

Myhre, Malene

**Doctoral Thesis**

## The Internationalization Process of Mature Danish Small and Medium-Sized Enterprises: A Qualitative Study

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THE INTERNATIONALIZATION OF SMALL AND MEDIUM-SIZED ENTERPRISES: A QUALITATIVE STUDY

Malene Myhre

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## A QUALITATIVE STUDY

Doctoral School of Business and Management

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HANDELSHØJSKOLEN

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Doctoral School of Business and Management  
Copenhagen Business School

Malene Myhre

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# Foreword

First and foremost, I wish to thank the participating case companies for their cooperation, and enabling me to undertake this research. Thank you for your openness and willingness to share your experiences. Thanks are also due to the organizations that assisted me in establishing contact to the companies. Particularly, I would like to thank Fremstillingsindustrien and Nordisk Projektekspportfond for their assistance.

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# Abstract

Small and medium-sized enterprises (SMEs) are important to growth, economic development, and job creation in many nations, and especially in small countries like Denmark. According to Statistics Denmark, there are roughly 300,000 active companies in Denmark. Of these, 99.4% are classified as SMEs. International trade is important for small countries, where the economy as a rule is closely integrated (both economically and financially) with the rest of the world. Despite the recognized importance, there is little knowledge about how SMEs approach internationalization. In particular we lack studies of what makes mature enterprises which have predominantly had a domestic orientation decide to internationalize. Through ten case studies in three industries – machinery manufacturing, food distribution, and healthcare – this study qualitatively explores the internationalization process of mature SMEs with respect to pre-entry market research, market (choice) and entry mode. Through a number of semi-structured, in-depth interviews, I examine (a) how SMEs select their market; (b) how they conduct market research, and (c) how they choose their entry mode.

The analysis shows two main reasons for internationalization. Proactive SMEs have an ambition to internationalize, while reactive SMEs respond to the environment. As a consequence, there are different internationalization processes for companies that are forced to seek new markets and companies that have an ambition to internationalize. Findings show that the decision to internationalize is often determined by opportunity. In many cases, the choice of a particular market is not a deliberate strategy but the result of an unplanned chance opportunity. Furthermore, the findings reveal that most SMEs have a preference for near markets and that the motivation for internationalization is largely CEO-driven.

Another finding is that SMEs find it difficult to obtain knowledge of the market. The case companies studied use various business and social ties to obtain knowledge, but they struggle to gain access to useful assistance and counseling. This proves to be a significant obstacle and forces many companies to engage in a trial and error approach. Without the right tie, for instance an agent or a business partner, the companies are reluctant to commit. Thus an important conclusion of this study is the significance of the concept of an ad hoc or non-committed internationalization process where attempts at foreign market entry are stretched over several years.





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## Resumé (in Danish)

Små og mellemstore virksomheder (SMV'er) er vigtige for vækst, økonomisk udvikling og jobskabelse, især i små lande som Danmark. Ifølge Danmarks Statistik, er der rundt regnet 300.000 aktive virksomheder i Danmark og ud af disse kan 99,4% klassificeres som små og mellemstore virksomheder. International handel er ofte af stor betydning for mindre lande, hvor økonomien som regel er tæt integreret (både økonomisk og finansielt) med resten af verden. På trods af vigtigheden, er der ikke meget viden om, hvordan SMV'er internationaliserer. Særligt mangler der viden om, hvordan modne virksomheder, der hidtil overvejende har været lokalt orienterede, beslutter sig for at internationalisere. Gennem ti casestudier i tre industrier – maskinfremstilling, fødevareredistribution og sundhed, undersøger dette kvalitative studie internationaliseringsprocessen for modne SMV'er i forhold til de indledende markedsundersøgelser samt valg af marked og indtrængningsmetode. Gennem en række semistrukturerede, dybdegående interviews, undersøger jeg (a) hvordan små og mellemstore virksomheder vælger deres marked; (b) hvordan de laver markedsundersøgelser, og (c), hvordan de vælger deres markedsindtrængningsmetode.

Analysen viser to hovedårsager til internationalisering. Proaktive SMV'er har en ambition om at internationalisere, mens reaktive SMV'er reagerer på konkurrencemiljøet. Som følge heraf er der forskel på internationaliseringsprocessen for virksomheder, der er tvunget til at søge nye markeder og for virksomheder, der har en ambition om at internationalisere. Resultaterne viser, at beslutningen om at internationalisere ofte er bestemt af tilfældigt opståede muligheder. I mange tilfælde er valget af et bestemt marked ikke en bevidst strategi, men et resultat af en ikke-planlagt mulighed. Desuden viser resultaterne, at de fleste små og mellemstore virksomheder har en præference for nærmarkeder, og at motivationen for internationalisering i høj grad er bestemt af ejeren eller direktørens forhold.

En anden konstatering er, at små og mellemstore virksomheder har svært ved at opnå viden om fremmede markeder. Case-virksomhederne bruger forskellige sociale relationer og forretningsrelationer til at opnå viden, men de har vanskeligt ved at få adgang til nyttig hjælp og rådgivning. Dette har vist sig at være en væsentlig hindring og tvinger mange virksomheder til at bruge en "søg og lær tilgang". Uden den rette netværksrelation, for eksempel en agent eller en forretningspartner, er virksomhederne tilbageholdende med at forpligtige sig til internationaliseringen. Således er en signifikant konklusion af denne undersøgelse vigtigheden af begrebet ad hoc- eller den ikke-forpligtende internationaliseringsproces, hvor forsøg på at opnå udenlandsk markedsadgang strækker sig over flere år.

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# Abbreviations

B2B	Business-to-business
BDCD	Business Development Centre Denmark
BG	Born Global
BRIC	Brazil, Russia, India, China
CBS	Copenhagen Business School
CDBA	Cost of Doing Business Abroad
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DI	Confederation of Danish Industry
DK	Denmark
DKK	Danish krone
EFK	Denmark's Export Credit Agency
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FSA	Firm Specific Advantages
GDP	Gross Domestic Product
HQ	Headquarter
IB	International Business
IE	International Entrepreneurship
IFU	Investment Fund for Developing Countries
IMF	International Monetary Fund
INV	International New Venture
LOF	Liability of Foreignness
MNC	Multinational Corporation
MNE	Multinational Enterprise
OECD	The Organisation for Economic Co-operation and Development
SME	Small and Medium-sized Enterprise
UK	United Kingdom
UN	United Nations
U.S.	United States (of America)
VAT	Value added tax
WTO	World Trade Organisation

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# 1

## Introduction



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# 1 Introduction

## 1.1 Internationalizing mature small and medium-sized enterprises

This thesis investigates how mature Danish small and medium-sized enterprises with little prior experience internationalize. A mature enterprise is here taken to have passed the startup phase and is well established in its industry. Multiple case studies from different industries are employed to qualitatively achieve an understanding of the process of internationalization. This understanding is further developed through an analysis of similarities and differences across cases, both retrospective and in real-time (Miles & Huberman, 1994; Welch & Paavilainen-Mäntymäki, 2014).

This first chapter presents the background for the study followed by a brief introduction to the Danish market, the Danish economy and the corporate structure of Danish companies. The aim is to provide the reader with an understanding of the competitive advantages and challenges that Danish small and medium-sized enterprises face as a result of globalization.

## 1.2 Small and medium-sized enterprises

In previous international business literature, mature multinational corporations (MNCs) have been researched extensively whereas small and medium-sized enterprises (SMEs<sup>1</sup>), and especially their internationalization process, have obtained scant attention (Holmlund, Kock, & Vanyushyn, 2007; Ruzzier, Hisrich, & Antoncic, 2006). “Traditionally, competition in the global market place was the realm of large companies, while smaller businesses remained local or regional in scope” (Dana, 2004, p. 3), because smaller businesses were “characterized by limited tangible and financial resources” (Knight, 2015, p. 4). However, during the 1980s and 1990s, scholars began to observe an increasing number of firms that conduct international business shortly after inception (Knight, 2015).

Changes in the technological environment and the competitive surroundings, fostered by the reduction of trade barriers, together with a fall in transport and communication costs and financial deregulation across most of the world, have led to more small and medium-sized enterprises becoming actors on the global scene (OECD, 2009a; Ruzzier, Hisrich, & Antoncic, 2006). SMEs are now significant players in the global market and an important source of economic activity, employment, innovation and wealth creation, both in local and foreign markets (OECD, 2009a; OECD, 2009b).

<sup>1</sup> Small and medium-sized enterprises (SMEs) are defined according to the EU recommendation 2003/361. See appendix 1.

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However, as Knight (2015) has also pointed out, these technological advances “on their own are insufficient to explain intriguing processes at work in the internal environment of such firms” (p. 5). The reduction of trade barriers, together with governmental encouragement and assistance programs, has greatly aided firms in their quest for internationalization. Low-priced and fast communication and transport, international collaboration, and economic cooperation have changed the dynamics of doing business, making economic globalization possible (Danish Government, 2012; OECD, 2007). SMEs’ role in economic development is vital. Because Denmark is a small, open economy, export development has significant implications for the country (Danish Government, 2012, p. 4). Yet, entry to foreign markets poses a number of risks, challenges and uncertainties. For many SMEs, lack of knowledge, know-how, financial resources, and technological equipment are considerable impediments towards reaching international markets (McGowan, 2014; OECD, 2008; OECD, 2009a).

Because of growing international competition, locally-oriented firms are finding it increasingly difficult to remain local (Etemad & Keen, 2014; OECD, 1997; Ruzzier, Hisrich, & Antoncic, 2006). Since the Danish market is small, a decision to concentrate efforts on the domestic market can be dangerous when faced with global competitors and a global business environment as smaller companies may become more vulnerable in times of crisis and financial market turbulence (OECD, 2009b). Therefore it is important for smaller companies to pursue cross-border activities. Companies are increasingly recognizing that in today’s interconnected and interdependent world it is not only possible, but it is also necessary, to have an international outlook.

The study of internationalization of the larger firm has long been one of the most researched topics in the international business literature, resulting in a vast number of theories and models (Fletcher, 2001; Ruzzier, Hisrich, & Antoncic, 2006). The prominent stage models, for instance the “Uppsala” model suggests that internationalization can be viewed as a step-by-step learning process in which companies learn through experiences gained from their contact with foreign markets (Johanson & Wiedersheim-Paul, 1975). However, a growing number of scholars have argued that the level of internationalization does not necessarily increase steadily and that the stage models do not fully illustrate the internationalization of today’s firms in global markets (Andersson, Gabrielsson, & Wictor, 2004, p.23; Forsgren, 2002; Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012). Moreover, in past studies the emphasis has traditionally been on large enterprises, whereas SME internationalization and behavior has only been studied for a few decades (Forsman et al., 2006; Mejri & Umemoto, 2010; Ruzzier, Hisrich, & Antoncic, 2006). As in other OECD countries, Danish SMEs are vital for Danish economy and productivity growth (McGowan, 2014, p. 27; see also the European Commission, 2014). Research shows that Danish small and medium-sized enterprises have great potential for entering the global market place (Productivity Commission, 2013b). Nevertheless, despite governmental programs and initiatives

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to encourage and facilitate internationalization, many SMEs still “largely depend on the domestic market” (European Commission, 2014, p. 5). Thus, there is a need for additional research to provide a more thorough understanding of SME internationalization.

### 1.3 Research questions

This study aims to explore the internationalization process in terms of pre-entry market research, market choice and entry mode choice in the context of mature SMEs. The following issues are addressed:

- (1) What makes mature enterprises with a domestic market orientation decide to internationalize?
- (2) How do they select foreign markets?
- (3) How do they conduct market research, and choose the appropriate market entry mode?

Since research in this field has predominantly been quantitative, the specific nature of SME internationalization has as yet not been addressed. Through multiple case studies, this thesis will qualitatively explore how mature Danish SMEs with little prior experience internationalize based on in-depth face-to-face interviews with ten case companies in three different industries.

### 1.4 Content and structure of the thesis

The study is structured as follows. The first chapter briefly introduces the reader to the background and rationale for the study, and presents the most important concepts. Following this introduction, Chapter 2 provides an overview of past studies on internationalization and clarifies the research gap. Chapter 3 describes the research design adopted and elaborates on the data collection and method of analysis. Chapter 4 looks into the context of SMEs and subsequently provides case descriptions of Case Companies F and G, which are two mature SMEs with decades of experience in the machinery manufacturing industry. The companies, now with new owners, are attempting internationalization to new markets. Chapter 5 provides case descriptions of owner-managed Case Companies A, B, C, D, and E. Company A is in the healthcare industry and the remaining are in the machinery manufacturing industry. All companies have recently entered the global marketplace. Chapter 6 provides case descriptions of the three larger Case Companies (H, I from the food distribution industry and Company J from the machinery manufacturing industry). Chapter 7 analyzes cross-case findings in relation to the research questions. Chapter 8 discusses the empirical findings, which both provide support and contradict previous research. Finally, the chapter summarizes the study’s main conclusions.

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## 1.5 Conceptualizations in this thesis

The internationalization process of firms has been the subject of widespread research, but “so far, there is not even a general agreement on its definition beyond one indicating the growing involvement of a firm in a variety of operations of international character. Thus, a single, universally accepted definition of the term internationalization remains elusive” (Rialp & Rialp, 2001, p. 50). For practical reasons, and in line with some of the most widely used definitions, this study adopts the view of internationalization found in Welch and Luostarinen (1988), “the process of increasing involvement in international operations” (p. 93), and emphasizes the process of outward activities (penetration of foreign markets through various means, e.g. exports) as opposed to inward operations (e.g. imports) (Welch & Luostarinen, 1993). Foreign market entry modes, in this research, include joint ventures, subsidiaries, production, licensing, agents/distributors and offices.

In this study, foreign market knowledge refers to both general market knowledge and market-specific market knowledge. As defined by Johanson and Vahlne (1977), general knowledge concerns “marketing methods and common characteristics of certain types of customers, irrespective of their geographical location, depending, for example, in the case of industrial customers, on similarities in the production process” (p. 28). Market specific knowledge refers to “knowledge about characteristics of the specific national market – its business climate, cultural patterns, structure of the market system, and, most importantly, characteristics of the individual customer firms and their personnel” (p. 28). A distinction is also made between non-experiential knowledge – acquired through other people’s experiences, and experiential knowledge, i.e. knowledge gained through one’s own experiences (Johanson & Vahlne, 1977). It is also possible to make a further distinction. For example, Eriksson, Johanson, & Majkgård (1997) use three constructs of knowledge: lack of business knowledge, lack of institutional knowledge and lack of internationalization knowledge. *Business knowledge* refers to “knowledge about competitors, clients and market abroad” (p. 348). *Institutional knowledge* reflects “knowledge about the institutional conditions of foreign markets [...] about the language, laws, norms and standards in foreign markets” (p. 348). Lastly, *Internationalization knowledge* concerns “knowledge about the language, laws, norms and standards in foreign markets” (p. 348). In this study, foreign market knowledge comprises both market-specific knowledge and general market knowledge, and refers to all three constructs used by Eriksson et al. (2007).

In this study, network relationships are defined as both professional and personal contacts. A distinction is made *between business ties* and *social ties*. Business ties are defined as “relationships of a formal, commercial nature, where an economic exchange takes place” (Evers & O’Gorman, 2011, p. 553). Evers and O’Gorman (2011) subdivide business ties into horizontal (e.g. research institutes or industry associations) and vertical relationships (business



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partners, suppliers, agents and clients (p. 553). Social ties are also divided into vertical or horizontal relationships. Horizontal social ties are “competitors within the industry, as well as family, friends, relatives, social and community organizations,” while vertical social ties are “positioned in the supply chain; buyers and suppliers located in the broader business network who have a non-exchange relationship with the focal firm” (p. 553). Furthermore, a distinction is made between weak ties – casual acquaintances – and strong ties defined as those a person knows very well (Granovetter, 1973, see section 2.6.2).

Similarly, the term strategy is used to denote an intended strategy, guided by a formal plan, in the context of internationalization (Karami, 2007). In this study, “strategy” is viewed in a broad sense: “there must have existed precise intentions in the organization, articulated in a relatively concrete level of detail, so that there can be no doubt about what was desired before any actions were taken” (Mintzberg & Waters, 1985, p. 258). Simply put, strategy describes the ways and means to achieve set objectives.

In this study, the term “uncertainty” is broadly defined as an “individual’s perceived inability to predict something accurately” because the individual “perceives himself/herself to be lacking sufficient information” or “feels unable to discriminate between relevant data and irrelevant data” (Gifford, Bobbitt, & Slocum, 1979 in Milliken, 1987, p. 136). For further distinctions of uncertainty see section 2.5.1.

Moreover, “firm,” “company,” “enterprise,” and “business” are used interchangeably to refer to an entity as a whole. Where relevant, I make a clear distinction between SMEs and MNEs. Also, “Chief Executive Officer” (CEO), “decision-maker,” “owner-manager,” and “entrepreneur” are used interchangeably to refer to “key individuals,” i.e. actors who are in a position to make strategic and operational decisions. I mention specifically if the CEO is also the owner or founder.

Following much past research, entrepreneurs may be defined as those who are more willing to generalize from limited experience, have higher tolerance for ambiguity and uncertainty, and have a higher risk-taking propensity (Burns, 2007; Busenitz & Barney, 1997). However, an entrepreneur can also be the “decision-maker,” “owner-manager,” and “CEO” (Karami, 1997; Storey & Francis, 2010). Ultimately, “any manager in either a large or small firm can be an entrepreneur” (Karami, 1997, p. 130). Moreover, the label “entrepreneurs” should not be restricted to individuals who start their own company, as entrepreneurship can also occur within an existing firm (Andersson & Tell, 2009; Shane & Venkataraman, 2000). Thus, this study does not differentiate between the different labels under the umbrella term “key individuals.”

There is no single definition of an SME. Rather a number of different criteria are used in different countries. The various definitions reflect different country-specific considerations, which makes it difficult to apply a single definition (OCED, 2015d). Some define SMEs on the basis of the number of employees and/or the annual turnover (OECD, 2015d). The United

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States of America defines an SME as a firm with 500 or fewer employees, while China, Japan, Korea and Mexico define an SME on the basis of the sector being examined (OECD, 2015d, p. 18). In this study, the definition by the European Commission is used to define an SME as fewer than 250 employees and less than EUR 50 million turnover. Within this definition a micro company is classified as having fewer than 10 employees, a small company fewer than 50 employees, and a medium company fewer than 250 employees (see appendix 1 for turnover and balance sheet).

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# 2

Literature review and  
theoretical background



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## 2 Literature review and theoretical background

This chapter presents a review of previous internationalization literature, focusing specifically on research that relates to the present study. Despite the substantial body of literature on the internationalization process, there are areas that have not been fully addressed.

Three main areas of special importance are identified: network relations, the individual entrepreneur and uncertainty in a broad sense. Increasingly, network relations are considered to be of great importance for smaller firms. It is therefore important to gain a better understanding of the use of networks relations by SMEs and how they influence the internationalization process, e.g., in foreign market entry decisions. In addition, it is important to take into account the role of the individual while also taking into consideration the impact that perceptions of uncertainty have on the strategic and operational planning and subsequent execution of internationalization.

### 2.1 Past internationalization studies

In the past three decades, the world has witnessed a change in the international business landscape not least because advances in technology have greatly altered the business environment (Cavusgil et al., 2015; Kotler et al., 2009). In particular, there are three driving forces of technology that have had a great impact on globalization: (1) advances in technology have matured the knowledge-based economy and eased international operations (Dunning, 2000; OECD, 2009a); (2) advances in transportation and telecommunication have aided faster and more efficient transportation, logistics and movements both within and across borders (OECD, 2007); (3) deregulation and removal of trade barriers, such as those advocated and implemented by the EU, WTO and IMF, have spurred international business activity. As Cavusgil et al. (2015) have noted, “globalisation both compels and facilitates companies to pursue cross-border activities and international expansion. Simultaneously, company internationalisation has become easier than ever before” (p. 5). Oviatt and McDougall (1994) observed that the changing international environment has led to a homogenization of markets, which should, “a priori, simplify and shorten the process of firm internationalization” (p. 52). The Internet significantly facilitates one-to-one and one-to-many communication and enables real-time content and instantaneous communication and thus an unprecedented level of possibilities to communicate easily across borders and cultures (Grandien & Johansson, 2012; Ruzzier, Hisrich, & Antonic, 2006; Taylor, 2001). This development of information and telecommunication technologies has had a considerable effect on the way we operate and communicate (Dana, 2004; Myhre, 2011; Starck, 2001). This is also reflected by the fact

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that “today firms are internationalizing in greater numbers than ever before and faster than ever before [...] and internationalizing in more different ways than ever before” (Axinn & Matthysens, 2002, p. 436). Accordingly, internationalization can be observed in even the smallest and newest firms (Eurofund, 2012; McDougall & Oviatt, 2000; OECD, 2013). Indeed, the advancement of the Internet has created greater international opportunities, and changes in the environment and in the competitive surroundings have led to more SMEs becoming actors on the global scene (Dana & Wright, 2004; Kuivalainen, Puumalainen, Sintonen, & Kyläheiko, 2010; Ruzzier et al., 2006).

In recent decades, an increasing number of firms conducting international business shortly after inception have challenged the traditional theories of internationalization. Rather than following an incremental involvement from domestic to foreign markets, empirical evidence has shown that a considerable number of new businesses internationalize early despite having fewer resources than larger businesses. These companies have been labeled “born globals” (BGs) (Rennie, 1993), “international new ventures” (INVs) (Oviatt & McDougall, 1994), “instant exporters” (McAuley, 1999), and “early internationalizing firms” (Rialp, Rialp, & Knight, 2005). Of the terms, the most commonly used are “born globals” and “international new ventures.” Oviatt and McDougall (1994) define an INV as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (p. 49). Knight and Cavusgil’s (2004) definition of BGs applies to young companies, the firm as the unit of analysis, and primarily export as the internationalization mode, while Oviatt & McDougall’s definition (1994) of international new ventures “can denote new ventures of various types, including those launched in older, established multinational enterprises and a broader range of value chain activities and entry strategies” (Knight & Liesch, 2016, p. 94). Meanwhile, the terms have been used somewhat interchangeably to characterize firms that are early adopters of internationalization. While a review of the literature shows that there is not yet agreement on how to differentiate between a BG and an INV (Crick, 2009; Kuivalainen, Sundqvist, & Servais, 2007), these firms, by definition, internationalize rapidly after inception. In general, the literature suggests that they enter international markets two to six years after start-up (Eurofund, 2012; Jones & Coviello, 2005). Essentially these firms view the world as their marketplace (Cavusgil & Knight, 2015), and reach a share of foreign sales of at least 25% within three years of establishment (Madsen, Rasmussen, & Servais, 2000). The literature further shows that they (1) are frequently business-to-business (B2B) ventures (Rialp, Rialp, & Knight, 2005); (2) from inception seek to gain a competitive advantage through internal characteristics such as “unique organizational history and socially complex knowledge, and ambiguous casual relationships between knowledge and the competitive advantage it provides” (Oviatt & McDougall, 1994, p. 57); (3) the smaller size appears to instill flexibility and “quicker response times for implementing ideas and meeting consumer demands”

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(Knight & Cavusgil, 2004, p. 4); (4) the smaller firms thrive on “private knowledge that they produce or possess” (Knight, 2015, p. 4) and access and mobilize resources through their business networks and personal relations (Knight, 2015; McDougall, Shane, & Oviatt, 1994).

In their examination of the differences and similarities between Danish born globals and other types of exporting companies in the manufacturing industry, Madsen, Rasmussen, and Servais (2000) found that born globals have more in common with international firms (categorized in the study as firms with 70% foreign sales or more) than experimental exporters (firms with 10% foreign sales or less) and traditional exporters (remaining firms), and that the two groups (born globals and international firms) “clearly show a much more proactive and global behavior than the other two groups of exporters” (p. 264). These researchers also found that in addition to their rapid internationalization, born globals differ from other types of exporters in a number of ways. Most notably, they found that born globals “seem to target a narrow customer group” in a number of different geographical places as opposed to a specific geographical region. Moreover, born globals tend to rely more on foreign distributors and less on direct sales and production subsidiaries (p. 263). The authors also observe that because born globals are small firms and operate with limited resources, “they seem to rely much more on the active participation of their foreign partners in the planning and execution of sales and marketing tasks” (p. 263).

Consequently, “the emergence of born globals is closely related to the internationalization of small and medium-sized enterprises” (Knight, 2015, p. 4). “Internationalization research and the proliferation of BGs in our modern era can be understood as a natural evolution in the international business field” (Knight & Liesch, 2016, p. 2). Indeed, research has found that large mature firms no longer have the competitive advantage that they previously enjoyed in international endeavors (Oviatt & McDougall, 1994). Facilitated by globalization, newness and smallness is no longer a disadvantage in the modern world economy (Knight & Liesch, 2016). As argued by Dana and Wright (2004), “SMEs must face the reality that they must now compete on a global stage, regardless of where they are based” (p. 11). Nevertheless, only a few decades ago, international business was almost completely dominated by large companies (Cavusgil & Knight, 2009). Accordingly, early internationalization research in the 1950s and 1960s mainly focused on large international enterprises, also known as multinational enterprises (MNEs) and their international activities. Some of the best-known theories within economic research include Buckley and Casson’s (1976) “internalization theory,” Dunning’s (1988) “eclectic paradigm,” and Hennart’s (1982) and Rugman’s (1982) “transaction cost.” However, the theoretical themes are static, and it is assumed that each decision is isolated from other decisions (Eriksson, Johanson, Majkgård, & Sharma, 2000). Thus, the economic theories on multinational enterprises do not consider the dynamics and behavioral process aspects of internationalization (Andersson, 2000).

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Furthermore, the context within which firms operate has changed significantly since the first internationalization framework emerged. Technological, social, and economic changes have had an impact on market conditions and business practices. Thus, they may not be applicable to contemporary environments, and there is a need to better understand the motives and patterns of internationalizing small and medium-sized enterprises (Westhead, Wright, & Ucbasaran, 2007). Ultimately, theories and frameworks that have been developed to explain the internationalization process of larger firms cannot automatically be assumed to be transferable to the internationalization process of smaller firms (Hutchinson, Quinn, & Alexander, 2005). Although SMEs are “facing similar international problems as those of larger firms,” the impact of globalization on smaller firms is likely to be more profound than on large, well-internationalized firms (Ruzzier et al., 2006, p. 477). In the 1970s, Bilkey and Tesar (1977) argued that stage models were particularly useful for examining export behavior of small and medium-sized enterprises. On the other hand, Reid (1981) argued for the need to make a distinction between the foreign entry expansion process in small and in large firms. Though Johanson and Vahlne (1990) did not present distinctions of the unit of analysis, they reasoned that large firms are expected to take larger internationalization steps than small firms.

It must be recognized that a small firm is not a scaled-down version of a larger firm (Penrose, 1959). In this context, there is agreement that SMEs differ from larger firms with regard to: (1) firm characteristics and their very nature (Coviello & McAuley, 1999); and (2) their “managerial style, independence, scale of operations and decision-making characteristics” (O’Cass & Weerawardena, 2009, p. 1326). And, as stressed by Shuman and Seegar (1986), “small businesses are not smaller versions of big businesses [...] and they behave differently in their analysis of, and interaction with, their environments” (p. 8).

## 2.2 Dominant views in internationalization business research

Two streams of research have dominated our understanding of the internationalization process over the past three decades (Andersson, 2000): (1) economic research, i.e., internalization theory (Buckley & Casson, 1976), the eclectic paradigm (also known as the OLI paradigm) (Dunning, 1988), and the transaction-cost approach (Hennart, 1982), and (2) the process view, i.e., stage models such as, for example, the Uppsala model (Johanson & Vahlne, 1977).

### 2.2.1 Economic stream

Within the economic stream, scholars have looked at factors leading to internationalization. These can be categorized under three headings: (1) management characteristics, for example demographic, physiological and behavioral characteristics; (2) organization characteristics such as firm size, age and resource constraints in terms of finance, information and



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management capacity; (3) external factors such as competitiveness and export incentives from governments (Fletcher, 2001).

International business research has devoted considerable attention to economic theories. However, past economic perspectives on internationalization share the objective of explaining the multinational enterprise (MNE) and the factors that cause internationalization. For example, the eclectic paradigm that is based on the assumption that firm-specific, country-specific, and internalization advantages of the firm privilege access to international production (Dunning, 1988). Internalization theory assumes rational action (Buckley & Casson, 2009), as “the profit-seeking managers of a firm will internalise intermediate product markets up to the margin where the benefits and costs of internalisation are equalised” (p. 1567).

### 2.2.2 Process models

Contrary to the first research stream that focused on factors causing internationalization, the second stream of research focused on explaining the process of internationalization. In these theories, process models have played a significant role in understanding the dynamics of internationalization (Eriksson, Johanson, Majkgard, & Sharma, 1997). The studies are based on three dominant approaches: “stages,” “contingency,” and “network” (Fletcher, 2001; Korsakienė & Tvaronavičienė, 2012).

#### *Stages*

The “stages” theories view internationalization as involving changes in the firm as it increases its commitment and investment in foreign markets. There are two primary stage models: the Uppsala Internationalization Model (U-model) and the Innovation-related Model (I-model). Both the U-model and the I-model describe internationalization as a linear process during which a firm first focuses on the domestic market and then gradually progresses to foreign markets through various incremental stages of increasing commitment and involvement as they acquire more knowledge (Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012). The key feature is that increasing foreign commitment is a result of the interplay between knowledge acquisition and foreign market commitment (Johanson & Vahlne, 2006, p. 166).

#### *Contingency*

Central to the contingency theory is the premise that no universal set of strategic choices is considered appropriate for all businesses (Chung, Wang, & Huang, 2012; Robertson & Chetty, 2000; Simpson, Taylor, & Padmore, 2011). The theory emphasizes the interactive relationship between a firm and the external environment. According to the contingency approach, a firm’s international progress is dependent upon “a wide range of market-specific and firm-specific characteristics” (Fletcher, 2001, p. 27). The differences are the result of

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different strategies and processes. External conditions and opportunities make it possible for firms to skip stages (Reid, 1981; Turnbull, 1987).

### *Network*

The network approach emphasizes the development of international relationships and the benefits of market and network relations as opposed to a firm's internal resources (Coviello & Munro, 1997). This view argues that the right network may improve firm performance by providing faster access to valuable resources, experiences, skills, assets and information (Chetty & Holm, 2000; Hallen & Eisenhardt, 2012). In addition, market choice and entry mode is heavily influenced by business networks (Ellis, 2000).

The three theoretical approaches exhibit a diversity of opinion on the internationalization process and put different emphases on the issue of market entry and market entry mode selection (Whitelock, 2002). Each approach provides a different perspective but, as Axinn and Matthyssens (2002) have noted, the ability of past theories to explain behaviors observed today has diminished considerably as the business environment and the context have changed. Researchers need to recognize that technological developments have altered the business environment, and that theories need to be revised. A more comprehensive picture of the market entry decision is needed (Whitelock, 2002). Also, Johanson and Vahlne (2003) acknowledge the need for new models that “capture important phenomena in the modern internationalization business world” (p. 83) thus reflecting new challenges and opportunities. As Robertson and Chetty (2000) observe “to date, most export performance studies have focused on providing business practitioners with set ‘prescriptions’ for export success” (p. 211). Still, little is known about how export decisions are made (Nemkova, Souchon, Hughes, & Micevski, 2015). Thus, as Andersson (2000) emphasizes, “since internationalization is a complex phenomenon, many different perspectives are needed to understand it” (p. 64). This is in line with scholars who argue that a holistic view should be taken (Spence & Bell, 2006) because “it is difficult to capture the internationalisation concept using only one theoretical framework” (Coviello & McAuley, 1999, p. 243). Jones and Conviello (2005) argue that “a contemporary understanding of internationalisation is informed by integrating multiple theoretical perspectives in a manner that is both pluralistic and holistic” (p. 286). Thus, different conceptual models are needed in order to fully understand a firm's internationalization process.

In the present study, the Uppsala model proved useful in providing insights into a firm's early stages of internationalization. Although challenged by researchers, it is still the centerpiece in theories of the internationalization process of firms (Coviello & McAuley, 1999).

#### 2.2.2.1 The 1977 – Uppsala Internationalization Model (U-model)

The staged approaches are seen as the earliest models to explain the internationalization process (Korsakienė & Tvaronavičienė, 2012) and have been widely used in the

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internationalization literature, in which they have provided valuable insight into the internationalization process (Chetty, 1999). The Uppsala model is the most frequently used model (Chetty & Campbell-Hunt, 2004). Based on empirical observations of Swedish companies in the mid-1970s, Johanson and Vahlne (1977) suggested that companies frequently began “ad hoc” internationalization. Companies would gradually formalize their foreign market entries with intermediaries, commonly through agents. Usually as sales grew, they would eventually establish their own sales organization on the foreign market, thus replacing the middleman. Another dimension of the Uppsala model was the concept of “psychic distance,” defined as “factors that make it difficult to understand foreign environments” (Johanson & Vahlne, 2009, p. 1412). Firms were assumed to first develop the domestic market and then internationalize to close markets before gradually moving into more distant markets in terms of psychic distance.

According to researchers at the Department of Business Studies at Uppsala University, internationalization is viewed as a dynamic cycle of gradual learning through experiences gained from foreign markets through four distinct stages labeled “the establishment chain” (Johanson & Wiedersheim-Paul, 1975):

- Stage 1        No regular export activities.
- Stage 2        Export via independent representatives (agents).
- Stage 3        Establishment of an overseas sale subsidiary.
- Stage 4        Overseas production/manufacturing units.

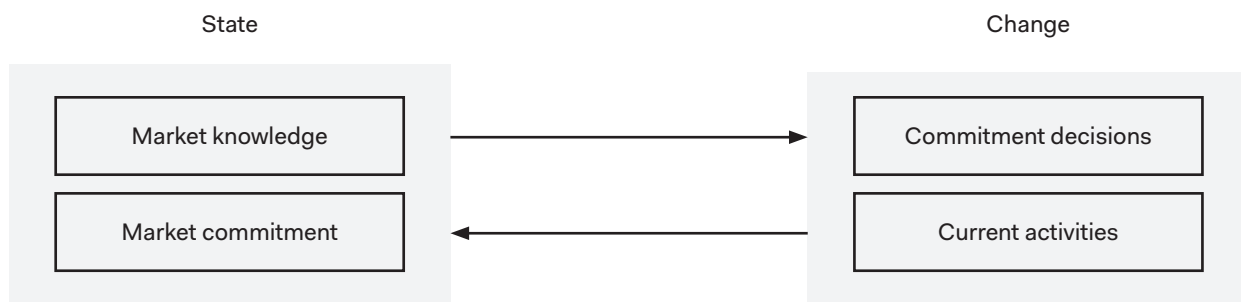
As stated above, the model is based on empirical evidence from four large Swedish manufacturing enterprises, Sandvik, Atlas Copco, Facit and Volvo.<sup>2</sup> At the point of study all of four enterprises had more than two-thirds of their turnover from foreign markets and had production facilities in more than one foreign country (Johanson & Wiedersheim-Paul, 1975). The pioneering work by Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977, 1990, 2009) hypothesized that a firm starts with the entry mode that requires the least commitment of resources and then gradually increases its international involvement, as knowledge increases and uncertainty declines. The empirical findings of the researchers at Uppsala University contradicted the normative international business literature, which assumed a decision to enter a foreign market was based on rationality and weighing of costs and risks while taking into consideration own resources (Johanson & Vahlne, 2009, p. 1412). Contrary to the conventional view at that time, the basic assumptions of the Uppsala model proposed: (1) internationalization occurs in incremental stages as a firm develops its international activities based on their knowledge development over time; (2) this incremental

<sup>2</sup> All the enterprises except Volvo later changed their names to adapt to the global market.

development is explained with the concept of “psychic distance,” in which a firm first develops the domestic market and then internationalizes to close markets, often neighboring countries, before gradually moving into more distant markets as knowledge is developed (Johanson & Vahlne, 1977). Learning through “experiential knowledge,” i.e., learning about the foreign market through experience is necessary in order to overcome the psychic distance (Melin, 1992). Examples of obstacles in this context are differences in language, culture, business practices, level of education, and level of industrial development (Johanson & Wiedersheim-Paul, 1975, p. 309; Johanson & Vahlne, 1977). This process has its origin in the concept of liability of foreignness, first introduced by Hymer (1960/1976) to explain why a foreign investor had to have firm-specific advantages to more than offset this liability (Johanson & Vahlne, 2009, p. 1412). “The larger the psychic distance the larger is the liability of foreignness” (Johanson & Vahlne, 2009, p. 1412). Put differently, a basic assumption is that the sequence of stages indicates an increasing commitment. Each step is initiated by a decision. As a firm gains more knowledge about a market and gathers resources, it increasingly becomes more committed to that market (Chetty & Campbell-Hunt, 2004). The experience and knowledge the firm acquires about the foreign market reduces uncertainty, resulting in a pattern of incremental market commitment (Johanson & Vahlne, 1977). Consequently, the U-model illustrates how managerial learning drives internationalization (Coviello & Munro, 1997).

Furthermore, the model builds on the distinction between state and change aspects. Market knowledge and market commitment are considered *state* aspects, while *change* mechanisms are the decisions to commit resources to a foreign market. “First, firms change by learning from their experience of operations, current activities, in foreign markets. Second, they change through the commitment decisions that they make to strengthen their position in the foreign market” (Johanson & Vahlne, 2009, p. 1412). Commitment is defined as “the product of the size of the investment times its degree of inflexibility” (Johanson & Vahlne, 2009, p. 1412). Thus, experience builds knowledge and knowledge affects decisions about the level of commitment.

Figure 2.1 The basic mechanisms of internationalization: state and change aspects.



Source: Johanson and Vahlne, 1977, p. 27.

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### 2.2.2.2 Experiential learning and incremental behavior

The Uppsala model is ‘unique’ in seeing experiential knowledge as the crucial determinant of market entry mode selection and market entry (Whitelock, 2002, p. 345). A core assumption of the Uppsala model is that experiential learning affects organizational behavior. Forsgren (2002) has argued that the model offers *a narrow interpretation* of learning that consequently leads to *a narrow prediction* of internationalization behavior. The model does not explicitly deal with the individual decision-maker, and learning through searching for new information is not an explicit part of the Uppsala model. Forsgren (2002) has pointed out that little is known about the accumulation of knowledge and that “the possible internationalization routes are more varied and multifaceted than those predicted by the Uppsala Model” (p. 25). For instance, people will argue for different strategic moves based on their own market knowledge (Forsgren, 2002). Thus, market knowledge will vary between individuals and be dependent on the turnover of personnel over time – at least as long as it is assumed that knowledge is possessed by the individual. Yet, as Forsgren also observes, the model implicitly assumes that personnel remains unchanged throughout time.

### 2.2.2.3 Innovation-related models (I-models)

Parallel to the emergence of the Uppsala school of thought, the Innovation-related models (I-models) evolved. These are derived from the work of Roger (1962), whose theory of innovation diffusion sought to explain the internationalization process from an innovation-related perspective (Andersen, 1993; Ruzzier et al., 2006). A key feature of this model is that the adoption process is a mental process of learning in stages. For instance, Roger’s theory employs five stages: awareness, interest, evaluation, trial and adoption. Authors of the I-models Bilkey and Tesar (1977), Czinkota (1982), Cavusgil (1980), and Reid (1981) view each stage as an innovation for the firm. Their focus is restricted to the export development process of particularly small and medium-sized enterprises and they describe internationalization as a slow, gradual process through different stages (Ruzzier et al., 2006). As summarized by Andersen (1993), there do not seem to be great discrepancies between the I-models besides the initiating mechanism (Andersen, 1993; Moreno-Menéndez & Casillas, 2014). Rather, the differences are in the number of stages, the description of stages, and in particular the initiating mechanisms of the stages. (See table 2.1 Selected innovation-related internationalization models.). For instance, Bilkey and Tesaer (1977), Czinkota (1982) and Cagusvil (1980) argue that firms are not interested in exporting during the initial stages, but are “pushed” into the next step by external agents, e.g., through demands from partners or unsolicited orders or inquiries from foreign buyers. This is contrary to Reid (1981), who argues that a firm is more interested and active during the early stages of internationalization. Reid states there is a “pull” mechanism, presumably within the firm, which leads it to initiate the next step of internationalization.

Table 2.1 Selected innovation-related internationalization models.

Bilkey & Tesar (1977)	Cavusgil (1980)	Reid (1981)	Czinkota (1982)
Stage 1: Management is not interested in exporting; and would not even fill an unsolicited order.	Domestic marketing: The firm is preoccupied with the home market.	Export awareness: Problem or opportunity recognition, arousal of need.	Stage 1: The completely uninterested firm.
Stage 2: Management is willing to fill an unsolicited order, but does not make efforts to explore the feasibility of exporting.	Pre-export engagement: The firm searches for information and evaluates the feasibility of undertaking export.	Export intention: Motivations, attitude, beliefs, and expectancy about export contribution.	Stage 2: The partially interested firm.
Stage 3: Management actively explores the feasibility of exporting. This stage can be skipped if unsolicited export orders are received.	Experimental involvement: The firm starts exporting on a limited basis to one or two psychologically close countries.	Export trial: Personal experience from limited exporting.	Stage 3: The exploring firm.
Stage 4: The firm exports experimentally to one or a few close markets.	Active involvement: The firm starts exporting to new foreign markets. Systematic exploration of a large number of foreign market opportunities.	Export evaluation: Results from engaging in export.	Stage 4: The experimental firm.
Stage 5: The firm is an experienced exporter to that country.	Committed involvement: The firm's transition to becoming a committed exporter. In the long run, management constantly makes choices in allocating limited resources between domestic and foreign markets.	Export acceptance: Adoption of exporting or rejection of exporting.	Stage 5: The experienced small firm.
Stage 6: Management explores the feasibility of exporting to additional and more distant countries.			Stage 6: The experienced large firm.

Based on: Andersen, 1993, p. 213.



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Leonidou and Katsikeas (1996) have suggested that the various stages models can be summarized as three broad phases: *the pre-engagement phase, the initial phase and the advanced phase*. The pre-engagement phase includes three types of firms: those interested only in the domestic market; those that seriously consider exporting; and those that have exported in the past, but do not do so any longer. In the initial phase, the firm has sporadic or exploratory exports and has the potential to extend its activities abroad. The learning stages of increasing commitment lead to the advanced phase, in which the firm has become a committed and experienced exporter. Only if the previous stages have been successful will the firm consider further commitment and internationalization and move forward to the next step. However, if the firm has not been able to cope with the demands of the export activities, the firm has the option to de-internationalize and re-evaluate its growth options, and it can do so “without endangering its core markets and activities” (Burns, 2010, p. 208).

The U-models and the I-models share characteristics, and can both be regarded as behaviorally oriented (Andersen, 1993, p. 212). Both approaches assume an uncertain environment in which lack of information leads to staged processes in order to maximize control and minimize uncertainty. In fact, the two models have often been viewed as indistinguishable (Hadjikhani, 1997). Consequently, the view has been that “both internationalization and innovation are stage processes” (Moreno-Menéndez & Casillas, 2014, p. 86). However, there are also scholars who have argued that a comparison of the models shows fundamental differences in terms of the empirical design and the overall nature (Hadjikhani, 1997; Welch & Paavilainen-Mäntymäki, 2014). “The U-model, with its emphasis on learning theory, is presented as a dynamic model, while the I-models portray the internationalization process as a step-by-step development” (Andersen, 1993, p. 216). Accordingly, Hadjikhani (1997) has called for a more refined description of the differences between the models. Similarly, Andersen (1993) has noted that there have been too few attempts to “clarify the concepts and variables of the models at different levels of abstraction and the relationships that connect them” (p. 228).

### 2.2.3 Discrepancies in the stage model approach

Although the stage models have had considerable influence on SME internationalization research, a review of past studies shows rather inconsistent findings. Some empirical studies support the idea of gradual internationalization, while others do not (Coviello & McAuley, 1999; Coviello & Munro, 1997). In addition, empirical studies of the smaller firms’ internationalization processes have shown that: (1) export is often the preferred mode of initial internationalization, (OECD) because it requires the least commitment, (Leonidou et al., 2007; Morgan, 1997); and (2) management is important for the timing of internationalization (Bilkey & Tesar, 1977; Bilkey, 1978; Leonidou et al., 1998; Manolova et. al, 2002; Reid, 1981). Indeed, Bilkey (1978) found that the probability of successful export “seemingly

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depends very much on the firm's international orientation, on its management's impression regarding the attractiveness per se of exporting, and on its management's confidence in the firm's ability to compete abroad" (p. 42). Furthermore, recent studies within the field of international entrepreneurship have shown that the entrepreneur in various ways has a large influence on the internationalization path (Andersson, 2000; Andersson & Tell, 2009; Madsen & Servais, 1997; Oviatt & McDougall, 1994). For instance, Andersson (2000) found that "the entrepreneurs' intentions and persistence in carrying out different strategies are decisive for the firms' early internationalization" (p. 77). Research has found that market knowledge, international experience, and education are factors that are of importance in an internationalization process (Madsen & Servais, 1997); and (3) network relationships are important for smaller firms. In fact network relations have been shown to influence foreign market destination and entry mode selection (Bell, 1995; Coviello & Munro, 1995; Domurath & Patzelt, 2015). For example, Bell (1995) found evidence of "client followership" referring to the fact that some of the researched computer software firms initiated export regardless of the 'psychic proximity' of markets, because of relationships with other firms.

#### 2.2.4 Limitations of the stages models

Despite past widespread recognition of the stage models and the great impact of the steps toward understanding internationalization, a number of critics have questioned the assertion and applicability of the incremental internationalization path. Accordingly, significant efforts have been made in testing and further developing the Uppsala school of thought (Ruzzier et al., 2006) and a number of issues have been identified. For instance, it has been argued that the model is too deterministic (Reid, 1983; Turnbull, 1987). Rather it is contended that the internationalization process is much more diverse and that it is situation-specific. For example, Reid (1983) points out that "export markets differ in accessibility, location, dispersion and purchasing behavior," which naturally has an influence on foreign market expansion (p. 46). In addition to this market diversification, Reid also points to variations in managerial aspects. For instance, he states that a firm with decision-makers with international experience has a "natural competitive advantage" over those who do not have this "international exposure." Moreover, Hedlund and Kverneland (1985) have questioned the rationality of a gradual development of internationalization as their own empirical findings have suggested that some firms skip stages. Their empirical study of Swedish companies in Japan showed that about half of the companies analyzed went directly from a sales agent to manufacturing, rather than taking the route via a sales subsidiary. The model has also been criticized for not including acquisitions and mergers as a route to internationalization (Forsgren, 1990). Moreover, Forsgren (1989) has argued that the Uppsala model is only valid in the early stages when a "lack of market knowledge and market resources is still a constraining force" (cited in Andersson, 2000, p. 65). When a company is already present in



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several countries, these factors are not crucial. “Appearing in the later stages of the internationalization process are the local networks relations of which foreign subsidiaries are a part, and these are the most crucial factors affecting foreign activities” (Andersson, 2000, p. 65).

Indeed, the U-model applies well to the early stages of internationalization with only three exceptions (Johanson & Vahlne, 1990): First, firms with significant resources are expected to take larger internationalization steps. Second, when market conditions are stable and homogenous, knowledge about them can be gained in ways other than experience. Third, when a firm has gained experience from similar markets, it may be possible to generalize the expertise to the new market. Melin (1992) points out that only the early stages of internationalization are included. Therefore, little is known about the internationalization process of firms with past foreign market experience. Moreover, firms can “de-internationalize” (Benito & Welch 1997); as Welch and Luostarinen (1988) have argued, “there is no inevitability about its continuance” (p. 37) merely because a firm has embarked on the process of internationalization. Additionally, Melin (1992) notes that a further limitation is that the model puts too much emphasis on psychic distance. Arguably, as the world has become more homogenous, this factor has become less significant. Further, it has been argued by a number of other scholars that the predetermined view of the stage model is hardly compatible with the complexity of today’s world. Moreover, by placing emphasis on stages rather than on the events or change of events, the dynamics of internationalization are not captured (Morgan-Thomas & Jones, 2009; Rialp, Rialp, & Knight, 2015). Another shortcoming is that “the actual progression under the stages has been underexposed, and that little attention has been paid to the time dimension” (Andersen, 1993; Gankema, Snuif, & Zwart, 2000, p. 16), making the model more general, which lead to the result that “the level of precision is being traded off” (Andersen, 1993, p. 218). He further contends that the lack of longitudinal data can serve as an explanation. Holmlund and Kock (1998) have criticized the model for not explicitly taking into account the importance of the network context or social network relations. Finally, the model has frequently been challenged in the field of entrepreneurship as the model only explains the internationalization process of multinational enterprises (Oviatt & McDougall, 1994). For instance, the theories assume that firms only internationalize long after they are established. Here, the network theory may be very useful in contributing to a better understanding of why some firms are able to internationalize early (Oviatt & McDougall, 1994). As O’Cass and Weerawardena (2009) have noted “recent approaches to conceptualize the SME internationalization process reflects an emerging consensus that SME internationalization is an entrepreneurial activity” (p. 1327, see also Knight, 2000; Lu & Beamish, 2001).

Ultimately, it must be noted that the theories and models were developed on the basis of empirical surveys of export practices in the US and Europe in the 1970s and 1980s (Fletcher, 2001). The emergence of born-global firms that essentially internationalize soon after their inception (Rennie, 1993) or firms that retrench or “de-internationalize” (Benito & Welch,

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1997) suggests that internationalization phases are not necessarily sequential. Rather, large variations are observed in patterns and stages. Kuivalainen et al. (2012) suggest “a pathway can be understood as consisting of several phases or stages during which a firm follows or shows a certain behavioral pattern related to its internationalization” (p. 450). Consequently, a growing number of scholars reason that the level of internationalization does not necessarily increase steadily and that the stage models therefore do not fully illuminate the internationalization of today’s firms in global markets (Andersson, Gabrielsson, & Wictor, 2004; Forsgren, 2002; Kalinic & Forza, 2012; Kuivalainen et al., 2012).

### 2.2.5 The Uppsala model revisited – the role of networks

More recently, Johanson and Vahlne (2009) have acknowledged the theoretical advances and changes in the business environment and practices, and have revisited the original Uppsala model from 1977. In the revised version of the model, Johanson and Vahlne (2009) stress that “the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers” (Johanson & Vahlne, 2009, p. 1411). More specifically, the two authors developed the view that a firm’s challenges and opportunities are becoming less a matter of country specificity, but increasingly a matter of relationship and network specificity (p. 1426).

More specifically, Johanson and Vahlne (2009) recognize that new knowledge is developed in relationships. The revised model proposes “that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence, insidership in relevant network(s) is necessary for successful internationalization, and so by the same token there is a liability of outsidership” (Johanson & Vahlne, 2009, p. 1411).

## 2.3 Decision-makers, uncertainty and networks

The first part of this chapter presented an overview of past internationalization literature in the context of small firms. In the following section, the role of the decision-maker, and the concept of uncertainty will be discussed. Lastly, the network approach and the growing role of network relations will be treated. As a background to this, the concept of social network analysis and the different types of network ties are discussed.

## 2.4 Decision-makers in exporting literature

The classic theories from international business such as the stage theories, internationalization theories or monopolistic advantage theories fail to explain the internationalization process of early internationalizing firms (Oviatt & McDougall, 1994). This is because traditional theories

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have had the firm as the unit of analysis rather than the individual (Oviatt & McDougall, 1994). For example, the Uppsala model of 1977 did not explicitly deal with the decision style of the individual decision-maker, though it was acknowledged “all the decisions that, taken together, constitute the internationalization process – decisions to start exporting to a country, to establish export channels, to start a selling subsidiary, and so forth – have some characteristics which are also very important to the subsequent internationalization” (Johanson & Vahlne, 1977, p. 23). Consequently, small business research has pointed to the significance of decision-maker characteristics, and several studies have shown that management is critical and decisive in successful internationalization, as the importance of the managers’ perceptions and orientation “significantly influences export behavior and performance” (Moen, 2002, p. 159). For comprehensive reviews of the exporting literature see, for example, Aaby and Slater (1989), Leonidou et al. (1998), Miesenbock (1988), and Zou and Stan (1998). Perhaps the most important reason for internationalizing is the decision-maker whose characteristics and perceptions are crucial in an internationalization process (Bilkey, 1978; Carson & Gilmore, 2000; Leonidou et al., 1998; Manolova et al., 2002; Morgan, 1997).

Ultimately, scholars have called for more research into the nature of managerial decision-making and the relationship between organizational behavior and entry strategies (Rialp, Rialp, & Knight, 2005). This line of research, in contrast to the Uppsala model, argues that characteristics of the individual strongly influence the choice and degree of internationalization in small firms.

#### 2.4.1 Managerial influences on internationalization

Bilkey (1978) argued that “the quality of management probably is the greatest single determinant of a firm’s export success” (p. 43). Accordingly, several streams have acknowledged the importance of managerial influences on internationalization. Within export behavior of firms, studies have primarily focused on why some firms choose to internationalize while others choose to remain inactive (Leonidou et al., 1998; Leonidou & Katsikeas, 1996). Studies have sought to explain the perceived barriers to exporting, and found various explanations, sometimes in apparent contradiction (Bilkey, 1978). For instance, “several cross-sectional studies found nonexporting firms perceived significantly more serious obstacles to exporting than did exporting firms” while other studies found that “nonexporters perceived fewer obstacles to exporting than did exporters” (Bilkey, 1978, p. 35). Bilkey (1978) explained the contradictory findings by reasoning that nonexporters that had explored the feasibility of exporting would naturally consider obstacles to be more serious than those who had not yet explored the feasibility of exporting (p. 35). Leonidou (1995) emphasized the need for more research on how small and inexperienced firms overestimate export barriers because of “inherent managerial, financial, personnel and other limitations” (p. 22). Some studies show “firms that are not yet active exporters seem to underestimate both the barriers

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present in the external business environment and their own shortcomings in terms of their internal capabilities whilst overstating the barriers associated with financial matters and with regard to access to markets” (OECD, 2008, p. 60).

In a longitudinal study of Swedish internationalizing companies in the rubber products industry, Andersson (2000) found strong indications of the importance of the individual’s interpretation and influence of the internationalization process. He concluded that “the entrepreneurs’ intentions and persistence in carrying out different strategies are decisive for the firms’ early internationalization” (p. 77). For instance, some companies internationalize quicker than others despite being in the same industry, which Andersson (2000) observed could be explained by the characteristics of key individuals in the companies. Much research argues that the decision to internationalize depends on the capabilities and international orientation of the owner-manager to recognize the international potential of the firm (Andersson, 2000; Lloyd-Reason & Mughan, 2002; Shane & Venkataraman, 2000). As Miesenbock (1988) emphasizes, “he or she is the one to decide starting, ending and increasing international activities” (p. 42). Some even contend that “the managers’ perceptions of the environment are more important than the actual environment” (Frell, 2005, p. 50; Manolova, 2002). As Frell (2005) notes, “environments are neither certain nor uncertain in themselves, but thinking makes them so” (p. 50). Consequently, the most frequently mentioned obstacles of smaller firms have been reported to include financial risks, (perceived) costs of operating abroad, trade barriers, insufficient knowledge of the foreign market, limited firm resources and lack of necessary skills, lack of network relations, inability to identify and obtain adequate representation in the host market, the perceived barriers of the decision-maker, and the characteristics of the decision-maker himself.

#### 2.4.1.1 Managerial factors influencing internationalization behavior

Exploration into managerial factors that influence internationalization behavior include a range of factors such as age, work experience, education (Westhead, Ucbasaran, & Wright, 2005), managerial capabilities (Andersson & Florén, 2011; Barbero, Castillas, & Feldman, 2011), international experience and a global mindset (Andersson, 2014; Nummela, Saarenketo, & Puumalainen, 2004). These managerial factors can be divided into four categories: general-objective, specific-objective, general-subjective, and specific-subjective (Leonidou et al., 1998). (See figure 2.2 Managerial influences on exporting behavior.) The first category comprises the more general characteristics such as educational background, work experience and the age of the manager (p. 86). The level of education has also been proposed as a variable affecting internationalization, because a higher level of education presumably affects the managers’ openness to change and willingness to objectively evaluate foreign business opportunities (Leonidou et al., 1998; Reid, 1981). Nevertheless, the role of education has not been investigated as frequently as some of the other factors (Leonidou et al., 1998).

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Moreover, empirical results have been conflicting to determine a positive relation between managerial education level and export propensity (Leonidou et al., 1998). Work experience and the age of the manager have also been highlighted as factors that affect exporting. Some studies propose that younger managers play a more active role in expanding businesses and “tend to be more internationally minded and cosmopolitan than older managers” (Leonidou et al., 1998, p. 86). However, other studies, such as Westhead, Wright, and Ucbasaran (2001), found that businesses with older founders with “more resources, denser information and contact networks, and considerable management know-how are significantly more likely to be exporters” (p. 351).

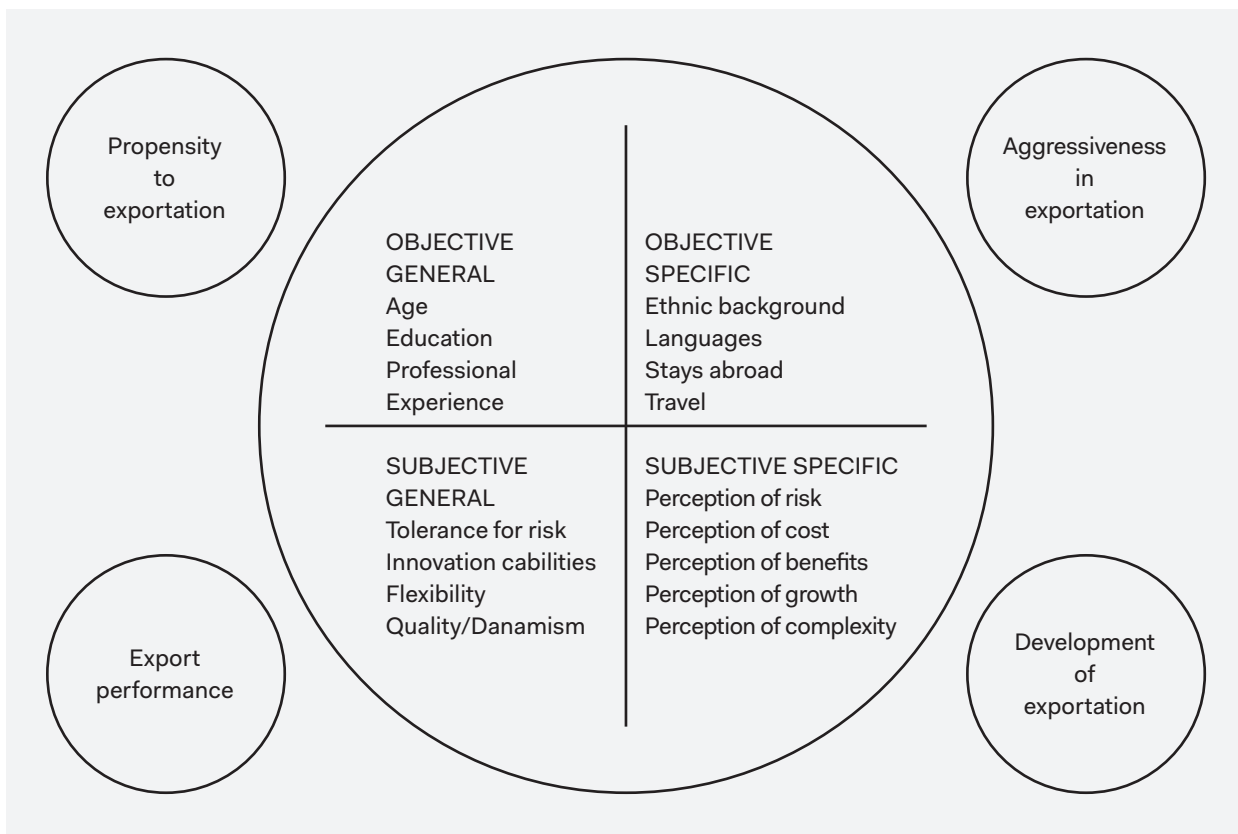
The second category, the specific-objective, involves ethnic origin, foreign language proficiency, and international exposure and orientation such as foreign travel or having lived abroad. For instance, Reid (1983) argued that “firms with decision makers who have international exposure and experience have a natural competitive advantage in exporting” (p. 47). Manolova et al. (2002) pointed out that the importance of managers’ international business skills distinguished internationalized firms from non-internationalized firms. In a study of executives of machine tool firms, Axinn (1988) also found a positive relationship between foreign work experience and firm export performance (p. 67). Other studies have attributed a potential positive impact on export performance to language proficiency. For instance, Knowles, Mughan, and Lloyd-Reason (2006) found that decision-makers of successfully internationalized SMEs were more likely to have foreign language skills than their less successful counterparts. In addition, they were reported to be more likely to have an international orientation. Hurmerinta, Nummela, and Paavilainen-Mäntymäki (2015) found evidence that the decision-maker’s linguistic knowledge matters in the context of international opportunity recognition and exploitation. In particular, they found that language skills are more important in the early phase of internationalization, as foreign language skills may open doors to foreign market opportunities, while also recognizing that language skills may also implicitly restrict the decision-makers focus to a single market (p. 1090).

The third category, general-subjective, includes: risk tolerance, innovativeness, flexibility, commitment, and quality and dynamism (p. 90). These factors are related to the attitudes and behavior of the decision-maker and not necessarily to the actual export activity (p. 90). These include the decision-maker’s level of commitment, flexibility, or the willingness to take risks. All in all, the behavior of an individual with a low level of perceived risk is expected to respond more favorably to export stimuli than more risk adverse individuals (Wiedersheim-Paul et al., 1978). Axinn (1988) also found that the manager’s perceptions about the benefits of exporting are “the most significant indicator” of firm performance (p. 67). With regard to quality and dynamism, studies have shown that “a high level of management quality and dynamism, measured in terms of capabilities, skills, and expertise, is more common among exporting than nonexporting firms” (Weidersheim-Paul et al., 1978



in Leonidou et al., 1998, p. 92). Consistent with several other research conclusions, Zou and Stan's (1998) review of determinants of export performance found that management's export commitment was a key determinant of export performance. For instance, Boling, Pieper, & Covin (2016) found greater levels of risk-taking and experimentation among "moderately tenured CEOs" (p. 904). Leonidou et al., (1998) differentiate between an aggressive and passive managerial approach to exporting. The aggressive approach, is here used in a positive sense, and indicating a systematic and objective-oriented behavior. On the other hand, the passive approach indicates an opportunistic and halfhearted approach (p. 80). Likewise, other authors differentiate between reactive and proactive motives (Czinkota & Ronkainen, 2012; Forsman, Hinttu, & Kock, 2006; Lazaris, Ngasri, & Freeman, 2015). Ultimately, the "desire, willingness, and determination of the decision maker(s)," and thereby the managerial characteristics determine the approach to exporting (Leonidou et al., 1998, p. 80). In their study of international new ventures, Oviatt and McDougall (1994) also found that firms appeared to follow a pattern of internationalization that was highly influenced by the individual entrepreneur. Examining the differences between exporting firms, Moen (2002) argued that the decision-maker's background, international business skills and global orientation explain why some firms become born globals while others are "born as locals."

Figure 2.2 Managerial influences on exporting behavior.



Source: Leonidou et al., 1998, p. 79.

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The fourth category, the specific-subjective, involves managerial perceptions that are subjective in nature and, contrary to the general-specific category, relates specifically to export activity. “These include managerial perceptions of risks, costs, profit, growth and the complexity of selling to a foreign market via-à-vis the domestic market” (p. 92, see also Cavusgil, 1984). Several studies have shown that managerial attitudes and perceptions can have a determining effect on the initiation, development and success of the internationalization (Aaby & Slater, 1989). In their review of studies on management influences on export performance, Aaby and Slater (1989) concluded that “unless management has an international vision, consistent export goals, favorable perceptions and attitudes towards export, is willing to take risks and is capable of engaging positively in export activities, a firm is not likely to become a successful exporter” (p. 21).

## 2.5 Uncertainty

Directly relevant to this study, and the subjective categories described above, is the concept of uncertainty, which can be defined as *lack of confidence about one's knowledge* (Kraft, 1986, p. 782). Ever since March and Simon (1958) identified uncertainty as a key variable in explaining organizational behavior, a significant amount of theoretical and empirical work has been carried out to examine and conceptualize uncertainty (Jauch & Kraft, 1986). In the earliest theories, focus was on the organization itself. Over time, the theories have found that tolerance of ambiguity (defined as the ability of an individual to perceive and process uncertainties) and the interaction with the external environment are critical (Walker, 1988). As noted earlier, some individuals may have a high tolerance of ambiguity. Consequently, they are likely to perceive situations as less uncertain than others with lower tolerances (Duncan, 1972). Theorists within different fields have sought to describe and explain uncertainty in a variety of ways. However, the use of the term uncertainty varies and there is no conceptual definition. Various conceptualizations have been proposed in psychological and organizational research (Gifford, Bobbitt, & Slocum, 1979). “Although there is general agreement on the importance of uncertainty in the organizational design literature, there is little commonality among researchers or theorists regarding the precise meaning of uncertainty or ways to measure it” (Gifford, Bobbitt, & Slocum, 1979, p. 459). Additionally, Hilmersson and Jansson (2012) state there seems to be little research that has explicitly examined how different types of international experiential knowledge reduce perceived uncertainty.

Most internationalization models include an aspect of uncertainty (Madsen, 2005, p. 381). When a firm enters a foreign market, it enters a new environment that presents a number of unique cultural challenges that are different from those in the firm's home country (Calhoun, 2002, p. 302). Suddenly, such a firm needs to establish and develop relations in the new host country where “foreign firms are outsiders; domestic firms insiders” (Eden & Molot, 2002, p. 363).

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In this sense, scholars have long recognized the potential risks and disadvantages of operating in a foreign environment. Within the international business literature, theorists have argued that companies face an additional cost when doing business in foreign environments, arising from unfamiliarity with the new environment, and resulting in a competitive disadvantage (Hymer, 1960/1976). This view is known as the concept of “the liabilities of foreignness” (LOF), which stems from the work of Hymer (1960/1976). At the core is the view that firms face a liability of foreignness when they operate in foreign markets. Firms operating outside their home market face additional unavoidable costs beyond those incurred by domestic firms (Hymer, 1960/1976). As resources of a host country are often not available to firms from other countries, Hymer identified several types of disadvantages that foreign firms face and termed these firm-specific costs as “the cost of doing business abroad” (CDBA). Local firms have the general advantage of knowing more about their own country and its language, and the legal, economic and political framework. Therefore, foreign firms have an information disadvantage and a cost in initial acquisition of this information, and face risks associated with exchange rate fluctuations. Foreign firms may also face discriminatory treatment by the host government, suppliers, and customers (Gaur, Kumar, & Sarathy, 2011, p. 216).

Hymer’s original work had a profound impact on later research on MNEs and FDI and has since been expanded by several scholars (Dunning & Pitelis 2009; Zaheer, 1995). Several empirical studies have tested for liability of foreignness (Elango, 2009), with a majority focusing on U.S.-based corporations (Zaheer & Mosakowski, 1997). Past studies have proposed that failure rates of foreign-owned firms are higher than domestically owned firms (Li & Guisinger, 1991; Zaheer & Mosakowski, 1997). For instance, an empirical study by Zaheer and Masokowski (1997) found that survival rates were lower for foreign firms. The researchers also found that the liability of foreignness varies over time. In fact, it declines over time and the costs should therefore not be seen as static, but rather as costs that decline as a firm acquires more knowledge of the host country. Zaheer and Masokowski (1997) also contended that non-economic matters, networks, and the extent of local embeddedness, might be of greater importance than previously assumed.

Subsequent literature further developed the concept. Zaheer (1995) defined the concept as “all additional costs a firm operating in a market overseas incurs that a local firm would not occur” (p. 343). In addition, Zaheer (1995) identified four costs MNE subunits often face when operating in a foreign country:

- (1) “costs directly associated with the special distance, such as the costs of travel, transportation, and coordination over distance and across time zones;
- (2) firm-specific costs based on a particular firm’s unfamiliarity with and lack of roots in a local environment;



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- (3) cost resulting from the host country environment such as the lack of legitimacy of foreign firms and economic nationalism;
  - (4) the costs from the home country environment, such as the restrictions on high-technology sales to certain countries imposed on US-owned MNEs”

(Zaheer, 1995, p. 343).

In an attempt to overcome the liability of foreignness, MNEs may use two approaches: The MNE can attempt to mimic the nature of the successful native firms, thus becoming isomorphic and gain legitimacy in the host country, or MNEs can take advantage of the firm-specific advantages (FSA) that have been recognized as capabilities specific to the firm (the competitive advantage) (Eden & Molot, 2002; Zaheer, 1995). Against this, the assumption of the liability of foreignness has been the fundamental driving force for most of the existing literature in which, for instance, the eclectic paradigm has been directed toward how firms can compensate for this liability (Zaheer & Mosakowski, 1997, p. 441). This research has mostly focused on understanding the nature of the advantages, while devoting less attention to the nature of the disadvantages and how firms reduce their liability of foreignness (Petersen & Pedersen, 2002).

In sum, the literature asserts that a firm will select a foreign market in terms of psychic distance, i.e., investing in a close market rather than in a distant market. A central finding of the literature is “the importance of firm capabilities in overcoming or limiting the liability of foreignness, raising the question of how firms with limited firm capabilities relative to the host environment overcome the liability of foreignness” (Barnard, 2010, p. 165). Moreover, little research has studied the uncertainty-reducing effects of experiential knowledge (Hilmersson & Jansson, 2012).

### 2.5.1 Types of uncertainty

Recognizing that there are different types of uncertainties, and that uncertainty is both situation-dependent and experienced differently, for the sake of simplicity, the umbrella term “perceived uncertainty” is used here.

Following earlier research, a distinction is further made between firm-specific uncertainty and market-specific uncertainty. A firm can experience uncertainty from a range of different sources, but the central premise is that firm-specific uncertainty is unique to the firm (Beckman, Haunschild, & Phillips, 2004). Moreover, firm-specific uncertainty is often internal, and thus largely controllable by the firm. For example, uncertainty may occur because of turnover in top management, acquisition of a new firm or entry into foreign markets (Beckman, Haunschild, & Phillips, 2004). In contrast, market uncertainty refers to uncertainty that is shared across a set of firms and “is independent of what happens at the

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firm level” (Beckman, Haunschild, & Phillips, 2004, p. 262). For example, Burgers, Hill and Kim (1993) distinguished two sources of uncertainty: demand uncertainty and competitive uncertainty. They argued that demand uncertainty arises from “unpredictable changes in consumer purchasing patterns” (p. 420), while competitive demands refer to the uncertainty that arises from competitive interdependence. Both types of uncertainty are beyond the control of the firm.

With firm-specific uncertainty, firms respond by broadening and searching for new relationships; by contrast, when facing market uncertainty, firms are likely to respond by reinforcing existing relationships (Beckman, Haunschild, & Phillips, 2004, p. 262).

## 2.6 Networks

As compared with larger enterprises, SMEs have fewer resources in terms of financial and human capital, and for many smaller companies it is a major risk to engage in foreign markets. Therefore, it is important that an entrant firm acquires or develops the necessary knowledge and capabilities to enter a foreign market successfully. Research streams have emphasized different units of analysis. For instance, there has been a shift from “exploiting competitive advantage to developing competitive advantage that requires closer relations with the environment” (Forsgren, Holm, & Johansson, 2005, p. 1). Networks are seen as links that enable individuals and groups to cooperate. The core assumption in the network view is that cooperation is more efficient than competition, and that creates a competitive advantage (Andersson, 1998). Essentially, “network-based theories frequently treat network ties as pipelines through which many things flow” (Marin & Wellman, 2011, p. 18). As Yli-Renko, Autio, and Tontti (2002) emphasize, today “firms succeed not because they have superior control over scarce resources, but because they are able to learn and to use this learning more efficiently than others” (p. 279). As Forsgren et al. (2005) contend, “business relationships are crucial to the development of knowledge” (p. 18). In their network model, Johanson and Mattson (1988) argue that the internationalization of a firm depends on the firm’s position in a network and its relationship with other firms. According to Johansson and Mattson (1988), a firm’s level of internationalization can be categorized as the early starter, the late starter, the lonely international and international among others. Accordingly, “the position a firm has in the network determines the opportunities and constraints it confronts within the network” (Chetty & Blankenburg-Holm, 2000b, p. 338).

The network perspective is not new (Tichy, Tushman, & Fombrun, 1979), but particularly in the past two decades, the study of networks has attracted significant attention (Carrington, Scott, & Wassmann, 2005; Coviello & Munro, 1997; Parkhe, Wasserman, & Ralston, 2006). The perspective that the right network may improve a firm’s performance by providing faster access to valuable resources, experiences, skills, assets and information

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has increasingly received support in the literature (Chetty & Blankenburg-Holm, 2000a; Coviello & Munro, 1997; Freeman, Hutchings, Lazaris & Zyngier, 2010; Hallen & Eisenhardt, 2012). As Wasserman, Scott, and Carrington (2005) explain, perhaps the increasing interest in networks has been due to a realization that social contexts matter. Moreover, as observed by Parkhe, Wasserman, and Ralson (2006), “[...] networks are reshaping the global business architecture” (p. 560). As discussed in section 1.2, the pressure of global competition has intensified in recent years. The twenty-first century is heavily influenced by the pervasiveness of developments in transportation, modern telecommunications, and technology. These breakthroughs and quantum leaps have assisted in liberating past constraints and barriers to mobility and international collaboration. Similarly, today’s fast-changing environment is affecting the nature of interaction with other organizations. In response to these new market conditions, more networked inter-organizational relationships, such as alliances, partnerships and clusters are observed (Scott, Baggio, & Cooper, 2008). However, many lack the resources to enter the global marketplace on their own (Lu & Beamish, 2001). Arguably, leveraging their network relationships is the most important capability of internationalizing new ventures (Prashantham, 2015). Abundant evidence shows firms may benefit from joining business networks and forming alliances with other companies (Chetty & Blankenburg-Holm, 2000a), and these inter-firm relationships also impact market selection and the internationalization entry mode (Coviello & Munro, 1995, 1997; Dana 2011; Wright, Westhead, & Ucbasaran, 2007). Especially in the business-to-business sector, customers and suppliers are not only regarded as competitors, but also as collaborators (Andersson, 1998). Consequently, it has become common practice amongst firms to collaborate through both informal and formal relationships (Chetty & Blankenburg-Holm, 2000a; Street & Cameron, 2007).

This collaboration may be in the form of imitative learning, different “short-cuts” to learning by acquiring other companies or hiring employees with the necessary knowledge or a focused search for new information. For instance, Coviello and Munro (1997) found that the internationalization process of small software firms were in fact “driven, facilitated and inhabited by a set of formal and informal network relationships” (p. 361). More specifically, Coviello and Munro (1997) found that internationalization appeared to be “largely driven by existing network relationships [...] with major partners often guiding foreign market selection and providing the mechanism for market entry” (p. 372). Forsgren (2002) found that “experience leads to higher confidence in the mind of the decision-maker and therefore reduces expected cost of entry. The propensity to postpone the entry into different markets will therefore decrease with increasing experience” (p. 11). Consequently, it has been argued that companies follow the behavior of other companies that have a perceived high legitimacy (Forsgren, 2002). Galaskiewicz and Wasserman (1989) found that companies would not only mimic the behavior of companies with high degrees of legitimacy, but also companies they trusted and had an interpersonal tie with. Thus, it is argued that a company may engage in

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internationalization earlier than they would have otherwise because they do not have to achieve a high level of their own market knowledge (Forsgren, 2002; Galkina & Chetty, 2015).

Indeed, Johanson and Mattsson (1988) contend that networks play an important role as firms internationalize. There are also cases in which SMEs are pulled or in some cases pushed into a foreign market by the international activities of their larger business partners. Further research shows that some smaller firms are reluctant to cooperate with international partners in part because of a fear of losing control (Wright, Westhead, & Ucbasaran, 2007).

### 2.6.1 Network ties

Overall, “the concept of a network emphasizes the fact that each individual has ties to other individuals, each of whom in turn is tied to a few, some, or many others, and so on” (Wasserman & Faust, 1994, p. 9). People typically participate in several networks, for example, one for work and another for their social lives. Thus, the relevance of network is not constrained to intraorganizational relationships of the venture, but also applies to interpersonal relationships of the entrepreneur. Social network analysis assumes that “social life is created primarily and most importantly by relations and the patterns formed by these relations” (Marin & Wellman, 2011, p. 11). Thus, the basic assumption is that “actors and their actions are viewed as interdependent rather than independent, autonomous units” (Wasserman & Faust, 1994, p. 4), and that the network may consist of a number of direct and indirect ties. Thus, at the core of network analysis is the assumption that all actors, both individuals and corporate actors, “are embedded in a myriad of social relationships, and it is impossible to understand their behavior without understanding the relational context in which they function” (Galaskiewicz, 1996, p. 20)

Essentially, there is broad agreement that relationships are critical to knowledge creation and sharing (Levin & Cross, 2004). Much effort has been devoted to survey sampling designed with statistical and computing methodology (Wasserman & Faust, 1994). As a result, plenty of past research of social networks gives us formulas for various measures. Meanwhile, Salancik (1995) argues that “much of its promise has yet to be realized, in that social network analysis has been used mainly as a tool for analyzing data about organizations rather than for understanding organizations per se” (p. 345). Nebus (2006) likewise argues, “the network literature has a bias toward examining a network’s structural characteristics to predict outcomes (Monge & Contractor, 2001), rather than asking how individuals generate networks in the first place” (p. 615). Consequently, few scholars have investigated “the distribution of expertise and the way in which social relations help *integrate* such expertise” (Levin & Cross, 2004, p. 1487).

While social network research has concentrated on the problem of finding relevant information (Hansen, 1999), and several scholars have concluded that weak ties, characterized as distant by infrequent interaction, are efficient in reaching a broad audience, research

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has remained inconclusive in determining whether weak ties transfer simple knowledge or more complex forms of knowledge (Hansen, 1999, p. 83). More recently, there has been a growing body of research “suggesting that embeddedness does not necessarily lead to positive outcomes; rather, the value of ties may vary depending upon the situation” (Gulati & Higgins, 2003, p. 127). For example, “by relying on old ties too much, firms risk losing access to potentially important resources and information held by other firms and isolating themselves and their suppliers from market pressures that could increase their long-term efficiency” (Jensen, 2003, p. 469).

It is widely acknowledged in research that international experiences and network relationships are of vital importance for companies that have not yet gained their own international experience (Hallen & Eisenhardt, 2012; O’Gorman & Evers, 2011; Wasserman & Faust, 1994). Companies tend to look at the behavior and experiences of others and in some cases attempt to mimic these others (Lewitt & March, 1988; Wasserman & Faust, 1994). Within network research there are two broad categories: inter-organizational networks and the personal networks or formal and informal networks (O’Donnel, Gilmore, Cummins, & Carson, 2001).

Ties are not necessarily advantageous because the effectiveness of a tie is context-dependent (Li, Poppo, & Zhou, 2008, p. 383). Since the members of a network vary, different kinds of information and knowledge available in the network become a competitive advantage (Ostgaard & Birley, 1996). Past research has found that entrepreneurial firms prefer a personal source rather than a written source, as written data may contain “old” information and may also have been available to competitors (Schafer, 1990). These findings are in line with the classic theories that have shown that individuals prefer information from personal sources as opposed to non-personal sources (Feick & Price, 1987). Indeed, extensive research in the marketing and organizational literature has established how interpersonal relations affect preferences and choices (Rosen, 2009), and that these sources are preferred over other sources (Cross & Sproull, 2004; Myhre, 2011; Price & Feick, 1984). “Because ties are embedded in a social context of obligation and trust, this information is deemed trustworthy, especially compared with information from new acquaintances or strangers” (Li, Poppo, & Zhou, 2008, p. 388).

A growing body of research has shown the importance of network ties for smaller firms and start-ups (Andersson & Wictor, 2003). Previous work indicates that collaboration through business networks allows SMEs to accelerate their internationalization process (Coviello & McAuley, 1999; Lu & Beamish, 2001). Indeed, a recent school of thought is that “internationalization is increasingly becoming a networking process” (Moreno-Menéndez & Casillas, 2014, p. 86). In this context, Coviello and Munro’s observations are particularly salient as they found that network relations have influence on foreign market entry mode and selection (Coviello & Munro, 1995, 1997). Despite the interest in the utilization of network



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ties by small firms, little research has been conducted on the actual formation and use of ties (Hallen & Eisenhardt, 2012; Johanson & Vahlne, 2009). There is little empirical evidence of when networks are used for different purposes (Wilson & Rieple, 2014). Rather, the literature offers a descriptive account of which ties are likely to be formed using, for example, resource dependence theory, to examine the formation of inter-organizational ties (Gulati, 1995; Hallen & Eisenhardt, 2012). Although the studies provide insight into strategic alliances of firms, they do not explain how they overcome the uncertainties that are associated with such partnerships (Gulati, 1995, p. 620), or the high failure rates of such alliances (Kale & Singh, 2009). Moreover, the literature does not directly address “the process or outcome of efficient tie formation, including failed attempts, speed of formation, and effort expended to form ties” (Hallen & Eisenhardt, 2012, p. 36). Hallen and Eisenhardt (2012) point out that research also neglects the fact that firms often face rivalry for ties. Essentially, past research shows (Hallen & Eisenhardt, 2012, p. 36; Ozcan & Eisenhardt, 2009) that firms: (1) gain performance benefits from numerous ties with desirable partners; (2) benefit from a variety of strong and weak ties; and (3) enhance tie formation efficiency when forming ties requires little time and effort.

Hallen and Eisenhardt conclude that firms that form ties efficiently avoid lengthy, time and cost-consuming searches, failed attempts, and undesirable partners. In contrast, firms without “efficient formation of networks” are more likely to be “less efficient” because they devote more time, energy and efforts in managing aspects for which ties could have been helpful (Hallen & Eisenhardt, 2012, p. 35). Furthermore, research shows that a slow tie formation process “delays access to needed resources, and allows rivals to capture the best partners first” (Hallen & Eisenhardt, 2012, p. 37).

### 2.6.2 Network tie strength

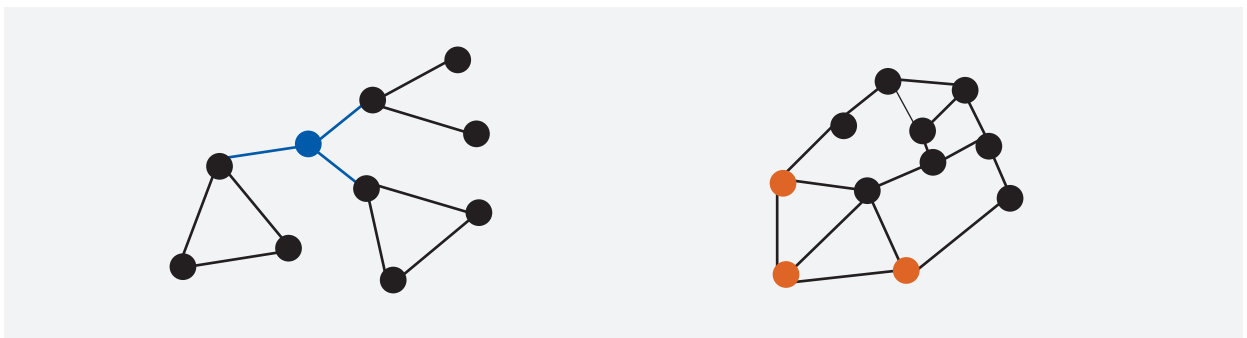
There is extensive literature on the impact and behavior of individuals on the social networks in which they are embedded (Granovetter, 1973). For instance, Granovetter’s (1973) classic work, have investigated the significance of weak ties as opposed to that of strong ties. According to Granovetter’s research on referrals, connections within a single group are generally strong ties, while the connections between different groups are generally perceived to be weak ties (Granovetter, 1973). Granovetter’s strength of weak ties (SWT) theory argues that weak ties are more beneficial than strong ties because they allow information to flow in an easier and faster way and reach a much broader audience (Granovetter, 1973; Levin & Cross, 2004). Granovetter (1973) gives the following definition of the strength of an interpersonal tie: “the strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie” (p. 1361). Moreover, it is argued that weak ties are more likely to provide non-redundant information as they are more likely to move in circles beyond one’s

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own immediate circle. Weak ties will have access to information that is different from that which we normally receive, creating a “possible mobility opportunity” (Granovetter, 1973, p. 1373). For example, his study showed the strength of an actor’s weak ties (i.e., casual acquaintances). The underlying assumption is that people live and work in circles of others with whom they have strong relations. The stronger the tie between two individuals, the more likely their networks will overlap, as strong ties are likely to move in the same circles, have overlapping friends, and are likely to have the same information (Borgatti & Lopez-Kidwell, 2011). The spread of novel information must therefore come from people outside one’s immediate circles.

Burt (1992) extended this view in his discussion of structural holes, which he defined as those that exist between individuals who are not connected to each other and who circulate in different flows of information. “The argument is that opinion and behavior are more homogeneous within than between groups, so people connected across groups are more familiar with alternative ways of thinking and behaving, which gives them more options to select from and synthesize” (Burt, 1992, pp. 349–350). He saw structural holes as an opportunity to maximize the flow of information between people: good if one can brokerage across networks, but bad if the individual is disconnected from others and dependent on others to bridge the gap. He thus contended that “the link between good ideas and structural holes is key to the social capital of brokerage” (Burt, 2004, p. 351). In other words, “social capital explains how people do better because they are somehow better connected with other people” (Burt, 2005, p. 4).

Figure 2.3 Graphical illustration of a network with structural holes.



The blue node has more structural holes than the orange nodes to the right. Based on: Borgatti & Lopez-Kidwell, 2011.

Levin and Cross (2004) introduced the concept of “trusted weak ties,” thus combining the benefits of strong and weak ties. In their study of information retrieval at workplaces they found that trusted weak ties provided “the most useful knowledge of all” (p. 1486). While they also found that trusted strong ties were beneficial in providing useful knowledge, trusted weak ties were more likely to provide non-redundant information.

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## 2.7 Summary

In particular, past research has focused on the decision of whether or not to internationalize. It has been argued that foreign market entry decisions are framed by a rational response to conditions in the marketplace. Moreover, the theories assume that firms only internationalize long after they have been established.

Network theory may be useful in contributing to a better understanding of why some firms are able to internationalize early. Consequently, the literature tells us that at the level of individual ties, “the right partners may improve firm performance by providing faster access to valuable resources, information and status” (Hallen & Eisenhardt, 2012, p. 35). At the portfolio level, firms benefit from having both strong and weak ties, which can be important sources for resources and capabilities (Hallen & Eisenhardt, 2012; Levin & Cross, 2004; Zaheer, Gözübüyük, & Milanov, 2010). Lastly, at the network level, “central positions provide broader information and greater status, and positions rich in ‘closure’ (dense interconnections among partners) enhance trust” (Hallen & Eisenhardt, 2012, p. 35). Because organizations learn through other organizations and market knowledge and tacit knowledge can be acquired outside the organization, it means that theories of the internationalization process need to be revised.

While the literature on small firm internationalization recognizes the importance of human capital factors, it does not provide a thorough exploration of the impact of managerial influences on organizational behavior and entry strategies. Conflicting findings mean that few solid conclusions can be drawn, and “there is as yet no fully comprehensive, integrative, and detailed framework capable of guiding future research” (Leonidou et al., 1998, p. 96; see also Leonidou & Katsikeas, 1996; Manolovo et al., 2002; Rialp, Rialp, & Knight, 2015; Westhead et al., 2001).

A review of recent studies highlights the importance of the individual’s influence in an internationalization process. As O’Cass and Weerawardena (2009) have noted, “recent approaches to conceptualize the SME internationalization process reflects an emerging consensus that SME internationalization is an entrepreneurial activity” (p. 1327; see also Knight, 2000; Lu & Beamish, 2001). Moreover, scholars have shown the significance of knowledge gathering and the use of network relations in foreign market selection and entry mode. But prior literature on networks has paid scant attention to the actual tie formation.

As much of the recent literature on SME internationalization and international entrepreneurship has been limited to studies focusing on early internationalizing firms or firms that from inception seek to venture into international markets (Bell, McNaughton, Young, & Crick, 2003; Jørgensen, 2014; Rialp et al., 2005), there is a need for further research on mature internationalizing SMEs. The role of the individual’s actions has been widely recognized within international business research. This is particularly the case in small firms, where power is usually in the hands of one or a few persons.



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# 3

## Research design and methodology



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## 3 Research design and methodology

### 3.1 Introduction

The present study uses qualitative research methods based primarily on case studies explored through semi-structured in-depth interviews. This chapter describes and justifies the chosen methods of research design, data collection, and data analysis.

As demonstrated in the previous chapter, little qualitative research has been conducted on how mature small and medium-sized enterprises expand from the domestic to the international market. The objective of this study is to understand the aims and considerations of SMEs. The following issues are addressed:

1. What makes mature enterprises with a domestic market orientation decide to internationalize?
2. How do they select foreign markets?
3. How do they conduct market research, and choose the appropriate market entry mode?

The research questions are exploratory. A qualitative approach is adopted as my aim is to acquire an in-depth understanding of the process. As Stake (2010) notes, perhaps the most important methodological difference between quantitative and qualitative research is the difference between aiming for explanation and aiming for understanding.

### 3.2 Research design

#### 3.2.1 Qualitative versus quantitative studies

This study is positioned in the social constructivist paradigm, which “assumes that reality as we know it is constructed intersubjectively through the meanings and understandings developed socially and experientially” (Guba & Lincoln, 1994, in Lincoln, Lynham, & Guba 2011, p. 102), and implies that there are “multiple realities” (see section 3.6.3 for more on the social constructivist approach). By contrast, the positivistic paradigm, often employed in the natural sciences, defines reality as being objective, that it is a measurable, indisputable, and identifiable reality (Lincoln, Lynham, & Guba, 2011). It focuses on description and explanation within well-defined frameworks, and is primarily driven by a deductive approach in which quantitative data often form the core. Historically, qualitative research has often been viewed with a degree of skepticism in the social sciences, while quantitative studies have been regarded as more appropriate (Rasmussen, Østergaard, & Beckmann, 2006). In the view of

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critics, qualitative methods are inadequate because they are not committed to objective and indisputable research inquiries. Particularly, the interpretive tradition of qualitative research is unsettling for positivists, and they assert that qualitative researchers are unable to verify their truth statements (Denzin & Lincoln, 2011). The resistance reflects a positivistic view that believes research should be subject to statistical analysis and verifications. Thus there has been a tendency to attempt to “quantify” qualitative research (Flick, 2009).

The academic literature on SME’s internationalization has likewise been dominated by positivist research (Conviello & McAuley, 1999); see also Aspelund, Madsen, & Moen (2007); Rialp, Rialp, & Knight (2015); Zhou & Stan (1998). Only more recently has qualitative research, including case studies, been established as a methodological approach in IB research (Piekkari, Welch, & Paavilainen, 2009; Welch, Piekkari, Plakoyiannaki, & Mäntymäki, 2011). This has opened up for a broader methodological approach to supplement existing, largely quantitative, research.

### 3.2.2 Multiple cases

Qualitative methods are appropriate to understand and analyze the perceptions and opinions of the interviewees, capturing both cognitive and emotional aspects (Rasmussen, Østergaard, & Beckmann, 2006). Case study research combines existing theoretical knowledge with new empirical insights (Eisenhardt, 1989), and is suitable for exploratory and explanatory issues (Yin, 1984). Case studies are here defined as “a research strategy that examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of ‘confronting’ theory with the empirical world” (Piekkari et. al, 2009, p. 569). Case studies can focus on single or multiple cases, and can employ multiple levels of analysis (Yin, 1984). A drawback of a single case is the inability to generalize findings, while multiple case studies can provide more evidence and consequently lead to greater confidence in the results (Yin, 2012). For this reason, multiple cases are used in the present study. Moreover, firms from different industries (machinery manufacturing industry, food distribution industry, and healthcare industry) are used to allow for more generalizability and comparison beyond that of a single case study, thereby allowing finer distinctions and greater understanding of how the sampled companies may vary under different conditions (Miles & Huberman, 1994, Yin, 2009). Marshall (1996) has argued that “an appropriate sample size for a qualitative study is one that adequately answers the research question” (p. 523). While there is no “ideal” number of cases, Eisenhardt (1989) observes that “a number between 4 and 10 cases usually works well” (p. 545). Eisenhardt (1989) cautions researchers against employing more than ten cases, as “it quickly becomes difficult to cope with the complexity and volume of the data” (p. 545). In the present study, ten case studies were chosen. The criterion for selecting the SMEs was that they were identified as being, or having recently been, in the process of internationalization.

Table 3.1 Features of the ten joint-stock Danish companies used as case studies.

Company	Industry	Employees	Structure	Type	Established / restructured*	Gross profit tkr.
A	Health care	100–149	Owner-managed	Medium-sized	Mid 2000s	66,000
B	Machinery	10–19	Owner-managed	Small enterprise	Late 1990s	3,500
C	Machinery	10–19	Owner-managed	Small enterprise	*Early 2000s	5,500
D	Machinery	50–99	Owner-managed	Medium-sized	Mid 1970s	21,000
E	Machinery	20–49	Owner-managed	Small enterprise	Late 1970s	35,000
F	Machinery	50–99	Owner-managed	Medium-sized	*Late 2000s	19,500
G	Machinery	20–49	Owner-managed	Small enterprise	*Early 2010s	17,000
H	Whole sale	20–49	Manager-led	Large enterprise	Early 1990s	43,000
I	Whole sale	200–499	Manager-led	Large enterprise	Late 1970s	350,000
J	Machinery	100–149	Manager-led	Medium-sized	Late 1970s	27,000

Table: Features of the ten joint-stock Danish companies used as case studies.

### 3.2.3 Semi-structured in-depth interviews

It was decided to use semi-structured, in-depth interviews as the main data collection method. In-depth interviews allow the interviewer to pose research questions of an exploratory type (Johnson & Rowlands, 2012); they are the best means of eliciting memories and obtaining a deeper and fuller meaning of the past (Rasmussen, Østergaard, & Beckmann, 2006). Moreover, an interview guide was employed in a flexible way to ensure key topics were covered during the interview while also creating room to explore new themes or issues that emerged during the interview. (See appendix 2). The chosen methodology contrasts with “the structured interview,” where the questions are determined, standardized and sequenced in advance with no new questions added during the interview, so that all interviewees are asked the same questions in the same order. The rationale is that it is subsequently possible to generate comparable responses from large samples. In comparison, the unstructured interview is not structured around a fixed questionnaire, and the researcher relies rather on the interaction with the participants to determine the process. The lack of fixed structure makes it a useful tool for exploring a new topic or area, but makes coding and data comparison more difficult.

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### 3.3 Case study data collection

Data collection took place between January 2014 and May 2016 in three interview rounds with experts, companies and follow-up interviews. Expert interviews with scholars and business people were carried out in January to February of 2014 to explore the research topic from a more conceptual point of view. Next, in-depth interviews with case companies were conducted from August to October 2014. Finally, a number of follow-up interviews were conducted by telephone and email from October 2015 to May 2016 where clarification and further elaboration was needed. The interview data were supplemented with secondary sources such as newspaper articles, industrial news, company videos and other company material, thereby providing further perspectives. In addition, annual reports for all companies were acquired through the electronic knowledge bank “Markedsdata” and “the Danish Business Authority” from the period 2010–15. (See appendix 3 for an overview of secondary sources).

The following sections will elaborate on the stages of data collection.

#### 3.3.1 Expert interviews

My first priority was to gain a deeper understanding of the context. Interviews with experts allowed me to obtain valuable insight during the early phases of the study. The interviews ranged from 38 minutes to 142 minutes, averaging 96 minutes. This is in line with the literature, which states that the length of in-depth interviews is usually between 30 and 120 minutes, while interviews longer than two hours are rarely efficient since both the interviewer and the interviewee become drained (Rasmussen, Østergaard, & Beckmann, 2006, p. 100). Indeed, the interviews carried out confirmed that a time frame of around 90 minutes was effective.

Bogner, Littig, & Menz (2009) argue that “in relative terms, talking to experts in the exploratory phase of a project is a more efficient and concentrated method of gathering data than, for instance, participatory observation or systematic quantitative surveys” (p. 2). In cases in which “experts are seen as ‘crystallization points’ for practical insider knowledge,” they may even be “interviewed as surrogates for a wider circle of players” (Bogner, Littig, & Menz, 2009, p. 2). Furthermore, they are especially helpful at achieving a high level of specific knowledge that can otherwise be difficult to obtain (Bogner, Littig, & Menz, 2009). In other words, “experts serve as informants and possess knowledge otherwise not accessible to researchers” (Littig, 2009, p. 100).

#### 3.3.2 Identifying experts

Eight expert interviews were carried out with professionals from the Federation of Small and Medium-sized Enterprises (DFSME), the Trade Council of Denmark, Business Development Centre Denmark (BDCD), the Confederation of Danish Industry (DI), and

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researchers at the Department of Intercultural Communication and Management (ICM) at Copenhagen Business School (CBS). (See table 3.2 Expert interviews. for an overview). The interviewees were selected on the basis of their knowledge and professional experience within the field of small and medium-sized enterprises and internationalization. The starting point was a professor from the Department of Strategic Management and Globalization (SMG) at CBS, who was asked to recommend an individual to interview. The sampling process then continued with a suggested professor at the Department of Intercultural Communication and Management (ICM) at CBS. This professor was in turn asked to suggest experts and organizations that could be of interest, thus using the snowball method or chain referral sampling. The professor from SMG was a valuable source of inspiration, and also instrumental in identifying further candidates for my expert interviews. However, I ensured that the recommendations made were supplemented with experts I had identified myself to diversify the sampling. Inevitably, more experts were suggested than could be interviewed. For example, various Business Development Centres were suggested by several experts. It was necessary to restrict the numbers of experts to assure a certain balance. Out of the organizations approached, only the Investment Fund for Developing Countries (IFU) did not respond to my request.

It should be acknowledged that there is no such thing as *the* expert interview (Bogner, Littig, & Menz, 2009), and that the opinions and attitudes of the experts are subjective. As emphasized by Littig (2009, p. 100), while experts commonly are people in positions of power:

[they] do not necessarily have to be the people who make the high-level decisions at the top of an organization. Ultimately, anyone who is responsible for and has privileged access to the knowledge of specific groups or people or decision-making processes can be seen as an expert.

Accordingly, the eight interviews were carried out with experts ranging from people in top-level positions to people whose occupation and specialization was within the field of globalization and SME internationalization. The list of expert organizations included the most significant within SME support and promotion in Denmark.

Below is a simplified overview of the chain referral sampling of experts:

Figure 3.1 Identifying experts.

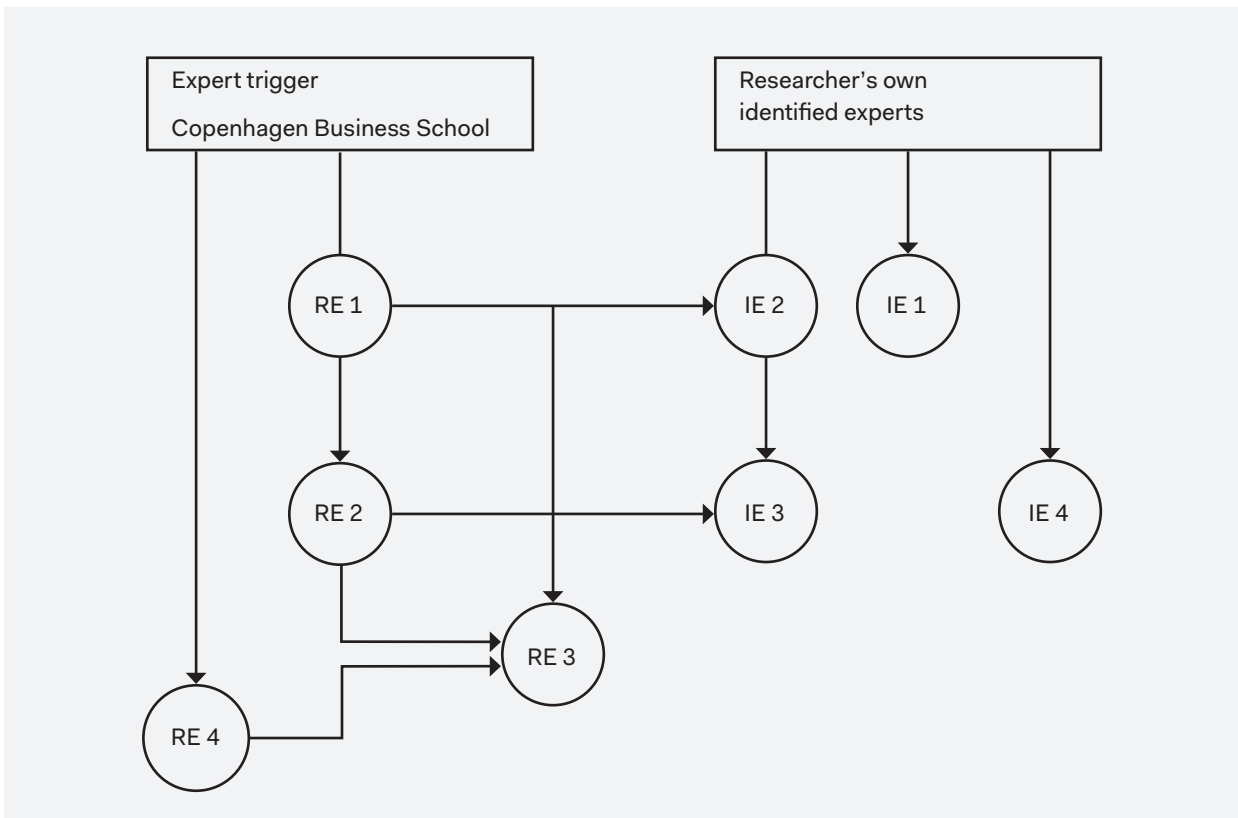


Table 3.2 Expert interviews.

Code	Organization
RE1	Copenhagen Business School (CBS) Department of Intercultural Communication and Management (ICM)
RE2	Copenhagen Business School (CBS) Department of Intercultural Communication and Management (ICM)
RE3	Business Development Centres Denmark (BDCD)
RE4	Zealand Institute of Business and Technology
IE1	The Federation of Small and Medium-sized Enterprises (DFSME)
IE2	The Confederation of Danish Industry (DI)
IE3	The Confederation of Danish Industry (DI)
IE4	Ministry of Foreign Affairs of Denmark, Trade Council

Expert interviews (for reasons of anonymity, further information (titles and area of specialization) about the experts is excluded).



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### 3.3.3 Interviews with identified experts

All conversations were conducted in person and on-site except for telephone interviews with the Trade Council and the BDCD. The in-person interviews lasted approximately 70 to 80 minutes, and the two telephone interviews approximately 40 minutes. The interviews were not recorded, but extensive notes were taken, and all notes were written up the same day.

Bogner and Menz (2009) differentiate between three forms of expert interviews: (1) the exploratory interview that is used to establish an initial orientation of the field of study. This type of interview can be helpful in structuring the area of research and generating hypotheses in a new field; (2) the systematizing interview that aims at obtaining a systematic retrieval of information and; (3) the theory generating interview that aims at producing a subjective meaning of reality (Bogner & Menz, 2009). In this study, the expert interviews were used as an exploratory tool and thus as a means to acquire as much information as possible, and to establish an initial orientation in the field. Every interviewee was asked about: (a) Danish SMEs' interest in foreign markets; (b) access to and use of formal market channels; (c) resources and expectations; (d) challenges and opportunities; (e) the future of Danish SMEs on international markets. The questions were open-ended and I was aware of not imposing opinions and attitudes on the interviewees. During the interviews I made sure I gave verbal and nonverbal encouragement to stimulate conversation and invite interviewees to express their opinions on SME internationalization (Barlow, 2010). In addition, interviewees were encouraged to provide insights into SME internationalization in general. As the conversation progressed, the interviews evolved, and interviewees were on the whole very motivated and contributed much valuable information.

In the literature, the position of the interviewee and the interviewer has been a topic of much interest (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002), and it has been acknowledged that the characteristics of a researcher may influence the nature of an interview. For instance, the gender, age, and power of the researcher may all influence the respondent's willingness to participate and the nature of their answers (Breakwell, Smith, & Wright, 2012, p. 383). However, the shared understanding of the importance of research in the field of SMEs made it easy to encourage the experts to participate in the interviews. As Bogner, Menz, & Littig (2000) noted, a motivating factor for experts is "the desire to help 'make a difference' – no matter how small; professional curiosity about the topic and field of research; an interest in sharing one's thoughts and ideas with an external expert" (p. 2). In the interviews, the experts were very enthusiastic about the research project and highlighted the importance of further research within the area. Several of the experts talked about (1) the lack of international experience in Danish SMEs; (2); a necessity vs. a desire for Danish SMEs to internationalize; (3) the importance of both informal and formal networks in an internationalization process.

Furthermore, the expert interviews allowed me to explore subjects that I would otherwise not have become familiar with. For example, one of the experts talked about a

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problem he characterized as the “cozy unprofessional boards” (in Danish: “tantebestyr-  
elser”) in Danish SMEs. The expert saw this as an indication that some SMEs are not prepared  
for or conscious of the ‘seriousness’ of internationalization. This was incorporated in the  
interview guide, in which I asked the SMEs to elaborate on the extent to which they used  
their boards in relation to, for example, strategy. Another expert discussed how the emerging  
markets had been “pushed” as “the next big thing” by governmental agencies and organi-  
zations. This particular expert was concerned that Danish SMEs did not do the necessary  
research because of this promotion. As he said:

Companies cannot base their development on positive statements and declarations.  
Hope springs eternal. Whether it is possible? It can probably be done. But you must first  
study the market. Next, you have to look at the Danish resource base. Do they have  
skills that are in demand? One should not pull the wool over the eyes [of the SMEs].

Another expert questioned the link between assistance of the Danish Foreign Service and an  
increased international market performance. More specifically, the expert talked about the  
Danish embassies and consulates and how he saw them as of “little value to SMEs.” As he  
said: “they have all kinds of different tasks at the embassies [...] they should really delegate  
tasks [market research and market reports] to external consultants.” This was in line with the  
view of another expert from one of the Danish counseling organizations, who also highlighted  
SMEs’ interest in “other companies’ experiences and practical know-how.” For instance, this  
expert’s organization would arrange field trips to markets that could potentially be of interest  
to the SMEs. At these field trips and other orientation meetings, one of the most popular  
components was always “the practical experiences of other companies.” in which established  
companies in the foreign country would come and tell them about their experiences with the  
foreign market. In this expert’s experience SMEs were always very eager to ask the established  
companies all about “the hows and whos.” How did they enter the foreign market, who did  
they meet with and how did they do it?

One of the experts also talked about SMEs’ decisions to internationalize. According  
to this expert, Danish SMEs internationalize owing to desire or a necessity. Either they were  
“forced” to internationalize because of increasing competition or a saturated domestic  
market, or they had a desire to internationalize and expand their operations to the inter-  
national marketplace. These statements led me to more thoroughly ask the interviewed  
SMEs how they chose a foreign market. For instance, was the choice of market based on  
research, was the decision inspired by governmental initiatives or by success stories of other  
companies? Moreover, did network relations play a role in the choice of foreign markets?  
And whom did they discuss their considerations with? To sum up, all these explorations  
were useful in developing the project and also used to construct the final interview guide.

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## 3.4 Identification of case companies

After the expert interviews, the next stage was to identify suitable SMEs to participate in the study. The selection of case companies was based on two criteria. The principal criterion was that they had to be classified as an SME. In addition, SMEs without extensive foreign experience were preferred, and especially SMEs that had recently or were about to internationalize for the first time. A variety of different methods were employed to identify and obtain access to case companies:

- Recommendations by interviewed experts
- Contact with private and non-private trade organizations and associations
- Desk research for potential companies
- Researcher's professional and personal network

### 3.4.1 Recommendations of experts

The experts were asked to suggest internationalizing SMEs. Unfortunately, throughout the process, it became apparent that most experts were unable to help me establish contact with suitable SMEs. Often they could “not think of any suitable SMEs.” Rather, they would recommend individuals at other organizations or associations that might be able to assist me in the search process. In the remaining cases, the proposed SMEs did not meet the criteria. For instance, they either had too large a global market share or too large a turnover or number of employees.

### 3.4.2 The organizations and associations

During the following six months, a large number of trade organizations and associations were contacted in the search for companies, including the Danish Chamber of Commerce, Denmark's Export Credit Agency (EKF), the Trade Council of Denmark, the Confederation of Danish Industry (DI), the Danish Export Association, the Nordic Environment Finance Corporation (NEFCO), the Trade Guild in Copenhagen (Haandværkerforeningen i København), and the Manufacturing Industry (Fremstillingsindustrien). Much written correspondence took place with the trade organizations and associations, but despite explicitly mentioning the need for SMEs, I still received suggestions for companies that were far too large.

### 3.4.3 Professional and personal network

My own professional and personal network relations were also employed. Both networks in Denmark and abroad were contacted. For instance, expats were contacted in the hope that they could assist in identifying Danish SMEs abroad. This did not lead to positive results. Only one company was identified through personal network relations, but it was ultimately

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excluded. In addition, a sampling strategy was initiated for my professional network, which generated a long list of names to contact. However, many were not useful; as a Professor of Organizational Behavior responded via email: “I have thought and thought – and also asked others, but my mind is COMPLETELY blank. I cannot think of a single company of the sort.”

As also for the expert recommendations, many suggested companies that were too large to fit the criteria. Others suggested companies did not fit the criterion of having recently internationalized or being in the process of internationalization. Despite very clear instructions in the search for desired case companies, business contacts suggested companies highly irrelevant to the PhD project. For instance, the Danish amusement park “BonBon-Land” was suggested by a referred professional business contact. Clearly, the amusement park did not meet the criteria for an internationalizing SME. The same business contact also suggested a high school, a bank and a country estate.

#### 3.4.4 Process and considerations

As we have seen, it was challenging and time-consuming to identify suitable SMEs. Much time was spent on conducting follow-up telephone calls and lengthy email correspondence with the organizations and associations. Although many were cooperative and interested in the PhD project, few were able to establish contact to relevant SMEs. Initially, I searched for SMEs that had recently internationalized for the first time, which would allow a unique insight. I also originally targeted SMEs that had succeeded in internationalizing to more distant and emerging markets. However, it turned out that it was next to impossible to locate Danish SMEs that had internationalized to distant markets. For example, one of the embassies in Asia was contacted in the hope that the trade department would be able to identify SMEs. However, I was told that they simply did not know of smaller companies that were present in the country. This struck me as a bit odd, as the country in question had been heavily promoted in the publication “Focus Denmark” by the Foreign Ministry.

A number of factors had to be dealt with: problems of uncontrolled participant attrition (i.e. participants unexpectedly dropping out of the study), participant availability, participant motivation and co-operation or non-compliance (Breakwell, Smith, & Wright, 2012). Ultimately, the process of identifying suitable SMEs took more than six months. Through the snowball sampling method, a list of 50 companies was generated. Many of the suggested companies were too large in terms of size and turnover, while others were too young (born globals).

After careful screening of potential companies, ten companies were chosen to participate in the study. Particularly, *Fremstillingsindustrien*, The Confederation of Danish Enterprise and the Nordic Finance Corporation were instrumental in gaining access to SMEs. In the end, *Fremstillingsindustrien* provided access to six companies, the Nordic Finance Corporation to four companies, and the Confederation of Danish Enterprise to three companies. The companies were all mature SMEs. Thus, they did not struggle with the problems of newness.

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I wanted to go beyond the internationalization process of knowledge-intensive firms, which have already been investigated in earlier studies (D'Angelo, Majocchi, Zucchella, & Byck, 2013). This excluded a number of the suggested companies. Two of the case companies were, by definition, larger than SMEs, but were nevertheless selected for the purpose of comparison. Before the decision to extend the sample beyond SMEs, the two larger companies were researched thoroughly to establish whether they would be relevant for the study. Although the companies were larger, they had recently carried out an internationalization process under a new management. Ultimately, it was decided that it would be an added value to include them and thus allow for comparison. In addition to the ten case studies, a number of interviews with SMEs in the software, consumer goods, consulting, and engineering industry were conducted. Given the parameters of this study, these SMEs were not included as case companies. The supplementary interviews were valuable for furthering my own understanding while conducting the interviews with the case companies.

#### 3.4.5 Anonymity

As agreed with the companies, their identities were anonymized. Consequently, details about the company, the individuals, names, city, host country of internationalization, and product details are not revealed, or have been altered. This was necessary because some of the case companies were initially reluctant to elaborate on the difficulties they had experienced until they had been guaranteed anonymity. For instance, during the interview, the CEO of a company had to be reassured of anonymity before further elaborating on his dissatisfaction with their board. At the end of the interview with another company, one of the interviewees asked “we are anonymous right?” after having been reassured of anonymity, the interviewee continued his talk about frustrations with the bureaucratic Swedish Tax Agency. Another interviewee laughed and said “and we are anonymous?” after having spoken critically about the services of the Danish embassies. Although a few of the interviewees had to be assured anonymity during the interviews, an explicit agreement on confidentiality was never requested by any of them. Rather, participation was based on informed consent (Kvale & Brinkmann, 2009). I saw this as an token of trust and goodwill towards me as a researcher and the study as a whole.

### 3.5 Designing the interview guide

The interview guide was based on key themes identified from the literature, extensive desk research, and from the exploratory interviews held with experts. In a review of the internationalization and international entrepreneurship literatures (see Jones & Coviello, 2005; O'farrell, Wood, & Zheng, 1998;), Wright, Westhead, & Ucbasaran (2007) suggest seven key themes that need to be examined:

Table 3.3 Seven key themes.

Theme 1	Timing of internationalization
Theme2	Intensity and sustainability of internationalization
Theme 3	Mode of internationalization
Theme 4	Influence of the domestic environmental context on internationalization
Theme 5	Leveraging of external resources to internationalize
Theme 6	Unit of analysis (i.e. the firm or the entrepreneur)
Theme 7	Effect of internationalization on SME performance

As the literature prescribes, pilot interviews were conducted to test the applicability of the interview guide. From July to August 2014, pilot interviews were carried out with three small and medium-sized enterprises from different industries. The objective was to assess both the design and the content of the interview guide. Throughout the pilot interviews, I tried different types of wordings to test if they influenced the willingness to contribute and affected the responses given during the interview itself. On the basis of the pilot interviews, the semi-structured interview guide was revisited and slightly modified. For instance, a section on the use of marketing was added. The final design of the study is based on an interview guide that was formulated on the basis of the literature review, the expert interviews and the three pilot interviews. Eventually it contained five main topics and areas: “research and choice of market,” “market mode and entry,” “network relations,” “communication and marketing” and “the organization.” (See appendix 2).

### 3.6 Interviewees

Interviews were conducted in Danish with senior management<sup>3</sup> and higher-level managers and with employees involved in the decision-making process (see section 3.7.2 for the translation process). In all cases, the participants themselves chose the mode of the interview (personal or over the telephone) and the location. Freedom of choice ensures a high degree of comfort and convenience for the interviewees (Herzog, 2005). Another advantage was that it generated a more equal relationship between interviewer and interviewee (Herzog, 2005). Establishing rapport (a trust relationship) is essential, since “the interviewer and interviewee

3 In this study, the terms CEO, owner, and entrepreneur are synonymous, except when focusing on the owner/manager aspect. See also section 1.5.



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thus co-create knowledge and meaning in the interview setting and thereby co-construct reality” (Hennink, Hutter, & Bailey, 2011, p. 109). Two of the interviews were conducted over the telephone and one took place at another location. The rest were conducted on site. The on-site interviews had the advantage of enabling me to see the production facilities, observe conversations between the CEO and employees, and the atmosphere of the company or the office of the CEO. Through news articles, company websites, financial reports, I familiarized myself with the companies prior to the visits, but it was very valuable to see the actual company environment. For instance, during the interview with Company D, a foreign asphalt contractor suddenly came to the door wanting to pave the driveway. That led to an interesting observation by the CEO and a situation that I would otherwise not have been able to observe. The CEO quickly dismissed the man and began explaining about legitimacy, and for instance how the Danish Embassy and the Royal Crown give Danish companies credibility when abroad.

### 3.6.1 The interview

A week before the interviews, the interviewees received a brief introduction to the topics to be covered, so they could prepare themselves. (See appendix 4). In a few cases, the interviewees were informed about the details of the interview over the telephone. The short introduction was written in neutral terms to avoid prejudice toward a certain perspective. The interviewees were asked to be prepared for the following questions: 1) the company’s situation at the time of the first internationalization, including human, financial, and social capital; 2) knowledge of the host market; 3) choice of the host market; 4) preparation of market research; 5) use of network relations. This gave the interviewees time to reflect on the topics and it was also hoped it could prompt recollection of memories, thus ensuring valid descriptions (Brinkmann & Kvale, 2015, p. 52).

All interviews are shaped by the context in which they are conducted (Shopes, 2011). The literature prescribes that the interview process effectively begins the moment the interviewer arrives on the participant’s doorstep (Ritchie & Lewis, 2005). In all cases, it was the first time I met the interviewee, except in one of the supplementary interviews. At the first encounter, I thanked the interviewees for their willingness to participate and stressed the importance of their contribution to the research project. It was anticipated that some of the participants might be anxious and possibly even slightly hostile or defensive, for instance when being asked about failed internationalization attempts. Therefore, it was import to establish a positive interaction. Consequently, the initial conversation consisted of small-talk to create a relaxed atmosphere before the actual interview began. All interviews were conducted and later transcribed in Danish. Each interview began with an introduction to the research topic, and the participants were guaranteed anonymity. None of the case companies asked for the transcribed interview or to have certain information omitted, which I saw as a high level of trust on their part.

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### 3.6.1.1 Following the interview guide

The opening question was “tell me about your internationalization experience as you recall it.” This initial question was intended to be a gentle start to the interview and also to give the respondent an opening. As Kvale and Brinkmann (2009) have noted, “such opening questions may yield spontaneous, rich descriptions where the subjects themselves provide what they have experienced as the main aspects of the phenomena investigated” (p. 135).

Although the interview guide did not involve a predefined set of questions, the structure of the interview guide was followed. The interview guide was used to ensure that no themes were overlooked. At the same time, it was important to let the interviewees’ answers guide me to the next question rather than strictly follow the structure of the interview guide. Thus, the flexibility of the semi-structured approach, as opposed to the structured interview, made it possible to elaborate on information of particular importance. With this approach, it was possible to cover the specific topics, while giving interviewees the opportunity to speak freely and openly. The order of the questions was adjusted on the basis of the interviewee’s responses. Therefore, there was flexibility in its composition. In some interviews it would have been “contrived” to go through all the sections of the interview guide. For example, the section on marketing and communication was not necessarily relevant for all SMEs. If a company did not have a marketing brochure, a website or other forms of documented communication, I would proceed to another subject of interest. In a few cases, the interviewee had not been a part of the initial internationalization process due to new ownership or to a natural employee turnover. In those cases, the focus of the interview was redirected towards the prevailing issues of internationalization. Questions took their form from Kvale’s nine main types of questions that may be used in an interview (see Kvale and Brinkman, 2009, p. 135–136). Notably, follow-up, probing and interpreting questions were employed to shed light on the answers provided (Kvale, 1996). Moreover, paraphrasing and summarizing was used throughout the interviews to ensure that interviewees’ answers were interpreted accurately. More specifically, I ensured that concrete and contextual cues were provided, e.g. by referring to newspaper articles and website information, to aid the recollection of past events and the validity of the interviewees’ reports (Thomsen & Brinkmann, 2009; Brinkmann & Kvale, 2015). Caution was used when asking “why not” questions because this type of question could elicit a defensive response and imply there was “a right” answer, thereby evoking defense mechanisms (Brinkmann & Kvale, 2015). This could lead to the interviewees feeling they had to justify their responses, which could inhibit their responses to future questions (Patton, 1990). For instance, a question such as “why did you not conduct any market research” would be articulated in a more indirect manner: “how did you gather knowledge about the foreign market?” Moreover, I was careful not to display obvious reactions or approval or disapproval of statements, or exhibit other behavior that could have influenced the interviewee’s responses.



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During the interview attention was also paid to body language and intonation, where they indicated that “an episode” or utterance could be of further interest. As mentioned in section 3.6.3, these observations were written in my journal. At the end of each interview, the interviewees were asked about their age, educational background, and work experience. This background information helped me better understand the decisions made by the interviewees, and were important in writing up the case descriptions and subsequently in analyzing the interviews.

### 3.6.2 Revisiting companies

From October 2015 to May 2016, telephone follow-up interviews were conducted with five companies where clarification and elaboration was needed: Companies B, C, D, and K. A short summary of the first interview was sent to companies that requested this prior to the follow-up interview (Companies C and F). In addition, written email correspondence took place with Companies C and F from January to March 2016. Follow-up interviews were conducted 11 to 17 months after the first interview.

While the in-depth interviews were conducted face-to-face, telephone interviews were chosen for the follow-up interviews. Since rapport had been built with the interviewee during the first interview, immediate connection was established. I sensed that interviewees were comfortable in the follow-up interviews. This common understanding e.g. by referring to statements from the previous interview was a benefit. Particularly, “you mentioned the last time” was a good point of departure. I quickly realized that interviewees were eager to tell me what had happened since the last time we spoke, and this paved the way for follow-up questions and clarifications. At this stage, the interviews had been subjected to an initial data analysis. The first round of follow-up interviews was targeted towards gathering an understanding of the preliminary analysis. Moreover, the interviews enabled me to test findings and revisit the remaining case stories to detect similarities and differences. Conducting the follow-up interviews in several rounds facilitated a better understanding and comparison of the various internationalization processes of the companies. While the objective remained the same as in the earlier interviews, the questions were more nuanced and detailed. Moreover, it was an advantage that data was collected shortly after recent events had occurred. This benefit of proximity in time generated further insight that had not been possible at some of the retrospective accounts (Leonard-Barton, 1990). However, not all ten case companies were revisited. Data collection was comprehensive with transcripts of several hundreds of pages. For example, the transcription of Company I consisted of more than 20,000 words. Though the follow-up interviews provided added value, the point of saturation quickly became apparent, as the interviewees began to repeat earlier statements and stories.

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### 3.6.3 A social constructivist approach

It is important to emphasize that the interviewees' accounts are not assumed to be the ultimate reality. It is acknowledged that the participants' memory and experiences are constructed through the resources of narrative and discourse (Holstein & Gubrium, 2003). As Denzin & Lincoln (2011) say, "objective reality can never be captured. We know a thing only through its representations" (p. 5). Also Leonard-Barton (1990) has pointed out "in the retrospective studies, the danger is not so much that one may surrender to one's own biases as that one may unconsciously accept those of the informant" (p. 257).

I realize that my own background has shaped the interpretation. As Denzin & Lincoln (2011) emphasized, "there is no single interpretive truth [...] there are multiple interpretive communities, each having its own criteria for evaluating an interpretation" (p. 15). Ultimately, "qualitative interpretations are constructed" (Denzin & Lincoln, 2011, p. 14). "Since we each most likely perceive the social world differently, we will therefore experience it differently, interpret it differently, document it differently, code it differently, analyze it differently, and write about it differently" (p. 41). In other words, "multiple realities exist because we each perceive and interpret social life from different points of view" (Saldaña, 2016, p. 8). Accordingly, my interpretation and understanding is grounded in a social constructivist approach.

Interviewees were asked about their attitudes, perceptions and experiences regarding decisions and processes, which had taken place up to 10 years prior to the interviews. Naturally, some respondents struggled somewhat to remember exact dates and timelines. Participants did acknowledge the fallibility of their memories in terms of dates and names. Different sources were employed to ensure triangulation and improve the quality of the qualitative research. For example, to examine the accuracy of the events, the accounts were supplemented with numerous industrial news articles, website information and other public documents from the participating companies (see appendix 3). Moreover, a journal was kept to document observations, reflections and questions during the different stages of data collection.

### 3.6.4 Validity and reliability

Reliability concerns the consistency and accuracy of a procedure, study or experiment and the extent to which the study gives the same answer on repeated trials (Bauer & Gaskell; 2003, Bryman, 2012). The underlying assumption is that the research instrument is considered reliable if the results of the study can be replicated (Golafshani, 2003). Closely related is the concept of validity, which refers to the integrity of the conclusions reached from the research (Bryman, 2012). Reliability and validity are rooted in the positivist perspective. As Bryman (2012) observes, "how can a single case possibly be representative so that it might yield findings that can be applied more generally to other cases?" (p. 69). While both qualitative and quantitative researchers need to demonstrate that their studies are credible, "qualitative analytical methods rarely have the luxury of deductive universal categories, numerical

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proofs, or statistical generalizability. The fact is that qualitative research is conducted by human beings tied to particular contexts” (Borkan, 1999, p. 193). My study is qualitative and I recognize that the data are socially constructed, but this does not mean that the study is without validity. As Hammersley (1992) states, a research account may be considered valid if “it represents accurately those features of the phenomena that it is intended to describe, explain or theorize” (as cited in Borkan, 1999, p. 193).

### 3.7 Recording

As note-taking is partial and can be selective (Breakwell, Smith, & Wright, 2012), all case company interviews were recorded with a digital recorder. All participants formally agreed to be recorded. Recording the interviewees enabled freer interaction with the interviewees than would have been possible if I had had to make notes during the interview. As mentioned earlier, notes on relevant non-verbal observations and reactions to the questions were made immediately after the interviews. The face-to-face interviews were recorded with a digital recorder, and the telephone interviews were recorded with the audio recording application, ACR. Audio recordings were chosen as opposed to video recordings. There was no indication that the use of audio recording equipment inhibited the interviewees in their responses. Video recordings could have displayed the details of face-to-face interactions and non-verbal expressions such as posture, gestures, and facial expressions etc. that also shape the communicative meaning. However, the interviewees would probably not have felt comfortable. Moreover, the goal was not to extensively document and analyze the social interaction.

#### 3.7.1 Transcription

Transcription is the transfer of an audio or video recording into written form. In this way it is made accessible for analysis, as audio recordings are not sufficient by themselves for a systematic examination (Edwards, 2003). Recordings were manually transcribed into written form, in Danish, and supplemented with my field notes. The software program *f5* assisted the manual transcription of the audio recordings. The features of the program allowed me to slow down the playback while writing, and rewind and pause the recordings at convenience. Moreover, time stamps were automatically inserted during typing. All interviews were transcribed in full by myself, which allowed for consistency in all transcriptions. It was a deliberate decision to transcribe the entire recordings to avoid overlooking important sections or statements. Representation of recordings into written form is an interpretive process, which involves making decisions and is thus the first stage in analyzing data (Bailey, 2008).

Though transcribing may appear to be a straightforward technical task, there were many considerations with regard to the transcription. As Kvale (1996) says, “transcription from tape to text involves a series of technical and interpretational issues for which, again,

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there are few standard rules but rather a series of choices to be made” (p. 169). This involves decisions on what level of detail to choose, for instance omitting “umm, okay, well, so,” and data interpretation such as distinguishing between “won’t” and “will not,” and “that’s” and “that is,” etc. Initially, a literal approach was employed by using “don’t, right, uhm, so, damn, etc.” However, the final product became less readable and also wrongly portrayed the interviewees as more inarticulate than they actually were. As stated by Bailey (2008), “although this attempts to represent linguistic variety, using a more literal spelling is difficult to read and runs the risk of portraying respondents as inarticulate and/or uneducated” (p. 129). During the transcription of the first interview it became clear that there was a conflict between an accurate representation and the practical limitations and readability. For instance, the many details in the transcript made it more difficult to read. In the first transcription, attention was paid to including all overlapping talk, repeated sentences and excessive use of verbal features such as “uh,” “hm” and “well.” However, in the following transcriptions the numerous instances of using “well,” “so,” “uhm” were in many cases eliminated when they did not add value to the content, but were retained when they were considered significant to the analysis. Consequently, a more literal transcription method was chosen as opposed to a more complex transcription in which every detail is included. Significant changes in pitch and tempo were also noted. Every sound bite was played several times to make sure that the utterance was truthfully transcribed. The process of transcribing each interview lasted several months. Each written passage was subsequently compared with the audio recording several times to ensure correctness. All transcriptions were carefully read numerous times. In the final phase, the entire audio recording was played over a final time, while reviewing the complete transcription ensuring that every sentence was authentically represented.

Although transcriptions are valuable, it must be acknowledged that they are not unbiased representations of the data. A transcription will never fully succeed in being exhaustive and objective (Edwards, 2003). Thus, a one-dimensional transcription cannot fully depict the subtle nuances, the interview setting, the atmosphere in the room etc. However, being the sole researcher on the project was a great advantage and reduced the risk of confusion and incoherence in the transcription, translation and analysis. Researchers sometimes find it useful to have a second researcher to code the material for consistency, but the advantages may be outweighed by the disadvantages as another researcher would merely code the data from his own preference and perspective (Bazeley & Jackson, 2013, p. 93).

### 3.7.2 Translation

Selected quotations were translated into English. However, as translation between languages is also an interpretive act, meaning and nuances may get lost in the translation process (Van Nes, Abma, Jonsson, & Deeg, 2010). The meaning can be badly obscured or entirely lost if the translation is too literal. For example, translating idiomatic expressions and

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culturally bound sayings is far more complex than translating simple words. It was important to provide an accurate representation of the case companies. Thus, it was crucial that the translation was exactly what the interviewees had said in their mother tongues. In addition, the quotations had to flow naturally in the target language. Therefore, a professional translator with solid experience in translation and English language usage was employed to assist in the translation from Danish into English. The translator had native fluency in English and Danish. The translator was provided with the stories of the case companies I had written. In this way she gained an insight into the cases and the context. The written cases were in English and I had previously made a first translation of all the quotations in English. The original quotes in Danish were attached, so the translator had the Danish text and the translated version, thereby avoiding mistranslation of key quotations.

### 3.8 Case analysis

A key step was to conduct a within-case analysis and write a detailed case on each company. According to Eisenhardt (1989), a within-case description is central to the analysis as it may “help researchers to cope early in the analysis process with the often enormous volume of data” (p. 540). Ragin (1987) also emphasizes the necessity of considering the individual cases as a complex entity that needs to be fully understood before turning to the comparative analysis. Indeed, conducting and transcribing the interviews, translating citations, and writing up the cases allowed me to become very familiar with each case. This “intimate” case knowledge (Ragin, 1987) was a great strength throughout the coding process. As Saldaña (2016) emphasizes, “every code and category you construct or select is a choice from a wide range of possible options” (p. 39), I was constantly aware of the subtle interpretive differences in words while I wrote up the cases. With Flyvbjerg’s words in mind (2006) that one should be careful not to summarize dense case studies, but rather allow the sometimes lengthy stories to unfold, I was also conscious of the dilemma between summarizing the cases and letting each case fully emerge. As advocated by Miles and Huberman (1994), I allowed a break between conducting the interviews and writing the case descriptions to have the necessary reflection needed to communicate a relevant and accurate case story. Immediate thoughts and reflections were noted in my journal, but the actual case descriptions were not written until all interviews had been conducted. This stimulated a more detailed and holistic view of each case story. Again, the extensive transcription process, and writing up the case stories allowed me to become very familiar with the empirical data. After completion of the cases, sound files and transcripts were consulted several times to ensure that important insights had not been overlooked or misunderstood. Moreover, during the write-up, five of the case companies were re-visited. The revisited companies were chosen for different reasons; some were revisited because of lack of information, others due to the need for an elaboration of particular facts.



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### 3.8.1 Open coding

The coding of data is an essential part of the analysis. Miles and Huberman (1994) describe codes as “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes usually are attached to ‘chunks’ of varying size – words, phrases, sentences, or whole paragraphs” (p. 56). The first coding of all the interviews was carried out on a printout of the transcript of the interview and manually coded in the original language. With my journal and field notes and prepared transcripts, each section of the data corpus was carefully reviewed line-by-line to identify concepts and possible meanings (Bazeley & Jackson, 2013). Data was split into smaller “codable” moments (Bernard, 2011, p. 379; Boyatzis, 1998) that were highlighted. The splitting of the data generated a lot of initial codes. In this rough sorting of data, the data were displayed to the left while the corresponding initial codes were written in the right-hand margin. Coding was applied to paragraphs and long passages, and in some instances a few sentences, but I always ensured that the coded passages were sufficiently long, in order for the coded segment to “make sense,” while at the same time avoiding longer only “vaguely relevant passages” (Bazeley & Jackson, 2013, p. 89). Longer passages that had previously been coded were in some cases reduced; in other cases, codes were deselected as the project progressed. A great number of nodes were created, as categories emerged from the data. The approach of creating and adding nodes during coding was beneficial for capturing early ideas and identifying topics of interest and tentative coding categories. In the first interviews, “in-vivo codes” were constructed (defined as concepts based on the actual language used by the interviewees, Saldaña, 2016). Examples of such codes are “resources,” “initial research,” “uncertainty,” “expectations,” “bureaucracy,” and “learning by doing.” The codes evolved throughout the process. As Coffey and Atkinson (1996) remind us:

“codes are organizing principles that are not set in stone. They are our own creations, in that we identify and select them ourselves. They are tools to think with. They can be expanded, changed, or scrapped altogether as our ideas develop through repeated interactions with the data” (p. 32).

The figure below shows a simplified illustration of market choice, market research and market entry, which I coded manually for all ten companies. It should be noted that the above-mentioned themes are difficult to separate because internationalization is dynamic and behavioral. As will be seen, many internationalization attempts occur ad hoc, in which market choice, research, and mode, in some cases in multiple countries, occur simultaneously.

Figure 3.2 Coding of market choice.

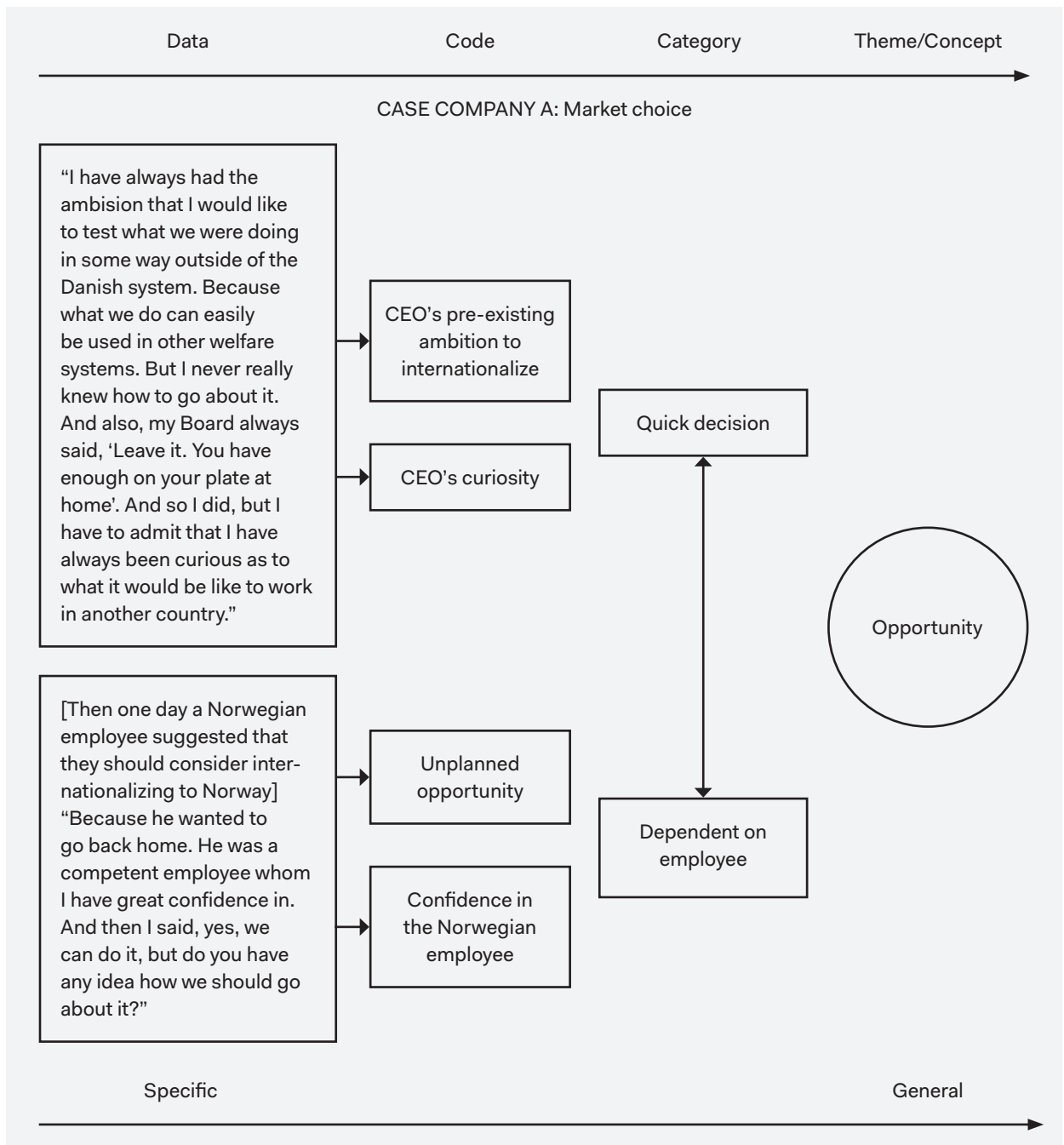


Figure 3.3 Coding of market research.

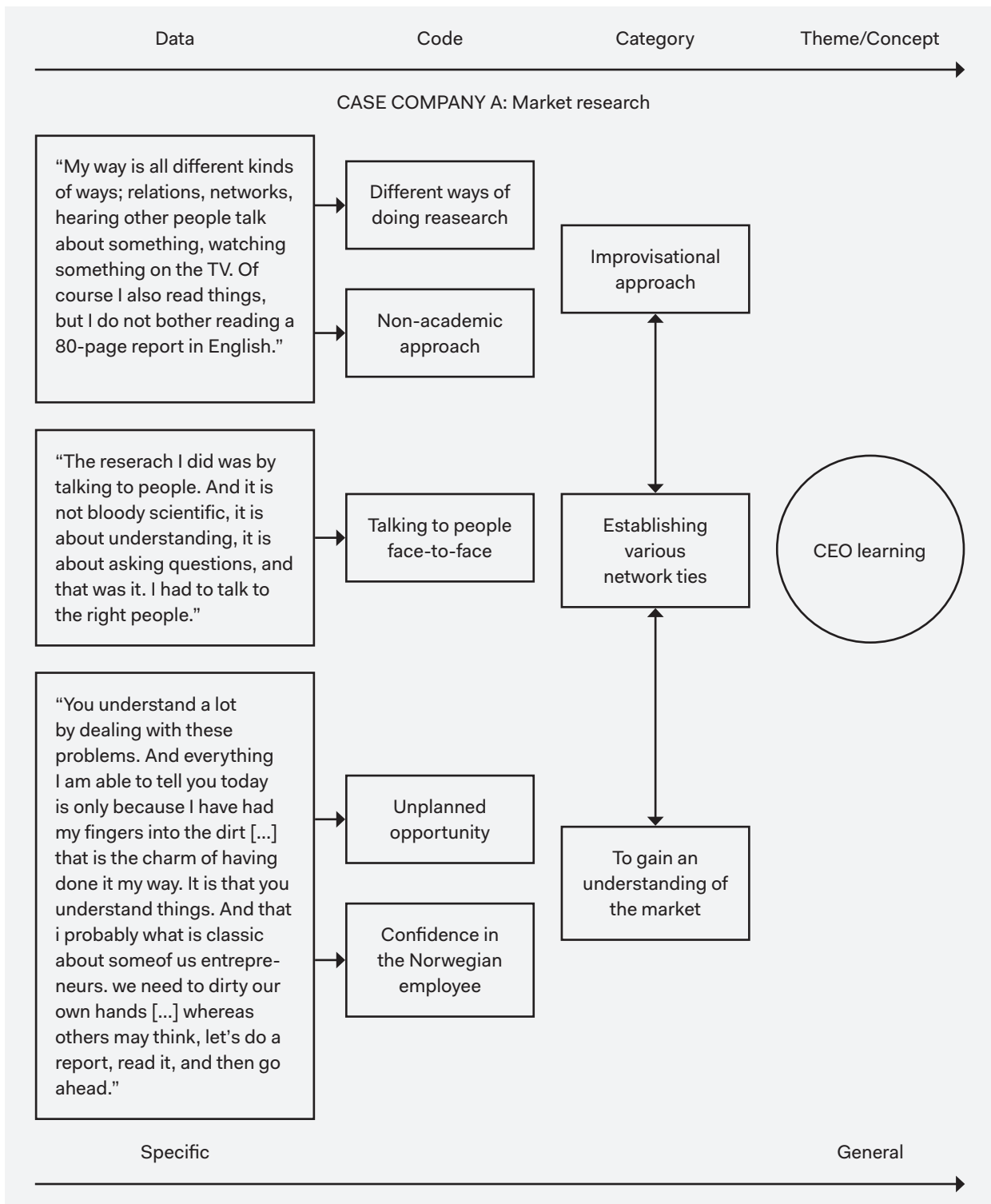
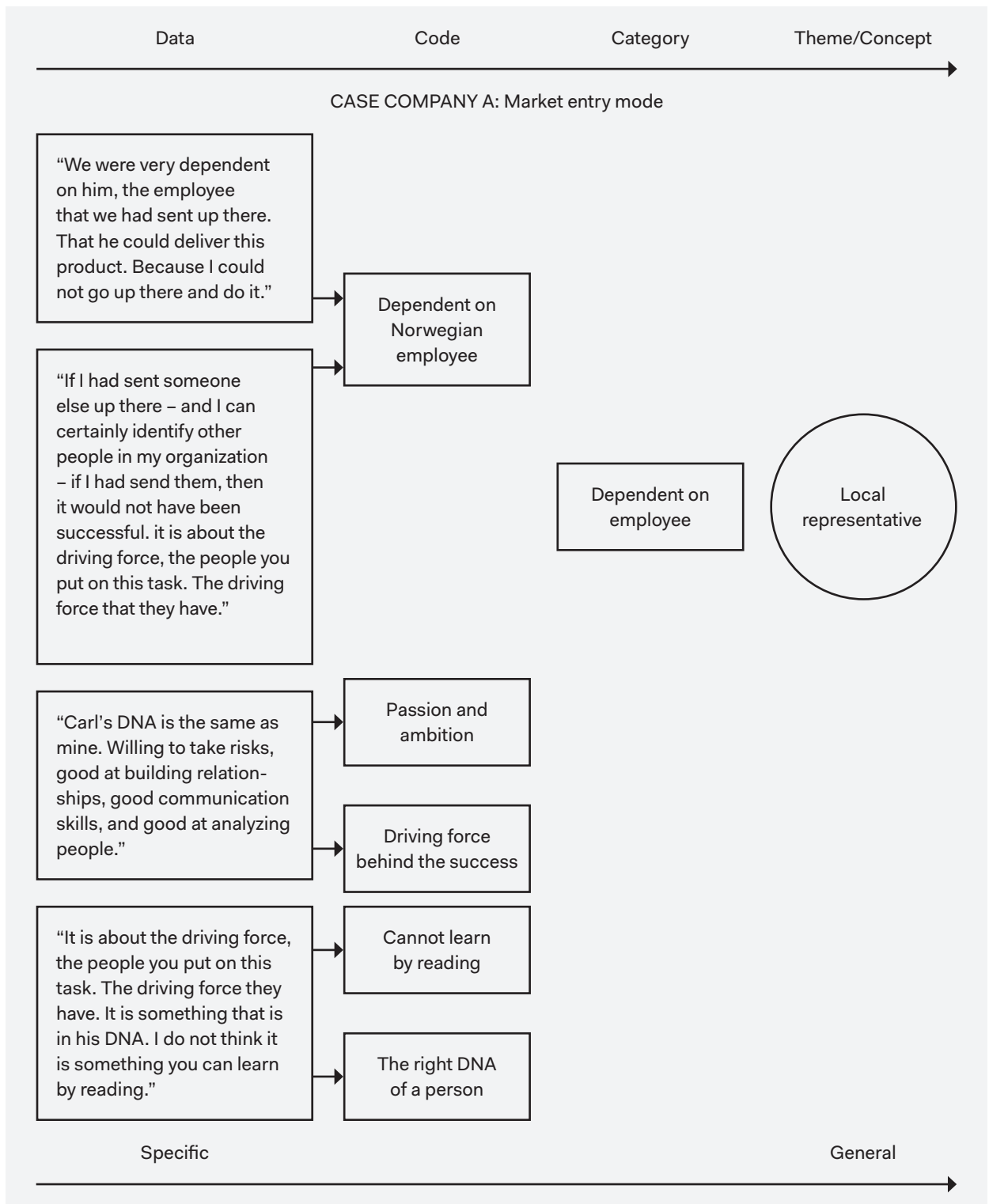




Figure 3.4 Coding of market entry mode.



The illustrations show how the categories and nodes were modified and expanded for each concept (choice, research and mode), as described in the previous section.

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### 3.8.2 Coding in Nvivo

The qualitative software data analysis program Nvivo was used to assist in exploring, identifying connections and comparing data. Naturally, a software analysis program such as Nvivo does not code the data for you: “that task is still the responsibility of the researcher” (Saldaña, 2016, p. 31). Rather programs organize, manage and prepare “the data for human analytic reflection” (Saldaña, 2016, p. 31). The tools provided by Nvivo made it possible to organize, move, re-arrange, and explore codes as the project developed.

In Nvivo “nodes” refers to the collection of references to the coded text. They are the primary tool for organizing and classifying source data (Edhlund & Mcdougall, 2016). Nodes can be organized in hierarchies, (Bazeley & Jackson, 2013). This enables us to see all the coded references to one node, for example, “market choice.”

After the initial coding and reflective exploration of the printed version, all interviews were subsequently imported into Nvivo. This allowed me to systematically sort, code and attach labels to chunks of the data, thus allowing me to identify topics of interest and make valuable comparisons with other chunks of data. An open coding (a process of defining actions or events in data line by line) was conducted based on the themes “background and choice of market,” “market mode and entry,” “network relations,” “the organization,” and “communication and marketing.” The next step was to conduct a selective coding to further investigate particular aspects and patterns within the areas. This later assisted me in presenting and developing theoretical concepts and categories identified in the data. As described in the literature (Bazeley & Jackson, 2013, p. 76), the number of new nodes decreased as more interviews were coded, and I became more confident with the coding structure. I also ran a word frequency query to identify the words that occurred most often. For instance, the word “eksistensberettigelse” (raison d’etre) appeared many times throughout the interview, so all occurrences were saved in a node for further investigation.

After repeated readings of the transcripts, the first “parent nodes” were created, followed by a large number of “child nodes” (a sub-node of a parent node). Each parent node could contain several child nodes. For instance, “market research” contained the child nodes “formal organizations,” “business ties,” “social ties,” “strong ties,” and “weak ties.” Within the category “formal organizations” there would be subsections of the various types, for example, “the embassy,” “the business development centres,” etc. Initial coding was inductive, but became more deductive as categories emerged with theoretically-driven nodes like “strong ties” and “weak ties.”

As observed in the literature, it can be a challenge to decide what merits a code. To avoid missing significant passages, codes were applied and reapplied. Coding was carried out several times, as a coding structure is a work in progress. It is a cyclical process that requires recoding and re-categorization, as the analysis progresses (Bazeley & Jackson 2013; Saldaña, 2009, 2016). During the process, and with more interviews being coded, the categories and

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nodes were modified and expanded. Searching for connecting threads, revisiting the data, and the thoroughness of coding allowed me to identify topics of interest and make valuable comparisons with other segments of data. Thus, discoveries and insights led to a new set of codes to better frame the understanding of the data. After having coded all the interviews, I returned to the transcriptions and re-coded them. Next, the in-vivo codes were grouped into first-order categories, and theorized and moved into second-order themes. Finally, the second-order themes were assembled into aggregate dimensions. Throughout the process, I also employed one of the strategies suggested by Eisenhardt (1989), namely to select pairs of cases and list the similarities and differences, thus enabling the detection of valuable and subtle differences that might otherwise have been overlooked. This procedure made me more conscious of the nuances in the data. As Eisenhardt (1989) emphasizes, “the danger is that investigators reach premature and even false conclusions as a result of these information-processing biases. Thus, the key to good cross-case comparison is counteracting these tendencies by looking at the data in many divergent ways” (p. 540). Following this extensive coding process, writing a preliminary analysis of the cases helped me draw lines between the cases and provided an immediate snapshot.

### 3.8.3 Limitations and considerations

A number of qualitative researchers observe that drawing on smaller samples allows for greater validity, as it is possible to gain a more detailed understanding of the reasons and motivations of the sample group (Crawford, 2009). Even though a larger sample might have added greater breadth of experiences and circumstances, it would not necessarily have given a better understanding. After all, there are often a limited number of interpretations of reality (Bauer & Gaskell, 2003) since there is a natural point of saturation in the differences between accounts of interviewees. By the time I had conducted the tenth interview, I felt that the point of saturation had been reached.

It is acknowledged that self-reports may not be entirely accurate. As other self-report methods, the interview approach relies upon respondents being able to deliver accurate and complete answers (Breakwell, Smith, & Wright, 2012). Even if respondents are motivated to participate, the following problems with using the self-report interview approach may occur (Breakwell, Smith, & Wright, 2012; Bryman, 2012): (a) problem of meaning as respondents may vary in their interpretations of key terms in questions; (b) problem of memory: respondents cannot remember the details requested or may misremember aspects of occurrence of certain forms of behavior; (c) gap between stated and actual behavior: people may be embarrassed to tell the truth; (d) social desirability effect: some people may reply in ways that are consistent with their perceptions of the desirability of certain kinds of answers. In order to examine the accuracy of the events provided by the participants, personal accounts were compared with industrial news articles and other public documents.

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### 3.9 Summary

The chapter began by discussing the methodological choices. It was established that the most meaningful method for answering the research questions was through a qualitative study. In-depth, semi-structured interviews provide rich data impossible to obtain otherwise. The rationale for choosing firms within different industries was to broaden the coverage of case study, since multiple cases within different industries allow for more generalizability and for comparison (Yin, 2009). The research design included the use of expert interviews, which provided an initial orientation and valuable insight in the field. Expert interviews confirmed the gap in the literature, while also stressing the need for more research on SME internationalization, notably how SMEs use different network ties, why SMEs choose to internationalize and the factors that lead to international success. The main data from the interviews were supplemented with secondary sources such as newspaper articles, industry news, company videos and other company material. This use of multiple methods added richness to the inquiry (Denzin & Lincoln, 2008). Finally, this chapter has presented the coding process, in which it was explained how data were reviewed and revisited to achieve a more refined understanding and allow for the emergence of new categories and concepts, thus leading up to the next chapter that will present the case studies. As a final note, it is important emphasize that when dealing with subjective elements such as decision-making, deliberations and reflections, it can be difficult to reach a finite conclusion that is measurable in terms of statistics. However, as stated earlier, this is not the objective of the study.

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# 4

## Case studies



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## 4 Case studies

This chapter presents the case studies. The first part of the chapter provides some background on the case companies. The aim is to provide the reader with an understanding of the Danish market, Danish economy, business environment, and global competitive advantages and challenges that Danish small and medium-sized enterprises face. Subsequently, three industries, machinery manufacturing, food distribution, and healthcare, are introduced. This provides a context for the case studies that follow in the second part of this chapter, and in Chapters 5 and 6.

### 4.1 Introduction to Denmark

Denmark is a small country with a population of around 5.7 million people (Statistics Denmark, 2016). Since the 1970s, Denmark has repeatedly ranged between the fifth and eleventh wealthiest OECD nations (Ministry of Business and Growth, 2014, p. 12). Denmark performs well on many well-being dimensions. Danes are satisfied with their well-being and rank at the top of the OECD average (OECD, 2014b; OECD Better Life Index, 2016). Bordering the Baltic Sea and the North Sea, Denmark is the most southern of the Nordic countries. Compared to the nearest neighboring countries, Denmark is small. In terms of area, Sweden is ten times larger and Germany eight times larger than Denmark (Statistics Denmark, 2015a), with populations at 9.8 million in Sweden and 81.8 million in Germany (Statistisches Bundesamt, 2016; Statistics Sweden, 2016). Export<sup>4</sup> is especially important for a small country like Denmark, where the economy is closely integrated, economically and financially, with the rest of the world economy (Ministry of Business and Growth, Denmark, 2013; Productivity Commission, 2013b).

#### 4.1.1 International outlook

Internationalization activities are manifested in several ways, for instance through the establishment of foreign subsidiaries, international joint ventures, and licensing agreements. Past literature on the internationalization of SMEs typically establishes export as a dominant entry mode (D'Angelo, Majocchi, Zucchella, & Buck, 2013; Leonidou et al., 2010, 2013). This is because exporting offers a fast way to internationalize with less commitment and fewer business risks, as opposed to a joint venture or overseas operations, and allows high flexibility of managerial actions (Leonidou, 1995; Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007; Morgan, 1997). However, during the past decade, the trading operations of international SMEs have become far more differentiated than just exporting. Now

4 Defined as selling products/services via direct and/or indirect methods to overseas markets using the firm's production facilities in its home country.

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internationalization is a complex mix of exporting, importing and/or establishing and maintaining foreign operations and collaborating with foreign partners (OECD, 2008). Following this view, internationalization is considered in all its forms in this research (revisit section 1.5 for a more detailed conceptualization of internationalization).

Denmark is a trading nation and committed to international cooperation and liberalization of trade and is a member of the EU, UN, OECD, and WTO. External trade in goods has more than doubled since 1995 (Statistics Denmark, 2016, p. 360). In 2015, the total exports were 53% and imports 47% of GDP (Statistics Denmark, 2016, p. 259). Denmark's main trading partners are the countries geographically close to Denmark. In 2015, trade with EU countries accounted for 65% of the total Danish external trade, and Norway accounted for another 6% (Statistics Denmark, 2016, p. 362). At the top of the list are Sweden, Germany, Norway, the United Kingdom (UK), and the United States (US) (See appendix 5).

#### 4.1.2 SMEs

Internationalization is a key driver to productivity growth (Productivity Commission, 2013). As in other OECD nations, SMEs are vital for the economy and contribute substantially to growth and employment (OECD, 2014b). According to Statistics Denmark, there are roughly 300,000 active companies in Denmark. Of these, 99.4% are classified as SMEs, as defined by the European Commission (OECD, 2016c). (See appendix 1 for the factors determining an SME). Indeed, the proportion of small enterprises with fewer than ten full-time employees dominates the Danish business structure at 93% of all companies (Statistics Denmark, 2016, p. 388). Owner-managed businesses are the most widespread form of organization in Denmark (Bennedsen & Nielsen, 2015). A study in 2015 showed that the proportion of owner-managed SMEs decreased with the number of employees.

Nearly half of exports of goods are performed by SMEs with under 250 employees (Nordic Council, 2014). Even very small enterprises account for a significant share of exports. For example, Danish SMEs with fewer than 100 employees accounted for 18% of the total export in 2015 (e-Statistik, 2016, p. 1). In fact, if measured through total export of goods (except services) compared to GDP, Denmark is the most export-oriented of the four Nordic economies (Nordic Council of Ministers, 2014). Generally, "one in every four jobs depends directly or indirectly on exports" (Andersen, Isaksen, & Spange, 2012, p. 41). Like the vast majority of European SMEs, Danish SMEs also have the EU as their main market (European Commission, 2014). Leading trading partners for SMEs are Germany, Norway, and Sweden (OECD-WTO, 2015). More specifically, smaller companies export to the closest markets, while the medium-sized companies export to more distant countries (eStatistik, 2016). However, generally there is a potential for increasing Danish exports to the emerging markets (Danish Government, 2012, p. 5).



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## 4.2 Weak productivity growth and declining trade performance

Despite the reliance on trade, the volume of Danish foreign trade is not impressive compared with other small countries with respect to both goods and services (OECD, 2014b; Productivity Commission, 2013b, p. 15). Prior to the global financial crisis, Denmark experienced persistent high-growth rates (OECD, 2012). However, the crisis hit Denmark relatively hard, and in 2008 and 2009, GDP growth dropped more than the average for other OECD countries (OECD, 2012). In the wake of the financial crisis, economic growth has been modest, and productivity in Denmark has slowed (IMF, 2014). While numbers began to point to a recovery, the Danish GDP is still below pre-crisis levels (as of spring 2016). In contrast, the EU, as a whole, reached a pre-crisis level in 2014 (Statistics Denmark, 2016, p. 264). Assessing these growth challenges, the Danish Government formed the temporary Productivity Commission in 2012. The commission was tasked with identifying and analyzing the reasons for the slowed productivity growth in Denmark (Productivity Commission, 2013a). Among concerns, the Productivity Commission found that “export performance has also been poor, owing in part to weak growth in Denmark’s export markets. Deteriorating wage competitiveness in the past decade has also contributed to some extent to export market losses” (cited in OECD, 2014b, p. 15). Moreover, compared to the average of other OECD countries, Denmark has lagged behind in terms of export share to fast-expanding markets (McGowan, 2014; Danish Government, 2012, p. 4). By comparison, Finland and Germany have been good at introducing existing products to new markets (McGowan, 2014). In 2010, only 5% of goods exports went to BRIC countries, compared to 11% for Germany (OECD, 2014b, p. 56). In fact, in the period 1995–2010, Denmark’s decline in export market share in terms of volume amounted to 20% (OECD, 2014b, p. 53). While the loss in market share partly reflects the emerging markets’ increasing integration into the global economy, the loss is still large compared with that in, for example, Sweden and the Netherlands (OECD, 2014b, p. 53). Moreover, Danish exports to the growth markets are primarily generated by large corporations (Danish Government, 2012, p. 9). Consequently, evidence has shown that “while SMEs are more internationalized in Denmark than in the European Union at large, there is potential for more Danish SMEs to expand their export destinations from European to more global markets” (OECD, 2014b, p. 74). Thus, the implication of this could be that, especially in times of crisis, it is important for SMEs to seek new markets and customers.

### 4.2.1 SMEs’ access to finance

Danish policies are supportive toward productivity growth, and barriers to entrepreneurship are low in Denmark (OECD, 2014b). Despite sound policies toward strengthening the entrepreneurial environment and fostering the development of high-growth companies (McGowan, 2014; OECD, 2014b), Danish start-ups and SMEs continue to face financial

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barriers and find it difficult to gain access to credit (OECD, 2014a, p. 124, see also OECD, 2016c). Venture capital<sup>6</sup> funding is below that of their Nordic peers (OECD, 2014b). Between 2007 and 2012, venture capital for new growing firms declined by 60% (OECD, 2014b). In fact, “access to private funding, especially for SMEs, has deteriorated during the crisis and is now more difficult than in other Nordic countries” (OECD, 2014b, p. 32). In recent years, the government has taken a wide range of measures to improve SMEs’ access to finance and export opportunities by improving access to public funding in terms of strengthening loan guarantees, start-up loans, growth loans, consultancy schemes, and export guarantees (OECD, 2014b; OECD, 2016c). Indeed, a range of policies and initiatives to improve SMEs’ access has been introduced. As early as 1992, the government investment fund “Vaekst-fonden” (Danish Growth Fund) was created to provide guarantees and loans to established SMEs and invest equity in young growing companies (The Danish Growth Fund, 2016). Despite these efforts, evidence from OECD shows that the financing situation for SMEs remains tight, and there is scope for improvement in access to funding for instance through better framework conditions (OECD, 2014a, 2014b). The report “Denmark’s growth market strategy” by the Danish Government (2012) also revealed that companies and their customers are not familiar with the various financing options and the different solutions concerning “export credit, credit insurance, joint venture share capital, consulting, multilateral sources and guarantee of investments” (p. 10).

According to a report by the OECD (2008), the most significant barriers to internationalization by SMEs are inadequate resources and capital for finance exports, limited information to locate and analyze markets, and lack of managerial time and management skills. While this data identifies important barriers to internationalization, there is also a vital need for a qualitative understanding of the complex internationalization processes of Danish SMEs.

6 “Venture capital is a form of equity financing particularly important for young companies with innovation and growth potential but untested business models and no track record, and replaces and/or complements traditional bank finance” (OECD, 2015c, p. 102).

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## 4.3 Introduction to the three industries

### 4.3.1 Commodity composition of SME export

Table 4.1 SME export top ten.

Product	Export in million DKK	Export in percent
Machinery and equipment to the industry	10,771	9.4%
Various processed goods	8,811	7.7%
Customized machinery to different industries	7,713	6.8%
Metal products	6,979	6.1%
Clothing and accessories	6,484	5.7%
Electrical machinery	6,180	5.4%
Fish, crustacean, Mollusca and the like	5,779	5.1%
Furniture	4,654	4.1%
Technical and scientific instruments	4,527	4.0%
Vehicles	4,441	3.9%
Total goods	114,268	100%

Source: eStatistik, 2016, p. 8.

Primarily, SMEs are sub-suppliers of machinery and customized products. As illustrated in the figure above, SMEs' exports spread out across different groups of products (eStatistics, 2016). The ten product groups above account for 58% of the total SME exports. The commodity composition of the export markets is significantly different from that of larger companies. In contrast, large companies generally dominate the pharmaceutical and food industries. For these companies, the most important export products are pharmaceuticals, oil, renewable energy, and foodstuffs, such as meat, dairy products and beverages. Naturally, the needs of internationalizing SMEs vary corresponding to the industry and the age and experience of each enterprise. Therefore, this research investigates companies in three industries: the machinery manufacturing industry, food distribution industry, and the healthcare industry.

### 4.3.2 Machinery manufacturing industry

The manufacturing industry is diverse and ranges from machinery, transport equipment, and electrical equipment to pharmaceuticals, and wood, paper, and printing

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products (Statistics Denmark, 2016a). Traditionally, manufactured goods and machinery have dominated Danish exports. However, the manufacturing industries' importance for the Danish economy has declined over the last 50 years in terms of employment, production, and value added (Statistics Denmark, 2016, p. 409). This reflects a specialization and shift toward more high-tech products and the general increase in wealth experienced by all countries (Andersen, Isaksen, & Spange, 2012). Despite this so-called "deindustrialization" within the manufacturing industry, the industry is still a vital part of the Danish economy and its competitiveness (Nordic Council of Ministers, 2015; eStatistik, 2016). In 2016, the industry had a significant increase in turnover (Statistics Denmark, 2016, p. 411). Especially, automatization through robotics has greatly optimized manufacturing processes. In the years to come, it is likely that the advantages of automation in the machinery industry will contribute further to efficiency and growth (Nordic Council of Ministers, 2015). It should also be noted that there is a significant difference between the different groups in the manufacturing industries, as shown in the overview in table 4.1 SME export top ten. Case companies in manufacturing include the machinery, customized machinery, metal products and furniture industries.

#### 4.3.2.1 Sub-suppliers

According to a recent report by the Danish Industry Foundation (2015) (Danish: *Industriens Fond*), almost half of all companies are sub-suppliers.<sup>7</sup> Typical sub-supplier industries are the machinery industry, rubber and plastics industry, and electronics industry (Danish Industry Foundation, 2015). While it has been assumed that sub-suppliers concentrate on the domestic market because the high level of specification requires a certain degree of interaction with customers, the study from the Danish Industry Foundation (2015) showed that sub-suppliers are more export-oriented than non-sub-suppliers. Particularly, in the past 20 years, sub-suppliers have become increasingly export-oriented. For instance, eight out of ten sub-suppliers exported in 2012 (Danish Industry Foundation, 2015). (See also the commodity composition of SME export in table 4.1 SME export top ten.). Within the machinery industry, it is also important to differentiate between those that have specialized products and those with more standardized products. However, all companies in the machinery industry have a certain degree of specialized products. That is because they cannot compete with cheap standardized products from the East or Eastern Europe.

#### 4.3.3 Food distribution industry

The Danish food distribution industry, the second industry included in this study, is traditionally one of the most important regarding exports. The industry is also one of the

<sup>7</sup> One of the criteria that characterize a sub-supplier is that a sub-supplier customizes orders specifically to the customer, who further processes or integrates the delivery into their own products or services (Danish Industry Foundation, 2015).

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biggest in Denmark. In fact, Denmark now produces nearly three times more food than the population can consume (Ministry of Foreign Affairs, 2015a). Even though food products' share of the total export has declined from 26% to 18% since the 1990s, it is still one of the most important groups of exports (Statistics Denmark, 2016). In this study, the food distribution industry refers to both food and beverages. Case companies in this industry deliver to the retail market, including cafeterias, cafés, hotels, supermarkets, etc.

#### 4.3.4 Healthcare industry

The third industry included in this study is the healthcare industry. In this study, the health care sector includes the delivery of healthcare, long-term care, and social services (OECD, 2016b). Traditionally, this industry is dominated by larger companies. In this industry, only a small share of welfare services is contracted out to private providers in Denmark (OECD, 2016b). However, in recent years, there has been an increasing privatization of facilities in certain areas of the health care system. This sector is a major part of the overall economy, as Denmark has a comprehensive health care system in which health care accounts for 20% of total expenditures on social benefits (Statistics Denmark, 2016, p. 69). “Research, development and manufacture of pharmaceutical products represent one of Denmark’s commercial strengths” (Ministry of Foreign Affairs, 2015b, p. 15). For instance, manufacturing of pharmaceuticals, again typically by larger companies, experienced almost a triple increase in turnover since 2000 (Statistics Denmark, 2016b, p. 29). Indeed, from 2009 to 2013, the export of Danish health solutions has risen by 46%, partly due to increasing export of medicinal products to countries outside of Europe (Confederation of Danish Industry, 2014). The five biggest export countries are the US, Germany, Sweden, China, and Great Britain (Confederation of Danish Industry, 2014).

#### 4.3.5 Internationalization of the three industries

Globalization has created a competitive pressure and a changed business environment. Twenty years ago, the 1997 OECD report on “Globalisation and Small and Medium Enterprises” found that “the great bulk of SMEs are now subject to the pressures of globalization even though they may not be internationally active in any way” (OECD, 2008, p. 13). Today internationalization is necessary for survival and success (Majocchi, Bacchiocchi, & Mayrhofer, 2005). “For many SMEs, especially those operating in high-technology and manufacturing sectors, it is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition” (Ruzzier, Hisrich, & Antoncic, 2006, p. 476). Generally, the Danish manufacturing industries exhibit high exports. Total export turnover accounted for 64% of the total turnover for the manufacturing industries in 2015 (Statistics Denmark, 2016, p. 411). (See appendix 6 for export shares of the manufacturing industries by groups of industries.) However, the differences between the

export shares among types of manufacturing industries are notable, with wood, paper, and printing products at the lowest export share at 31%, pharmaceuticals with the highest export share at 89%, followed by manufacturing of electronic components at 85% and machinery manufacturing at 79% (Statistics Denmark, 2016, p. 411). The largest contribution to SME exports comes from the machinery industry and from consumer goods, such as furniture and clothing. However, generally all three industries have potential beyond the Danish market.

#### 4.4 Case studies

Having given an overview of the Danish market and an introduction to the industries, the ten case studies are presented on the following pages. Each case description provides a brief introduction to the case company, its situation and a description of its internationalization process. Some of the case descriptions are structured in relation to market choice, market research and market entry mode. For others, several internationalization experiences are presented, and those cases are therefore structured around the different internationalization attempts. It should be noted that key decisions and accordingly the above-mentioned themes are difficult to separate because internationalization is dynamic and behavioral. As will be seen, many internationalization attempts occur “ad hoc,” in which the market choice, research and entry mode, in some cases in multiple countries, occur simultaneously.

Table 4.2 Features of the ten joint-stock Danish companies used as case studies. The case companies are organized as follows.

Company	Industry	Employees	Structure	Type	Established	Gross profit tkr.
A	Health care	100–149	Owner-managed	Medium-sized	Mid 2000s	66,000
B	Machinery	10–19	Owner-managed	Small enterprise	Late 1990s	3,500
C	Machinery	10–19	Owner-managed	Small enterprise	Early 2000s	5,500
D	Machinery	50–99	Owner-managed	Medium-sized	Mid 1970s	21,000
E	Machinery	20–49	Owner-managed	Small enterprise	Late 1970s	35,000
F	Machinery	50–99	Owner-managed	Medium-sized	Late 2000s	19,500
G	Machinery	20–49	Owner-managed	Small enterprise	Early 2010s	17,000
H	Whole sale	20–49	Manager-led	Large enterprise	Early 1990s	43,000
I	Whole sale	200–499	Manager-led	Large enterprise	Late 1970s	350,000
J	Machinery	100–149	Manager-led	Medium-sized	Late 1970s	27,000



In the remainder of this chapter, the Case Companies F and G are presented. The two mature companies have decades of experience in the machinery manufacturing industry. However, the current owners took over within the past five to 15 years. The companies already have overseas customers but are now attempting internationalization to new markets.

Chapter 5 presents Case Companies A, B, C, D and E. These companies are owner-managed. Company A is in the healthcare industry and the rest are in the machinery manufacturing industry. All companies have recently transitioned from the domestic market to international markets.

Chapter 6 presents case Companies H, I and J. These companies are manager-led and among the larger companies in the sample. Companies H and I are within the food distribution industry, and Company J is in the machinery manufacturing industry.

## 4.5 Case Company F

Table 4.3 Case Company F.

Established	Mid-2000s
Industry	Machinery
Type	Joint-stock company; owner-managed
Employees	50–99
Gross profit	19,500 (1000 DKK)
Decision to internationalize	Necessity
Major geographic markets	Worldwide
Beginning of internationalization	Late 2000s
Type of international operation	Export
Revenue from international markets	25% and indirectly an estimated 50%
Interviewee	The co-owner/CEO C is in his mid-50s. He has little international experience, but decades of experience in the industry.

Company F is a sub-supplier that manufactures processed metal products. The company has more than 30 years of experience and was established in the mid-2000s by three owners from various companies (referred to as co-owner A, co-owner B, and CEO C). Co-owner A had investigated the possibility of outsourcing his company’s production, and had considered China, the Baltic States, Poland, Ukraine, Slovakia and Hungary. He came close to finalizing a deal with a factory in Ukraine, but eventually concluded that outsourcing would create

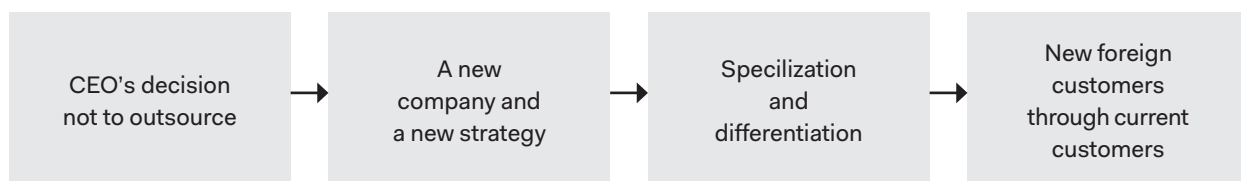
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obstacles with respect to logistics and flexibility. He began searching for a solution to keep production in Denmark, and discussed the matter with one of his close business partners, co-owner B. The idea of setting up a new company with production in Denmark began to take shape, and together with a third business partner, CEO C (the interviewee), the new company was established in the mid-2000s. As co-owner B explained: “at that point we had no choice but to outsource production to Ukraine” [...] and we were not happy about that. Therefore, we had to join forces.” CEO C took over day-to-day-operations two years after the company had been established. “It was not until then we began canvassing on a larger scale. I simply went out and talked to potential people,” CEO C recalled.

Company F has more than 26,000 product numbers. Similarly, the company has a number of automatic welding robots,<sup>8</sup> which decreases manufacturing costs, optimizes production processes and reduces turnaround. To ensure the effective use of production resources, they use a make-to-order (MTO) production strategy. This allows customers to purchase products that are customized according to their specifications. Thus, the company only manufactures the product upon placement of an order by the customer. The company is keenly aware of the disadvantages of being a sub-supplier of metal products: “because there are many other companies that are also able to cut and bend a pipe,” CEO C explained:

So what we do here is that we turn the material into a more finished product than they would be able to get from most other places. So at the very least we paint the parts, and in some cases assemble the product, so they actually just have to put in four screws and then the product is ready for use.

Figure 4.1 Key steps in the history of Company F.



Company F has not focused on an export market. Rather, the company has established contact to several new foreign customers through existing customers. Today, the company supplies products to a vast number of customers outside Denmark. Their largest customer is Swedish. Although export accounts for more than 25% of the total revenue, many are basically old Danish companies that have outsourced from Denmark.

8 The use of mechanized programmable tools (robots) automates a welding process.



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#### 4.5.1 Market entry

##### *Referrals and relations*

Company F initially intended to employ some of the more classic methods of marketing. As CEO C declared:

We thought we would have a website, display at trade shows, and go out and talk to large customers and things like that. But the readiness and maturity of the company had to be there first. And we also needed to find out more specifically what we were going to tell them [the customers].

The company acknowledged the fact that it needed to differentiate itself from its competitors.

Because there are many other companies that are also able to cut and bend a pipe. Why should they choose someone who speaks a different language and have a different currency? You cannot just go to Germany or Sweden and think you can give them something that they cannot get closer to home.

Consequently, established network relations and referrals are a vital part of the company's business strategy

We have a lot of suppliers and we make a point of communicating with them. [...] Often someone comes to the suppliers and asks who can do this and that, and then they [the suppliers] refer them to us. [...] That is the most significant part of our communication.

As the CEO also said, "you have to visit people and things like that. And that takes time. But it [a relation] develops *that* way." In the past, Company F has visited trade shows within the areas of rehabilitation equipment, furniture, and metal components, but they have never exhibited at a trade show. As the CEO stated, "we have, at least until now, been able to round up enough customers." Moreover, Company F's decision not to exhibit at trade shows was partly owing to the expenses involved, but also because of competitive uncertainties. Rather than establishing new network relations, Company F believes it is more important to maintain and develop existing relations: "it is better to build a relationship from another relation." The CEO said, "our communicative goal is to go out and meet a specific customer and not someone we have become acquainted with at a trade show."

If we were to attend a trade show and explain what we are able to do, then we would probably be joined by 25 other companies that can do exactly the same as we do. It is not that I do not want to spread the word about our company, but we simply have to make sure that we find the right place, so we do not end up messing things up.

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Thus, CEO C also “networks” in his spare time, as he explained: “But I am always interested [...], and I think it is interesting to know what they do, and then it might turn out that they know something about something.” The CEO is also a member of a network group of CEOs from similar SMEs in the industry. Speaking of his network group:

What brings *us* together is discussing the pros and cons of different markets, the language, the readiness of the company, the funding, and the experiences of the others. What worked, what did not work, what type of person did they find to market their company?

To the company, maintaining the network is extremely important, as they believe it is important in creating business opportunities: “We actively network: suppliers, customers, consultants, and such. [...] At one point, a shared opportunity to do business is initiated.” At the same time, the CEO believes that there is an element of luck involved:

But another one of the network’s conclusions is that it is sheer luck if you get it right. That you are lucky and you meet exactly that person, and it was not really the one you were supposed to meet with. But then it turned out that that was the key to enter. So, for a long time our network group discussed whether it was because it was planned or if it was sheer luck. Nine times out of ten it was sheer luck.

An example of luck and coincidences is the time the company was approached by a Dutch company that was not satisfied with its Chinese manufacturer. Through their network, they had heard of Company F, which was subsequently assigned the task of improving the Dutch company’s chair. They began constructing and improving the chair, and “the machinist virtually did nothing else for four months.” [...] When they left, they had ordered 19 new chairs.” Thus, Company F bought the license to produce the chair, and planned to distribute the product to distributors in Norway, Belgium, Sweden, and Germany through different business contacts. Company F was even contacted by a Danish distributor, who offered to market the chair to business contacts in Germany and Sweden. Company F was very enthusiastic about having their own product, and planned to employ the classic methods of marketing, including exhibiting at trade shows and launching a specific website for the chair.

#### 4.5.2 Outlook

At the time of the interview in the fall of 2014, Company F had great expectations to the production of the chair and was in the process of getting in touch with dealers in Norway, Belgium, Sweden, and Germany. However, 15 months later, Company F was attempting to sell the rights to the chair. Sales had come to a halt and the CEO concluded that, while there

was a lot of goodwill, it was not a task that they could solve. As the CEO concluded: “We must realize that that type of ownership of one’s own product is not suitable for our corporate structure as a sub-supplier.”

Today the company continues in its role as a sub-supplier to other companies. However, when they get bigger, both in terms of revenue and employees, they will set something up somewhere else. As the CEO contemplated:

In terms of costs, it is almost more attractive to be anywhere else in the world but Denmark. So, it [internationalization] will certainly cross our path at some point. Either driven by our customers or simply because of costs, or perhaps both. But right now, we are too small. We struggle every day for survival. So, we will fight our battle here and then slowly increase our strength. Then, at a later point in our development, the rest [internationalization] will come.

## 4.6 Case Company G

Table 4.4 Case Company G.

Established	Early-2010s
Industry	Machinery
Type	Joint-stock company; owner-managed
Employees	20–49
Gross profit	17 (1000 DKK)
Decision to internationalize	Ambition
Major geographic markets	Worldwide. Most recently efforts toward the German market.
Beginning of internationalization	---
Type of international operation	Export
Revenue from international markets	More than 90%
Interviewee	The CEO/co-owner in his mid-50s. He has previously worked in Germany and Sweden and is fluent in German.

The company manufactures, delivers, and maintains lifting equipment and solutions to a global clientele. The product was developed and patented by the former company several decades ago. In the early 2010s, the two owners carried out a management buy-out, and Company G was established. At the time of acquisition, the company had had a deficit for

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the past ten years. Right from the first year of its operations, the new company made a profit. Only a few weeks after the new owners had taken over, the company participated in an international trade show, where the company got their first French order.

Company G sells their equipment and solutions to both businesses and end users around the world. Export accounts for more than 90% of the total revenue, and the company exports to Europe, Asia, North America, and Australia. They have a market share of around 25% of the global market and aim to be one of the biggest companies in the industry.

#### 4.6.1 Market choice and research

Despite its sales worldwide, the company does not have a corresponding share of the German market. Company G speaks of “breaking the ice” in Germany, even though export already accounts for more than 90% of the total revenue. For Company G, market entry into Germany is also a way to gain knowledge for future markets. The company hopes to create a book of knowledge with their experiences from Germany. As the CEO explained:

What did we do in Germany, how did we get there, we went to such and such trade shows and we did this, we got a relationship with the embassy, and they introduced us there. Well, I am certain that, when we take out the Germany folder the next time, and we might put in Italy or another country, then there will be some of the same ingredients we can use.

Consequently, the company recently began investigating ways of increasing its market share in Germany:

We have to strengthen the business further by establishing a more structured sales process. So, we have decided that we will do that by entering the German market. It is close, it is easy to get there, and we can quickly do some things.

As is seen in the following statement, the CEO of Company G does not believe in systematic planning:

We are not afraid to gamble and say, we believe in this and that is why we will do it. Many other companies use a lot of resources on investigating. I am probably put together differently. Fortunately, my partner has a different temperament, so we do not both jump the gun. I do not really like to make an elaborate plan that reaches far into the future. I prefer just to say, well let us take a look 180 or perhaps even 270 degrees around and see what kind of task I am looking at right now. What do I think would be the most effective and positive step I can take right now that will make a difference and contribute to the development of the company?

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However, the highly internationalized company learned that entering a new market is challenging. “We discovered how difficult it is to establish ourselves in, quotation marks, ‘a new market.’” In the process, the CEO searched for advice and assistance, but found it difficult to obtain knowledge. As he explained, a personal concern was that he might miss an opportunity:

If I run into a blind alley and I have to go back 25 steps, and then there are two roads I can choose between. And it worries me that I might drive past the intersection in the hope that there will be another crossroads a little further down the road, but then it wasn't there.

Accordingly, he also wondered why various sources could not help him. As he declared:

There must be some people who have figured out the success criteria for b2b. I do believe there are, I just have not found them. And I have asked the Confederation of Danish Industry, I have asked in my network, I have asked the consultant from the Foreign Ministry, I have asked Denmark's Export Credit Agency. I have been in touch with a lot of people. And everyone says ‘well, it is hard’. Yes, I'm sure it is.

#### 4.6.2 Market entry

In the past, the company briefly considered setting up sales offices abroad, but in the end, they did not find it necessary, as “there is not a country in the world that you cannot get to in less than a day.” Instead, the company employs agents and distributors. Because the company was established several decades ago, its products are well-known among the target group. Today 80% of the customers approach the company: “we have a huge network of people who know us and who have worked for us, agents, and distributors. And because of that we get a lot of enquiries,” said the CEO. From the company's point of view, network relations are essential. “We believe very much in the network because it is vital.”

Apart from asking his network for help, the CEO also participated in a research project by a Danish University in which students worked on solving the company's challenges. More recently, the company contacted the Danish Embassy in Germany to get further assistance in the internationalization process. Consequently, to expand business in Germany the company has: strengthened its cooperation with dealers, created stronger relations with dealers, participated in more trade shows, and held more product demonstrations for customers.

##### 4.6.2.1 Network

Essentially establishing network relations has been important in their internationalization to Germany:

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We established contact to an architectural firm, established contact to contractors that are our building consultants and tried to get in that way. [...] So, it also has something to do with establishing a network, knowing some people, creating a relationship of trust, because a lot of our sales is relationship selling.

The continuous use of network relations is important to the company. As the CEO said many times, “we strongly believe in our network because it is crucial.” Because of this outlook, Company G has furthered sales by focusing on rebuilding relations and establishing new relations. The CEO is conscious that the relationships that were established several years ago will not be there forever. “Some people will retire, some will fall away, and some people will leave the industry. And that restricts our approach to the market, which we are obviously worried about because we want to grow.” Thus, the CEO acknowledges the need for a continuous focus on finding new customers. “You cannot just lean back, because 10 years of deficit in the company have had a negative effect on our image.” To this end, the two owners have made a conscious effort to develop the business.

The CEO is a member of four network groups: a group for owner-managed companies, a group for SMEs, a group for entrepreneurs, and an inter-organizational network group. In the past, the CEO worked in Germany and Sweden for a period. During that time:

I lost a lot of my network. And I spent a lot of time and effort on restoring my network when I returned to the Danish industry. [...] One of the methods I used was LinkedIn to really find out whether I had any relations left.

Today, the CEO uses his network for numerous purposes, whether it is for seeking knowledge or seeking an introduction to another company. “I am not afraid to ask.” The CEO listens to the advice and experiences of other companies, but he is also very aware that the quality of advice and experience varies:

I have a relatively level-headed approach. I measure in results. Have you had success with it? What have you done, how much have you invested, what was your turnover? What was your contribution margin, and how much marketing did you have to do to open doors? Altogether did you make a profit or not? But that is something that has come with experience. I have learned, I have received the blows. [Failures] I have become more objective about what I listen to. I have become more reflective.

In contrast, Company G does not have a great deal of confidence in the formal organizations that assist companies in exporting. Rather, the CEO believes that it is the individual and the company itself that are the driving forces.

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Would I call the Business Development Centres right away if I were buying a new business? No, because if you are going to run a business, whether large or small, then you have to make sure you know what you are really dealing with. You need to get the company under your skin. You have to know the internal culture and external relations before hiring numerous consultants. Because the only thing that consultants contribute is that they bring up all the right terms and concepts. They cost a heck of a lot of money, and in the end it does not benefit anything.

Overall, experience is of importance to Company G:

I will say when it comes to life experience, having tried many things, having been in many different organizations, having met many different people, cultures, and subcultures, and it is everything from nationality to religion to norms. Indeed, it has helped me tremendously with the decisions I make today. The decisions are much more well considered than the decisions we made 20 years ago. So I think that life experience and also the blows we have taken, all the mistakes, we have made along the way have contributed to more reflection before I make a decision today.

#### 4.6.3 Outlook

Company G has chosen not to pursue business in other new countries to fully focus on increasing their market share in Germany. Recent numbers show that the company has experienced double-digit growth.





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Case Company A B C D E



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## 5 Case Company A B C D E

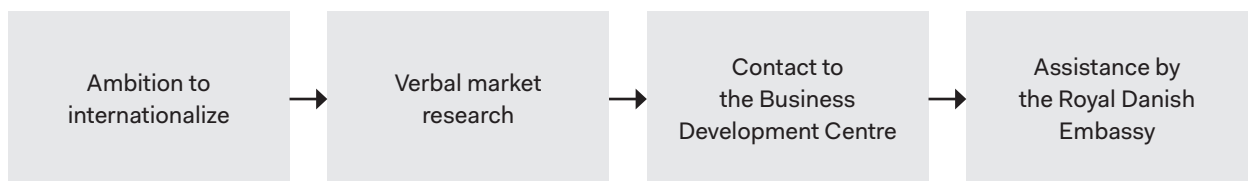
### 5.1 Case Company A

Table 5.1 Case Company A.

Established	2000s
Industry	Healthcare
Type	Joint-stock company; owner-managed
Employees	100–199
Gross profit	66 (1000 DKK)
Decision to internationalize	An ambition
Major geographic markets	Norway
Beginning of internationalization	2000s
Type of international operation	Subsidiary
Revenue from international markets	One third of the revenue
Interviewee	The CEO/co-founder is in his mid-30s. He has little international experience.

Company A was established in the 2000s and specializes in assisting local authorities and job centers in bringing citizens from public assistance to self-support through rehabilitation and skill development. A few years after the company was founded, they carried out their first international adventure and established a subsidiary in Norway. Within the first year, the company made a profit in the host country. Today the Norwegian subsidiary accounts for more than one-third of the revenue.

Figure 5.1 Key steps in the internationalization of Company A.



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### 5.1.1 Market choice

The CEO always had an ambition to internationalize and develop the business. He was confident that their business model could also be used in other welfare systems outside Denmark.

But I never really knew how to go about it. And also, my board always said, 'Leave it. You have enough on your plate at home'. And so, I did, but I have to admit that I have always been curious as to what it would be like to work in another country.

Then one day a Norwegian employee suggested that they should consider internationalizing to Norway:

Because he wanted to go back home. He was a competent employee whom I have great confidence in. And then I said, yes, we can do it, but do you have any idea how we should go about it? He did not actually, so we had to try to investigate whether there was an incentive, a financial incentive for the product.

### 5.1.2 Market research and market entry

#### *Managerial learning*

The CEO relatively quickly established that there was a market and a demand. Commenting on their research process, the CEO said: "the research I did was by talking to people. And it is not bloody scientific, it is about understanding, it is about asking questions, and that was it. I had to talk to the right people." After the initial research, the company contacted the Business Development Centre, and they received a grant of 35,000-40,000 DKK. Company A subsequently employed the Danish Embassy to introduce them to key persons and the heads of different organizations in Norway. As the CEO said: "to understand the system better, I had to talk to the heads of different organizations and then try to ask them some questions." During the next couple of months, they had regular contact with the embassy via email or telephone, generally a couple of times a week. It was important for the CEO to thoroughly explain their business model to the embassy to ensure they understood their business and would be able to assist them effectively. Six months passed between initial contact to the embassy to the first client meeting in Norway. As the CEO said:

Six months is a long time before you can start sending an invoice. But I think I could have speeded up the process if I had prioritized it better. But I also have a business in Denmark. So I also have to figure out how best to spend my time.

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The CEO was very impressed with the Danish Embassy and its assistance in establishing contact to the heads of different organizations. For instance, the embassy provided access to the National Labour Market Authority.

Given that we came with that Royal Crown, through the embassy, they were willing to have meetings with us and explain some things to us. Because I had to understand the system before I started investing in it. And the embassy opened that door for me. It has given me a huge head start compared to other companies in that market.

For Company A, the two key elements in internationalization were to understand the host country and the market conditions, and to have the right employees to assist in the internationalization process. Accordingly, the CEO and the employee traveled to Norway to conduct market research. To that end, Company A talked to a range of different organizations ranging from a dairy store to a nursing home, a job center and the National Labour Market Authority. Some of the meetings were established through the Norwegian employee, and others were established through the embassy. As the CEO explained: “my way is all different kinds of ways, relations, networks, hearing other people talk about something, watching something on TV. Of course I also read things, but I do not bother to read an 80-page report in English.” Accordingly, the CEO is convinced that conducting the market research himself is important.

You can only do the analysis by going there and talking to people. Because if I had only talked to the National Labour Market Authority, they would of course have said that there was an incentive [to do business in the country]. That is the charm of having done it my way. It is that you understand things, and that is probably what is classic about some of us entrepreneurs. We need to dirty our own hands [...] whereas others may think, ‘let’s do a report, read it and then we will go ahead.’

### 5.1.3 Improvisational approach

However, in hindsight, he acknowledged that perhaps not all meetings were particularly well-chosen:

We could have done it differently. We work a lot on that now. I am also a member of the Confederation of Danish Enterprise; [...] We could have used them more. [...] Perhaps we should have started on that before, it is difficult to say.

Through some of the Norwegian employee’s contacts, the company succeeded in meeting some people who were interested in implementing a pilot project. Throughout the process, Company A relied on the employee to a great extent. As the CEO explained:

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We were very dependent on him, the employee that we had sent up there. That he could deliver this product because I could not go up there and do it. [...] If I had sent someone else up there – and I can certainly identify other people in my own organization – if I had sent them, then it would not have been successful. It is about the driving force, the people you put on this task, the driving force that they have.

Both the CEO and the employee were quite young at the time of internationalization – and neither of them had any prior international experience. Instead, they drew on their shared personality traits: “We only see opportunities. We rarely see limitations.” As exemplified by the CEO:

You need to send a warrior. And a warrior is someone who just goes ahead and does not see limitations. And if there is a wall, then he will just run through it. No discussion. And it may very be easier to run around it, but we run right through it.

For Company A, employees are not merely important. They are the most valuable asset. The Norwegian employee was particularly good at understanding customers and different stakeholders. As the CEO said: “it is something that is in his DNA. I do not think it is something you can learn by reading. It is a feeling you have for other people. Empathy, understanding of values and attitudes.”

The CEO stressed that too much prior research devising a strategy could deter one from taking up a challenge, so he felt that problems should be solved as one went along. As he explained: “I believe that it may also be an advantage to be unaware of some things. Of course you should not run blindly into things. [...] But sometimes it is good not knowing all the details because that will scare you.”

During the internationalization process, the CEO’s approach was to deal with challenges as they occurred. As he said:

That is my approach. And it is probably also because I am an entrepreneur and I am not an academically trained scholar. My approach is that, well, we will figure it out. ‘How hard can it be’? And of course, it is hard. It is. We work insanely long hours, but I still believe it is the right approach. And there are not that many who have done what we have done on the Danish market. So, we must have done something right, with the strategy we do not have.

Contemplating further, the CEO said:

I would have said no if I had known from the outset how difficult it would be. But you do not know. And then you just think like ‘how hard can it be’? And this opportunistic



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approach as opposed to the omniscient approach to things creates two different approaches to internationalizing.

Despite his somewhat relaxed approach, the return on investment has always been a priority for the CEO. For example, he had given himself a year to create a turnover in Norway. At the same time, the CEO does not see himself as the natural person for the job simply because he is the owner. He still must earn the position. For instance, he talks about how many owner-managed companies “settle” and how some lose ambitions on behalf of the company. For example, many do not benefit from employing a professional board. Thus, from early on, Company A prioritized having a professional board to improve and broaden their knowledge.

#### 5.1.4 Outlook

Using the expertise gained from their attempts at internationalization in Norway, the CEO has contemplated internationalizing to Germany. He has remained in contact with the employee from the Danish Embassy in Oslo, who is now situated at the embassy in Berlin. As the CEO said:

All things being equal, it is easier now, when there is a person I know, who also knows me. That is the way it is when you are doing business; you do it through your network. So, you trust each other, and you create some relations, and you do some business. And that is why I would be happy to do the same again with him in Berlin again. No doubt.

The CEO acknowledges that entering the German market will be a challenge, but he is not discouraged by this. As the CEO concluded:

You should not be afraid to take a risk, certainly not. I am also an entrepreneur, and I have taken risks throughout my life when doing business. And you have to do that because otherwise you will not be successful. But on the other hand you also have to be humble and not just think, ‘well, but if I can make it in this country then I can also make money in Germany’. That is not how it is. [...] I want to be challenged. It is probably a bit characteristic for us entrepreneurs. We go for something that challenges us. I want to take up that challenge in Germany.

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## 5.2 Case Company B

Table 5.2 Case Company B.

Established	Late 1990s
Industry	Machinery
Type	Joint-stock company; owner-managed
Employees	10–19
Sales	30–35 in 2015 (1000 DKK)
Decision to internationalize	Necessity
Major geographic markets	Germany, Sweden
Beginning of internationalization	2010
Type of international operation	Export
Revenue from international markets	30–40%
Interviewee	The CEO/co-owner is in his late 50s. He has little international experience. The export worker is in his late 40s, and has vast international experience. He is fluent in German and is particularly familiar with the German market because he lived there for five years.

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The company was established in the late 1990s and specializes in manufacturing metal components and customized machine vices. From 2011–14, the company had two years showing negative results. Earnings after tax were positive in 2011–12, but negative in 2013 and 2014. In the spring of 2014, the CEO hired an export worker, who is the second interview respondent. At the time of the first interview, the export worker had worked for the company for five months and was thus still in the process of learning the ropes of his new position. Prior to working at Company B, the export employee had worked in exports in a large company in a different industry. He has previously lived in the UK, Germany, and Switzerland and has, in his own words: “had a bit of an international career.”

### 5.2.1 Market choice

The company had previously employed freelancers and agents without noteworthy results. After having asked other SMEs in the CEO’s professional network group about their experiences and recommendations, the CEO concluded it was time to try another approach and employ an in-house export employee. However, he found it too expensive. Thus, almost a year went by before the CEO decided that something had to be done. Thus, he began

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searching for a senior export employee in his mid to late fifties, who would have a couple of years left on the job market and would thus “have the necessary time and could assist in developing the company.” Eventually, the CEO did not follow his inclination, but decided to hire a regular full-time employee.

Ultimately, risk spreading is important for Company B. And because of the financial crisis in 2008 to 2010, the company saw internationalization as a necessity:

And thus, you will need to move in the market that is progressing. No matter if it is in Norway and Sweden, Germany, Denmark, or wherever it is going well. [...]

Whether it is a German partner who pulls the load or it is a Swedish or Norwegian partner that is not really the issue. We will stick to our product, and *then* we care less about *where* we sell it. That is our goal.

As the export worker also added: “so we do not say our aim is to do this or that.” Essentially, export markets make it possible for Company B to keep its production in Denmark. As the CEO said: “we really do not care where we sell our products. And it is not because we use a scatter-gun approach. Because we stick to our core area.” Thus, they had initially called a Danish supplier to enquire whether they would be interested in selling their machine vices. The company declined, as they believed selling the product was too complicated. However, it turned out that the company had an experienced employee who was about to retire. The employee, however, decided to start up as a freelance consultant instead of retiring. He had seen Company B’s product catalog, and subsequently contacted Company B, offering to sell their products in Germany. The business proposition thus initiated the internationalization process to Germany. As the CEO said, “then he came up for the meeting, and he was technically skilled, knew how to talk both to customers and about the products. So it was actually quite fortunate that we found him.”

### 5.2.2 Market research

Company B did not carry out extensive market research. Rather, they relied on the market knowledge of their Danish agent, who was employed on a commission-only sales contract. He lived in Flensburg, a town situated in Germany close to the Danish border, and had lived there for 18 years. He did some research, while also translating the Danish material into German, and thus Company B went to Germany less than four months after having first established contact. Speaking of their knowledge of the foreign market, the CEO stated, “We simply went into the market with the knowledge and competence that [he], our export sales person, had.” Essentially, the choice of the German market was neither based on thorough market research nor a strategic decision. The CEO explained the decision: “It is nearby and

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perhaps a culture we understand/relate to a bit better. [Because of him] It was natural that it was the German market.”

Contrary to belief, hiring external people (the export worker and the agent) did not necessarily bring new network ties. The export worker came from another industry and could not use his own network relations. Despite the expertise and experience of the agent in Germany, he also did not have an extensive network.

He did not have the customers that we were looking for. He actually started from scratch. And he simply began going slavishly through the Internet, and also contacted some German commercial houses [equivalent to the Confederation of Danish Industry (DI)] to find them.

### 5.2.3 Market mode

Consequently, Company B used two approaches for finding potential customers in Germany. The first approach was to find potential customers via the Internet, make numerous phone calls, get appointments, send emails about the product, and visit the companies in person. The second approach was to visit trade shows to establish new business relations. This approach was then followed up by telephone calls to the new contacts. By visiting trade shows, the company would benefit from exposure, low risk and cost, and a point of reference for future contact.

For Company B, the biggest challenge was to identify customers. The company believed they were too small for others to find them. Thus, they had to look for potential clients. Cold-calling is convenient and inexpensive, but it is also time-consuming. The process of identifying customers took a huge amount of time. The company can spend hours and hours on finding potential companies, identifying the right people to contact, calling them and preparing technical material, only to find out that the company is not interested. As the CEO described:

We search, call, search and call, while the export worker added, so it is a huge challenge for us to find them as we do not have the network. [...] We will call someone, and sometimes they need something and other times they do not. So, it is hard. You can say that our biggest challenge is to find all the leads and things like that.

After having identified potential customers, the company consciously devoted time to meet them. For instance, they could have nine visits in three days or 12 visits in four days in Germany. The CEO recalled:

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So it was the hard way. But it is probably one of the things that have produced the best results. Where they simply see the products [...], so take them outside and look in the back of the car, so they can see the product; the pallet you saw out there, we actually have that physically with us when we visit the customers.

Overall, face-to-face encounters have been of great importance for the company. The website, as of early 2016, is only in Danish. The company hopes also to have the website in English and German in the future. Although they acknowledge the importance of having the website in other languages, written material, such as catalogs and website material, is ultimately of secondary importance to Company B. Instead, face-to-face meetings are the preferred mode.

It is one thing to show it [the product] on a piece of paper. It is quite another thing when they start moving the product with their hands. [...] We call them, talk to them, have meetings with them, so they have seen what we are able to do. And then we need to have a talk and a meeting with someone else.

Company B has also attended various trade shows in Germany. For Company B, trade shows have benefited them in establishing initial contacts and in particular when later contacting the newly established relations. At this stage (2014), they have yet to attend trade shows outside of Denmark and Germany. This is mainly due to the lack of necessary foreign language skills. They were planning to visit a trade show in Sweden later that year. Trade shows play a role in establishing new business relations for the company. The purpose is not to purchase products, but rather to establish tie relations. Company B finds it a good and inexpensive way. In particular, they think it an advantage to have met the people in person when calling them afterwards.

I think we are one step ahead, given that they have already met us. Because if we pick up the phone and say we are calling from Denmark, then there is a long way to go. Now we have talked with this man, and we have his name. And we can thank him for meeting us last week. We were up at the [xx] fair and visited them. Already there you are far ahead of the next caller. So, we also think that is an advantage [CEO].

Generally, one of the biggest challenges for Company B is identifying relevant customers. At the trade shows, they get an opportunity to see people in the industry. Trade shows offer visibility and networking. So far, they have only been visitors, but the company hopes to have an exhibition stand in the future, if the financial circumstances allow it. Preferably a joint pavilion with other companies. However, right now, the financial costs related to having a stand at a trade show are too high.

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The CEO likes the thought of assistance from the embassy but is more reluctant to purchase an export start package<sup>9</sup> and thus spend thousands of kroner and not be certain of a result. For example, as the CEO reflected: “In theory, they can just provide three results, I would have to pay 65,000 DKK, and I would not have gotten any further.” The idea of purchasing a service without getting guarantees is unsettling for the CEO. Instead, the company would rather bypass formal channels such as the embassies and directly address potential partners and customers. As the export worker explained: “We could find some Danish companies at NN market data. And then you could see, oh it is actually owned by Swedes. And then we will unravel it that way.” For the past two years, the company has used EKF to strengthen their liquidity. As the CEO said, “it is both a security and a guarantee.”

#### 5.2.4 Outlook

Since the first interview, their German agent had passed away. They are not searching for a new agent, but rather looking for distributors, as they think they are easier to work with and easier when it comes to terminating a collaboration. Today Company B has six to eight customers in Germany. “We are starting to feel the after-effects of the crisis. [...] Things are improving, and we are moving closer to our goal,” said the CEO. Moreover, the company is beginning to get more customer references, which is a big help in Germany.

#### 5.2.5 Sweden

Company B has previously attempted to enter the Swedish market in 2007 and 2008. The company purchased an export start package at the Danish Embassy in Sweden and received a list of 25 names of potential customers. However, the CEO was not satisfied with the service:

And it is expensive, and not a damn thing happened. We got 25 names. And my impression tended to be that if the person who found the names just got one name, then that was good enough [for him]. So, that was unsuccessful. [...] I could have found them myself on the Internet. It was not worth the expense. Definitely not. I do not know if we did not specify well enough what we wanted, or if it was the person who was supposed to find the clients, or what went wrong, but the result was not good.

Because of the lack of results with the Danish Embassy, the company abandoned the idea of entering the Swedish market for a while. Then the financial crisis came. Along with Germany, the company is attempting to enter the Swedish market again. This time the company initiated

<sup>9</sup> Through the Export Start package, SMEs can receive subsidized counselling from the Trade Council. The purpose with the export start program is to assist SME's internationalization by providing counselling and assistance. For instance, market and competitor analyses, information of local market conditions and local law, marketing and contact to the authorities, distributor and partner search, etc. (Ministry of Foreign Affairs, 2016).

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two new approaches: (1) contact with the Business Development Centre Denmark, which is a non-profit organization partly financed by national and regional authorities. They specialize in assisting entrepreneurs and SMEs with the growth and development of their businesses, and (2) collaboration and partnership with another Danish company to jointly enter the export market. The decision to contact the Business Development Centre was made by the export worker, who had noticed the bad reputation of the Business Development Centre and thought they should be given the chance to prove their worth.

So, I thought, ‘well if they are getting this bad press, then they will have to prove that they are actually great.’ That was kind of my way of thinking. And then I thought, heck, I will try and give them a call.

All the services provided by the Business Development Centre are free of charge. Company B had particularly high expectations of the Business Development Centre’s competency assessment of the company, as they had not had such an assessment made when they first began their internationalization process. Among other services, the Business Development Centre offers an assessment of the level of export readiness and preparedness of the company. “We have greatly benefited from them,” said the CEO, who thought they were particularly helpful in providing advice, counseling and establishing contact to other relevant people. “It is worth its weight in gold.”

#### 5.2.5.1 Collaboration and network ties

The company acknowledges that network and network ties are of importance and that relations are both “inexpensive and useful.” However, they find it difficult to establish network ties. The company has previously partnered with other companies, but with little success. “We have also tried with business partners, suppliers in the community where we simply go in and make an arrangement with someone who will sell our products. We have not had good experiences with that,” the CEO pointed out. While they have not been successful in all their endeavors, Company B still finds collaboration useful. Accordingly, in 2014, they were in the early stages of entering the Swedish market with another Danish company. As the export worker stated:

If we combine our two products, we will have a nice package we can present. [...] There are no problems, and it is really good. As long as it is not the same product, because then you start to compete.

Company B first met the other Danish company at a trade show in Germany. It turned out that the company had a contact person in Sweden. That was the first step toward re-entering the Swedish market. The CEO recalled:



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He had something that we could not do, and we had something that he could not do. So, we talked a bit and then he called me and said: ‘now I have something where I can provide one part, can you help with the other?’ And so, we started talking, and we have been away together to present our first set-up with a customer. This morning he called me and said: ‘now I have another customer in Sweden.’

The preferred method of foreign-market entry is employing sales men or distributors who can work on the market locally. For instance, the interviewees mentioned a Swedish customer who lives hours away and is thus not easily reached. This is an issue for the company: not being able to physically visit the customer. Therefore, the company prefers collaboration with other companies. For Company B, collaboration provides knowledge sharing, expertise, increased security, and a competitive advantage. For instance, the company is also in the early stages of finding partners in Norway. But as yet they have not exported to Norway. On one hand, the company thinks it is an advantage that it is a nearby market, but still feels that it is “difficult” and challenging to enter. As the CEO said: “It is also a bit sluggish. It is hard. It [the Norwegian market] is very different.” However, as the export worker reflected: “On the other hand, the mindset is a bit the same when you trade with Scandinavians. You do not have to explain what Denmark is. They know Denmark and so on.” Thus, the plan is to “enter through the back door” by means of existing customers.

#### 5.2.5.2 Outlook

At the time of the interview in 2014, they had not yet had orders from Sweden or Norway. The company was in the process of finding sales people for the Swedish and Norwegian markets. A year later, they had just received their first Swedish order and had another sales enquiry. “It does not matter if it is not a large order as long as we get through [to the Swedish market],” said the CEO. The CEO had been on another customer visit in Sweden where they had suggested another potential customer. The export worker subsequently made contact and got the order. At this point, the company had stopped collaborating with the other Danish company. After six months, they realized that the other company was not sufficiently dedicated or interested. The CEO stated, “We had to do the work. And nothing happened.”

While doing business in Norway was put on hold, the company had just received a large order from Germany. The company had established contact with the large German customer four years earlier by searching on the Internet. For the past years, Company B had visited the Germans every six to nine months until the company finally said that they were wasting their time. As they said: “I will call you when I need you. And they did.’ Now it is starting to pay off.”

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## 5.3 Case Company C

Table 5.3 Case Company C.

Established	Early 2000s
Industry	Machinery
Type	Joint-stock company; family-owned
Employees	10–19
Sales	-3,000–4,000 in 2015 (1000 DKK)
Decision to internationalize	Necessity
Major geographic markets	None
Beginning of internationalization	2004
Type of international operation	Export
Revenue from international markets	0–5%
Interviewee	The CEO/co-owner is in his mid-50s. He has a Diploma in Business Administration, but little international experience.

Company C was established in the early 2000s when the CEO and his father acquired the company, as the former owner owed a vast amount of money for goods supplied by the father. The company specializes in manufacturing customized hydraulic presses. In three out of the past five years, the company has run at a loss.

When the CEO and his father took over Company C, the company already had a number of projects in Germany. As the CEO said: “They had contacts there. Business contacts and things like that. And so, we tried.” The previous owner of the company had an old friend who attempted to serve as an agent in Germany. However, it was not a success, as the agent also had his own products and business. “He was completely indifferent to selling our machines,” said the CEO. The company then contacted the Danish consulate, and even though the consultant was very effective in finding potential agents, few agents were interested. As the CEO remarked:

Another thing is, back then, we did not know much about how to actually get an agent. How do you get a partnership up and running with an agent? When we look back, perhaps, we approached them too aggressively.

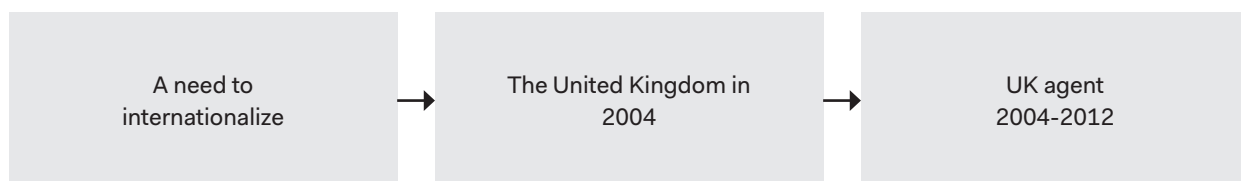
The company spent 18 months in Germany before they abandoned the market because the CEO realized that if they were to be competitive, then it would have to be on very large

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projects that would take perhaps three to five months and cost five-six million DKK. As the CEO explained: “A lot of things can happen during such a period, and the project might fail. We cannot have a project that accounts for 75% of our turnover.”

The company has focused less on markets outside Denmark during periods when they have had large orders from domestic customers. In 2004, the company began its first internationalization to Norway and the United Kingdom.

Figure 5.2 Key steps in the internationalization to the United Kingdom.



### 5.3.1 Market choice

The CEO spoke of three essential reasons for the choice of foreign markets: physical distance, language skills and spreading risks across markets. The first reason is physical distance. “Firstly, we wanted to focus on customers who were based somewhere we could get to them and return home on the same day. That was very clearly defined.” The CEO explained: “As we are a small company, we cannot go very far away. I cannot personally, or others cannot just be away [from the company] for four or five days. Because that is the time it takes to get going.” The second reason is the CEO’s own knowledge of foreign languages. “We wanted to focus on regions where they speak English. I personally did not feel that I had the language skills to focus on for example Germany. [...] So, we wanted to enter a market where they speak English.” The third reason is spreading risks across markets:

Can we get a market that swings slightly out of step with our own market? [...] When business declines in some parts of the world, then it goes up in other parts of the world. So it would be nice if you could say that if our domestic market, the Danish market declines, then we can export to another market where things are looking up.

### 5.3.2 Market mode

As a result, the company chose to internationalize to the United Kingdom in 2004. The company contacted the Danish consulate in Manchester for assistance in identifying an export agent. Despite initial difficulties in identifying a qualified agent, the consulate eventually succeeded in finding a British agent. Speaking of the agent: “It was simply a dream scenario.” The CEO was particularly impressed by the agent’s networking skills, market knowledge, technical skills and industry experience.

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At the time we came into contact with him, he had been in the business, at least as a seller, for 30 years. So, because of that he had a huge network. Of course he used the Internet, but he mostly used his phone, and he simply had tons of contacts and phone numbers and everything else. And he had known people for decades. He was clearly a networker. [...] He had incredibly good insight into what happened, what was going on, and what was going to happen. [...] He simply contacted people by telephone. Knew them. Got hold of someone. [...] I saw part of his entire network; I was down in the engine room to see whom he really talked to. And there were all sorts of strange places where you thought holy moly. [...] So, you go out into an alley and knock on a door, and suddenly there is a tool factory.

The experienced agent also had a role in improving the company in other areas. For instance, he was an important source of expertise for the company regarding more basic, but essential matters such as customer contact. The CEO recalled:

He developed us. I would also say that, even though we did not get as much out of him [market wise], he was actually helping develop us as a company. Also, with respect to how we should approach customers and things like that. These are things that we have used a lot when talking with our Danish customers.

However, at that time the British economy was fragile. It was not until 2005–06 that the market picked up, and by the time potential customers had been identified, the financial crisis hit the United Kingdom. The company had managed to sell a couple of projects by the time the UK agent retired in 2012, but not enough to look for a new agent. So, the company discontinued the internationalization because of the limited results compared to the large amount of time spent, and the difficulty of identifying a new qualified agent. As the CEO said, “it would be like searching for a needle in a haystack.”

Today the company does not have any exports to the United Kingdom.

Figure 5.3 Key steps in the internationalization to Norway.



Meanwhile, the company also attempted internationalization to Norway. In 2004, Norway experienced solid growth, and Danish Industry heavily promoted export opportunities for

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Danish companies. The CEO learned of a project through the Danish Embassy's website and planned a visit to Oslo six months later. A week before the scheduled visit, the company received a list of customer visits. However, it turned out that the embassy had only been successful in scheduling two visits. Moreover, when the CEO arrived in Oslo, he learned that the embassy had organized programs about Norwegian culture and business practices for other Danish companies. He explained:

I did not know anything before I finally ended up in the middle of all that. Everybody else knew each other. It [the project] was a little unprofessional at the time. I remember at the introductory meeting there was someone who complained that he had only received four leads. Then, there was another guy who said yeah, but you are the one who have gotten the most.

Company C visited the two Norwegian companies, but it was not a success. "I do not know if they just did not have the heart to say no to the meeting," said the CEO. Company C therefore returned to Denmark without orders. Six months after the visit, they received a purchasing enquiry from a large Norwegian company.

I did not visit them [the company] at the time, but our name and the profile of our competences was left with them. Then all of a sudden, we were just there. So, we got in that way, and that was quite splendid.

Over the subsequent two years, Company C sold for a million DKK worth of products until the Norwegian purchaser was replaced and orders ceased. Rather than using the Danish Embassy again, the CEO decided to attend a trade show. In 2006, they visited the trade show they had become aware of a couple of years earlier. In 2010, they had their own display stand at the trade show. This was the first and only time Company C had exhibited at a trade show.

### 5.3.3 Norway 2014

After solid GDP growth in 2004–07, the economy slowed down. In 2010, the financial crisis hit Norway: "Absolutely nothing happened. [...] At that time, the Norwegian market was dead." In the following years, Company C redirected their efforts toward the Danish market, particularly one large Danish customer. However, when the same customer cut orders from 40% to 15–20% of the company's revenue, they decided to attempt internationalization to Norway for a third time.

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We are going back, and now we are doing it with a different model. [...] Back in 2010 when we tried [to enter the market], there was a crisis in Norway. In 2010, we participated at a trade show they have up there. Right now, we are doing it differently. We will do it via a telemarketing agency, a quite good one.

The CEO first heard about the telemarketing agency through his network group.

There were obviously a lot of people who had tried a lot of things. [...] Many had begun to point to a company called FGT. [...] Within the network group, I think 25–30% of the companies have used FGT on one or another market or in some project.

Company C employed the agency in the summer of 2014, but despite high expectations, the cooperation ended shortly after. The falling oil prices had affected the market, and Company C saw no reason to pursue the Norwegian market. In the spring of 2015, the company made a last attempt when they attended a two-day event in Norway organized by the Danish Embassy. During the two days, Danish companies were introduced to the opportunities and the potential of the oil and gas industry in Norway. Yet, the event confirmed the CEOs view that, “the Norwegian market was not particularly fun” at the time. “Right now, [January 2016] Norway has been put on the back burner.”

#### 5.3.4 Other markets

In the past, the CEO has considered exporting to Spain. In 2008–2009, the CEO contacted a former Danish business contact in Spain and enquired whether the Spanish market would be suitable for the company.

He just wrote back to me within 20 minutes: ‘good to hear from you, stay away from Spain for the next four-five years, it is hopeless down here.’ Well, fine. Then you can say we will do no more about this. We have to stay away from the Spanish market.

In 2015, the company again contemplated exporting to Spain. The CEO had noticed that Spain had begun “to show reasonable growth rates.” The CEO therefore wanted to investigate whether there was a market for their products. In the spring of 2015, he went to Barcelona where he had a meeting with another former business contact, who he defined as “a market screener.” “We met at a hotel and talked for a couple of hours,” the CEO said. Ultimately, the CEO decided that the company’s products would not suit the Spanish market, and that it would be too difficult and take too long. “The road is a little longer [to the Spanish market], so we would have to spend a lot of time on that. So [instead] we will probably have to pick some of the low-hanging fruit.”

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### 5.3.5 Outlook

As of January 2016, Company C still monitors the Norwegian market, but the focus is on their Danish customers. As the CEO noted, “over the past years, our export share has declined simply because we have not had the resources and the time to look at it.” Today, the company is in the process of restructuring their operations. The company’s exports account for 0–5% of total revenue.

## 5.4 Case Company D

Table 5.4 Case Company D.<sup>10</sup>

Established	Mid 2000s
Industry	Machinery
Type	Joint-stock company; owner-managed
Employees	50–99
Sales	15–2000 (1000 DKK)
Decision to internationalize	Necessity
Major geographic markets	Norway, Sweden, Germany
Beginning of internationalization	2012
Type of international operation	Export
Revenue from international markets	15%
Interviewee	The CEO/co-owner is in his mid-50s. He has a Diploma in Business Administration, and is fluent in German. Little international experience.

The company was established in the 1950s and acquired another machinery company in the mid-2000s. The interviewee became CEO and co-owner two years after the company was established. At the time of the first interview in 2014, he had worked with the company for three years. He has an extensive background as a manager of several subcontractor companies in the metal industry. He is a member of different network groups and on several boards and believes that collaboration with other companies is an advantage, particularly for a small company. A few years ago, the company formed a strategic partnership with two other sub-suppliers in an attempt to accommodate and attract more domestic and international customers. At that time, the financial crisis had left its mark on the industry. As he said:

<sup>10</sup> Shortly after the follow-up interview in 2015, the CEO left the company.



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Something had to be done. We began talking about it four or five years ago, but back then, we were too busy to do anything about it. Now the crisis has led us to understand that we must do something to strengthen our businesses.

The three companies decided to formalize their collaboration by establishing a joint company. The collaboration of the companies was encouraged and assisted by the Business Development Centre Denmark<sup>11</sup>. Despite high expectations, the strategic partnership did not work. Regardless of the unsuccessful collaboration, the company still believes in the value of collaboration and strategic alliances. As he explained: “It was a good idea, and I still believe it is. [...] So, we are really very committed to finding some companies to work with because we believe that is the right way to do it.”

While Company D has more than 50 years of experience, it is only recently that the company has attempted to enter the international marketplace. In the past, the company focused on the Danish market. The CEO explains that the company’s internationalization is also a consequence of the fact that thousands of industrial jobs have been lost in Denmark in recent years. As many of the company’s customers have relocated to other countries, the company has to seek new customers outside Denmark. The CEO believes he would be tempted to stick to the Danish market if there were enough customers. However, he also recognizes the fact that, “the world has become more international” and that the Danish market is too small. Thus, for Company D it is important to spread risks across several markets and industries. As the CEO said:

I think you always seek to minimize risk. And that is what you do by partly trying to spread across several industries, and within the same industry you also try to spread out on more customers, to have as little risk as possible.

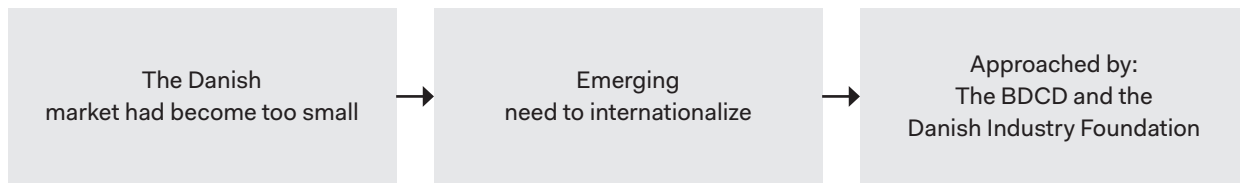
They do not have strategic plans for a particular market. As the CEO and co-owner of Company D said: “if it turns out that it is really difficult to compete in Sweden, then it is better to continue in Germany and Norway.” Accordingly, they have targeted multiple countries. In early 2012, the company began internationalization to Norway. They attempted to enter Sweden later in 2012, followed by Germany in 2013.

In the case of Norway, Company D was approached by the Business Development Centre Denmark and offered the opportunity to participate in a project. In the case of Germany, the company was approached and offered to participate in a project by The Confederation of Danish Industry and the Danish Industry Foundation.

11 They had a program that sought to create the necessary framework for cooperation, networking and establishment of clusters among SMEs. The objective was to strengthen and increase the companies’ innovation and internationalization through business-based networks and a greater emphasis on growth clusters.

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Figure 5.4 Key steps in the internationalization of Company D.



#### 5.4.1 First internationalization

##### *Norway 2012*

The beginning of the company's internationalization was a project with the local trade council and the Business Development Centre Denmark. Company D was invited to participate in three thematic days during which selected companies were introduced to the German market, the Norwegian market, and the Swedish market by consultants from the three embassies. Out of the participating companies, eight companies chose Norway, one company chose Sweden, and one company chose Germany. Company D decided on the Norwegian market because "Norway was full steam ahead, so it was an attractive market to enter," as the CEO said. The company had not thoroughly researched the market prior to this decision. Instead "it was really more a general belief that there was a market for us," said the CEO.

The process took three-four months. During that time, Company D received a couple of hours of assistance from the Danish Embassy in Norway. For instance, the embassy called a couple of companies and organized four company visits. "But that was basically all the help we got," the CEO concluded. Company D later received orders from one of the Norwegian companies. In their efforts to enter Norway, the company also exhibited at joint pavilions at the embassy. They established contact with a Norwegian company, which they later employed as their agents in Norway. As the CEO explained:

They drive around Norway and find potential customers, so that if I travel to Norway, customer visits have been organized in advance. And it saves me a lot of time, because I do not have to spend all the time on the road. We pay the Norwegians to do that.

But even though they had assistance, the CEO also found that it was a much slower process than they had anticipated:

We began almost three years ago. So, it is a slow process to enter a foreign market, find potential customers who are also interested. And then the customer also has to have a need. So, it is also a bit a matter of coincidence.

When I spoke to the CEO a year later in 2015, the company was waiting for the Norwegian market to pick up again. Norwegian customers were purchasing less, and the company was

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now mostly focusing on the Danish and German markets. “Everything comes in waves. [...] And that is why you want to be present on several markets in order to spread the risk,” the CEO explained.

#### 5.4.2 Second internationalization

##### *Sweden 2012 and 2014*

Company D has attended two trade fairs: one in 2012 and another in 2014. The trade fairs did not pay off, as the company did not “get any good contacts.” Accordingly, the company did not proceed with the Swedish market, as they concluded that there was no rationale for staying in Sweden. However, in 2014 the company again exhibited at a trade show in Sweden. The Confederation of Danish Industry had received a cancellation and offered Company D a place at the joint pavilion. “And it turned out that we were right [about Sweden not being a market for them]; it did not really lead to anything.” The company got a few contacts, but not any that the CEO thought were of any use. The CEO further concluded that it did not seem as if there was a great demand for their products.

Sweden is not a market for us. There are other Danish companies that are doing well, but I do not think that we have been lucky in finding the right ones. [contacts] We did not get any good contacts on any of the occasions, and that is why we have not done more about it.

However, through a private business contact of the CEO, the company has indirectly delivered a small amount to Sweden for the past three years. Along with a small company in Copenhagen, Company D delivers components to the company, which then welds the products and ships them to Sweden.

#### 5.4.3 Third internationalization

##### *Germany 2013*

Company D has been hesitant about entering the German market because of its size. As the CEO described:

It was difficult to know where to begin, and we were a bit destitute. [...] Germany is characterized by many large companies. And it can be difficult for a small Danish company to make itself attractive to a potential German customer that is much bigger. [...]

Most companies need to make an effort because there are not that many who have such an attractive product that the customers just come to you. So for most companies like our company it is hard work to find customers. And when you do not have the experience to enter a market, then it is good to get some help.

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In 2013, the Confederation of Danish Industry had a pilot project in which they searched for SMEs to jointly enter the German market. The project was supported by the Danish Industry Foundation<sup>12</sup>, and so Company D “got the opportunity” to participate in the project. The focal point of the project was to establish two network consortia in Germany for the aluminum industry and the metal and engineering industry. The objective was to ensure a more integrated method of cooperation in which the consortia of SMEs would offer different skills that would appeal to German customers wanting to consolidate their supplier base. “The project gave us the strength and impact force.” The company had, in their own words, a more professional approach this time (compared to the approach on the Norwegian market). It was an advantage that they could use the same industrial classification codes in Germany as in Denmark. A total of 2,500 potential customers were identified for the entire consortia, and a marketing agency was then hired to call customers and determine interest among these. Prospective customers were then divided into A-leads, B-leads, and C-leads by the marketing agency. At the time of the interview, the company was in the process of sorting the leads, starting with the A-leads that had shown the strongest interest. The project had also employed four Danish agents, who lived in four different regions of Germany. They were to contact the potential customers and determine whether they were suited for further collaboration. If they were, Company D would visit the customer. As the CEO explained: “And by that time a lot of sorting had been done before we spend time on it.” Initially, it was decided that the agents would visit the potential customers and make the offers, but this was not a success. The company realized that the agents did not have the necessary knowledge of the company and their products. “So, it is very important that we visit the customers and show them our competitive products. The agents did not have the qualifications to do that.”

Consequently, the CEO spent weeks visiting potential customers in different industries in Germany:

We started in the north. I noticed that it made a big difference that I am able to make myself understandable in German. Although most people in the north can speak English, the atmosphere got better whenever I switched into German.

The CEO did not think the cultural differences were too substantial. Contemplating further:

The only thing is that perhaps it is easier to convince a Danish customer that you may be a potential supplier than convincing a German that he should go to Denmark and buy a product that he might as well buy in Germany.

12 The Danish Industry Foundation develops and supports projects and initiatives that aim to strengthen and enhance the competitiveness of Danish industry.

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The following year they received their first German order. Company D has continued their efforts in Germany. As part of their sales efforts, the company has exhibited at two joint-pavilion trade shows in 2015. Company D is also in the process of identifying prospective customers. They still use the same marketing agency [Infogate], which on this occasion has identified 400 potential companies. “It is the same procedure as last time” (Germany in 2013). The next step is for the marketing bureau to call the potential customers. If they show interest, Company D’s CEO will make the next approach. The company does not have a specific goal for the German market, but overall, they are aiming at a steady growth of 10–20%.

#### 5.4.4 Export markets

Company D’s biggest export client is a Dutch company. It was originally a Danish company that was sold to a Dutch company. Company D continued to deliver products to the Dutch company. The company was later sold to a large German enterprise, but it has continued as a subcontractor and has since gained more customers in the Netherlands. In one case, Company D established contact with a Dutch company at a trade show in Germany where Company D exhibited. From the initial point of contact, it took about six months until they had an order from the Dutch customer. Company D keeps an eye on the Dutch market, but mostly focuses on Denmark and Germany.

When asked what the future holds and whether they have considered other markets, the CEO mentioned the BRIC countries and the growth of those markets. However, the CEO believed that the company is too small. If they were to enter those markets, he felt it would be by identifying German business partners they could collaborate with, as it would be too difficult for them to find a customer in Brazil and directly export to it on their own. The company has also considered the British market. There are potential customers, but currency risks are a concern for the SME. For instance, the CEO mentions how *they* would have to take the currency risk if they were dealing with a British customer, which is why they have not done more towards the British market. Moreover, products would have to be shipped from Copenhagen. In contrast, it is easy to transport goods from Denmark to Germany.

#### 5.4.5 Collaboration

The CEO is a member of different boards and networks and exchanges experiences through his networks. “More or less consciously, you listen to the lessons and experiences of others. And that is actually what a network is useful for in some areas.” For Company D, the most difficult aspect has been to establish contact and start up a dialog. As the CEO stated: “most Danish companies are too small to act in their own. You must have someone to form an alliance with.” Therefore, the CEO believes that it is important for companies to cooperate and that the traditional way of thinking about competitors and being careful not to share information is no longer viable. As he says: “It is much better to say we are colleagues and have a common goal, and

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we have to enter the German market.” The company participates in trade shows and has taken part in joint pavilions at trade shows in Germany, Sweden, Norway, and the United Kingdom. In 2015, they participated in four trade shows in Denmark, Germany, and the United Kingdom. Company D believes that it is an advantage for a small company to take part in a joint pavilion as opposed to having a stand of their own, as it offers an attractive cost; it is convenient, as they do not have to set up the stand themselves, and more companies provide a good visual attraction.

On a trade fair, ten good contacts are a good result. “They say that if you want to enter a new market, you have to be present at the market for a while, so potential customers can see that you are serious because you attend the fair year after year.” On the other hand, the CEO contemplates that there is an element of luck involved in establishing contact to potential customers: (Speaking about trade shows):

There is a lot that has to do with a little luck. [...] If you are playing tennis and the ball lands on top of the net, then it is partly to do with luck whether the ball falls inside your own half or on the opponent’s half of the court. But it turns out that the more you practice, the luckier you are and the more often it falls down on the other side. So obviously, there is some luck to it, but it also has to do with whether or not you actively search for luck.

Reflecting further on the company’s internationalization, the CEO said:

Life is a process. If you do not get the result you want, well then you have to modify your strategy. And that was also the case in this project. But again, we are a small company, so one customer may well determine whether it is a success or a failure. So, you can say that to a great extent, luck determines if you are in the right place at the right time.

#### 5.4.6 Outlook

The company is now focusing on Germany and Denmark. For now, it has abandoned the Swedish market after a final attempt at a trade fair in the winter of 2014. As for the Norwegian market, the decrease in oil prices has affected business in Norway, so that Norwegian customers are buying less than before. The company has also exhibited at a trade show in the UK. Over the summer of 2015, the UK pound and US dollar rose significantly, and the company thought this was a good opportunity “to try the UK market.” The company heard about a small trade fair in the UK and contacted the embassy. In the summer of 2015, Company D participated in the embassy’s joint pavilion but did not purchase one of the embassy’s export packages. The company gained a couple of contacts, but nothing that has so far led to specific orders. However, the company has continuously been in dialog (through email and telephone) with one of the customers. Now, international sales account for 15%, but they hope to double their exports in the future.



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## 5.5 Case Company E

Table 5.5 Case Company E.<sup>13</sup>

Established	Mid-2000s
Industry	Machinery
Type	Joint-stock company; owner-managed
Employees	20–49
Gross profit	35 (1000 DKK)
Decision to internationalize	Necessity
Major geographic markets	Poland Germany
Beginning of internationalization	Late 2000s
Type of international operation	Subsidiary and production facility
Revenue from international markets	Mainly Danish customers
Interviewees	The sales manager is in his mid-40s. He has work experience from the Swedish and German markets. The CEO/co-owner is in his mid-40s. He has an executive MBA, and has some international experience.

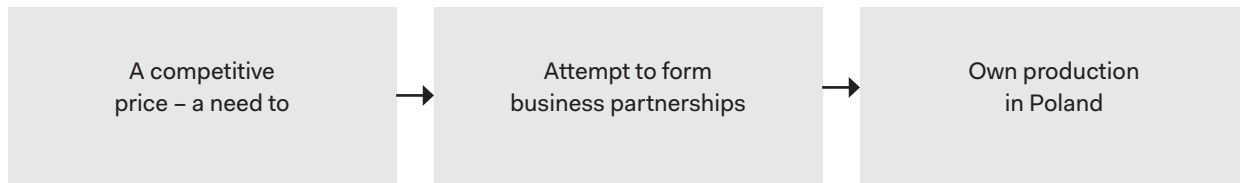
Company E has more than 40 years of experience in the business and specializes in producing metal objects and components for a wide range of industries. In the mid-2000s, the CEO and the production manager acquired the company through a combined management buy-out/buy-in. Shortly afterwards, Denmark was hit by the global financial crisis. Because of the financial crisis and the pressure of the increased global competition, Company E decided to establish a subsidiary in Poland. The CEO, who has an MBA and extensive experience from the industry, has always worked with the classic tools: slimming down fixed costs, efficiency, and strategic analysis.

I run my business as if it were someone else's; that's how I worked as a manager, and that's how I do it now. It is essential to always be prepared for the future, even if it is uncertain. So, as the owner-manager you always need to have an exit plan and 'run the business as if it were to be sold tomorrow.

13 The case is based on a telephone interview with the sales manager in October 2014, and supplemented with citations from a presentation made by the CEO in 2015 as well as various news articles. The sales manager left the company in early 2015

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Figure 5.5 Key steps in the internationalization to Poland.



### 5.5.1 Market choice

Competition in the machinery industry is fierce. The company is acutely aware that a vast number of companies manufacture similar products – both domestically and globally. The financial crisis put further pressure on an industry already experiencing difficult growth conditions. Thus, Company E decided that they had to offer a more competitive price.

The purpose of internationalization was as much to serve our Danish customers, who are constantly demanding lower prices, as it was to acquire customers abroad. [...] I would say that in 90% of the cases, it is all about price, price, price, and that is why our CEO had to do something drastic. [...] So, it was our customers' needs that actually determined our strategy.

The internationalization process began in the late 2000s when the company established its production facility. Several customers had previously expressed a wish for Company E to start production in an Eastern European country. The CEO explained:

When we established production in Poland we did it out of necessity, because of the increased competition from the Baltics, Eastern and Central Europe. But then we suddenly realized that we could attract customers who had previously purchased goods from India and China.

Poland was chosen strategically because of the low prices and inexpensive labor. Moreover, the proximity to and central location between Germany and Denmark was a decisive factor. For Company E, the proximity means that the company is more flexible, as their truck operators do not have to worry about the EU regulations regarding rest periods.<sup>14</sup>

14 According to EU regulations, the maximum time drivers may drive each day is nine hours. This may be extended to 10 hours twice a week.



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### 5.5.2 Market mode

The Danish company name was replaced by an international-sounding name, thus emphasizing the company's commitment to a stronger international presence. Indeed, a characteristic of the company is their commitment to long-term strategic planning, and adaptation to increasingly volatile markets without being afraid of establishing long-term and ambitious goals: "as owner-managers, we have to remember to be ambitious." To achieve this, the company continuously strives to work strategically, set goals and plan, as much as possible. Though, as the CEO said, "we revise our business plan annually, but our business plan is outdated already before the ink has even dried."

The CEO began searching for Danish business partners and Danish companies that were already present in Poland. However, at that time, not many Danish companies were present in Poland. Through network connections, the company initially attempted to collaborate with another Danish company that already operated in Poland. However, this did not work out, and the company decided to start by itself. In 2010, Company E bought a small Polish company with a few workers.

So, there was a bit of fumbling, and days went by, and then we bought what we still call 'the hen house.' It was simply an old chicken shed. We started out conservatively, little copper items with a little padding, simply to find out whether it was something that could be done. And as it turned out, it could.

As the CEO explained, "we had to start somewhere." Only four years later, the company had grown from seven to almost 140 employees in Poland.

### 5.5.3 Cultural differences

For Company E, it is a problem to retain workers in Poland. The sales manager notes:

As soon as the workers get certificates and more competencies, they leave the company. And I would say that that is the biggest problem we have right now in Poland. It is simply the lack of good workers. It is completely ridiculous, but it's a fact.

He reasons that even though Denmark and Poland are geographically close, there are still substantial cultural differences that need to be considered when entering a foreign market. Every week the CEO drives to Poland on Monday afternoon and returns to Denmark on Friday morning. The sales manager himself speaks with his Polish colleagues daily, both on the telephone and through email, but language difficulties and cultural differences are a challenge to the communication. He speaks a lot about cultural differences in a variety of ways, including about the Poles and their "laissez-faire attitude." Moreover, he is frustrated

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that the Polish workers persistently make promises that they know they will not be able to keep. As he concludes:

It has been difficult. But we keep our factory today, and we fight. We struggle every day to get this to work out, and it is not easy. It isn't. It is not on the same terms that we see at home.

The sales manager prefers the German market, where the company is increasing efforts to improve sales. As he said, "it is a pleasure" (compared to the Polish market). At the same time, he is aware of the challenges of being a foreign company in a host country.

But, on the other hand, when I approach a German company, it is still very different, and that's the same when they visit us. Because they know that they are the ones that will have to do the work, and why on earth would they suddenly want to work with some Danish company that cannot do something that is not in their neighborhood, for Germans prefer doing business with Germans.

The sales manager acknowledges that it takes time and patience to develop relations with Germans. Thus, he calls them once a month to keep in touch. And he makes sure to visit buyers, engineers etc. whenever he is in Germany. "Also, just to say hello. Always being service-minded. They like that."

Company E has also previously participated in joint exhibition stands organized by the Danish Embassy. However, this time the company is planning to attend a trade show along with a couple of SMEs they know from the industry. Other sales efforts in Germany include presentation videos in German and collaboration with Infogate.

#### 5.5.4 Outlook

We are asked on a regular basis if we want to do something in Romania. And we say 'no way.' Well, it won't happen. It is way too difficult. It requires too much. And simply the people down there, just working with the different cultures, that would require almost several generations to get things changed. It is simply too difficult.

The sales manager also refers to other companies that have "internationalized to Ukraine, Asia, China and have returned with a shrunken wallet because they have spent a lot of time and energy on making something work that could not work, simply because of the differences."

Annual reports confirm that the period 2011-13 was marked by a competitive market and declining sales in Denmark. In a continued competitive market, the company achieved an overall growth of more than 30% at the corporate level for the financial year 2013-14. The

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company has allocated more resources to the Polish subsidiary. Numbers in early 2016 also indicate that Company E is expecting substantial growth in the coming year.

This growth was achieved by increased volume and the continued expansion of activities in the Polish subsidiary, particularly because of the CEO's success in establishing formal partnership agreements with Danish companies. The agreements, usually spanning from three to six years mean that Company E takes over the machinery production, thus allowing the partner company the benefits of production in a low-wage country without being responsible for it themselves. "We have worked on developing our business from being a generic sub-supplier into establishing close formal partnerships."



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# 6

Case Company H I J



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## 6 Case Company H I J

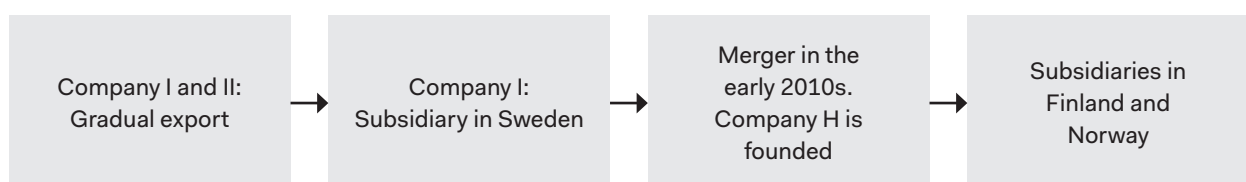
### 6.1 Case Company H

Table 6.1 Case Company H.

Established	Early 2010s
Industry	Food distribution
Type	Joint-stock company; manager-led
Employees	20–49
Gross profit	43 (1000 DKK)
Decision to internationalize	Strategy
Major geographic markets	Scandinavia
Beginning of internationalization	---
Type of international operation	Export, subsidiaries
Revenue from international markets	---
Interviewees	The CEO is in his late 30s. He has a Master's degree in Business. He is fluent in English, German, and Spanish.

The company was established in the early 2010s through the merger of two companies (referred to as Company I and Company II). Company I had over 15 years of experience and Company II had over 10 years of experience. Both companies sold groceries to the Scandinavian retail industry under their own brands and private label products. Speaking of the merger, the CEO (and former CEO of Company I) said “the companies complement each other well, and together we can strengthen our position on both the Danish market and foreign markets.” Prior to the merger, both companies had had some export to other European countries.

Figure 6.1 Key steps in the internationalization of Company H.





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### 6.1.1 Market choice

Today Company H is well positioned in the industry and supplies goods to a large number of retail chains in Denmark, Finland, Norway, and Sweden. In addition, the company also exports to Germany, the United Kingdom, and Poland. However, the company does not have any intention of focusing more on markets outside of Scandinavia. “We also need to be careful not to run in different directions. Our main business lies in Scandinavia, and we have to hang on to that.”

The company gradually started exporting from their office in Denmark. As he explained:

We were already present on the Finnish market and sold a bit there before we established the office in Finland. We knew the market and had been there for three-four years. Then we took the jump to say, let us invest and hire some people. [The same applied to Sweden] We had some export back in the days. And at one point you decide to take the next step.

Essentially, Company H strongly believes that they must be close to their customers in each market. The CEO further explains:

The recognition that such cultural differences exist is precisely why we establish ourselves in these markets. We see that it is very important that we have a Finnish contact to the Finnish chains rather than exporting from Denmark. [...] So a Swedish retail chain would rather do business with a Swedish key account manager than a Danish one. And that will also be the case in Finland and Norway.[...]

We can only achieve that by being present locally on the individual markets. We cannot sit in Denmark and export to Sweden. We have to be present on the Swedish marketplace. We have to know the retail chains. We have to know the market. We have to have a presence. That is what justifies our existence.

As the CEO also said:

It is obvious that because we are a company without our own production. We have to really explain why a certain chain should not buy the goods directly from the manufacturer in Italy. What is our justification as an intermediary? So, we spend a lot of effort on explaining how we create value.

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### 6.1.2 Research and market entry

#### *A professional approach and the right people*

Because of the company's size and assets, they benefit from somewhat wider choices. In fact, they do not have to rely on the experience and learning of others, form partnerships, or seek assistance from the embassy or the Business Development Centres. As the CEO explained: "Actually, we run things ourselves, evaluate where we are going [marketwise], and then we get going." While the CEO is a member of network groups, he does not view network relations as essential.

If I have to be honest, then no. They are of no importance. Because many of the issues you grapple with in the company are not of such a nature that you can solve them in a network group or something like that. That is not my experience. These are things that have to be solved internally, but you do get something. You can get some knowledge, you can get some inspiration, you can hear about how others do it, but we do not talk about specific issues in the company and ask for input.

Again, a local market presence is essential for Company H. A few years after Company H was established, the company decided to open offices in Finland and Norway. Market research was conducted by Danish salespeople who identified a market potential. The next step in the process was hiring the right employees. The CEO was determined to approach the recruitment process differently than had been the case in earlier situations. For instance, when the first subsidiary in Sweden was set up, the Swedish country manager was found through private networks in Sweden.

And then we asked, do you know someone who knows someone? And it is not good idea to believe that your network can just point to the best man somewhere. He might be the best man, but you need a professional search for candidates before you can establish something.

The CEO hired a recruiter to screen the Finish market for potential candidates. After eight months, Company H hired its Finnish country manager. Recruiting the right salespeople is vital. The CEO explained:

We must get in and hook up with talented suppliers and then we have to get people who know the retail market. [...] The most important thing for us is to find the candidates who have the right network in the Scandinavian retail chains. [...] That was crucial.

For example, it is important that the candidate has a network at the level of purchasing managers, senior management, and preferably also top management level. As the CEO says:

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“It was experience and network relations in the Finnish retail trade that were absolutely essential in the choice of the employee we hired.” Employing an external agency for the recruitment process is expensive, but the CEO prioritizes fully exploring the market for the right candidate and especially for those candidates who are not on the job market.

Thus, the internationalization process of Company H has been gradual, starting with export and then creating subsidiaries in Scandinavia. Talking about entering the Finnish market, the CEO said:

It is a delicate process, you could say. We are learning a bit, we are learning how to enter the market, we have begun to scratch the surface, we are learning which commodity goods and concepts work. And when we get the feeling that it may lead to something great, then we take the next step, where we invest and recruit.

### 6.1.3 Outlook

At the time of the interview, the company was still considering whether to establish themselves in Norway.

Yes, we are considering it. But we have plenty to do yet. [...] It is a difficult market to enter tariff-wise. We are selling a number of items up there today, but we must of course evaluate and determine whether, if we are to establish ourselves in Norway, is the market potential large enough to justify having an actual office there?

One year later, Company H had established a subsidiary in Norway. Ultimately, the company decided to have a local presence on the market and strengthen their contact to customers.

Sales have tripled in Finland, while turnover in the Norwegian market has doubled. Company H has high expectations for the Scandinavian market. They do not have any intention of pursuing markets outside Scandinavia.

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## 6.2 Case Company I

Table 6.2 Case Company I.

Established	1970s/2000s
Industry	Food distribution
Type	Joint-stock company
Employees	500–999
Gross profit	19,500 (1000 DKK)
Decision to internationalize	Strategy
Major geographic markets	Sweden
Beginning of internationalization	Late 2010's
Type of international operation	Warehouse
Revenue from international markets	---
Interviewees	Interviewee A, HR-manager, Danish female in her mid-40s and sales manager, interviewee B, male mid-30s. Interviewee B is Swedish, has an academic degree, and has previously lived in Germany for several years. He was employed specifically to assist in entering the Swedish market.

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Company I is a total supplier of food and nonfood products to the Danish food service industry. This includes restaurant operators, catering operations, institution cafeterias, and the hotel industry throughout Denmark. In the 2000s, the company was sold to a large foreign European company. Today Company I operates as a Danish subsidiary. A few years later, the parent company decided to establish a Swedish subsidiary.

The expectation is, of course, that we will be in charge of that and then we will figure out what it takes, what the limitations are, how we solve them and how we do it in the best possible way along the way. That is the procedure. It is not like a lot of surveys were conducted and it was then decided to embark on that venture. That is not how we started out.

While Company I is owned by a large company, “they have nothing to do with the company. There are numerous small things that we have to consider [ourselves], and that can be difficult.”

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### 6.2.1 Market research

When Company I was sold to the foreign company, the parent company assumed its food products could easily be transferred to the Danish market, without investigating the market and customer preferences. “We know what they did wrong when they came to Denmark. You have to be careful not to make the same mistake in Sweden,” said interviewee A. Accordingly, Company I has a humble approach toward internationalization. “We talk about humility when dealing with markets. That is why we are doing it this way, by first learning how the market functions and how things are done in Sweden.” Company I is very conscious of doing their research properly. Both with regards to bureaucracy and market research for example, whether the product range suits the wants and the needs of the Swedes. “We want to make things right, make sure that we are doing everything right.” Interviewee A further explained: “the pre-study [research] is extremely important because otherwise you might invest an awful lot of money. And it may go wrong [...] We start small.” As Interviewee B further noted, “We cannot force anything upon the Malmo area that they do not need. We have to find out what they need.”

Interviewee B was employed to assist the company in entering Sweden. He was a professional athlete for many years and is a household name in Sweden. He was hired as the new sales manager because of his network and visibility. While he has previously lived abroad, he did not have any “formal” international experience. Accordingly, knowing what to do and such was a challenge:

So, at the beginning of the year when we were entirely new and no one had heard of us, when you started in the morning and thought, ‘What the hell do I do now? What should I do today? And where do I start?’

Thus, the company took a network approach in which he was an asset in getting through to Swedish sub-suppliers and in terms of accessing decision-makers and the executive level. “If I get an invitation, then I go for it. I will attend anything I used to decline. [...] Now, if I get an invitation for an event, I will attend.” Interviewee A elaborated:

One might say that the time he spends on his contacts and on attending something that may not have anything to do with the business is spent in the hope of meeting some people who may be useful in some connection at some point.

For Company I, it is important that interviewee B can develop and maintain his network.

If suddenly we need to know something about this, that or the other, he can say, ‘well yes, but that guy over there he used to know that guy, or he might get me in there.’

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That is invaluable. You cannot read books about that, and you cannot buy it. It is really tricky. And you might say that we cash in on his past. That's how it's done.

Figure 6.2 Key steps in the internationalization of Company I.



### 6.2.2 Market entry mode

The company's internationalization to Sweden is its first venture. Following the head-quarter decision to internationalize, the research process was initiated. At the time of the interview, the company had been present on the Swedish market for nine months. The process has been step-by-step, starting with thorough market research to determine which products are suitable for the Swedish market. During the process, Company I encountered a number of unexpected difficulties. In particular, bureaucracy has been an issue: "Bureaucratic systems are a jungle. And if we were not used to working with it in Denmark, then we would probably have given up in advance," said interviewee A. Interviewee B added: "there is very little cross-border cooperation. You keep your market for yourself. We would like to bring the markets together. But we also experience some resistance there."

"You think Sweden and Denmark are similar in so many areas, but administratively there are so many restrictions," said interviewee A, while interviewee B continued, "It is completely different. It is a totally different playing field. It is difficult. We spend a lot of time on that. So there are absolutely many huge challenges when entering another market."

While the company has had contact with the Confederation of Danish Industry with respect to minor legal matters, they mainly use network relations in the research process. Here, they have experienced a difference between knowledge sharing in Denmark and Sweden. Sharing experiences within the industry in Denmark is unusual. There are only few large competitors in Denmark. For the Danish market, Company I does not believe in learning from the experiences of other companies. Rather, "we believe in learning how to be on the market. As I said, you acquaint yourself with the market and start getting to know the market," said interviewee B. In Sweden, market conditions are discussed with other companies.

In Sweden, it works in a slightly different way. In order to gain experience, I have talked to a lot of small distributors who are not our real competitors. [...] I have talked with small distributors because you can get invaluable information about the market. How it works, the local aspects, who are the big players, who are good at it, and how.

### 6.2.3 Outlook

In the latest financial year, Company I achieved double-digit growth in revenue. The company further expanded their product range and facilities in Denmark.

## 6.3 Case Company J

Table 6.3 Case Company J.

Established	1950s
Industry	Machinery
Type	Joint-stock
Employees	100–199
Sales	27,000 DKK
Decision to internationalize	Strategy
Major geographic markets	Worldwide
Beginning of internationalization	1980s
Type of international operation	Export and joint venture
Revenue from international markets	90%
Interviewee	The CFO, and former business development manager at the company, is in his mid-50s. He has an MBA.

Company J develops and manufactures agricultural machinery and equipment for industrial use. The company has a long history of internationalization, which began with their first subsidiary in the United States more than 30 years ago. The CEO at the time was very committed to selling their products internationally. Today, Company J has sales offices in China, the United States, Australia, Hungary, Germany, and France, as well as a legal unit in Ukraine. Moreover, the company has close business relations with the Netherlands, Poland, and other markets in Europe. More than 90% of the machines produced at the Danish production facility are exported.

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In the 2000s, the company established their first joint venture in India. The company has sold machinery and equipment to the Indian market since the 1980s. In the 1990s, the CEO met the owner of a large Indian company at a conference. The two companies began collaborating, and throughout the 1990s, the Indian company was licensed to produce Company J's machines. In the early 2000s, the company experienced some difficult times. The company's co-investors had different strategies and visions for the company. The CEO acquired all the shares, and in the early 2000s, the company, assisted by the Investment Fund for Developing Countries (IFU), created a joint venture with the Indian company. Some years later, the Indian joint venture partner acquired Company J. In the period that followed, the Danish CEO retired, and the new Danish CEO and the Danish management group implemented a new strategy, i.e. to return to the company's core competences. The company streamlined its operations by divesting different parts of its business activities.

### 6.3.1 Market research

To further improve efficiency, the Chief Financial Officer (CFO) developed a model of the world market to estimate total market demand. Because Company J operates within a niche market, there is no immediately available data on the global market. Based on different factors, numbers, and indicators, Company J calculated a rough estimate of the potential market demand. At the moment, the company has a list of 15 to 20 markets that are deemed suitable. At some markets where they are not yet present, the strategy is to visit trade shows, in other markets the strategy is to have a legal unit, while in yet other markets the approach is to identify distributors. Thus, different steps and approaches are applied.

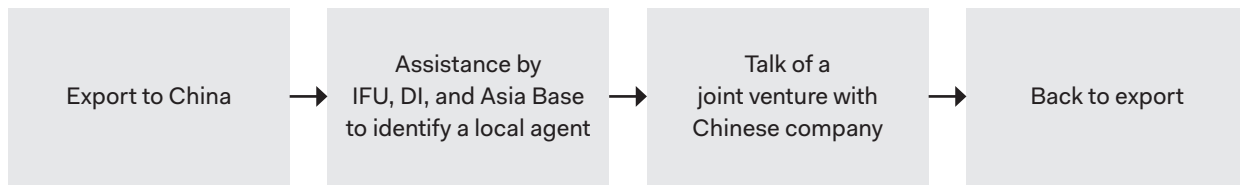
So, there are many ways of working, but it is also what makes it take so long because it is important to find the right distributor. You can easily find a distributor, but it has to be someone who really prioritizes your product, spends time, and uses the energy to build it up.

In the past, Company J has been assisted by the Federation of Danish Industry (DI), private consultancy agencies, the Investment Fund for Developing Countries (IFU), the Nordic Project Fund (Nopef) and the Danish International Development Agency (Danida). The various organizations have been used for funding and market research, innovation of the products, and internationalization of the company. For instance, DI assisted in personnel matters, and Danida assisted in financing several projects around the world, while Nopef assisted in market research. Over the last 15–20 years, they have had different approaches to the different funds, and have focused much on available public funds, and “the possibility of getting more help with speeding up decisions in companies of our size, even though we are not a huge company.”



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Figure 6.3 Key steps in the internationalization to China.



The latest internationalization target has been China. Back in the early 1990s, the CEO at that time started exploring the opportunities in China. However, it was not until the 2000s that the company hired a local agent in China. Assisted by IFU, Asia Base and DI, and the “Own Man in China” (OMIC) program, Company J employed a local agent in China. The company was very attached to the OMIC-program, which is a concept built on the belief that “having a local employee with a comprehensive understanding of the language, culture, and market is imperative in order to succeed in China” (DI-Asia Base Business Service Ltd., 2016). The Confederation of Danish Industry made all the preliminary screenings, and then the sales director went to China to conduct the final interviews with potential candidates. Likewise, DI officially employed the worker and handled all administrative issues. “Actually, it is a simple way for companies of our size and smaller to get started.”

### 6.3.2 Market entry

Thus, they had already begun selling machines to the Chinese market when a small Chinese company approached them one summer in the early 2010s. The two companies discussed back and forth, and in the fall, representatives from the Chinese company came to Denmark. Company J visited the company in China shortly afterwards. After 18 months, the partnership was formalized. “For us it was the best way to get started.” [in China] [...] Within the foreseeable future, we will see if we cannot buy them out. When the company is really up and running.” Company J subsequently took contact to the company Asia Base to find further information about the Chinese company. Asia Base, who along with DI also helped Company J with the OMIC program, is a Danish consulting company that assists companies in establishing business in China. This includes legal analysis, pre-investment analysis, and market analysis, etc.

Company J deliberately took their time to make sure that the Chinese company was “dedicated and enthusiastic throughout the process.” The decision to create a joint venture in China was also based on the experience from India:

If we had not had a strong Indian partner that really knew the culture, the authorities, rules, and everything else, it would have been a *completely* different process. And we would have used completely different resources to get it up and running.

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The joint venture was undertaken by the CFO, who went to China every two to three months. He quickly sensed that establishing trust and building relationships and continuous adaptation to the culture was essential. By nature outspoken, the CFO's approach was that he would rather ask than be in the dark. As the CFO stated:

The only way to get an answer is by asking the question. [...] And I passed the threshold years ago, so I have no problem revealing that there is something that I do not know.

For instance, the CFO experienced that the Chinese were very slow in responding to e-mails, and sometimes did not reply at all. To overcome some of the communication difficulties, the parties therefore initiated face-to-face video meetings every second week. Moreover, the CFO realized that he had to "give more of himself" on a personal level. For instance, he made an effort to tell more about himself when meeting the Chinese business partners.

That was part of the reason that things actually accelerated. [...] I gave more of myself than perhaps was necessary. 'When in Rome,' as my old MBA professor used to say. So, when you are somewhere else, you have to some extent to do like they do while still remembering your own values and morals. And then you have to make some adjustments.

At the same time, the CFO believes that cultural differences, patience, communication, and building relations are essential. For example, the CFO noted that:

We have to remember that when we go to China we are Danes who have learned English, so we speak a kind of Danish-English. The Chinese we talk to are Chinese who have learned English. So they speak Chinese-English, and they put a little of their culture into the English language, and we put a bit of our culture into the English language. We use some of our sayings, and once in a while we think that we can translate a Danish idiom into an English idiom. For instance, when we say this something like 'an orange in the turban'<sup>15</sup>. Well, frankly nobody understands that, and I think that is part of what I learned.

Essentially, cultural awareness was important to the CFO when interacting with the Chinese. "And I think that is one of the things that we perhaps underestimate." While relationships are crucial, the CFO does not particularly believe in the value of network groups. For instance, he is not a member of any network groups and does not spend time on developing his network.

<sup>15</sup> Danish idiom "få en appelsin i turbanen" meaning "to have a stroke of luck."

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It will not do me any good just because there is another CFO who knows a little bit more or a little bit less about the regulations than I do. On the contrary, I am always looking for someone who is different from me, and many of those I have linked up with [on LinkedIn] are not so much because they are exciting in themselves but because of those they know.

For instance, the CFO uses LinkedIn to maintain relations as he sees it as a valuable tool in keeping contact with connections he has not been in touch with for several years.

### 6.3.3 Several first times of internationalization

Company J has decades of experience and a wide global reach. While international experience is valuable, the CFO explained how:

Companies can actually experience several first times of internationalization. That is because the gallery of characters constantly changes as well. Many companies, including ours, are perhaps not always great at writing down thoughts and experiences on paper. And that is why, during my time with the company, we have run into actually having several first times because people have retired or moved on. And I think that is what differentiates companies from humans because you can say that hopefully you only make the same mistake once. But companies can actually make the same mistake several times because it is made up of people, and it may be new people next time the situation comes along. And then you do not have the experience from the previous time.

The company has also experienced withdrawal from a market. The company had some good years in the 1990s, and in the early 2000s, the company decided, “it would be good for us to have a place where we could produce some of our parts cheaper.” However, they had not sufficiently considered the objectives for the factory. Within a year, Company J had established a factory in Lithuania. “It was never a success. And it cost us a lot of money until we decided to dispose of it again.” The company did not have a clear objective with the factory, and rather than being an asset, the production proved to generate more disadvantages than advantages. Moreover, “the volume and the amount were too small.” After a couple of years, Company J decided to close the factory in Lithuania.

### 6.3.4 Outlook

The political crisis in Ukraine and the currency fluctuations in Russia had an effect on business activities in 2014. Many orders were cancelled and/or postponed, which led to a considerable drop in revenue and income in 2014 compared to the expectations for that year. The issues in Ukraine and Russia have strengthened the company’s focus on other markets.

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However, to refocus the effort on market development takes time. Competition remains strong in the industry. Company J expects the focus on the development of new markets in Eastern Europe to generate increased business.

At the time of the interview in 2014, the company was in the early phase of its new joint venture with the Chinese business partner. However, a few months later, Company J decided to abandon the joint venture. According to the CFO, the two companies had “different expectations” of their collaboration. As of 2016, the company only operates in China through their Chinese agent.



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# 7

## Cross case analysis



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## 7 Cross case analysis

The cross-case analysis is based on in-depth interviews with case companies. The within-cases in Chapters 4, 5, and 6 illustrate how internationalization is CEO-dependent. It matters whether the CEO is a driven as opposed to a reluctant CEO who views internationalization as a mere necessity. Moreover, findings show that mature SMEs select foreign markets that are close to Denmark. The previous chapters have further revealed that companies do not engage in increased or systematic planning. Many case companies highlight that they were not aware of how to obtain knowledge. Thus companies appear to go through an unstructured phase of searching for customers and market knowledge to increase their possibilities.

Below my findings have been categorized and illustrated by means of representative quotes from the interviews. Thus this chapter will answer the research question, which I proposed in section 1.3. To explore the internationalization process in terms of pre-entry market research, market choice and entry mode choice in the context of mature domestic-oriented SMEs, the following issues are addressed:

- (1) What makes mature enterprises with a domestic market orientation decide to internationalize?
- (2) How do they select foreign markets?
- (3) How do they conduct market research, and choose the appropriate market entry mode?

Within internationalization process research, knowledge acquisition and learning are thought to have a profound impact on internationalization (Johanson & Vahlne, 1997, 1990, 2006, 2009). But few studies address why and how firms choose a market (Chetty, Ojala, & Leppäho, 2015), and how they acquire the knowledge needed to reduce a knowledge gap (Petersen, Pedersen, & Lyles, 2008). Muzychenko and Liesch (2015) have noted: “Johanson and Vahlne (2009) do not explicitly address why, when and how the process of new international market entry begins, other than to assume ‘knowledge of opportunities and problems’ initiates commitment decisions.” (p. 704) Accordingly, scholars have called for qualitative explorative research (Rialp, Rialp, & Knight, 2015, p. 18). This empirical study strives to diminish the gap by providing new explorative insights into the early internationalization phase of mature SMEs.

In continuation of the stand-alone case descriptions in the previous chapter, I here present the cross-case patterns found in the internationalizing SMEs. I have adopted Eisenhardt’s (1989) method of selecting “categories or dimensions,” and subsequently look for “within-group similarities coupled with intergroup differences” (p. 540). The analysis is structured around “pre-engagement,” the “initial phase” and the “advanced internationalization



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process,” inspired by Leonidou and Katsikeas (1996); see section 2.2.2.3. Internationalization is a dynamic process that occurs over time, and accordingly the themes and categories are difficult to isolate within each phase. But in order to summarize data, the structure was chosen as a useful way to provide a broad overview.

## 7.1 Pre-engagement

### 7.1.1 Necessity or ambition to internationalize

We do not know what shapes internationalization decisions. Thus, it is important to discover the motivations to internationalize and “these motivations also help to explain how resources are allocated and strategic priorities are set” (Zahra, Korri, & Yu, 2005, p. 132). From the interview data, it is clear that the case companies had a range of different reasons for commencing internationalization. Cited reasons for internationalizing were in order of importance<sup>16</sup>:

Table 7.1 Cited reasons for internationalizing.

- (1) Small domestic market
- (2) Saturated market / weak demand from the domestic market
- (3) Risk management
- (4) Opportunities (e.g. through referrals)
- (5) A need to grow to stay competitive
- (6) An ambition to grow the business
- (7) Strategic decision (e.g. through differentiation)

Driving forces behind a firm’s internationalization can be divided into two categories: proactive and reactive motivating factors (Czinkota & Ronkainen, 2012; Forsman, Hinttu, & Kock, 2006; Lazaris, Ngasri, & Freeman, 2015). The proactive firms enter international markets because of benefits or opportunities, as perceived by the management. For instance, the opportunity to increase revenues or higher profit margins may well motivate the firm to enter the international market. In contrast, the reactive firms internationalize as a response to environmental changes (Forsman et al., 2006). In some cases, SMEs are pulled or pushed into foreign international activities by larger partners. In other words, it can be goal driven or means driven (Chetty, Ojala, & Leppäaho, 2015). My data show that for many SMEs internationalization is not seen as a way to grow the business or to build an international brand. The majority of the case companies view internationalization as a necessity because

16 Order of importance is based on a qualitative evaluation.

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the Danish market is too small and because of foreign competition. The data indicate that they eventually decide to internationalize because they realize that it is too risky to focus on just one market. For example, for Company C the motivation for internationalizing was to decrease risks. The CEO did not originally have an ambition to expand the business beyond the domestic market.

Can we get a market that swings slightly out of step with our own market? [...] When business declines in some parts of the world, then it goes up in other parts of the world. So it would be nice if you could say that if our domestic market, the Danish market declines, then we can export to another market where things are looking up. [Company C, CEO].

Thus for Company C, the decision to internationalize was not made because of an ambition “to grow the business,” or to build a global brand, but rather as a hedging mechanism against market fluctuations. Moreover, the company was aware that internationalization was a challenge because of its size. As the CEO stated: “As we are a small company, we cannot go very far away. I cannot personally, or others cannot just be away [from the company] for four or five days.” The statement illustrates how personal resource limitations of the CEO affect the scope and internationalization of the company (see section 5.3.1). In fact, many other CEOs, and in particular owners, explained that lack of resources pose a constant challenge. As mentioned, the CEO of Company C did not personally feel that he could be away from the company for longer periods of time. Company A’s CEO also said he could not be away from the company in Denmark but, contrary to Company C, he had the resources to send an employee to Norway to oversee operations. While lack of financial resources may limit a firm’s choices and activities, it may also be a matter of priorities and managerial competences. For example, as the CEO and co-owner of Company D said: “But as a small business, you also have to prioritize where you make targeted efforts,” while further elaborating “So, you can say you have to evaluate if you make an extra effort in a market, it should also yield something extra.” This illustrates the importance of the perceived constraints of resources. From the interviews it is evident that in addition to lack of resources the mindset of the CEO may also play an important role. This is in accordance with Andersson and Wictor (2003) and Morgan (1997), who found a positive interest and desire to internationalize exerts a considerable influence on the firm’s internationalization process. The findings are also in line with recent studies that demonstrate that the manager’s view or “global mindset” is a prerequisite for internationalization (Andersson, 2000; Andersson & Florén, 2011; Nummela, Saarenketo, & Puumalainen, 2004). For example, Moen (2002) concludes that “the decision maker’s global orientation and the market conditions are important factors, explaining why some firms are Born Globals, while other firms are “new and locals” (p. 173).

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An example of a CEO who postpones internationalization is the CEO of Company F, which exports worldwide and has been international for many years. Yet they are reluctant to take the next step and establish a production facility abroad. As the CEO and co-owner of Company F said:

But right now we are too small. We struggle every day for survival. So we will fight our battle here and then slowly increase our strength. Then at a later point in our development, the rest [internationalization] will come.

Thus companies may not wish to expand international activities immediately even though they have taken the necessary steps to internationalize. Generally, the companies in the machinery industry are driven to internationalization by reactive motives, to a greater extent than SMEs from the wholesale or health care industry. This is probably because higher international competition has forced SMEs in this line of business to engage in internationalization. However, some are simply not comfortable with change (Delaney, 2004). Or as Etemad (2004) puts it, “local small firms are involuntarily obliged to play the global game even at home” (p. 119). Thus some are reluctant to internationalize, as is evident from the quotation below:

So I do believe that most companies would find it tempting to stay in Denmark, if they could only find enough Danish customers. Then you would only need to have the brochure in one language. But that is not the way the world is put together. Today it is more international. [Company D, CEO and co-owner].

Though Knight and Leisch (2016) argued that smallness is no longer a disadvantage in the modern world economy, many other CEOs indicated that they thought they were “too small” to internationalize, but that it was necessary in order to survive.

The table below provides an overview of the main reasons for initiating a process of internationalizing.

Table 7.2 Reasons for the first attempt(s) at internationalization.

Company	Quote	Motivation
#A	"I have always had the ambition that I would like to test what we were doing in some way outside the Danish system."	An ambition
#B	In the aftermath of the financial crisis: "You have to have a multi-lane highway to drive on. Because you just had a crisis here in 2008–10 [...]. We need to pull ourselves together and not just focus on the Danish lanes."	A need
#C	"Can we get a market that swings slightly out of step with our own market? [...] When business declines in some parts of the world, then it goes up in other parts of the world. So it would be nice if you could say that if our domestic market, the Danish market declines, then we can export to another market where things are looking up."	A need
#D	"Many of our customers have typically moved to other countries. So we have to find our customers beyond the Danish border."  "Something had to be done. We began talking about it four or five years ago. But back then we were too busy to do anything about it. Now the crisis has led us to understand that we must do something to strengthen our businesses."	A need
#E	CEO's decision to establish a production facility abroad in the aftermath of the financial crisis: "The purpose of internationalization was as much to serve our Danish customers, who are constantly demanding lower prices, as it was to acquire customers abroad."	A need A strategy
#F	"We have, at least until now, been able to round up enough customers. So it [internationalization] will certainly cross our path at some point. Either driven by our customers or simply because of costs, or perhaps both. But right now we are too small."  "Then all of a sudden there is someone [...] who says that he has heard of us and that he would recommend us [to one of his customers]. And then we go ahead."	No immediate need  An opportunity
#G	"We are going to strengthen the business further by establishing a more structured sales process. So we have decided that we will do that by entering the German market."  "But we have chosen to say, if we can break the ice here [in Germany], then we will most likely be able to break the ice in other countries. That is the simple philosophy behind it."	An ambition  Explore the possibilities
#H	Company mission and vision: "We have to have a presence. That is what justifies our existence."  "We cannot sit in Denmark and export to Sweden. We have to be present on the Swedish marketplace. We have to know the retail chains. We have to know the market. We have to have a presence. That is what justifies our existence."	An ambition  A strategy
#I	HQ decision to establish a subsidiary in Sweden.	A strategy
#J	"We want to become a market leader."	An ambition

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As can be seen from the above table, few companies had a strategic outlook. There is one group that wants to internationalize (the proactive), and there are those who would rather focus on the domestic market, but feel pressured to internationalize (the reactive). Five of the case companies (Companies A, G, H, I, J) can be classified as “proactive” internationalizers, some more than others.

### 7.1.2 Coincidences and opportunities

Recent studies have pointed to the unintentional aspects of internationalization and how opportunities influence market choice (Galkina & Chetty, 2015). In my data, the way coincidences and opportunities influence market selection is emphasized in the following excerpts:

I had called him [the Danish company]. He had given me a contact in Sweden, it was a bit of a coincidence that the opportunity arose to call him and see if he was interested in something like our production. And then he said, yes, he was interested as he was actually thinking of starting a business together with some other people. [Export worker at Company B].

In this case, Company B first met the other Danish company at a German trade show. It turned out that the other company had a contact person in Sweden.

The interviews show that market choice was frequently influenced by coincidences and opportunities:

Then one day a Norwegian employee, Carl, suggested that the company should consider internationalizing to Norway: “because he wanted to go back home. He was a competent employee whom I have great confidence in. And then I said, yes, we can do it, but do you have any idea how we should go about it?”  
[Company A, CEO].

In small and medium-sized enterprises it is probably often coincidences that make you end up in one place or the other. Because you suddenly see an opportunity and take it.  
[Company J, CFO].

Sometimes saying the right things to the right people at the right places and at the right time may be the decisive factor as to whether or not we will enter.  
[Company G, CEO].

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From these statements and the within-case histories in Chapters 4, 5 and 6, it can be seen that market selection is rarely a case of systematic planning. As will be illustrated throughout this chapter, SMEs do not aim at a particular foreign market, but hope to find an agent, partner or company who can initiate the foreign market entry. While coincidences and opportunities influence market selection, the data from the cases in question also support the notion that psychic distance is a factor in the foreign market choice. Inexperienced companies with a high level of uncertainty choose markets with close proximity in terms of culture and geographical distance.

### 7.1.3 Preference for geographically and culturally close countries

Research has shown that companies prefer entry to markets similar to the home market because it helps reduce uncertainty (Davidson, 1983), and that exporting SMEs therefore prefer physically close markets “in preference to high earning growth potential markets” (O’Gorman & Mctiernan, 2000, p. 143). Figures from OECD confirm that Danish SMEs prefer exporting to close countries (see section 4.2.1). The Uppsala School argues that firms first internationalize to countries that are culturally and geographically close, and then proceed to more distant countries, as they develop more knowledge, experience and confidence; see also Erramilli, 1991. Many other researchers, for example Davidson (1983), argue that a high level of uncertainty causes the firm to pursue markets similar to the home market.

In the preceding chapters, it can be seen that the neighboring countries Germany, Sweden and Norway were top choices in the case of companies internationalizing for the first time.

#### 7.1.3.1 Psychic distance

Three out of the five proactive case companies internationalized to close countries: Company A went to Norway, Company H opened sales offices in the Nordic countries, and Company I established a subsidiary in Sweden. The other two companies selected countries further away: Company E internationalized to Poland and Company J went to China. With the exception of Company G, the “reactive” companies also chose close countries. Thus, in this aspect there are no significant differences between proactive and reactive companies. When asked how the companies choose a foreign market, case companies explained that they had chosen close countries because of their familiarity with the neighboring country. SMEs view the Scandinavian countries as “natural choices” because there is a mutual “Scandinavian understanding.” As the export worker in Company B explained: “The mindset is a bit the same when you trade with Scandinavians. You do not have to explain what Denmark is. They know Denmark and so on” (section 5.2.5.1). Many of the SMEs in the machinery industry chose to export to Germany because it is geographically close, and it is culturally similar. When the interviewees use terms such as familiarity and mindset, it emphasizes the importance of the Uppsala model’s psychic distance.

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The CEO of Company D was very hesitant about entering Germany. As he noted: “Germany is characterized by many large companies. And it can be difficult for a small Danish company to make itself attractive to a potential German customer that is much bigger” (section 5.4.3). This shows that country size can also be a psychic factor; in this case, it increases uncertainty when a company that is only familiar with a small country considers entry into a large country.

#### 7.1.3.2 Perceptions of export barriers

Research has produced mixed results on whether small and inexperienced firms tend to overestimate export barriers. Some have shown that “inherent managerial, financial, personnel and other limitations” cause companies to overestimate export barriers (Leonidou 1995, p. 22), while other studies have shown the opposite (Kedia & Chhokar, 1986). These conflicting results are also reflected in my findings, which show that although SMEs tended to underestimate certain export barriers to entry to close countries, they did not also underestimate barriers to more distant countries. For example, Asia was often mentioned as a region that would be “too different,” and “too difficult” to enter, while the Scandinavian countries were often cited as being the “obvious” choice. There are of course exceptions. For instance, Company E, which established a production facility in Poland. However, in this case, the CEO was very determined to create a competitive advantage by establishing production in Eastern Europe. Moreover, Company E’s customers had demanded cheaper prices, which would only be possible by moving production to a country where it would be cheaper. Poland was chosen because of the inexpensive labor and its proximity to Germany and Denmark. So even when a company chooses a country that is culturally further away than the Nordic countries, proximity is still a priority. Ultimately, it is difficult for a small Danish company to do business in e.g. China. As illustrated in the case histories, Asian and Southern European countries are often used as examples of markets that are “too different” and therefore not immediate targets. While there may be a range of factors that weigh against choosing more distant countries, a number of OECD reports show that there is a potential for Danish export to the emerging countries. Therefore the concept of psychic distance may provide an explanation for this reluctance in adding uncertainty to the geographical distance. Ultimately, my findings indicate that internationalizing to a country far away is too much for a small company with little past experience and few foreign ties to reduce their uncertainty perceptions.

#### 7.1.3.3 Foreign language skills

In addition many of the companies stated that foreign language skills were important to the choice of foreign market. For example, the lack of German language skills was a barrier for Company C. As the CEO of Company C said: “For us it is easier to handle markets



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where you speak Jutlandish,<sup>17</sup> Swedish, Norwegian or for that matter English,” while later elaborating: “We wanted to focus on regions where they speak English. I personally did not feel that I had the language skills to focus on e.g. Germany. [...] So we wanted to enter a market where they speak English” (section 5.3.1). To this day, Company C has not yet exhibited at a German trade show because they do not speak the language. Indeed, there is a language barrier so even though many Germans speak English, it is an obstacle that many Danes do not speak German. Company D reported having experienced a positive change in atmosphere when the CEO switched from English to German during a meeting with potential customers (section 5.4.3.) Despite the lack of foreign language skills the CEOs were not motivated to improve their skills. However, because few CEOs had foreign language skills, companies relied on finding employees or intermediaries to assist in the internationalization. All companies either had an employee who was fluent in the foreign language or employed some form of assistance, for instance, the embassy or an agent. At the same time, SMEs were very hesitant about hiring employees with market expertise, i.e. an actual export worker.

#### 7.1.3.4 Additional costs

As shown in section 2.5, there are potential risks and disadvantages of operating in a foreign environment. The concepts of CDBA (cost of doing business abroad) and LOF (liability of foreignness), have shown that firms operating outside their home market face additional unavoidable costs in addition to those incurred by domestic firms. Zaheer (1995) identified four costs MNE subunits often face when operating abroad: (1) costs directly associated with spatial distance; (2) firm-specific costs; (3) costs resulting from the host country environment; and (4) costs and restrictions from the home country environment. My data revealed that the case companies studied were particularly concerned about the disadvantages of (1) costs directly associated with the special distance, such as the costs of travel, transportation, and coordination over distance and across time zones and (3) cost resulting from the host country environment such as the lack of legitimacy of foreign firms and economic nationalism.

In this connection, risks and perceived barriers are of importance. For example, as mentioned earlier, the CEO of Company C did not personally feel that he could be away from the company for longer periods. In contrast, costs directly associated with the special distance were not an issue for Company A. In this company, where the CEO did not personally feel that he could be away from the company in Denmark, he had an employee that travelled to Norway in his place. Indeed, interview data show that particularly CEOs in the machinery industry were very aware of the liability of foreignness. They were naturally aware of competition,

17 A dialect of the Danish language.



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and many rhetorically asked why foreign companies would choose a Danish manufacturer over a local. As Company D said:

It is easier to convince a Danish customer that you could be a potential supplier instead of convincing a German that he should go to Denmark and buy a product that he might as well buy in Germany.

Company F expressed similar concerns: “You cannot just go to Germany or Sweden and think you can give them something that they cannot get closer to home” (section 4.5.1). Ultimately, Danish sub-suppliers say they cannot compete on price when exporting to Germany, which makes it more difficult for them. According to Johanson and Mattsson’s (1988) network model of internationalization<sup>18</sup>, these companies are in the category “late starter,” and should thus be able to take advantage of the know-how and experience of other firms. (See also section 2.6). Rather, it appears that, at least in the machinery industry, it is a disadvantage. As Company D said: “But most companies, if they have a good supplier who delivers a good product at a reasonable price, then they are not so interested in changing suppliers,” while later adding: “The only way I can overthrow the existing supplier is really on price. And that is not the optimal way” (section 5.4.3). So while the case companies studied are late entrants, they clearly do not have any late-mover advantages.

#### 7.1.4 An improvisational approach

When the companies decided to enter the global market, they either took a strategic or improvisational approach. As illustrated by the quotations below, many of the smaller companies did not have a strategy or a predefined plan:

- “I believe that it can also be an advantage to be unaware of some things. Of course you should not run blindly into things [...] But sometimes it is good not knowing all the details because that will scare you.”  
[Company A, CEO].
- “So it is not like we say we have an objective that we will do this and this.”  
[Company B, Export worker].
- “No, we did not have that [a market strategy].”  
[Company C, CEO].

<sup>18</sup> The network model comprises of four types of firms: the lonely international, the early starter, the late starter, the international among others. The late starter is described as a company that focuses on the domestic market, but is forced to internationalize because of a highly internationalized market.

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- Speaking of their joint venture to India: “I am not sure how much we actually prepared. There are definitely some things we should have known or spent more energy on back then.”  
[Company J, CFO].

It is also interesting to observe that Company D still decided to target Germany because they “got the opportunity” to participate in the project by the Confederation of Danish Industries (see section 5.4.3). And the same applied to other companies: market choice is heavily influenced by the assistance of network ties, for example an opportunity to participate in a joint program such as a trade show with an embassy, a joint project by the Confederation of Danish Industries or a business partnership. This indicates that an opportunity surpasses perceived risk.

The improvisational approach has also been observed by Lojacono and Venzin (2014) who posit that “firms can approach international markets in an opportunistic or a strategic way. Many entrepreneurs choose not to choose” (p. 289). Generally, it seems that first internationalization attempts do not involve assessment and preparedness. Clearly, a strategic plan with long-term objectives is not a priority for the companies. Rather the companies believe that it is more important to achieve more “immediate” short-term goals. For instance, companies mentioned that they first had to earn money before they could spend it, meaning that internationalization commitment increased as they started earning money and not until then. Not having a strategic plan also meant that issues were dealt with along the way. Across the sample, companies generally displayed low levels of research. They did not compile market and sector reports or conduct extensive desk research. Rather it was observed that in attempts to acquire foreign market knowledge, companies would use the resources at hand. This is in accordance with Evers and O’Gorman (2011). For instance, Company A handled situations as they emerged: “Oh crap, do we not have that under control? Oh well, then we need to figure out how to do something about it.” The improvisational approach was further illustrated by the following statement:

If you look at one of those Ikea beds that has to be assembled. [...] well, you have a tendency to open the box and think “well how hard can this be,” but it is only when you get started at it – holy moly are there also screws for that? Well, but now we have started, and then you are on a roll. If you have this attitude that “now we have started, we need also to fix this” instead of having to find out how many screws there are, and where they belong before you even get started with the Ikea bed, then you will never freaking get started. And you will end up sleeping on the floor that evening.  
[Company A, CEO].

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Other companies had a similar unstructured approach with regard to market entry. For instance, some would go on somewhat arbitrary field trips to the foreign market to evaluate whether there would be market potential. For instance, Company D took a field trip to Estonia, while Company C went to Spain for the weekend. However, in both cases, the companies decided not to target the countries in question. As the CEO of Company C said: “To begin with, you simply took a flight somewhere and just tried to see what it might lead to.” This improvisational approach also implied that the company did not conduct any substantial market research. As the CEO of Company G said:

Then I say, well damn it, I have to make a decision. Okay, and I have considered ‘what if.’ Have I been able to predict all the consequences? No, I have not. But I do not have to.

This is in accordance with past research, which has shown that SMEs’ early internationalization processes rarely result from systematic planning (See e.g. Evers & O’Gorman, 2011; Li, Li, & Dalgic, 2004). For instance, when the CEO of Company C wrote a former Danish business contact to enquire if the Spanish market could be interesting for the firm:

He just wrote me back in twenty minutes: good to hear from you, stay away from Spain for the next four-five years, it is hopeless down here. Well, fine. Then you can say we will do no more about this. We have to stay away from the Spanish market.

#### 7.1.5 Networks and knowledge

As discussed in section 2.6, it is widely acknowledged that relationships are critical to knowledge creation and sharing (Levin & Cross, 2004). Lack of foreign market knowledge is a significant obstacle, and against this background, the ability of firms to gain experiential knowledge about the foreign market through network relations is of prime importance. Indeed, past research has shown that international experiences and network relationships are of vital importance for companies that have not yet gained their own international experience (Forsgren, 2002; Hadley & Wilson, 2003). Moreover, studies have found that “market ties can reduce market uncertainty through familiarity and increase exchange value through trust” (Jensen, 2003, p. 474; see also Beckman, Hauschild, & Phillips, 2004). Case data also show that companies’ success stories and choices serve as inspiration to the SMEs. As illustrated by Company C that used others experiences to get input:

Yes, I mention them [the network group] a lot because after I have become a member, I feel like that I am beginning to get some input. I am beginning to get a source to something that I really cannot read in books. Well, it is not something I can read in Børsen or Berlingske Business [Danish business newspapers] or anything else. [Company C, CEO].

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Another interesting observation is how Company D chose their first foreign market. As seen in the within-case analysis, Company D quickly decided to target Norway. As illustrated by the excerpt below, it seemed reassuring that the majority of firms choose the same market:

There was a thematic day for each country, attended by people from the embassies in Oslo, Stockholm and Berlin. They told us about the country in question and about the market conditions, the culture and possible barriers. Based on this information, each company could then choose the market they thought was the most attractive. I believe we were ten companies, and I believe one company chose Sweden, one company chose Germany, and eight companies chose Norway. So that was kind of funny.

As the CEO also said at an earlier point during the interview: “It was really more a general belief that there was a market for us [in Norway].” For this reason, it is relevant to refer to the literature that shows that companies also tend to look at the behavior and experiences of others and in some cases attempt to mimic others (Lewitt & March, 1988; Lieberman & Asaba, 2006; Wasserman & Faust, 1994). In this regard, it may have been the choices of the other companies that influenced Company D’s decision to choose Norway.

Evers and O’Gorman (2011), who also found that the internationalization process is improvised, state that it is heavily influenced by prior knowledge and network ties. Illustrative examples come from Companies B, C, and D from the manufacturing industry:

Company B internationalized to Germany because it was a close market, and the culture was similar. “Plus the guy we found lived in Flensburg and had lived there for 18 years, so it was natural that it was the German market.” [CEO].

Company C chose to focus on Germany, because the previous owner had business contacts, and a number of projects in Germany. As the CEO said: “They had contacts there. Business contacts and things like that. And so we tried.”

Company D chose the neighboring countries, Norway, Sweden and Germany. In the case of Norway and Germany, they were given the opportunity to participate in projects for inexperienced SMEs arranged by the Business Development Centre.

However, in contrast to Evers and O’Gorman (2011), who found that ties were international, the SMEs in the present study mostly relied on Danish business ties (with the exception of Company A and Company I). This was probably a result of the absence of foreign ties. As will be discussed later, few of the CEOs had much international experience, and therefore did not have a readily available international network.

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As discussed in section 2.5.1, it has been argued that “firms search or seek additional information in an attempt to reduce or manage firm-specific uncertainty” (Beckman, Haunschild, & Phillips, 2004, p. 261). However, past studies have also shown that foreign firms have an information disadvantage as compared to domestic, and a cost in initial acquisition of this information (Gaur, Kumar, & Sarathy, 2011; Zaheer, 1995). Indeed, many case companies highlight that they find it difficult to obtain knowledge. Instead business ties are used to identify market potential as opposed to conducting market research and reading various reports. One example is Company A that went to Norway to talk to various people, including a dairy, as part of their market research (see section 5.1.2). In hindsight, the CEO acknowledged that perhaps not all meetings were particularly well chosen, as the CEO said: “we could have done it differently. We work a lot on that now. I am also a member of the Confederation of Danish Enterprise.” Also the CEO of Company G found it difficult to find advice and assistance, as illustrated by the statement:

There must be some people who have figured out the success criteria for B2B. I do believe there are, I just have not found them. And I have asked the Confederation of Danish Industry, I have asked in my network, I have asked the consultant from the Foreign Ministry, I have asked Denmark’s Export Credit Agency. I have been in touch with a lot of people. And everyone says ‘well, it is hard.’ Yes, I’m sure it is.

Research has shown that people prefer a personal source as opposed to a written source (Myhre, 2011; Schafer, 1990). Many companies explained that it was beneficial to learn from others when they did not have the experience themselves. This is illustrated in the quotations below:

I learn the most by watching someone do something that is really stupid. Because then I can see the huge mistakes they make. I learn the most from that.  
[CEO of Company A]

It is a little easier with a company that makes smaller components [compared to a large company]. It is not that difficult to ask how do you approach the market, who are your contacts, how did you get hold of them and things like that.  
[CEO of Company D]

In order to gain experience, I have talked to a lot of small distributors who are not our real competitors. Perhaps right now, in the initial phase, they are our competitors, but not in the long run. I have talked with small Swedish distributors because you can get

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invaluable information about the market. How it works, the local aspects, who are the big actors, who are good at it, and how.

[Company I, export worker].

All three companies highlighted the value of other companies' experiences, i.e. the use of different horizontal social ties such as other suppliers in the industry (Evers & O'Gorman, 2011) (note that ties to other businesses in network theory are social ties when these have a non-exchange relationship to the firm, see section 1.5). This resonates with my findings from the expert interviews, in which one expert stated that SMEs were always eager to ask the established companies all about "the hows and whos." For example, how did they enter the foreign market, who did they meet with and how did they do it?

In the illustrative quotes above, horizontal social ties are highlighted. But generally, companies use a mix of business ties and social ties. Another example is Company A, which also used horizontal business ties and horizontal/vertical social relations to conduct market research:

My way is all different kinds of ways, relations, networks, hearing other people say something, watching something on TV. Of course I also read things, but I do not bother reading a report in 80 pages in English. [Company A, CEO/co-owner].

As discussed in section 2.7.4 most companies use an improvisational approach, which clearly has an impact on the research process. For the smaller firms, network relations are vital in the initial phase. They do not know how to proceed with the foreign market entry and therefore use readily available resources (Evers & O'Gorman, 2011). Consistent with other recent findings (Galkina & Chetty, 2015), case data illustrate that SMEs appear to use an "effectuation approach," where decision-makers follow a logic based on the means available (Kalinic, Sarasvathy, & Forza, 2014; Sarasvathy, 2001). Sarasvathy (2008) describes how "effectuation does not begin with a certain goal; it begins with a given set of means and allows goals to emerge contingently over time from the varied imaginations and diverse aspirations of the founders and the people with whom they interact" (p. 73). In contrast, the three large companies Company H, Company I, Company J, seem to follow "causation logic," in which they have a specific goal and a given set of means to achieve it (Sarasvathy, 2001). Causation is goals-driven and effectuation is means-driven.

In relation to acquiring knowledge, the biggest difference between the SMEs and the larger companies is their means. The larger companies do not have to rely on network relations because they can leverage internal financial and human resources. But still all except one company said they used network relations, either business ties or social ties.



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### 7.1.6 Summary of theme 1, pre-engagement

The decision to internationalize is either an ambition or necessity. The majority of the case companies are pushed into internationalization. As observed by previous scholars, e.g. Bilkey and Tesaer (1977), Czinkota (1982) and Cagusvil (1980), firms are not interested in exporting during the initial stages, but are “pushed” into the next step by external agents, e.g. through demands from partners or unsolicited orders (see also section 2.2.2.3). For most of the case companies, it seems that the first internationalization attempts do not involve assessment and preparedness. Many do not have a strategy – here taken to be measurable long-term goals. Rather, it seems that internationalization is often an unexpected case of “opportunity.” Data also indicate that in many cases the companies do not aim at a particular foreign market, but wait for an agent, partner or company to commence the internationalization. Thus the companies do not engage in systematic market research, which can also be explained as being a consequence of the companies’ difficulties in obtaining market knowledge. Many therefore engage in an improvisational approach in which they skip market research and evaluation, except for the occasional guidance by network relations, and leap directly to the foreign market entry.

## 7.2 Initial phase

### 7.2.1 Market entry mode

Direct and indirect exporting are the preferred modes of entry within the manufacturing industry. Previous studies show that many SMEs begin their internationalization via exporting (Bello, Chelariu, & Zhang (2003). This also applies to the case companies in this study. Because of their small size, the companies find that export is a low-cost way to internationalize. Yet, the interviewed companies indicate several major challenges. It should be noted that there are subtle differences with regard to the specifics across the case companies and industries but overall: (a) companies do not find the official organizations useful; (b) it is difficult to establish network ties; (c) internationalization takes considerably longer than expected.

### 7.2.2 Official channels

Results from an OECD study showed that only 33.8% of the SMEs had received government support, e.g. from export support programs (OECD 2008). In the report, satisfaction was high among the ones that had received support, with 74% reporting that it was either “useful” or “extremely useful” (OECD, 2008, p. 60). Also, the Danish government has undertaken a number of measures to promote SMEs and to ease access to funding (see section 4.2.1). My findings indicate that the use of the embassies and their joint projects appeals to SMEs in their initial internationalization phase. But this is primarily

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because firms with little international exposure find it difficult to obtain knowledge. At one point or another, many of the smaller SMEs have been involved in projects facilitated by the embassies, BDCD's or local councils, etc. The use of official channels appears to be more a deselection of the expensive consultancies and lack of other possibilities than a deliberate choice.

In the study, many SMEs reported that the services of the embassies were too expensive and, more importantly, that their knowledge was too generic to be of real use. As Company I said: "It is very general issues that they [the embassy] can provide assistance with [...] You have to learn by fumbling around on your own." As can be seen in the case history of Company B, they purchased an export start package at the Danish Embassy in Sweden and received a list of 25 names of potential customers. But it was expensive and they were not satisfied with the result. As the CEO explained: "I could have found them by myself on the Internet." Or as illustrated by the statement from Company C: "And what they [the embassy] do is no more than what you and I can do." Also Company D did not think that the embassy was helpful. [...] "We also got a few hours of assistance from the Danish Embassy in Norway. That is, they booked a number of visits for us, called and set up appointments, and then we went and talked with those customers. But that was pretty much the help we got."

An evaluation report of the BDCD also showed that only 2% of entrepreneurs (companies under three years) and 8% of the established companies used the centers from 2008-12 (Danish Business Authority, 2013, p. 12). This is in accordance with the low number of case companies that had employed the BDCDs. As the CEO of Company C said: "I would be inclined to say that the one experience I have [with them] is even worse [than with the embassies.] In any case, I don't have a lot of faith in the BDCB over here."

These findings contrast with O'Gorman and Evers (2011), who found that government-funded export promotion organizations (EPOs) played an important role in identifying foreign opportunities, providing foreign market knowledge and also in facilitating introductions to customers. In the present study, only Company A was satisfied with the government programs; they were very impressed with the services provided by the embassy in Norway. However, as opposed to the other SMEs that employed the embassies, Company A was very aware of the need to define their requirements. The CEO spent a considerable amount of time making sure that the embassy understood their company and services. Company A firmly believes that the prestige of the Danish Royal Crown helped them arrange meetings with heads of organizations that they would otherwise not have had access to. Speaking of the embassy, the CEO said: "They could assist with some network and comprehension. It was actually really great." The CEO clearly stipulated his requirements: "Create a network. Find someone we can talk to about what we want to talk to them about. And they did that. And that is why I still want to work with them today."



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### 7.2.3 Finding the appropriate connections

The existing literature argues that network relations provide experiential learning to inexperienced firms, which helps mitigate perceived uncertainties associated with internationalization. But how do companies connect with others? As documented in Chapter 2, research shows that the rate of tie formation is important to a firm's overall success. However, past research does not emphasize that tie formation may be challenging for even resourceful companies and does not explain how less well-endowed firms can form ties (Hallen & Eisenhardt, 2012; Ozcan & Eisenhardt, 2009).

Case data show that SMEs consult different relations in their network, new or established. Both weak ties and established strong ties are used to diminish knowledge gaps. And as also reported by Evers and O'Gorman (2011), the case companies developed new business ties throughout the internationalization process. But they also document that companies find it difficult to form long-lasting ties – at least ties that lead to actual foreign sales. An examination of my interview data shows that it is very difficult for the SMEs to find the right network relations. As illustrated by Company B: “there is certainly someone who sits in some corner that we could use. But how do you find such a person?” Superficial ties are formed almost everywhere: at trade shows, some companies are approached by other companies, through social gatherings, network groups, arrangements by the trade organizations, etc. While trade shows are also a considerable cost for many SMEs, they appear to be particularly useful. For instance, the CEO of Company D would gather a list of all the customers he had been in contact with during trade shows. Afterwards he would write to the companies and thank them for their interest. Then the CEO would contact them again and refer to the trade show and ask them if they would be interested in a visit and a presentation of the company's products.

Another way to get network relations is through the Internet:

Then you got one contact, then you got five contacts and so you got 15 contacts. Then a bit later you got more than 100 [...] At the moment I think have 900 LinkedIn contacts or something like that.

[Company G, CEO].

This CEO thought it was “fun” and “exciting” to link up with others. While he knows his online network is separate from in-person networking, it shows that he is focused on building relations. And as he said at another point: “If I am uncertain then I will just ask someone.”

Others would seek to establish relations at social gatherings. As seen in the case history of Company I, the sales manager would take any opportunity to meet new people:

If I get an invitation, then I go for it. I will attend anything I used to decline. [...] But now, if I get an invitation for an event, I will attend.

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A detailed look at network relations indicates that some SMEs use network relations somewhat uncritically in the initial phase, for instance, Company C, which relied heavily on the knowledge and experience of their agent or a business contact in Spain. Both Company C and Company D participated in an export project organized by the Danish Embassy in Norway and Danish Industry. The opportunities in Norway for small Danish businesses were spoken highly of, and thus both companies chose to target the Norwegian market. On the other hand, Company A knew that they had to do their own research and establish if there was a business case before commencing internationalization to Norway – despite recommendations of a market potential from official organizations. In this context, Evers and O’Gorman (2011) make the valid point that “there is an implicit assumption in much of the small business literature that there is a disadvantage in relying on such [network] relationships” (p. 569). (See also section 2.6). But not all advice and experience of network relations is used uncritically. The CEO of Company G explained that he learned not to listen automatically to network ties: “I have become more objective about what I listen to. I have become more reflective.” In the past, the CEO had made extensive use of network relations, but as he said: “I have learned, I have received the blows.” Recalling the CEOs’ statement from section 4.6.1 about finding the right people to ask, this company is a good example of the difficulty of finding the appropriate network ties. In their attempt to find a person to assist them in their internationalization, the company contacted a lot of people and institutions, but to no avail.

#### 7.2.4 Alliances

Past studies have described the value of collaboration in the case of firms with little experience because they offer benefits in the form of scale and diversity (Etemad, 2004). Dana and Wright (2004), for instance, note “internationalization increasingly involves symbiotic relationships among large and small firms” (p. 9). Thus, as seen in section 2.6, it has become common practice amongst firms to collaborate through relationships (Chetty & Blankenburg-Holm, 2000a; Street & Cameron, 2007). The interview data showed that many companies were interested in collaboration as they thought it would help them enter the foreign market. But companies found it difficult to partner with others:

We have also tried with business partners. That is, suppliers in the nearby regions, where we simply go in and make arrangements with someone who wants to sell our products. But the results of that have not been particularly great.

[Company B, CEO].

Company B had established contact with another Danish company they met at a trade show in Germany. They were planning to enter the Swedish market together by presenting their two products “as one.” However, as described in the within-case analysis, after six months

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Company B decided to abandon the collaboration. From the interview data it appears that alliances are quickly formed, but equally quickly abandoned. However, despite failed attempts at forming alliances, firms do not discard the idea. For example, Company D highly values collaboration and in the past used business relations to gain a competitive advantage. As seen in the case analysis, the latest attempts at collaboration were not successful, but despite disappointments they still believed in working with other companies. As he said: “Most Danish companies are too small to act alone. You must have someone to form an alliance with,” while later emphasizing: “So we are really very committed to finding some companies to work with, because we believe it is the right way to do it.”

### 7.2.5 Agents

Clearly it is important for manufacturers to employ a systematic approach to selection of the right agents and distributors<sup>19</sup> in the foreign country (Cavusgil, Yeoth, & Mitri, 1995). My case findings indicate that many of the companies were very quick to select the foreign agent. Indeed for some SMEs, the process only lasted a few months. For instance, Company B had previously employed agents without noteworthy results. The company had initially called a Danish supplier to enquire whether they would be interested in selling their products. When the company declined, it turned out that they had an experienced employee who was about to retire, but wanted to make use of his experience, and start as a freelance consultant:

Then he came up for the meeting. And he was technically skilled, knew how to talk both to customers and about the products. So it was actually quite fortunate that we found him.

Less than four months after the initial contact, Company B went to Germany. The CEO recalled: “We simply went into the market with the knowledge and competence that [he] our agent, had.” Five years later the German agent passed away. Rather than searching for a new agent the company concluded that distributors would be the next move because “it would allow greater flexibility.”

Case Company C also has a history of using agents. For them it was “the industry norm” to let an agent represent the company in the host market. In their internationalization to Germany, the previous owner of the company had an old friend who was asked to be their agent until they found another agent. But it was not a successful partnership. As the CEO explained: “another thing is back then, we did not know much about how to actually get an agent. How do you get a partnership up and running with an agent? When we look back, then

19 An agent who represents the company is usually paid a commission, while a distributor purchases products (imports) directly from the company.

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perhaps we approached them [the potential agents] too aggressively.” After 18 months, the company abandoned the market. The company also employed an agent in the UK, whom they found through the consulate: “the chemistry with the one who became our agent was there immediately.” In fact, many SMEs talked about the difficulty of finding the “right agent” – a person who had a genuine interest in their products. But employing foreign agents has been challenging for the companies, as companies experienced that agents also worked with other product lines. In some cases this meant that they did not feel that their products were prioritized (Company C) or that the agents had the necessary technical product skills (Company D).

Agents were selected through an improvisational approach. Systematic behavior was close to non-existent. Moreover, few companies had success with their agents. In contrast, the five<sup>20</sup> companies who used distributors [Companies F, G, H, I, J] as opposed to agents were more satisfied with their distributors. One of the companies had had distributors for a long time while two of the other companies were just beginning to employ distributors in their market entry in Scandinavia. One reason may be that the agents are chosen too quickly, and without any careful scanning or planning. Galkina and Chetty (2015) also found that selection of international partners is often based on interest and availability as opposed to thorough evaluation of potential partners.

#### 7.2.6 Finding potential customers

The element of “luck” in meeting customers is emphasized in the following passage from Company D:

There is a lot that has to do with a little luck. [...] If you are playing tennis and the ball lands on top of the net, then it is partly to do with luck whether the ball falls inside your own half or on the opponent’s half of the court. But it turns out that the more you practice, the luckier you are and the more often it falls down on the other side. So obviously there is some luck to it, but it also has to do with whether or not you actively search for luck.

[Company D, CEO].

In the above, the CEO/co-owner talks about establishing contact to potential customers at trade shows. He believes that there is an element of luck involved, but also recognizes that it is important to be proactive. Although, he expressed the importance of an active approach, interview data did not indicate that the CEO actively searched for luck. For instance, he did not approach opportunities or contacts, but rather awaited business opportunities (see section 5.4).

20 Company J employed both agents and distributors.

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Another example is from Company F:

But another one of the network's conclusions is that it is sheer luck if you get it right. That you are lucky and you meet exactly that person, and it was not really the one you were supposed to meet with. But then it turned out that that was the key to enter. So for a long time our network group discussed whether it was because it was planned or if it was sheer luck. Nine times out of ten it was sheer luck.

[Company F, CEO].

Company C also talked about luck and coincidences. During their visit to Norway, the company visited two Norwegian companies, but they did not get any orders. Six months after the visit, they unexpectedly received a purchasing enquiry from another large Norwegian company: "I did not visit them [the company] at the time, but our name and the profile of our competences was left with them. Then all of a sudden we were just there. So we got in that way, and that was quite splendid." Company C received orders for the subsequent two years until the Norwegian purchaser was replaced and orders ceased. Madsen and Rasmussen (1997) observe that these accidental orders rarely develop into long-term collaboration. In addition, firms that enter the global marketplace by accident, e.g. an unsolicited order or an opportunity, are more likely to experience limited growth.

The table below provides an overview of the triggers for internationalizing.

Table 7.3 Triggers for the first attempt(s) at internationalization.

Company	Quote	Trigger
#A	A suggestion by an employee to internationalize to Norway: "Because he wanted to go back home. He was a competent employee whom I have great confidence in. And then I said, yes, we can do it, but do you have any idea how we should go about it?"	An opportunity
#B	"We had actually called a Danish supplier to enquire if they were interested in selling our product. And they said no, it was too complicated for them, but they had an employee who was retiring, and he had taken our catalogue with him and said he would like to have a look it."	An opportunity
#C	The previous owner had contacts in Germany: "They had contacts there. Business contacts and things like that. And so we tried."	An opportunity
#D	The company was contacted by the BDCD: "The Business Development Centre ran a project that focused on companies that had not yet exported. So they organized a project where they introduced [Danish] companies to the [three] markets."	An opportunity
#E	CEO's decision to establish a production facility abroad in the aftermath of the financial crisis: "We are competing against the global market."	A strategy
#F	"Then all of a sudden there is someone [...] who says that he has heard of us and that he would recommend us [to one of his customers]. And then we go ahead."	An opportunity
#G	The company was approached by the innovation assistant program: "We used a 'pilot project' from the university to conduct market research, and it clearly showed that the sales methods were comparable with what we do in other countries. We just did not have the market [in Germany]."	An opportunity
#H	Company mission and vision: "We have to have a presence. That is what justifies our existence."	A strategy
#I	HQ decision to establish a subsidiary in Sweden.	A strategy
#J	"They were actually the ones that approached us all of a sudden during a summer holiday. Then we investigated them a bit, and then a meeting was arranged."  "You might say that we had already decided that we were going to China, and were in the process of entering China. Then we got to know some people by chance, which might mean that our approach to the market will change and perhaps increase in pace."	An opportunity/ strategy

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As can be seen in the above table, opportunity is an important trigger for foreign market entry. These findings correspond well with Lojacono and Venzin (2014), who found that companies in the Italian furniture industry “engage in cross border business if opportunities arise without profound knowledge about foreign markets” (p. 290). In line with findings from Galkina and Chetty (2015), my case data show that choice is influenced by external relations. Companies may have had an initial idea of which market to target but the trigger to actual entry is an intermediary who assists the company. This is what leads to the final decision.

### 7.2.7 Summary of theme 2, initial phase

The initial phase of the internationalization process is characterized by the use of agents and collaborations. Indeed, the smaller companies used existing business ties in the early phase of internationalization, for instance to identify an agent or for general market knowledge. Thus, findings correspond to the literature that indicates networks are a significant source to overcome the liability of smallness (Felzensztein, Ciravegna, Robson, & Amorós, 2015; Street & Cameron, 2007). But case data also illustrate the SMEs in question do not spend a lot of time on identifying appropriate agents, alliances or business partners. As seen in section 7.2.3, coincidences and opportunities influence market selection. In the earlier phase (pre-engagement), the influence of coincidences and opportunities shape the choice of agents or business partners. As also observed by Prashantham (2015), “as the process unfolds, interorganizational relationships with customers, suppliers, and strategic partners tend to influence the pace and trajectory of the venture’s internationalization” (p. 16). Many case companies had a tendency to make decisions in this area without much deliberation. Accordingly, several companies have a history of failed collaborations. Ultimately, acquisition of knowledge is unstructured and unplanned.

## 7.3 Advanced phase

As seen in Chapter 2, Leonidou and Katsikeas (1996) have suggested that the learning stages of increasing commitment lead to the advanced phase in which the firm becomes a committed and experienced exporter. But the firm will only consider further commitment and internationalization and move forward to the next step if the previous stages have been successful. My data revealed a general lack of resource commitment to foreign markets. Accordingly, many companies remain “stuck” in the initial phase where they only have sporadic or exploratory export. Even if there is a potential to expand business to more markets, most companies do not become engaged or committed. This section discusses why the companies have not moved from the first stages to the advanced phase where they become more involved and actively engage in a systematic exploration of a large number of foreign market opportunities,



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as Cavusgil (1980) and others have argued should have happened. (See table 2.1 Selected innovation-related internationalization models.).

### 7.3.1 Lack of resources and commitment

As discussed in section 2.4.1, internationalization is CEO-dependent. It matters whether the CEO is driven as opposed to a reluctant CEO, who views internationalization as a necessity. Accordingly, there is a significant difference between “the ambition” to internationalize and “the need” to internationalize. Ambition is illustrated by the CEO/co-owner of Company A, who believes he “has to earn” the position as CEO. He always strives to do his best and to understand the host market. He did not think that he was the natural choice just because he owned the firm. He also talked much about the danger of “resting on one’s laurels.” He particularly thought that owner-managed firms had a tendency “to settle” by not taking chances and maximizing their profits. A case in point is Company C, which is owner-managed. As illustrated by the CEO:

The road is a little longer [to the Spanish market], so we would have to spend a lot of time on that. So [instead] we will probably have to pick some of the low-hanging fruit.

It is clear from the statement that the CEO does not want to use resources on more distant markets, which, in his view, involves much more work than near markets would. He is not willing to allocate the necessary resources, and would just start with what can be obtained by what is readily available. The CEO is very resource-conscious. In the following excerpt he explains the rationale behind allocating resources:

Not so long ago someone asked me, why do you really need an agent, why not just have a website where you explain that you are able to do a little bit of everything. Well, it would be great to have the time and the energy to have a website that might have six good cases about what we have done in the past. Write a case, what did we get out of this, what did the customer get out of this, and then try in some way to get people to read it on our website. But again, it takes a lot of resources to set it up and fill it with a lot of material. It takes a lot of resources, which take time away from something else. [Company C, CEO].

Interestingly, this CEO had considered the potential of having a complete website, but concluded that it was not a priority. Likewise, few prioritize having the website in the language of the foreign market. Additionally, other interviewees expressed that initiatives such as marketing brochures were not a priority or even relevant. As the CEO of Company F said: “It does not make sense for us, a sub-supplier, to market ourselves through brochures and such.”



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It seems it is always a matter of not having enough resources. For instance, Company B did not attend trade shows because of the cost. “It is still a lot of money. We have to pay for overtime; we have to transport all the things up there, and set them up, be at the stand, and then take everything down again. It is a lot of money.” Likewise Lojacono and Venzin (2014) found that firms “decline to make strategic decisions that commit a substantial amount of resources to foreign markets” (p. 290).

The smallest companies, Company B and Company C, both owner-managed, are particularly money-conscious. For example, Company B previously employed freelancers and agents before finally concluding that it was necessary to have an in-house employee. But the CEO often mentioned the importance of measuring the costs of an employee against additional sales. Moreover, when the company finally decided to seek external assistance, they chose the BDCD. As the export worker explained in the interview, he had noticed that the BDCD had received a lot of bad press and so he thought they should be given the chance to prove their worth. However, the services of the BDCD are free, so the question remains as to whether the BDCD was chosen to prove their worth or because Company B did not want spend money on other options.

In contrast, Company J, which is owner-managed, was determined to “become a market leader.” As the CFO said:

I think one of our biggest obstacles is actually ourselves. It is not so much the resources, it is not so much the product, and it is definitely not the markets, because there are plenty of markets in our industry. But when you enter new markets, you cannot just hire three men and then it takes off. So it is the current management, we must build an organization, we must develop the skills, and we must have the people who can drive all those change issues.

As illustrated by the statement, the CFO explained that human capital is more important than financial capital. Indeed, the CFO talked about having more documentation and knowledge sharing because the gallery of characters within an organization constantly changes. As he explained:

Companies can really experience several first times [of internationalization]. That is because the gallery of characters constantly changes as well. Many companies, including ours, are perhaps not always great at writing down thoughts and experiences on paper. And that is why, during my time with the company, we have run into actually having several first times.

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The CFO makes an interesting observation: that companies can experience several first times of internationalization, in this case, because of person dependency. As discussed in section 2.2.2.2, Forsgren (2002) also notes that market knowledge will vary between individuals and be dependent on the turnover of personnel over time. This discrepancy with the stage models' assumption that experiential knowledge can be transferred to other countries may be explained by the fact that past literature has focused on the firm and not the individual (see section 2.2.3).

### 7.3.2 Learning by doing

As early as in 1966, Carlson formulated that companies that lack knowledge of how to do business abroad tend to manage risks by adopting trial and error behavior and procedures. But, like the later Uppsala model, he also argued that once a company had crossed the border and had obtained its first foreign experience, the knowledge acquired would aid further internationalization. My findings also show that the companies adopt a trial and error behavior, but not all in a way that enhances learning. "Learning by doing" is critical for a firm with little knowledge, as illustrated by the following statements:

And I would say, if from the outset we had hired a Swedish sales representative who had a large network in Sweden, and we had not been out to investigate the market, and had not done the things we have done, I actually think we could have ended up with a lot of dissatisfied customers who would say, 'never this company again.' And once they have a negative attitude to the name, it is pretty hard to turn around.

[Company I, export worker].

In this quote, the export worker explains the importance of "learning by doing." He believes that hiring an external sales representative to investigate the market for them would have been a mistake. Likewise, in the following statement, the CEO/co-owner of Company A explains how he thinks it is crucial to understand things himself as opposed to hiring someone:

There were a lot of things we did not know about and that we had to learn the hard way [Talk about VAT]. You understand a lot by dealing with these problems. And everything I am able to tell you today is only because I have had my fingers in the dirt. I have not had Deloitte to just do it all for me. So the charm of doing it my way is that you understand things.

[Company A, CEO].

The bureaucracy related to establishing their subsidiary in Norway was time-consuming and expensive. "And there was no-one who could have helped me do that in advance. It was just

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learning it the hard way.” As the CEO continuously said, “there were many things we did not know that we had to learn the hard way.”

Essentially learning by doing is also about being humble, and not merely assuming that market knowledge and experience of one country may easily be transferred to another country. As the CEO of Company C stated:

You should not be afraid to take a risk, certainly not. I am also an entrepreneur and I have taken risks throughout my life when doing business. And you have to do that because otherwise you will not be successful. But on the other hand you also have to be humble and not just think, well, but if I can make it in this country then I can also make money in Germany.

Likewise, Company I talks of humility towards the markets:

We talk about humility towards the markets. That is why we are doing it this way, by first learning how the market functions and how things are done in Sweden.

In these statements gathering knowledge about a country, e.g. about the market structure and conditions, is considered a key factor. For these companies, it is important to understand the specific environment before acting. Yet for others, it appears that they hope successful entry to one country will open the door to future markets:

But we have chosen to say, if we can break the ice here [In Germany], then we will most likely be able to break the ice in other countries. That is the simple philosophy behind it.

What did we do in Germany, how did we get there, we went to such and such trade shows and we did this, we got a relationship with the embassy and they introduced us there. Well, I am certain that when we take out the Germany folder the next time, and we might put in Italy or another country, then there will be some of the same ingredients we can use.

[Company G, CEO].

In the quotes, the CEO states that they hope market entry to Germany will open the door for other markets so that they may be able to transfer some of the knowledge. As described in section 4.6.1, the CEO was frustrated that there were not “really any recipes,” and “that you have to go by trial and error.” Here, two observations can be made. First, the CEO does not particularly want to go through a lengthy trial and error process, which explains his wish

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to create a “book of knowledge” for future reference. Second, as also seen in section 7.1.5, it is a difficult and frustrating process to obtain knowledge. In this regard, it is interesting to observe how this mature company with exports to major geographic markets is now in the process of internationalizing for another first time. Because there was a shift in ownership and the current CEO only took over a few years ago, this highly internationalized company experiences that entering a new market is challenging. Consequently, there is a difference between the companies that made an effort towards understanding the market as opposed to the companies that obtained indirect experience.

For instance, Company B did not think much of gaining an understanding of the host country. As seen in section 5.2, only 3–4 months went by from the time Company B found their agent until they started in Germany:

We simply went into the market with the knowledge and competence that [he], our agent, had. He did some research while we had our Danish material translated into German. He was also in charge of that. And then we simply started up right away.

Recalling the market selection of Germany (see section 5.2.1 and section 5.1.2), Company B had initially called a Danish supplier to enquire if they were interested in selling their product. During their latest attempt at market entry in Sweden, the company had accidentally met a Danish company at a trade show in Germany. It turned out that the company had a contact person in Sweden. In this context, the company believed that they would be able to “enter through the back door” by means of existing customers. Thus, agents and other companies are used as a shortcut for learning by doing.

Another example is the CEO of Company C who continuously relied on others to aid the foreign market entry. In Germany, for instance, where the company already had an agent, it turned out that their agent “was completely indifferent to selling our machines.” In the UK, they had a different experience: “It was simply a dream scenario. He simply contacted people by telephone. Knew them. Got hold of someone.” As the CEO explained:

In the UK market, we ended up with an agent who really knew how to handle this, notice the danger signals and get enquiries out. It was simply a dream scenario.  
[Company C, CEO].

However, when the British agent retired in 2012, the company discontinued the internationalization, as they believed “It would be like searching for a needle in a haystack [finding a new agent].” Another example of Company C’s reliance on others was in Norway in which the CEO was disappointed in the services of the embassy, and complained that the embassy had only been able to schedule two client visits. When asked what he would have done

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differently, the CEO answered that it was difficult to say, and that he did not have “the big picture yet.” In this context, it is relevant to point to Javalgi, Deligonul, Dixit, & Cavusgil (2010), who found that “reentry into international markets may thus benefit from the causes of previous entry” (p. 380). The CEO’s inability to explain why the company did not succeed and what they would have done differently may be due to the fact that the CEO skipped the learning process. Essentially, learning by doing plays an important role. And it seems that the companies, who skip the learning steps, do not benefit from the past experiences.

### 7.3.3 Stuck at a stage

Without learning, experience does not necessarily build knowledge, which may explain why some companies do not increase their level of commitment. According to the Uppsala model, past foreign experience should be easily transferable to new countries. However, the companies that had past experience did not seem to benefit greatly. For instance, companies that had already attempted to export to Sweden and Germany did not have greater success in the next country. This may reflect the fact that even though they might have “experience” they do not have knowledge because they have used different short-cuts through various collaborations or use of agents. Moreover, market knowledge is not necessarily transferable.

Data show that SMEs engage in an “ad hoc” or “non-committed” internationalization process, and target multiple foreign markets in phases, in some cases within several months, and in other cases with years between their attempts. This was, for example, the case with Company C, which during good periods with growth focused less on markets outside Denmark. The theories assume an increasing commitment, but as discussed earlier, there does not seem to be an increasing commitment among the smaller companies. In addition, not much effort is put into retaining a foreign market. If the CEO does not perceive the pre-internationalization or initial stages of internationalization to be successful, then the market is abandoned without any further consideration. This is illustrated by the following statement by the CEO of Company D: “If it turns out that it is very difficult to compete in Sweden, well then it is better to continue in Germany and Norway.” The quote indicates that if the market is too difficult to enter, then they will not put a further effort into it. But it also seems that companies do not ever truly de-internationalize. Rather internationalization is put on hold. While a small company cannot afford to use resources on a market that does not yield a return or immediate prospects, it may do so in the future. So markets are typically put on hold rather than abandoned. When asked when they decide to pull the plug and leave a market Company D answered: “you never really abandon it.”

### 7.3.4 Summary of theme 3, advanced phase

Many of the investigated SMEs were nowhere near the advanced phase, but were stuck at a stage between the pre-engagement and the initial phase. Ultimately, the motivation for

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internationalization highly affects the subsequent internationalization process. There was a clear difference between the companies that had an ambition to internationalize and those who saw internationalization as a necessity. CEOs who are not committed do not allocate sufficient resources. Moreover, they assume that they can skip steps, e.g. by employing agents or entering into alliances with others whom they expect will provide the necessary knowledge. Instead of learning from experiences, these companies fail to gain market knowledge. When they do not succeed, they engage in “ad hoc” internationalization where stages are repeated, thus becoming stuck at a stage.



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# 8

## Conclusions





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## 8 Conclusions

### 8.1 Discussions of results

On the basis of the literature (Chapter 2), it was expected that the case companies would emphasize uncertainty aspects as playing a role for their internationalization process (see section 2.5). But as appears from the case data, uncertainty is not something that the companies explicitly mention. For instance, I asked Company G if they were ever “worried” about making the right decisions, to which the CEO immediately responded: “It is not something we lose any sleep over, it is just something we do.” As seen in Chapter 7, since SMEs use an effectuation approach, in which they implicitly search for network relations to decrease the uncertainty of entering the global marketplace, uncertainty is not really an issue. This is illustrated by Company C: “If we had set some goals, then we would certainly have been seriously disappointed. And then we would have pulled the plug and said we will never ever do that again, and then we would have given up on everything.” Or in Company A’s words: “I would have said no if I had known from the outset how difficult it would be. But you do not know. And then you just think like ‘how hard can it be’.”

In this regard, a report from the OECD found that “firms that are not yet active exporters seem to underestimate both the barriers present in the external business environment and their own shortcomings in terms of their internal capabilities whilst overstating the barriers associated with financial matters and with regard to access to markets” (OECD, 2008, p. 60). This was indeed confirmed in my research. The exporters clearly underestimated the time aspect and the required resources it takes to go abroad. Moreover, even in the cases where companies had gained international experience, they tended to underestimate the next adventure because they thought they could transfer the knowledge to a new market. Many of them spoke about “getting knowledge” that they could use for future internationalization adventures. When Company F began selling their own new product abroad, the CEO assumed “the next step is not so big.” But when I spoke to them a year later they were in the process of terminating the product and setting the foreign market entry on hold. This is indicative of how companies underestimate the difficulty of further internationalization. In this case, it was probably because they had established a network tie to assist the internationalization, thus lessening the perceived uncertainty.

The companies make quick decisions and are thus able to move fast. But they realize that they also have to attend to the business in Denmark. They learn through bitter experience that internationalization takes time and resources. As the CFO of Company J said: “My experience over the last twenty years is that we are eternal terrible optimists when it comes to time. Because things always take a little longer,” while later adding: “It always costs a little more than you expect, and it always takes a little longer than you expect.” In

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the machinery industry it can take anything from a few weeks to several years to complete a deal. For example, Company B spoke of customers who after three to four years suddenly approached the company. “Now they are beginning to get back to us and say ‘the offers you made in 2012, if the prices have not gone up, then we would like to continue the talk.’” In this case, the company had visited a German company every six to nine months, thus maintaining their business ties. In the end, they received their first German order. However, in this particular case, it had taken the CEO a long time to conclude that the company needed to employ an actual export worker. Nevertheless, despite the advantages of having an export worker, the CEO was still talking about revenue versus expenditure expenses.

Companies need to allocate resources in order to overcome the liability of smallness and foreignness. But many of the case companies believe that they are too small and that they are not able to go ahead on their own. The companies talked about certain restrictions that a smaller company has to take into consideration. For instance, daily operations versus spending time on the foreign market. Generally there seems to be a short-sighted mentality among many of the sub-suppliers within the machine industry. CEOs are impatient and although they know that it takes time to enter a foreign market and identify and establish contact to a potential customer, many still expect a return on investment fairly quickly. With that in mind, it is interesting to observe the difference between owner-managed SMEs and non-owner-managed SMEs. Indeed, data revealed a difference in the level of ambition of the CEO. Because the employed CEO has to internationalize, there is a commitment, and the necessary resources are allocated. The owner, on the other hand, is not committed in the same way.

Admittedly, companies have different challenges. For instance, sub-suppliers that manufacture more standardized products are keenly aware that it is a highly competitive industry in which it is difficult to get the first order. As illustrated by Company D: “The customers must have a wish to engage in dialogue with new suppliers.” In contrast, the companies with more specialized products, Company F, G, J, experienced different challenges. They were known in their industries, and so they were often approached by customers. However, Companies F and G attempted to enter the German market and realized that despite their existing foreign markets, new foreign market entry was difficult. Similarly, Company J experienced that their business partnership with a Chinese company was unsuccessful, and decided they would enter the market on their own – at least for the time being. Thus, while companies of this type find it easier to sell their products, finding the right relations is still a challenge. Despite industry-specific factors, the different industries also share certain challenges. In the end, the most important trigger is the motivation to internationalize. The smallest companies (B, C, D) were reactive and viewed internationalization as a necessity. The largest companies (H, I, J) were proactive and wanted to internationalize. Therefore, sufficient resources were willingly allocated.

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It is also be interesting to look at the age and tenure of the CEOs, and the length of time that the CEO has occupied the CEO position. In their study of CEO tenure within family and non-family firms, Boling, Pieper, & Covin (2016) found declining levels of risk-taking and experimentation late in the CEOs' tenures. My case data confirm that pro-active and risk-taking behavior levels off when the CEOs have been employed for a long time. But of course, there are many other factors that influence the behavior of the CEOs. For this reason, it is difficult to establish a strong connection between CEO tenure and proactive and risk-taking behavior.

Given their low level of commitment, the low ambition companies embarked on an unstructured and reluctant internationalization process, thus resulting in an "ad hoc" or "non-committed" internationalization. This improvisational approach can perhaps be partially explained by the fact that smaller firms benefit from less bureaucratic constraints and greater organizational flexibility (Miesenbrock, 1988). But as illustrated by the case histories, this may also result in too much flexibility, i.e. the lack of simple objectives and strategies. Also many of the SMEs did not have a professional board, which they acknowledged might have helped them.

The mindset of the CEOs is important, i.e. the subjective categories of Leonidou et al. (1998). (See section 2.4.1.1). If they think they have a disadvantage, e.g. being foreign, then that is a significant barrier to entry process. Moreover, earlier studies point to the lack of business networks as one of the greatest perceived barriers to internationalization (Chetty & Blankenburg-Holm, 2000). As could be seen in the case history of Company D (see section 5.4.2), they attempted to enter the Swedish market and attended two trade shows. But the trade shows did not pay off and they decided not to proceed because they did not "get any good contacts," for instance, potential customers or business partners. In this case, the lack of contacts was perceived as a substantial barrier.

About half of the founders and owners of the manufacturing companies did not have any foreign market experience. Many were trained within the industry. Few had a university degree such as a Diploma in Business Administration or a Master of Business Administration. In terms of international experience, most of the CEOs were in their 50s with little international experience. Few had extensive international experience except for the larger case companies H, I, J. While the companies with CEOs with a higher level of education overall did well, this factor alone did not seem have a substantial bearing on their approach or outlook. Cross-case data indicated that management found it difficult to acquire information and establish network ties. But more importantly, the within-case analyses showed that if the CEO had the ambition to internationalize, then lack of market knowledge, experience and foreign language skills did not impede internationalization.

It is interesting to observe that in their study of Swedish BGs, Andersson and Wictor (2003) found that all entrepreneurs had extensive international experience gained in different

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ways through prior work experience, informal networks or time spent abroad. It has also been found that managers and founders of born-globals tend to have extensive networks before the inception of the firm, and that utilizing these network relations is often vital for quickly reaching foreign markets (Chetty & Campbell-Hunt, 2004). Thus, the question remains whether the mature case companies would have internationalized earlier or more “successfully” if their decision-makers had had extensive international experience, higher education, and a readily available network.

Several scholars have shown that companies may leapfrog stages. As discussed earlier, decreasing transportation costs, advancements in technologies, business collaborations and the use of experiences of others should facilitate leapfrogging. My case findings support this to a certain extent. An example is Case Company E, which established a production facility in Poland. But others are not interested in following the establishment chain, e.g. going from no regular export activities to ending up with overseas production units. On the other hand, some of the larger case companies seemed to follow a more incremental process of internationalization. Representative of the larger companies in the sample, Companies H and J followed a gradual path from exporting to establishing subsidiaries.

As internationalization is conceptualized as a learning process in which a firm goes through a number of stages, it seems natural that a firm may also repeat stages. And ultimately, for some companies, it is not an ambition to expand beyond the domestic border, but rather a matter of necessity. In those cases, the decision to internationalize is aided by opportunity, because a foreign customer approaches the company or the company “knows someone.” Often small companies have such an opportunistic approach to internationalization. They are reluctant to allocate the necessary resources because they do not want to make a commitment. The decision-makers would probably be able to hire a translator or hire someone to take over while they are away from the business for a couple of days, but this is not what they do.

## 8.2 Conclusion

On the basis of empirical data in a cross-case case study approach, it was shown that there are two main motivations for internationalization: some were proactive and driven by personal ambition, while others were pushed or rushed by external circumstances. Many of the case companies belong to the latter category; they are nationally oriented SMEs that have been forced to become players on the international marketplace.

Confronted by a small home market and increasing international competition, the companies find that they cannot remain local. Here, the analysis illustrated how the ambition of the CEO is closely linked with the subsequent internationalization process. There is a higher likelihood of successful foreign market entry if the decision-maker has an ambition to

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internationalize. Companies that have more reluctant decision-makers are less likely to allocate the needed resources to hire assistance, or even to have a website in the foreign language.

The analysis also showed that most companies took an improvisational rather than a strategic approach. Accordingly, the SMEs appeared to follow an effectuation approach, where decision-makers follow a logic based on the means available. In contrast, the larger companies followed a goals-driven causation logic, in which they have a specific goal and allocate means to achieve it, which corresponds to Sarasvathy (2001). As seen from the within-case histories, it seemed that foreign market entry was often an unexpected case of “opportunity” and “coincidences.” Companies did not aim at a particular foreign market; rather the process was triggered by stumbling on an agent or business partner or being approached by a governmental organization to commence the internationalization. Thus presented opportunities, in the form of tie relations, determine when companies take action. None of the case companies, with the exception of the larger companies, conducted systematic market research or planning; they made decisions without much deliberation in the early stages of internationalization. This is consistent with other studies (see e.g. Delaney, 2004; Evers & O’Gorman, 2011; Li, Li, & Dalgic, 2004; Lojacono & Venzin, 2014). Because of their effectual logic, market research and identifying potential customers and business partners are not a step-by-step process, but intertwined.

Research describes how various forms of collaborative arrangements are becoming increasingly important (see Chapter 2), and how partnerships with other firms and the use of networks can enhance the competitiveness of the small firm. One of the biggest barriers to internationalization is that they do not know where or how to obtain knowledge. Because of the absence of network ties, all SMEs had at one point employed the services of the embassies. But this appeared to be more the result of a lack of other possibilities than an active choice. And ultimately the embassies could not help SMEs establish a much needed network. Decision-makers struggled to obtain relevant ties to guide them through the internationalization process in attempts to overcome the liability of smallness. As also reported by Evers and O’Gorman (2011) and Galkina and Chetty (2015) (see section 7.1.5), the case companies developed new network relations during the internationalization process. Companies would meet new relations that were subsequently used for market-related advice and introductions to other ties or business opportunities. Consequently, companies depend on various social and business ties to commence and aid the process into the foreign market.

Case data demonstrate that many of the companies were too quick to select intermediaries. While they acknowledged the importance of finding the right foreign agent, they were not well prepared for this. Generally they did not spend much time on identifying appropriate agents, alliances or business partners. They simply grasped an opportunity when it was presented. They also attempted to enter several markets at the same time. It has been observed that companies that “accidentally” enter a foreign market are more likely to



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experience limited growth as they become dependent on accidental orders (Madsen & Servais, 1997). Indeed, my empirical data show that many rely on accidental orders and connections. As a consequence, internationalization becomes “ad hoc” and the companies move on to another market when the accidental orders stop.

In many cases, the companies became very dependent upon their agents or business partners for market knowledge and know-how. Accordingly, when the agents were gone, e.g. as a result of retirement or coincidence, the companies were set back. Essentially, there is an important difference between learning by doing and managerial learning, i.e. going through a trial and error process as opposed to relying on an agent or entering an alliance with others who will provide the necessary knowledge and connections.

According to the Uppsala model, a firm can use the experience and knowledge gained from one market to enter other markets. However, data indicate that companies had a hard time applying what they had learned from previous attempts. As a result some companies experienced several first times of internationalization. One of the most important barriers to successful market entry was in companies that did not engage in the managerial learning process, but rather relied on opportunities and random orders. They engaged in “ad hoc” and non-committed internationalization, where markets were quickly put “on hold” if the domestic market picked up. And because the level of commitment was low, it was easy to put the market on hold. Interestingly, SMEs do not seem to de-internationalize. If another opportunity appears, then the SME is likely to initiate internationalization again.

Past studies assume that companies seek internationalization as a goal, as something they want. However, some companies prefer to operate within the domestic market, and for them, today’s open markets mean that internationalization has become more of a necessity than a desire. The decision to internationalize is not an active choice to grow the business or become an international brand, but rather to survive. These companies do not gain a competitive advantage by internationalizing. Rather, spending time and resources on entering a foreign market is felt to be time away from something else.

Consequently, the analysis shows that the most critical barrier is the company itself. Uncertainty and lack of experience and network relations may influence the internationalization process. But these factors can be overcome if the decision-maker has an ambition to internationalize. This is illustrated by the proactive companies that succeeded in overcoming the liability of smallness. Consequently, a company that is forced to seek new markets will go through a different internationalization process than a company that has an ambition to internationalize.

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### 8.3 Empirical contribution

The present study contributes to the understanding of the internationalization process of mature Danish SMEs. As can be seen in Chapter 2, in the international business literature, MNCs have been researched extensively whereas mature SMEs have received little attention. As discussed, there is a need for qualitative studies of how mature SMEs with little experience internationalize. This thesis contributes to this research gap by employing a within and cross-case study approach, thus providing novel insight into the internationalization process in terms of pre-entry market research, market choice and entry mode. Through a large case study of ten companies, the maximum number recommended in the literature, a rich amount of qualitative data was collected and analyzed. A number of supplementary interviews provided further valuable in-depth perspectives. In addition, interviews with professionals from the most significant organizations within SME support and promotion in Denmark also contributed to our knowledge of their experiences to bridge the gap between theory and practice.

For the analysis, I adopted Leonidou and Katsikeas's (1996) three broad phases of internationalization: the pre-engagement phase, the initial phase and the advanced phase. Although not developed for this purpose, this proved to be a useful analytical tool for categorizing the data. However, the fact that internationalization is dynamic makes it difficult to carry out stage segmentation. In practice, the companies themselves also find it difficult to separate the different phases. Therefore, as also noted by Zucchella and Magnani (2016), it is important to draw attention to the intertwined nature of internationalization. Nevertheless, the division into phases has highlighted aspects which would have remained obscure if they had been analyzed as one continuous phase.

It was not the aim of this thesis to build a theoretical framework. Rather, it was hoped that new empirical insights using a case study approach would shed light on some of the challenges faced by the internationalizing companies. The thesis thus has useful implications for business practice and provides new data for further research. The main finding of the study is that it appears that, in order to understand and facilitate the internationalization process of SMEs, it is important to look at the motivations for expanding beyond domestic borders.

### 8.4 Suggestions for further research

While this study contributes to our knowledge of internationalizing mature SMEs, it has its limitations and thus viable avenues for future research remain. It is important to emphasize that this study did not seek to generalize findings. Nor was it my aim to present a set of prescriptions for internationalization success. However, it is hoped that the discussion



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in the previous chapters will suggest useful considerations and perspectives for action. More studies are needed to corroborate and further investigate the presented findings.

This is not a dissertation on network, but a study on internationalization in which network ties have been shown to play an important role. It should be emphasized that I have only reported the interviewees' perceptions. Unlike accounts of events that took place on certain dates, these perceptions cannot be verified by secondary sources such as newspaper articles or financial reports. Thus there is a need for further research on ties, forms of knowledge transfer, and the actual usefulness of the transferred knowledge.

Another potential area of enquiry is the personality traits of entrepreneurs. Research could explore how and why entrepreneurs differ and to what extent specific characteristics are able to predict internationalization performance. Past studies have suggested that there are differences between exporters and non-exporters, but the research on the impact of specific characteristics is as yet inconclusive. Zahra et al., (2005) have suggested that a cognitive approach may enrich our understanding of internationalization decisions as "we know little about what goes through entrepreneurs' minds as they explore their firm's competitive global landscape" (p. 143). Whatever internationalization pattern an SME follows, entrepreneurs need managerial capacity and competencies to succeed in their international activities (Oviatt & McDougall, 1994). Given the importance of this, more studies are needed. In this regard, scholars should also conduct longitudinal studies to determine if companies become less improvisational as they grow.

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## Appendix 1      Small and medium-sized enterprises

Small and medium-sized enterprises as defined by the European Commission, EU recommendation of May 6, 2003.

Company category	Staff headcount	Turnover	<i>Or</i>	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

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## Appendix 2 Interview guide

“Tell me about your internationalization experience as you recall it”

### *Research and choice of market*

- I. Background for market choice
  - A. Knowledge of foreign market
    - i. Why did the company think they could be successful?
    - ii. Was the choice based on extensive market research?
    - iii. Was the choice based on other factors?
      - a. Human, financial, social resources?
  - B. Did the company use formal channels or network relations?
    - i. Did the company use their board?
    - ii. The importance of both in this initial phase
  - C. Strategic goals and expectations
- II. International experience
  - A. Prior attempts at internationalization
    - i. If yes – specifics
    - ii. If no – which deliberations?
      - a. why *this* time?
    - iii. The role of uncertainty

### *Market mode and entry*

- III. Preparation and discussions with whom?
  - A. Choice of market mode
  - B. Did the company use the formal organizations?
  - C. Did the company use network relations? If so who? Why? How?

- 
- IV. Use of formal channels and organizations such as the embassies, etc.
    - A. How did the company learn of the different options?
    - B. Why did the company choose the different organizations?
    - C. What were their expectations?
    - D. How did the company use the organizations in the process?
    - E. What was the outcome?
  - V. The process
    - A. What were the biggest challenges up until the actual internationalization?
    - B. What were the biggest challenges throughout the process?

*Network relations*

- VI. Network relations
  - A. Were other companies' experiences of use?
    - i. Evaluation of relevance
  - B. Did they use network relations?
    - i. Which (weak/strong) and why?
    - ii. Which were more beneficial?
      - a. What did the company use them for?
      - b. Evaluation of relevant network relations?
      - c. Old or new network ties?
      - d. How were ties established and developed?
    - iii. Passing along own experiences to others?

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*Communication and marketing*

- VII. The role of communication with customers
  - A. Cultural difficulties?
  - B. Communicative difficulties?
- VIII. How important was the marketing material?
- IX. How did new (foreign) customers learn of the company?

*Organization*

- X. Numbers, employees, background
  - A. History of the organization
  - B. Background of the CEO
    - i. International experience?
    - ii. Use of network ties?
  - C. Where any new employees hired at the time of internationalization?
    - i. Have there since been employed employees with “specific intercultural” or international experience?
    - ii. Considerations about future employment of employees with such experience?
- XI. Closing remarks
  - A. Anything they would have done differently?
  - B. Thoughts on future internationalization
  - C. Current export share
  - D. Have they reached their goals and expectations on the foreign market?
    - i. Further questions



## Appendix 3 Overview of collected material

Data source	Examples
Interview	In-depth interviews and follow-up interviews. Consisting of both face-to-face and telephone interviews.
Email correspondence	Written email correspondence with case companies.
Press reports	Company press releases.
Company's website	Company history, news, numbers and other information.
Company material	Brochures about company products, company power points from presentations.
National, regional and local newspapers, magazines, trade journals, news agencies	Articles collected through Infomedia, and respective websites. For example articles from: "Jern og Maskinindustrien" "Metal Supply DK," and "EksportFokus" by the Ministry of Foreign Affairs of Denmark. For reasons of anonymity it is not possible to reveal the names of regional and local newspapers.
Financial reports	Financial reports for all companies were available through the electronic knowledge bank "NN Markedsdata" from 2010-15. Company database containing information on all Danish VAT-registered companies, branches, and public bodies. Access to key indicators and annual accounts for the past five years, ownership and organizational information, subsidiaries, ratings, industries, and decision-makers.
Videos	For instance, company presentations, company news clips, YouTube or other recorded presentations.

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## Appendix 4      Email

Some of the case companies preferred to be informed orally about the interview. The remaining received the email below (translated from Danish).

As promised, I hereby include a few bullets for the upcoming interview. I am particularly interested in hearing about your lines of communication, use of network relations, and will among other things ask about the following:

### *Background for market choice*

- Preparation and selection of the market
- From where did you obtain your knowledge of the market?
- Participation in networking events

### *Use of network relations*

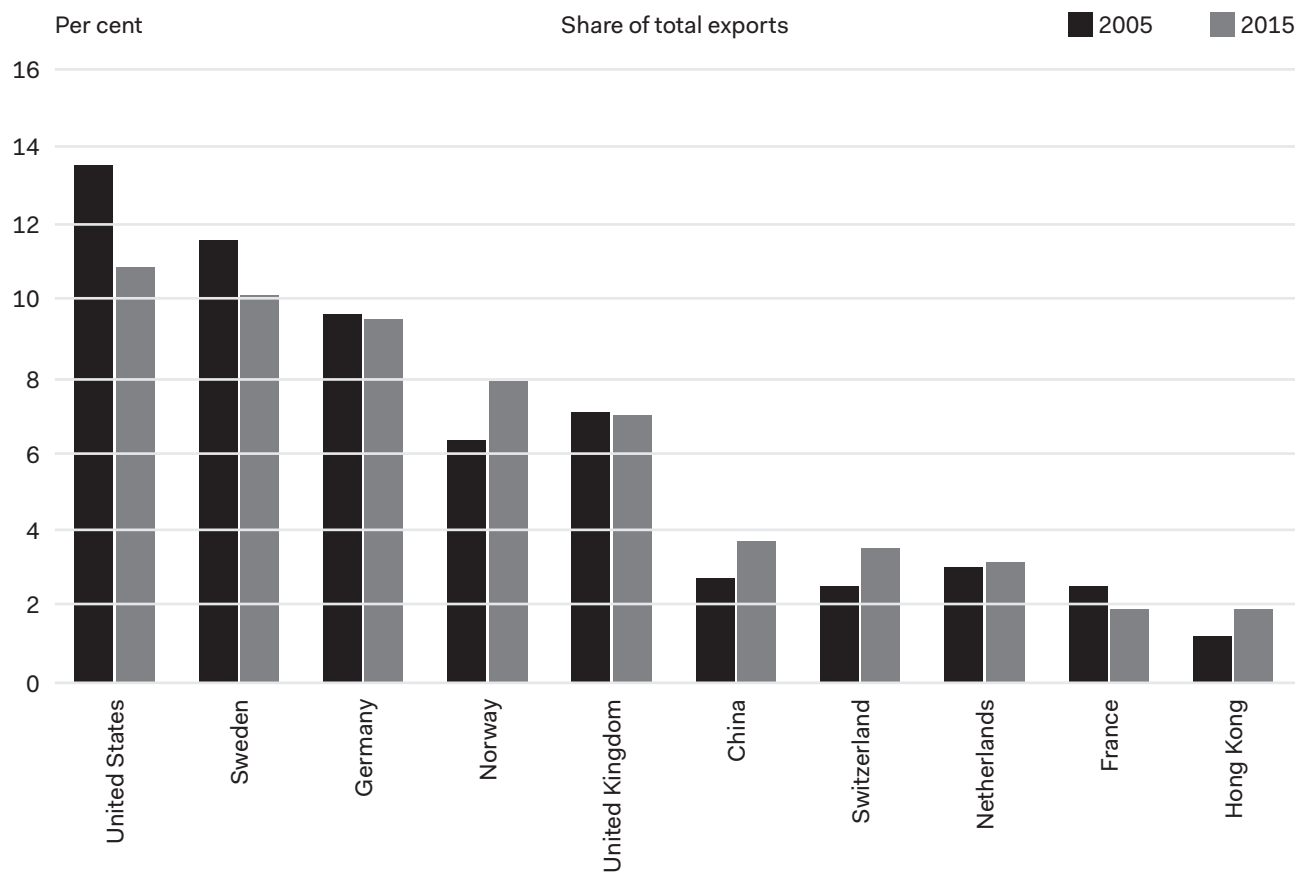
- The most important relationships in the process
- How often did you have contact? What kind?

### *Challenges in the internationalization process*

- Communicative challenges?
- Cultural differences?
- Use of marketing tools

## Appendix 5 Denmark's main trading partners

Top 10 export markets in 2005 and 2015.

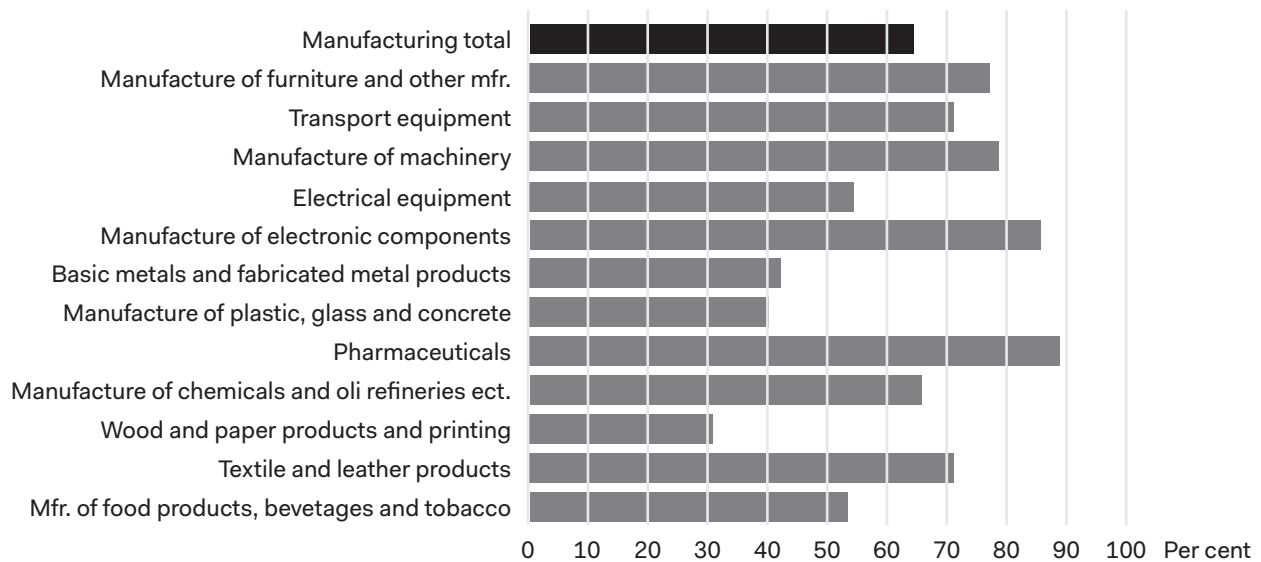


Source: (Statistics Denmark, 2016, [www.statbank.dk/uht02](http://www.statbank.dk/uht02))

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## Appendix 6      Export shares

Export shares of the manufacturing industries by groups of industries. 2015



Source: Statistics Denmark, 2016, p. 411.

**TITLER I PH.D.SERIEN:**

– a Field Study of the Rise and Fall of a Bottom-Up Process

**2004**

1. Martin Grieger  
*Internet-based Electronic Marketplaces and Supply Chain Management*
2. Thomas Basbøll  
*LIKENESS  
A Philosophical Investigation*
3. Morten Knudsen  
*Beslutningens vaklen  
En systemteoretisk analyse af moderniseringen af et amtskommunalt sundhedsvæsen 1980-2000*
4. Lars Bo Jeppesen  
*Organizing Consumer Innovation  
A product development strategy that is based on online communities and allows some firms to benefit from a distributed process of innovation by consumers*
5. Barbara Dragsted  
*SEGMENTATION IN TRANSLATION AND TRANSLATION MEMORY SYSTEMS  
An empirical investigation of cognitive segmentation and effects of integrating a TM system into the translation process*
6. Jeanet Hardis  
*Sociale partnerskaber  
Et socialkonstruktivistisk casestudie af partnerskabsaktørers virkelighedsopfattelse mellem identitet og legitimitet*
7. Henriette Hallberg Thygesen  
*System Dynamics in Action*
8. Carsten Mejer Plath  
*Strategisk Økonomistyring*
9. Annemette Kjærgaard  
*Knowledge Management as Internal Corporate Venturing*
10. Knut Arne Hovdal  
*De profesjonelle i endring  
Norsk ph.d., ej til salg gennem Samfundslitteratur*
11. Søren Jeppesen  
*Environmental Practices and Greening Strategies in Small Manufacturing Enterprises in South Africa  
– A Critical Realist Approach*
12. Lars Frode Frederiksen  
*Industriel forskningsledelse  
– på sporet af mønstre og samarbejde i danske forskningsintensive virksomheder*
13. Martin Jes Iversen  
*The Governance of GN Great Nordic  
– in an age of strategic and structural transitions 1939-1988*
14. Lars Pynt Andersen  
*The Rhetorical Strategies of Danish TV Advertising  
A study of the first fifteen years with special emphasis on genre and irony*
15. Jakob Rasmussen  
*Business Perspectives on E-learning*
16. Sof Thrane  
*The Social and Economic Dynamics of Networks  
– a Weberian Analysis of Three Formalised Horizontal Networks*
17. Lene Nielsen  
*Engaging Personas and Narrative Scenarios – a study on how a user-centered approach influenced the perception of the design process in the e-business group at AstraZeneca*
18. S.J Valstad  
*Organisationsidentitet  
Norsk ph.d., ej til salg gennem Samfundslitteratur*

19. Thomas Lyse Hansen  
*Six Essays on Pricing and Weather risk in Energy Markets*
20. Sabine Madsen  
*Emerging Methods – An Interpretive Study of ISD Methods in Practice*
21. Evis Sinani  
*The Impact of Foreign Direct Investment on Efficiency, Productivity Growth and Trade: An Empirical Investigation*
22. Bent Meier Sørensen  
*Making Events Work Or, How to Multiply Your Crisis*
23. Pernille Schnoor  
*Brand Ethos  
Om troværdige brand- og virksomhedsidentiteter i et retorisk og diskursteoretisk perspektiv*
24. Sidsel Fabech  
*Von welchem Österreich ist hier die Rede?  
Diskursive forhandlinger og magtkampe mellem rivaliserende nationale identitetskonstruktioner i østrigske pressediskurser*
25. Klavs Odgaard Christensen  
*Sprogpolitik og identitetsdannelse i flersprogede forbundsstater  
Et komparativt studie af Schweiz og Canada*
26. Dana B. Minbaeva  
*Human Resource Practices and Knowledge Transfer in Multinational Corporations*
27. Holger Højlund  
*Markedets politiske fornuft  
Et studie af velfærdens organisering i perioden 1990-2003*
28. Christine Mølgaard Frandsen  
*A.s erfaring  
Om mellemværendets praktik i en transformation af mennesket og subjektiviteten*
29. Sine Nørholm Just  
*The Constitution of Meaning – A Meaningful Constitution? Legitimacy, identity, and public opinion in the debate on the future of Europe*
- 2005**
1. Claus J. Varnes  
*Managing product innovation through rules – The role of formal and structured methods in product development*
2. Helle Hedegaard Hein  
*Mellem konflikt og konsensus – Dialogudvikling på hospitalsklinikker*
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