



Swedish University of Agricultural Sciences  
Faculty of Natural Resources and Agricultural Sciences  
Department of Economics

# **Internationalization of the Swedish Food Industry: Challenges and Opportunities**

- The case of Lantmännen Cerealia

*Goudarz Azar*

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**Credits:** 15 hec

**Level:** Advanced D

**Course title:** Independent project – Degree project in Business Administration

**Course code:** EX0581

**Programme/Education:** Environmental Economics and Management,  
Master's Programme

**Place of publication:** Uppsala

**Year of publication:** 2010

**Name of Series:** Degree project

**No:** 631

**ISSN** 1401-4084

**Online publication:** <http://stud.epsilon.slu.se>

**Key words:** Case study, Food culture, Food industry, Globalization, Internationalization,  
Psychic distance, Sweden



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# Abstract

Economic globalization has brought up both opportunities and challenges for the world trade. An increased flow of capital, labor and production factors across the boundaries, increased opportunities for off-shore production and outsourcing in manufacturing and even service sector are only a part of the “opportunities” that has been brought up by economic globalization. On the other hand cultural barriers, managerial complexity, and environmental uncertainty are among the challenges of economic globalization. Internationalization (international expansion) has been defined as an important strategy for businesses to exploit the opportunities in the globalized world of trade. A trend toward a more internationalized structure has been evident within the Swedish food industry. Although the export of food products by Swedish enterprises has increased dramatically during the last decade, more than 70 per cent of the export goes only to the EU member states. Consequently, by considering the phenomenon of economic globalization, the potential opportunities placed in other parts of the world are not satisfactorily exploited by Swedish food enterprises. The purpose of this study is to investigate the Swedish food enterprises’ internationalization decisions regarding the choice of international markets; what factors might have crucial impact on the choice of a foreign market and how these factors may affect the firm’s performance. The study focuses on the case of “Lantmännen Cerealia” a company within the Lantmännen Group, one the largest Nordic groups within food. Accordingly, knowledge about business and cultural issues in a market has a crucial role in the firm’s internationalization decisions regarding the choice of a foreign market. Furthermore, conducting market research will help the firm to acquire knowledge about business and cultural issues within a foreign market which also enhance its performance in that market.

# Abbreviations

EU: European Union

CEE: Central and Eastern Europe

GNP: Gross National Product

OECD: Organization for Economic Co-operation and Development

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investment

ROS: Return on Sales

SEK: Swedish Crowns

SMEs: Small and Medium-sized Enterprises

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# 1 Introduction

The food industry is the second largest sector among the European manufacturing sectors. This sector stands for more than fourteen per cent of turnover and even more than thirteen per cent of employment within the European manufacturing sector. In terms of importance, the food industry's crucial role for health and job opportunities has made this sector one of the most important industrial sectors within Europe (EC, 2009).

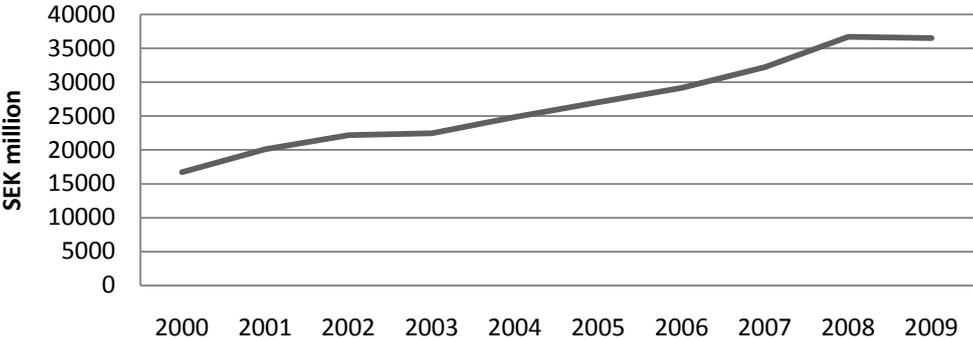
Like many other European industrial sectors, a trend towards a more internationalized structure has been noticeable within the food sector during the last decades (Bager, 1994). Although, exporting has been the food enterprises' main entry mode into the international markets, purchasing abroad, establishing production facilities and retail outlets and merging and acquisitions across the borders are different entry strategies which are also applied by food enterprises when expand internationally (Benito & Strøm, 2000).

## 1.1 Problem background

The Swedish food industry has almost a two per cent share of the total production of food within the European Union (EU) (Livsmedelsföretagen, 2010). There are about 3 000 enterprises within the Swedish food industry in which more than 99 per cent of them are classified as Small and Medium-sized Enterprises (SMEs) (Livsmedelsrådet, 2008). By a production value of SEK 170 billion and 56 000 job opportunities, the food industry is the fourth largest industry in Sweden i.e. it counts for 9 per cent of the Swedish industry's total production value and 9 per cent of the industry's job opportunities (Livsmedelsföretagen, 2010).

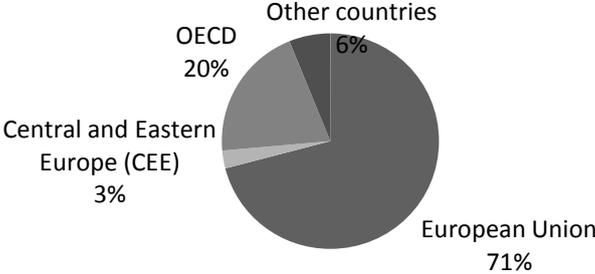
Economic globalization has affected the Swedish food industry in the way that Swedish food enterprises expand more internationally at the same time as foreign companies increasingly grows in Sweden (Ibid.).

Since 2000, the Swedish export of food (including beverages) has increased from SEK 16 712 million to SEK 36 525 million in 2009, i.e. more than 118 per cent (figure 1) (SCB, 2010).



**Figure 1.** The Swedish Food industry’s export of food products (including beverages) (SCB 2010)

Nonetheless, the fact is, of the Swedish total food export only less than 30 per cent go to the countries out of the European Union (EU) region, i.e. Central and Eastern Europe<sup>1</sup>-, OECD<sup>2</sup>-, and other countries, whereas more than 70 per cent of the Swedish total food export go to the EU member states, in particular Denmark, Finland and Germany (figure 2) (Enhäll, Johansson, & Sköld, 2009).



**Figure 2.** The Swedish Food industry’s export values divided in target markets in 2008 (Enhäll et al. 2009)

<sup>1</sup> See appendix.  
<sup>2</sup> See appendix.

Norway and the United States are Sweden's main non-EU trade partners in this case. Fish, cereals and cereal products, beverages and processed food are counting for 65 per cent of the value of Sweden's food export (Ibid.).

## 1.2 Problem

The concept of economic globalization refers to a process of developing and operating in an international scale by businesses (Waite, 2001). Moreover, it implies a process of integration of international markets (O'Rourke & Williamson, 2002; Pinstруп-Andersen, 2002) and a process of freer flow of goods, services, labor, information and technology (Feenstra & Taylor, 2008; Pinstруп-Andersen, 2002). Economic globalization has brought up both opportunities and challenges for the world trade. An increased flow of capital, labor and production factors across the boundaries (Commander, Chanda, Kangasniemi, & Winters, 2008; Solvell, 2003), increased opportunities for off-shore production and outsourcing in manufacturing and even service sector, high production differentiation and short production run (Gereffi & Korzeniewicz, 1994) and transferring of technology across the boundaries (O'Rourke & Williamson, 2002) are only a part of the "opportunities" that has been brought up by economic globalization. On the other hand cultural barriers, managerial complexity, environmental uncertainty and also issues in corporate governance and accountability for many businesses are among the challenges of economic globalization (Luo, 2005; Swift, 1999). Hence, businesses have to confront a variety of challenges when intend to exploit the opportunities in the globalized world.

Internationalization has been defined as an important strategy for businesses to exploit the opportunities resulted from the economic globalization (Zeng, Xie, Tam, & Wan, 2009). According to Johanson and Vahlne (1977, p.23), internationalization refers to "a process of

gradual increase of the firm's international involvement". Maurer (1996) maintain that the international involvement is carried out mainly through exporting, licensing or direct investment by firms in overseas markets.

Within the food industry, firms internationalize primarily through exporting to foreign markets. However, purchasing abroad, establishing production facilities and retail outlets and merging and acquisitions across the borders are different strategies which are also applied by food enterprises when expand internationally (Benito & Strøm, 2000).

A trend toward a more internationalized structure has been evident within the Swedish food industry during the last decade. Accordingly, the export of food (including beverages and tobacco) by Swedish food enterprises has increased almost 118 per cent between 2000 and 2009 (figure 1). However, the greater part (more than 70 per cent) of Swedish export of food products goes to the EU member states. Consequently, it is possible that, by considering opportunities resulting from economic globalization, the potential opportunities placed in other parts of the world are *not* satisfactorily exploited by Swedish food enterprises.

### 1.3 Purpose

The overall purpose of this study is to investigate the Swedish food enterprises' internationalization decisions regarding the choice of international markets. Accordingly, this study aims to address the following research questions:

1. What factors might have crucial impact on a Swedish food enterprise's internationalization decisions regarding the choice of a foreign market?
2. How may these factors affect the firm's performance?

This study focuses on “Lantmännen Cerealia” as a case firm; a company within the Lantmännen Group, one of the largest Nordic groups within food, energy, machinery and agriculture. The group is owned by 37 000 Swedish farmers and operates in 19 countries. It has 10 000 employees with a turnover of SEK 35 billion (Lantmännen, 2010a).

## 2 Theory

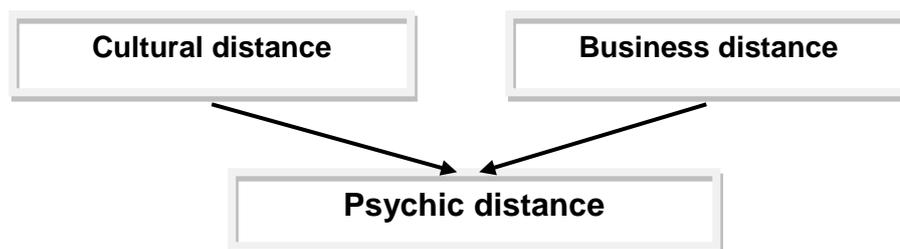
*Chapter 2 contains background information and theories which are used as a framework for the empirical study.*

### 2.1 Psychic distance

The concept of Psychic distance has been introduced as an explanatory element in the firms' internationalization decisions, primarily regarding the choice of foreign markets (Benito & Gripsrud, 1992) and the entry mode into the those markets (Kogut & Singh, 1988; Tihanyi, Griffith, & Russell, 2005) , and adapting marketing strategies (Evans & Bridson, 2005). Moreover, psychic distance has been applied as a determinant factor in the internationalized firms' performance (Dikova, 2009).

Psychic distance is primarily defined as “the sum of factors preventing the flow of information from and to the market” (Johanson & Vahlne, 1977, p. 24). Nordstrom and Vahlne (1994, p. 42) broaden the former definition and include the term learning into the definition. They define psychic distance as “factors preventing or disturbing firm's learning about and understanding a foreign environment”. Moreover, by inserting the term perception, Swift (1999, p. 182) define the psychic distance as “a consequence of a number of interrelated factors, of which, perception is a major determent”. On the other hand, Evans & Mavondo (2002, pp. 516-17) argue that these definitions fail to encapsulate the two most important elements of psychic distance, psychic and distance. Moreover, Evans and Mavondo (2002) maintain that true explanatory of psychic distance can only be revealed when individual elements are fully measured. Hence, they redefine the concept of psychic distance as *“the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences”* (Ibid. p. 517).

In this paper the Evans & Mavondo's (2002) definition of psychic distance is applied, since it includes the concepts of perception (illustrates the perceptual nature of psychic distance) and distance (points out to the differences/similarities between two points) and explicitly clarifies the major constructs of psychic distance: cultural- and business differences (figure 3).



**Figure 3.** Constructs of psychic distance (Evans & Mavondo, 2002)

### 2.1.1 Psychic distance, internationalization decisions and firms' performance

According to the original Uppsala model of the firms' internationalization process (Johanson & Vahlne, 1977), a firm's internationalization is a process which is carried out gradually. Firms internationalize initially into the psychically close markets and gradually expand into the psychically distant markets. This is mainly due to the firms' knowledge about business and cultural issues within the psychically close markets. Accordingly, this knowledge about the psychically close markets will also lead to a better performance in those markets in comparison to the psychically distant markets, i.e. there is a negative relationship between psychic distance and the firms' performance (Johanson & Vahlne, 1977). Nonetheless, based on an empirical study of international non-food retailers, Evans and Mavondo (2002) reveal that firms perform better in the psychically distant markets. They argue that the perceived distance in terms of cultural and business differences encourage the firms to conduct more

extensive market research which enhance the firms' performance, i.e. there is a positive relationship between psychic distance and the firms' performance (psychic distance paradox).

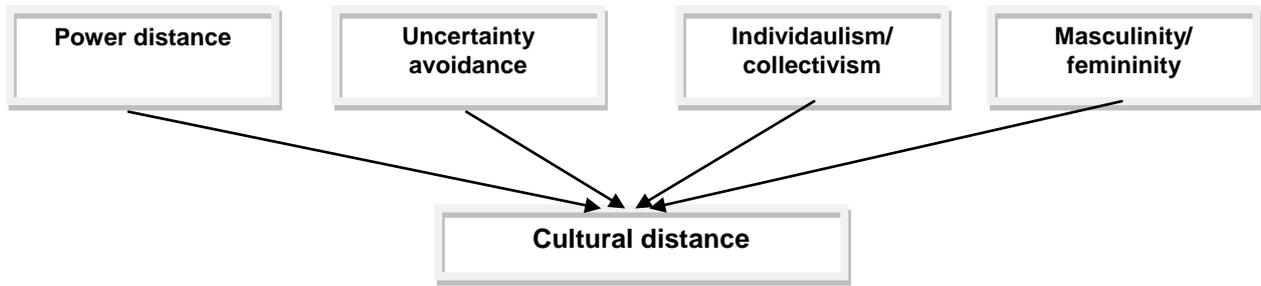
### 2.1.2 Psychic distance constructs

Prime et al. (2009, pp. 195-196) argue that psychic distance is not an observable phenomenon per se therefore it is operationalized through its casual factors, cultural- and business distance.

#### *Cultural distance*

Difference in culture (cultural distance) is one of the main components of psychic distance that has often been at the center of attention in the international business literature (Evans & Mavondo, 2002). Furthermore, psychic distance has often been interpreted as cultural distance and although cultural distance is introduced as one of the indicators to operationalize the psychic distance, these two terms has often been used interchangeably (Prime, et al., 2009). The importance of cultural distance on the firms' performance is mainly due to the effect of this construct on the consumer behavior. Accordingly, the perception of a high level of cultural differences between the firms' home market and the foreign market makes the firms to conduct more extensive market research which improve the firms' knowledge about the market and hence their performance (Evans & Mavondo, 2002).

Cultural distance has been mostly operationalized by using Hofstede's (2001) dimensions of national culture (power distance, uncertainty avoidance, individualism, and masculinity) (figure 4).



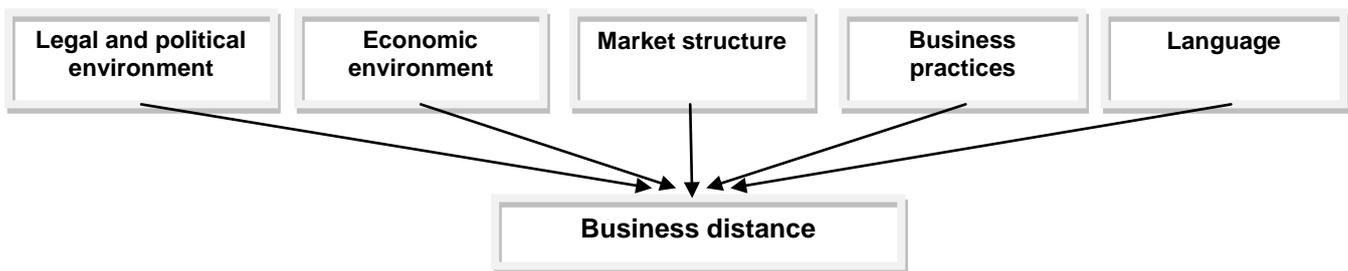
**Figure 4.** Components of cultural distance (Hofstede, 2001)

According to Hofstede (2001), culture is “*the programming of the mind that distinguishes the members of one group or category of people from others*”. Accordingly, based on the survey data about the values of people (IBM employees) in more than fifty countries, the author advances four dimensions of national culture: power distance, uncertainty avoidance, individualism, and masculinity. These dimensions are aspects of a culture that can be measured relative to other cultures.

*Power distance* refers to if the power in a society is distributed equally or not. The longer the power distance, the more power is distributed unequally. *Individualism/collectivism* illustrates how tight the relationships between the individuals of a society are. In societies with a high degree of individualism every individual is expected to look after himself or herself and his or her immediate family. *Masculinity/femininity* is related to the existence of a distinctive role for woman and men in a society. In a masculine society men are supposed to be assertive, tough, and focused on material success, whereas women are supposed to be more modest, affectionate, and concerned with the quality of life. A feeling of being highly threatened by unknown situations/future is characterized as a society with high extent of *Uncertainty avoidance* (Hofstede & Hofstede, 2005).

### *Business distance*

Evans and Mavondo (2002, p. 520) point out that business distance is another main component of psychic distance that has been often neglected in the international business literature. According to the authors, this component refers to the differences in legal and political environment, economic environment, market structure, business practices and language between the home market and a foreign market (figure 5).



**Figure 5.** Components of business distance (Evans & Mavondo, 2002)

*Legal and political environment* relates to political stability, as well as policy and legislative issues in a market. *Economic environment* refers to the economic stability, the degree of government control over economic activity, currency fluctuations, demand for goods and services, the banking sector capacity and the level of urbanization in a market. The economic environment is often measured by using Gross National Product (GNP). Enterprise density (number of enterprises per head of population) and market concentration (e.g. whether monopolies exist) indicate the *structure of a market*. *Business practices* illustrate the basis for rewards and recognition of staff and management in organizations, how the credit financial arrangements with banking institutions are, and how the concept of “fair dealing” is defined in a market. Finally, *language* refers to the language that is used to communicate in both business transactions and social settings (Evans, Mavondo, & Bridson, 2008).

Accordingly, when firms perceive a high level of uncertainty when entering a foreign market with a different pattern of business, they will intentionally improve their knowledge about that market which will also have a positive effect on the firms' performance.

## 2.2 Food culture distance

The high integration of food - the product traded in the food sector - and culture has made the food industry unique among the other industrial sectors. Food consumption is highly affected by consumers' culture (food culture) (e.g. Anderson, 2005; Buisson, 1995; Montanari, 2006). According to Buisson (1995), contrasting other products and brands which with some minor modification are possible to be promoted in different markets, the integration of food and culture has brought up difficulties in promoting same food products in different market places. Anderson (2005) mentions that production, preparation and consumption of food are carried out inspired by human's culture and despite the fact that human beings are able to eat everything; they prefer their own food, according to their own preferences. Hofstede (2001) points out that symbols, rituals and values are elements that visualize a nation's culture. According to Fiddes (1995, p. 136) like any symbol, what we eat can say very different things about us, and about us, at different times, and within different communities. Anderson (2005, p. 62) maintains that "food is not only consumed in order to satisfy the nutrients needs, but also to communicate, to reassure [and] to affirm religious faith". Furthermore, Lannon (1986) notes that there is a direct connection between the society's values and food in terms of consumption of fair trade and ecological food.

The explanatory power of the concept of food culture in the consumers' choice of food is also established by an empirical study of consumers behavior in which Schroeter et al. (2007) demonstrate that food culture has a crucial impact on consumers' choice of food. On the

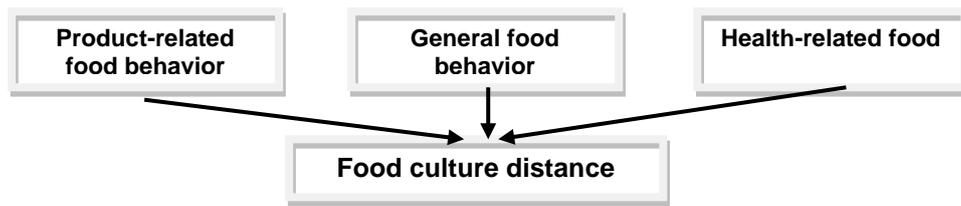
other hand according to a survey among industrial practitioners, Swift (1999) concludes that food is one of the most important aspects of cultural difference between markets.

Consequently, it is arguable that consumers' food culture has a crucial role in the food enterprises' internationalization decisions regarding the choice of a foreign market and knowledge about food culture in a foreign market will improve the food enterprises' performance. Hence, when food enterprises perceive a high level of distance in terms of food culture between their home market and a foreign market they will carry out extensive market research which will improve their performance.

### 2.2.1 Operationalization of food culture distance

The food culture is studied by Askegaard & Madsen (1998) in which they look at the traits of homogeneity and heterogeneity in European food cultures. The paper is based on the data from a 1989 lifestyle survey in 15 European countries which was organized by the CCA (Centre de Communication Avancé), a marketing research agency in Paris, with the aim of generating a pan-European lifestyle typology. The respondents consist of 20 000 consumers from 15 European countries in which they are asked to answer to a standardized questionnaire regarding lifestyle (for more details see Askegaard & Madsen, 1998).

Askegaard & Madsen (1998) focused only on the results of analyses of the 138 food-related questions within the survey. According to them, food culture is recognized as a mega concept which is operationalized by using its three components: general food behavior, product-related food behavior and health-related food behavior (figure 6).



**Figure 6.** Components of food culture distance (Adapted from Askegaard & Madsen, 1998)

Food style, trend and preferences are dimensions of general food behavior while nibbling- and drinking habits are dimensions of product-related food behavior. Diet willingness and diet behavior are the dimensions of health-related food behavior (Askegaard & Madsen, 1998).

The variables cover different aspects and dimensions of food behavior which provide a pattern of consumers' food culture. Consequently, in this paper, the measures of food culture distance is based on the adapted<sup>3</sup> form of the variables which are applied by Askegaard & Madsen (1998).

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<sup>3</sup> An adapted form of variables is applied in this study since the respondent is a food enterprise (senior manager) and not a consumer.

## 3 Method

*Chapter 3 demonstrates the method which is applied in this study. This chapter ends with the detailed information about how the empirical study is conducted and data is collected.*

### 3.1 Case studies

“A case study investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and the context are not clearly evident” (Yin, 2009, p. 18). Case studies are suitable when you are striving towards answering “why” and “how” questions. There are many variations within case studies as a research method; a case study research may include single- and multiple studies; it may include quantitative as well as qualitative evidence; case studies may be conducted with motives from simple presentation of individual cases to achieve very broad generalizations (Yin, 2009).

According to Yin (2009, pp. 27-35), the main components of a research design in case studies include:

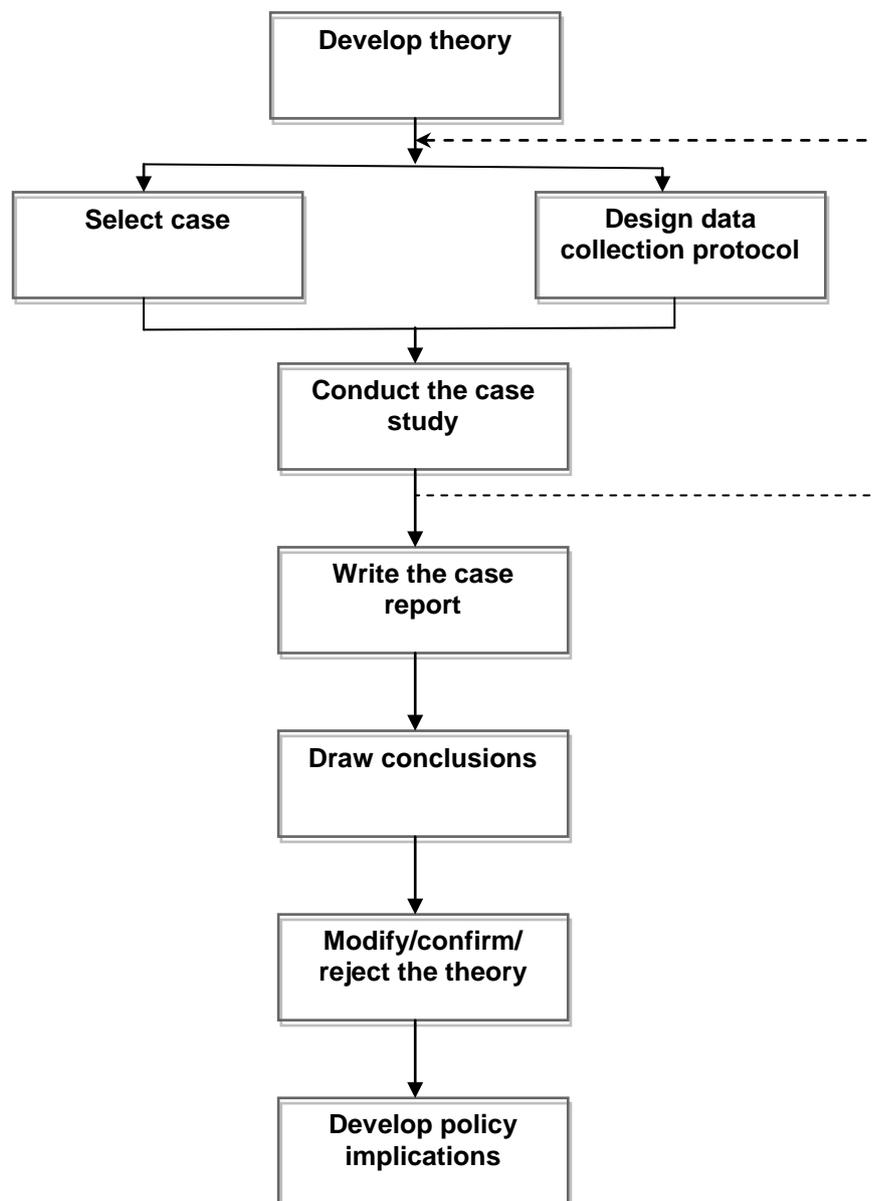
1. A study’s questions;
2. Its propositions, if any;
3. Its unit(s) of analysis;
4. The logic linking the data to the propositions; and
5. The criteria for interpreting the findings.

The research questions determine which research method is mostly appropriate, e.g. “how” and “why” questions are suitable for case studies. The scope of the study is realized by the research propositions. The unit of analysis, the “case”, may be an individual, event or entity by which you are trying to answer the research questions. The logic linking the data to the propositions refers to an appropriate choice of data which may create a more solid foundation

for the later analysis. Finally, specifying the way(s) of analyzing/interpreting the findings (e.g. statistical analyses) is also a main part of a case study's research design work.

### 3.1.1 The case study method

A case study may be seen as a process of interactive stages from developing a theory to modifying/confirming/rejecting the theory and developing the policy implications (figure 7).



**Figure 7.** Case study method (Adapted from Yin, 2009)

Theory development following by selecting an appropriate case and defining the specific measures are included in the initial stage of a case study. During the next stage, the case study is conducted and a case report is written. In the final stage (analysis and conclusion), based on the findings, conclusion(s) are drawn which may lead to verifying, modifying or even rejecting the developed theory. This may end to developing policy implications. The dashed-line feedback loop illustrates the situation where important finding(s) during conducting the case study may lead to reconsidering the study's original theory. In this case, before the further proceeding, the study should be redesigned (e.g. selection of alternative case(s), applying other ways of data collection, etc.) (Yin, 2009).

### 3.1.2 Collecting case study evidence

In a case study, collecting the data (evidence) can be carried out with help of many different sources (Yin, 2009). In this section, a brief overview of some of the main sources of evidence is provided.

#### **Documentation**

Documentation is relevant for almost every case study topic. Letters, personal documents, agendas, announcements, proposals, progress reports, formal studies and news clippings are examples of documentary information. This type of source is stable and can be reviewed again and again. It contains exact details (names, references etc.). However, it is often difficult to get access to them (Ibid.).

#### **Archival records**

Public use files, service records, organizational records, maps and survey data are examples of archival records. This type of source is often used in conjunction with other sources of

evidence. Similarly as documentary information, they are stable and can be reviewed repeatedly but due to privacy reasons there are often difficulties in their accessibility (Ibid.).

## **Interviews**

Interviews are one of the most important sources of evidence in case studies. Interviews can be conducted in different ways. *In-depth interviews* start by asking the key facts followed by in-depth questions regarding the interviewee's personal opinions. A *focused interview* is still open-ended and conducted in a conversational manner for a short period of time. Finally, an interview can be conducted by using structured questions along the lines of a formal survey which can even produce quantitative data. Regardless of the type of interview, this source of evidence is often targeted and focused on the topics of the case study and can provide perceived causal explanations. Nevertheless, poor-designed questions and respondent's reflexivity<sup>4</sup> may produce bias in the case study (Ibid.).

## **Participant-observation**

Participant-observation is conducted in a way that the observer has an active role in the observation. In participant observation the person (observer) may take different roles within the case study situation and even participate in the studied events. The observer can for instance be a resident in a neighborhood, a staff member in an organization or a key decision maker in a company. This type of source covers events in real time and context. However, conducting a participant-observation can be very costly and time-consuming (Ibid.).

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<sup>4</sup> Interviewee gives what interviewer wants to hear.

### 3.1.3 The case of “Lantmännen Cerealia”

By considering the type of the research questions in the current study (why and how) and the complexity of the phenomenon, conducting a case study seems to be a reasonable choice of research method (Yin, 2009).

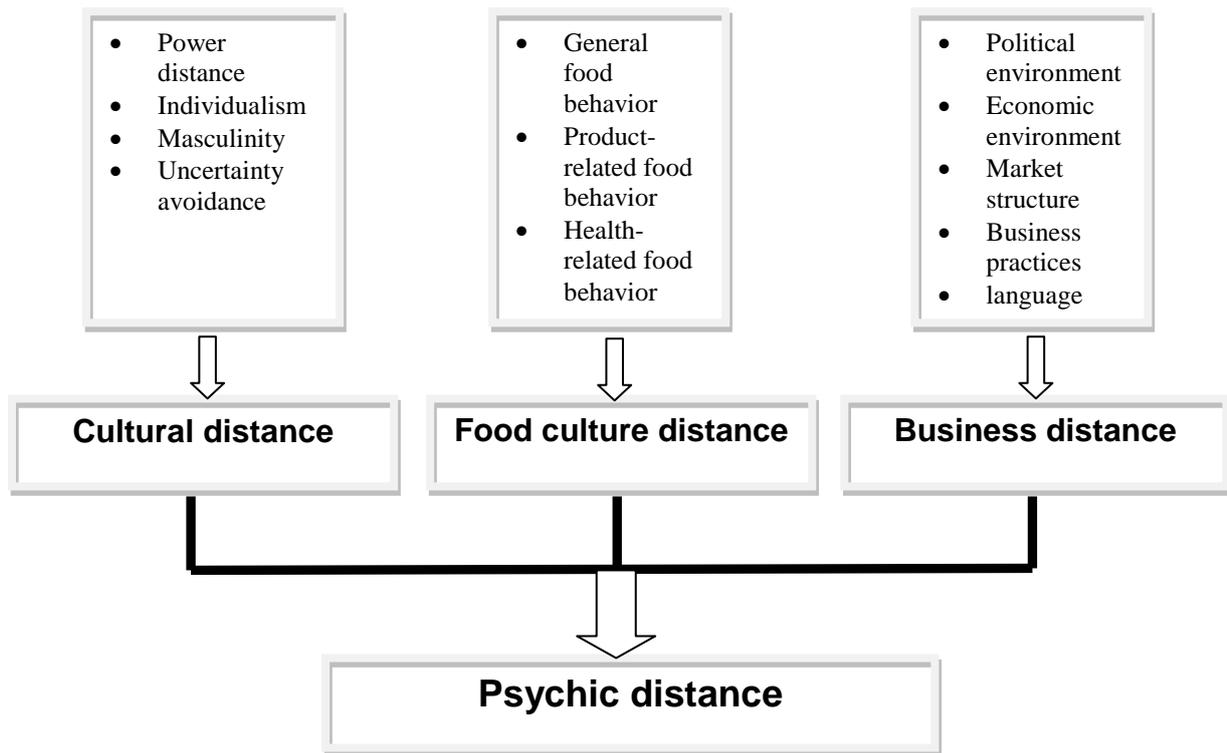
“Lantmännen Cerealia” is a Swedish food processing company within the Lantmännen Group, one of the largest Nordic groups within food, energy, machinery and agriculture. Lantmännen Cerealia develops, manufactures and markets grain-based products such as flour, flour mixes, grains, muesli, pancakes and pasta, as well as ready-to-eat meals. The company has 1 414 employees and is included in the food division of the Lantmännen group with a turnover of SEK 15 109 million in 2009. AXA, AMO, Kungsörnen, Regal, Gyllenhammars, START, Kornkammeret, and Nord Mills are brands of Lantmännen Cerealia’s products. Sweden, Norway and Denmark are the company’s home markets. However, the company also has significant scales in other parts of the world such as Latvia, Estonia, Lithuania, Finland, Russia and Ukraine (Lantmännen, 2010b).

Although, case studies seem to be poor basis for generalization, selecting a representative case may lead us to understandings or modifying generalizations. All of the abovementioned characteristics of “Lantmännen Cerealia” have made this company an appropriate and representative “case” for the purpose of this study.

Stake (1995) points out that acquiring the explanations and interpretations of others are two principal uses of case studies. Furthermore, qualitative research will discover and portrait the multiple view of the cases where the interview is the main road to multiple realities.

Accordingly, interview was selected as the source of evidence in this study. Due to the interviewee's time constraints, a telephone interview has been conducted with one of the senior executives of "Lantmännen Cerealia". His position as a senior executive and the experience of almost three years in the current position has made him to an appropriate respondent for the purpose of this study. The interview lasted about one hour and consisted of pre-defined questions. However, due to the perceptual traits of the majority of the questions; the interview ended up in a conversational manner.

The respondent had already been informed about the study; therefore the interview began directly with the introductory information. He was assured about the confidentiality and certain purpose of the interview (only research purpose). Then, the respondent was asked to give an overview regarding the company's involvement in international business; which international markets the company has expanded into. In the next stage, he was asked to specify the factors that have a crucial role in the company's internationalization decisions regarding the choice of international markets. The respondent was given the pre-defined alternatives where he could choose more than one option. Although, he was asked for other possible factors that might have been a significant impact on the company's decisions regarding the choice of a foreign market. Subsequently, the respondent was provided with the definition of "psychic distance" (figure 8) and asked to specify an international market that "Lantmännen Cerealia" has expanded into and he (the respondent) perceives as psychically close to the company's home market (Sweden in this case). Similarly, he was asked to specify a psychically distant market to Sweden.



**Figure 8.** The conceptual framework

In the next step, he was asked to specify in what extent those markets (psychically close- and distant markets) differ from Sweden in terms of cultural- and business distance in a 7-point Likert scale from *totally the same (1)* to *totally different (7)*.

In order to capture the impacts of the “food culture differences” in the choice of international markets, the same procedure was carried out where the respondent was asked to specify the differences between psychically close- and distant markets and the home market in terms of food culture distance in a 7-point Likert scale from *totally the same (1)* to *totally different (7)*.

In the final stage, in order to capture the correlation between psychic distance and the firm’s performance, the respondent was asked to specify how a number of performance indicators (return on sales (ROS), return on investment (ROI), return on equity (ROE) and return on

assets (ROA)) has been changed during the last three years in both psychically close and distant markets<sup>5</sup> in a 7-point Likert scale from *decrease more than 20 per cent to increase more than 20 per cent*.

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<sup>5</sup> It should be noted that in contrast to the perceptual nature of the psychic distance questions, the interviewee was asked to provide the “objective” answers regarding the development of the firm’s performance in those markets.

## 4 Results

*Chapter 4 gives the reader an account of the author's empirical study.*

### 4.1 Psychic distance

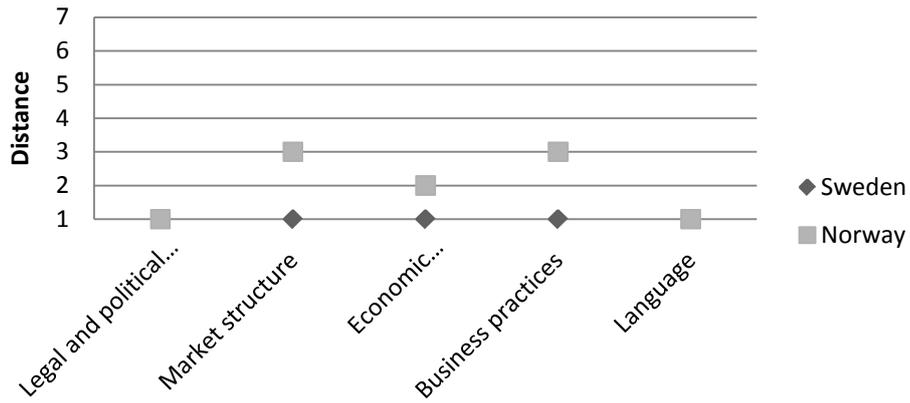
In addition to Nordic countries (Sweden, Norway and Denmark), “Lantmännen Cerealia” runs a significant scale of business in a number of international markets, e.g. Latvia, Estonia, Lithuania, Finland, Russia and Ukraine. The international expansion into these markets is carried out either through exporting the products or by direct investments in the target markets.

Accordingly, business factors of a market such as the political and legal environment, economic environment, business practices and market structure have crucial roles in the choice of the international markets for the company. Moreover, cultural factors such as uncertainty avoidance and consumers' food culture also have a significant role in the choice of a foreign market.

According to the respondent, Norway is perceived as a psychically close market to the Lantmännen Cerealia's home market (Sweden). On the other hand, Ukraine is perceived as a psychically distant market to Sweden. Accordingly, business distance indicators (legal and political environment, market structure, economic environment, business practices and language) are perceived as either the same or differing slightly in the psychically close market (Norway) compared to Sweden (figure 9)<sup>6</sup>.

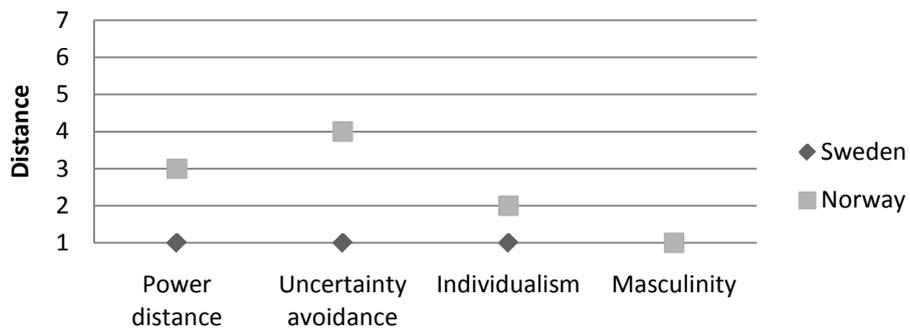
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<sup>6</sup> 1 in distance represents totally the same as Sweden or no psychological distance at all and 7 represents totally different from Sweden or the long psychological distance.



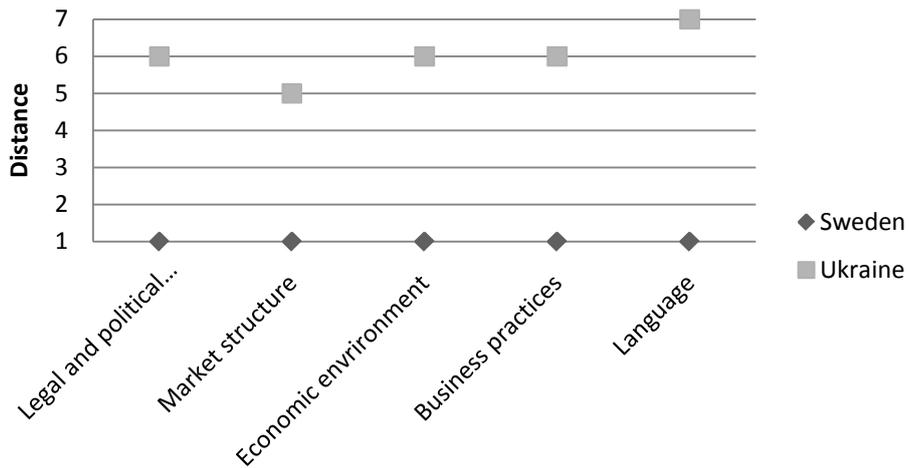
**Figure 9.** Business distance between Sweden (benchmark) and Norway

Similarly, cultural distance indicators (power distance, individualism, and masculinity) are perceived as the same or slightly differing in Norway compared to Sweden. Uncertainty avoidance is perceived as more or less different in Norway compared to Sweden (figure 10).



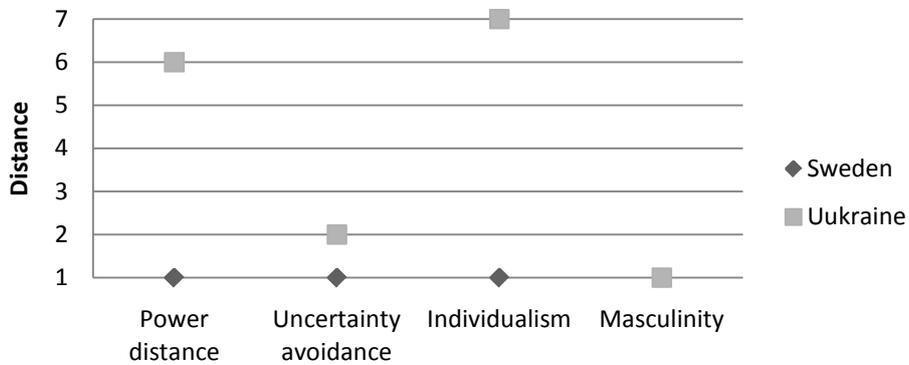
**Figure 10.** Cultural distance between Sweden (benchmark) and Norway

In the psychically distant market (Ukraine), business distance indicators (legal and political environment, market structure, economic environment, business practices and language) are perceived as totally different or differ significantly in relation to Sweden (figure 11).



**Figure 11.** Business distance between Sweden (benchmark) and Ukraine

Power distance and individualism are perceived as totally or significantly different in Ukraine compared to Sweden. However, other cultural distance indicators (uncertainty avoidance and masculinity) are perceived as totally/almost the same in Ukraine in comparison to Sweden (figure 12).



**Figure 12.** Cultural distance between Sweden (benchmark) and Ukraine

## 4.2 Food culture distance

According to the respondent, all of the food culture distance indicators (general food behavior, product related food behavior, and health related food behavior) are perceived as almost the same in the psychically close market (Norway) in comparison to Sweden (figure 13).

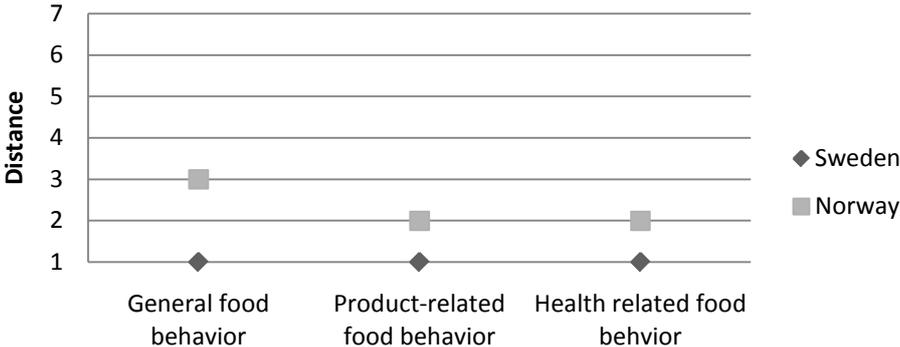


Figure 13. Food culture distance between Sweden (benchmark) and Norway

On the other hand, all of the food culture distance indicators are perceived as different in the psychically distant markets (Ukraine) as compared to Sweden (figure 14).

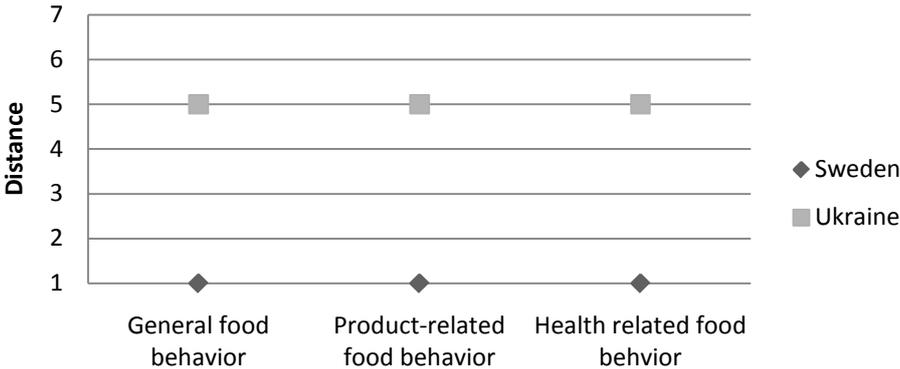
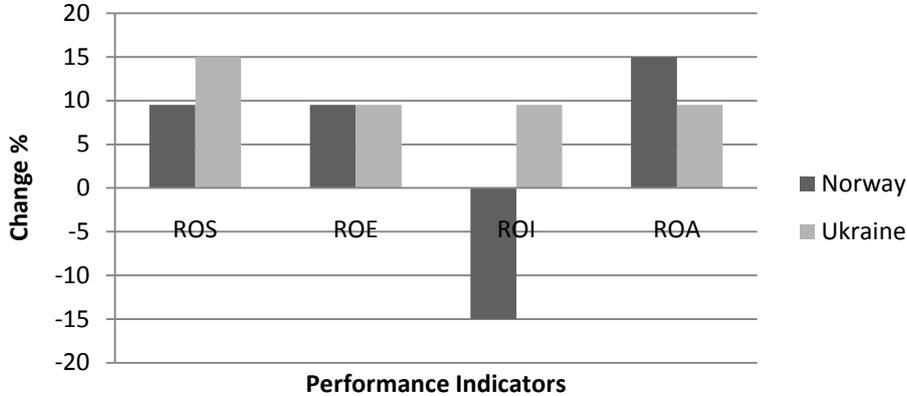


Figure 14. Food culture distance between Sweden (benchmark) and Ukraine

### 4.3 Firm's performance

According to the respondent, the company's performance indicators such as ROS and ROE illustrate an increase of almost 10 per cent in the psychically close market (Norway). ROI has been decreased (between 10 to 20 percent) while ROA has increased between 10 to 20 per cent during the last three years. On the other hand, almost all performance indicators have increased with approximately 10 per cent in the psychically distant market (Ukraine) while ROS illustrates an increase of 10 to 20 per cent during the last three years (figure 15).



**Figure 15.** Changes (%) in the Company's performance in Norway and Ukraine during 2007-2009

## 5 Analysis and discussion

*This chapter aims to address the research questions stated in chapter one, based on the theoretical framework and the empirical data from chapter 2 through 4.*

### 5.1 Psychic distance and internationalization decisions

For “Lantmännen Cerealia”, psychic distance is a crucial element in selecting the international target markets. According to Benito and Gripsrud (1992), the concept of psychic distance is an explanatory element in the firms’ internationalization decisions regarding the choice of foreign markets. Consequently, knowledge about political and legal environment, economic environment, business practices, and market structure have crucial roles in the choice of a foreign market for “Lantmännen Cerealia”. Moreover, knowledge about the cultural factors such as uncertainty avoidance and consumers’ food culture have also significant role in the choice of a foreign market.

Ukraine is one of the international markets where “Lantmännen Cerealia” has expanded into. However, this market is perceived as a psychically distant market for “Lantmännen Cerealia”. This is resulting from the perception of both cultural and business differences between the company’s home market and its distant market (Evans & Mavondo, 2002). According to the results, there is a perceived significant cultural and business difference between Lantmännen Cerealia’s home market (Sweden) and Ukraine. On the other hand, the company’s other target market, Norway, is perceived as a psychically close market for “Lantmännen Cerealia” in which it perceives low cultural and business differences in comparison to the company’s home market (Sweden).

The integration of food and culture has made the food industry unique among the other industrial sectors (Buisson, 1995). Hence, in addition to common cultural indicators

(Hofstede's four dimensions of national culture<sup>7</sup>) in operating the *culture distance*, this study introduces the concept of "food culture distance" which specifically intends to capture the differences in consumers' *food culture* between a company's home market and a foreign market. Therefore, food culture distance is also measured in this paper which illustrates a significant perceived distance between "Lantmännen cerealia's" home market (Sweden) and Ukraine (the psychically distant market). Nonetheless, it perceives low differences in terms of consumers' food culture between Sweden and the psychically close market (Norway).

Accordingly, the lack of knowledge concerning the psychically distant markets (outside the EU) in terms of cultural and business issues might be the main reason that Swedish food export is majorly concentrated into the psychically close markets (EU) in which food enterprises have sufficient knowledge about cultural and business issues.

Other argument can be related to the impact of "geographical distance" between the company's home market and a foreign market which might be an obstacle for the firm to export its products into the geographically distant markets. This is mainly due to the perishable nature of the food products which are difficult either to be preserved in the long run or transported long distances (Bralsford, 1986). Moreover, higher transaction costs (e.g. transportation costs) to the geographically distant markets can be another reason for Swedish food exporters to concentrate their export to the geographically close markets. However, the high extent of Swedish food exports to the US (SEK 3 783 million) which is almost three times more than the total export to the all the CEE counties (SEK 1 285 million) which are placed at the significantly closer geographical distance to Sweden is almost rejecting this rationale.

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<sup>7</sup> See figure 4

## 5.2 Psychic distance and firms' performance

The empirical study illustrates that “Lantmännen Cerealia” perform better in the psychically distant markets (Ukraine in this case) in comparison to the company’s psychically close market (Norway). The results are in contrast with the hypothesis in the original Uppsala model of the firm’s internationalization process (Johanson & Vahlne, 1977) in which it is argued that due to the knowledge about the psychically close markets firms perform better in those markets in comparison to the psychically distant markets. However the findings in this paper are in line with the Evans and Movondo’s (2002) conclusion. Evans and Mavondo (2002) conclude that firms perform better in the psychically distant markets and argue that the perceived distance in terms of cultural and business differences make the firms conduct more extensive market research which improve their knowledge, hence their performance in the psychically distant markets. Nevertheless, by considering the Swedish food industry with 99 per cent SMEs with capital constrains, conducting such a costly extensive market research is often not a possible option. Subsequently, these enterprises possibly prefer to concentrate their international activities into the psychically close markets (EU) in which they have sufficient knowledge about business and cultural issues and hence achieve better performance.

It should be noted that due to the character of the case studies, it is barely possible to generalize the study’s findings into a bigger population by analyzing only a single case. Therefore, the findings in this paper may be valid only in the studied case (Lantmännen Cerealia). However, due to selecting a “representative” case in this study, the results might be applicable in other similar cases and situations. Therefore, this paper suggests conducting future studies by using more cases and applying preferably a combination of both qualitative and statistical methods in order to achieve more generalizable findings.

## 6 Conclusions

*The last chapter of this study intends to address the research questions in chapter one.*

The overall purpose of this paper is to investigate the Swedish food enterprises' internationalization decisions regarding the choice of international markets. For this purpose, the study focuses on the case of "Lantmännen Cerealia" a company within the Lantmännen Group, one of the largest Nordic groups within food. Accordingly, this study aims to address the following research questions:

1. What factors might have crucial impact on a Swedish food enterprise's internationalization decisions regarding the choice of a foreign market?
2. How may these factors affect the firm's performance?

Knowledge has a crucial role in Lantmännen Cerealia's internationalization decision regarding the choice of a foreign market. This knowledge consists of knowledge about business and cultural issues within a foreign market. In this case, business issues refer mainly to legal and political environment, market structure, economic environment and business practices in a foreign market whereas, uncertainty avoidance and consumers' food culture are among the cultural issues.

In the case of "Lantmännen Cerealia", the company has achieved a better performance in its psychically distant market (Ukraine) in comparison to its psychically close market (Norway). This is possibly due to conducting more extensive market research in the psychically distant market in order to acquire knowledge about the cultural and business issues in that market which also enhanced the firm's performance.

The findings in this study might also explain the Swedish food exporters' decisions in selecting the international target markets. More than 99 percent of the Swedish food industry consists of SMEs with capital constraints. Therefore they can probably not afford the costly market research in the psychically distant markets. Consequently, they concentrate their international activities (more than 70 per cent of export) in the psychically close markets (EU) in which they have knowledge about those markets, hence achieve a better performance.

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### **Personal message**

Senior executive in “Lantmännen Ceralia”, telephone interview, 15/04/2010

# Appendix

## **European Union member states**

Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Great Britain, Germany, Austria, Bulgarian, Cyprus, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Czech republic, Hungary

## **Central and Eastern European countries**

Albania, Bosnia and Herzegovina, Kosovo, Croatia, Macedonia, Moldavia, Montenegro, Russia, Serbia, Ukraine, Belarus

## **OECD countries**

Australia, Iceland, Japan, Canada, Mexico, Norway, New Zealand, Switzerland, South Korea, Turkey, USA