SMEs’ Internationalization Process via Strategic Alliances
(A case study of Anoto Group AB)

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ABSTRACT

The purpose of this study is to investigate and describe the internationalization process of SMEs which choose strategic alliances as entry mode. Understanding the internationalization of small firms is important to enhance knowledge of how they develop their business activities in international markets. Moreover, a strategic alliance perspective gives a critical insight of firms’ strategy to challenge in global competition.

The qualitative approach is chosen to carry out the research question and achieve the purpose of this study. A case study is therefore used to generate advanced knowledge and understanding. Anoto group AB, a small Swedish company is picked as a sample due to the criteria fitting. I collected both secondary and primary data through various sources.

The findings reveal that internal factors and external factors strongly influence the small company’s strategy. The advantage and core values of using strategic alliances motivate the small firm to go abroad. Due to the limited resources and knowledge, the small firm could not go globally alone. Using a strategic alliance can enable the firm to gain resources, gain market power and leverage competencies. Therefore, the small company can accomplish the goal in short time and be successful in international markets through managing alliances.

Key Words: Internationalization, SMEs, Strategic alliances
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1. INTRODUCTION

The introduction consists of six subsections. First, the background which shows its importance will be presented. Then, the problem area will be discussed and lead to the purpose of this study. The research question will be then addresses. In order to provide a clear focus and outline the concepts, delimitation and definition will be explained as well.

1.1 Background

Small and medium-sized enterprises have been identified as significant components of economic activities for employment, wealth creation and innovation (Birley and Westhead, 1990; Acs et al., 1997). Moreover, improving the international contributions of the small business sector is widely examined as a priority and policy support in many countries (Organisation for Economic Co-operation and Development [OECD], 1997). Therefore, the internationalization of small and medium sized enterprises (SMEs) has increasingly received attention in the international arena (Boter and Holmquist, 1996; Gankema, Snuif and Zwart, 2000; Li, Li and Dalgic, 2004).

As the development of fast changing and increasingly complex global marketplace such as changing consumer preferences, developments in manufacturing, communication and information technologies, and changing competitive conditions, SMEs are encountering the difficulties in their international expansion due to obstacles of foreignness, newness and smallness (Lu and Beamish, 2006). These lead to disadvantages in competing with local firms, and being limited by resources and capabilities (Bell, Crick and Young, 2004). Hence, SMEs must develop and enhance their capability quickly in response to globalization. These facts are reflected in the increasingly used strategic alliances in global competition.

“Strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology and globalization” (Doz and Hamel, 1998, p. xiii). There are two competitive challenges which firms must face. First, globalization has opened the race for firms to pursue opportunities and enter to markets. Second, the race for the future forces firms to seek new opportunities, new solutions and new answers to meet customers needs. The formation of strategic alliances are defined as voluntary interfirm co-operative arrangements (Das and Teng, 2001). To date, alliances play an important and strategic role in a growing company. Entering strategic alliances is to provide: access to resources, access to new markets, access to technology, access to capital, and access to international and closed markets (Rothkegel, Erakovic and Shepherd, 2006; Ireland, Hitt and Vaidyanath, 2002). Moreover, there are four strategic advantages: blocking rivals, focusing on competencies, surviving and competing against a common rival (Hoffman and Viswanathan, 1997). In addition to Doz and Hamel (1998), there are
three key purposes: co-option, value creation, and learning and internalization. Alliances not only serve normal purposes, but also reduce uncertainties and accelerate learning. Consequently, many firms depend increasingly on their collective activities with other firms to acquire collaborative advantage which influence to their performance and survival.

1.2 Problem Discussion

The internationalization of small firms has become an interesting business research. The research into small firm internationalization has been mostly influenced by the Uppsala model, which was proposed by Johanson and Vahlne (1977). According to Bell (1995), the research focused on firms’ initial market selection and export decisions and subsequent internationalization processes. However, the findings showed very little support for small firms that progress systematically from exporting to other market entry modes, and the limitation of all stage theories can not explain non-linear behavior such as networking. Moreover, the process of internationalization is lengthy and incremental for many small firms. Firms may shorten the process of internationalization, or international development may not occur at any stage at all (Boter and Holmquist, 1996; Gankema, Snuif and Zwart, 2000).

Lack of applicability in an expanding number of situations when technology, industry and firm capabilities have changed seem to be one cause of these limitations (Oviatt and McDougall, 1994). Furthermore, the process theorists have focused on export as a strategic entry mode for small firms. They have overlooked the other foreign market entry modes, which are different forms of business activity for different types of firms in different conditions and with competences (Bell, 1995; Jones, 1999). The small companies can involve market through alternative method such as subsidiaries, branches or joint venture (Bell, 1995; OECD, 2008). To date, one area that remains under-explored is SMEs internationalization by entering strategic alliances. Even though strategic alliances are increasingly important in today’s competition, research has limitations to explore the patterns of small firms’ internationalization via strategic alliances.

1.3 Research question

To increase understanding of the process of using strategic alliances in SMEs’ internationalization and bridge the theoretical gap, the main research is set as follow: How is Small and Medium-sized Enterprise (SME) using strategic alliances to develop its business activities in international markets?
1.4 Purpose

The purpose of this study is to investigate and describe the internationalization process of SMEs which choose strategic alliances as the entry mode. The internationalization expansion process is a part of the development process of small firms. Understanding the internationalization of a firm is important to enhance the knowledge of characteristics and the development of firms’ internationalization. Furthermore, the strategic alliances perspective broadens knowledge of market entry and firms’ strategy to create competitive advantage for challenging in global competition. As a result, the contribution to the growing body of empirical study on internationalization of small and medium sized firms can provide a coherent framework needed to guide scholars and firms’ managers in dynamic changes.

1.5 Delimitations

The internationalization process and strategic alliances are a broad perspective. Given limited time and resources, it is impossible for me to describe the use of strategic alliances of SMEs in the internationalization process from different types of companies and in different countries. To contribute a coherent piece of research, the area of this study must be scoped to achieve the quality of research.

According to the resources constraints both of time and financial support, this study has the following delimitation. A Swedish small and medium sized company in the electronics equipment industry is chosen as a case study due to the criteria match and accessibility.

1.6 Definitions

There are three key words which are mostly used throughout this study. The definitions are represented as follows:

Strategic alliance: A strategic alliance is defined as possessing simultaneously the following characteristics (Yoshino and Rangan, 1995, p. 5).
- the two or more firms that merge to pursue a set of agreed upon goals.
- the partner firms share the benefits of the alliance and control over the performance of assigned tasks.
- the partner firms contribute on a continuing basis in one or more key strategic area (e.g. technology, products, and so forth).

By this definition, mergers, takeovers and acquisitions in which one firm assumes control of new entity are not alliances. Joint ventures in term of subsidiaries of multinational operations are not
alliances. Licensing and franchising agreements which do not transfer of product, technology and skills between partners are not strategic alliances as well.

Small and Medium-sized enterprises (SMEs): According to European Commission (2003), the definition of SMEs in employment and turnover criteria can be shown below.

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Employment</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 million</td>
</tr>
<tr>
<td>small</td>
<td>&lt; 50</td>
<td>≤ € 10 million</td>
</tr>
<tr>
<td>micro</td>
<td>&lt; 10</td>
<td>≤ € 2 million</td>
</tr>
</tbody>
</table>

Internationalization: “the process of increasing involvement in international operation”, (Welch and Luostarinen, 1988, p.84). The process is the interconnection between international activities (outward) and assessing the degree of internationalization (inward).

1 Source: http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm
2. LITERATURE REVIEWS

In this chapter, I aim to review related literature in order to conceptualize and develop a theoretical framework which fills the gaps in previous research and proposes dynamic need. Conceptualization of the framework is in the scope of the research problem within two disciplines: internationalization process and strategic alliances.

2.1 Previous studies

Research into internationalization has mainly been inspired by the Uppsala model. This model explains a firm’s experience in international markets in stages. Then, academic research in this area has been increasing. However, the model has been criticized for failing to explain how or why firms start and the characteristics of the firm in each stage. According to the findings of Bell (1995), an established chain which proposed by the Uppsala school model does not adequately reflect the underlying factors which influence the internationalization of small firms.

In addition, the Uppsala model has limited utility to analyze the internationalization process strategies of small firms due to overlooking the planning phase and ignoring firm-specific motivation (Yip, Biscarri and Monti (2000); Li, Li, and Dalgic (2004). Moreover, there are more different entry modes such as with subsidiaries, branches or joint venture that the company can involve in the market (Bell, 1995; OECD, 2008).

Despite the variety of internationalization processes, none of research completely captures the internationalization of SMEs using strategic alliances as the entry mode. Nowadays changing competitive conditions have provided a favorable environment for small firms’ internationalization, strategic alliances are used to pursue many objectives in international markets. (Ireland, Hitt and Vaidyanath, 2002; Alvarez, Ireland, and Reuer, 2006).

In order to fill the gap and add valued contribution to internationalization theory, there are two main perspectives, as follow; (1) the strategic alliances and (2) the internationalization process that will be used to construct a theoretical framework. Internationalization literature is important to grasp the international development of SMEs. Moreover, the strategic alliance perspective gives critical insights into why small firms enter strategic alliances as the entry market mode and how this strategy enables them to develop international activities.

2.2 Strategic alliances

Entering into alliances is one way for firms to access critical resources and increase their market power over competitors (Barringer and Harrison, 2000). SMEs therefore
enter into partnerships to take advantages of complementary assets (Ireland, Hitt and Vaidyanath, 2002). For example, SMEs can exploit their financial resources and distribution channels through a partner. Moreover, the broad resource-based view reveals alliances formation based on firms’ resources such as knowledge and technology (e.g. Kogut, 1988). Barringer and Harrison (2000) suggested that there are 2 motives for firms to use strategic alliances as follows.

- Obtaining resources: Firms use a local partner to seek the crucial resources such as local facilities, knowledge and connections through forming international alliances (Beamish, 1987)
- Retaining resources: Firms need to engage in alliances to maintain certain resources but lack the know-how to develop or use their resources. Firms hence prefer to secure competitive advantage for the future through holding with a partner than selling their resources (Kogut, 1988).

According to Hamel (1991), the primary objective for using international alliances is the internalization of partner skills. Companies in the alliance learned such as business knowledge, technology processes, market environments, customer needs and so forth, and have been transformed by this. There are three broad determinants of learning outcome: intent referred collaborations as an opportunity to learn; transparency, referred to as the openness of each partner; and receptivity, referred to as a partner’s capability for learning. Each stage of successful learning has become the gateway to the next step of internalization. Commingling unique skills and capabilities are enable firms to create potential powerful learning opportunities for firms which lead to learning organization (Iyer, 2002). Firms can increase their capacities and competitiveness through absorbing skills from the partner. For example, technology transformation is basically a skill which can be improved with practice. Whereas the know-how of managing a business with a partner is a learning experience which enables firms to launch further entries into non-core business (Tsang, 1999).

Using alliance is a strategic choice to increase market power, increase political power, increase research, production and marketing or other functions, and provide product or service (Barringer and Harrison, 2000). Furthermore, cooperative strategy as joint venture can provide firms a better solution to the problem of markets. Moreover, pooling and sharing information and knowledge through international cooperation is able to reduce uncertainty (Beamish and Bank, 1987).

“There are numerous advantages to strategic alliances but, if not handled properly, such cooperative can result in major problem for all parties”, Lorange and Roos, 1993, p. 18. To date, a number of studies have found high failure rates of alliances (e.g. Reuer, 1999). Hence, managing alliances is crucial for firms to make strategic alliances work, and from which firms can gain competitive advantage and create value chain with a partner (Ireland, Hitt and Vaidyanath, 2002). Forming successful strategic alliances, firms need to know how to manage the different process (Lorange and Roos, 1993).
According to Yoshino and Rangan (1995), there are four key activities for firms to employ strategic alliance successfully: rethinking the business, crafting an alliance strategy structuring an alliance and evaluating an alliance. However, the key risks may affect alliance success, alliances management can be viewed as four essential stages based on key risks and firms’ management (Das and Teng, 1999).

1) selecting partner: finding a fit between firms, awareness both of resources fit and strategic fit are needed. Resource fit refers to the resource that can be effectively integrated into a value creation whereas strategic fit refers to the degree to which the partners have agreeable goals in alliances.

2) structuring the alliances: There are various structures of alliances, such as joint ventures and minority equity alliances to joint production, joint marketing and so forth. It is, therefore, important for firms to have the most appropriate types of partners. One key to having an advantage is to consider the level of flexibility which affects alliance formation and success.

3) operating alliances: effective cooperation is the foundation for collaborative firms to pursue common advantage. As a result, firms restrain from their self-interested activities and exploiting their partners for their private interest. However, it is unavoidable to focus on their interest because competition is essential for firm to protect their tacit knowledge and for preventing the alliance becoming a direct competitor.

4) evaluating alliances: There is no general acceptable measure of alliance performance, but the most practical approach is to examine which alliance has served the objectives of each partner. In evaluation, alliance performance is also realized either short-term orientation or long-term orientation. Moreover, partner firms will consider overall context more than just financial outcome.

Although researchers agree that alliances evolve in stages, research had failed to consider the stability area in each process. Then, Jiang, Li and Gao (2008) followed four stages of Das and Teng (1999) which focus on the factors underlying alliance stability in each stage to fill the managerial gap. Selecting a partner is a critical first step. Firms should consider three crucial criteria; resource complementarities, reputation and priorities. Then, firms decide an appropriate governance form, alliance scope and division of labor and then are committed to an alliance. The implementation stage is important for alliance evolution and success, firm should manage unstable factors and deal with adverse conditions. This lastly translates to performance outcome which is assessed as the extent to which the partners’ set objectives are met.

2.3 Internationalization process

The internationalization process is the patterns of international operations which is the basis of interaction between attitudes and actual behavior (Johanson and Widershiem, 1975). The most important obstacles to internationalization are the lack of knowledge
and resources, which can be reduced through incremental decision making and learning about the foreign market and operations. Due to lack of knowledge and resources and to avoid uncertainty, firms start exporting to their neighbor markets through independent representatives.

A stepwise of the operation development in individual countries can be identified in four stages, as shown below:

1. no regular export activities: firms lack of information and experience to foreign market, thus has no commitment of resources to the market.
2. export via independent representatives (agents): firms have a channel to get regular information, thus start commitment the market.
3. sales subsidiary: firms prefer to control information that flows directly from markets to firms.
4. production/ manufacturing: firms make a larger resource commitment.

Then, Johanson and Vahlne (1977) clarified and developed previous research to explain the incremental characteristic of internationalization. The internationalization decisions have an incremental decision due to lack of market information between countries regarding psychic distance. The dynamic model therefore, was proposed by the state aspects and change aspects. Their model focuses on the development of the individual firm, gradual acquisition and use of knowledge about foreign markets and operations through incremental commitments.

Even though the stage theory of internationalization as known as Uppsala model has gained considerable support, some researchers have raised criticism against the idea. According to the findings of Bell (1995), the established chain, which proposed by the Uppsala school model, does not adequately reflect the underlying factors which influence the internationalization of small firms. On the other hand, the decision of operation in foreign markets is dependent on foreign customer followership, the targeting of niche markets and industry-specific consideration. Moreover, there are the little supports how firms move form exporting to other market entry modes. The evidence also shows the limitation of explanation in complex, dynamic and non-linear behavior. In addition to the findings of small software firms, network relationships influence firms’ activities during the internationalization process for market selection and mode of entry Coviello and Munro, 1997).

Yip, Biscarri and Monti (2000) claimed that the Uppsala model overlooks the planning phase and ignore firm-specific motivation. Motivation of small firms to go abroad is to leverage their strength, obtain economic returns and acquire competitive advantage. When small firms are systematic, they seem to achieve better performance due to the thoroughness of planning at each stage of the internationalization process.

According to Li, Li, and Dalgic (2004), the Uppsala Model has limited utility to analyze internationalization process strategies of small firms. The finding suggests small firms
should examine their motivation and their competence carefully as a first step. Then, they have to find the right strategy to go abroad. Due to the large scope for international development, the incremental export development route may not be the mode of international development for small, high technology firms. Firms’ decisions are related to the nature of the firms’ businesses, resource needs and the development opportunities (Jones, 1999).

Owing to the high level of competition in the world, the Uppsala model is invalid in the situation of highly internationalized firms and industries. Firms are likely to leapfrog the stages in the established chain and move forward more directly to some kinds of foreign investment. There are more different entry modes such as with subsidiaries, branches or joint venture that the company can involve market (Bell, 1995; OECD, 2008). Furthermore, Firms today can hire people who have experiences and knowledge about doing business abroad, so it is no longer necessary to build up knowledge in a slow and gradual way. (Hollensen, 2007).

The international operation of business companies has been growing. The developing approach was taken with a number of studies of the business operations abroad (Welch and Luostarinen, 1988). Hence, the term “internationalization” needs clarification. An increasing commitment as greater operation is not related only to greater experience, skill and knowledge of foreign markets, but also to the exposure to opportunities or the success of one method of operation. For example, success in exporting via an agent can finally lead to production subsidiary. As a consequence, the internationalization could be broadened by the concept of increasing international involvement as outward sign of the linkage between outward and inward movement.

As discussed above, some small firms’ findings support the view of the stage model but other small firms do not. Due to the complexity of internationalization, lack of knowledge is not only main factor influencing firms’ choice of foreign market and entry mode. Internal factors, external factors and the motivation of firms also strongly affect firms’ decision. Moreover, when experiencing competitive challenges, firms may not initiate internationalization via the export mode, but instead choose the right strategy for market choice and entry mode to go internationally.

2.4 Theoretical Framework

The theoretical framework of this study as shown in figure 2.3 is developed on the basis of a number of relevant theories which are discussed in the literature review. In this study, I proposed that using strategic alliances to develop the international business of SMEs consists of five major phrases: initiation, planning, commitment, managing and performance. I use arrows to show the dynamic loop of the linkage between inward and outward movement in the process of SMEs’ internationalization.
**Phase 1: initiation**

According to the distinction between small firms and large firms, SMEs usually have limited resources to acquire for information and knowledge in foreign markets (Yip, Biscarri and Monti, 2000; Li, Li, and Dalgic, 2004). SMEs are inexperienced in international markets compared to large companies (Yip, Biscarri and Monti, 2000; Li, Li, and Dalgic, 2004). Today, SMEs confront more different global environments to start international expansion than those which large firms which faced two or three decades ago. Differences in legal system, cultures and languages present higher risks for smaller firms than for larger firms to international expansion (Acs, Morck, Shaver and Yeung, 1997).

It is important for firms to understand internal factors and external factors which influence their strategic decisions. Considering the strategy carefully will provide an insight into both advantages and disadvantages before they make a commitment to participate. As Boter and Holmquist (1996) found, their research indicates that the history and the internal situation of the company strongly influence the internationalization in a small firm. Furthermore, the environment in which the firms are operating heavily affect small firms. The analysis in internationalization therefore must be based on these main factors.

Given the challenges in globalization most SMEs face, they hopefully expect all the benefits from their partners. International alliances are especially crucial for small and medium enterprises in their internationalization process. Forming international alliance is therefore a potential way to overcome the difficulty of three obstacles in their international expansion. An entrepreneurial firm can expand into international markets with the support of their partners and thus increase sales growth (Leiblein and Reuer, 2004). Moreover, to make opportunities in global markets, SMEs require a partner to do what they can not do alone. In a research of Doz and Hamel (1998), the value creation for the alliances is represented as opportunities for winning the race. The fundamental incentives that drive firms to go abroad with alliances is the need to gain competitive capabilities, leverage resources and to gain competence through internalized learning.

**Phase 2: planning**

The first stage in building an alliance is the key to creating successful alliances. There are many different criteria for selecting a good partner. Firms should find a fit between resource and strategy (Yip, Biscarri and Monti, 2000; Li, Li, and Dalgic, 2004). Resource fit is important because the resources and capabilities of alliances eventually influence firms’ performance. Complementary resources are needed for firms to pursue market opportunities and achieve desired objectives (Das and Teng, 1999; Ireland, Hitt and Vaidyanath, 2002; Jiang, Li and Gao, 2008). Supplementary resources are needed for firms to achieve competitive advantage (Das and Teng, 1999). In addition, Jiang, Li
and Gao (2008) mentioned a partner’s reputation which is the source of mutual trust and prior ties and which is a critical factor for the dynamic.

In order to select a right partner, firms need to acquire more knowledge and planning to decide. General and market knowledge seems to be a key of this phase. Firms then collect important data and information for the overall comparison of alliances. When firms initiate learning from their partners, and reevaluate the potential of the alliance to create value, the expected balance between each other and the ability to adapt to the existing conditions of the alliances, the cycle of success and growth initiates as well (Doz and Hamel, 1998).

**Phase3: commitment**

The commitment is made when the resources are committed to the market. This commitment influences several aspects of the company: human resources, organizational structure, marketing strategies and so on (Yip, Biscarri and Monti, 2000). The decision of the level involvement is strongly dependent on firms’ specific competencies. For instance, firms with limited knowledge and experience are supposed to involve at the low risk and low-level commitment.

There are various structural forms to set up an alliance: joint ventures, minor equity alliances, joint product, joint marketing and R&D, and licensing (Das and Teng, 1999). Jiang, Li and Gao (2008) considered alliance governance forms as having two primary form: equity and non-equity alliances. According to Das and Teng (1999), flexibility is denoted as a key advantage of alliances in a highly competitive environment; however, rigidity to consolidate the relationship is necessary as well. Jiang, Li and Gao (2008) argued that looser inter-connection and fewer commitments tend possibly to lead to instability and failure. In contrast, equity alliances seem to be appropriate for greater risk of opportunism and behavior uncertainty. As discussed, making a commitment is an important decision because the chosen form impacts on the future alliance development and performance (Jiang, Li and Gao, 2008). Furthermore, determining alliance scope is one critical involvement in alliances. Firms have to decide the ownership and application of both tangible and intangible assets (Ireland, Hitt and Vaidyanath, 2002; Jiang, Li and Gao, 2008).

**Phase4: managing**

The primary objective of SMEs in making a commitment in an international market is to develop their competences that finally lead to a better overall performance. Firms can acquire, from this commitment not only a number of sales, but also competitive advantage and knowledge which generates success through internationalization (Yip, Biscarri and Monti, 2000).
Managing an alliance is a foundation for a successful alliance. Jiang, Li and Gao (2008) suggested that firms must take a variety of action to manage unstable factors and handle adverse conditions over time. Relationship management and control are key approaches to reduce risk within alliances (Ibid). Furthermore, firms should not overlook either cooperation or competition in an alliance which can harm the company (Das and Teng, 1999), since, without sufficient cooperation; firms can not be operated smoothly. Without attention to competition, firms may lose their competitive advantage. In successful alliances, firms need to continue improving their learning in five key areas: the environment, the tasks, the process of collaboration, partners’ skills and goals (Doz and Hamel, 1998).

Phase 5: evaluating

According to Welch and Luostarinen (1988), the internationalization process which focuses only on outward movement is too narrow in dynamic changes, examining inward movement will broaden the concept. Hence, the evaluating stage is conducted to explain the firm’s performance as the result of previous operation stages. The simplest way to evaluate is to measure foreign sales relative to total sales. The performance can be linked with the internationalization process by competitive advantage acquired in international operations (Yip, Biscarri and Monti (2000). Thus, the process of internationalization may enhance firms’ competencies and improve their performance.

The measurement of alliance success is complicated due to different criteria. For instance, firms often have different objectives in alliance, so the alliance’s performance may vary among them (Das and Teng, 2001). However, alliance performance can be strongly influenced by financial or market-based indicators (Gulati, 1998; Das and Teng, 1999) and its network position in the industry (Gulati, 1998). Furthermore, the achievement of alliance objectives is one measure underlying a number of factors such as government regulation, political risks, rivals and competencies (Jiang, Li and Gao, 2008) and the cost that firms incur should also be considered.

As a result, performance evaluation reflects the collaborative relationship. If evaluated performance is better than expected, a firm will try to maintain and invest more resources to benefit more from the relationship (Doz and Hamel, 1998; Jiang, Li and Gao, 2008). Similarly, higher level of learning and higher expectation firms is willing to make deeper commitments and improve the efficiency of the further relationship. If evaluated performance is worse than expected, a firm may switch the strategic objectives or restructure the alliance forms (see the arrow that turn back to outward movement) or modify the behavior to correct the outcome or sell its stakes or finally cease trading (Jiang, Li and Gao, 2008).
Figure 2.3: The theoretical framework of SMEs internationalization process using strategic alliances

Source: Modified by the author.
3. METHODOLOGY

In this chapter, method section will provide sufficient information about the study approach and strategy. An inductive and qualitative approach is chosen to carry out the research question and reach the purpose of the study. Case study through semi-structure interview is a tool to collect the data. The process of collecting data and measurement for control the quality of the research will be also presented.

3.1 Choice of Research Strategies

3.1.1 Deductive or Inductive Approach

To conduct research, it is crucial to connect theory with empirical data. Theoretical considerations in whether a deductive or an inductive approach is useful to guide and influence the collection and analysis of data (Schutt, 2006; Bryman and Bell, 2007). The process of a deductive approach starts with a theory and then test some of its implications with the data. On the other hand, the process of an inductive approach starts collecting data first and then developing a theory which explains pattern in data (Ibid).

Due to an increasing number of findings in SMEs internationalization process, existing research has limited application. In this study, an inductive approach is needed because the characteristic of the inductive approach is strongly regarded as the generation of theories out of data (Bryman and Bell, 2007). In other words, particular instances from observations are moved to general principles. The inductive strategy of linking data and theory is also associated with a qualitative research approach, which is most useful for hypothesis building and explanation (Ghauri and Gronhaug, 2005).

3.1.2 Qualitative or Quantitative Strategy

Qualitative research studies things in their natural setting and attempt to make sense of various phenomena as interpretive research (Thomas, 2003). It involves the collection of a variety of empirical material. In other words, the qualitative strategy is constructed to put emphasis on words and understanding, and on the generation of theories (Bryman and Bell, 2007). It also focuses on respondent’s and information’s perspectives, which are transformed into a critical theme by a researcher (Ghauri and Gronhaug, 2005; Hesse-Biber and Leavy, 2005). By contrast, quantitative strategy tends to be based on the numerical measurement of specific aspects of phenomena (Thomas, 2003). It is used to seek general descriptions or to test causal hypotheses. Similarly, the quantitative strategy is constructed to emphasize the quantification in the collection data and analysis of data, and is placed on testing theories (Ghauri and Gronhaug, 2005; Bryman and Bell, 2007). According to the research problem and objective in this study,
qualitative research is more appropriate to reveal SMEs’ behavior and to provide details and understanding in its internationalization process by entering strategic alliances (Ghauri and Gronhaug, 2005).

3.2 Choice of Research Design

Research design is related to data collection and analysis of data. Although there are different methods: historical review and analysis, surveys, field experiment and case studies, different designs are suitable for different types of studies (Ghauri and Gronhaug, 2005). In fact, a case study design often favors qualitative methods because it is helpful in the generation of the intensive and detailed examination of a case. In addition, the case study is likely to advance the knowledge and understanding of a given topic. It also helps to identify the criteria for selecting and screening potential respondents to be studied and suggests the relevant variables of interest (Yin, 2003). Despite the small number of samples on the relevant issue, several aspects of the research problem can be analyzed sufficiently in this case (Ghauri and Gronhaug, 2005). Moreover, the case study has considered the abilities for generating the answers to questions “What, Why and How” (Saunders, Lewis and Thornhill, 2007). The case study often involves data collection through multiple sources such as personal interviews and observation as primary data. It also involves data collection through sources such as financial report and operating statement (Ghauri and Gronhaug, 2005).

To consider the case study issues, it is appropriate to use this method in this study. A single case is, therefore, chosen because of two main features: it is a particular case and a unique case. The single case is appropriate when it meets all the objectives necessary to confirm, challenge and extend the theory. Another feature is to provide useful insight (Yin, 1994).

3.3 Case Selection

In a research method, it is important to decide where to conduct it, and who to include in it because it is impossible to study everyone everywhere. The type of sampling is known as convenience, the selection of sample is dependent on who is available and is willing to supply the information needed for the research (Hesse-Biber and Leavy, P2005). This implies accessibility of events, activities or individuals who are significant in the selection procedures. Moreover, the number of cases selected, and the particular case selected are affected by the amount of time and money available (De Vaus, 2001). As the result, a Swedish company was chosen as a case study. The purposeful sampling is also considered to select a representative of Swedish company (Patton, 2002). The selection criteria are based on the purpose of study and the possibility of identifying participants who will have the knowledge to answer the research questions. According to the purpose of this study, an internationalized small and medium-sized company which uses a strategic alliance is chosen as the sample. The selected Swedish company in this study is Anoto Group AB. This company has approximately 110 employees and
has used strategic alliance for entering the international market. Anoto Group AB matches my criteria for this study.

3.4 Data collection

3.4.1 Secondary Data

The common uses and functions of secondary data are to provide the necessary background, to understand the problem situation, to provide information that is useful to gather primary data, to serve as a check for the evaluation of primary data and to provide an insight into the sample selection (Stevens, Wrenn, Sherwood and Ruddick, 2005). Another important, the secondary data should be gathered first because it is generally quicker and cheaper, before moving on to a primary data gathering.

The sources of secondary data which are used in this study are mainly found through the university’s library and website. Halmstad’s library provides such books, articles and relevant literatures. The university website also provides articles through journal collections. The chosen company website presents information about the company, its history, its goals, its conception and vision, its strategy, its organization, its finance and its annual report and so forth.

3.4.2 Primary Data

Primary data are data generated in a research project for a specific purpose or collected from a specific population sample (Stevens, Wrenn, Sherwood and Ruddick, 2005). The primary methods of collecting primary data are communication and observation. Communication includes various direct approaches of asking questions to respondents. In this study, an interview is chosen in order to collect data because this method is useful for a researcher to focus on particular topic and gain information from individuals (Hesse-Biber and Leavy, P2005). It is a kind of conversation between an interviewer and interviewee in which the degree of division and hierarchy is regularly low. Semi-structured interviews were employed because they are useful for asking a set of questions to guide the conversation. Moreover, semi-structured interviews allow interviewees freedom to talk about what is of interest or importance to them (Hesse-Biber and Leavy, P2005). This can lead to a new and unexpected direction for researcher to develop and explore new topics.

Conducting interviews

As the company which fitted the criteria was selected, I asked the company to agree to participate in this research via email. After the company had accepted, the time and the place of the interview were discussed via email as well. The interview was arranged with the key respondent who has a specific knowledge of the international process and
strategic alliances, or other information or experiences that I wanted to know about (Hesse-Biber and Leavy, 2005).

Finally, I went to Anoto Group AB in Lund to interview with Ebba Åsly Fåhraeus, VP Sales and Marketing at Anoto Group AB. She has been working there since 2000, and now she plays an important role in group management. I spent around one hour interview with her. During the conversation, I took notes and recorded by MP4. After that, I sent the finished data to her for checking.

3.5 Criteria of Evaluating Research

It is necessary to establish and assess the quality of research. Reliability and validity are the appropriate criteria for qualitative research (Bryman and Bell, 2007). Reliability refers to the extent of data collection procedure and analysis generating similar interpretations and findings however, and whenever, it is carried out (Franklin and Ballan, 2001). It is related to testing the credibility of results with the various sources. Validity is an important key to effective research which gives the correct answer through observing, identifying, and measuring.

In this study, I was concerned with increasing the reliability and validity of the data collected and its subsequent analysis. There are different ways to enhance the reliability of data and interpretation. For instance, the quality of recording and documenting data has become a central for assessing. A field note for collecting data is used. A confirmation check between interviewer and interviewee also occurred to increase the reliability in results. Moreover, the findings and interpretations are concerned with testing credibility from various sources (Ibid).

To increase validity, I used triangulation for the purpose of achieving confirmation of constructs by multiple methods. In this study, multiple theories and perspective is interpreted as a single set of data. Multiple data such as secondary and primary data are used. Moreover, I had to demonstrate that data collection was conducted to identify and describe the subject accurately (Ibid).
4. EMPIRICAL FINDINGS

In this chapter, empirical findings from collecting data through primary data and secondary data, will be presented. The data of selected company will be shown in five phrases: initiation planning, commitment, managing and performance according to the theoretical framework. It will be helpful for an understanding and analysis.

4.1 Introduction

In order to investigate how SMEs use strategic alliances in their internationalization process, findings were presented which were obtained from both primary data and secondary data. Primary data was collected from the interviews with Ebba Åsly Fåhraeus, VP Sales and Marketing at Anoto Group AB. Secondary data was collected from annual data and relevant information through the company’s website.

4.2 Anoto Group AB in brief

Anoto Group was founded as C-technologies in 1996 because of a technological idea of its founder, Christer Fåhraeus. The following year, after several key mergers and a partnership had been formed, the Anoto Group was established. To date, Anoto Group AB is a world leading technology company in the area of digital pen and paper, which enables the fast and reliable transmission of handwritten text into a digital format [1]. The company operates through global partners which focus on user-friendly forms solutions within different business segments such as healthcare, bank and finance, transport and so forth.

The Anoto Group AB has its head office in Lund, Sweden as well as offices in Boston (USA) and Tokyo (Japan). The group employs approximately 110 people, and most of them are in Lund. The Anoto share has been listed since 2000 and trades on NASDAQ OMX Nordic Small Cap list [2].

4.3 Anoto Group AB using strategic alliances in internationalization process

In 1999, after Anoto initiated the establishment of a global de facto standard for paper-based digital communication, the company started working with more partners. In order to achieve its goal, Anoto required collaboration with world-leading companies. At the same time, the company has developed a strong technology platform and commercializes it through partner companies. During 2006, Anoto adopted a new strategy to focus strongly on forms solutions with local and new partners. In this section, I will focus on the process of Anoto Group AB, and how it uses strategic alliances to achieve its internationalization.
4.3.1 Initiation

- internal factors

According to Ebba, Anoto’s competences are the unique technology and human resources. The core technology is advanced image processing in real time which can enable development of products and services. Anoto continuously develops its competence for the integration of electronic hardware and software by using digital camera technology. Hence, the products; pen and paper are superior to the digital writing tool to share emotion, ideas and thoughts. Handwritten text, sketches and drawings can transferred directly from paper to computer, mobile phone or PDA anywhere in the world. The employees are highly skilled: 90 percent hold university graduates and almost 10 percent hold doctoral degrees. They are professionally competent in their areas.

Due to the size of the company, there is no in-house production, because it is too expensive and the volume is not high enough to run the factory, according to Ebba. The company prefers to use outsourcing through suppliers and sub-contractors for production, because it is beyond the company’s competence.

- external factors

In the digital pens industry, Anoto has three main competitors; Smartquil, Vpen and Crosspad. However, there is a fundamental difference between Anoto and its competitors. Anoto is the only company having developed a technology enabling the use of paper and pen.

Due to the challenges in the IT and telecom sectors, Anoto has managed to establish a significantly stronger foundation for further growth. Moreover, the speedy increase in the number of e-mails and SMS signaled a rapidly expanding market for Anoto in the early years. “When the market is changed, the idea of what the company wants to sell also changed” Ebba said. It influences the company’s business strategy.

- Motivations

“No another way to do it for us, it is impossible to compete alone in the world when you are a small company in Sweden. We need a strong partner; we need market knowledge; we need strong brand-name and we need distribution channels. They are very important.”: Ebba said.

Anoto has used strategic alliances with players in industries such as consumer electronics, mobile telephones and services, operator services and system integration to establish a new technology platform in the global market and commercialize it. Anoto has never sold anything directly but uses partnerships instead. As Ebba told me, the partners have abilities that Anoto does not have. Partners also facilitate the distribution of products and services enabling Anoto functionality. In addition to Ebba, the company has no specific knowledge of what customers want and does not have knowledge of all markets in the world. The only way that the company can go international is by entering into partnership. It is about making the first move.
Furthermore, license fees and profit sharing from partners who offer products, applications and services based on Anoto functionality, they generates the firm, and this is an important part of the company’s revenue.

4.3.2 Planning

In the beginning, Anoto’s statement is to create a global de facto standard for paper-based digital communication. “The company early identified Japan as an interesting market. Due to Anoto’s digital pen and paper technology catching handwriting, it is of course has more value when you have more than a thousand signs that you need to capture than with twenty-eight letters”, Ebba said. The markets selected were Japan, China, United States and Europe respectively. Then, the company went to Kokuyo in Japan, Esselte in Sweden, Mead in US, and to France and UK at the same time, because the company wanted to own the note-taking market. Without partnership no one could enter that market, as Ebba said.

The first business ideal of Anoto was to sell the product to customer. The original idea was note-taking and the company approached all the major note-taking companies in the world as well as the note-taking leaders in each market. Then, the company started to realize that this ideal should be changed due to the changing in services of products and So, Anoto has turned the focus on business-to–business, rather business to customers.

“At that point we first wanted to connect to the important paper players in the world. Then, we did not want to produce the pen by ourselves because we realized that this would mean a lot of investment. So we soon established partnerships with Sony Ericsson, Nokia, Logitech and Maxell”, Ebba said. They have both the necessary and complementary resources for bringing a product to the market. According to Ebba, the pen has no value without paper, so the paper is very important. Also, for mobility, the mobile phone and Bluetooth connection are required so that documents can be sent. This is how the company picked the partner in the first phase.

In the second phase, Ebba told me: “there are a lot of forms in the world into which people are filling information, so we need application developers to develop specific application in different markets and vertical markets that want to use forms.

The strategy of significant agreements can be presented as follows:

Before 2001, Anoto signed an agreement with major companies such as Sony Ericsson and Vodafone. In 2001, Anoto collaborated with Hitachi to develop a strong technology platform and commercialize it. In 2002, Anoto signed an agreement with leading companies in the telecom and PC industries such as Microsoft, Logitech, Nokia and Hitachi Maxell. One year later, Anoto widened its venture in the Japanese market by the establishment of the Anoto de facto standard and platform for the market introduced
through high-value partners. Anoto has reached this goal to establish a commercial agreement with HP.

In 2004, Anoto continued signing significant agreements with world-leading companies, including Dai Nippon Printing in Japan and Leapfrog. At the end of 2004, the number of partners was continuously growing to 250 companies. In 2005, Anoto’s business concept still focused on the establishment with new partner to develop powerful commercial applications based on its technology. Moreover, the company was also moving forward to sign significant partnership agreements with world-leading companies.

In 2006, Anoto adopted a new strategy to facilitate and shorten the sale processes for the partners. Furthermore, the company used a partner as driven business model. The partners were in a wide range of sectors such as health care, transport, sales and services, education and logistic.

In 2007, Anoto signed an agreement with a new U.S. pen partner in Oakland, California and Livescribe in U.S. At the end of the year, Anoto had approximately 300 partners, especially in Europe, the United States and Japan. Despite an increasing number of partners, the company was still looking further partners, especially in banking, finance and insurance.

During 2008, Anoto made significant partnership agreements to focus on delivering complete products that meet customer needs. Moreover, the company is looking for new partners, which are market-leading companies, and are able to identify new applications for Anoto technology such as in the game and entertainment product area.

4.3.3 Commitment

Anoto has signed agreement with world leading companies in various strategic involvements since 1999. The first leading company which had an agreement with Anoto was Sony Ericsson. Anoto allowed Sony Ericsson to develop and market the pens under its own name. For Vodafone, Anoto offered license agreement for service sales that provide Vodafone’s customers the ability to send handwritten and drawn e-mails, faxes and SMS, directly from paper.

In 2001, Anoto and Hitachi initiated collaboration for joint business opportunities in order to create solution technology to their customers. As well as that, Matsushita entered into an agreement with Anoto for the purpose of evaluating joint business opportunities in order to develop a new service for the Japanese market.

In 2002, Hitachi invested SEK 15 million in Anoto for development of the new infrastructure product. Hitachi Maxell signed a license agreement with Anoto to
manufacture and market digital pens enabling Anoto functionality. Logitech and Nokia also signed a license agreement to develop digital pens enabling Anoto functionality. Moreover, Anoto entered into a strategic alliance with Microsoft to build a new generation of pen based digital services.

In 2003, Logitech and Hitachi Maxell invested SEK 144 million in Anoto. As a result, Logitech held a stake 10.2 percent while Hitachi Maxell held stake of 2 percent. During that year, Anoto had an important agreement with HP to create a new service enabling Anoto functionality.

In 2004, Anoto signed an agreement with Leapfrog for the development of educational products. Dai Nippon Printing has an assignment to develop and market interactive solutions in Japan. One year later, Anoto announced a technology licensing partnership with LeapFrog, jointly developing a new platform leveraging Anoto’s digital pen technology.

In 2006 and 2007, Anoto announced a partnership with OKI, printing solution for Anoto pattern. Anoto provided the right to Liverscribe for using Anoto technology for the development of consumer products.

In middle of 2008, Anoto formed a joint venture with Hitachi Maxell after they had been working closely for six years. The new joint venture, Anoto-Maxell K.K. had to handle sales and distribution of digital pens on the Japanese market and selected market in Asia. Anoto-Maxell K.K. has owned 19.9 % by Hitachi Maxell and 80.1 % by Anoto. The employees were transferred from both companies [3]. This case was unusual and it was an exception to the rules. Normally, Anoto makes a partnership agreement that provides the rights for partners to develop and sell the products. In this case, it is specific because they have a long relationship and they have also worked closely. Moreover, the company wanted to control the pen market in Japan more closely as Ebba explained.

According to Ebba, the commitment level depends on the kind of partnership. The kind of deep relationship is when the companies develop a product together, like Leapfrog. They have approved business plans together and developed projects together many times. This kind of partnership consists of Anoto’s strategic partner and Anoto’s technology partner. Another kind of partnership is partners who just take Anoto’s tools and platform and then make application and sell to their customers. This kind of partnership consists of four levels; Anoto Bronze partner, Anoto silver partner, Anoto gold partner and Anoto platinum partner. The requirements of commitment level are shown below.
Figure 4.1: The requirement of level commitment for Anoto’s partner

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Bronze</th>
<th>Silver</th>
<th>Gold</th>
<th>Platinum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner Program Agreement</td>
<td>-</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Annual Partner Program fee</td>
<td>1000 Euro</td>
<td>1000 Euro</td>
<td>1000 Euro</td>
<td>1000 Euro</td>
</tr>
<tr>
<td>Deployed installations</td>
<td>-</td>
<td>-</td>
<td>1 installation proved by an application story</td>
<td>&gt; 3,500 pens</td>
</tr>
<tr>
<td>Annual Revenue to Anoto</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15,000 Euro</td>
</tr>
<tr>
<td>Running forecast (Quarterly basis)</td>
<td>-</td>
<td>-</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Case study on current installations</td>
<td>-</td>
<td>-</td>
<td>(at least 1 case study)</td>
<td>(at least 2 case studies)</td>
</tr>
<tr>
<td>Supply ROI and TCO for installations</td>
<td>-</td>
<td>-</td>
<td>(at least 1 case study)</td>
<td>(at least 2 installations)</td>
</tr>
<tr>
<td>Press release coordination</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Share Sales &amp; Marketing Plan</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Commitment to Anoto Branding Req.</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>End customer quality &amp; satisfaction audit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Anoto Partner Program

4.3.4 Managing

According to the different levels of partnership, Anoto has made an effort to work closely with deep relationship partners to create a global standard for paper-based digital communication. Also, Anoto has focused on further development of the company’s technology platform to facilitate its partners making solutions easier to use and less expensive.

As Ebba said; “When we work with large leading companies, we always invest a lot of time that is mostly in technological development projects and we use many resources in this even though we do not have a large engineering staff. In contrast, small companies use little resources because we already develop platform for them. So, we can do a limited number of large projects that we employ our resources in and that we believe have a saleable product”.

Anoto aims to offer support that will make both kinds of partners have stronger standard and maintain a good relationship. To achieve the growth and satisfy a range of customers through partners, Anoto provides a comprehensive tool and programs enabling partners to rapidly develop, market, sell and support solutions based on Anoto’s technology as represented in the figure 4.2. Anoto’s partner program shows a lot of communications between the company and its partners. This is a way that Anoto controls and maintains the relationship as Ebba had said. The company provides a partner newsletter every three weeks, supports event markets, and arranges conferences every year. The partners come from all over the world to attend, in which Anoto will
talk about strategy, roadmaps and the partners also bring customers to show the successful case and training techniques. Having a lot of meetings is useful for the companies to work together; therefore, knowledge and skill are transferred to each other.

**Figure 4.2: The benefits and activities providing to partners**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Partner Membership Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bronze</td>
</tr>
<tr>
<td>Key Account Manager</td>
<td>-</td>
</tr>
<tr>
<td>Pre-sales project technical support</td>
<td>-</td>
</tr>
<tr>
<td>Lead generation</td>
<td>-</td>
</tr>
<tr>
<td>Access to Partner web</td>
<td>-</td>
</tr>
<tr>
<td>Listing on Anoto websites</td>
<td>Partner site</td>
</tr>
<tr>
<td>Branding as Anoto Partner</td>
<td>Anoto Bronze, Partner Logo</td>
</tr>
<tr>
<td>Possibility for collaboration</td>
<td>-</td>
</tr>
<tr>
<td>Information service</td>
<td>-</td>
</tr>
<tr>
<td>Marketing tools</td>
<td>-</td>
</tr>
<tr>
<td>Case stories</td>
<td>-</td>
</tr>
<tr>
<td>Possibility to submit content</td>
<td>-</td>
</tr>
<tr>
<td>Participation in Anoto Partner Events</td>
<td>-</td>
</tr>
<tr>
<td>Speaking opportunity at Anoto Events</td>
<td>-</td>
</tr>
<tr>
<td>Co-exhibiting</td>
<td>-</td>
</tr>
<tr>
<td>Co-marketing fund</td>
<td>-</td>
</tr>
<tr>
<td>Joint PR activities</td>
<td>-</td>
</tr>
<tr>
<td>Access to pre-launch product info</td>
<td>-</td>
</tr>
<tr>
<td>Beta version test</td>
<td>-</td>
</tr>
<tr>
<td>Technical workshops</td>
<td>-</td>
</tr>
</tbody>
</table>

*Note: Anoto technology partners have the right to the same benefits as a gold partner while Anoto’s strategic partners have the same benefits as a platinum partner and additional benefits are not explained in the program.*

*Source: Anoto Partner Program*

**4.3.5 Performance**

After Anoto had initiated collaboration with world’s leading companies, in 2002, Sony Ericsson introduced the first digital pen enabling Anoto functionality, connected to mobile in Sweden, Denmark, UK and Italy. As well as Logitech, the first digital pen for PC was introduced in United States, Germany, Sweden and Austria. Revenue was
primarily generated through license fee and partnership development projects and sharing profits from services. Significant revenue came from Hitachi, Logitech, Sony Ericsson and Vodafone.

In 2003, Nokia and Hitachi Maxell launched the digital pen enabling Anoto functionality. Hitachi provided a service solution to other companies. A major part of the income was related to product development from partners. Anoto saw an increasing number of commercial customers from partners’ marketing and sales effort in 2004. Partners like Logitech, Nokia, DNP and Hitachi have implemented major installations at their customers. Moreover, the company’s products and services are marketed and sold by a broad network of partners.

In 2005, Leapfrog launched the FLY Pentop Computer enabling Anoto functionality. Furthermore, Anoto got the valuable order from Dai Nippon around SEK 36.5 million. Anoto’s income was still increasing in 2006, 2007 and 2008 because partners could generate greater sales. Anoto got many license fees and royalties from products through both local and world’s leading partners.

**Figure 4.3: Anoto’s net sales between 2001 to 2008**

![Net sales graph](image)

*Source: Anoto’s annual report*

A commercial launch of Anoto functionality in international markets is the key to a potentially significant source of the company revenue. The company income is primarily generated by the sale of shares in royalty and license from partners, as presented in figure 4.3. According to Ebba, there are differences between large leading companies and small or local companies. The local companies typically sell custom-made forms processing application to, for example, the police, doctors and home care. The products are very specific and integrated as customized products which have less volume. On the other hand, the large leading companies sell packaged products as standardized products with larger volume than some mentioned above.
However, strategy objective and market sales are important for Anoto to evaluate the level of commitment. As Ebba said: “how they communicate, how they cooperate in marketing projects with us. When they give us the correct credit and mentioning in their market communication, this is an important part of our willingness to invest resources and marketing support in them”. In addition, the level of commitment can increase when the partner moves up and improves its sales. They can become bronze, gold and platinum partners. When they commit more, they get much more support.
5. ANALYSIS

Empirical finding will be analyzed through theoretical framework in order to investigate using strategic alliances of SMEs in the internalization process of the selected company. The process will be examined and analyzed step-by-step of all five phrases.

5.1 Case analysis

To investigate how Small and Medium-sized enterprise (SME) using strategic alliances for the internationalization process, Anoto Group AB as a case study will be analyzed throughout the analytical model presented in theoretical framework. The model consists of five phases: initiation, planning, commitment, managing and performance. The critical analysis will be examined in each phase.

5.2 Anoto Group AB using strategic alliances to internationalization process

5.2.1 Initiation

Anoto’s core competence is advanced image processing in real time. This technology platform enables the development of products and services. Moreover, Anoto has highly skilled employees, many holding university degrees and doctor degrees, and are professional in every area. Moreover, the opportunity in the market is such that there was a rapid increase in number of services in e-mails and SMS during 2000. The advantage of working with alliances has motivated the company expanding abroad by using strategic alliances as a global strategy (figure5.1).

Due to the size of the company, Anoto has limited resources and does not have a marketing knowledge of every market. It is difficult for the company to do it alone, even though the company has a core technology. Yoshino and Rangan (1995) and Ireland, Hitt and Vaidyanath (2002) suggested that when the companies can not work alone, they have to think in term of working with others.

Anoto has decided to create a global de facto standard for digital paper through partners. Using strategic alliances Anoto can do what the company thinks is impossible. First, the company seeks the crucial resource from its partners and leverages its technical resources for the establishment a global de facto standard (Beamish, 1987; Kogut, 1988; Barringer and Harrison, 2000). Second, the company pursues expansion abroad by strategic alliances, which increases the market power and provides market solutions to the company (Beamish and Bank, 1987; Barringer and Harrison, 2000). Strategic alliances can help Anoto with potentially adverse selection and moral hazard problems when attempting to adapt technological capability for market access (Leiblein and Reuer, 2004).
As discussed, internal factors and external factors influence strongly to Anoto’s decision and strategy for going internationally (Boter and Holmquist, 1996). Entering into strategic alliances is important for Anoto to gain competitive advantages. The resources are integrated between the company and its partners. Then, the company increases its capabilities through absorbing skill and knowledge from partners. This refers to value creation from strategic alliances. These advantages affect the company’s performance in terms of sales growth and revenue, thanks to the establishment of commercial cooperation with partners for successful market penetration.

5.2.2 Planning

The partner selection is an important step that has implication for skills and resources, the operations and procedures. Hence, Anoto has tried to find alliances that have resources and strategies that fit to each other (Das and Teng, 1999) as shown in figure 5.1. So, Anoto acquired more knowledge and information by considering the right partner.

The company vision is to create a global standard. Hence, in the beginning of Anoto’s internationalization, the company went to the large leader companies related to pen and paper industries in selected markets such as Japan, US and Europe. Geography is one criterion for Anoto in selecting alliances in order to access markets as well as priority strategy (Underhill, 1996). Anoto recognized that the business concept should be changed from business-to-customer to business-to-business. The company, therefore, uses partners to produce and commercialize instead, due to less marketing knowledge. Moreover, the company does not want to produce the pen by itself (i.e. own the production facilities).

As a result, Anoto has established the global standard through a wide range of industries like telecommunication, IT and operators. The main reason is their reputation is that it is reliable, accountable and trustworthy (Glaister, Husan and Buckley, 2004). Standardized product can be produced through the world’s leading companies. By contrast, using small and local companies, commercialized products can penetrate to various customers. Business strategy strongly affects partner selection.

Consideration of resource complementarities is so critical for Anoto to initiate its mission that the company can not do it alone (Glaister, Husan and Buckley, 2004; Jiang, Li and Gao, 2008). Hence, the company pools its resources and capabilities with alliances in order to increase the benefit of co-operation. For example, Anoto recognized that complementarities resources between Sony Ericson and its company would be high in term of transmission of hand written texts or sending email through mobile.
As analyzed, the critical criteria for Anoto to select partners are business strategy and resources, as some examples show in table 5.1

Table 5.1: Strategy and resource fit to Anoto

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Partners</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>- B2C</td>
<td>Kokuyo and Pilot (Japan), Mead (US), Esselte (Europe)</td>
<td>Pen and paper</td>
</tr>
<tr>
<td>- B2B (standardized)</td>
<td>Sony Ericsson, Nokia, Logitech, Microsoft</td>
<td>Telecommunications</td>
</tr>
<tr>
<td></td>
<td>Matsushita, Hitachi, Maxell</td>
<td>IT</td>
</tr>
<tr>
<td>- B2B (customized)</td>
<td>Sysnet (UK), Destiny Wireless (UK)</td>
<td>Electronics</td>
</tr>
<tr>
<td></td>
<td>Telecom Italia Mobile (Italia), ChiaHui (Taiwan), Milcom(Denmark)</td>
<td>IT</td>
</tr>
<tr>
<td></td>
<td>Dai Nippon Printing</td>
<td>Telecommunication</td>
</tr>
<tr>
<td></td>
<td>Nittsu (Japan)</td>
<td>Printing</td>
</tr>
<tr>
<td></td>
<td>Order-Made Souyaku</td>
<td>Healthcare</td>
</tr>
</tbody>
</table>

Source: Analysis by the author.

5.2.3 Commitment

Due to Anoto’s rule, Anoto has formed usual alliances with its partnership agreements. The majority agreement provides the rights of collaboration scope for partners. The partner scope is important for task and functional interaction between companies (Jiang, Li and Gao, 2008). The contract arrangement refers to the type of non-equity such as joint product or service enabling Anoto functionality, joint marketing and joint manufacturing. Forming Anoto’s partners in term of non-equity made the company flexible enough to involve with partners in various ways, depending on its objectives (Das and Teng, 1999). However, this structure is loose. For example, in the case of Sony Ericsson and Vodafone, it was terminated easily when the objectives and interests were different.

Although Anoto usually sets up partnerships formed with majority agreement, the company divides the level of commitment into four levels; bronze, silver, gold and platinum commitment. Partners can move forward to higher involvement after fulfilling the requirements.
On the other hand, there was one exception to the rule. Anoto has entered into a joint venture with Maxell in order to control sales in Japan markets and have ownership. This type of relationship makes more trust and confidence (Jiang, Li and Gao, 2008). However, it leads to higher costs for the company to operate.

According to the strategic alliances in inter-firm link of Yoshino and Rangan (1995), Anoto structuring form with alliances can be divided as presented in table 5.2. The major scope of commitment with world-leading companies is marketing, production and technology, respectively. In only one exceptional, Anoto has used a joint venture with Hitachi Maxell.

Table 5.2: The significant structural form between Anoto and large leading firms

<table>
<thead>
<tr>
<th>Alliances</th>
<th>Contractual agreement (Non-equity)</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Joint technology</td>
<td>Joint marketing</td>
</tr>
<tr>
<td>Sony Ericsson</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Hitachi*</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Microsoft</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Logitech*</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Nokia</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Hitachi Maxell*</td>
<td>(⁄)</td>
<td>(⁄)</td>
</tr>
<tr>
<td>Leapfrog*</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>HP</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Dai Nippon*</td>
<td>/</td>
<td>/</td>
</tr>
</tbody>
</table>

Note: * still committed

Source: Analysis by the author.

The most structural form between partners is a contractual agreement, because Anoto is flexible enough to enter with partners in different ways, based on its objectives. By contrast, commitment in terms of equity is only one partner. The company could be closer to the market, but the operating cost is high (figure 5.1).

5.2.4 Managing

Although Anoto has different level of partners’ relationship, the company continuously maintains and increases this relationship through developing technology platforms and providing a better benefit for partners. Technology platforms provide a better solution to partners, whereas Anoto’s partners benefits can decrease the adverse conditions and risk between the company and alliances (Das and Teng, 1999; Jiang, Li and Gao, 2008).
Anoto’s partner program seems to be a mechanism of the company to manage and control partners. The program shows the linkage of communications in various styles between the company and partners. Technical support, product, marketing and sales information is provided to partners. Especially, participation activities open the chance for the company and partners to learn and discuss. Communication and working together are the bases of learning process. Feedback from partners in the meeting, conference, case study and so forth are important for the learning processes in the company. When Anoto improves learning in the environment, the tasks, collaboration, skills and goals, the company enhances its competence through value creation (Doz and Hamek, 1998). In addition to meetings, the company can implement strategic objectives and information, as well as a business plan to its partners, in order to clarify cooperation in functions and activities.

Moreover, Anoto’s partner program presents the level of relationship. When the partners make more commitment, it leads to mutual trust between the companies. Anoto can feel more confidence, lower conflict and higher satisfaction (Jiang, Li and Gao, 2008). The company, therefore, provides more benefits to tie the relationship.

As a consequence, managing partners is crucial for Anoto to enhance its competence and accomplish it goals through collaboration with partners. This is the foundation of success in terms of partnership and the performance of the firm’s internationalization (Jiang, Li and Gao, 2008), (see the arrow continue from outward movement to inward movement in figure 5.1)

5.2.5 Performance

To cooperate with world’s leading companies, the company is expected to create a global de facto standard for digital paper and to commercialize it. By contrast, Anoto uses small and local companies to penetrate markets around the world because they know and understand customers’ need. They can integrate vertical suppliers and reach many kinds of customer. The company has expected the high volume sales for these companies without increasing cost. One measure for evaluation the company’s performance is the objectives that are met between the company and a partner (Das and Teng, 2001; Jiang, Li and Gao, 2008).

Despite of the different objectives, all partners generate sales to Anoto. The level of commitment will be considered by commercial success, experience and expertise. The foundation requirement is the amount of sales. Then, the partners who fulfill the requirement set can move forward to another level. This implies Anoto’s performance can be evaluated by financial indicators (Gulati, 1998; Das and Teng, 1999) and the collaboration area.
The evaluation of Anoto’s performance in term of revenue, collaboration and objective influences the level of commitment with partners (see the arrow that turn back to outward movement in figure 5.1) as Welch and Luostarinen (1988) suggested the internationalization process is not only outward movement, but also link to inward movement. When a partner fulfills Anoto’s requirements, the company will make a tighter commitment and provide more benefits (Doz and Hamel, 1998; Jiang, Li and Gao, 2008).
Figure 5.1 Using strategic alliances of Anoto Group AB to internationalization process

Source: Analysis by the author.
6. CONCLUSION AND DISCUSSION

In this chapter, the conclusion will be summarized from the finding analysis. The theoretical and managerial implementation will also be discussed. These then lead to the suggestion for a further research.

6.1 Conclusion and discussion

The Internationalization process has been studied widely since the conceptualization of Uppsala model. Internationalization process of small and medium-sized enterprises is one perspective that has attracted the researchers from looking at large companies. However, an increasing amount of research in Internationalization of SMEs has important limitations. Exporting may not be a suitable entry mode for a small firm. Nowadays, strategic alliances play an important role for firms to gain competitive advantage.

Hence, in this study, I would like to investigate and describe how SMEs are using strategic alliances to develop the international business. This evidence suggests that internal and external factors influence significantly a small firms’ decision to go abroad. The small firm chooses strategic alliance as market entry mode because this strategy can enhance a firm’s capacities and gain for them a competitive advantage in international operation. The small firm can chose the partner and makes a commitment with that partner who can help firm spread globally. In order to be successful in international markets the small firm need to mange alliances and evaluate them in accordance with firm’s objectives.

6.1.1 Theoretical contributions

Due to the characteristics of small firms, my finding supports the idea that stage theory of internationalization is not appropriate to describe the internationalization process of SMEs (Bell, 1995; Li, Li and Dalgic, 2004; Hollenson, 2007. An understanding of SMEs internationalization process is necessary to consider all aspects.

The evidence reveals that the company’s decision to go abroad is affected not only lack of market knowledge as Uppsala model proposed, but internal factors and environmental factors are also strong factors influencing firm’s strategy. This implies that the stage model overlooks the planning phase, firm’s strategy and environment factors. However, some aspects such as knowledge and commitment are still critical factors.
Moreover, the company initiated internationalization via strategic alliances due the advantage of value creation. Using strategic alliances can enhance a firm’s capabilities and leverage its resources, including learning. This refers to competitive advantage that the company gains. The company can create a global standard for its technology and become a world leader in the unique technology in its industry. This spreads around the world in a short time and the revenue is increasing through collaboration with partners. This evidence shows that the small company initiates operation in international markets via appropriate strategy. The small firm did not follow the step to go international by exporting as the Uppsala model proposed. The small firm today in high competition in the world and can go international via various market entry modes such as strategic alliances.

Previous research, the studies have focused only the company going abroad and making a commitment with the market as outward movement. The researchers overlook the continuous process, which is important for the company to be successful in internationalization process. In this study, I also described the inward movement as presented in terms of managing performance. These patterns influence the company performance and decision as to level of commitment in international markets.

6.1.2 Managerial implications

Despite of the importance of strategic alliances, making alliances work is difficult for firm. The company which can not handle this problem will face the major problem. Hence, managing alliances is critical for the company to successfully work with partners. Managing alliances also affect directly the result of internationalization process of SMEs.

When the company decides to enter strategic alliances, the first step that the company should be aware is to select the right partner. The important criteria to choose are strategy match, supplementary resources, reputation and geographical area. Then, the company can set up the structural form with the partner. The contractual arrangement is the usual choice for a small firm. The company has more flexibility in various types of involvement. In contrast, rigidity collaboration in terms of joint venture is too big for the small firm to handle. However, the company needs to talk with the partner about the scope for working together.

After the small company had committed with the partners, it must operate and deal with the risks that may occur when working with the partners. Moreover, the company must control and maintain the relationship through communications and activities. This process not only provides a better relationship, but also leads to a learning process which skills and knowledge are transferred to each other. Mature trust will increase, that can decrease conflict and generate a greater cooperation. The result of managing
partners will influence to the company’s performance in term of accomplishing objectives or in terms of revenue.

To be successful by using strategic alliance in the internationalization process, the company must be aware since the initiation step, and continuously manage partners in each step in order to gain a better performance. This is important for a firm to survive and move forward in globalization.

6.2 Limitation and further research

In this study, there are several limitations including time and study scope. According to a complex phenomenon of Internationalization process, further research should continue extension and address different aspects.

1) This study focuses only on one small company in the digital pen and paper industry. The study in different kind of industry may have a different outcome.
2) This study used only one case study. Using multiple cases or a cross section may give more understanding or interesting findings.
3) A strategic alliance is one choice of the market entry modes. There are many different market entry modes such as subsidiary, franchising, acquisition and merger. These may explain internationalization of small firms from different perspectives.
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1 http://www.anoto.com/history.aspx (viewed 2008-04-06)
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Interview:

Ebba Åsly Fåhraeus, VP Sales Marketing Forms at Anoto Group AB. Conducted on 8th, May, 2008.
Appendix 1: Semi-structured interview guide

The following questions will be used as a guide to interview respondent in order to direct the conversation in the scope of this study.

**Question A: Company and interviewee information**
- Could you tell me briefly about your company, please?
  - what product?, what industry?, when was it founded?, how many employees?
- What is your position and responsibility in this company?

**Question B: Internationalization process**
- **Initiation**
  1. What are your company’s strengths and weaknesses?
  2. When did you enter firstly in international markets?
  3. Which market entry mode and which market?
  4. What is your company’s objective to use strategic alliance?
  5. Do you think the environment partly effect your company decision?

- **Planning**
  4. What do you think about your company’s information and knowledge in foreign market?
  5. How does your company prepare before partner selection?
  6. What are the criteria for choosing partner?
  7. What is the most attractive for your company decision?
  8. How do you pick a partner?
  9. Do you have different criteria between partners?

- **Commitment**
  10. What is your scope to commit with the partner?
  11. What is the structural form does your company set up with the partner?
  12. Why does your company set up in this form?
  13. Do you have level of commitment?

- **Managing**
  14. How does your company handle the problem with partners?
  15. How does your company maintain the relationship with partner?
  16. What is your tool to manage yourself and partner to work together?
  17. Have you learned anything from your partner and improve yourself?

- **Evaluating**
  18. Do you think that your company achieves your objective through partners?
  19. Do you think that your partners mostly boost your company’s sales?
20. What is your company satisfy and dissatisfy in commitment situation?
20. Do they influence the level of involvement with your partners?

Question C: General question
- How many international alliances do you have now?
- What are the key factors to internationalize successfully through strategic alliance?
- What is the future plan to sustain and grow in international markets?