H&M included 143 factories. Also during 2004, 20 workshops concerning the code of conduct were organized by H&M for suppliers and subcontractors.

5.2.2 Distribution

H&M controls all the stages of the logistics, as it acts as an importer and wholesaler, and then as a retailer (with exception of the Middle East countries), and the process is managed centrally from Stockholm (ICFAI, 2008). There are about 3,200 people employed in the logistics department in H&M. For transport, H&M uses external contract companies, and goods produced in Asia are shipped mainly by sea in order to minimize costs.

Almost all finished goods, from all suppliers around the world are shipped to the central warehouse – stock terminal in Hamburg, Germany and then are distributed to the destination countries. There are two exceptions from this procedure – first, in case of particularly big orders from particular stores (the shipment is sent directly to the store) and second, when the shipment concerns the products which are in demand only in a particular country (they are sent directly to the distribution center in that country).
In every country of its operations, H&M builds a distribution center that receives goods from stock terminal in Hamburg, sorts them as per the stores and controls the quality. Distribution centers either send items to the stores, or to a call-off warehouse that hold the stock and distribute later products according to demand reported by stores. Distribution centers are built when sales volumes in the market reaches economy of scale and when the quantity of stores reaches some “critical mass”. When entering a new market, the company usually uses distribution centers located in the neighboring countries, in order to avoid high initial costs.

However, in 2006 H&M started implementing the concept of regional grouping, which means that goods should not be distributed in each country individually, but in several groups of countries. Thus, the company was going to place some centralized functions like designing, buying, production and logistics with another buying company.

5.2.3 Store management

The chain of wholly owned stores is the main distribution channel, ensuring the company control of the expansion strategy and the store locations. In Scandinavian countries, Germany, Netherlands and Austria, online and catalogue shopping are also available (Annual Report, 2007).

When planning new stores or new market entries, H&M carry out extensive research, including consumers demographics, purchasing power, competition and local shopping areas (ICFAI, 208). In countries with important market potential the company acquires local chains.

Store locations are considered an important element of the expansion strategy. Stores should be located in prime locations i.e. in main shopping areas of major cities and towns. The headquarters analyses best locations for prospect stores and wait until they are available. Other important element are store windows that should attract customers and reflect the seasonal trends. They should also have an uniform look across the world and the visual department in Sweden provides stores with appropriate guidelines in each season.

All the stores are self-service stores, and can be divided into full range stores and concept stores, with area between 200 and 700 sq meter. Restocking takes place every day between 7.00 and 9.00 am, and in case of stores with particularly high demand it is done up to three times a day. There is also a general rule, that an item should not stay in a store longer than one month.

H&M largely practices job rotation. Stores staff must carry out various duties such as cash desk, displaying and customer assistance, and they have possibilities of promotion, f.ex for positions like production coordinators, quality controllers, auditors,
etc. On the other hand, people who work in offices are sent from time to time to stores in order to maintain contact with clients. Stores personnel are recruited locally, because they have knowledge about the local market and are considered important when deciding about the strategy (ICFAI, 2008). All new employees must participate in a three week long introduction course and are assigned a mentor. In case of entering a new market or opening a new shop, both recruitment and training are carried out by experienced staff from other locations. It is considered important to transfer and implement knowledge, skills and H&M culture in new locations.

5.2.4 IT
Informational technologies are crucial tool that enables H&M to manage effectively its supply chain and to gain competitive advantage in terms of short leads of best selling items.

All the stores are connected to the common IT platform. The exchange of information between designers and production offices, stores, warehouse and procurement department are IT-enabled. It makes possible to communicate sales data through the supply chain and subsequently to react quickly to changing trends, f.ex. adding new items that were not part of the collection within average 21 days.

5.3 H&M’s international expansion

Erling Persson opened his first shop in Vasteras in 1947. At that time the company used the brand Hennes (“Hers” in Swedish) and sold only women clothes. Some years later, when expanding to Stockholm, the owner decided to acquire the premises of hunting store Mauritz Widforss, with stock of the men’s clothing in process, and the company became Hennes & Mauritz.

H&M started its international expansion in 1964 by entering other Scandinavian markets – Norway and Denmark. Until 2007 the chain of more than 1,500 stores in 28 countries has been developed and the company became one of the biggest worldwide leading fashion retailers. Details regarding market entries and present operations in different countries have been presented below on the fig. 5 and in the Appendix 1.
In 2006, the company decided to make an exception from its general expansion strategy and to enter partnership with franchisee Alshaya, which is one of the biggest retailers in the Middle East region. This decision was due to the fact, that it is not possible to operate wholly owned subsidiaries in the Middle East (ICFAI, 2008).

According to franchising agreement, H&M sells clothes on wholesale base to its partner, which stocks and sells them in shops. At the end of November 2007, there were 10 franchise stores in Dubai, Kuwait and Qatar.

In 2007 H&M expanded to China by opening shops in Hong Kong and Shanghai. In 2008 the company is going to enter the Japanese market by establishing own stores in Tokyo, and to expand into new Middle East countries, such as Egypt, Saudi Arabia, Bahrain and Oman in cooperation with its partner Alshaya. For 2009 H&M has scheduled entering Russian market.
6 ANALYSIS

6.1 Establishment chain

The four-stage establishment chain, proposed by Johanson and Vahlne (1977) as a part of the Uppsala model constitutes a base for our analysis, because it is helpful when looking for answer for the question “how did they go international”. However, we can observe that H&M does not follow the pattern described in the Uppsala Model when deciding entry modes. Here below we analyze the situation of H&M with use of several theoretical concepts that will be useful to solve our research problem.

6.2 Foreign Market Entry

H&M was established in Sweden in 1947. Through around 60 years’ efforts, nowadays it has owned about 1,500 stores in 28 countries, which are in Europe, North America, Asia and Middle East respectively. Here from the map below, we can see it clearly. Now in this part, we would just like to make a deeper discussion on this firm’s foreign entries with the use of Hill’s Foreign Market Entry theory.

Fig. 6 The World of H&M
Source: http://www.hm.com/cz/abouthm/theworldofhm__worldofhm.nhtml
Firstly, according to Charles W.L. Hill (2007), a firm usually chooses a politically stable developed or developing foreign country which has a free market system to enter, because in such country the relationship between benefit, cost and risk can be balanced well. Here from the data we have collected, it is easy to find that H&M was just entering the foreign markets based on such principle. That is, in Europe, H&M has chosen the politically stable developed countries like Denmark, Finland, Norway, Germany, France and Switzerland to enter; in North America, it is America and Canada which are also politically stable developed countries; in Asia, it is China. Although China is a developing country, it is growing with high speed and people there have great purchasing power. Meanwhile, the political situation is stable there. As for the Middle East, it is Dubai, Kuwait and Qatar with high economic growth and great purchasing power.

Secondly, based on the materials we have got, we find that H&M entered foreign markets much later, especially the markets outside Europe, compared with other clothing companies. For example, it entered the North America just in 2000, the Middle East in 2006 and the Chinese market in 2007. According to Hill (2007), if a firm enters a foreign market after other international firms of the same industry have established their business there, then it can be called a late entrant. Thus, we can say H&M is a late mover.

Thirdly, Hill (2007), in his book “International Business-competing in the global market place”, said that a firm could enter a foreign market on a large scale, but in such case, it had to face great risk. Or a firm can extend its business to a foreign country slowly, that is, on a small scale. In this case, the firm can have more time to gain information to reduce the risk. Through the figures we have got, we find that H&M generally was entering the foreign markets in the latter way. In details, in 1947, this firm was founded. However, it was after 17 years that it just moved outside Sweden and established the first store in Norway. Then 3 years later, the first store in Denmark was opened. Here we can see that Norway and Denmark both belong to North Europe, just like Sweden, and they all have more or less the same culture. Thus, it is clear that H&M was expanding internationally just on a small scale. Furthermore, in 1976, H&M went out of North European market and came to UK. Next, in 2000, it went outside Europe and entered the North American market; in 2006, it extended its business to Middle East market and in 2007 in Asian market. Therefore, we can make a conclusion that H&M was expanding from the psychically close countries to those psychically far markets.

Next, during the whole process of internationalization and expansion, H&M mainly takes the way of investing directly in the foreign markets, just in order to have a tight control on every store. According to Hill (2007), this is the so-called “wholly owned subsidiary” entry mode. In the literature review part, we have talked about it. In Hill’s opinion, such entry mode cannot help a firm reduce the risk of losing control over the competence, but also can make it have tight control over operations. Meanwhile, the
location can be realized, the curve economies can be experienced and the stock of the subsidiary can be shared 100 percent by the firm. Thus, we can see when entering European markets, North American markets and Asian markets, H&M always chooses to set up a new store directly.

However, in Middle East, because of some policies, it is impossible to establish the wholly owned subsidiaries. Therefore, in order to enter this market with high economic growth and also the strong purchasing power, H&M changes its expansion strategy and chooses to cooperate with Alshaya, a local leading retail player. That is, H&M sells the products and deliver them to Alshaya. In turn, Alshaya stocks these goods and sell them to the customers directly. Meanwhile, in order to make sure of the concept of H&M Company, H&M puts everything under its control, from the location of shops and the arrangement inside the shops to the range of merchandise and also the training of the staff. According to Hill (2007), this is the so-called “franchising” entry mode, which means that the franchiser sells the intangible property to the franchisee and also has the right to decide how to run the business in the company.

According to the above analysis, we can say that during the process of internationalization, H&M mainly chooses the wholly owned subsidiary entry mode in the European markets, North American markets and Asian markets; while in the Middle East market, the franchising entry mode is usually taken.

### 6.3 Retailer Internationalization

In this part, we will use Dawson’s view on the retailing internationalization, which we have talked about in the above literature review, to analyze how H&M, as a retailer, is different from manufacturers in the aspect of internationalization.

#### 6.3.1 Strategic objectives

According to Dawson (2007), the retailing companies establish their stores in the foreign markets, just in order to promote the sales growth. While for manufactures, they extend their business outside the home countries, just in search for the lower costs. Here from the data we have collected from the official website of H&M, we can find that this company is doing the same thing as Dawson said. That is, H&M is growing by establishing new stores in foreign markets. Until now, it has already around 1,500 stores in 29 countries and in the past five years, “sales including VAT have increased by 72 per cent and profit after tax by 183 per cent” (Facts about H&M, 2007). Furthermore, in the following autumn of this year, the first store in Japan, which is an exciting market with fashion conscious customers owning great purchasing power, will be expected to open. This is considered an important international expansion for H&M.
6.3.2 Local Nature of the Market
In Dawson’s opinion (2007), when a retailing company runs its business in a foreign market, it must pay much attention to this market’s characteristic. That is to say, it has to know clearly the culture of that market, the people’s consuming behaviors in that market and so on. While for manufacturers, they do no have to do those things because their foreign operations are just about the production. Here in the case of H&M, it can be easily found that when this retailing firm chooses a foreign market to enter, it will search for much relevant information about the purchasing power of the people in that market. For example, for the opening of the store in Shanghai, H&M just knows that “many people in China with the same level of purchasing power as in Europe. The region is also developing strongly, with continued substantial growth” (Facts about H&M, 2007).

6.3.3 The Outlet is the Retailer’s Product
Dawson (2007) thinks that the sales outlet is the real product of a retailing company so that the stores should be designed well to attract more customers. As for manufactures, the items they sell are just their final products. H&M, as a successful retailer company, is doing in the same way. As we all know, H&M has a principle of its own, that is, to start the stores in the best location at all times. Moreover, in order to attract the customers to stop, the shop windows are always designed to be very inviting. For example, there is always something new shown. Besides, inside the stores, the environment is very comfortable and inspiring and just gives the consumers a feeling of well-being.

6.3.4 Network Structure of Retail Organizations
As we have mentioned before, H&M, as a retailing company, owns around 1,500 stores all over the world. This is just in accordance with Dawson’s view on the number of shops an international retailer should have. That is, normally a medium-sized international retailer often has 500 or more stores. Besides, according to Dawson (2007), in a retailing company, the relationship between local units and head office and also the links among the local sectors plays a very important role. Here from the materials we have got, we know that it is the same situation in H&M. That is, this company is using a common IT platform to link all the departments and all the units together, making them as the knots of a net. All the sales and buying departments can master the updated situation of each store and then can make an adjustment accordingly to make sure all the stores just have suitable stocks.

6.3.5 Large Number of Suppliers and Customers
According to Dawson (2007), an international retailer usually has a large number of suppliers and also those suppliers play an important role in the growth of the retailing company. H&M, as we all know, is just such kind of firm. It does not have its own factories, but around 700 independent suppliers, primarily in Asia and Europe.
Besides, in the aspect of customers, H&M offers kinds of products from clothes, shoes to cosmetics to women, men, teenagers and even children, just to meet their different needs.

6.3.6 Cost Structures
From Dawson’s point of view (2007), the cost structures in retailing are quite different from manufacturers’, because in retailing the demands and competitive processes are both local. Here according to the information we have searched for, we know that H&M, in each market, has to face kinds of competition from international and local retailers, individual stores and also department stores. What’s more, besides the fashion companies, H&M has to compete with other consumption such as travel, home electronic and so on.

6.4 Summary
According to the above analysis, we find that H&M has consequently entered foreign markets by establishment of wholly owned subsidiaries. Being a retailer, it cannot be an exporter; licensing and turnkey projects are also excluded. The strategy of choosing wholly owned subsidiaries, rather than joint ventures makes it possible for the company to maintain control of the logistics and distribution processes, which are very important elements of the company’s competitive advantage. The only exception are the Middle East markets, where H&M operates in cooperation with its franchise partner – Alshaya, because it is not possible to establish wholly owned subsidiaries in that region. The company does not possess own factories, but we can consider production offices a kind of manufacture entities located in foreign markets. Thus, we can sum up that H&M’s establishment chain is composed of three stages: franchising, wholly owned sales subsidiaries and production offices.
6.5 The Network theory - H&M as the International Among Others

Both the company and the whole clothing industry are today highly internationalized. H&M sales its products on 28 markets and has developed a net of 700 suppliers in many different countries (H&M Annual Report, 2007). Many of its suppliers are multinational corporations, especially those based in Asia (Wingborg, 2006), and the same regards its competitors which are usually big fashion retailers that sail their products in many countries. Generally, as it regards scope of operations, we can divide fashion brands into three categories: world-wide chains (Zara, Mango, Esprit), regional chains (Kappahl, Cubus, Reserved, Wal-Mart, Target) and local companies. As it regards business concept there are companies with own stores and those operating through franchising. However, fashion retailers must compete not only within their own industry, because they compete for client resources with other consumer industries like: travel and entertainment, home accessories etc. Thus, we can conclude that according to the Network Theory the company is in the situation of the International Among Others.

In our opinion, H&M has an important macro-position in the international network of clothing industry. The company has been investing a lot in choosing and developing its suppliers, which results in stronger and stronger bonds linking both parts of the relationship. Of course the strength of those bonds can differ from case to case, but generally H&M should have stronger position in relation to its suppliers than the suppliers in relation to H&M. The main reason for the stronger position and bargaining power is that the H&M’s suppliers are very dispersed. When a company has 700 different suppliers it is not so much dependent on any of them. But of course, the H&M is interested in long-term relationships because it invests in mutual relations (Wingborg, 2006).

Just like other firms that are in the situation of the International Among Others, H&M utilizes production capacity in one market for sales in other markets what makes possible to coordinate production by specialization The same regards logistics f.ex. when the company uses a distribution center in neighboring country when entering a new market.

According to the network theory, high internationalization level and consequently high level of international knowledge influence the speed of establishment of new sales subsidiaries, and it becomes very important to coordinate efficiently all the activities (Johanson and Mattsson, 1988). This observation is quite obvious in case of H&M. The company enters new markets at increasing pace, utilizing its strong position in the international network of clothes industry and the knowledge about international operations. There is also a strong focus on coordination of the activities such as designing, production, logistics and distribution, that is achieved with use of
appropriate IT tools. As it has been described in the empirical data part, all the communication between designers and buyers located in headquarters and production offices, as well as the communication between headquarters and stores takes place electronically, thanks to the shared IT platform (ICFAI, 2008).

6.6 Psychic distance

In the following part of the analysis we want to develop discussion about factors that influenced the expansion decisions of H&M, with use of the psychic distance concept.

H&M started its internationalization process by entering neighboring Scandinavian countries such as Norway and Denmark (H&M Annual Report, 2007). When we analyze those markets in terms of differences in language, legal and political system and education levels, that according to Johanson and Vahlne (2003) are crucial factors influencing the psychic distance, we can say that they are very similar to the domestic market. Swedes, Norwegians and Danish can understand each other even if they speak their own languages, and legal and political systems historically evolved in the similar direction. There are no important differences in education levels, and all Nordic countries respect professional education (f.ex. medicine doctors, engineers) obtained in neighboring countries. Thus, we can conclude that the psychic distance between Sweden, Denmark and Norway is small.

There is an interesting empirical observation regarding psychic distance – and confirming that it is not possible to simplify the measurement and to treat neighboring countries as similar. If we analyze the case of Finland, we can see that even if it is very close in terms of geographical locations, until 1990’s it was very different from Sweden in terms of political system (at that time Finland had strong political links with Soviet Union) and it has always been very different in terms of language which comes from the same language family as Hungarian and Turkish. Thus, even if Finland was a very close neighbor, H&M decided to enter its market only in 1997, which means six years after disintegration of Soviet Union (H&M Annual Report, 2007).

In 1976 the company began entering different Western European markets, starting from UK, Switzerland, Germany and Netherlands (H&M Annual Report, 2007). Those countries can be seen as the next stage in terms of increasing psychic distance. We can observe the pattern that the English or German speaking countries were entered first. Most of Swedish employees are familiar with English and so is in Switzerland, Germany, and Netherlands, so the communication does not represent a big barrier, even if it is always slightly less comfortable than speaking in mother language. There are more differences in law system (especially in case of UK that uses the system of common low) and political system, but these are still Western European countries belonging to the same cultural and economic area. The same
regards markets of Southern Europe, which were entered several years later. However, with the exception of the language (English is not so commonly known) other factors described by Johanson and Vahlne (2003) like legal and political system, and education level are not so different in those countries. In our opinion some additional factors presented by Evans, Treadgold and Mavondo (2000), like business practices, marketing infrastructure, industry structure and culture can better explain the difference of the business environment. As it regards culture, the comparison of different countries or regions with use of Hofstede’s dimensions has been presented in the Appendix 2.

Only in 2003 H&M decided to expand to American markets, first to USA and one year later to Canada (H&M Annual Report, 2007). The psychic distance from the domestic market is still increasing in terms of political and legal system, business practices, marketing infrastructure, industry structure and culture, but until now the company has gained huge experience in terms of foreign operations. At the same time, as the company has become one of the biggest European fashion retailers, the perceived risk connected to foreign markets commitment has substantially decreased.

Next came Central-Eastern Europe countries, probably the choice was determinated by the fact, that it was already 15 years after the break-through in this part of the Europe and its legal and political system have become similar to other European countries, as well as education level. Business practices, marketing infrastructure have also evolved importantly and differences between this region and Western Europe have decreased as the countries of the regions were preparing their accession to the EU.

The situation looks completely different in case of entering Middle East markets. Those countries can be seen very distant both in terms of geographical location and all factors included in the concept of psychic and cultural distance. Even range of products must differ substantially from other countries because of clothing restrictions resulting from Muslim religion. First of all, foreign companies cannot establish wholly owned subsidiaries in the region, but they need a local partner that owns at least 51% of shares (Marknadsetablering i UAE, 2008). That is the main reason why H&M decided for franchising in cooperation with Alshaya. Furthermore, there is a different political and legal system (linked to Muslim values), different education system, business environment, marketing infrastructure, industry structure and culture. The differences between Swedish and Arabic World’s culture in terms of Hofstede’s dimensions has been presented in the Appendix 2.
7. CONCLUSION

In this thesis, we have discussed two problems. One is how H&M went international and the other is what factors did influence such expansion. For the first question, we just take the establishment chain, which was proposed by Johanson and Vahlne (1977) as a part of the Uppsala model as our base for the description of H&M’s internationalization. That is, “at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow” (Johanson and Vahlne, 1990, p13). However, through the use of Hill’s foreign market entry theory and also Dawson’s retailing internationalization, we finally find that H&M, as a retailer, does not follow this original pattern of establishment chain. That is to say, with Hill’s foreign market entry theory, we know that H&M is taking wholly subsidiary as its main expansion mode and also franchising as the strategy to enter Middle East market. As for the export, turnkey, licensing and joint venture, they are not being used by this company. Besides, through Dawson’s retailing internationalization, we find that the retailer H&M is quite different from those manufacturers in six aspects, which are strategic decisions, local nature of the market, the outlet is a product, network structure of organization, large number of suppliers and customers and cost structure respectively. What’s more, through the data we have collected, we know that although H&M does not have its own factories, it has several production offices for the control of other manufacturers. Thus, through the whole analysis, we get a conclusion that H&M’s different establishment chain just contains the following three stages: franchising, wholly owned sales subsidiaries and production offices.

H&M is part of the clothes industry network, and it has established and developed strong bonds with its 700 external suppliers. Since both the company and the network are highly internationalized we can say that it is in the situation of the International Among Others. It has developed a strong macro-position in the network, because being so important player in the industry means having huge bargaining power in relation to its suppliers.

As it regards the second research question – what factors did influence the H&M’s internationalization decisions - we can observe the clear pattern of entering the markets characterized by bigger and bigger psychic distance. After establishment on the domestic market, the H&M entered other Scandinavian markets, Western Europe, America, Eastern Europe, Middle East and finally the Chinese market. We have analyzed the process of entering different groups of countries with use of several dimensions of the psychic distance concept. We can confirm that the company first entered markets with similar language (or countries which inhabitants are mostly familiar with English), similar law and political systems, business practices, marketing infrastructure, industry structure and culture. In all those countries H&M decided to establish wholly owned subsidiaries, which is an important element of the
expansion strategy. The situation differs in case of Middle East countries that substantially differ from Sweden in terms of all elements of psychic distance. The most important is that due to legal restrictions it is impossible to establish wholly owned subsidiaries in the region, and this is the main reason for which the company decided to operate in that region through franchising.
References


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Wingborg, M., 2006, “H&M’s infrastructure for the auditing and improvement of working conditions in supplier factories”, Clean Clothes Campaign.


### Table 1  Market entries and international operations of H&M

Source: Annual Report 2007

<table>
<thead>
<tr>
<th>Market</th>
<th>Year end</th>
<th>Number of stores 30-11-07</th>
<th>Openings during the year</th>
<th>Closures during the year</th>
<th>Sales 2007 including VAT (SEK m)</th>
<th>Sales 2006 including VAT (local currency)</th>
<th>Average no. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>2007</td>
<td>124</td>
<td>4</td>
<td>3</td>
<td>7,223</td>
<td>6,569</td>
<td>2,020</td>
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<tr>
<td>Norway</td>
<td>1904</td>
<td>32</td>
<td>4</td>
<td>1</td>
<td>5,155</td>
<td>4,340</td>
<td>1,029</td>
</tr>
<tr>
<td>Denmark</td>
<td>1997</td>
<td>66</td>
<td>7</td>
<td>1</td>
<td>3,748</td>
<td>3,220</td>
<td>1,270</td>
</tr>
<tr>
<td>UK</td>
<td>1976</td>
<td>120</td>
<td>16</td>
<td>1</td>
<td>7,520</td>
<td>6,769</td>
<td>1,672</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1978</td>
<td>60</td>
<td>4</td>
<td>1</td>
<td>4,209</td>
<td>3,435</td>
<td>1,174</td>
</tr>
<tr>
<td>Germany</td>
<td>1986</td>
<td>319</td>
<td>20</td>
<td>4</td>
<td>22,160</td>
<td>20,118</td>
<td>10,016</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1989</td>
<td>92</td>
<td>2</td>
<td>1</td>
<td>6,167**</td>
<td>5,437**</td>
<td>2,594</td>
</tr>
<tr>
<td>Belgium</td>
<td>1992</td>
<td>56</td>
<td>6</td>
<td>2</td>
<td>2,838</td>
<td>2,776</td>
<td>1,250</td>
</tr>
<tr>
<td>Austria</td>
<td>1994</td>
<td>55</td>
<td>6</td>
<td>2</td>
<td>4,543</td>
<td>4,285</td>
<td>1,356</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1998</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>331</td>
<td>310</td>
<td>134</td>
</tr>
<tr>
<td>Finland</td>
<td>1997</td>
<td>34</td>
<td>2</td>
<td>1</td>
<td>2,248**</td>
<td>1,965**</td>
<td>523</td>
</tr>
<tr>
<td>France</td>
<td>1998</td>
<td>95</td>
<td>13</td>
<td>1</td>
<td>6,972</td>
<td>5,843</td>
<td>2,850</td>
</tr>
<tr>
<td>USA</td>
<td>2009</td>
<td>142</td>
<td>51</td>
<td>1</td>
<td>5,510</td>
<td>5,109</td>
<td>2,329</td>
</tr>
<tr>
<td>Spain</td>
<td>2009</td>
<td>72</td>
<td>11</td>
<td>1</td>
<td>6,114</td>
<td>5,245</td>
<td>2,415</td>
</tr>
<tr>
<td>Poland</td>
<td>2009</td>
<td>42</td>
<td>6</td>
<td>1</td>
<td>1,778</td>
<td>1,308</td>
<td>1,150</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2003</td>
<td>14</td>
<td>1</td>
<td>1</td>
<td>610</td>
<td>510</td>
<td>249</td>
</tr>
<tr>
<td>Portugal</td>
<td>2003</td>
<td>18</td>
<td>1</td>
<td>1</td>
<td>673</td>
<td>625</td>
<td>425</td>
</tr>
<tr>
<td>Italy</td>
<td>2003</td>
<td>91</td>
<td>15</td>
<td>1</td>
<td>1,763</td>
<td>1,686</td>
<td>763</td>
</tr>
<tr>
<td>Canada</td>
<td>2004</td>
<td>58</td>
<td>2</td>
<td>1</td>
<td>5,439</td>
<td>5,150</td>
<td>950</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2004</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>495</td>
<td>554</td>
<td>115</td>
</tr>
<tr>
<td>Ireland</td>
<td>2005</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>413</td>
<td>327</td>
<td>153</td>
</tr>
<tr>
<td>Hungary</td>
<td>2005</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>187</td>
<td>187</td>
<td>95</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2007</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>31</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>Greece</td>
<td>2007</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>141</td>
<td>141</td>
<td>55</td>
</tr>
<tr>
<td>China</td>
<td>2007</td>
<td>7</td>
<td>7</td>
<td>3</td>
<td>492</td>
<td>492</td>
<td>646</td>
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<tr>
<td>Franchise</td>
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<td>10</td>
<td>0</td>
<td>0</td>
<td>259***</td>
<td>72***</td>
<td>52**</td>
</tr>
</tbody>
</table>

Total 1,522 193 16 92,123 80,061 48,469**

* Including internet and catalogue sales
** Group net 41,329
*** Excluding VAT
In this appendix we would like to present results of comparison of different countries or regions in terms of cultural distance, measured with use of Hofstede’s dimensions. We have used the model available on web page www.geert-hofstede.com, in which five dimensions have been applied: power distance (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance (UAI) and long-term orientation (LTO). However, in some cases the long-term orientation ratio is not available. Here below, we present the comparison between Sweden, Denmark and Norway.

As we can see on the figure 1, the countries are quite similar in terms of those five dimensions and the most important difference can be observed in terms of uncertainty avoidance, which is much higher in Norway than in Sweden and Denmark.

And now, in order to see the difference with other regions, we are going to compare Sweden with some countries that are considered more distant in terms of culture than Norway and Denmark. In the first step we can see the comparison between some European countries and United States. As we can see below, even if the differences they are still not so important (with the exception of masculinity dimension in terms of which Sweden differs importantly from others), they are bigger than in case of comparison with Norway and Denmark.

**Fig 1  Cultural distance according to Hofstede’s dimensions between Sweden, Denmark and Norway**

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And now, in order to see the difference with other regions, we are going to compare Sweden with some countries that are considered more distant in terms of culture than Norway and Denmark. In the first step we can see the comparison between some European countries and United States. As we can see below, even if the differences they are still not so important (with the exception of masculinity dimension in terms of which Sweden differs importantly from others), they are bigger than in case of comparison with Norway and Denmark.
And finally we can compare Sweden with definitely distant regions like Arab
countries (in this case Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, United
Arab Emirates are included), China and Japan.

It is clearly visible, that those countries substantially differ from Sweden in terms of
Hofstede’s cultural dimension.