

**MASTER THESIS**

# Internationalization Process of SMEs: Strategies and Methods.

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## Summary

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- Title: Internationalization Process of SMEs: Strategies and Methods.
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- Research Issue: Nowadays, technological advancements, declining trade barriers etc are driving the world economy to become more and more integrated and this rapid globalization is enabling SMEs to become international in a quicker yet effective manner. The basic issue of our research was to describe the internationalization process of SMEs with a focus on the roles of the three theories.
- Research Purpose: The purpose of this research was to gain a better understanding of the internationalization process of SMEs, particularly the application and usefulness of the three main theories: the Uppsala Model, Network Theory and International Entrepreneurship Theory.
- Research Question: What are the roles of the three theories in describing, explaining and guiding the internationalization process of SMEs?  
Which aspects of these theories are most useful to the SMEs' internationalization process?
- Method: Both qualitative and quantitative research methods has been applied in this study. Data were gathered by conducting closed interviews and an attempt was made to measure them statistically.
- Conclusion: Our research shows the application and usefulness of the three theories to these SMEs, especially their heavy reliance on network relationships. The findings also indicate that firms use a combination of variables from all three theories and some aspects of the much criticized Uppsala model are still significant in describing the internationalization process behavior of SMEs.
- Keywords: Internationalization, SMEs, Uppsala Model, Network Theory, International Entrepreneurship Theory, INVs.

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&

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## *Glossary*

CEO	Chief Executive Officer
FDI	Foreign Direct Investment
IET	International Entrepreneurship Theory
INT	Internationalized SMEs
INVs	International New Ventures
MNEs	Multinational Enterprises
Non-INT	Non-internationalized SMEs
SMEs	Small and Medium Enterprises
U-model	Uppsala Internationalization Process Model
USA	United States of America
UK	United Kingdom

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# 1. Introduction

*In this chapter we will present the background of our study and state the purpose and target group of it. Then we will discuss the research questions and delimitations and the structure of the study.*

## 1.1 Background Description

As the students of international business, we recognize that small and medium enterprises or SMEs and various aspects of their businesses especially the internationalization process has been of much attention to the scholars, academics and businesspeople during recent years. SMEs have been drawing a lot of attention of scholars by playing an increasingly active role in international markets during recent years. SMEs rapidly expand their businesses to international markets and use international diversification as an important strategic option to achieve growth. The topic area brings some of the 'much talked about' theories and models into action such as The Uppsala Internationalization Process Model, Network Theory, International Entrepreneurship Theory as well as some interesting and significant phenomenon of today's business world such as International New Ventures (INVs) or Born Globals.

Long ago, academics explained the internationalization process by using a stage model, which follows a step by step process where the firm starts from no international activity and goes on to engage in some international activity and then ends up owning subsidiaries abroad. Such is the case of the Uppsala model proposed in 1977 by Johanson and Vahlne. Right from the beginning this model has been criticized and after much criticism by scholars and other authors such as Andersen (1993), Johanson and Mattsson (1988) introduced a new model known as 'The Network Approach', where they explained the importance of relationships with suppliers, customers and market that can stimulate or help a firm to go abroad. While studying SMEs' internationalization process we find that some of these types of firms are international from inception. McDougall and Oviatt (1994) introduced the concept of International New Ventures (INVs) and Born Globals to explain the characteristics of such firms. Later on McDougall and Oviatt (2000) approached internationalization by explaining the role entrepreneurship in the process with the international entrepreneurship theory (IET).

Nowadays, technological advancements, declining trade barriers etc are driving the world economy to become more and more integrated and this rapid globalization is enabling SMEs to become international in a more quick yet effective (in some cases) manner. Some scholars question the validity of the Uppsala model now and argue that the model can no longer successfully explain the internationalization process of firms; especially in the cases of some SMEs and Born Globals or international new ventures (INVs). Therefore, the researchers tried to explain the internationalization process of firms more efficiently and came up with the network theory and the international entrepreneurship theory.

For the past few decades researchers have been debating over existing theories and developing new theories of international business to explain why and how companies internationalize. Internationalization theories are explaining different



internationalization processes, which are taking place when companies expand, across national borders. Theories are seen as complimentary and parallel rather than competing. Ranges of internationalization have been discussed in various investigations with the conclusion that the majority of these frameworks fail to explain internationalization behaviour of various companies, however, this doesn't mean that they are not useful at all.

It is inappropriate to approach the internationalization process without formulating a strategy; a plan of action that is formulated and carried out to achieve a particular goal. We can say that without a proper strategy the firm is about to fail in their internationalization, it is like wanting to swim without knowing how to. Formulating a strategy also involves deciding when, how and which markets to enter. There are several market entry modes a firm can choose from; such as export, joint venture etc. The internationalization process involves risk and uncertainty and they significantly impact upon firm strategy. In order to internationalize successfully, SMEs has to lower the risks and uncertainty; they can do so by choosing the right strategy and methods. In order to go international, management team have to plan for the process to happen. Market knowledge is a key element to come up with a good strategy and method for internationalization. There are also some other important factors such as: business network, previous experience and skills of the management team, role of the owner-manager, financial resources, government agencies, age and size of the firm, entrepreneurial abilities and services etc. While planning to internationalize, the firm should decide the pace and timing of the process as well as the entry mode to use. Hill (2007) explains the advantages and disadvantages of the entry modes: exporting, licensing, franchising, turnkey projects, joint ventures and wholly owned subsidiaries. Each one of the entry modes would apply to SMEs depending on their knowledge, competitive advantages, market commitment, governmental issues, financial resources, age and size of the firm, etc. These factors will be explained further in this paper.

## **1.2 Research Purpose**

The purpose of this study is to gain a better understanding of the internationalization process of SMEs, particularly the usefulness of the three main theories: U-model, network theory and international entrepreneurship theory. We would like to analyze these theories and describe how they have helped SMEs to formulate strategies and to choose methods when expanding to international markets. We would also like to evaluate their validity and acceptability to SMEs that would like to internationalize in the near future.

## **1.3 Research Question**

We would like to describe how some of the dominant theories have impacted upon the internationalization process of SMEs in the past. How the internationalization process behavior expressed by SMEs in terms of formulating strategies and choosing methods fit into the theoretical frameworks. Whether these theories and models are still applicable to SMEs considering going international or not.

## **Questions**

What are the roles of the three theories in describing, explaining and guiding the internationalization process of SMEs?

Which aspects of these theories are most useful to the SMEs' internationalization process?

### **1.4 Target Group**

Both academics and business people will find this study valuable and will be able to make use of the implications and results that we shall provide. This research will help academics understand the process of internationalization within SMEs. While business people can find ideas of how other SMEs gained internationalization and how the tools given by the different theories that we will discuss in this study will be useful or not to their specific case.

### **1.5 Delimitation**

Many factors, internal as well as external, influence a firm's internationalization process. Factors such as economic conditions, business culture, technology, infrastructure and so on has an impact upon the strategy and methods applied by SMEs from a particular country. One significant limitation of our study is that we will explore the internationalization process of SMEs in general, with a focus on the application of three major theories. Another limitation is that we will only focus on SMEs and exclude MNEs from our study.

### **1.6 Structure of the Thesis**

The thesis is divided into five major parts, they are: introduction; literature review; research methodology; data analysis, and; findings and conclusion.

The introduction part contains background description of the topic, research purpose, questions, target group and delimitations.

In the literature review part, we will present the definitions and brief descriptions of some of the major terms and phenomenon used in this study followed by a discussion regarding SMEs' motives for internationalization. Then we will present an extensive literature review of the three theories: the Uppsala model, network theory and international entrepreneurship theory along with a discussion on the critics to them. We will conclude this part by presenting our conceptual framework.

In the research methodology part, we will explain the research purpose, approach, strategy and data collection method.

Then we will present our analysis of the gathered empirical data.

In the conclusion and further research part, we will present our findings and conclusions in brief as well as possible further research on the topic.

## **2. Literature Review**

*In this chapter we will begin with presenting some definitions and then we will discuss and analyze the three theories. We have chosen Uppsala Model, Network Approach and International Entrepreneurship, since these theories seem to be the most influential in explaining the internationalization process of the firms.*

### **2.1 Definitions**

#### **2.1.1 Internationalization**

From a historical perspective, internationalization of businesses and firms began with mankind's ability to travel across the seas and borders. Scholars and academics have tried to define internationalization on many occasions using many different perspectives and variables. The term 'internationalization' is ambiguous and definitions vary depending on the phenomenon they include. Penrose's (1959) point of view on the topic focuses on the firm's core competences and opportunities in the foreign environment. Welch and Luostarinen (1988) defined internationalization as the process in which firms increase their involvements in international operations. Johanson and Vahlne (1977) agree with that. By some scholars internationalization is also defined as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future and establish and conduct transactions with other countries. Later on, Calof and Beamish (1995, p. 116) defined internationalization as "the process of adapting firms operations (strategy, structure, resource, etc.) to international environments".

#### **2.1.2 Strategy**

Strategy is the determination of the basic long-term goals of the enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals (Chaffee, 1985). It consists of integrated decisions, actions or plans that will help to achieve goals. Business strategy is then used as an umbrella term to denote the broad range of strategic options open to the firm, including both organizational and functional management strategies, product/market strategies, and diversification strategies (Barringer & Greening, 1998).

#### **2.1.3 SMEs**

The concept of small and medium enterprise or SME has many connotations among researchers and they apply quantitative criteria to identify SMEs. From this perspective, SME refer to firms in all sectors as long as they do not exceed a particular size. Researchers propose a number of indicators such as profits, total capital, market position, number of employees and turnover in order to define the size of SMEs. However, number of employees and turnovers are often used as the most appropriate quantitative criteria.

For our case we would like to use the definition given by the European Commission (2005, p. 5) that states "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have

an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro”.

### 2.1.3.1 Characteristics of SMEs

In order to achieve the purpose of our research, it is important to understand their inherent characteristics. Organizational structure in SMEs is organic compared to a more bureaucratic structure in large firms (Ghobadian & Gallear, 1996). “A salient feature of an organic organization is the absence of standardization and the prevalence of loose and informal working relationships” (Ghobadian & Gallear, 1996). These characteristics make SMEs more flexible to environmental changes and research has found that small firms are perceived of as being significantly more flexible than large firms (Levy & Powel, 1998). Therefore, SMEs are more likely to survive in turbulent environments than large bureaucratic organizations, where innovation and/or flexibility to adapt to new situations are the key factors. The flat structure of SMEs and lack of hierarchy allow them to have a more flexible work environment and enables the top management to build a strong personal relationship with employees (Ghobadian & Gallear, 1996). SMEs then are characterized by an absence of standardization, formal working relationships and having a flat organizational structure where staff development is limited.

Hollensen (2001) explains some of the characteristics of SMEs as follows:

- a. **Organization:** the employees of SMEs are really close to the entrepreneur/owner/manager of the firm. They are easily influenced by this actor.
- b. **Risk taking:** can occur in situations where the survival of the enterprise may be threatened, or where major competition is undermining their activities. By not having experience or information about foreign markets, the entrepreneur or management team take risk on decision making.
- c. **Flexibility:** the communication experienced by SMEs and its customers helps them react faster and more flexible to the customer’s needs.

### 2.1.4 INVs/Born Globals

McDougall and Oviatt (1994) focus on a certain types of newly started firms that are international from the very beginning and known as International New Ventures (INVs). They define INVs “as business organizations that from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in a number of countries” (McDougall & Oviatt, 1994 p. 49). New market conditions, technological developments and the capabilities of managerial team and/or entrepreneurs as well as the international network relationships are the factors that help firms become international from inception (Madsen & Servais, 1997). INVs are result of international awareness that managerial team or entrepreneurs have about the international business, being able to link resources from other countries to meet demand of markets that are inherently international (Coviello & Munro, 1992). Firms that have innovative products or services, having a competitive advantage over other firms help

SMEs to gain internationalization from inception. This happens when the market has the need to have that innovative product or service in that specific foreign market. Another definition of INVs or born globals is given by Knight and Cavusgil (1996) who suggest that these are small firms that strive to achieve competitive advantage based on technology and from the earliest days of their foundation operate in multiple international markets. While McDougall and Oviatt (1997, p. 48) state that “INVs are not a phenomena that occurs in a specific industry, but that can happen in a wide range of them”.

INVs have flexible operating procedures which enable them to react faster to changing environments. Often the CEO or the owner or the founder does business deals personally and makes decisions on the spot. So, in the cases of INVs, foreign market commitments are less likely to be influenced by organizational routines and internal politics than in established firms (McDougall & Oviatt, 1997). Born globals are known to be firms whose competitive advantage is the great knowledge and the technologic know-how they possess; that combined with managers and/or entrepreneurs with experience in the international market, will easily move abroad. The knowledge they possess allow them to make a move fast by choosing the right entry mode to go abroad.

### **2.1.5 International Entrepreneurship**

McDougall and Oviatt (2000, p. 903) defined international entrepreneurship as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”. This definition has been one of the most widely accepted. Afterwards, they embraced a deeper concept of entrepreneurship, defining it as the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services (McDougall & Oviatt, 2005)

McDougall and Oviatt (2005, p. 540) explain their definition as follows:

- a. **Discovery:** refers to finding innovative opportunities
- b. **Enactment:** means to proactively put opportunities into use acquiring a competitive advantage.
- c. **Evaluation:** is required to interpret the actions taken developing experience and knowledge.
- d. **Exploitation:** refers to the future development of the opportunity.

## **2.2 SMEs and the Internationalization process**

Most literature in international business indicates that export is the major international business activity. Traditionally, internationalization by exporting has been considered as a way to increase growth of firms. Exporting is still significant, but during the last decade, firms has been focusing on different business activities as ways of internationalization and considering them to be important to achieve competitive advantage. Partnerships with foreign companies, foreign investments and cross border networking have become increasingly important as ways of facilitating exchange of

technology and knowledge which enable SMEs formulate strong international business strategies. Globalization, technological, political and economic changes are some of the main drivers for the increasing internationalization of SMEs in today's world. Various theories of internationalization process suggest that certain types of SMEs internationalize by following the 'stage model', expressing a cautious and progressive behavior; whereas there are other types of SMEs that are considered as born globals and internationalize at an early stage of establishment.

### **2.2.1 SMEs' motives for Internationalization**

There are several different motives behind internationalization of SMEs indicating a diversified approach to internationalization. One of the most frequent motives is to gain access to new and larger markets in order to achieve growth. Firms expand the market for their products by exporting or creating subsidiaries or joint ventures abroad. Many firms go abroad to have access to know-how and technology in order to remain competitive. This indicates that various different internationalization processes are undertaken by firms to achieve different strategic goals.

Before a firm starts its internationalization, someone or something either from inside or outside the firm must initiate the strategy of the internationalization process (Hollensen, 1998). The intention of a firm's internationalization is influenced by the opportunities of the foreign market (Albaum, Stranskov & Duerr, 1998). Those opportunities are stimuli only if the company has the resources to enter that market. There are two ways to analyze why SMEs decide to gain internationalization. Firms can receive internal or external stimuli in the decision making in initialization of export, where both internal qualities and environmental factor play an important role (Cavusgil, 1982). When the firm plans internationalization, the management team should be aware of which activities should they exploit in order to meet with market opportunities. This kind of export stimuli is known as proactive (pull factors), whereas the stimuli received from the reaction to changing conditions and passive attitude to export opportunities (push factors) (Cavusgil, 1982).

#### **2.2.1.1 Proactive factors**

Proactive factors indicate that the choice a firm has to internationalize is influenced by internal means: interest in exploit unique ideas and competences, as well as the opportunities that the foreign market offers. The managerial team has the desire, drive, enthusiasm, commitment to the market and motivation. By knowing the local and international market, and by exploiting the competitive advantage the firms has over other companies in a specific, soon to be, host country, the managerial team would be able to act proactive and start planning a strategy to internationalize. The examples mentioned above are internal factors. The environment also provides the management team with tools to plan a strategy to begin the process. Knowing about a foreign market will allow the firm to see and undertake the opportunities offered by that specific location.

### **2.2.1.2 Reactive factors**

Reactive factors to internationalization explain that firms can act passively and respond to both internal and external pressure: competition. When a company has a unique product they face an easy way to internationalize, since foreign market can inquire for that product. Another factor that reactive firms must exploit is when the firm own specialized marketing, since they possess knowledge or have access to specific information that will make them different to competitors. The marketing advantage can serve then as an entry barrier for competition in foreign market (Albaum, Strandskov & Duerr, 1998).

## **2.3 Foreign Market entry modes**

There are three basic entry decisions that management has to consider before going international (Hill, 2007):

- a. Which market: the one being more attractive to the firm, seeking a balance between benefits, costs and risk.
- b. When to go abroad: or timing of entry can be described either as first-mover or later entrants. First movers are those firms that go to an international market before anyone of his kind/industry enters a foreign market. Later entrants are those firms that go abroad after other firms have done so. Both first and later entrants have advantages and disadvantages. First movers are able to be pioneers on the market, but at the same time they can experience high costs. Whereas, later entrants can just copy first movers, avoiding risks they have already taken and having less cost on their proceeding. But, they will have more competence in the selected market.
- c. The scale: a firm can enter on a large or small scale depending on the involvement of commitment they (the firm) are willing to have. Entering on a large scale implies rapid entry and involvement of significant resources. The small entry allows a firm to learn from the market chosen with less exposure to the market itself.

After considering the three main factors mentioned above, the management team should decide how to internationalize. Hill (2007, p. 486-497) describes the six ways a firm can obtain internationalization. There is no right or wrong ways to go abroad, it all depends on the firm's size, age, resources, commitment to market and the market itself. Each of the next six entry modes have disadvantages and advantages that make the manager team make their on how to go abroad.

### **2.3.1 Exporting**

Exporting has been traditionally regarded as the first step to entering international markets, serving as a platform for future international expansions (Kogut & Chang, 1996). It is considered to be the most used strategy for SMEs because of the lack of

resources (Dalli, 1995) and certain degree of market knowledge and experience (Root, 1994). Hill (2007, p. 487) explains both advantages and disadvantages of exporting. One Advantage for a firm that exports is that it avoids the cost of manufacturing in the host country. This might also be seen as a disadvantage if the costs of producing the good are cheaper in the host country. The firm can gain a substantial scale economy from its global sales volume, when it is producing in the home country and exporting to the host country. Another important advantage is that the firm will gain experience and even more knowledge from the host country. At the same time exporting firms face disadvantages such as the costs of transportation, and even the low cost of the production of the goods in that host country (Hill 2007, p. 487). From country to country there are different laws that protect the home market. Some of them will do this by adding a tariff barrier which can make exporting more expensive.

### **2.3.2 Turnkey projects**

This is a kind of project where two entities/firms are responsible for putting up a plant or equipment (e.g., oil plants). This kind of market entry is used by firms in specific industries such as: construction, metal, petrochemical refining, chemicals and pharmaceutical. This type of entry mode is useful where foreign direct investment (FDI) is limited by the host country's government. One firm can possess the resources needed for the production but needs the technological know-how to proceed with the production. The other firm, "the contractor" is the one that handles the project for the foreign client. The contractor offers his client the training of the operative personnel, the contract itself and the "key" to a plant in full operation (Hill, 2007). In other words, a turnkey project is seen as a way to export know-how to other countries. The benefits from a turnkey project are the great economic assets that the know-how offers, since they are valuable assets for the firms (Hill, 2007). On the other hand, once the project ends, the contractor won't have a long-term interest in the foreign country. This can be seen as a disadvantage if the country proves to be a major market for the output of the process that has been exported (Hill, 2007). The creation of an inadvertently competitor might happen. The firm's process of technology and know-how are a valuable asset as well as a competitive advantage for the firm, but at the time of selling it, the firm is selling its competitive advantage to potential and/or actual competitor.

### **2.3.3 Licensing**

A licensing agreement is an arrangement where the licensor grants the right over intangible property to another entity for a specific period, and in return, the licensor receives a loyalty fee from the license (Hill, 2007). This type of agreement is common in the pharmaceutical industry, where patents, inventions and formulas are common. When a firm enters a host country they do not deal with the cost and risk of entering it. This kind of entry mode is good for firms that do not have the capital to production abroad. It is also used when a firm wants to enter a foreign market, but there are some government regulations that won't allow them enter that specific market. Firms that have an intangible property that they are not going to develop, tend to use this entry mode. The disadvantages of this kind of agreement are the scarce control over production, marketing and strategy used in the development and sale of the product. Licensing limits the firm's ability to coordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another (Hill,



2007). Once again, technological know-how when sold to other firms is taking the risk of generating competition with the other firm by providing them with the firm's competitive advantage.

### **2.3.4 Franchising**

Franchising involves longer-term commitments, whereas licensing involves a shorter term. Franchising is the right a firm acquires from another firm that allows them to do particular business activities, such as selling the good or the service, under the name of a specific firm, e.g. McDonalds. Franchising is a specialized form of license, where the franchisee agrees to follow strict rules about how to carry with the business activities: the type of service, setting of the physical space, etc. The firm selling the franchise will receive a royalty payment, which is related to the franchisee's revenues. The firm that sells the franchise avoids many of the costs and risks of opening in a host country by its self. A firm whose entry mode is franchise can build great presence all over the world in a short period of time, at a relative low cost and risk (Hill 2007, p. 492). One of the problems when using franchising is quality control: customers of Best Western Hotels, look for the same kind of attention when they go to their hotels in different parts of the world.

### **2.3.5 Joint Ventures**

A joint venture is an entity formed by two or more independent firms working together. The firms agree to join together sharing revenues and costs, as well as the control of the new firm. The venture can be just a project or a long-term relationship as Sony Ericsson, for example. Joint ventures are often seen as a very viable business, since the companies involved can complement their skills. Both companies can gain international presence; e.g. Sony provided its technology know-how to Ericsson and started with the manufacturing of cell phones (Ericsson) with camera and innovative designs (Sony). Typical joint ventures where two parties are involved are 50/50 ventures, though it can also be other combinations depending on the agreements of the parties involved. Such agreements are stated in contracts, which also state the role and kind of participation each firm will commit to. The advantages stated by Hill (2007, p. 493) are as follows: a firm benefits from local partner's knowledge of the host country's competitive conditions, culture, language, and political and business systems. Costs and risks are shared. In some countries this is the only way to entering that market. The firm can also overcome some risk by giving control of its technology to the other part involved. This kind of relationship between two companies does not give a firm the tight control over the subsidiaries both local and international, leading to conflicts and battles over the control, if the strategies of both companies differ on the way things should be done in order to fulfill their goals (Hill, 2007).

### **2.3.6 Wholly Owned Subsidiaries**

In a wholly owned subsidiary the firm owns 100 percent of the stock. There are two ways to gain internationalization by using this entry mode. The first one is by setting up a new operation in the host country, often referred to as a Greenfield venture, or it can

acquire established firm in the host nation and use that firm to promote its products (Hill, 2007).

This entry mode, since it reduces the risk of losing control over the competence. It gives a firm tight control over operations in different countries. An example of wholly owned subsidiaries is Electrolux, that has participation all over the world and own all the sales subsidiaries and manufacture of their products around the world. Electrolux, as other wholly owned subsidiaries establish a global production system with a high degree of control. Such advantages will provide the firm with the 100% share in the profits. This is the most expensive method of going abroad. The firm will have to overcome less risk if the firm buys a firm in the market they are willing to expand to.

## 2.4 Internationalization Theories

Going back through history we find a lot of theories that approach internationalization process of the firms in different ways. Early researchers, such as Adam Smith, David Ricardo, Heckser-Ohlin and other authors introduced us to the international business world. Adam Smith discussed the absolute advantage based on the classical economic thought (Mitgwe, 2006). Adams Smith saw in the nation as being the unit of rationale for trade was simply to take the maximum advantage of an absolute advantage (Mitgwe, 2006). David Ricardo came up with his arguments that Smith was not right and proposed theory of competitive advantage (Mitgwe, 2006). Not all the theories are applicable to every case of internationalization that occurs in the business world, but they, in a way complement each other and function as different tools for us to explain and understand internationalization process of firms.

### 2.4.1 The Uppsala Internationalization Process Model (U-model)

According to Mitgwe (2006), research on the firm internationalization process centres on the U-Model, from the Nordic school, the incremental school. The theoretical framework for this theory was first developed by Johansson and Wiedersheim-Paul (1975) in their study of four Swedish firms, in which they observed that when firms internationalize, they move along in a series of incremental steps which they termed as “establishment chain” or “step by step”. In 1977, Johansson and Vahlne refined and established the model. The theory focuses on four aspects that firms should face while going abroad: market knowledge and commitment, and commitment decisions and current activities which are divided into stage and change aspects that interact with each other in what seems to be a cycle (Figure 1).

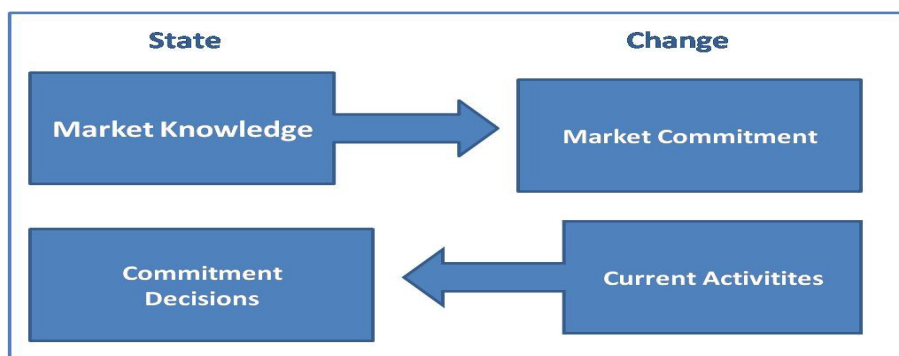
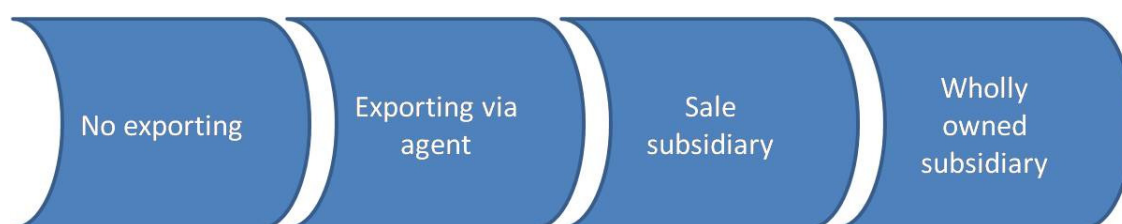


Figure 1: Uppsala model, state and change aspects (Johanson & Vahlne 1977).

State aspects are the resources committed to the foreign market: market knowledge and commitment decisions that would affect the firm's opportunities and risks (Johanson & Vahlne 1977, p. 27). Market commitment stands for those resources that will be committed as well as the degree of involvement. Market knowledge helps the managerial team to make decisions. There are two main types of knowledge: objective knowledge, which can be transferred from one market to another and experiential knowledge, which is gained by experience, learning by doing or acting. Change aspects are the results of the state aspects. Once the firm know about the market they can decide the way the firm will commit to that market, and will therefore be able to plan and execute the current activities needed to complete the cycle by committing to the market.

The basic assumption of the Uppsala Model is that market knowledge and market commitment affects both the commitment decisions and the way current decisions are performed—and this, in turn, changes market knowledge and commitment. The amount of knowledge of foreign markets and operations is influenced by the amount of commitments of resources in foreign markets, and vice versa (Johanson & Vahlne, 1977). Incremental growth also suggests that companies begin internationalization process in markets that have less psychic distance. Psychic distance is defined as factors such as differences in language, culture, political systems, etc., which disturb the flow of information between the firm and the market (Johanson & Wiedersheim-Paul 1975, p. 308).

In figure 2, the path followed by firms following this stage model states that the firms with no exporting activity will start by exporting via an agent. Sales subsidiaries can follow exporting. Firms can also use the entry modes such as joint ventures, licensing, franchising, depending on the nature of the firm. The last step into the chain is wholly owned subsidiaries.



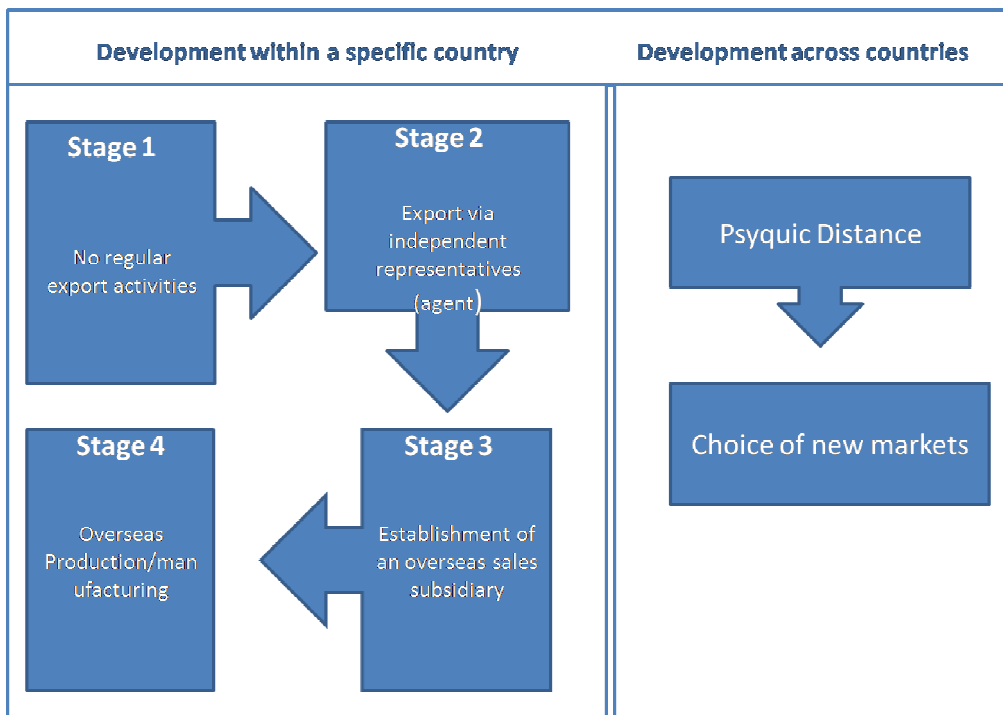
**Figure 2: Uppsala model process, adaptation from the theory.**

### **2.4.1.1 Critics to the Uppsala model**

From the beginning, the Uppsala-model has been widely criticized on both theoretical and operational levels (Mitgwe, 2006). Some researchers have found it invalid in some cases while some others accepted it with modifications. Researchers have tested the model's applicability, strengths and weaknesses through different studies. The model has been criticized from different perspectives and its basic assumptions have been challenged by a number of empirical studies (Andersen, 1993).

Andersen (1993) argues that the main problem of the model is that there is no explanation on why or how the process starts or the nature of the mechanism whereby knowledge affects commitment. Figure 3 explains the theory from two view points; the

development in a specific country is explained as the four stages the firms will go through, while the development across the countries explains the importance of psychic distance and the choice of new markets.



**Figure 3: Operational levels, adaptation from the theory (Andersen 1993, p. 223)**

The development across countries predicts that firms that enter to a new market with successively greater psychic distance. Psychic distance is defined as the distance between home market and a foreign market resulting from the perception, learning and understanding of business differences. Johanson and Wiedersheim-Paul (1975) defined it as the differences in language, culture, political systems, etc., that makes it hard or easy for a firm to enter the new market. When a firm has chosen where to go, the psychic distance is assumed to reduce to the increased market-specific knowledge. If knowledge can be transferred from one country to another, firms with an extensive international experience are likely to perceive the psychic distance to a new country as shorter than firms with little international experience.

Some critics focus on the theoretical aspects while others argue against its practical implications. The Uppsala model's basic argument is that while internationalizing, firms pass through four consecutive stages of increasing commitment to international activities. Andersen (1993) criticizes that the stages mostly lack an explanation of the mechanisms that takes the firm through them. After testing the incremental internationalization hypothesis, Sullivan and Bauerschmidt (1990) concluded that the empirical evidence did not support this hypothesis.

Many critics argue against the incremental, step-by-step character of the model since studies have found that it is possible for firms to skip some of the stages and achieve internationalization rapidly rather than doing gradually (Chetty & Campbell, 2003).

According to Hollensen (2001), the Uppsala model fails to recognize the importance of interdependencies between different markets and actors that has to take into consideration. He considers a firm more internationalized when it views and handles different markets and actors as interdependent as completely separate entities (Hollensen, 2001). Reid (1984), Andersen (1993), and Crick (1995) observed a lack of explanatory power as well as the incongruence between the theoretical and operational levels (figure 3) of the model and expressed their surprise since the model still received an enthusiastic acceptance in the vast majority of literature.

It is of great importance, the role of people who are involved in foreign operations as well as their environment; knowledge is the key element to begin with the process of internationalization. Forsgren (2002) analyzes how the process of learning is conceptualized in the model. U-model was built up based on the fact that lack of knowledge of foreign markets is the first barrier to gain internationalization. U-model puts deep emphasis on experiential learning: personal experience that can rise from current activities. One way to gain knowledge is by performing activities in the market, since they gain information about the current market. Stage by stage can be seen as a learning process where the firm learns by doing. More knowledge equals less uncertainty.

The authors of the U-model discuss the two different types of learning: objective learning and subjective learning. Objective learning is the one taught; while the subjective one is the one gained by experience. Forsgren (2002) argues that experiential learning affects the firm's behaviour, but before being influenced it must be interpreted. The problem is that there is no specification on the role of the individual. The individual seems to play an important role in how the model is supposed to work. Those individuals are the owners of market knowledge.

By 2003, Johanson and Vahlne combined the experiential learning-commitment interplay as the driving mechanism from the Uppsala Model with a similar experiential learning-commitment focusing on business network relationships.

#### **2.4.1.2 INVs and the Challenge for the Uppsala Model**

INVs are considered to be the biggest challenge for the Uppsala model, since they, from inception, seek to derive significant competitive advantage from the use of their resources and the sale of outputs in multiple countries (McDougall & Oviatt, 1994), therefore they do not exhibit incremental behavior in their internationalization process. "INVs appear to require some highly valuable resource at the least cost possible (often human resources) wherever in the world that resource is, to employ a strategy of serving globalizing niche markets with unique products and services, to be founded by internationally experienced entrepreneurs with very aggressive growth goals, and to have tightly coordinated organizational processes" (McDougall & Oviatt, 1997, p. 89). According to McDougall and Oviatt (1997), international operations are inevitably obvious under such conditions and since the experiential knowledge of foreign markets is sufficiently present among entrepreneurs, incremental steps for internationalization are unnecessary. Moreover, INVs are global by birth, which means they have resource commitments in multiple nations from the very beginning. Since they do not evolve gradually as traditional firms who begin operations in domestic markets and then move to international markets, they do not go through those stages emphasized in the Uppsala

model in order to achieve internationalization. The U-model argues that internationalization is a cautious, slow, risk-averse movement of firms from domestic to international markets; on the other hand, INVs achieve internationalization rapidly and tend to take high risks during their expansion.

Unlike large multinationals, INVs have flexible operating procedures which enable them to react faster to changing environments. Often the CEO or the owner or the founder does business deals personally and makes decisions on the spot. So, in the cases of INVs, foreign market commitments are less likely to be influenced by organizational routines and internal politics than in established firms. (McDougall & Oviatt, 1997)

According to Johanson and Vahlne (1990), INVs are a product of international network of firms and this network help them develop and distribute products to different markets. Right from the beginning, INVs employ different strategies and entry modes to rapidly expand into different foreign markets and well chosen strategy can lower the uncertainties of internationalization. So, the step-by-step process is most likely to hinder the internationalization of INVs and therefore may not be useful for their successful expansion (McDougall & Oviatt, 1994).

## **2.4.2 Network Theory**

Uppsala-model has been challenged by network theorists in recent years, whose fundamental argument is that modern high-technology firms do not exhibit the incremental process; rather they achieve a faster internationalization through the experience and resources of network partners (Mitgwe, 2006). All firms in a market are considered to be embedded in one or more networks via linkages to their suppliers, subcontractors, customers and other market actors (Johanson & Mattsson, 1988). According to Emerson (1981) a network is a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors. Network theorists see firm's internationalization as a natural development from network relationships with foreign individuals and firms (Johansson & Mattson, 1988). Networking is seen as a source of market information and knowledge, which are often acquire in longer terms when there are no relationships with the host country. Therefore, networks are a bridging mechanism that allow for rapid internationalization (Mitgwe, 2006). The emphasis of the network approach is in bringing the involved parties closer by using the information that the firm acquires by establishing close relationships with customers, suppliers, the industry, distributors, regulatory and public agencies as well as other market actors. Relationships are based on mutual trust, knowledge and commitment towards each other.

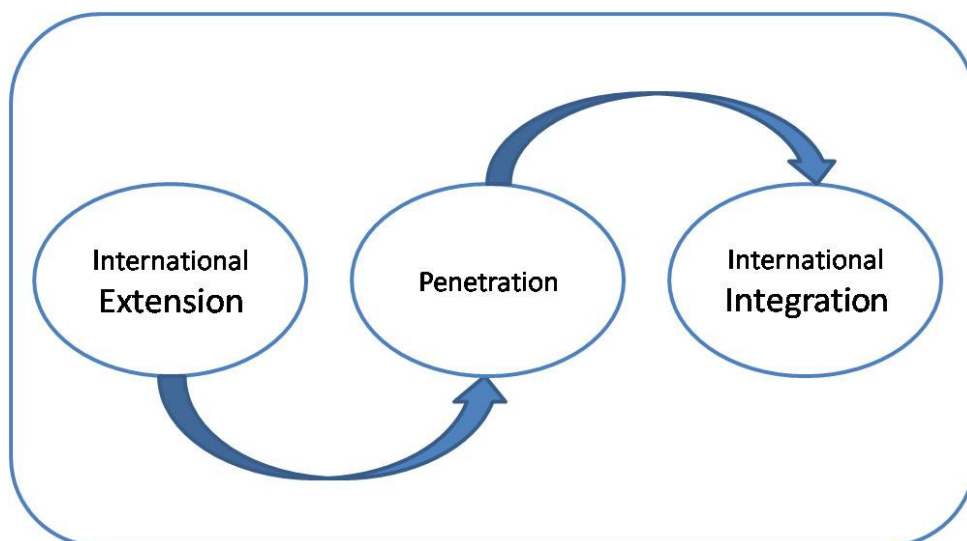
Firms establish and develop position in the market in relation to other actors in a foreign network (Johanson & Mattsson, 1988). Firms, while going abroad are engaged in a domestic network with the main goal to develop business relationship in a foreign country. Firm's position in the local network determines its process of internationalization since that position determines their ability to mobilize their resources within the network. All firms in the market are related in a way to other actors, whether they are local or international. As actions take place on the firms interacting in the network, their activities should be coordinated in order to get a better profit from those relations. In such a way a firm can have better understanding with a

supplier, or with other companies. Coordination in the market comes from the interaction of the firms involved in the network, where price is only one of the many factors influencing decision (Lindblom, 1959).

The ties resulted from the firm's network, are hard to imitate. These ties have consequences in three dimensions: a) the information is available to the parties involved in the relationship; b) timing, and c) referrals (Burt, 1997). Firms learn from the ties made in the network, information about what is going on in the market is open to the network itself. Thus, there is information that is not available for everyone. Ties also influence on timing when some information reaches a particular firm. And referrals firms get interested on other firms, in the right time and place. Ties may be strong or weak. Granovetter (1973, p.1361) defines the strength of ties as a combination of time, emotional intensity, intimacy and the reciprocal services of the ties. They are weak when they are low, the relationships are distant. When there is a tight interaction the ties are strong, parties involved enjoy autonomy and easily adapt to each other. No tie is static. As time passes by firms can make the ties become stronger or weaker depending the relation between them.

#### 2.4.2.1 Johanson and Mattsson's (1988) network approach

The first step a firm must follow in order to internationalize is the understanding of the market where it operates, its environmental conditions and the firm's relationships (Madsen & Servais, 1997). Johanson and Mattsson (1988) argue that as firms internationalize, the number and strength of relationships brought up in the network increases, helping their international extension. By using trust and increasing commitment in established foreign networks, the firm gains penetration. After having some penetration, firms can gain international integration by using the network and getting involved with other firms in various countries (figure 4).



**Figure 4.: Network approach to internationalization, based on Johanson and Mattsson (1988).**

When the firm follows these activities (figure 4), relationships are formed, gaining access to the market and its resources. Resources in the network are controlled by the

firms itself, as well as other actors involved. A firm requires resources that are controlled by other firms, which can be obtained depending on their position in the network (Johanson & Mattsson, 1988).

Johanson and Mattsson (1988, p. 212) have identified four categories of firms: the early starter, the lonely international, the late starter and the international among others. The early starter is the firm that has only few relationships in the foreign market. They tend to have little knowledge about foreign market and have little chance to acquire it in their home base country. In order to have knowledge, this kind of firms makes use of agents to enter the foreign market. By using the agent's experience, the firm will obtain knowledge.

In the lonely international category are the firms that are highly internationalized but in a market environment with a domestic focus. They have the capabilities to promote internationalization of the market. This firm has acquired prior knowledge and experience in a foreign market, so it has what it takes to succeed.

Later starters are in a market that is already internationalized. The firm has indirect relationship with the network. By making use of those relationships the firm is able to internationalize. They have the disadvantage over the competitors, since they have more knowledge. For the later starters is hard to get a place in the existing network.

International among others focuses on a highly internationalized firm, where both market and the firm are highly internationalized. Since they possess knowledge and experience it's easier for this firms to set sales subsidiaries, as it needs to coordinate activities in different markets. They are well connected to international networks that provide opportunities.

### **2.4.3 International Entrepreneurship Theory (IET)**

According to Zahra and George (2002), the term "international entrepreneurship" first appeared in a short article by Morrow in 1988. Morrow (1988) suggested that advancements in technology, declining cultural barriers and increasing cultural awareness has opened once-remote foreign markets to all kinds of companies; small firms, new ventures as well as established companies. "Soon after that, McDougall's (1989) empirical study comparing domestic and international new ventures paved the way for academic study in international entrepreneurship" (McDougall & Oviatt, 2005, p. 537).

International entrepreneurship is the study of cross-border entrepreneurial behavior focuses on how actors discover, enact, analyze and exploit opportunities in the creation of new goods or services. McDougall and Oviatt's (2000, p. 903) introduced their definition of international entrepreneurship as a "combination of innovative, proactive and risk seeking behavior that crosses national borders and is intended to create value in organizations". This definition has been one of the most widely accepted. Afterwards, they embraced a deeper concept of entrepreneurship, defining it as the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services (McDougall & Oviatt, 2005). Discovery refers to finding innovative opportunities. Enactment means to proactively put opportunities into



use acquiring a competitive advantage. Evaluation is required to interpret the actions taken developing experience and knowledge.

“International entrepreneurship theory argues that individual and firm entrepreneurial behaviour is the basis of foreign market entry” (Mtigwe, 2006, p. 16). Technological advancements, cheap and easy ways to access to information and better communication between the countries have helped SMEs to go abroad. Nowadays SMEs are gaining internationalization very rapidly, if not by inception as in the case of international new ventures.

A modification of McDougall and Oviatt’s (1994) definition of entrepreneurship is given by Stevenson and Jarillo (1990, p. 23), for them entrepreneurship is “a courageous managerial value creation process through which an individual engages innovative, proactive, calculated risk-taking behavior designed to prosecute foreign business opportunities presented by multinational market successes and imperfections for financial and non-financial rewards”.

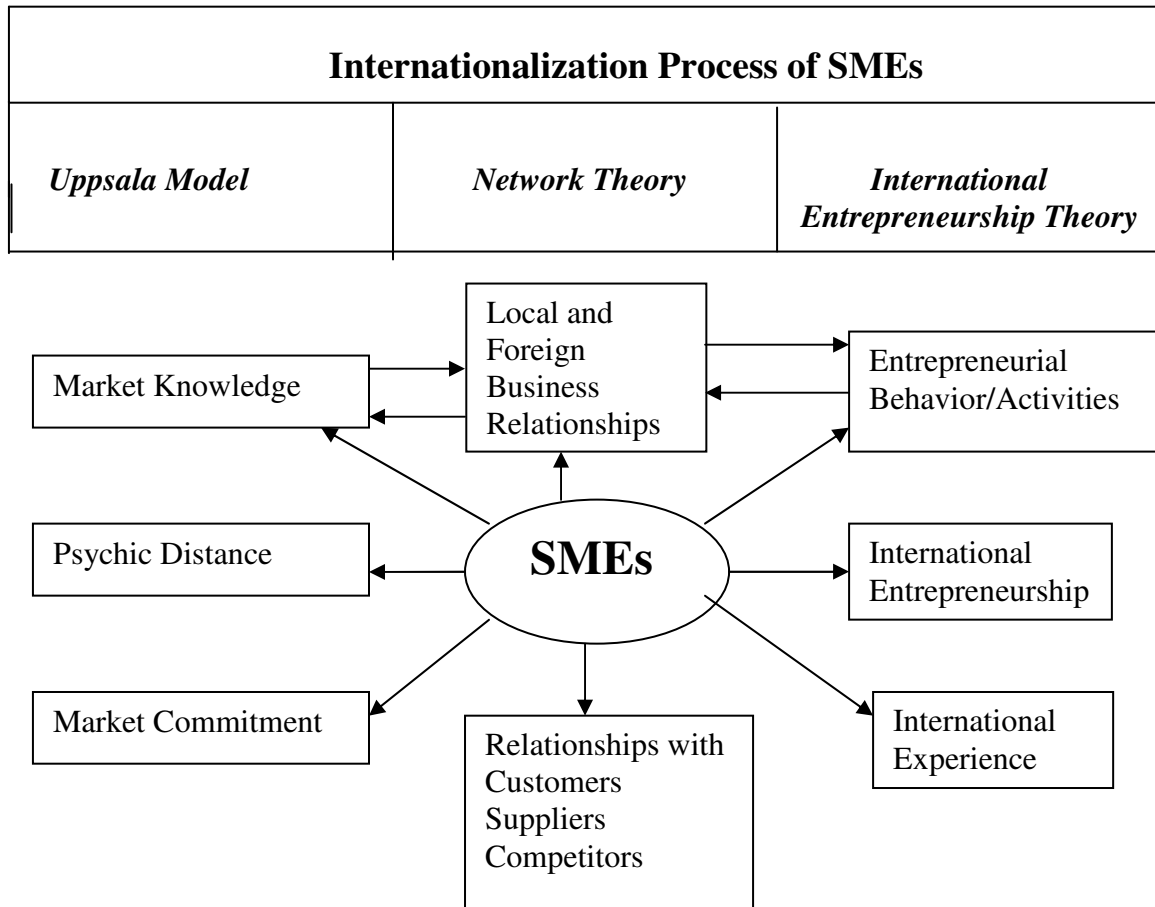
International Entrepreneurship has been receiving a lot of interest from researchers and academics. According to IET, the key to internationalization nowadays is the entrepreneur. He is the one that possesses the skills and enough information to measure the opportunities in the market with ability to create and make stable relationships with other firms, suppliers, customers, government and media. He can be the one that has experiential and objective knowledge. Since he is a risk seeker, he is also able to commit the resources in an efficient way to achieve competitive advantage. In the international entrepreneurship theory, the entrepreneur needs to be opportunity seeking and internationally experienced in order to exploit the opportunities he might see in the market and be able to commit to it through entrepreneurial activities that would be translated as entrepreneurial services.

An essential part of the discussion about international entrepreneurship theory is international new ventures (INVs), because they are closely related to each other; we have discussed the INVs and their challenges to the U-model earlier.

## **2.5 Conceptual Framework**

We have discussed the three theories so far in terms of how they influence the internationalization behavior of SMEs and we would like to develop our theoretical framework based on this discussion. At this stage, based upon the above literature review, knowledge about foreign markets, business networks and entrepreneurial abilities and activities of individuals and firms appear to be significant variables to have an impact upon the internationalization process of SMEs.

The theories presented above are interrelated with each other. The following figure, our conceptual framework shows how the three models are related to each other. Market knowledge is a key factor for internationalization. Without proper knowledge about the target market firms can not plan their internationalization process.



**Figure 5: Conceptual Framework (developed by the authors).**

According to the U-model, market knowledge increases through current activities and then firms commit more resources into that particular market. If we look through the network theory, often the source of market knowledge is local and foreign business relationships or in other words, the networks. As for international entrepreneurship theory, market knowledge comes from the entrepreneurial behavior or activities of individuals and firms; often through the opportunity seeking behavior of the entrepreneurs. Obviously, a substantial degree of market knowledge can also come from the previous international business experience of the entrepreneurs. In today's business world, all three sources of market knowledge can be available for the SMEs. They can gain more knowledge about different markets through their current activities; they can have access to many different types of information through their networks and they can also be entrepreneurial firms with motivated, opportunity seeking individuals who has international business experience at the same time. Therefore, it can be said that the SMEs may use different tools from all the three theories and combine them together to get the best results for their internationalization process.

However, theories of internationalization are just tools that help SMEs to formulate strategies to internationalize. The SMEs also need to consider issues such as entry modes, resources, competitive advantage and so on in order to internationalize successfully.

### **3. Research Methodology**

*In this chapter we will present our method for data collection. We will also discuss different perspectives on research methods and justify why we chose the methods that we are using for our study.*

#### **3.1 Research Purpose**

The purpose of a study can be classified into three major categories; they are, exploratory, descriptive and explanatory.

##### **Exploratory**

An exploratory study deals with phenomenon that we do not know much about, such as, a new or undiscovered topic about which very little research has been done (Yin, 2003). It usually requires extensive preliminary work to be done in order to become familiar with the phenomenon (Sekaran, 1992). One essential aim of exploratory studies is to gain a better understanding of the problem since very little studies might have been done to comprehend the phenomenon. This study enables researchers to provide a comprehensive view of the problem area. It also helps to generate hypotheses and suggests direction and feasibility for further research. “Exploratory studies are thus important for obtaining a good grasp of the phenomena of interest and for advancing knowledge through good theory building” (Sekaran, 1992, p. 95). It usually focuses on the ‘what’ not the ‘why’ questions.

##### **Descriptive**

A descriptive study, as the name suggests is undertaken in order to describe the phenomenon of interest, especially when certain amount of knowledge is available on the topic. Descriptive studies are often undertaken in order to describe and learn about the characteristics of a certain group in organizations. The goal of a descriptive study is to describe relevant aspects of the phenomenon of interest (Sekaran, 1992). It often focuses on ‘how’ and ‘who’ questions.

##### **Explanatory**

Based on previous theories and knowledge an explanatory study is undertaken in order to explain the patterns related to the phenomenon of interest and to answer the research questions (Yin, 2003). It often involves formulating hypotheses and testing them empirically in order to explain the nature of certain relationships. One of the goals of explanatory research is to identify plausible relationships between the factors related to the phenomenon of interest. Explanatory research uses theory and often focuses on ‘why’ questions.

##### **Our Purpose**

Although typically only one of these three research purposes is used as the dominant purpose, occasionally within larger projects all three purposes can be fulfilled. Since the

purpose of our study is to gain a better understanding of the Internationalization process of SMEs with regard to the use of any or a combination of three main theories and there is no definitive theory that explains the internationalization process of SMEs in particular, the purpose of our research would mainly be exploratory and to some extent descriptive.

## **3.2 Research Approach**

### **Quantitative versus Qualitative Approach**

A research can be approached in two different ways, a qualitative or a quantitative way. However, a research can also be approached with the combination of both qualitative and quantitative methods. The distinction between the two research methods are how the data is treated, how they are dealt with analytically.

The quantitative research approach emphasizes on transforming the data to numbers, quantities and statistical models for the purpose of measurement and analysis. Researchers with this approach have a clear idea of what they are looking for and they often use tools such as questionnaire to collect the data. This approach focuses on preciseness in terms of analyzing and measuring the data. Since quantitative research is based on the measurement of quantity or amount, it involves studies that use statistical analyses to obtain information.

With a qualitative research approach, a researcher focuses on gaining a better understanding of the research problem through detailed information about the subject matter. One essential aim of this research approach is to have a complete and detailed description of the subject through the application of reasoning. Qualitative research often involves interviews and observations without formal measurement. The main purpose of this kind of research is to understand the phenomenon studied and describe the situation. Qualitative data consists of descriptions, quotations, observations, and excerpts from documents (Quinn, 2002).

### **Our Approach**

Since the purpose of this study was to gain a better understanding of the internationalization process of SMEs, we have applied the qualitative research approach to gather more information and describe the situations involving the process. However, we have also applied the quantitative research approach since it allows us to statistically measure some of the factors, their impacts and influences on the internationalization process of SMEs. So, we have used a combination of both qualitative and quantitative research approach.

## **3.3 Research Strategy**

According to Yin (2003), there are five major research strategies: experiments, surveys, archival analysis, history and case studies. Each of the five strategies has advantages, disadvantages and different ways of collecting and analyzing data on the basis of the following three conditions (Yin, 2003):

1. The type of research questions posed
2. The extent of control an investigator has over actual behavioral events.
3. The degree of focus on contemporary as opposed to historical events.

Research Strategy	Form of research questions	Requires control over behavioral events	Focuses on temporary events
Experiment	How, why	Yes	yes
Survey	Who, what, where, how many/much	No	Yes
Archival Analysis	Who, what, where, how many/much	No	Yes/No
History	How, why	No	No
Case Study	How, why	No	Yes

**Table 1: Research Strategy, Source: Yin, 1994.**

Since the main aim of our research was to gain an in depth knowledge about the internationalization process of SMEs and to analyze if their behavior fits into any of the three main internationalization theories while going through the process; we find survey to be the most appropriate strategy for this research.

### **3.4 Data Collection Method**

It is very important to choose the appropriate data collection method for a particular study in order to complete the research successfully. The selected method determines how the data are collected. Interviews, questionnaire, documentation, observations, standardized tests, archival records are some of the frequently used methods for data collection. According to Sekaran (1992), there are two categories of data; primary and secondary. Primary data are the ones that a researcher collects himself for a specific purpose or study. They are often collected through direct observations, surveys and interviews. Secondary data refers to the data that are collected by another researcher for another purpose or study; so it is collected from external sources such as TV, magazines, articles etc. Secondary data is easier to acquire than primary data. Even though primary data is difficult to acquire, they are a lot more trustworthy compared to secondary data; secondary data comes along with a question regarding reliability and therefore, must be treated with caution.

For our study, we have collected primary data by conducting closed interviews.

We have interviewed a total of 13 SMEs, 9 of them have already internationalized and other 4 contemplating on going to international market; questions were answered by the CEOs in almost all cases. The gathered data enabled us to observe, understand and analyze the internationalization process that these firms has gone through as well as the internationalization process that some firms will undertake in the near future. We have

gathered more knowledge about the practical situations of SMEs with regard to the use of the three internationalization theories that we have discussed.

### **3.5 Sample Selection**

“Sampling is the process of selecting a sufficient number of elements from the population so that by studying the sample, and understanding the properties or the characteristics of the sample subjects, we will be able to generalize the properties or characteristics to the population elements” (Sekaran, 1992, p. 226). Basically a sample is considered to be a subset of the population. There are many sampling techniques available for a researcher. Sampling techniques allows a researcher to collect the data from a subset or subgroup rather than the whole population and therefore reduces the amount of data to fit the purpose of the study.

For our research, we have used convenience sampling. According to Sekaran (1992), convenience sampling involves collecting information from members of the population who are conveniently available to provide it.

As for collecting data through interviews, our criteria for sample selection also involved:

- a. SMEs that fit into the definition that we have used earlier from European Union.
- b. SMEs that are either internationalized or planning to go to international market.

### **3.6 Interview Questionnaire Design**

Three of the most common type of questions used in questionnaires or surveys includes open-ended questions, closed-ended questions and Likert scales. An open-ended question does not provide the participant with a choice of answers. Instead, participants are free to answer the question in the manner they choose. An example of an open-ended question is the following: How would you describe the pace of internationalization of the firm? By contrast, a closed-ended question provides the participant with several answers to choose from; such as, how was the market knowledge of the firm when internationalization process took place? (a) Great (b) Small (c) Null. The Likert scale asks participants to provide a response along a continuum of possible responses. For example: Is it important that managers of the firm have previous experience of internationalization in order to go abroad? (1) Strongly agree (2) agree (3) neutral (4) disagree (5) strongly disagree.

We have used all three types of questions discussed above, for our closed interviews. The interview questionnaires were divided into two parts: general information and interview questions.

We have used two types of interview questionnaires: one for the SMEs that are in international market already (Appendix A), and the other for SMEs that are planning to go abroad (Appendix B). The questions provide both qualitative and quantitative information, using the three types of questions mentioned above.

While developing the interview questions we have focused on using questions that will provide us with data related to the main theme of our research which is, to investigate if the internationalization process of SMEs (both past and future) can be described using any or a combination of the three theories that we have been discussing in our study.

## **4. Data Description, Analysis and Results**

*In this chapter we will present the empirical data that we have gathered and their analysis based on the theories and the conceptual framework that we have presented earlier. For convenience and clarity and for the purpose of comparison, we will analyze the 'internationalized' and 'planning to internationalize' SMEs separately. First of all, we will present the general information of the participant SMEs that we have interviewed. Then we will analyze the results of each question.*

### **4.1. General Information**

Among the 13 SMEs that we have interviewed, 9 are internationalized SMEs and 4 are planning to internationalize in the near future. The sample SMEs are based on a number of countries including Sweden (4), Germany (2), India (2) and 1 each from Pakistan, Bangladesh, Australia, Thailand and Poland. The questions were answered either by the CEO or by a Manager of the respective SME. Most of the SMEs were founded not very long ago; between 1996 and 2005; except 2 firms, 1 was founded in 1978 and the other in 1864. Some of the firms internationalized as soon as they were founded; including 3 SMEs that were international from inception and many of them can also be considered as international new ventures (INVs) according to the definition and characteristics of INVs discussed earlier. As for the non-internationalized SMEs, they all are planning to go abroad by 2010. This basically gives us a picture of SMEs that went/will go through the internationalization process within a few years of foundation. The number of employees in these SMEs range between 3 and 90 and the total annual sales range between 20,000 and 15 million Euros. So, they perfectly fit into the definition of SMEs given by the European Commission in 2005 which we have mentioned earlier in this thesis. The sample SMEs are engaged in a variety of businesses such as, manufacturing, marketing, consulting, providing indoor adventure, event management etc. to name a few.

### **4.2. Internationalized SMEs**

We have designed the interview questions to investigate how SMEs went international. Different questions were asked to understand their process and use of the theories discussed earlier in this study. We will present the results from the questions one by one below:

## Position in domestic market

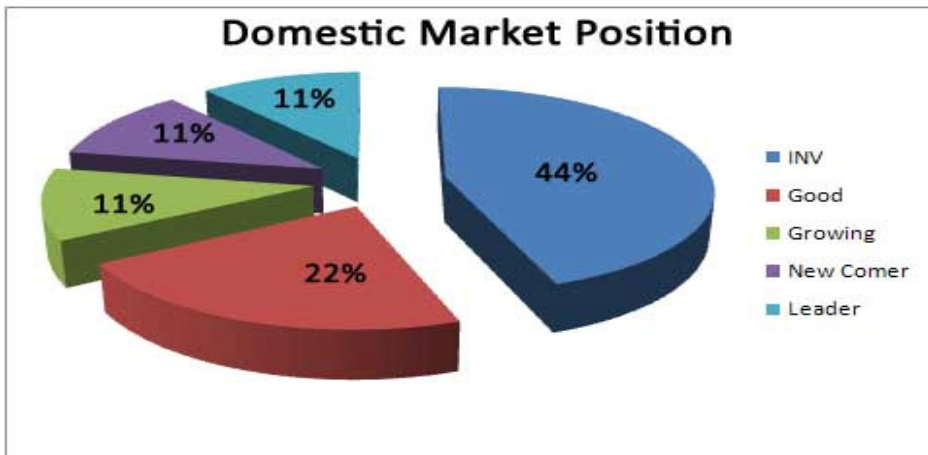


Figure 6: Domestic market position (INT)

Three out of the nine SMEs were international from inception and 44% percent of them can be considered as INVs. As for the rest of the 56%, one important fact is that a total of 22% of the SMEs were either newcomer or growing and the rest has had a significant presence in domestic market before going international. This indicates that position in the domestic market is somewhat important for SMEs even if they internationalized within a short period of time from inception.

## Domestic market position's importance

Next we asked if their position in the domestic markets were important for the internationalization process. And as shown in figure 7, 77% of the SMEs considered it to be important which agrees with the finding we have just presented above.

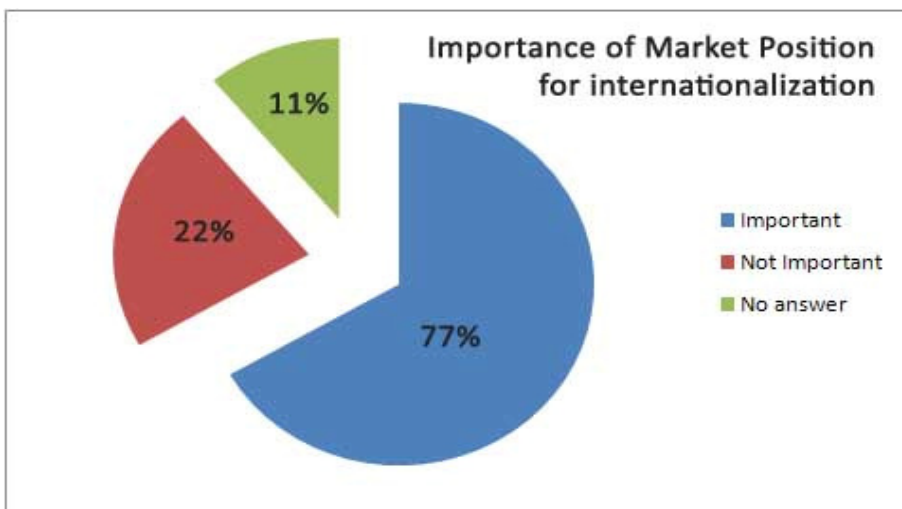


Figure 7: Domestic market position's importance (INT)

If we analyze further, the INVs seem to be less concerned about their position in the home countries. For example, Qasab Handicraft, a handicraft producing SME from India, internationalized within 2 years of foundation; even though they considered



themselves to be a small firm in the market, didn't consider their position in domestic market which was 'growing'; to be important at all for internationalization. Similarly, Addbizz, an advertising firm based on Australia, was a newcomer in the market but still managed to internationalize within 1 year of foundation. But most of the SMEs with strong or a leading position in the domestic markets consider it to be useful for internationalization.

Porter (1990, p. 53) states that market position, whether local or international, affects market commitment: "a firm's competitive advantage position in one nation significantly affects (and is affected by) its position in other nations. Rivals compete against each other on a truly worldwide basis".

### Reasons for internationalization

As we have discussed earlier, there are two factors that influence SMEs' internationalization: proactive and reactive; they shape the SMEs' reasons to go international. Figure 8, suggests that most of the SMEs analyzed, go to international markets because of market opportunity, expansion and profit.

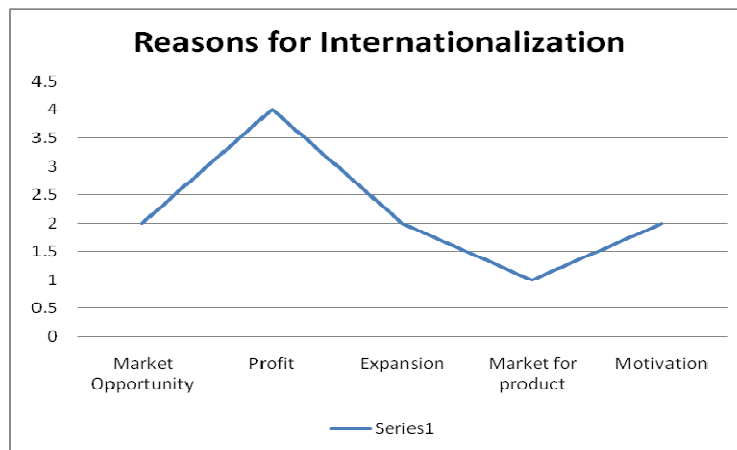
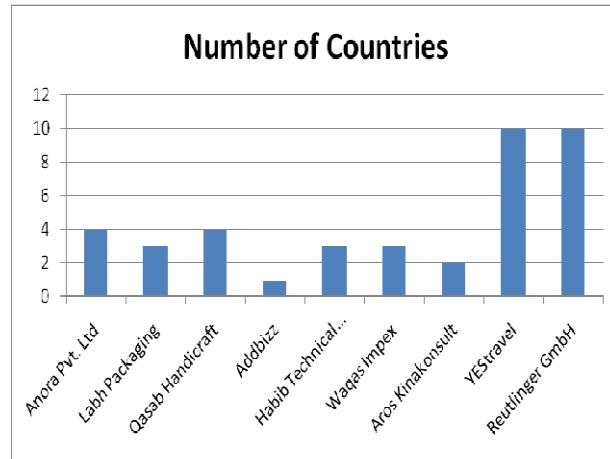


Figure 8: Reasons for internationalization (INT)

This profit or opportunity seeking behavior of the SMEs can be described mainly with the 'International Entrepreneurship Theory'. One of the basic arguments of IET is that individual and firm entrepreneurial behavior is the basis of foreign market entry (Mtigwe, 2006). This entrepreneurial behavior can be in the form of finding innovative opportunities and using them to acquire competitive advantage and acquiring competitive advantage can be interpreted as exploitation of opportunities across national borders to create future goods and services (McDougall & Oviatt, 2005). But since market opportunity comes in the form of knowledge through current activities and current activities involve interaction within relationships with customers, suppliers, competitors etc, we think that it would be unwise to ignore the role of U-model and network theory while analyzing the above mentioned behavior of SMEs.

### Countries involved

Then we asked the SMEs about the countries that they have international business activities with and the year of internationalization.



**Figure 9: Number of countries involved (INT)**

The countries where these SMEs have international businesses are: USA, UK, France, Switzerland, Spain, Greece, Australia, New Zealand, Poland, Czech Republic, China, Sweden, The Netherlands, Malaysia, Saudi Arabia, Bangladesh, Canada, Germany, Denmark, Slovakia, Russia. Through this question, we intended to find out about the impact of psychic distance on the internationalization process of SMEs. The results suggest that psychic distance has a negligible affect on internationalization. For example, Aros Kinakonsult, a consulting service firm based on Sweden, founded in 2000 and entered into China in 2003. The psychic distance between these two countries is very high, yet the firm has internationalized in a reasonably short period of time. Another example could be Addbizz, founded in Australia in 2006 and entered into Bangladesh in 2007. Labh packaging, an Indian firm, founded in 2004 and entered into Denmark, The Netherlands and Sweden in 2005. All these three firms can be considered as INVs with no impact of psychic distance on their internationalization process. This, questions the U-model's ability in terms of describing the internationalization process of the firms because the U-model suggests that firms will choose markets with low psychic distance when going international. The behavior expressed by those three firms cannot be explained much by the U-model.

### **Income from international sales**

Our next question was regarding the percentage of total annual sales coming from international sales. The reason for posing this question was to find out how much are the firms involved internationally as well as to make sure that they fit into the definition of SMEs that we are using in this study. The range was that between 40 to 100 percent of the total annual sales were coming from international markets; including 6 out of the 9 firm's international sales accounted for 70 to 100 and only 1 firm having 20% coming from international activities. This indicates that the SMEs that we are discussing are heavily engaged in international business.

### Management's previous experience of international business

Having previous knowledge about the international business, helps SMEs to skip steps in their process, either by omitting the use of Uppsala model, or by a combination of the three; or U-model and Network. As figure 10 suggests, 8 out of the 9 SMEs had a manager or owner or founder with high or very high previous experience of international business.

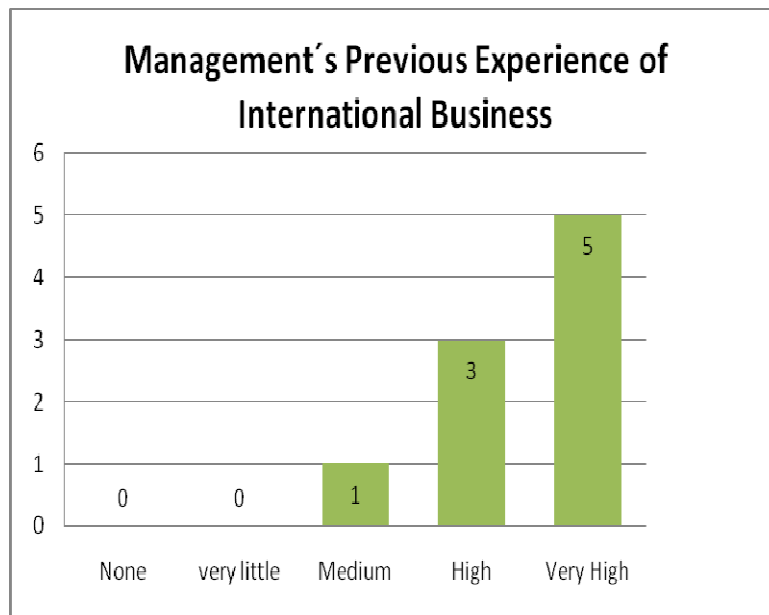


Figure 10: Management's previous experience (INT)

Since most of the sampled firms can be considered as INVs, we can say that previous experience of international business plays a very important role in the internationalization process of INVs, especially it helps the speed of the process. This can be better explained with the suggestion of McDougall and Oviatt (1997) that it requires internationally experienced entrepreneurs to form an INV.

### Speed of internationalization

Then we tried to find out about the speed of internationalization that the SMEs had experienced. Only 1 firm considered its speed of internationalization to be slow and 67% of the firms experienced a medium speed; neither slow nor high.

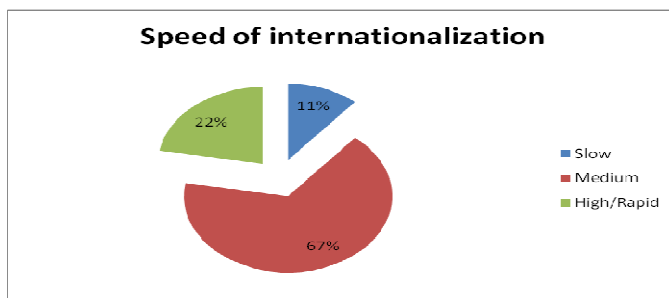
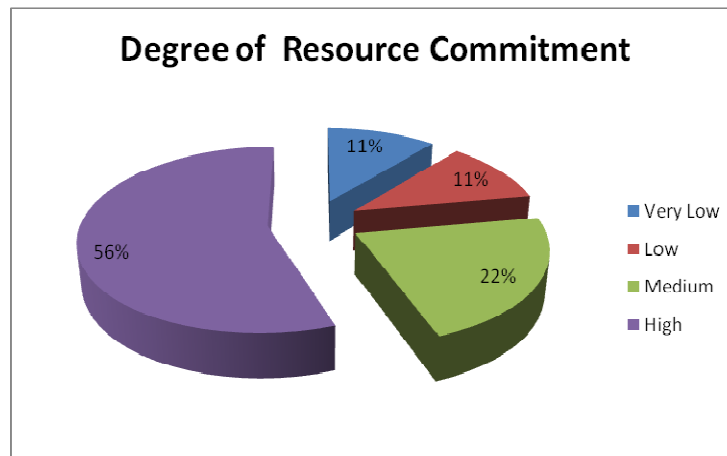


Figure 11: Speed of internationalization (INT)

This once again suggests that the internationalization process of INVs is difficult to explain with the U-model; since most of the SMEs that we are discussing here are INVs and they do not seem to have a slow, step by step process as the U-model suggests. One significant aspect of this result is that the INVs do not get a flying start either, they rather apply a not too slow and not too fast process, which probably means they do not completely follow the U-model and neither do they ignore it. Perhaps there is one implication here, that is, the internationalization process of SMEs, especially of INVs cannot be called slow anymore.

### Degree of resource commitment

A firm tends to commit more resources to a market where there seems to be less uncertainty. As the results suggest in figure 12, 78% of the SMEs committed medium to high amount of resources when they went abroad.



**Figure 12: Degree of resource commitment (INT)**

This indicates that there is abundant knowledge available to the firms. The more knowledge the higher the firm will commit its resources to the new market. At the same time we can say that by this firms eliminate the importance of psychic distance, because the SMEs that we are discussing have gone into foreign markets with significantly high amount of resources initially even though the psychic distance was high.

### Importance of formulating strategy and methods

After this, we asked them about the importance of formulating strategy and methods for internationalization. As the figure 13 below suggests, a very small number of firms considered it to be important or very important. Firms seem to pay less attention to the role of formulating strategy and methods for internationalization; this could be explained by the entrepreneurial behavior of the firms or management. This could also be explained by network theory. Firms or entrepreneurs seem to seek opportunities without employing any formal strategy or methods or perhaps the business relationships

with others in the network allow them to go with the flow and appear in different foreign markets without the aid of a strategy or method.

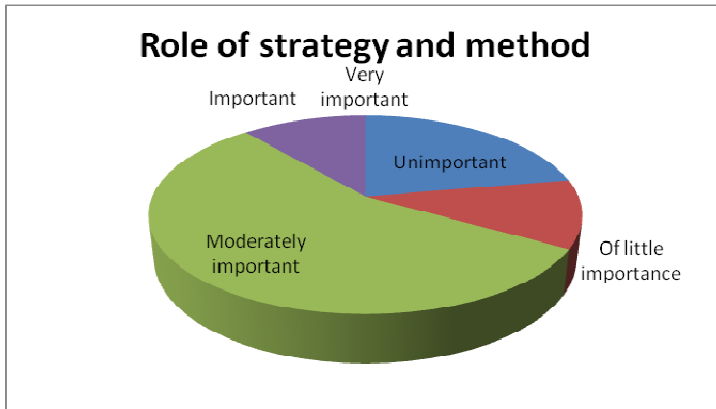


Figure 13: Role of strategy and method (INT)

### Importance of the main variables

The main idea behind asking this question was to check out which variables from each of the theories that we have discussed, still fit into the internationalization process. The purpose was to understand which of the variables played a role and influenced the process and in what degree of importance. Although some variables can be applicable to more than one theory, for the purpose of convenience, clarity and distinguishing we have categorized them as each variable in one theory only. The results are shown in figure 14.

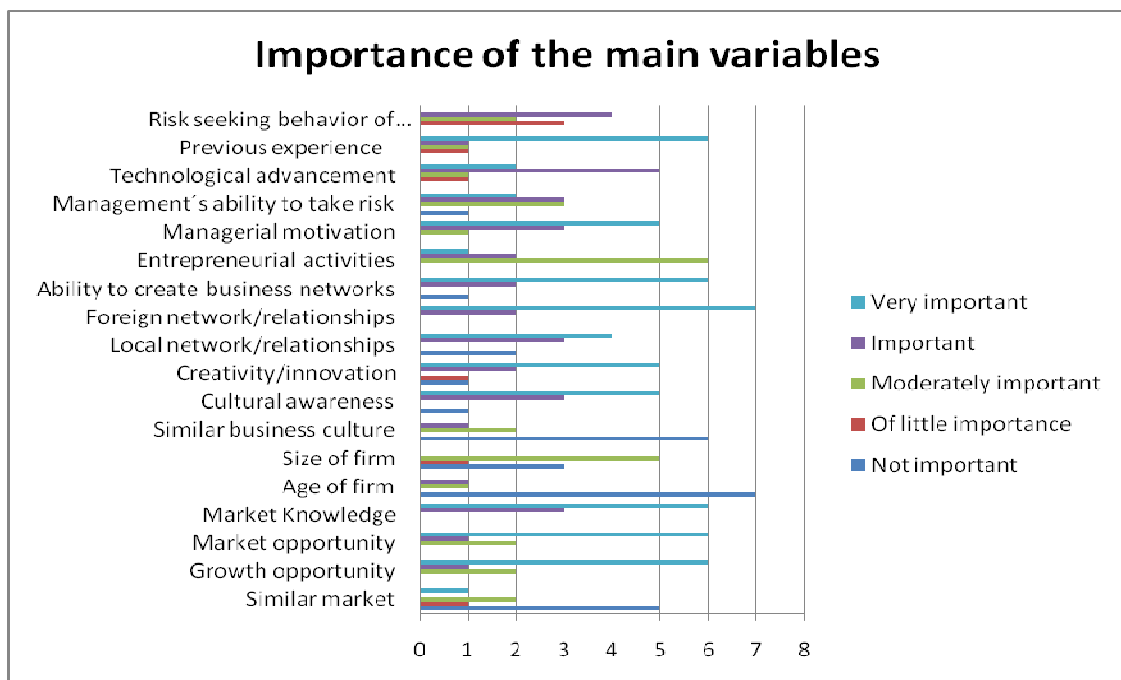
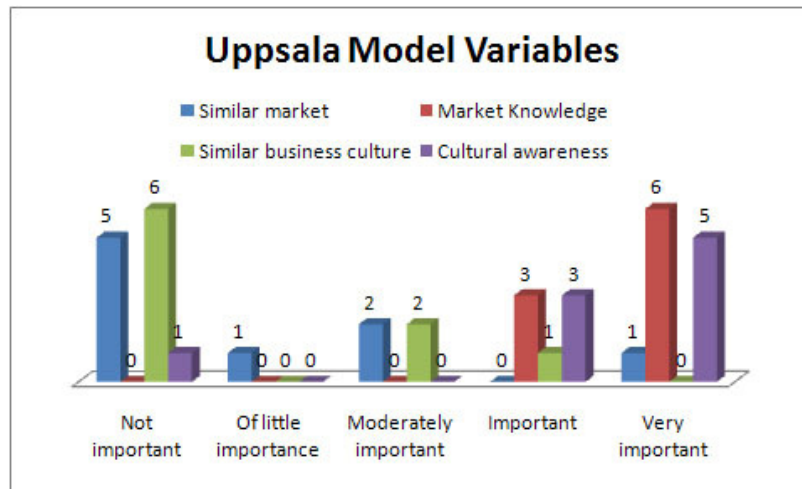


Figure 14: Importance of the main variables (INT)

First of all, let us take a look at the variables related to the Uppsala model: similar market, market knowledge, similar business culture and cultural awareness (figure 15).



**Figure 15: Uppsala model Variables (INT)**

Similar market and business culture wasn't important for most of the SMEs while choosing the foreign market to go international (figure 15). On the other hand, all the firms considered market knowledge and cultural awareness to be important. If we put this data into the context of Uppsala model, we get a picture of SMEs going into international markets without paying much attention to the barrier of psychic distance suggested by the U-model; but at the same time, firms still consider market knowledge and cultural awareness to be important variables shaping their internationalization process. One explanation of this could be that technological advancement, increasing globalization, increasing number of professionals with international experiences in terms of conducting business as well as traveling, studying etc and availability of information enables the firms to overcome the barriers posed by psychic distance quite easily in a short period of time. Firms also recognize the fact that businesses are conducted in different ways in different parts of the world and having proper knowledge about the market and being aware of the cultural differences are essential in order to succeed.

The variables that we have identified as being related to the network theory are: local networks or relationships, foreign networks or relationships and ability to create business networks and almost all the SMEs considered them to be very important factors influencing their internationalization process (figure 16).

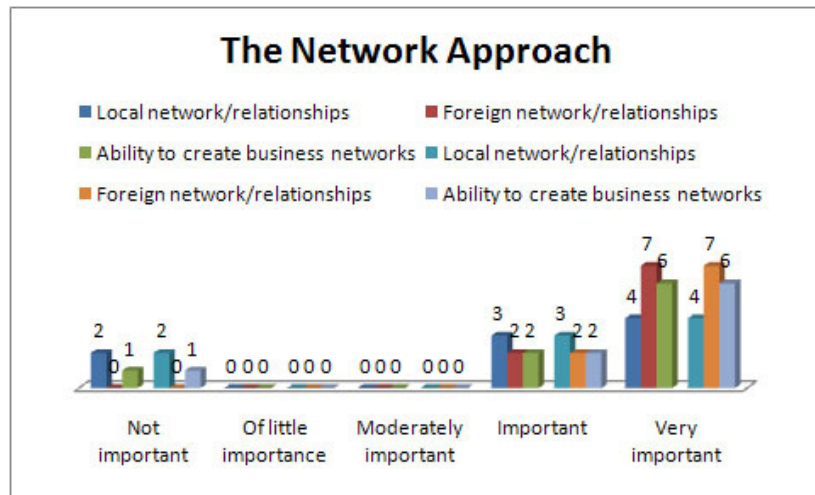


Figure 16: Network theory variables (INT)

SMEs rely heavily on the network relationships and firm's ability to create networks is important for expansion. The network relationships can also be seen as a source of market knowledge and market opportunities. This in turn, enables the SMEs to internationalize more rapidly without going through the stages suggested by the U-model. This is also in accordance with Johanson and Vahlne's (1990) recognition that INVs are a product of an international network of firms, since most of the SMEs that we are discussing are also INVs.

Now we take a look at the variables that we have identified as being related to the international entrepreneurship theory which are: growth opportunity, market opportunity, creativity and innovation, entrepreneurial activities, managerial motivation, management's ability to take risks, technological advancement and previous international experience of the management or entrepreneurs and risk seeking behavior of entrepreneurs and management internationally (figure 17).

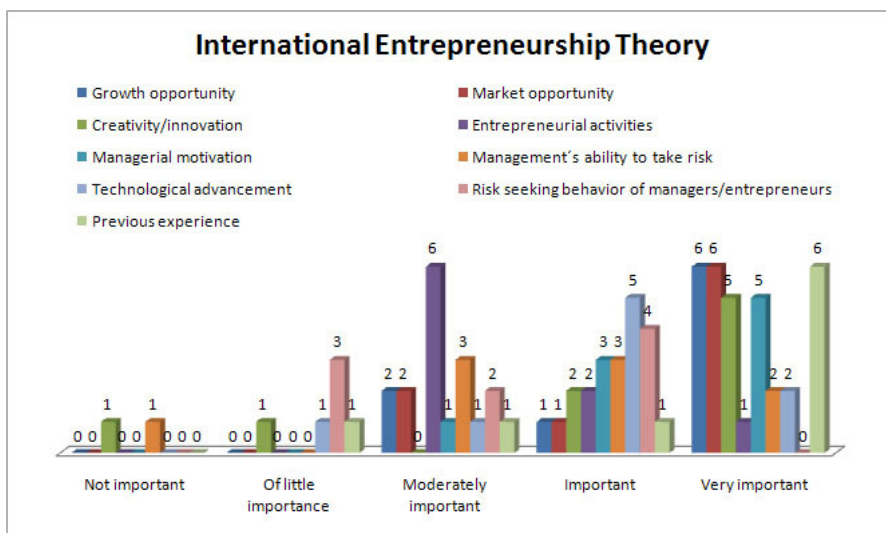


Figure 17: IET variables (INT)

If we analyze the results, on an average all the firms acknowledged almost all these variable's importance in their internationalization process. Growth opportunity and

market opportunity can be seen as important driving forces for internationalization with the aid of managerial motivation, creativity and previous experiences while technological advancements were influential in most cases.

If we analyze the above findings from this question, we can see that the internationalization process of these SMEs cannot be described by one theory alone rather the process demonstrates a mixture of ideas borrowed from all three theories; although the applicability of the Uppsala model is quite limited.

**Theory that best describes the internationalization process**

Our next question was a direct one regarding which theory best describes the internationalization processes of the SMEs; whether it was Uppsala model or network theory or international entrepreneurship theory or a combination of two or all three of them. The results are shown in table 2.

	Step by step, risk averse, slow, cautious	Through networks	Through international entrepreneurial activities
Anora Pvt. Ltd	x	x	x
Labh Packaging	x	x	
Qasab Handicraft	x	x	
Addbizz	x	x	x
Habib Technical Training Institute		x	x
Waqas Impex		x	
Aros Kinakonsult	x		
YESTravel	x		
Reutlinger GmbH	x	x	
Repetitions	7	7	3

**Table 2: Theory that best describes the internationalization process (INT)**

There has been a lot of a research activity in the field of international entrepreneurship which can be described as a boom and the Uppsala model has been criticized from the very beginning. While in practice many SMEs are still using a step by step process for internationalization as the gathered data indicates, even though most of them are INVs. Most of the SMEs applied a combination of at least two theories of which in most cases includes the Uppsala model. Even though the degree of resource commitment during the initial stages of internationalization and the speed was reasonably high the firms still think that it was a step by step, risk averse, slow and cautious process. An explanation to this conflict could be that firms took a very short period of time to move from one step to the next and it does not necessarily mean that these steps were the same as the ones suggested in the Uppsala model that we have discussed earlier in figure 2. Another explanation could be that firms eliminated risks by gathering information and knowledge through networks or some other sources. Most of these SMEs recognize the importance of network relationships.

**Entry modes used**

The purpose of the question was to find out the most common entry mode used by the SMEs. Exporting seems to be the first choice of entry mode for internationalization. The SMEs that we have interviewed, used the entry modes as explained in table 3:



	Exporting	Turnkey projects	Licensing	Franchising	Joint venture	Wholly owned subsidiaries
Anora Pvt. Ltd	x					
Labh Packaging						x
Qasab Handicraft	x					
Addbizz						x
Habib Technical Training Institute	x					
Waqas Impex	x					
Aros Kinakonsult					x	
YESTravel					x	
Reutlinger GmbH	x			x		
Repetitions	5	0	0	0	2	2

**Table 3: Entry modes used by SMEs (INT)**

Exporting is the entry mode that had more repetitions, followed by joint ventures and wholly owned subsidiaries. This fits perfectly with the Uppsala model idea of exporting as the first choice to gain internationalization.

### Tools used to gather information

Our next question was regarding how the SMEs gathered information about the foreign target market before entering into that market. Once again it is evident from the results that network played a very important role in the internationalization processes of the firms: table 4.

	Market Research	Network	Visits	Internet
Anora Pvt. Ltd	x	x	x	
Labh Packaging		x		
Qasab Handicraft	x	x	x	
Addbizz		x	x	x
Habib Technical Training Institute		x		
Waqas Impex		x	x	
Aros Kinakonsult		x		
YESTravel		x		
Reutlinger GmbH	x		x	
Repetitions	3	9	5	1

**Table 4: Tools used to gather information (INT)**

As we have discussed earlier, network relationships can be a very useful source for gathering information and market knowledge, it consumes less time as well. Firms can gather knowledge through networks easily and quickly which otherwise would take them a long period of time to gather themselves by doing the related activities themselves in the respective market.

## Brief summary of the findings

To summarize the analysis of data gathered from the SMEs mentioned and discussed above, first of all, we can say that, these SMEs possess the characteristics of INVs. Most of the founders or managers or entrepreneurs had high previous experience of international business activities which enabled them to internationalize with a reasonably good speed and significant amount of resource commitments during the initial stages of internationalization. If we compare their behavior with the three theories, we can clearly see that network theory explains many things, at the same time international entrepreneurship theory also describes their activities quite successfully. The Uppsala model is still in use, even though not that heavily but still cannot be left out either.

### 4.3. SMEs that are planning to internationalize in the near future

We have interviewed four SMEs that are planning to internationalize by the year 2010 and they were founded between 1998 and 2004; the purpose was to get an idea of how some SMEs are planning their process of internationalization these days. The SMEs interviewed for this part are from Sweden, Germany and Thailand. We have asked them the same questions as we asked the internationalized SMEs; with changes only where applicable. We shall present some of the gathered data first in the form of figures, charts and graphs below and analyze them. We will not be following the sequence that we did for the internationalized SMEs part.

#### Domestic market position and its importance

As we have discussed earlier, the domestic market position of the SMEs plays an important role in their internationalization process. Here we can see (figure 18), that the SMEs with no international activity still see themselves as in need of growth, since 75% said they are still growing. One of the four firms think that their market position is good.

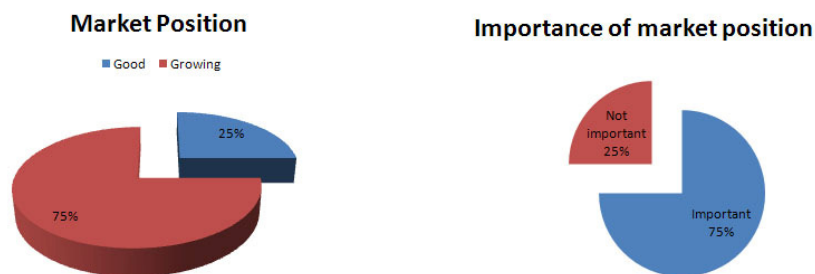


Figure 18: Market position and its importance (Non-INT)

Although the SMEs are small and growing, they consider domestic market position to be important for the internationalization process. This is in agreement with the

internationalized SMEs. One reason for most of the SMEs in this research to consider domestic market position to be important could be that it helps build up relationships and business networks.

### Reasons for planning to internationalize

Firms always strive to achieve growth and make more profits; one way of doing so is to expand the market for their products or services by going into international markets. The reasons for planning to internationalize seem to be the same for all the firms studied: profit, expansion, market opportunity etc (table 5).

	Network	Expansion	Profit	Market opportunity	Competitive advantage
We Fix AB	1				
HamperGbr		1	1		
M.T.T.S. Engineering				1	
Arosfortet AB					1

**Table 5: Reasons for planning to internationalize (Non-INT)**

### Psychic Distance

For these non internationalized SMEs, psychic distance seems to be very important. Bokhari Und HampeGbr, a German event management firm, intends to expand to Austria and Switzerland and the reason for choosing these two countries is same language. Similarly, We Fix AB, a Swedish entrepreneurial firm, planning to enter into Norway; Arosfortet AB, another Swedish firm involved in providing indoor adventures to all age groups, targets the other Scandinavian countries: Norway, Finland and Denmark; and M.T.T.S. Engineering, a Thai factory electronic equipment manufacturer, plans to expand to two neighbors Malaysia and Singapore. Although for the later three SMEs, the reasons for targeting neighboring countries are different: for We Fix AB and M.T.T.S. Engineering, it is network that already exists in those countries and for Arosfortet AB, the Scandinavian countries can offer an abundant of empty industrial areas which is necessary to establish this type of business; in a sense the reasons are related to psychic distance indirectly, if not directly. So, these findings are directly related to the Uppsala model and network theory.

### Importance of the main variables

Now we shall analyze the importance of the variables that the SMEs think will influence their internationalization process. The results are presented in figure 19.

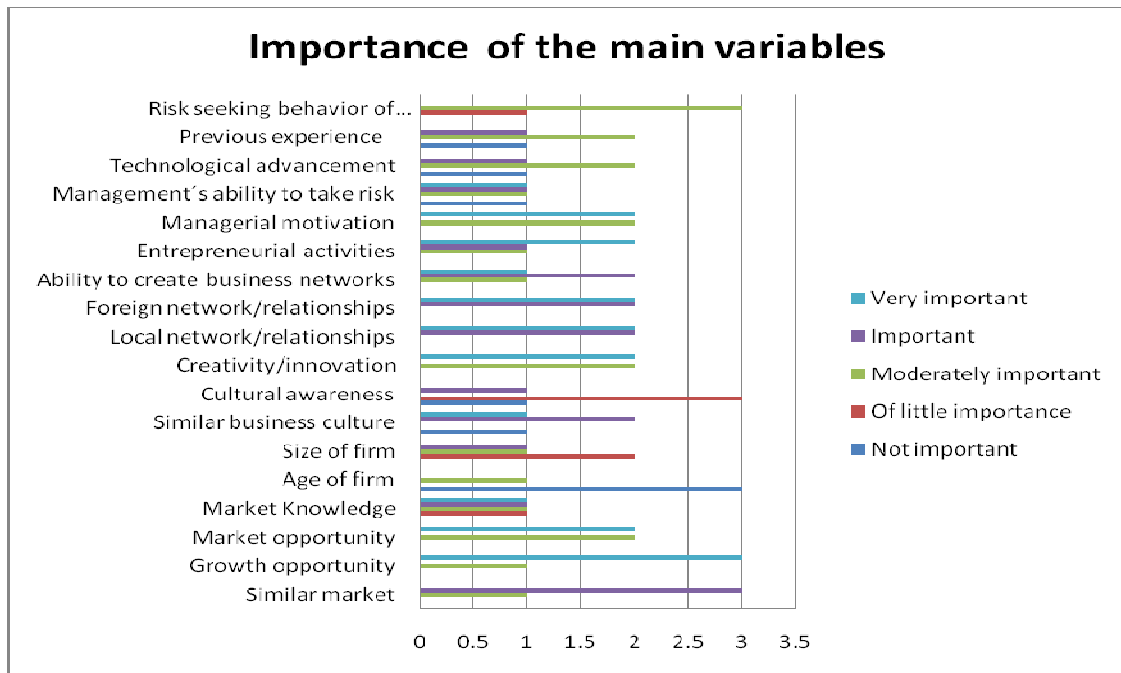


Figure 19: Variables that will influence the internationalization process (Non-INT)

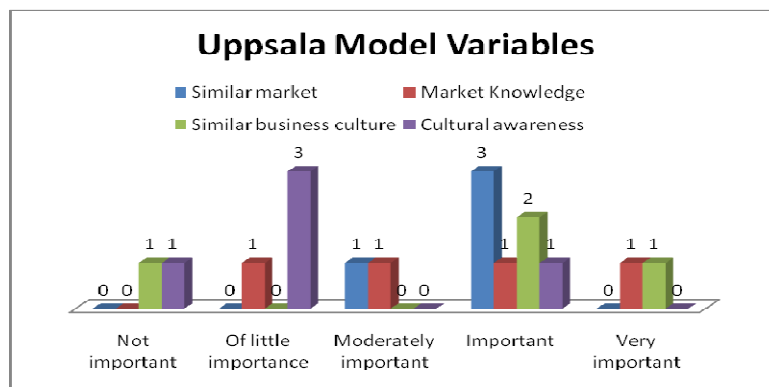
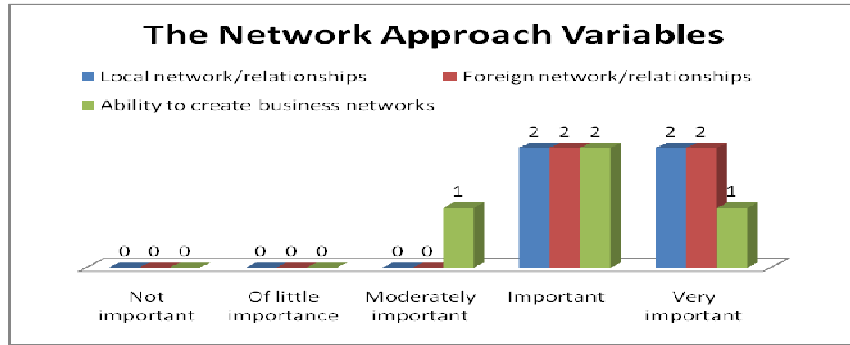


Figure 20: Importance of the variables: Uppsala Model (Non-INT)

As we have found earlier, psychic distance is an important factor for these firms. Therefore, they target the countries with low psychic distance with similar market and business culture (figure 20).

The importance of network relationships (figure 21) and ability to create networks are regarded highly as well. This once again indicates the reliance of SMEs on networking. The SMEs think that identifying growth opportunity and market opportunity are necessary steps to begin with the internationalization process and for this purpose, managerial motivation, entrepreneurial activities and creativity must take place.



**Figure 21: Importance of the variables: the Network Approach (Non-INT)**

The variables that these four SMEs consider to be important, comes from all the three theories. Even though psychic distance has a negligible impact on the internationalization process of INVs discussed in the earlier part; for these SMEs it is important. The importance of networks as well as entrepreneurial behavior is acknowledged as well.

**Planned internationalization process**

The interviews with the internationalized SMEs revealed that they went international by using a mixture of mainly Uppsala model and Network Approach. Table 6 describes how non-internationalized SMEs are planning to go abroad in the near future.

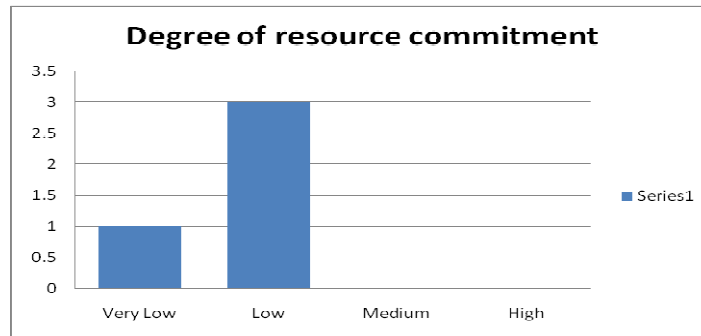
	Step by step, risk averse, slow, cautious	Through networks	Through international entrepreneurial activities
We Fix AB		X	X
HamperGbr	X	X	
M.T.T.S. Engineering		X	
Arosfortet AB	X	X	

**Table 6: Planned internationalization process (Non-INT)**

The base for going international is through the networks, though they intend to use different entry modes. The initial degree of resource commitments and the speed of internationalization will be low and slow respectively. The firms intend to gather information about the target markets through networks mainly. This suggests application of a combination of both U-model and network theory.

**Degree of resource commitment**

These SMEs are planning to commit a low degree of resources during the initial stages of their internationalization process as Figure 22 suggests. This is an indication of the fact that some aspects of the U-model is still used by firms that internationalize.



**Figure 22: Degree of resources that will be committed initially (Non-INT)**

### **Brief summary of the findings**

Similar to the findings from internationalized SMEs, the internationalization process behavior cannot be described by one theory alone; there is always a combination of two or all three. Though on this occasion, it is evident that the SMEs put significant emphasis on creating and maintaining networks in order to achieve internationalization.

#### **4.4 Limitations regarding the collection of data**

Time was the first limitation that we had overcome while doing this project. By interviewing only 9 internationalized SMEs and 4 SMEs that are planning to internationalize, we can't state that our findings on the topic are true for SMEs from all industries or countries. There are many other factors that influence a SME's internationalization process such as industry, economic conditions of home and foreign countries, infrastructure, products/services and so on. However, considering all the limitations regarding time and amount of empirical data, we do believe that this study can provide the reader with a broad idea of the internationalization process of SMEs and it can be considered as a path and base for further extensive research on this topic.

## **5. Conclusion and Further Research**

### **5.1 Conclusion**

Looking back at the theories, we can see that network theory was proposed after the Uppsala model was widely criticized and that entrepreneurship in a way is the mixture of both of them; relationships can be the source of opportunities that the entrepreneur will take advantage of and carefully commit his available resources to achieve growth. From our findings, we can say that both Uppsala model and the network model are often used hand on hand. While it seems that international entrepreneurship theory is also valuable in describing some of the newly emerged phenomenon of the business world and their ways of doing business, such as INVs.

Our research shows that the main reasons for SMEs to internationalize are profit, expansion, market opportunity and to achieve growth. Managerial motivation is one of the main factors for SMEs to begin thinking about foreign expansion along with some other. Findings also suggest that firms consider domestic market position to be important even if they are INVs. Although for INVs psychic distance is not quite relevant, some SMEs still prefer to internationalize beginning with the countries of low psychic distance. INVs tend to accumulate a high volume of sales from international markets with reasonably high degree of resource commitments in those markets. Both internationalized and non internationalized firms did not consider formulating strategy and methods to be that important.

From this research, we realize that SMEs that are already internationalize and the ones that are not have so many things in common. First, the reasons to go international are profit, expansion/growth and market opportunity. Second, motivation is one important factor for the firms, with no motivation there is no action. Third, domestic position seems to be really important for both types of SMEs. Fourth, INVs psychic distant is not relevant, but some of the SMEs analyzed prefer to go abroad to countries where they find similar culture and environment.

## **5.2 Role of the Theories and how they describe the internationalization process of SMEs**

We have observed that firms in different industries have different methods and strategies to carry on their local and international business. Age and size of the firms, are not that important especially when it comes to INVs, which are international firms from inception. However, the theories play an important role in describing the process that the SMEs undertake while going abroad. It can be said that there is no right theory to use but the mixture of them which makes the process easier. Theories and models provide tools to plan the internationalization process of firms. There are many variables that shape and influence the internationalization process of SMEs and they come from all the three theories that we have discussed in this study. From the U-model, psychic distance and market knowledge are still able to explain some behaviors expressed by the process of internationalization of SMEs, while almost all firms tend to base their foreign endeavor on networking, for gathering market knowledge and information in particular; SMEs rely heavily on network relationships. Firm's and management's opportunity seeking behavior is another driving force for foreign expansion with an essential element of this activities coming from previous international experience of owners or managers or entrepreneurs. Overall, in describing the internationalization processes of the SMEs, we need to apply a combination of at least two or all three theories, none of the theories are able to explain the processes alone and in most cases, the behavior still fits into the U-model despite of a lot of criticism about it from the very beginning.

### **5.3 The most useful aspects of the theories**

It is evident from this study that some aspects of the Uppsala model are very useful to the SMEs in their internationalization process. Although none of the firms studied here follow all the suggested steps prescribed by the U-model. The most important aspect is psychic distance. Except the INVs, almost all the SMEs consider it to be important and they tend to choose countries with low psychic distance, as their target international markets during the early stages of internationalization. Market knowledge is considered to be important for all firms and many other activities in the internationalization process are dependent on the available market knowledge; such as degree of resource commitment, speed of internationalization and so on. The SMEs tend to commit a low degree of resources and prefer to go on a 'slowly but surely' basis during the early stages of internationalization; these behaviors reflect the Uppsala model.

As for the network theory, it seems to be in the center of the internationalization process of the firms. Firms rely heavily on their networks for many activities during the internationalization process; especially when it comes to gathering market knowledge. Network is also seen as a source of opportunity; particularly for the entrepreneurial firms. Most of the interviewed SMEs think that it is essential for firms to be able to create business networks in order to internationalize.

Some aspects of the international entrepreneurship theory are also important for all SMEs; even if they are not INVs. Most of the SMEs studied here agree that it makes the internationalization process much easier if the management has previous international experiences. The SMEs consider growth opportunity, market opportunity and managerial motivation to be the driving forces to initiate the internationalization. Entrepreneurial activities and risk seeking behavior of entrepreneurs and management are also important for some SMEs; since these factors or activities help them recognize opportunities to expand across national borders.

### **5.4 Further research**

This study can generate many possibilities for further research. It would be interesting to investigate the internationalization process of SMEs in different industries and countries separately. In this study we have interviewed a mixture of different types of SMEs due to the lack of time and resources. But it would be a good idea to categorize SMEs and then study their internationalization process to see if the theories can describe and explain the behavior of those particular groups of SMEs. We would like to recommend face to face in depth interviews for further research which enables an interviewer to acquire more data in a reliable way.



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## 7. Appendix A: Interview with internationalized SMEs

### General Information

Name of the company:

Number of Employees:

Country of origin:

Total annual sales:

Position of the Respondent:

Products/Services/Field of business:

Year of Foundation:

Website/email/contact

Year of Internationalization:

### Interview Questions

1. How would you describe your company's position in domestic market right before going international? Was it important for internationalization?
2. What was the basis or main reason why your company went international?
3. Name and total number of countries your company has international activities with (in order, first to last) and year of internationalization.
4. Percentage of total annual sales coming from international sales:
5. Did the founder/owner of the firm or its management have any previous experience in internationalization or international business activities?

*None    Very little    Medium    High    Very high.*

6. How would you describe the speed of your firm's internationalization process?

*Slow    Medium    High/Rapid*

7. How would you rate the degree of resource commitment during the initial stage of internationalization?

*Very low    Low    Medium    High    Very High.*

Please state a percentage:

8. What was the role of formulating strategy and methods for internationalization?

*Unimportant    Of little importance    Moderately important    Important    Very important*

9. Which of the following factors helped your company's internationalization process? Please rate them according to importance.

*1 not important; 2 of little importance; 3 Moderately important; 4 Important; 5 Very important.*

Similar market:

Age of firm:

Growth opportunity:

Size of firm:

Market Opportunity:

Similar business culture:

Market Knowledge:

Cultural awareness:

Creativity/Innovation:  
 Local Network/relationships:  
 Foreign network/relationships:  
 Ability to create business networks:  
 Entrepreneurial activities:  
 Managerial motivation:  
 Management's ability to take risks:  
 Technological advancement:

Previous international experience of the management or entrepreneurs:  
 Entrepreneurial activities of individuals or management or the firm:  
 Risk-seeking behavior of entrepreneurs and management internationally:

10. Which of the following best describes the internationalization process of your firm?

- a. Step-by-step, risk averse, slow, cautious process.
- b. Entering into foreign market through networks/contacts/partners.
- c. Through international entrepreneurial activities of management/individual/firm, rapid internationalization.
- d. Combination of a, b and c.
- e. Combination of a and b.
- f. Combination of a and c.
- g. Combination of b and c.
- h. None of the above
- i. Other, please specify:
- j. International from the beginning

11. Which mode of entry best describes the internationalization process of your firm?

Exporting	Wholly owned subsidiaries
Turnkey projects	None of them
Licensing	Other, please specify:
Franchising	
Joint Venture	

12. Please rate the importance of the following in your firm.

1-not important; 2-of little importance; 3-Moderately important; 4-Important; 5-Very important

Business network:  
 Entrepreneurial activity:

13. How did you gather information about the foreign target market before entering that market?

14. Would you still use the same strategies and methods today to go international that you did during the first time? Why or why not?

15. What would be your suggestion to the SMEs that are planning to internationalize

in the near future, regarding strategy and methods?

16. Further comments:

**Thank you!**



## **8. Appendix B: Interview with SMEs that are planning to internationalize**

### **General Information**

Name of the company:	Number of Employees:
Country of Origin:	Total annual sales:
Position of the Respondent:	Products/Services/Field of business:
Year of Foundation:	Website/email/contacts:
Target Year of internationalization:	

### **Interview Questions**

1. How would you describe your company's position in domestic market right now? Is it important for internationalization? Why?
1. What is the basis or main reason why your company wants to go international?
2. Please name the target country/countries.
3. What are the reasons for choosing this/these particular country/countries?
4. Percentage of total annual sales that you expect from international sales after the first year:
5. Which of the following factors do you think will help your company's internationalization process? Please rate them according to importance.

1- not important, 2- of little importance, 3- moderately important, 4- important, 5- very important

Similar market:	Previous international experience of the management or entrepreneurs:
Growth opportunity:	Entrepreneurial activities of individuals or management or the firm:
Market Opportunity:	Risk-seeking behavior of entrepreneurs and management internationally:
Market Knowledge:	
Age of firm:	
Size of firm:	
Similar business culture:	
Cultural awareness:	
Creativity/Innovation:	
Local Network/relationships:	
Foreign network/relationships:	
Ability to create business networks:	
Entrepreneurial activities:	
Managerial motivation:	
Management's ability to take risks:	
Technological advancement:	

6. Which of the following best describes the planned internationalization process of your firm?

- a. Step-by-step, risk averse, slow, cautious process.
- b. Entering into foreign market through networks/contacts/partners.
- c. Through international entrepreneurial activities of management/individual/firm, rapid internationalization.
- d. Combination of a, b and c.
- e. Combination of a and b.
- f. Combination of a and c.
- g. Combination of b and c.
- h. None of the above
- i. Other, please specify:

7. Which mode of entry do you plan to use for the internationalization process of your firm?

- |                  |                        |
|------------------|------------------------|
| Exporting        | Wholly owned           |
| Turnkey projects | subsidiaries           |
| Licensing        | None of them           |
| Franchising      | Other, please specify: |
| Joint Venture    |                        |

8. What would be the degree of resource commitment during the initial stage of internationalization?

*Very low    Low    Medium    High    Very High*

Please state a percentage:

9. What would be the role of formulating strategy and methods for internationalization?

*Unimportant    Of little importance    Moderately important    Important    Very important*

11. What would be the speed of your firm's internationalization process?

*Slow    Medium    High/Rapid*

12. Please rate the importance of the following in your firm.

**1**-not important; **2**-of little importance; **3**-Moderately important; **4**-Important; **5**-Very important

Business network:

Entrepreneurial activity:

13. How would you gather information about the foreign target market before entering that market?
14. Please say a few words regarding the strategy and methods that you are going to use:
15. Further comments:

**Thank you!**