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A Cross-Country Case Study: Comparison of the Internationalization Processes Between Swedish and Chinese Small and Medium Enterprises

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Viktor Petrovski and Yinjie Shi

Dedication

Dedicated to our parents, Miroslav and Sonja (Viktor's) and Shourong and Guifeng (Yinjie's) for their support, both moral and financial.

Abstract

Due to the globalization trend, the internationalization of small and medium enterprises (SMEs) has become a common practice in the last decades. The previous literature suggested that there are many different determinants of the internationalization process. However, in this research study, we focused on only three determinants – institutions, networks, and entrepreneur and their influence on the internationalization process. More specifically, we identified the significance of the three determinants and tested their influence on the internationalization process and compared the similarities and differences between the SMEs in Sweden and China.

A qualitative study was carried out to help determine the purpose of the paper, where data was collected through four case studies – two from each country, within the toy industry. The primary data was collected through personal phone-interviews with the CEOs of the four toy companies, complemented with secondary data collected from the companies' web sites.

The empirical findings and analysis brought some interesting conclusions. The three determinants – institutions, networks and entrepreneur influence the internationalization process in one way or another. Firstly, institutions influence both networks and entrepreneur, but there is no evidence showing that networks and entrepreneur influence institutions. The institutions are also the key determinants of the internationalization process of Chinese SMEs. Secondly, networks and entrepreneur are interrelated to each other and play a key role in the internationalization process of Swedish SMEs, and somewhat influence the Chinese SMEs as well.

Thus, these three determinants are extremely important for the internationalization process and they have to be taken into consideration during the international expansion.

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1. Introduction

This chapter will present a general background of this research study, i.e. the process of internationalization of SMEs and the determinants of the internationalization process – institutions, networks, and entrepreneur, as well as the problem and the purpose.

1.1 Background

Under the wave of globalization, small and medium sized enterprises (SMEs) have become a very great power in contributing to the world's wealth and economic growth in the past few years. Many recent studies have shown their significance in terms of their ability to provide employment, innovations, variety, self-fulfillment, growth, etc. both within and outside of the home markets (Birch, 1979; Storey, 1994).

Considering that a large number of SMEs expand from domestic markets to foreign countries, they would come across various problems in the internationalization process, such as which countries should be chosen as target markets, what kind of entry mode should be conducted and which order of steps should be followed. Therefore, there is an increasing interest in the research field of the internationalization strategy of SMEs (Andersson, 2000; Holmlund & Kock, 1998).

The traditional and classic theory in firm's internationalization process has been identified with two major models: the Uppsala model and the Innovation model. Both of them claim that firms become international in a slow and incremental manner which may be due to lack of knowledge about foreign markets, high risk aversion, high perceived uncertainty or similar factors. The difference is the former one sees internationalization processes as involving a time consuming organizational learning process, while the latter argues that the process is an innovative course of action and hence a question of adoption of new ways to do business (Johanson & Vahlne, 1977, 1990; Gankema, Snuif & Zwart, 2000).

There are several contributing articles in discussing and furthering each of the two streams, and different factors have been tested on their function or influence in the firm's internationalization strategy. For example, firm-specific factors like asset specificity, firm size, market-specific factors like market potential, competition intensity, etc. (Chen & Mujtaba, 2007). Among various factors, institutional environment, networks, and entrepreneur arouse a great interest. All the three aspects are very interesting topics in explaining and solving the problems firms may come across in international process. For example, institution-based perspective claims that cross-national variation in institutional

environments, and the factors in the institution framework, including both formal and informal ones, have been widely and highly stressed on their implications for international strategy decisions (Henisz & Delios, 2002; Peng, 2008); researchers on entrepreneurship believe that entrepreneur, and entrepreneurial spirit, determine the choice the market and entry mode of SMEs to a large extent (Andersson 2000, 2002; Andersson & Wictor, 2003; Oviatt & McDougall, 1994, 1997); also, network theory highlights the significance of network and networking in SMEs' internationalization process (Anderson, Jack, & Dodd, 2005; Mort & Weerawardena, 2006; Andersson & Wictor, 2003). The pay-off of these theories will be generally introduced in the following chapters.

Although there is abundant research on each aspect's influence on firm's internationalization strategy, there is a lack of combination of the three to see their influence on SMEs' internationalization strategy as a whole. This is the main motivation to establish a theory model involving institutions, networks, and entrepreneur, as the three main determinants of the internationalization process of SMEs. In addition to this, the links and interactions among the three determinants will be examined, such as the possible influence of the country's institutions on the company's entrepreneurship and networks. Apart from this, considering the fact that SMEs play a significant role in the international business both in developed countries like Sweden, and in developing countries like China, it would be interesting and inspiring to do a cross-culture analysis and to compare the differences between the SMEs in the two countries.

1.2 Problem and focus

There is a lot of research conducted in the field of the internationalization process of SMEs. However, very little has been done to describe the main determinants of the internationalization process of SMEs. Therefore, the research study will focus on the analysis and comparisons of the determinants of the internationalization process of SMEs, i.e. institutions, networks, and entrepreneur. The research study will be conducted as a cross-cultural case study between Swedish and Chinese SMEs, and their ways of internationalization.

The main research problem will focus in the following area: What is the influence of the three determinants of the internationalization process of Swedish and Chinese SMEs; how these determinants influence the SMEs in the two environments; and what kind of consequences these determinants may cause in the decision and behavior of the SMEs in the two countries.

1.3 Purpose and aim

The purpose of this research study is to specify the significance of the three determinants – institutions, networks, and entrepreneur, to examine their influence on the internationalization process of Swedish and Chinese SMEs and compare the similarities and differences between the SMEs in these two countries.

2. Literature Review

This chapter will present a brief summary of the internationalization process in SMEs and the determinants of the internationalization process: institutions, networks, and entrepreneur.

2.1 *Internationalization Process in SMEs*

There has been a lot of business literature written about the internationalization process and almost every time, it has been interpreted differently. In the past, the mature multinational companies were the most dominant players in any economy. However, nowadays, the things have changed and the small and medium-sized enterprises (SMEs) are taking over that role (Miesenbock, 1988). The countries which experience balance of payment deficits tend to raise the level of internationalization of their SMEs so that they would decrease unemployment and increase economic growth (Ruzzier, Hisrich, & Antoncic, 2006).

Internationalization basically means a geographical expansion of economic activities across national borders. This term started to be used in the 1920s, when the countries started making alliances for trade between them. After the Second World War, more specifically in the 1970s, the globalization started to emerge and then the internationalization process accelerated even more. Globalization positively affects the SMEs in the process of their internationalization, making them become active players in the international arena (Gjellerup, 2000; Ruzzier, *et al.*, 2006).

During the process of internationalization, market selection and market entry mode are two important aspects for a company to consider when conducting its international strategy. Market selection relates to the geographical expansion in different countries and market entry mode relates to the methods used to enter a new market. Considering the level of involvement of the company and the level of risk existing in the entry process, there are four main entry modes: indirect export, direct export, joint venture or strategic alliances and fully owned subsidiary (Doole and Lowe, 2001).

In order to understand the internationalization process of SMEs better, we are presenting two basic models of internationalization – the Uppsala Internationalization Model and the Innovation-related Model. These two models are used as the basis of the research study, while defining the determinants which are crucial for the internationalization process of SMEs.

The Uppsala Internationalization Model is seen as a dynamic model where the internationalization of the companies is constantly increasing due to different types of learning (Johanson & Vahlne, 1977, 1990). According to the authors, the general and experiential market knowledge and resource commitment of firms (state aspects) affect commitment decisions and current business activities (change aspects). The change aspects increase the market knowledge and encourage further resource commitment to foreign markets in the cycle. This model of internationalization entails that SMEs increase their international involvement in small incremental steps within the operational foreign markets. The firms will enter new markets with a greater “psychic distance” only after they gain sufficient knowledge of the desired market, because of the differences in languages, education, business practices etc. The accumulated knowledge gained influences the entry-mode and country-market selection of the firm. However, the Uppsala Internationalization Model has several weaknesses which have been criticized by different authors (Chetty, 1999). Reid (1981) criticized the model as being deterministic, while Andersson (2000) implied that if firms were to develop according to the model, then there would be no strategic choices made by individuals. Today, many firms do not follow this model of internationalization because they start their internationalization process for reasons other than knowledge. Therefore, there are so called “born globals”, which start their internationalization process in the first years of their existence (Knight & Cavusgil, 1996; Andersson & Wictor, 2003).

The other internationalization model is the Innovation-related Model (Gankema, *et al.*, 2000). Zwart (2000) suggested that the internationalization process has to deal with the innovation of the firm. According to the authors, this model is based exclusively on the export development process. They also identified three stages of this process: the pre-export stage, the initial export stage, and the advanced export stage. Andersson (2000) suggested that the Innovation-related Model treats both the learning process and top managers as crucial factors for the internationalization process of the SMEs. Clercq, Sapienza and Crins (2005) related the Innovation-related model to their research study and found out that the firms’ international learning effort and entrepreneurial orientation were positively associated with internationalization intent, while domestic learning effort was negatively related to internationalization intent. However, this model has received the same criticisms as the previous one. Miesenbock (1988) and Andersen (1993) criticized that, in this model, it is hard to distinguish between different stages of exporting.

According to Ruzzier, *et al.* (2006), the Uppsala and Innovation-related models were used to analyze SMEs, with the focus on explaining the development of internationalization

and international activities. According to these authors, the driving forces of both models were the incremental nature of the internationalization processes (in terms of activities) and the basic building blocks of the behavior of firms (in terms of resources). Otherwise, in their study about the internationalization process of SMEs, the authors proposed a redeveloped conceptual model of international entrepreneurship, focusing on four internationalization properties (mode, market, product and time) plus internationalization performance, as well as key antecedents (environmental, firm and entrepreneur's characteristics) and consequences of internationalization (firm performance) (Ruzzier, *et al.*, 2006).

There was a similar research study conducted by Armario J.R. and Armario E. (2008) which tested a few variables: market orientation, knowledge acquisition, and market commitment, and the direct and indirect effects of these variables on the performance of SMEs in foreign markets. However, the results showed that only market orientation was positively related to the strategy of internationalization, and that the effect of market orientation on performance in foreign markets was moderated by knowledge acquisition and market commitment. In addition to this study, Ruzzier, *et al.* (2006) emphasized the importance of having an internationalization strategy on the internationalization intensity/performance of the firms in their process of internationalization. Therefore, they made a link between the determinants of the internationalization process, the internationalization strategy and the internationalization intensity. This will be the basis of this research study which will be explained later in in the theoretical framework.

2.2 Determinants of Internationalization Process in SMEs

2.2.1 Institutions

In the past two decades, more and more researchers began to be aware of the importance of the institution in the economic and business world. Institution-based view has been emerging and becoming a significant perspective for the analysis and interpretation of different business strategies, especially in the field of international business.

Institution is an abstract concept but there are some common understandings of it. According to North (1990), institutions are “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Also, Scott (1995) defines institutions as “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior.” There is an institutional framework which is made up of both formal and informal constraints (North, 1990). Formal constraints include political rules, judicial decisions, and economic contracts. Informal constraints, on

the other hand, include socially sanctioned norms of behavior, which are embedded in culture and ideology (Scott, 1995). Institutional frameworks interact with organizations by signaling which choices are acceptable and supportable. As a result, institutions help reduce uncertainty for organizations (Peng, 2002).

Institutions penetrate into every aspect of social life, and all the business organizations have to be exposed to an institutional environment (or institutional context), which has been defined as “the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. Rules governing elections, property rights, and the right of contract are examples...” (Davis & North, 1971). In other words, the institutional environment includes political institutions such as the national structure of policymaking, regulation and adjudication; economic institutions such as the structure of the national factor markets and the terms of access to international factors of production; and socio-cultural institutions such as informal norms (Henisz & Delios, 2002).

Recent years have witnessed an emerging awareness and discussion of the influence of institutional environment upon firms’ internationalization strategy. Because the institutional environments in different countries are probably totally different, a multinational firm must identify and contend with numerous differences between the host country market and the markets in which it has previously operated (Henisz and Delios, 2002, referring to Beamish, 1988; Martin, Swaminathan, and Mitchell, 1998; Zaheer, 1995).

According to Henisz and Delios (2002), cross-national variation in institutional environments adds uncertainty to foreign operations, which in turn affects international strategy decisions such as when to enter a market, the entry mode used if entering, and the performance of foreign entries. A lot of scholars have done research on the influence of the institutional environment on a company’s market choice. They found that institutional differences between nations magnify difficulties in collecting, interpreting and organizing the relevant information necessary to mount a successful entry. Markets that are similar in political structure, factor market structure, and culture create less uncertainty and relatively lower costs of entry. Thus, investors are more likely to enter countries where the future policy regime is relatively easy to predict (Henisz and Delios, 2002, referring to Gastanaga, Nugent, and Pashamova, 1998; Loree and Guisinger, 1995; Wei, 2000).

Besides market choice, the impact of institutions on entry strategies also has influence on entry mode. For example, different countries have different risks to foreign companies, and also have different policies and regulations on the entry mode and time of foreign

companies, which will definitely influence the choice, and control the entry mode, of foreign firms (Chen and Mujtaba, 2007).

It is notable that the function of culture as an aspect of informal institution has been gaining a lot of attention in recent years (e.g. Hofstede, 1994, 2007). Hofstede (1994) identifies five different dimensions of culture: individualism, power distance, uncertainty avoidance, masculinity, and Confucian dynamism. These dimensions explain cross-cultural differences in people's beliefs systems and behavior patterns in different nations and cultures. Nowadays the study of cultural distance in different dimension between countries has been usefully applied to the business field (Mooij, 2003; Hofstede, 1994; Doole and Lowe, 2001).

Considering the importance of institutions, and the abundance of research into the institutional environment on the firm's internationalization strategy, the research study will apply the institutions as a macro-level factor in the theoretical framework. In addition to that, it is notable that most of the previous studies of internationalization have not taken different institutional environments into consideration. Instead, the given institutions are taken for granted. Thus, it will be more fruitful if different institutional factors between home markets and host markets can be identified. Therefore, in the following chapters, the different institutional environments of Sweden and China will be compared to see whether different institutions on a whole level would influence the companies' internationalization strategy (including market choice and entry mode) and their performance.

2.2.2 Networks

According to Walker (1988), a network consists of single nodes (actors) and connections between these nodes (dyads) which, as a whole, form the structure of a network. The potential network partners are other individual people, e.g. family members, friends, business partners, other founders, but also contact persons at institutions such as universities, large companies, and authorities (Witt, 2004). Entrepreneurial network is the slowly developing set of relationship that entrepreneurs enact as they carry out these highly personalized processes (Anderson, Jack & Drakopoulou-Dodd, 2005).

Granovetter (1973) defined the strength of an interpersonal tie as a combination of the amount of time, the emotional intensity, the intimacy and the reciprocal services which characterize the tie. Strong tie network contacts are those people with whom the entrepreneur has a close personal relationship, and with whom he or she interacts quite frequently. Weak ties are more distant emotionally and may be activated only infrequently. Dubini and Aldrich (1991) describe strong ties as relations that the firm owner can "count on" and weak ties as

superficial or casual relations, in which people typically have little emotional investment. According to Granovetter (1973), strong ties have been found to provide very high-quality resources, especially information which is often not commercially available and that is very focused on the specific needs of the entrepreneur and his business. The main benefit of weak ties is that they are able to access heterogeneous information (and other resources), acting as a bridge across social structural holes.

The networks existing in business have been receiving a great deal of attention in recent years, and the network theory of internationalization emphasizes the impact of business relationships upon the growth and internationalization of firms, especially within SMEs (Anderson, Jack & Dodd, 2005; Mort & Weerawardena, 2006). Much research has centered on the value of social and/or business networks to entrepreneurs, in terms of their role in an international market entry (Welch, 1998).

Something which should not be ignored is that there are different levels of networks, not only on personal level. Rather, both personal and organizational levels of networks are important in understanding a firm's international development. Apart from this, both social and business aspects of networking have been found important in the internationalization process, as have both formal and informal networks, and both international and local networks (Andersson & Wictor, 2003, referring to Johannisson & Monsted, 1997; Knight & Cavusgil, 1996; Johannisson, 1994b).

Various researchers have tested out different functions of network on the internationalization process. For example, small firms may overcome size-related constraints through network relationships (Dubini & Aldrich, 1991); Network enables firms to link activities and tie resources together (Andersson & Wictor, 2003); International network development helps to minimize risk exposure, because a native of a country knows better than a foreign business owner how to market products in their own country, where the foreigner knows little about that country.

As Mort and Weerawardena (2006) concluded, multiple market entry is hindered in two situations; namely in the absence of good networks and in the presence of network rigidity. Network rigidity means that you are limited to your present network, which can prevent you from doing business with other individuals or companies. According to Terziovski (2003), a small to medium enterprise is more likely to achieve business excellence with networking practices than without.

To sum up, the network plays a vital role in SMEs' growth and internationalization. That is why networks are taken into consideration to see whether, and how, the networks

exert influence on the internationalization strategy. In addition, the difference between Swedish and Chinese networking will be examined and analyzed as to whether different networking may lead to different outcomes for the companies.

2.2.3 Entrepreneur

There are many different definitions with regards to what exactly entrepreneurship is, and who the entrepreneur is. Some researchers perceive the entrepreneurs as individuals who create new businesses while the others include also the business owner of all SMEs (Acs, Morck, & Yeung, 2001). According to Andersson (2000), the entrepreneurs carry out entrepreneurial actions. They are people who are willing to take risks, have innovative ideas about the future of the business and implement their ideas into the market environment. However, many entrepreneurs are also willing to sell their products outside of the domestic market. Therefore, those entrepreneurs are starting to get engaged in international entrepreneurship (Acs, *et al.*, 2001; Ruzzier, *et al.*, 2006).

The entrepreneur as a person is one of the most important factors for the internationalization process of the SMEs (Miesenbock, 1988). However, the entrepreneur also has to incorporate different strategies and a strategic way of thinking in the entrepreneurial SMEs (Hitt, Ireland, Camp, & Sexton, 2001). McDougall and Oviatt (2000a) defined a new term which suits the internationalization process the best, and that is – international entrepreneurship. According to these authors, international entrepreneurship can be considered a research approach to the internationalization of SMEs from the entrepreneurial perspective, which incorporated the relevant approaches to internationalization with entrepreneurship, as an inseparable part of the internationalization process.

Andersson and Evangelista (2006) suggested that the entrepreneur should be in focus when analyzing new firms' possibilities to expand in the foreign markets. The entrepreneurs should use their international experience, networks, visions and ambitions as one of the most important factors while expanding their SMEs abroad. Andersson and Evangelista (2006) also found two different types of entrepreneurs. One of them was the Born Global entrepreneur who was an experienced employee in a large organization but his ideas and visions were different from the strategies of the large company. Therefore, he is tempted to start a new business on his own, or together with some other entrepreneurs, who share the same goals and visions. The other type of the entrepreneur was the one who was younger and

not so experienced but with great potential ambitions. Even though he is not a part of a large corporation, his ideas are enough to start his own entrepreneurial entity.

Entrepreneurship can be considered as a crucial part of internationalization. Many researchers who criticized the Uppsala Internationalization Model (Reid, 1981; Chetty, 1999) claim that the entrepreneur is the one who is the driving force for the internationalization of the SMEs (Andersson 2000, 2002; Andersson & Wictor, 2003; Oviatt & McDougall, 1994). Andersson (2004) argued that there is a relationship between a positive international development and the entrepreneur's international attitude, motivation, orientation, experience and network.

To sum up this section, it can be concluded that the entrepreneur is one of the key people in the SMEs and entrepreneurship, as a discipline, plays a crucial role in the internationalization process of SMEs. Therefore, the research study will take the entrepreneurship and the influence on the organization into consideration and check whether it has a great influence of the internationalization process of SMEs. In addition to that, a comparison between the Swedish and Chinese SMEs will be made and it will be checked whether entrepreneurship influences the SME's internationalization process differently.

2.3 Theoretical Frame of References

After we reviewed the literature about the determinants of the internationalization process, we are proposing a model which we will use later on in the analysis of the empirical data collected from the Swedish and Chinese SMEs.

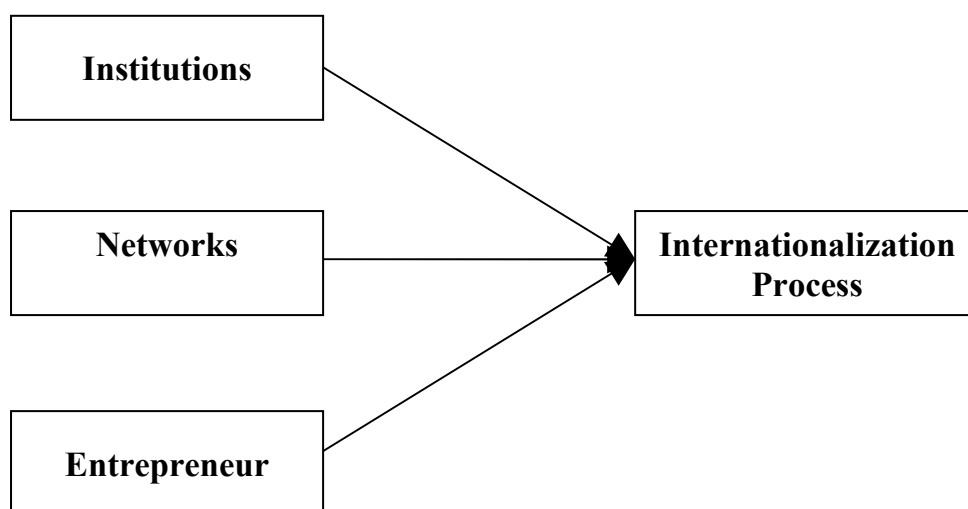


Figure 1. Theoretical Frame of References

3. Method

This research study is a cross-country case study which is conducted by comparison of the internationalization process of Swedish and Chinese SMEs in the toy industry. Therefore, this chapter will present the process followed in conducting the research study.

3.1 Research Approach

In our research study, we mixed two approaches – deductive and inductive. At first, while searching for the topic and interesting conclusions and implications that could be derived from our study, we used an inductive research approach. This was done for the purpose of finding relevant information and the possibility of conducting such a case study between these two countries. On the other hand, a deductive research approach was used while searching for the necessary literature, and finding a research gap that the other researchers have failed to develop. Therefore, we found a lot of studies which define the determinants and their influence on the internationalization process, but we did not find any literature which related all three determinants (Ruzzier, *et al.*, 2006; Andersson, 2003; North, 1990; Acs, *et al.*, 2001; Mort & Weerawardena, 2006).

3.2 Validity and Reliability

Kvale (1997) mentioned that reliability and validity are about making sure that the purpose of the paper is fulfilled. This means that, in order for people to be able to evaluate what is written, it is important for them to be able to evaluate the process and different choices that have been made during the process. Thus, we tried to enhance the validity and reliability of the research by using a large set of data collected from primary and secondary sources. Considering the fact that this research study in-depth examined the insight of the companies, we believe that the information which came from the semi-structured interviews with the CEOs of those companies is valid and reliable. Moreover, the secondary data, like company web sites and annual reports, are reliable as well (Yin, 1994).

3.3 Case study

A case approach was deemed appropriate for capturing the complexity of the internationalization phenomenon (Yin, 1994). Eisenhardt (1989) recommended case studies as a fruitful way of providing a deeper insight into conflicting literature, as well as enhancing

the ability to generalize from different theoretical standpoints, which is an important goal of this study.

3.3.1 Case selection

In our theory model, there is no industry factor taken into consideration. Thus, we believe that choosing companies which belong to the same or similar industries, and offering similar products, would be more productive with regards to their comparability. Considering the fact that we have already established a personal relationship with some Swedish companies in the toy industry, we decided to select Chinese companies in this same industry.

After reviewing the list of the Chinese SMEs in the toy industry, we left out the ones which have not started their internationalization yet and the ones which do not have a well-established internet access. After that, we formed a list of potential SMEs and contacted them via e-mails, informing them about the purpose of the research and asking them about the possibility of taking part into our research study. However, we experienced some difficulties because the response rate of the companies which were willing to participate in our research study was very low. Nevertheless, several companies replied to our request but asked to remain anonymous. That was the main reason why the company names of all four companies, which participated, are hidden. At the end, we came to the phase of choosing the best ones which fit our research and which were similar in terms of products, company size, internationalization stage etc. to the Swedish ones.

3.3.2 Case study data collection

Having received the companies' decisions, we started developing the case study by gathering secondary data. Firstly, we collected some information from the companies' official websites, as well as from the news and articles about the companies, which were also found on the internet and various databases. Besides using secondary data like annual reports, internal documents were requested directly from the companies. These were the sources from which we received the basic qualitative and quantitative data.

However, using only the secondary data was not enough to gain a deeper understanding of the cases (Andersson & Wictor, 2003). Thus, we also consulted our literature and theoretical framework in order to check, once again, what particular information we needed to know for our research study. Following this, we developed a questionnaire, as a semi-structured interview guide (Appendix 1), which offered the interviewee freedom and flexibility in answering (Bryman & Bell, 2007), containing items

about the internationalization process, institutions, networks, and entrepreneur, with different types of questions like direct ones with follow-up ones, open-ended etc.

Considering the fact that none of the authors are in China, it was impossible to conduct a face-to-face interview. Therefore, in order to be consistent with all the companies, a week before the interview, we sent an e-mail, containing the questionnaire, to the CEOs of the companies and, after a week, we conducted the interview by phone. The interviews were recorded and later transcribed.

3.3.3 Case analysis

Firstly, general case descriptions were written according to the information from various sources and personal interviews, which gave an overall picture of the companies. Eisenhardt (1989) claimed this process would allow the researcher to become intimately familiar with each case and enable the unique pattern of each case to emerge before cross-case comparison. Secondly, different cases were compared and various theoretical approaches were applied to the cases (Yin, 1994). To compare the companies, we followed the five aspects in the conceptual framework and in the questionnaire. In our case, quantitative data were employed to do a qualitative analysis (Bryman & Bell, 2007). By comparison of the data received from the companies, we tried to see clearly how different factors influenced the companies' internationalization processes. Another important thing which should be noted is that during the process, the theories were also applied and compared with the companies' actual behaviors (Eisenhardt, 1989) in order to check whether the theories and the reality match.

4. Empirical Findings

This chapter will present the empirical data obtained from the interviews of the Swedish and Chinese SMEs. The Empirical Findings are divided into four main parts, representing the four companies being interviewed.

4.1 Company Toy A

4.1.1 General information

Toy A is a Swedish company that manufactures toys, strollers and furniture for babies. This company was founded in Southern Sweden in 1884. Since then until 2004, the company was family-owned, but then it was sold to another Swedish company. The mission of Toy A is to create products for active, modern parents who want the best for their children. This company believes that, by producing toys and equipment for children, the life of both the children and their parents will become easier and more joyful. Toy A pays a lot of attention to corporate responsibility, safety, and quality. Therefore, they clearly stated their ethical and quality standards. The company started its expansion at first in Sweden, and then in the neighboring countries, so that today it is available in more than fifteen countries. As of 2005, the number of employees is 613, which places this company into the small and medium-size enterprises.

4.1.2 Internationalization Process

The company's internationalization process started during the initial period when the company was established and so, at first, the products were introduced into Denmark, and later to Sweden. This is due to a simple reason – the owners used to live in a small town by the border of Denmark, and therefore, Denmark was considered to be the main market. However, after the company was officially established and started offering a wide range of toys and equipment for children, Toy A started introducing their products in Sweden. The sales have been steadily growing by 15% each year over the last 8 years. Today, around 70% of the sales come from the subsidiaries and distributors, mainly from Europe, but also from

Asia and America. The internationalization process of this company is summarized in the table below.

Table 1

The Internationalization process of Toy A

<i>Market</i>	<i>Time</i>	<i>Entry mode</i>
Denmark	1884	Direct export
	1992	Subsidiary
Norway	1993	Subsidiary
Finland	1993	Subsidiary
Germany	1999	Subsidiary
Hong Kong	2002	Subsidiary
USA	2003	Subsidiary
Canada	2005	Subsidiary
Austria	2006	Subsidiary
Switzerland	2006	Subsidiary
Japan	2007	Subsidiary

The internationalization process of the company started from the closest neighbors like Denmark and Norway, later on it spread to Finland and Germany. After that, Toy A continued their international expansion in the other countries of Europe – Austria, France, Switzerland etc.; from Asia – Japan, Hong Kong; from North America – the United States, Canada etc. During the last few years, three new markets were entered – the smaller European countries Austria, and Switzerland and a country with great potential – Japan. The company practices its expansion by wholly owned subsidiaries, meaning that all their subsidiaries have the same name and structure; and by distributors having more than 50 distributors all around the world. At first, Toy A started their international expansion by exports through distributors and after some time, the company built their own sales offices in some of the countries. However, in future, the new management of the company plans to continue their expansion by joint-ventures or franchising because currently this is one of the safest ways to expand. Every year, about 60-70% of the production is exported to the foreign markets where this company operates. All of the products, including different types of toys, strollers and furniture for babies are exported to the foreign markets where this company operates. Innovation is not new for Toy A because every year, the company tries to develop

the newest toys and equipment for babies and children, following the latest trends in the industry.

4.1.3 Institutions

Toy A is a Swedish company and the policies are more or less the same or very similar to the policies of the other European countries, bearing in mind that the company has only expanded in the countries from the European Union. Therefore, the policies of the governments in Europe are quite similar. In addition to that, even though the company has expanded a bit further than Europe, i.e. into Japan and in the United States, the governmental policies do not seem to be a problem or to impose restrictions, until now. However, due to the incidents involving toys containing poisonous substances, there might be some more regulations and restrictions in the future by some governments.

The policies and regulations do not affect the market selection. When the company is about to enter a certain market, a feasibility study and a business plan are created, and after their evaluation, the management of the company decides whether the company will, or will not, enter a certain market. The level of free democracy and political stability are very important factors for the company's international strategy. For instance, Toy A cannot enter an unstable market where the government is corrupted, like in the communist countries, such as North Korea, Cuba etc. Even though the company does not plan to enter these countries, the management is still worried about the international expansion in Eastern Europe, where the corruption and political instability are major problems.

The customers of Toy A are the most valuable asset for the company. Therefore, their attitudes and values are greatly appreciated. Thus, the company's international strategy is also affected by those features. For instance, if some kind of toy seems to offend someone's feelings and it is considered to be inappropriate for a certain market, then the company will discontinue offering that product in the market. This is done out of high respect for the customers and their perceptions. In addition to that, Toy A values different cultures and the toys, and the other supporting equipment, are easily adaptable.

The cultural differences between Sweden and the other Scandinavian countries could be disregarded. As the company continued its expansion further, the cultural differences were

increasing respectively. For instance, the German culture is more masculine, compared to the feminine one in Sweden. However, there are some similarities between countries like Sweden and distant countries like Japan, such as the Japanese are collectivists like the Swedes. Nevertheless, the cultural difference between Sweden and the other European markets, as well as the American one, is not so significantly high. The company will continue the internationalization process even in the countries where there is a significantly greater difference in many aspects. The company is profit-oriented and, therefore, the cultural differences can be overcome by employing local experts who know the local mentality. Thus, Toy A will not face any significant difficulties.

4.1.4 Networks

The networks are a very important element of the international expansion of every company. Toy A's internationalization process started by the personal networks in the neighboring countries – Denmark and Norway, but then the organizational network with different toy organizations played a crucial role, especially in the United States and Japan.

All the networks have a significant role in the expansion of Toy A. For example, at the beginning, the networks established by the family members and friends were the only ones contributing to the international expansion of Toy A. However, after the company entered some more markets, the business partners, suppliers, competitors, governments, employees etc. created the formal network of the company. All those networks are very important, but surely the formal ones are preferred more by the management of Toy A.

Market selection and the choice of entry mode are important elements of the internationalization process. Therefore, the strong formal networks are more important. However, the informal ones also play a significant role. They are established through the relationship with the distributors and the employees, which work in the local countries of the subsidiaries. That is why it is very important to hire local employees who know the customs and culture of the country in which they are situated. Both the local and the international networks are important, but the local networks are more appreciated because of the knowledge which can be acquired from the local people.

The management of the company treats networks as one of the most important elements in the internationalization process, especially the formal networks with different associations. Therefore, there is a lot of room for formation of new networks and improvement of the existing ones. There are more advantages than disadvantages by having lots of networks. The only disadvantage is that the competitors might misuse the information by becoming members of similar networks.

4.1.5 Entrepreneur

From the very beginning, the company was owned and controlled by one entrepreneur. After that, the closest relatives, sons and grandsons, became the owners and entrepreneurs, until 2004 when the company was sold to another SME company. Therefore, the ownership changed, but the entrepreneur continued to be the key person. The entrepreneur was the one who decided which market was going to be entered and all the other key decisions were made by the entrepreneur.

The current entrepreneur, and CEO of Toy A, has an academic education and has high proficiency in foreign languages, including English, German and Finnish. The entrepreneur has a lot of experience in international marketing because his other company, the sister company of Toy A, has expanded into more than 25 countries in the world. Therefore, his international experience in marketing will be crucial for the international expansion of Toy A. Creativity and independence are very important for the entrepreneur, because freedom is a very important element for him. At the beginning of the international expansion, the entrepreneur relied mostly on personal networks, due to the lack of information for feasibility studies. However, after the company became more mature, the entrepreneur started using more formal networks like unions, strategic alliances with the competitors etc. The entrepreneur works strategically from the very first day and the strategy is the key for today's success of Toy A.

The entrepreneur has a lot of experience in working for different companies in various countries in Europe and Asia and therefore, the international experience positively influenced the outcomes of Toy A. For an entrepreneur who is leading an international company like Toy A, it is important, but not crucial, for him or her to have previous experience in

international work. The entrepreneur believes that everyone can learn how to work internationally. The only things, that it is essential to possess, are motivation, tolerance and adaptability towards different cultures. The ambitions for the future are related to territorial expansion in the present countries, as well as expansion in Eastern Europe, most of the Asian countries and South America.

Toy A spends a lot of money on long-term R&D, which means that the company is long-term oriented and plans to become one of the world's leaders in the toy industry. The entrepreneur is not a risk taker and, therefore, the new markets are entered with already well-developed products. However, that does not mean that the company does not innovate. On the contrary, Toy A has an R&D department which works on new and more sophisticated products daily. Every few months, there is a new product or an old, but more developed, product offered in the market.

4.2 Company Toy B

4.2.1 General information

Toy B is a Swedish company that manufactures toys and activity products. Therefore, the main target for this company is not babies, but slightly older children. This company was founded in North-Eastern Sweden in 1963. Today the company is owned and managed by the second and third generation of its founder. The company's aim is to do business in a responsible way and ensure that high standards are maintained. Their Code of Conduct covers: child labor, compensation and working hours, coercion and disciplinary practices, forced labor, health and safety, discrimination, freedom of association, environment, and anti-corruption. The company is a true Nordic company and has subsidiaries in 4 countries – Sweden, Norway, Denmark and Finland, as well as offices in the UK and in the USA. As of 2009, the number of employees is 350, which places this company into the small and medium-size enterprises.

4.2.2 Internationalization Process

The company's internationalization process did not start until the late 1980's and the beginning of the 1990's. The management of Toy B believed that the Swedish market had not

been saturated with toys in the past and that was the main reason why this company decided to stay local for around 30 years. However, after similar Toy companies appeared in the market, especially in the mid 1990's, the management started considering the idea to expand in the neighboring countries as well. The internationalization process of Toy B is summarized in the table below.

Table 2

The Internationalization process of Toy B

<i>Market</i>	<i>Time</i>	<i>Entry mode</i>
Denmark	1989	Subsidiary
Norway	1991	Subsidiary
Finland	1993	Subsidiary
UK	1999	Subsidiary
USA	2002	Subsidiary

At first, the company established a subsidiary in Denmark and continued their same goal – producing toys and activity products and selling them in the local Danish market. However, after Denmark's market became oversaturated by other Danish and international companies, especially German ones, Toy B decided to open a subsidiary in Norway and later on in Finland. The sales of Toy B have been growing for about 12% each year for the last 10 years. Today about 60% of the sales come from the subsidiaries in the Nordic countries, and about 10-15% come from the sales in the UK and in the USA.

Toy B has a lot of Nordic international experience and some current experience by working in the English-speaking countries – the UK and the USA. Actually, the UK and the USA markets are the newest markets which the company entered in the last 3 years. Therefore, the international experience is not so extensive, like some of the competitors, but there are plans for European and Asian expansion within the next 3-5 years.

The most common way that Toy B has practiced while internationalizing was by opening their wholly owned subsidiaries. However, the company plans to choose safer ways in future for international expansion, such as direct and indirect exports, distributors etc. The reason for such change is due to the current financial situation in this part of Europe. During the last year, out of the total production, about 55-60% came from the subsidiaries abroad, and this number tends to increase every year. All of the products that the company produces,

toys and activity products, have been exported to all the countries where Toy B owns subsidiaries. Innovation is a common practice for Toy B and the company tries to develop new products and improve the current ones on regular basis.

4.2.3 Institutions

Toy B is a Swedish company and, moreover, the company own subsidiaries in three other Nordic countries, Denmark, Norway, and Finland, as well as in the UK and in the USA. The rules and regulations among the Nordic countries and the UK and the USA are very similar. Therefore, the institutions, both formal and informal, in Europe and in the USA, are very similar. The same applies to the governmental policies in both the home and host countries where the company operates.

Toy B has never experienced any problems or difficulties in the policies and regulations in such a way that the international market selection or market entry modes would be questionable. However, the company has chosen the markets in which it operates because of the cultural closeness and similarities with the Swedish culture. That was the main reason why the company never considered any regulations of policies which might differ.

The level of free democracy and political stability are very important factors that might affect the company's international strategy in the future, because the company plans to expand in the Asian countries, where little is known about the political stability. Therefore, Toy B will be very careful in future while developing their international strategy for the countries other than European and North American ones.

People's attitudes and values do not affect the international strategy of Toy B, even though the attitudes and values are highly respected. The management of the companies perceives the attitudes and values as something very personal which should not be related to the business objectives. As mentioned above, there is not a big cultural difference between the host and home markets because the countries where Toy B operates are very close culturally to Sweden. The culture definitely influences the company's internationalization process. Thus, the Nordic countries were chosen to be the first for international expansion.

4.2.4 Networks

The networks are very important for the international expansion of the company. Both the entrepreneur's personal networks and the organizational ones are very important for the international expansion. The first one is important for establishing initial contacts with the foreign country, which was the case with the entrepreneur's networks, and the second one is very important while entering the international markets.

All of the networks are important for Toy B. However, the more formal ones like business partners, clients, suppliers, competitors, and especially governmental networks are extremely important. These networks play a key role in the international expansion of Toy B because after having established a formal relationship with the parties above, that relationship can be considered to be "safe step" towards a safe establishment abroad.

Market selection and the choice of entry mode are important elements of the internationalization process. Therefore, the strong formal networks are more important. The informal networks are not as strong as the formal ones but, in the future, the company plans to improve their informal relationships. Those informal networks can be crucial in the international expansion in the Asian countries.

The local networks in Sweden are very-well established, as are the ones in the other Nordic countries. However, the international networks with the UK, and especially the USA, are not so well-established because the company entered those markets only a few years ago. Therefore, Toy B will try to improve the international networks, other than the Nordic ones, much more in the future. Even though the current networks in Sweden and in the other Nordic countries are functioning well, there is always some room for improvement. Also, the establishment of new networks in the other countries will be one of the most crucial factors for the internationalization process.

4.2.5 Entrepreneur

Toy B is not a very old company. It has been in the market for 46 years. This means that not so many generations have changed in this family-owned company. Therefore, the management of today's Toy B consists of the second and third generation after it has been established. There have not been any major changes and shifts in power. At first, the main entrepreneur was the CEO, but after his retirement, his oldest son took over the position as a

CEO. Currently, he is still the CEO and the main entrepreneur and driving force in the company. However, soon he is planning to retire and leave the company to his oldest son who is working as the Marketing Manager.

The current entrepreneur, and CEO, has an academic education, Bachelor's degree in Business. In addition to that, he speaks the Nordic languages and English which places him in the category of high knowledge of languages. He has a lot of experiences in international marketing by working for Toy B since its establishment during all his summer holidays. At that time, the company was still not international, but his father, the CEO at that time, was already establishing contacts with the other Nordic countries. Since today's CEO could speak good English, Norwegian and Danish, he was the bridge between his father and the companies from the other countries.

Creativity and independence are very important for the entrepreneur because "being creative means innovating, and innovating means making lots of money." This means that the CEO has established a R&D department, even though Toy B is not a very big company. About 30-40% of the profits are invested into innovation and development of the current products. Almost every 6 months, the company introduces some new products.

Personal networks are important for international expansion, but the company values and relies more on formal networks and associations with different competitors, customers, suppliers etc. "Thinking strategically, means doing strategically and I am a person who likes organizing." The same as thinking strategically, acting as a role model is also very important because his oldest son is supposed to be taking over the CEO position of the company. Therefore, it was not so easy to motivate his son to stay with the company, knowing that it would have been easy to go and work in a bigger city or somewhere abroad.

The experience from other countries is always beneficial for the international expansion of Toy B. The new CEO has some international experience from studying abroad which will help him establish relationships with the other companies in the toy industry. The life of the entrepreneur is closely tied with Toy B because he used to work for the company since early ages. He used to spend every summer in his father's laboratory, creating different toys. Thus, his future plans are to stay with the company and help his son when he comes

over some difficulties. The fact that the old CEO does not want to employ anyone else to be the new CEO of Toy B makes him a “safe-player”.

4.3 Company Toy C

4.3.1 General information

Toy C was once a private and family owned company, which was established in 1987 in Dongguan, a city in Guangdong Province. By producing toys for domestic and foreign markets and developing their own brands, Toy C became one of the largest toy manufacturers in Dongguan. Toy C’s products include baby cribs, infant walkers, children’s electric bikes, sporting goods and more than 30 different kinds of toys. In 2007, there was a large range of recalls of Chinese toys around the world, and the company experienced some problems. Later in that year, a company from Singapore, which was once Toy C’s business partner, bought 51% of the company’s stock and Toy C became a joint venture. Now, the company has around 870 employees, so it can be considered as a middle size company in China. Most of the company’s profit comes from their foreign importers and currently their products are spread in more than 10 foreign countries and regions.

4.3.2 Internationalization process

In 1992, Toy C began exporting abroad. The first destinations were Singapore and South Korea. After that, the products of the company quickly spread to a large range of foreign markets, including Japan, USA, Mexico, India, and some of the European countries. Until now, the company has conducted several different kinds of entry modes to foreign countries, not only by indirect and direct export, but also by implementing cooperation strategies, such as building strategic alliances with foreign companies. Even though in 2007 Toy C became a joint-venture with a Singaporean company, the previous entrepreneur is still working for company as the real leader. The main markets, and entry modes of Toy C’s internationalization process, are shown in the following table.

Table 3

The Internationalization process of Toy C

<i>Market</i>	<i>Time</i>	<i>Entry mode</i>
Singapore	1992	Direct export
	1993	Cooperation strategy
	2007	Joint venture
South Korea	1992	Direct Export
	1994	Cooperation strategy
Japan	1993	Indirect Export
	1995	Direct export
USA	1993	indirect Export
	1998	Direct export
	2002-2007	Cooperation strategy
Mexico	1993	Indirect export
India	1994	Indirect export
	1995	Direct export
France	2002	Indirect export
Germany	2002	Indirect export
Spain	2003	Indirect export
Portugal	2003	Indirect export
Great Britain	2003	Indirect export

After the 16 year's expansion, now there are three main foreign markets where the company is operating – Asian market, such as: Singapore, South Korea, Japan and India; American market, such as: USA and Mexico; European market, such as: France, Germany, Spain, Portugal, and Great Britain. Among them, USA and Japan are the biggest markets, which contribute almost half of the company's exports every year. The other Asian countries are also important markets and because of the small geographical and cultural distance, it is much easier for the company to conduct business and contact with consumers in these countries. On the other hand, the European countries are new markets for Toy C, but their status is slowly becoming more important for the company's international expansion.

Referring to entry modes of internationalization, Toy C mainly depends on exporting. In the markets which are more similar to China, such as Singapore and South Korea, Toy C exports directly by distributors. In the new and distant markets such as Mexico and the European countries, indirect ways to export, like making contact with a trade agency, were used. Apart from this, Toy C has established good relationships with some foreign markets and companies. For example, it has been cooperating with a Singaporean company, another South Korean company and one more company from the USA for many years. Toy C has been the supplier of these companies, and they have been cooperating in many aspects, like

product design, marketing, sales, etc. In 2007, the company faced some problems and almost went bankrupt. In order to survive in the crisis, 51% of the company's stock was sold to the Singaporean company.

4.3.3 Institutions

Toy C was greatly influenced by China's governmental policy. After the economic reform took place in China in the late 1970s, there were great opportunities emerging. That was the entrepreneur's original motivation to build his own company. With the new period of economic and political institution adjustment in the early 1990s, China became more open, and the restrictions on international business were much looser than before. The government's encouragement and support of small and medium-sized enterprises to export, and to be international, stimulated Toy C to expand their products out of the domestic markets.

In the first ten years of exporting, the Asian and American countries became Toy C's main foreign markets. Asian countries have similar culture and values with China, and it is much easier to communicate with, and enter, than the others. That is one reason why Toy C entered the Asian markets first and stayed there for many years. Although America is not as similar to China, the large open-market was attractive. Apart from this, people's preferences for cheap goods were the same. Thus, the company's low cost and low prices won noticeable advantage in these markets. The institutional distance, including policies and culture between China and Europe, are much bigger, which was the reason that it took more time to enter these markets, and indirect exporting was mainly adopted.

In 2001, another important event happened in China. After a long time's effort, China received a membership of the WTO, which means both foreign markets and China's domestic market would be more open, and China would get involved in the internationalization process much more than before. After this event happened, Toy C built a cooperation relationship with an American company and the European countries became their new target markets.

However, in 2007 there was a major toy recall event that happened because some exported toys from China were found harmful for children's health, containing toxic chemicals, or of bad quality. Toys made in China got tough criticism around the world and

the US and many European governments required China to recall all the toys. It was also in 2007 when the Chinese government issued several regulations to standardize the toy manufacturing industry. It withdrew the export licenses for more than 600 toy companies that were not qualified to produce safe toys. These events almost destroyed the whole toy industry in China. Thousands of toys were sent back to the companies and a large number of toy manufacturing factories closed. Toy C could not avoid being involved into it. The toys could not be sent out in that year, the capital chain was cut down and the cooperation with American companies was terminated.

4.3.4 Networks

Apart from the Chinese governmental support and smaller cultural distance, Toy C chose Singapore and South Korea to be the first countries for international expansion because of personal networks possessed by the entrepreneur's uncle. Besides his citizenship, he was also a manager of a Singaporean company which manufactured family utensils. His uncle helped him a lot to introduce Toy C's products to Singapore, but also, because his uncle's company was doing business with another South Korean company, the uncle's business and personal networks were used for Toy C's expansion in South Korea. Soon after that, Toy C became a supplier and business partner with these two companies, and shared good relationships for a long time. Probably the most important event that happened during the toy crisis in 2001 was that his uncle, who had become the CEO of the Singaporean company, helped the entrepreneur to keep Toy C alive by purchasing 51% of the stocks. The entrepreneur is quite grateful for his uncle's help in the early stage, and the crisis of Toy C's internationalization, and considered his uncle as the most important network for him and Toy C.

Apart from this, the entrepreneur is very proud of his son, who was sent by him to study international trade and business management in the USA. It was the son who suggested to him that he should broaden the business to Europe, and also helped him with his knowledge and personal networks to overcome a lot of obstacles during that process.

However, the son has his own career, and he does not want to have a formal position in his father's company.

In addition, the network and relationships with distributors were very important in the internationalization process. The entrepreneur spent a lot of time and effort in communicating with the distributors in Japan, USA and India. He tried to make strong ties with the distributors. However, the entrepreneur admitted that he relied more on his relatives and friends than on his business partners. He still remembered that, when the crisis happened in 2007, he was refused and kept away by most of them. Besides, the entrepreneur believes, that in these kinds of companies, organizational network and formal relationship depends on personal networks and informal relationships. This is because of the Chinese culture, where people are valued more and count on more personal and private relationships.

The entrepreneur considered the networks to be very important in the company's internationalization process, and although he is satisfied with his networks, he is still building new ones. Now he is getting contacts with the Chinese government and asking for policy support, and also trying to find new distributors and business partners in different European countries who would not only help him to sell products, but also offer him a lot of valuable knowledge and information about those markets.

4.3.5 Entrepreneur

Before the current entrepreneur built his own company, he had worked for almost 10 years in a state-owned company whose main business was making family utensils. In 1987, the company was transformed and he bought the department of children's toys and utensils and established his own company, Toy C. In the following year, he kept increasing the range of products, and the number of employees, and did not make any efforts to expand abroad.

The entrepreneur is a quite ambitious man. Before he built Toy C, he had been looking for an opportunity for a long time. He believed that the new economic institutions in China after the economic reform would bring him a great career and wealth. The entrepreneur did not have a high level of education, and graduated from a technical college, but he did have a strong business sense. The years he worked as a workshop manager in his previous company brought him useful experience in technology and management.

However, the entrepreneur had no international experience at the beginning. That is also one reason why he stayed in the domestic market for several years. But after his first exports, he learned a lot and began to expand his products quickly. The entrepreneur said that after the company's success in the Asian and American markets, he was overwhelmed by the success, so he failed to pay attention to foreign institutions, including both customers' and governments', high requirements on product quality. He failed to anticipate the serious consequences that the recalls could bring to him and the company, which almost destroyed the company in 2007. After Toy C's survival was assured, by being purchased by another foreign company, he began to realize the importance of complying with foreign regulations. Even today, the entrepreneur still blames himself on the failure of the company during the internationalization process. However, he said that he had learned the lesson and he is more experienced and confident, but at the same time also more careful for the future. Now the entrepreneur's ambition is to expand Toy C's products in more countries of the world, which means that he is still seeking for challenges and breakthroughs.

4.4 Company Toy D

4.4.1 General information

Toy D was founded by two brothers in 1992 in Shenzhen, which is the first special economic zone in China. In 2007, in the China's toy recall event, it was sold to an American company and became a subsidiary of it. At present, there are around 360 employees working in one factory. The main products of this company are babies' toys, such as different kinds of dolls, plush toys, and also some additional products like festival costumes and decoration materials. Toy D's products are distributed into many countries in Asia and America and Europe.

4.4.2 Internationalization process

Although there is a large domestic market, the entrepreneurs had a global vision, and the main target was focused on foreign markets. From the very beginning, the products have been designed to cater for western people's preferences. Thus, Toy D began to export its products soon after it was founded.

Table 4

The Internationalization process of Toy D

<i>Market</i>	<i>Time</i>	<i>Entry mode</i>
USA	1994	Indirect export
	2002	Cooperation strategy
	2007	International acquisition
Japan	1994	Indirect export
Australia	1995	Indirect export
South Korea	1996	Indirect export
India	1996	Indirect export
Thailand	1996	Indirect export
Indonesia	1996	Indirect export
France	1997	Indirect export
Netherland	2001	Indirect export
Germany	2001	Indirect export

The USA was Toy D's first foreign target country, and it was the most attractive market to the entrepreneurs. This is not only because of the large market size, but also because of the strong purchasing power. Soon after the successful expansion to the USA, Toy D entered the neighboring Japanese market, which also had large market capacity. After that, the company expanded to Australia and the other Asian countries. The European countries are one of the last markets into which Toy D expanded.

The entry modes to enter these markets are quite simple and on a low level. From the very beginning, Toy D conducted its exporting in an indirect way, except for in the US market, where its toys were exported through international trade agents. The reasons for this are two-fold. One is the limitation of the capability of the company; the entrepreneurs preferred indirect export, which was much easier and convenient to increase products than finding distributors or establishing sales subsidiaries. The other reason is that, in 2004, Toy B built a co-operative relationship with an American company and actually became its supplier. After that, Toy B mainly focused and depended on supplying to the American company and did not pay much attention on its own internationalization. Then, in 2007, during the crisis in China's toy industry, it was acquired by the American company.

4.4.3 Institutions

For Toy D, the institutional environments in foreign countries are very different from the Chinese one, which sometimes bring difficulties in their international expansion. The biggest institutional distance between China and the other Western countries, especially the European ones, are the tough regulations and policies on product quality and intellectual property. In China, until recently, there were no concrete rules and regulations on the standard of qualified products in the toy industry. Besides, the violation of intellectual property has been a serious problem in China, which relates to the large-scale copying of the designs of products, and the violating of the original product rights, such as trademarks and brands. These are the reasons for the delay in acceptance of the Chinese products into the European markets. The European countries have strict regulations on these aspects, which build tough entry barriers for Chinese companies and products.

Chinese policies on the toy industry definitely influence Toy D's internationalization. The most significant change that happened in the recent years was the one in 1992, when the Chinese economic reform leader Deng Xiaoping made his Southern Tour of the country and promoted the first free market economy in Shenzhen, which was considered as the open window of China at that time. The loose regulation to establish business, the low tax, the easy access to foreign countries and the encouragement for companies to "go out", etc., were great opportunities and stimuli for Toy D to export their products abroad.

The geographical and cultural distance between the other Asian countries and China is much smaller, and the rules and regulations are not as strict as the ones in Europe. Therefore, it took less time for Toy D to export its products into these markets. However, when considering people's values, there is not much difference between different countries. This is because the company's main target groups are babies and little girls, so the products are standardized and welcomed by the customers from all over the world. That is why Toy D can keep exporting their products successfully over a long time.

Besides, Toy D did not take into consideration the democratic and political stability issues, but assumed that the countries where it operates are politically stable. However, Toy D would not expand into countries which are very conservative and unstable. Fortunately, the

markets where the company operates are free market economies and this fact does not make a big difference on a global level.

In addition, the toy recall crisis in 2007 also affected the future of Toy D, which was the main reason why Toy D was sold as a subsidiary, to their American partner.

4.4.5 Networks

Since Toy D is established as a family business, the CEO believes that the personal networks, which came from family members, were vital to the company. Although they had some conflicts later on, they strongly supported each other in the first years. However, at the same time, the organizational level of network was also significant for Toy D. During the five years of cooperation with the American company, they built very strong relationships and mutual trust, and the American company was quite satisfied with Toy D's contribution. This was the reason why the American company was willing to acquire Toy D during the toy-recall crisis and ask the younger entrepreneur to stay and manage the company. Therefore, this network became the most important one, and which saved the future of Toy D.

Apart from this, due to the dependency on trade agencies for exporting products, their importance was also highlighted. The trade agencies offered a lot of useful information to Toy D, and sometimes gave suggestions as to which foreign markets to enter. Therefore, although this kind of organizational level network was not strong, and the company did not spend too much time on it, it was still important during Toy D's early internationalization process.

However, Toy D paid more attention on formal networks than informal ones, and it had more local networks with the trade agencies than international networks. That is also one reason why it did not conduct direct exports like finding distributors in host countries so much.

Currently, by being a fully-owned subsidiary of the American company, Toy D's most important network or task is to devote more time to communicate with the head company, and maintain the good relationship with it. Therefore, the company does not have to spend a lot of effort on establishing networks, since the American company takes care of

that. Instead, Toy D can focus more time and money on production and design but, at the same time, it might become overly-dependent on the American company.

4.4.5 Entrepreneur

In the beginning, there were two entrepreneurs who are brothers. In 2001, the older brother left the company and established another business. The younger brother decided to build his career within Toy C, so he became the CEO and stayed the CEO even after the company was sold to the American partner. When they began to establish the company, the entrepreneurs had no formal, high-level, academic education. However, after they succeeded in the business, they devoted a lot of money taking MBA courses and even studied English, which they considered as a great challenge, but still a necessity for the company's international expansion.

Before establishing Toy D, the entrepreneurs had no international experience, and they were not risk-takers. Thus, they preferred to expand in the Asian countries for a long time and also employed the easiest way to go abroad, which was exporting through trade agencies. While they were exporting their products in the foreign countries, they took their time traveling to American and European countries, which broadened their horizons and motivated them to spread their business to more countries, especially in Europe.

The current CEO admitted that, on one hand, the two brothers both quite depended on each other, but on the other hand, they had different opinions on strategy, innovation and the management on the company, which led to some conflicts, and finally led to separation. The younger brother believed that creativity and independence were very important. He emphasized the significance of long-term strategy and devoted a lot of money on R&D of the products. The quality and innovation were the two most important points in the CEO's eyes. This was seen as the major problem and a reason for not surviving the toy-recall crisis.

5. Analysis

This chapter will present the analysis of the empirical data, combined with the literature. The Analysis is divided into 4 main parts: internationalization process; institutions, networks and entrepreneur.

5.1 The Comparison of Internationalization Process between Swedish and Chinese SMEs

5.1.1 Swedish Companies Toy A and Toy B

Even though the Swedish companies are different from each other, there are many similarities which can be generalized.

Firstly, both Swedish companies can be considered as belonging to the category of small and medium-sized companies because, on average they have around 500 employees all over the world. Thus, Ruzzier, *et al.*, (2006) and Miesenbock (1988) proved that the small and medium-sized companies are becoming a dominant player in the international environment and raise the economic growth. This was the case with the Swedish companies as well. Another issue, which relates the number of employees with the internationalization process, is the choice of markets. Namely, both Swedish companies started their international expansion from the neighboring countries, i.e. firstly Denmark and then Norway. The Uppsala Internationalization Model (Johanson & Vahlne, 1977, 1990) was the most basic one which was followed by the Swedish companies. It seems that the Swedish companies were not risk-takers and they were gradually learning and gradually expanding in the other countries. Similarly like in the model, the Swedish companies were increasing their international expansion in small incremental steps within the operational foreign markets. The companies were entering new markets with a greater “psychic distance” only after they gained the sufficient knowledge of the neighboring ones at first, because of the differences in languages, education, business practices etc. For instance, both Swedish companies started their internationalization process in Denmark, then Norway, and it was only afterwards that

they expanded in the other European countries, and overseas in the American continent and the Asian one.

Secondly, the market entry strategies used are very similar between the Swedish companies (Ruzzier, *et al.*, 2006). Both companies are expanding by establishing foreign subsidiaries and distributors. This means that they are using a direct way of expansion (Armario R. & Armario E., 2008; Ruzzier, *et al.*, 2006; Clercq *et al.*, 2005; Gjellerup, 2000). However, because of the current financial crisis, both companies plan to use indirect and safer ways to expand internationally.

Thirdly, both Swedish companies have a high degree of internationalization performance, which is measured by sales from their foreign subsidiaries (Ruzzier, *et al.*, 2006; Gankema, *et al.*, 2000). Around 60-70% of the total sales come from the foreign subsidiaries all around the world, which means that these companies follow the performance strategy introduced by Ruzzier, *et al.* (2006). In addition to this, the sales are growing steadily by 10-15% each year, which means that the foreign subsidiaries are becoming stronger players in the market.

5.1.2 Chinese Companies Toy C and Toy D

Even though the Chinese companies were different from each other, there are some obvious commonalities between them that can be generalized.

Firstly, both Chinese companies can be considered to be in the group of small and medium-sized companies because the number of employees is around 900 which, compared to Chinese standards, means it can be placed in that category (Ruzzier, *et al.*, 2006; Miesenbock, 1988). In addition to this, both companies followed the Uppsala Internationalization Model (Johanson & Vahlne, 1977, 1990) while expanding firstly to the Asian markets, and then to other markets like the European ones. However, Toy D began its expansion simultaneously in the USA, which was culturally and psychically distant to China, but at the same time the free market economy was the crucial factor. Nevertheless, overall, both companies followed the Uppsala Internationalization Model and expanded in a similar way.

Secondly, the Chinese companies used various types of market entry modes, like direct and indirect exports, joint ventures, and cooperation strategies (Armario R. & Armario E., 2008; Ruzzier, *et al.*, 2006; Clercq *et al.*, 2005; Gjellerup, 2000). However, the most common practice by both companies was the direct and indirect exports, which means that

the Chinese companies were still not able to expand independently by opening their own subsidiaries.

Thirdly, the internationalization performance for the Chinese companies does not seem to be promising, knowing that the sales coming from the foreign markets are not as high as they are in the Chinese market (Ruzzier, *et al.*, 2006; Gankema, *et al.*, 2000). Even though both companies did not disclose their sales for the last few years, they are considerably small which means that still the domestic expansion, within different regions, is considered to be the major goal for many Chinese companies.

5.1.3 Comparison of Swedish (Toy A and Toy B) and Chinese (Toy C and Toy D) companies

From the above characteristics, there are some similarities and differences between the Swedish and Chinese companies.

Firstly, the internationalization process between the Swedish and Chinese companies was very similar (Ruzzier, *et al.*, 2006; Miesenbock, 1988). Namely, the Swedish companies began their international expansion starting from the countries which were psychically close to Sweden (Denmark and Norway) and then they expanded to the other European countries and other countries on the other continents. Therefore, they clearly followed the Uppsala Internationalization Model (Johanson & Vahlne, 1977, 1990). On the other hand, the Chinese companies started their internationalization process by expanding to the other Asian countries, even though they were not their neighbors, but they were still psychically close to China. Other important aspects which influenced the internationalization process in the Chinese companies were the institutions. That is, they were looking for countries which were free-market economies and preferred cheap goods like the USA (Davis & North, 1971). Therefore, in this case, they did not exactly follow the Uppsala Model of Internationalization. Another important point to be made is that neither the Swedish, nor the Chinese companies followed the Innovation-related Model (Gankema, *et al.*, 2000). This gives us a clear picture that the Swedish companies are alike and they follow a clear pattern, while the Chinese companies' internationalization process is not only influenced by the psychic distance, but also by the institutions.

Secondly, the most common market entry mode for the Swedish companies is the establishment of their own subsidiaries (Armario R. & Armario E., 2008; Ruzzier, *et al.*,

2006; Clercq *et al.*, 2005; Gjellerup, 2000). However, they also used direct exports in the countries with a great psychic and geographical distance. On the other hand, the Chinese companies' most common market entry mode was the direct and, especially, indirect exports through trade agencies. This clearly shows a difference between the preferred way of internationalization strategies used by Swedish and Chinese companies. While the Chinese play safe and want to ensure their market choice, the Swedish companies also play safe by gradually expanding, starting from the psychically closest countries by opening their own subsidiaries towards those which are psychically more distant.

Thirdly, the internationalization performance measured by the companies' sales coming from the foreign subsidiaries is different between the Swedish and the Chinese companies (Ruzzier, *et al.*, 2006; Gankema, *et al.*, 2000). On one hand, the Swedish companies' international sales make 60-70% out of the total sales; while on the other hand, the Chinese ones were not disclosed because of the small numbers. This clearly shows that the Swedish companies rely on their international subsidiaries much more than the Chinese ones. The Chinese companies' main goal is to expand regionally, meaning into other regions in China, while the Swedish ones have to expand abroad, probably because of the size of the country.

Overall, it can be concluded that the internationalization processes somewhat differed between the Swedish and the Chinese companies, which can be clearly seen from the following table. However, the most important conclusion that can be drawn is that both Swedish and Chinese companies expand abroad, and their willingness is to cover as many countries as possible. Thus, the internationalization process is a crucial element for the future growth of the companies from both countries.

Table 5

The comparison of Swedish and Chinese companies' internationalization process

<i>Criteria</i>	<i>Swedish companies (A&B)</i>	<i>Chinese companies (C&D)</i>
Overall Process	Uppsala model	Uppsala model
Market Selection	Exactly psychic distance	Not so exactly
Main Entry Mode	Subsidiaries and Direct Export	Indirect export and Direct Export
Performance	Remarkable	Not so remarkable

5.2 The Influence of the Determinants of Internationalization Process on the Internationalization Process Between Swedish and Chinese SMEs

5.2.1 The Influence of Institutions on the Internationalization Process between Swedish and Chinese SMEs

5.2.1.1 Swedish Companies Toy A and Toy B

To explore the influence of institutions on two Swedish companies' internationalization process, there are some common points we can draw from the empirical findings.

Firstly, the main foreign target markets for both Toy A and Toy B are European countries and American countries, so the institutional environments between host countries and home countries are very similar, and the institution distances between them are quite small. Especially, in the framework raised and development by North (1990) and Scott (1995), the formal institutions like government regulations and policies on this industry are more or less the same. Therefore, the formal institutions exert limited influence on the two companies, so they do not take formal institutions into consideration too much.

Secondly, informal institutions, which are embedded into culture and people's values (Scott, 1995), bring to bear different influences on the two companies. For example, to Toy A, people's values and attitudes of the certain market may determine whether it would enter that market or not, which matches the previous studies (e.g. Henisz & Delios, 2002).

However, for Toy B, informal institutions do not much affect the companies' internationalization process, including both market selection and market entry modes. The common factor is that both companies are insensitive to the small cultural distance even though they prefer entering the markets with small cultural distance. Nonetheless, at the same time, they respect the foreign customers and pay much attention to their values and attitudes towards their products.

Thirdly, when it comes to the safety and stability of the institutional environment (Davis & North, 1971), on the one hand, the institutions of home and host markets to the Swedish companies as a whole are quite stable and do not change vigorously. On the other hand, for the two Swedish companies, the level of free democracy and political stability as one aspect of institution safety are very important factors that might affect the company's

international strategy. That may be because their home market Sweden is comparatively quite safe. So when they have to expand abroad, especially when they consider some Asian or developing countries which are far away and strange to them, they are concerned about the political and economic safety there.

5.2.1.2 Chinese Companies Toy C and Toy D

The situations of institutions' influence on internationalization of the two Chinese toy companies are quite complex and different in some aspects, but here still some common points can be reached.

Firstly, both Toy C and Toy D consider the institutional environment between the home markets and host markets to be different, and they are deeply aware of the great institutional distance, and its influence on their internationalization. Specifically with regards to formal institutions, most of the target markets have more difficult regulations on toy products than China which erect formidable obstacle for them to enter. Yet at the same time, Chinese companies are strongly encouraged and stimulated by the Government to export their products abroad. All these confirm the assertion of Henisz and Delios (2002) that a multinational firm must identify and contend with lots of differences between host country markets and the home market.

Secondly, culture is a very important issue which influences their choice of foreign markets (Hofstede, 1994, 2007). In general, both companies choose to expand to Asian countries first, and only then to Western countries, which is clear from small geographical and cultural distances to greater distances. Thus, they are both sensitive to cultural difference. However, when it comes to people's values and attitudes, the two companies have different opinions. Toy C believes the difference and change in people's values also caused the Toy recall crisis in China, but Toy D considers people's opinions towards their products are the same around the world and that makes it easy for them to keep exporting products.

Thirdly, the two Chinese companies are very sensitive to the stability and safety of the institutions. The main reason for such attitude is the quick change of the Governments' rules and regulations in the toy industry, practiced both in the home and host markets, which

resulted in losing the ownership of both Chinese companies. On the other hand, none of the companies take the issue of free democracy and political stability very seriously because they believe that the host countries' economies are quite aware of those issues and no further problems are expected in that aspect.

5.2.1.3 Comparison of Swedish (Toy A and Toy B) and Chinese (Toy C and Toy D) companies

It is clear that there are some similarities and difference which we can generalize here when considering the institutions' influence on the Swedish and Chinese companies.

Firstly, according to Henisz and Delios (2002), companies prefer to enter countries which are similar in political structure, factor market structure or culture, which pose less uncertainty and where the future policy regime is relatively easy to predict. This has been proved in both Swedish and Chinese companies. Their internationalization paths clearly show that they all chose the first target countries with similar and safer institutions.

Secondly, as Henisz and Delios (2002) and Chen and Mujtaba (2007) claimed, both home country's, and host countries', institutions affect the Toy B's internationalization process. However, the Chinese companies are more affected by the institutional distance between the home country and the host countries than the Swedish ones, especially in the aspects of formal institutions. It may be because both Swedish and Chinese companies consider the Western markets to be their most important markets, and the gap of regulations and policies between the Western countries and Sweden is much less than the gap between those countries and China. That is why the Chinese companies are so sensitive to the differences between the institutional environments, while considering the spread of their products abroad. Referring to informal institutions, such as cultural distance, it was proven that they have an influence on the companies' internationalization processes (Henisz and Delios, 2002; Hofstede, 1994; 2007). In the four cases, both Swedish and Chinese companies chose markets generally followed a pattern, starting from the countries with a smaller cultural difference to a greater one. Thus, culture influences the internationalization process. However, the only difference is that the Swedish companies did the cultural expansion

unconsciously, while the Chinese companies strongly felt the difference. Thus, it appears that the Chinese companies are more influenced by different culture. However, when it comes to another aspect of informal institutions, which is people's value and attitude, the Swedish companies believe that it is very important, but they do not relate it much to their internationalization. On the other hand, the Chinese companies think that it affects their international choices.

Thirdly, although for the Chinese companies, both formal and informal institutions exert influence on Toy B's internationalization process, which matches the previous research (e.g. Scott, 1995; Henisz & Delios, 2002), formal and informal institutions for Chinese companies are not as stable as for the Swedish companies. Thus, they are more influenced by the vigorous changes in institutions. But on the other aspects, Swedish companies take free democracy and political stability into consideration more than Chinese companies. It is also because they are located in different positions and have different recognition of the safety on target markets.

To sum up, institutions have influence upon Swedish and Chinese companies, as the previous studies implied (e.g. Henisz and Delios, 2002; Peng, 2002; Chen and Mujtaba, 2007), but in this study, the influence is found in different aspects and at different levels. However in general, the internationalization process of Chinese companies is more heavily affected by institutions than Swedish companies.

Table 6

The comparison of institutions' influence on Swedish and Chinese companies' internationalization process

<i>Criteria</i>	<i>Swedish companies (A&B)</i>	<i>Chinese companies (C&D)</i>
Institutional distance	Small, not obviously influenced	Large, greatly influenced
Formal institutions	Slightly influenced	Greatly influenced
Informal institutions	Influenced	Influenced
Culture distance	Not well aware	Strongly aware
Institution stability	Stable, not influenced	Vibrant, greatly influenced
Free democracy	Care about	Do not care too much
General influence	Not much	Great

5.2.2 The Influence of Networks on the Internationalization Process between Swedish and Chinese SMEs

5.2.2.1 Swedish Companies Toy A and Toy B

In general, both Swedish companies consider all aspects of network as an important factor in their internationalization process.

Firstly, both personal networks and organizational networks help in understanding the firm's international development (Andersson & Wictor, 2003). Here, for Swedish companies, entrepreneurs' personal networks play a more important role in the early stage of the internationalization, when companies depend more on family members and friends. However, when companies enter more foreign markets, organizational-level networks with business partners, competitors etc. begin to influence much more.

Secondly, when considering the strength of the networks (Granovetter, 1973), for the Swedish companies, organizational networks and formal networks are considered to be strong networks, while the personal networks and informal networks are considered to be weak ones. Nevertheless, both types of networks are important in their expansion, but the former ones are paid more attention and can be considered to be more reliable (Dubini and Aldrich, 1991).

Thirdly, coming to other classifications of networks (Andersson & Wictor, 2003), both informal networks and formal networks are valued by the two companies, but they put more stress on the formal networks. That is because to Swedish companies, formal relationships are much safer and more stable than personal networks. Besides, local and international networks also contribute to companies' internationalization process. In addition, both companies are searching for new networks in all aspects.

5.2.2.2 Chinese Companies Toy C and Toy D

Firstly, personal and organizational networks do not have the same level of influence. Here, personal networks play a more significant role than organizational networks in both companies' internationalization. Especially for Toy C, the entrepreneur depends highly on his family members. Toy D was established by two brothers, and they also depended much on each other in the early stage of international expansion. Organizational networks are also

necessary, because the business is mainly based on those exports by which they can link business activities and tie resources together (Andersson & Wictor, 2003).

Secondly, when considering the strength of the networks (Granovetter, 1973), for the Chinese companies, personal networks are stronger than organizational networks. That is related to the unique Chinese culture, where people rely much on their personal networks and devote more time and attention to them. Other than that, Chinese people do not rely on the organizational networks, considering them to be unreliable.

Thirdly, the other kinds of informal networks (Andersson & Wictor, 2003) are neglected by both Chinese companies and their entrepreneurs. However, formal networks are stressed as highly important. That may be because to them, family blood relationships are considered to be formal ones, and to which they pay much attention. Besides, because of the low internationalization level, both local and international networks (besides family relationship) are not highlighted or paid attention to.

5.2.2.3 Comparison of Swedish (Toy A and Toy B) and Chinese (Toy C and Toy D) companies

It is clear that networks are important for both Swedish and Chinese companies, and there are some similarities or differences that can be generalized here.

Firstly, applying different levels of networks (e.g. Andersson & Wictor, 2003, referring to Johannisson & Monsted, 1997; Knight & Cavusgil, 1996), between personal and organizational networks, the former ones are more vital to Chinese companies, but the latter ones have a greater impact on the Swedish companies. That may be due to the fact that Chinese small and medium-sized companies are usually family-owned, and in the unique Chinese culture, people pay more attention to their personal networks, but do not rely on organizational networks. However, the situation in Sweden may be the opposite.

Secondly, strong ties helped more than weak ties in both Swedish and Chinese companies' internationalization process. This matches the research of Dubini and Aldrich (1991) and Granovetter (1973). The strong ties were of good quality and very beneficial. However, it is worth paying attention to the strong and weak ties when referring to different kinds of relationship to Swedish and Chinese companies. For the Swedish companies,

organizational and formal networks are the stronger networks, while for the Chinese companies, family and personal networks are stronger than organizational networks.

Thirdly, Swedish companies are more aware of informal networks, local and international networks, than Chinese companies. However, this does not mean that these are not important for Chinese companies. The reason for this is that, for Chinese companies, formal ones are more visible and better for the short-term development, and Swedish companies' organizations are more formal, more mature and on a higher level of internationalization.

Above all, networks are an important determinant to both Swedish and Chinese companies, which fits the previous study in this field (e.g. Anderson, Jack & Dodd, 2005; Mort & Weerawardena, 2006; Welch, 1998; Dubini & Aldrich, 1991; Terziovski, 2003). However, during the internationalization process, Swedish companies depend more on organizational networks, while Chinese ones rely heavily on personal and family network. In addition, both formal networks and strong networks helped in their international expansion.

Table 7

The comparison of networks' influence on Swedish and Chinese companies' internationalization process

Criteria	Swedish companies (A&B)	Chinese companies (C&D)
Personal networks	Important in the early stage	Extremely important
Organizational networks	Very Important	Important
Strong networks	Important	Important
Weak networks	Important	Not so important
Other networks	Aware	Not so aware
General influence	Much on organizational networks	Much on personal networks

5.2.3 The Influence of Entrepreneur on the Internationalization Process between Swedish and Chinese SMEs

5.2.3.1 Swedish Companies Toy A and Toy B

Overall, both Swedish companies considered the entrepreneur to be the key person of the internationalization process.

Firstly, the entrepreneurs' backgrounds from both Swedish companies were very similar. The businesses were family-owned, and the CEO has always been a family member.

They both had an academic education and high knowledge of foreign languages. These elements were considered to be a good basis for the entrepreneur to be able to operate in an international environment without any problems. Thus, the entrepreneurs had the possibility to put their acquired knowledge into practice and use their languages in building networks with the foreign countries (Acs, *et al.*, 2001; Andersson, 2000; Ruzzier, *et al.*, 2006; Miesenbock, 1988).

Secondly, both entrepreneurs had a lot of international experience by working or studying abroad in different countries in Europe and Asia. This international experience proved to be extremely necessary for building contacts and networks. Thus, the entrepreneurs practiced international entrepreneurship (McDougall & Oviatt, 2000a; Hitt, *et al.*, 2001; Andersson, 2004). This international entrepreneurship practiced by both Swedish entrepreneurs incorporated relevant approaches to internationalization and became an inseparable part of the internationalization process.

Thirdly, both entrepreneurs are oriented towards innovation and R&D. Even though both companies are considered to be in the category of small and medium-sized companies, every year they spend about 30-40% of their budget on innovation and the invention of new products and developing the current ones. Therefore, in consistence with the literature, (Acs, *et al.*, 2001; Ruzzier, *et al.*, 2006), the entrepreneurs' orientation towards R&D brings great potentials for the company in the future.

5.2.3.2 Chinese Companies Toy C and Toy D

Even though the Chinese entrepreneurs are different from each other, there are some significant similarities between them.

Firstly, both companies used to be family-owned and, after the major toy-recall crisis in 2007, were bought out by their business partners. Even though none of the entrepreneurs had an academic education, and did not speak other languages than Chinese, they were very much business-oriented and expanded their companies in different Chinese regions. However, after the success in the Chinese markets, both entrepreneurs learned English and established networks with the foreign companies and that was the way they expanded. This

goes along with the theories (Acs, *et. al.*, 2001; Andersson, 2000; Ruzzier, *et al.*, 2006; Miesenbock, 1988) which presents the entrepreneur as the key person who initiates the internationalization of the company.

Secondly, the entrepreneurs did not have international experience, and that was the reason why they stayed in China and developed their business there for many years. Even though the literature implies that the international experience is useful for the entrepreneur, the Chinese entrepreneurs did not possess it (McDougall & Oviatt, 2000a; Hitt, *et al.*, 2001; Andersson, 2004). However, this negative attitude towards gaining international experience changes rapidly nowadays, which was the case with both the entrepreneurs from the Chinese companies. After they began their internationalization process, they started building networks and establishing relationships with the other companies in the toy industry.

Thirdly, both Chinese entrepreneurs spend considerable amounts on R&D and developing new products. Before the toy-recall crisis, none of the entrepreneurs paid much attention to the quality of the products. At that time, they only cared how to produce more products and develop the current ones. However, the quality of those products was not the priority. Therefore, this attitude negatively influenced the future of their companies, and they could have faced bankruptcy had they not been bought out by their business partners. This is consistent with the literature, which states that the entrepreneur is the driving force for the internationalization of the SMEs (Andersson 2000, 2002; Andersson & Victor, 2003; Oviatt & McDougall, 1994) but, at the same time, the Chinese entrepreneurs could drive their companies to destruction with the low quality of their products.

5.2.3.3 Comparison of Swedish (Toy A and Toy B) and Chinese (Toy C and Toy D) companies

From the above entrepreneurs' characteristics, we can see that there are some similarities and differences between the Swedish and Chinese companies.

Firstly, both Swedish and Chinese companies were family-owned. This fact might give us a clear picture about the small and medium-sized companies in these countries and the entrepreneurship practiced. In addition to his, the Swedish entrepreneurs have an

academic background and know a few international languages, while the Chinese ones do not have an academic background and started learning foreign languages in a later stage of the internationalization of their companies. Thus, the Swedish entrepreneurs had a solid background from which to start an international business and they did that in an earlier stage compared to the Chinese ones. On the other side, the Chinese entrepreneurs were focused more on regional expansion within China and it was only after they had expanded in China that they thought of international expansion (Acs, *et. al.*, 2001; Andersson, 2000; Ruzzier, *et al.*, 2006; Miesenbock, 1988).

Secondly, another difference between the Swedish and the Chinese entrepreneurs is that the Swedish entrepreneurs either have an international experience by working or by studying abroad, while the Chinese entrepreneurs did not possess any international experience before they started the internationalization process of their companies. Even though the international experience is not crucial for the international expansion, it is very useful for establishing relationships and networks (McDougall & Oviatt, 2000a; Hitt, *et al.*, 2001; Andersson, 2004).

Thirdly, both the Swedish and Chinese entrepreneurs spend a considerable amount of their budget for inventing new products and developing the existing ones. However, the only difference between the Swedish and the Chinese ones in this aspect is that before toy-recall crisis in 2007, the Chinese entrepreneurs did not pay a lot of attention on the quality of the products. After that event happened, the Chinese entrepreneurs are product-quality oriented (Andersson 2000, 2002; Andersson & Wictor, 2003; Oviatt & McDougall, 1994).

Overall, the entrepreneurs both in Swedish and Chinese SMEs are the key people who influence the internationalization process of the companies. Even though some of them have more or less academic backgrounds, international experience and focus on R&D, the entrepreneurs are responsible for the great success of the SMEs in Sweden and in China.

Table 8

The comparison of entrepreneur' influence on Swedish and Chinese companies' internationalization process

<i>Criteria</i>	<i>Swedish companies (A&B)</i>	<i>Chinese companies (C&D)</i>
Education level	Academic and high level	Not academic and not high
International experience	Acquired	Not acquired
Ambition to expand	Acquired	Acquired
Sense of R&D	Acquired	Acquired
Focus more in early stage	Global expansion	Regional expansion
General importance	Important	Important

6. Conclusions

This chapter will focus on the general conclusions drawn from our research study and their implications and possibilities for further research.

6.1 General Conclusion

Based on the practical and theoretical background of our field of interest, the internationalization process of SMEs, the research problem and purpose of this thesis is to find out whether the Swedish and Chinese companies have similar or different internationalization processes, and how institutions, entrepreneurship and networks, influence their international strategy during the expansion process. By conducting a case study on two Swedish companies and two Chinese companies, the following conclusions have been drawn.

The internationalization processes of Swedish and Chinese companies are similar, both following in the Uppsala Internationalization Model (Ruzzier, *et al.*, 2006; Miesenbock, 1988; Johanson & Vahlne, 1977, 1990). In relations to the market selection, this means that they firstly psychically closer markets, and only after that they approach the markets with greater psychic distance. On the other hand, relating the entry mode, the companies implement different strategies, from an easy one with less control to more difficult ones with higher control. The obvious difference is that Chinese companies largely depend on exporting while the establishment of self-owned subsidiaries is more common to the Swedish companies. At the same time, the performance of the Swedish companies is more remarkable and stable than the Chinese ones. All this implies that Swedish companies are at a more advanced stage of the internationalization process than the Chinese companies.

The three determinants, which are institutions, networks, and entrepreneur, influence Swedish and Chinese companies' internationalization on different aspects and levels. Chinese companies are greatly influenced by institutions, especially the formal ones from both home country and host countries, which matches many previous studies, e.g. Henisz and Delios (2002), Peng (2002). The influence on Swedish companies is not as strong as that on Chinese ones. That may be because China has a fast-changing and vibrant institutional environment,

and the institutional distance between China and some Western countries is big. Thus, the Chinese companies are more sensitive to institutions and institutional change. Networks are also important for both Swedish and Chinese companies, and they both benefit a lot from strong networks (e.g. Anderson, Jack & Dodd, 2005; Dubini & Aldrich, 1991). The main difference is that the Swedish companies focus more on organizational level of networks, while the Chinese companies strongly depend on personal networks, especially family ties. This difference can be due to the fact that the unique Chinese culture is based on people's values to business in social life, where people rely more on personal and blood relationships rather than the relationships which come from formal position in an organization. However, we found out that in Sweden, people count more on formal organizational networks. The third factor, the entrepreneur, is also important for both Swedish and Chinese companies. Even though it appears that the Chinese companies' entrepreneurs have a lower level of education and do not possess excellent foreign language skills, and have limited international experience, all of them have great expansion ambitions and pay attention to innovation. Thus, they take the credit of the international development of the companies (e.g. Andersson 2000, 2002; Andersson & Wictor, 2003).

6.2 Discussion

Besides considering institutions, networks, and entrepreneur as independent variables, it is also interesting and inspiring to explore the interactions among the three determinants. The above empirical findings and analysis show some close relationships and interactions between them during the companies' internationalization process.

Firstly, due to the fact that both the Swedish and Chinese companies are private-owned, and the entrepreneurs have the greatest power in the organizations, so there is no doubt that most of the international strategies and choices are directly made by the entrepreneurs. However, what needs to be highlighted here is that the entrepreneurs are obviously influenced by institutions and networks. This is strongly displayed in the Chinese companies. For example, on the one hand, the opportunities emerging in the transformational institutions in China motivated the entrepreneurs to establish business and conduct

international expansion. On the other hand, the choices of foreign markets made by entrepreneurs were greatly influenced by their networks, especially their personal and strong networks which came from family relatives. The interaction relationships on Swedish companies are not strong as in the Chinese companies, but it is also clear that friendly institutions and proper networks influence the entrepreneurs' choice of foreign markets and entry modes, and also aid the internationalization process of the companies.

Secondly, to look at things from a different angle, networks are also influenced by both institutions on the macro level, and by entrepreneurs on a micro level. On the one hand, it is the entrepreneur who builds and makes use of the networks, no matter whether it is a personal network or an organizational network. On the other hand, it is up to the entrepreneurs to choose which type of networks they would use, but on the other hand, the institutions, especially culture in a society determines which kinds of networks are dominant and more reliable. For example, it is acceptable to say that Chinese unique culture leads to people's strong beliefs and preference for of personal networks, especially family relationships, which they think are more trustworthy, and they can count on more than organizational networks. However, this is not the same in Sweden where people do not so regularly take their family members into their business, and they are not so suspicious about the reliability of organizations and the networks in them.

Thirdly, as it was discussed above, institutions strongly influence entrepreneurship and networks, but there is no evidence showing that institutions can be affected by entrepreneurship and networks. Because institutions exist in a macro environment, and many of them come from the government and people's established values on the whole, this can hardly be changed and influenced by individual and micro level factors.

Therefore, combining the conclusion and discussion, the following model can be developed from the previous framework, to present the connections and interactions among the three determinants, and their main different influence on Swedish and Chinese companies' internationalization process.

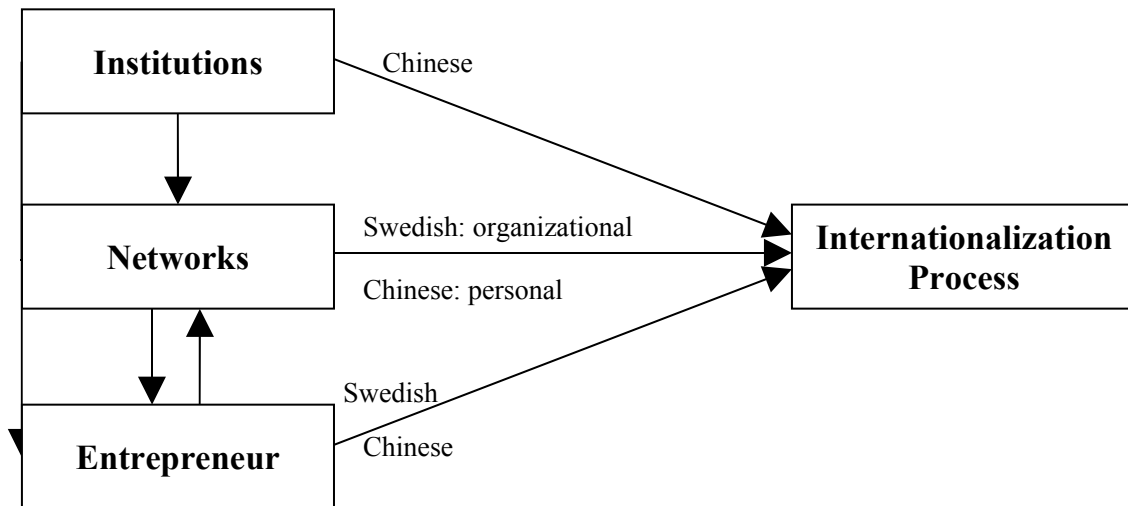


Figure 2. The developed model of the relations between three determinants and internationalization process

6.3 Implications

From our research study, we can conclude that there are some implications which can be implemented into the future literature in this field. First of all, the current literature has an obvious gap of excluding the institutions, as an important determinant of the internationalization process of SMEs. We proved that the institutions are one of the crucial determinants for the internationalization process of the Chinese SMEs, which was not the case for the Swedish SMEs. Therefore, we assumed that most of the research studies that did not take the institutions into consideration were concerned with about companies from the Western world. We have taken that as a common mistake, which should not be repeated in the future research studies about the internationalization process, especially if non-European companies are included in the research study.

On the other hand, there are managerial implications as well. First of all, the managers of different companies have to be aware that the three determinants – institutions, entrepreneurship and networks, are important elements of the internationalization process of both Swedish and Chinese SMEs. Even though the institutions are mostly emphasized in the Chinese SMEs, and the networks are mostly emphasized in the Swedish SMEs, all managers have to be equally aware of them. This especially applies to the part about entrepreneurship, where we were witnesses of the great power to the entrepreneur, in both Swedish and Chinese SMEs.

6.4 Limitations and Further Research

This research study has several limitations. First of all, the small number of interviewed companies might have affected the results. Secondly, only the CEOs, who also were the entrepreneurs, were interviewed, which might also skew the data. Thirdly, the interviews with the Swedish companies were conducted in English, which might also have affected the data because English is not the first language of the entrepreneurs. Fourthly, the data have been analyzed only by the researchers, and this might have affected the objectivity of the analysis. Even though there are so many limitations, we hope that the research study is still valid and reliable and can be the basis for many more research studies conducted in this field.

Therefore, there is still a lot of room for further research. For example, in this research study we focused mostly on only three determinants of the internationalization process. However, there are many other determinants which also influence the internationalization process and the internationalization strategy. Also, the three determinants were only contextually analyzed, i.e. they were analyzed only on the surface. However, these determinants are much deeper, and can be studied separately as well. On the other hand, the internationalization process can be studied from another perspective, and that is – the strategy and performance. In the future, it would be useful to conduct a quantitative study where the internationalization process of different companies is compared, based on some performance results (sales, profits, growth, etc.), and how different strategies affect the performance results.

Appendix 1 – Semi-Structured Interview Guide

Internationalization Process

When was the company founded?

What is the size of the firm?

What is the number of employees?

What are the sales in the last years?

What is the degree of international experience of the firm?

How many new markets did you enter in the last years?

What is the type of foreign entry mode? (Wholly owned; control by acquisition; joint-venture; consortium; licensing/franchising; management/manufacturing contract; direct/indirect exporting, etc.)

How much from the total production did you export in the last years (%)?

What products do you export?

How often does the firm innovate?

Institutions

What is the main difference between the home country and host countries' government policies in this industry?

Do the host countries' policies or regulations affect your company's choice of international market selection and market entry modes? What about home country's? Please explain and give examples.

Do you think the level of free democracy and political stability would affect the company's international strategy? If yes, to what extend? If not, why not?

Is the host country's level of free market economy important to your company? Why?

Do people's attitudes and values in the host countries affect the company's international strategy? Why?

How do you feel about the cultural distance between home country and host countries? Do you think culture influence the company's internationalization? If yes, in which aspect? For example, in the following dimensions as individualism, power distance, uncertainty avoidance, and masculinity, which ones may influence company's process of internationalization?

Networks

Are networks important for the international expansion of the company? If yes, which ones is more important: the entrepreneur's personal network or organizational network?

What is your opinion about following networks in the company's choice of international strategy: Family members, Friends, Business partners, Clients (customers), Suppliers, Employees, Competitors, and Government? Which one are more important? Why?

Which networks are more important in the company's internationalization process in the aspect of market selection and the choice of entry mode: strong networks or weak networks?

Do they have different influence? How?

Do you have any informal networks that influence the internationalization of the company? If yes, how do they influence it?

Do you have more local networks or international networks and which ones are more important?

Are you satisfied with your current situation of network? Do you have any ideas about the advantages and disadvantages of it?

Entrepreneur

What is your level of education? (Academic/Nonacademic)

What is your knowledge of languages? (High/Low)

What is your experience of international marketing? (High/Low) Please explain.

Are creativity and independence important? (Important/Unimportant) Please explain.

Are personal networks important for expansion? (Yes/No) Why?

How much do you think 'strategically'? (High/Low) Please explain.

Is acting as a role model important? (Yes/No) Why?

Is the experience of other countries important? (Yes/No) Please explain.

What is your past experience?

What is your ambition for the future?

Do you spend more money on short-term R&D or on long-term R&D? Please explain.

Are you a risk taker? Please explain.

How often do you introduce new products in the industry? Please explain.

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