A Systematic Analysis of the Factors That Drives SMEs to Internationalisation and the Paths Followed By these Firms: An Exploratory Study of Four Highly Technological Firms in Sweden

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Abstract

Globalisation is radically reshaping the business environment for small and medium sized Enterprises (SMEs). In order to cope with increased competition and business opportunities in globalised markets, SMEs may opt to strengthen their innovative capabilities and to internationalise their business activities (Rammer and Schmiele, 2008, p.3). In this paper, I investigate the determinants that drive highly technological SMEs in Umeå (Sweden) to other markets abroad and the paths followed by these SMEs. The choice of highly technological SMEs (i.e. SMEs with innovative solutions) is mainly due to the fact that they internationalised at a fast pace and often bypass the traditional methods of internationalisation proposed by the Uppsala model of internationalisation. The Uppsala model of internationalisation was used as a reference point where similarities and discrepancies between findings was analysed. In addition to this, a general analysis on how managerial internationalisation strategies are drawn was carefully outlined. Core focus is placed on the importance of resource evaluation, proper entry modes, networking and the inclusion of de-internationalisation as a contingency plan in case the market becomes unresponsive due to rise in cost or high competitive pressures.

By carrying out a qualitative research and a cross-sectional analysis of some four firms operating in the highly technological sector of the Swedish economy, I obtained findings that; Swedish SMEs do not seem to be pushed to internationalisation by increased competition (such as threat of market position through new entrants or a fierce price competition), but rather go abroad with innovative activities when they have a niche market position, i.e. a low number of competitors and a patent-based technology advantage. Concerning the paths followed by these SMEs to international markets, I outlined that the starting point of SMEs is to carry out an evaluation of their resources(physical, human and financial). Careful evaluation of these resources will enable managers detect if the company can cope with foreign expansion. With this information, they can seek for resources that are not internally possess by the company through establishing networks with distributors, firms, suppliers and their customers. With this network, the firm can obtain both market specific and general knowledge of the foreign market. With all this information at hand, the entry mode must be considered. It is of great importance because the cost and risk involve in foreign markets are mostly associated with the chosen entry mode. Due to the high risk involves when local firms are expanding international, I strongly advice managers on setting up a threshold where they can withdraw if the value of the firm begins to drop. However, I urge them to be careful not to withdraw either prematurely or too late. Therefore, I conclude that though international expansion can help SMEs overcome resource constraints, they should however be careful on how they internationalised by following the paths I outlined.

Keywords; Internationalisation, Networking, Resourced Based Perspectives, International Entry Mode, SMEs, De-internationalisation
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**Definition of Keywords**

**Internationalisation:** Internationalisation is a process by which firms both increase their awareness of the direct and indirect influence of international transactions of their future and establish and conduct transactions with other countries. Beamish (1990:77)

**SMEs:** This is a category of micro, small and medium-sized enterprises (SMEs) made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. European Commission (2005)

**Networks:** Networks are sets of two or more connected exchange relationships. They are basically characterised by three elements: actors, activities and resources. Networks are not concerned simply with interdependence in a relationship between two actors, but also with other interdependent relationships connected to these actors. Axelsson (1992), Cook and Emerson (1978)

**Resource Based Perspectives:** The resource base perspective of internationalisation argues that the major decisions (e.g. on country market choice, market servicing mode, product-market strategies) are based on a total consideration of all available resources and capabilities of the firm as well as environmental realities. Bell et al (1998)

**International Entry Mode:** mode of entry into an international market is the channel which the organization employs to gain entry to a new international market. Such entry modes could be: Internet, Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture and International Sales Subsidiaries.

**De-internationalisation:** According to Benito, de-internationalisation is a voluntary or forced action that reduces a company’s engagement in or exposure to current cross-border activities. Benito and Welch (1997, p.9)
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Chapter One

1.0 Introduction

Small and Medium sized enterprises are non-subsidiary, independent firms which employ less than a given number of employees. According to the European Union facts, medium sized enterprises should employ less than 250 employees while small enterprises should employ less than 50 employees. In addition to this, they must have an annual turnover of EUR 40 million or less and a balance sheet total not exceeding 27 million EuR. The role of SMEs has been significantly felt around the world in general and OECD countries in particular as they help in fostering economic development by providing jobs to citizens (Over 95% of firms in OECD region are SMEs which account for 60-70% of employment in most countries). The importance of SMEs has also increase due to the fact that large firms downsize and outsource more functions. Despite the growing importance of these firms, resource constraint makes it impossible for most of them to conduct Research and Development (R&D). However, they have sought innovativeness through the creation or re-engineering of products or services to meet new market demands, introducing new organizational approaches to enhance productivity or developing new techniques to enhance sales (www.oecd.org).

In Sweden (member of the OECD region), the situation is quite similar. More than 99% of enterprises in this country are SMEs i.e having fewer than 250 employees. In this country, SMEs account for 57% of the total turnover while their share of the total value-added in this economy is 58%. In the investment sector, SMEs account for 66% of net investments. Hence Swedish SMEs help in providing jobs for its citizens and in the economic development of the country (SME and Entrepreneurship Outlook, OECD report, 2005).

Despite the very significant role played by SMEs, significant market pressures such as globalization, increase in technological advancements, deregulation of markets, competition, political instability etc. have drastically change the business climate of these firms. This has made globalization a nightmare to these firms who barely struggle to survive in this turbulent economy. However, the benefits of globalisation are enjoyed by large firms due to economies of scale and their highly technological knowhow. The fact that large firms are not resource constraint and have a large capital base gives them an upper hand in the market. Due to this, they have remained the major market players for years leaving most SMEs at bay. These resource constraints and other market pressures put SMEs in a very critical position due to their inability to face competition with these multinational firms. In order for SMEs to respond to such changes, they have become more innovative and have sought international expansion as a means to improve on their strategies. In addition to providing more value to these SMEs, international expansion will help them in enlarging their knowledge base through the use of outsourced knowledge, technology and skills from other locations than their home markets. (Gunasekaran et al, 2011; Rammer and Schiemelie, 2008). Previously, the concept of internationalisation was often overlooked by management of SMEs who considered it to be a journey in which only large firms could embark in. Nowadays, the emergence of IT has serve as an eye opener to management of SMEs in the sense that it has brought to light various ways in which businesses can be conducted. Due to this increase awareness and technological advancements, SMEs are presently reaping the benefits of globalization.
Many scholars have defined the concept of internationalisation in several ways. However, the most common element in most of the definitions was the concept of firms engaging in cross border activities. The definition of Calof and Beamish (1995: p.116) “defines internationalisation as a process of adapting firms operations (strategy, structure, research etc.) to international environment”. Though this concept has been define in different ways, there is no doubt that internationalisation is very important for firm’s growth. It is due to this importance that it has been largely researched on by different scholars. Over the years, there have been significant contributions from scholars about internationalisation of SMEs. Most of them have looked at internationalisation of these firms in several dimensions. Some studied how SMEs can overcome resource constraints through internationalisation (Hessels, 2008), others have reviewed the impact of networking on internationalisation (Rossiter, 2003; Mort, 2005) etc. A similar research was done by Rammer and Schmiele who investigated the factors that propel SMEs from Germany to engage in innovation activities abroad. Though this study was carefully carried out, it cannot be generalized because it is based on a specific country survey.

My thesis is base on the paths taking by highly technological small and medium size enterprises (HTSMES) in Sweden towards internationalisation, it will be one of its kinds carried out in this country. The lack of a suitable international framework for SMEs in general and HTSMES in particular serves as a motivating factor of carrying out a research of this kind. My focus on HTSMES is because statistics have proven that, the HTSMES have escaped the traditional methods of internationalisation as proposed by the stage models (Mc Kinsey and Co, 1993; Bell, 1995). Highly technological firms are quite emerging in our society today with very innovative solutions. Because their solutions are quite innovative, they always aimed for international expansion at a very early period after inception. Their innovativeness helps in reducing the pressures of globalization (competition, technological advancements, changes in the business environment etc). By looking at the great potentials embedded in these firms, it is worthwhile outlining a safe path to international markets which they can rely on. By doing so, the percentage of SMEs who failed in international markets will decline.

1.1 Problem Statement

Nowadays the business environment is dynamic where by, competition has been highlighted to be the main factor behind market uncertainty. Because of great uncertainty in the market, most firms think that expanding internationally will help in reducing this risk. Over the years, there has been more focus on the internationalisation of multinational companies because the phenomenon of internationalisation was overlooked by most researchers. Also, internationalisation was viewed as a very tough process for firms that SMEs could not withstand. However, from 1980, there has been a significant rise in research on the internationalisation of SMEs (Fernander and Nieto, 2006; Rossiler, 2003; Dougall and Oviatt, 2000). Most researchers have studied the internationalisation process of SMEs along many dimensions while mentioning the stage model as a point of reference. A particular interest to most of the researchers has been the impact on networks on the internationalisation of SMEs (Zhou et al, 2007; Rossiler, 2003). These researchers explore that due to research based constraints such as lack of human capital, financial resources, information about foreign markets etc. an entrepreneur must strive to develop networks.
with foreign partners when seeking international expansion. These networks will give them a thorough knowledge of the foreign market and help them obtain resources that could not have been available if the firms operated alone. Of particular concern is the fact that most of these researches fail to incorporate the consequences on the firm when they indulge in to wrong networks. Could it be long term or short term, could it lead to withdrawal of the firm from these foreign markets or could it result to the complete failure of these firms in both their local and foreign markets?

Some other researchers explore the resource based perspective as a starting point of internationalisation of SMEs. For example Barney (1991, p.99) highlighted four important variables for a firm to achieve competitive advantage. According to him, resources that are valuable, rare, inimitable and non-substitutable allow the firm to develop and maintain competitive advantages. Several studies have suggested that internal resource advantages can be developed in certain ways. The greatest way is the international orientation of the entrepreneur/management team plus the resources they are prepared to invest (Reuber and Fisher, 1997; Francis and Collins-Dodd, 1999). These researchers extended the fact that, the internationalisation of SMEs is mostly influenced by the personal intuition of the Manager/entrepreneur. Because these firms are small, it was found out that most SMEs that go international were influenced by their entrepreneur’s. Though these researchers succeeded to bring out a core point, they fail to take in to consideration the fact that internationalisation is a cause-effect relationship. SMEs should not go international simply because they possess these resources. One common gap in most of these researches is the fact that they failed to access the sustainable advantage of these resources. Will these resources be eminent enough to keep these SMEs in these competitive markets with large multinational corporations (MNCs) remain the million dollar questions researchers have not answered.

However, some researchers like (Buckley and Carlson, 1998; Calof and Beamish, 1995) took in to consideration the highly competitive and uncertain business environment under which most firms operate. They highlighted that, though most SMEs go international, there are always possibilities of de-internationalisation. According to them, de-internationalisation is an unforeseen circumstance that most SMEs should include in their strategies when considering internationalisation. This phenomenon of de-internationalisation is a growing concern particularly among SMEs mainly due to lack of resources. Failure to plan for internationalisation, indulging in to invaluable networks, lack of long-term orientation etc. can lead to either complete or partial withdrawal of these firms from international markets.

With proper consideration on previous work on the internationalisation of small and medium sized enterprises, I seek to carry out my research on the paths taken by these firms towards internationalisation and the possibilities of de-internationalisation when they take the wrong paths. By doing this, I shall employ a cross-sectional analysis of four Swedish firms operating in highly technological industry. This is to motivate the fact that firms with highly innovative solutions always escape the stages process of internationalisation and go to foreign markets with highly innovative solutions. I seek to rebuild the Uppsala internationalisation model by viewing internationalisation as a negative feedback mechanism which is absent into the model. Though the Uppsala model is a good model, I strongly think that it does not take in to account the realities of the market today. I support
the fact propose by (Turcan, 2003) that the phenomenon of internationalisation is a cause-effect relationship. The effect can be the response to de-internationalisation. By carrying out a cross-sectional analysis, I hope to solve this problem of a lack of valuable research on the current view of internationalisation. Why I included various sections in to the problem statement is to clearly outline the gap in research of internationalisation of SMEs. Though all the parts will not be covered in my thesis, I clearly state my problem as thus; “how can highly technological SMEs follow successful paths to international markets and what might be the factors that propel these firms to these markets?”

1.2 Research Question

Having stated my problem statement, I have structured two questions that will help solve the problem

☐ What are the successful paths managers must follow when making decisions to internationalise? Is it proper networks, consideration of available resources, proper entry modes or de-internationalising at the right time?

☐ What are the main drivers of internationalisation of highly technological SMEs?

1.3 Objective of the Research

The primary objective of this research is to contribute to the growing research on the internationalisation of SMEs by taking a contingency approach. This research seeks to analyze the paths taking by HTSMEs to international markets and encourage management to look at the possibilities of de-internationalisation in case things don’t work out as previewed. My primary focus is to build a possible internationalisation model that can be followed by managers of HTSMEs when internationalising.

In addition to this, I seek to provide managers in HTSMEs a possible framework that will serve as a guideline towards internationalisation. With this, I hope to provide a clear picture of how going offshore (international/abroad) can be very challenging and give them an insight on some of the major challenges and how to tackle these challenges.

1.4 Scope and Limitations of this Study

The scope of this study will be limited to the paths employed by HTSMEs in Umea towards the internationalisation process and the possibilities of de-internationalisation. One possible limitation of this study will be the failure to access when the right time for firms to go international is. This issue has still been under exploit in most researches and I don’t hope to access it. Also, I am not going to compare the internationalisation paths taking by Multinational firms with small and medium sized firms. Though most studies assume these paths to be the same, some other studies claim that there exist some major differences in these paths which could have been accounted for. Another limitation of this study will be time. I will focus only on HTSMEs in Umea and four companies in particular. This is particularly due to difficulties in obtaining sensitive information in Swedish companies and the possible cost incurred.
1.5 Structure of the Report

Haven completed chapter one, the rest of the thesis will be rest on five other chapters. Below is a highlight of the main chapters and what they seek to discuss.

**Chapter 2 (Literature Review):** In this chapter, I shall examine the past work on internationalisation. I will pay particular attention to the purpose of their research, the assumptions they made in the papers, their findings and conclusions. My personal thoughts and reflections on these findings will be stated below each concept.

**Chapter 3 (Methodology):** After reviewing the literature, I will go to the methodology. In this chapter, emphasis will be laid on the research method chosen (qualitative or quantitative), the research design, the ontological and epistemological assumptions embedded in the research, the research strategy, the quality criteria and the ethical considerations. The starting point will be on the examination of the concepts from the book Bryman and Bell (2011) before suiting the literature in to my research.

**Chapter 4 (Empirical Findings):** In this chapter, a presentation of the companies will be done. The approach choosing is to present the companies one after the other. The companies will be presented under the four core sections in the interview guide on the appendix. This will show the reader the different paths taking by the companies to international markets.

**Chapter 5 (Analysis and Discussions):** This chapter will be focus on analysis of our findings from the companies. Here, the data obtained from the companies will be matched against the literature review to see their points of convergence/divergence.

**Chapter 6 (Conclusions and Recommendations):** In this chapter, the conclusion will be based on our research questions and the findings based on these questions.
Chapter Two

2.0 Literature Review

In this chapter, I am going to review existing literature on internationalisation. The starting point will be on factors that drive small and medium sized enterprises to internationalisation. After reviewing this, I shall proceed to the existing internationalisation frameworks that guide firms towards internationalisation. Focus here will be on the stage model of internationalisation also known as the Uppsala model. I shall review the rationale behind the Electric models of Dunning. These models will give us a guide on the variables firms took in to consideration in the past when internationalising. Are these models still applicable today? To what extend have they been criticized? This is a fact we are going to find out.

My next point will be review of literature concerning the paths taking by firms towards internationalisation. Particular interest will be on my internationalisation model that includes the concept of de-internationalisation. In this model, I hope to reestablish the stage models of internationalisation while paying particular interest to the motives that firms consider before embarking on internationalisation; could it be a reliance on their networks, or could it be consideration of the resources available to the firm or rather the managerial perception of internationalisation. With careful consideration of these factors, I am going to link it to the concept of deinternationalisation (when firms are forced to withdraw either partially or fully from international markets). The possible factors that might cause this and how these factors can be built up in to an internalization framework.

2.1 Drivers of Internationalisation

The concept of internationalisation of SMEs has been a major issue in research. Recently, most researchers have tried to find out the motives that propel SMEs to international markets. In recent studies, researchers have identified growth motives as the main stimulant why SMEs go offshore. Orser et al (2008, P.2) after carrying out a research on gender and export propensity in some Canadian firms found out that; by holding other factors constant such as the gender of the firm (i.e. whether it is female or male owned firm), new Canadian owners in sectors such as manufacturing, highly technological sectors, professional services etc. were significantly more likely to export as a method to expand their investments. Luostariner (1979) after carrying out a study in the ENSR enterprise concluded that the primary motivation behind internationalisation is closely linked to maximizing returns and minimizing assets in purchasing, production and sales.

In addition to this, other researchers found outsourcing to be the main goal behind some firm’s internationalisation (Quintens et al, 2006 etc). In their researches, they iterated that, most firms go international because they want to make use of cheap labour cost abroad, improve product quality, increasing manufacturing flexibility, technological learning and improving product design. This debate of whether outsourcing can improve on firm’s performance and give them a competitive advantage has been going on for years.

However, some other researchers argue that, though firms have other motives for going offshore, outsourcing should be one of the greatest motives because it gives them a sustainable competitive advantage. The possibility of lowering cost of production can help
them build up their positions in their niche markets and be able to face competition with large MNCs.

Apart from growth options highlighted above, other research findings have indicated knowledge-related motive as another driver towards internationalisation. Cavusgil and Nevin (1981, p.119) found four internal determinants that were important for propelling firms into internationalisation. The first one has to do with management expectations about a firm’s growth due to exporting. In addition to this, the level of commitment of the firm in exporting activities was also taken into consideration. Other factors such as differential firm advantages and managerial aspirations for growth were also found. Another study by Calof and Beamish (1995, p.129) on some 38 Canadian firms confirms that it was the attitudes of executives and not necessary environmental factors that drive internationalisation. They highlighted further that, for international success, not only the strategy and the product of a firm should be appropriate but the attitudes of the executives of the firm must be appropriate as well because it is these attitudes that influence the perceptions of costs, benefits, risk and the internationalisation path. Uppsala model by Johnson and Vahlne (1999, p.168) also highlighted the importance of human resources on a firm’s internationalisation. It predicts that a firm will move in to foreign markets when its decision making system (managers, the culture of the firm, decision making routines of the organisation) acquires good knowledge of these markets. Consequently, they advised executives to access their assumptions and attitudes about various foreign markets and the effectiveness of different modes. According to a survey carried out by Rammer and Schmiele (2008, p.3) in some German SMEs, it was found that, competition (such as threat of market position through new entrants or a fierce price competition) do not force these firms to go offshore. Rather, these firms choose to go abroad with innovative activities when they have a niche market position i.e. a low number of competitors and a patent-based technological advantage. Rammer and Schmiele (2008) went further to explain that internationalisation of innovation activities may be beneficial to SMEs from industrialized countries. The first reason highlighted was that internationalising innovation will allow them to enlarge their knowledge by sourcing knowledge, technology and skills from other locations than their home market hence massively contributing to more ambitious and more efficient innovation efforts. Secondly, approaching new markets often require innovation designs that are adjusted to the specific environment in these markets. Developing or adjusting such innovations at the location of potential customers may be more beneficial. However, it can be concluded that, there is no static driver to the internalization of firms. Due to the fact that firms are faced with different institutional environments, they might have different motives to go offshore. In addition to this, the type of industry under which the firm operates can be one reason why firms might have different drivers to internationalisation. Other studies found corporate growth, new market opportunities, internalization and vertical integration as the main driving forces for internationalisation. See diagrammatical representation below of the main factors that drive firms to foreign markets.
Figure 1: Summary of Six Forces that Drive Firms to International Markets.

- Knowledge-related perspectives
- Competitive Pressures
- Networking with potential suppliers
- International outsourcing
- Growth Options
- Internationalisation of innovative products

Source: owner’s own Analysis as captured from the literature review

From figure 1 above, I have clearly shown that there are six forces that drive most firms to international markets (as seen from the literature review). The reason for including these factors is because they are the most factors cited by many researchers. Firms either go to other markets because they have innovative products that can offer great solutions to these markets or because they are following a particular partner who is very promising. Growth options have been stated to be the main reason cited by most entrepreneurs. Some have been forced to other markets because of competitive pressures meanwhile others are seeking for outsourcing of some of their business activities primarily to save cost of production. All these factors today make up the motives for going offshore.

2.2 Theories of Internationalisation of the Firm

Theories of firm's internationalisation started emerging since from the 1960s. During this period, economic perspectives were used to explain firm's internationalisation. Later on, the behavioural perspective emerges, and then the electric as well as the network models of internationalisation (Buckley and Ghauri, 1999). Recently, much focus is on the rise of global firms and the existence of born global. In this section, I will analyse the evolution of old perspectives of internationalisation while stating where they belong in present research of firm internationalisation. The outcome of this section is to inform the reader with information about old models of internationalisation. These theories have been chosen because they have explained in different ways how firms internationalised. I want the reader to compare the different ways firms went to other markets and access if these ways are still applicable today. In chapter 5, I have analysed these models with my empirical findings to see where they belong in present research.
2.2.1 The Electric Models of Internationalisation

This model was developed in the seventies by John Dunning after finding out that no single approach is able to fully explain a firm’s international activity. It is for this reason that for more than two decades now, it has been a major framework used by researchers in analyzing the process of foreign direct investment (FDI) and foreign activities of multinational enterprises (MNE). Because of this lack of a suitable international framework, Dunning came up with the electric theory of international production (OLI paradigm) which was used as a framework of analysis (Dunning, 2000, p.163).

This model explains the role of ownership-specific (O), location-specific (L) and internalizing (I) advantages for a firm’s decision to enter into economic activities outside its domestic market (Dunning, 2000, p.163). According to Dunning, the ownership advantage refers to competitive advantages that can be achieved abroad i.e. those unique characteristics possess by a firm that make it superior to its local competitors irrespective of general locational characteristics. According to him, keeping all other factors constant, the greater the competitive advantage of the firm seeking FDI relative to other firms (especially the firms in the countries where they seek to establish), the more they are likely to engage to or increase their foreign production. This type of advantages arises from the availability of resources such as human, knowledge and physical capital as well as specific intangibles related to marketing, organisation, information processing, governance, finance, experience with foreign markets. Other factors such as international experience or organisational knowledge can form a competitive advantage too.

The second is the Locational attractions of alternative countries or regions for undertaking the value added activities of MNEs. According to Dunning, “the more immobile, natural or created endowments which firms need to use jointly with their own competitive advantages favours a presence in a foreign rather than a domestic location, the more firms will exploit their O specific advantages by engaging in fdi”. This location specific advantage refers to internal benefits of the home country which cannot be bought through business activities specific. Some of the factors include knowledge or skill resources, raw materials, climate, and factor costs. Localising their businesses in these host countries allows firms to utilise the country specific potentials. The internationalising advantage of a firm refers to the added value that a firm gains when conducting business activities abroad in comparison to purchasing goods and services from local producers’ abroad i.e. it offers a framework for which firms evaluates these advantages and can be realised when a firm internationalised market transactions through mergers and acquisitions or by forming co-operations/alliances. In this way, benefit a lot by reducing search and transaction costs, secure availability and high quality standards of key materials and components.

Although this framework has been further developed during the last two decades to take into account new forces and patterns of internationalisation as well as progress made in theoretical and empirical research, the basic structure of the eclectic paradigm remained unchanged (Dunning, 2000, p.9).
Stage Models

According to the stage model, companies start selling products in their home markets and then they systematically enter other markets. There are basically two main stage approaches: the Product Life Cycle Theory by Raymond Vernon (1979) and the Uppsala Internationalization Model (Johnson & Vahlne, 1977; Johnson & Wiedersheim, 1975). My point of focus in this thesis will be on the Uppsala internationalisation model.

2.2.2 The Uppsala Internationalisation Model

This article was written in 1977 by two Swedish lecturers namely Jan Johanson and Jan-Eric. They developed a model which focuses on the parameters firms should consider when considering expanding internationally.

According to the authors, “internationalisation is not the result of a strategy of optimum allocation of resources to different countries where alternative ways of exploiting foreign markets are compared and evaluated”. Rather, it is a process of incremental adjustments to changing conditions of the firm and its environment (Aharoni, 1966 as cited in Johanson and Vahlne, 1997). Findings they obtained from the Swedish market indicate that Swedish firms often develop their international operations in small steps rather than by making large foreign production investments at single points. According to them, Swedish firms often start with exporting to a different country through an agent then later on establish sales subsidiaries and in some cases begin production in host country. Why most firms start with exporting is because is a means of reducing costs of market development i.e. it helps to determine the nature and size of the market. Record of company development indicates that use of selling subsidiaries at an early stage reduces the later risk of manufacturing abroad. Findings clearly indicate that, out of 27 production establishments, twenty two were preceded by a sales subsidiary. Just a hand full of firms move directly from exporting through an agent to establishment of a production subsidiary. Critically analyzing the process, it is quite clear that is kind of gradual and it takes firms long time to establish production internationally. The authors claim that, the main reason for this time order is because of the psychic distance between the home and the host countries. Psychic distance was defined as the sum of factors preventing the flow of information from and to the market. Examples include difference in language, education, business practices, culture and industrial development.

The rationale behind the model is on the development of the individual firm and particularly in its gradual acquisition, integration and use of knowledge about foreign markets and operations and on its successively increasing commitment to foreign markets. It is stated as thus: \(\Delta I = f(I...)\) where \(I = \text{state of internalisation}\)

It is principally base on the change and state aspects of the firm where the outcome of one decision is the input of the next. They define the state aspects as the resources a firm commit to a foreign market, market commitment and knowledge about foreign markets and operations while the change aspects are decisions to commit resources and the performance of current business activities.
According to them, market commitment comprises of two variables; the degree of commitment to the market and the amount of resources committed. For the degree of commitment to be high, the firms must integrate all its activities (vertical integration) in order to suite all parts of the market. When the resources are structured in such a way that they suit very well a particular market for example regional markets, it will be very difficult for those resources to be used elsewhere i.e. in another markets. The greater the commitment of resources in a particular market, the greater the commitment decisions. The amount of resources committed depends on the size of the investment. They highlighted that, commitment decisions are based on different types of knowledge obtained in the market. Market knowledge is simply knowledge about present and future demand and supply, competition, channels of distribution, payment conditions etc. According to them, Knowledge can either be acquired through education (objective knowledge) or through experience (experiential knowledge). Individuals with experiential knowledge have a basic framework of formulating and implementing decisions whereas objective knowledge relies solely on theoretical decisions which they cannot really perceive how feasible it will be. Market specific knowledge and general knowledge are quite relevant. Market specific knowledge relies solely on the characteristics of the national market i.e. its business climate, cultural patterns, structure of the market system and above all characteristics of the individual customer firms and their personals whereas general market knowledge relates to marketing methods and general characteristics of certain customers irrespective of their geographical location. For firms to succeed in the international markets, market specific knowledge is quite relevant in order to face local competitors.

One of the change aspects define in the model is the current activities of the firm. According to the authors, there is always a lag between current activities and their consequences i.e. some amount of time is needed to gain some experience on the activity before it is actually initiated. Current activities are the prime source of experience. Such experience can be gain through hiring of personnel with experience about the market.

The other change aspect considered relates to commitment decisions. These decisions depend on the perceived opportunities and problems involve in the market. This kind of information can only be obtained through persons working in the market thus it solely depends on market knowledge.

### 2.2.3 Theories in Support of the Stage Model

Luostariner (1979) carried out a large survey research concerning the internationalisation of some Finish SMEs in the 1960s and 70s in support of the Uppsala internationalisation model. His research was based on the theory of strategic decision making, the growth of the firm as well as on the role of the smallness and openness of the Finnish economy as a pressure towards internationalisation. According to his theory, managers usually follow earlier steps and are not so entitle to find side-steps and new behavioral ways of approaching decision making. He postulated that, markets nearby are penetrated first and there after more distant markets. In addition to this, Chetty and Ericksson (2002, p.305) in a study of the mutual commitment and experiential knowledge in mature business relationships, found support for the incremental approach of internationalisation as proposed by Johanson and Vahlne (1977). According to her, incremental mutual resource commitments lead to increasing knowledge which has an impact on resource commitment
thus when firms form a relationship, they develop routines on how to coordinate this relationship and are reluctant to change them from their results. Angdal and Chetty (2007, p.2) considered changes in mode strategy where relationships were an important influence. Most of the mode changes in their research were gradual in terms of sequential commitment of resources rather than leaps in forms of multiple steps at once thus supporting Johanson and Vahlne (1997) that internationalisation occur incrementally. They attested that, as the firm gains knowledge and experience in their international markets, they frequently switched to a higher commitment mode which was often a change from a distributor to a sale subsidiary. In the 80s, Luostarinen carried out further research in relation to this. He was assisted by Welch (Luostarinen and Welch, 1988, p.54). Their findings indicated that, firms can get internationally involved through their input channels (mainly via purchasing and logistical operations). The innovation model proposed by Rogers (1962) is used in a general step-wise manner in order to see how firms start exporting and/or deepen their involvement from a non-exporting firm to international markets.

Furthermore, Zaheer (1995, p.364) found out that SMEs face problems with coping with an unfamiliar business environment in the host country such as political, cultural and economic differences as well as the distance between the home based. In other to overcome these barriers, they proposed that SMEs should follow a model of incremental internationalisation. According to this view, SMEs start with those internationalisation activities that has the lowest barriers (i.e. exporting goods) and gather experience used to develop other forms of international businesses such as alliances, sales branches, production and R and However, this assertion has been challenged by the literature of born-global (see review 2.2.4).

2.2.4 Models against the Stage Models and evidence in support of Born Global Firms

According to a research carried out by Smolarski and Wilner (2005), it was found out that internationalisation must not necessarily be done in small steps. Instead, entrepreneurs are encouraged to focus on the risk associated with international entrepreneurship. In this view, they imply that, wealth maximizing entrepreneurs will try to select the method of internationalisation with the lowest risk while attempting to achieve the greatest level of return. This suggests that risk-return trade-offs play a role in how SMEs internationalised.

The literature on the so-called born global has been a main issue of most researches today. The fast pace of internationalisation shows that there is a significant change in the way business is conducted. Towards the end of the 1980s and beginning of the 1990s, the popular press noted with interest that some businesses were international at a younger age and with a smaller size than was usually expected (The economist, 1992). Additional evidence was provided by a study of new ventures in Australia that revealed surprisingly aggressive international activities (MC Kinsey and Co, 1993).

The United Nations surveyed small transnational corporations around the world and found out that the barriers to SMEs internationalisation are reducing and an increasing number of small firms that by passed the traditional, incremental, step-wise pattern of
internationalisation (UNCTAD, 1993). Burril and Almassey (1993) also found that some firms in some industries regardless of their age or small size were forced by competitive forces to go international. Another research carried out by Welch and Luostarinen (1988, p.55) on some small Australian and Swedish firms prove that they skipped different stages and almost immediately after inception had foreign direct investments. In a nationwide survey of small US manufacturers, Brush (1992) found out that, 13% of the sample had started international activities during the first year of operations. Bell (1995, p.75) after carrying out a study of small computer software firms, argues that the Uppsala model did not adequately reflect the factors on the internationalisational processes in those firms. He claims that, the process was strongly influenced by domestic and foreign client fellowship, the targeting of niche markets and industry specific considerations rather than the psychic distance to export markets. He also found very little support for the notion that firms progress systematically from exporting to other market entry modes.

The Uppsala internationalisation model was criticized by Spence and Crick (2005, p.172) through their research on some 12 highly technological SMEs (HTSMEs) of UK and Canada. They proved that, HTSMEs internationalised more rapidly and follow market entry routes that are different to those operating in low-technological markets. Therefore, internationalisation is not always a systematic process as proposed by the stage models. According to them, internationalisation can take place through planned and unplanned strategies and it is the way that entrepreneurs identify and exploit opportunities that is important. Teece et al (1997, p.354), argues that, stage models may not work for HTSMEs because they operate in fast moving environments and emergent strategies may be utilized by taking advantage of windows of opportunity that may not stay open for a long period of time. They further indicated that, in such an environment, opportunistic strategies bring more value than systematic ones.

In light with these findings, Oviatt (1999, p.164) accounted for three factors that make changing technology the most likely foundation of accelerated internationalisation. Principally, advancing technology is essential to social progress in all countries. Secondly, small emerging firms play a vital part in the discovery of technological innovations that are used worldwide. Finally, he observed that, these firms use some of their own communication and production innovations plus those of emerging firms to facilitate their rapid internationalisation. At last, he came out with the conclusion that, changing technology and not the Uppsala theory = static knowledge of foreign markets, is the foundation of accelerated internationalisation among new and small ventures.

2.3 Review of Articles on our Internationalisation Model

The previous section of the literature review has been so far on past models and conceptions about internationalisation. Some of those models are still practiced by SMEs while some are considered to be static (product life cycle model and stage models). In this section, I hope to bring in a new concept in to the research. My stand point is a strong criticism of the stage model with the main view that internationalisation does not occur in steps as proposed by the stage models. I support the existence of born global such as highly technological firms. In this section I bring in the network perspectives of internationalisation which is very much alive. I hold that, most SMEs because they are resourced constraint, rely on their networks to go offshore. In this view, some other SMEs
depend on their available resources such as financial, human, capital etc to seek internationalisation. What about entry modes; is it through joint ventures, acquisitions or strategic alliances. The most important point is deinternationalisation. Why will these SMEs withdraw from foreign markets, could it be partial or complete withdrawal, Will careful analysis on available resources prevent deinternationalisation in the future or will engaging in poor networks leave these firms in a bootstrapped situation. All these concepts will be included in my model. My model of internationalisation will be term the deinternationalisation model. Why I choose to call it deinternationalisation model is because deinternationalisation alone incorporates all the other concepts I hope to include in the model (Resource based perspectives, networking and entry modes). The failure of these three concepts will result to deinternationalisation. Below, I hope to critically explore and explain. The outcome of this section is to provide the reader with a possible framework in which can serve as a guide to HTSMEs when internationalising.

2.3.1 International Entry Modes

In common knowledge, Entry mode can be defined as the method in which firms choose to enter other markets. Some firms established fully own subsidiaries, others go through joint ventures and acquisitions while some go through strategic alliances. Extensively, most researchers have looked at this concept beyond several boundaries. Calof and Beamish (1995, p.116) defines entry mode as “institutional arrangements that allow firms to use their products or services in a country”. Some of the mode form include; licence/franchise, indirect export, direct export, sales subsidiary, joint venture and wholly owned production subsidiary. They tried to look at several factors why firms’ change their entry modes. According to them mode changes can be traced to stimuli which affects executives believes towards market potential and modes costs/benefits etc. (Calof and Beamish,1995, p.129). In addition to these changes in entry mode, Johansson and Vahlne (1975) stated that as firms get higher commitments in markets, they sequentially change from the less risky entry modes such as exporting to more risky ones such as establishing a fully owned subsidiary.

According to Sharma and Erramilli (2004,p.2), entry mode is “ a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (via exports) or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)”. Pan and Tse (2000, p.83) examines the impact of entry mode on profitability. In their studies on some foreign firms operating in China, they found out that equity joint ventures and fully owned subsidiaries would have higher market shares and profitability than contractual (non-equity) joint ventures abroad. Summarily, they found out those first movers in to international markets outperformed late comers. Hence their research was carried out on order and mode of entry in to oversee market.

From the definitions highlighted above, we can clearly see that choosing the right entry mode at the proper time is very crucial because failure to do so will involve exposing the firm to a high level of risk.
2.3.2 Resource Based Perspective

Resource constraint is usually the point everyone thinks of when considering the internationalisation of SMEs. The OECD report of 2009 supports this statement with their findings that limited firm resources such as lack of international contacts as well as lack of adequate managerial knowledge about internationalisation have remained great constrains to SME internationalisation.

According to the resource base perspective of internationalisation, major decisions (e.g. on country market choice, market servicing mode, product-market strategies) are based on a total consideration of all available resources and capabilities of the firm as well as environmental realities (Bell et al, 1998). Going by this view, it was analysed that, achieving a sustainable competitive advantage is a result of possession of resources which are unique and enable a firm to provide value. In addition to this, Penrose (1959) analysed that managerial capability in success, deploying these resources in to returns for the firm will help achieve competitive advantage. Such resources may be internal for the firm but can also be externally leveraged through networks. Hence researchers argue that, international expansion by a firm is an attempt to exploit valuable intangible resources that are not possess by the firm such as technological capabilities, well established brand names or management know-how. Furthermore, Crick and Spence (2005, p.182) contend that in the resource perspective, a firm’s own internal and external resources with the network determine the course of the firm internationalisation. SMEs have been considered weak contributors to internationalisation due to managerial and financial constraints. Though resource deficiency has been a major barrier in the internationalisation of SMEs, I proposed that, these barriers can be overcome by choosing profitable networks.

2.3.3 Network Model of Internationalisation

This view of internationalisation is the school of thought held by most scholars today. Just like the born global model of internationalisation, it strongly disqualifies the stage model of internationalisation. This perspective focuses on non-hierarchical systems where firms invest to strengthen and monitor their position in international networks. According to this view, firms must strive to form synergic relationships (networks) with firms, individuals suppliers etc. in order to improve on their market commitment and knowledge.

Coviello and McAuley (1999, p. 254) argued that the internationalisation decisions and activities in the network perspective emerge as strings of behaviour influenced by various network members. As a result, the network perspective introduces a more multilateral element to internationalisation. Sharma and Johnson (1987, p.28), found out that professional service firms operate in networks of connected relationships between organisations, where relationships becomes bridges to foreign markets and provide firms with the opportunity and motivation to internationalize. In relation to this, Johanson and Mattson (1992, p.216) suggested that a firm’s success in entering new international markets is more dependent on its relationship with current markets than on market and cultural characteristics. Lindqvist (1997) postulated that entrepreneurs' previous international experience has contributed to the rapid expansion of the firms through established international networks. Hallen (1992, p.79) postulated that, networks have been used in establishing long term business relationships thanks to commitment and trust between the parties in the network.
Networks are very crucial for SMEs at the beginning of a firm's internationalisation in particular to select and expand into foreign markets as they ease the acquisition of experiential knowledge about these markets. Face-to-face encounters with potential business partners and clients, business representatives and ordinary citizens allow internationalising SMEs to get a feel for the market, to gain insight in to how business is conducted, to demonstrate interest, and to start the building of trust. According to Jones (2001, p.200), networks also speed internationalisation by providing great relationships with other firms, small and large, which complement each other's resources at various stages in the value chain.

2.3.4 De-internationalisation

Over the years, most researchers have focus on the ways firms internationalised and the barriers these firms encounter. Very few of them have identified the fact that firms must either partially or completely withdraw from these foreign markets when it is no longer attractive (rise in cost, poor international strategic decision making, competition etc.). It is because of this failure to either withdraw on time or withdraw too early from these markets that have caused so many SMEs to lost the value of their investments. Here, I am going to outline the possible causes of deinternationalisation and its effect on international decision making.

2.3.4.1 General review of De-internationalisation

The concept of Deinternationalisation was introduced by Welsh and Luostarinen (1988, p.54) who maintains that once a company has embarked on the process of internationalisation, there is no inevitability (certainty) about its continuance. This concept of deinternationalisation has been under deployed by many researchers in the past. This is because researchers lacked foresight about the reality of this concept and the fact that internationalisation can never be looked at without considering the possibilities of deinternationalisation. With lack of basic knowledge, firms often go offshore without including contingencies in their strategies. Some authors such as Turcan (2000, p.211), Drogendijk (2001, p.12) suggest that, de-internationalisation is just the reverse of internationalisation. In cases where some researchers mentioned the possibility of deinternationalisation, they often stress that it will be followed by re-internationalisation (Welch and Welch, 2009). This view is very important because some firms find the opportunity to re-internationalise when they are ready for the market. Statistics from some research have proven that, in real situations, deinternationalisation has intensified among firms due to the increased global competition and withdrawals from foreign markets are not necessarily followed by re-internationalisation.

Mellahi (2003, p.151) defines de-internationalisation as “a voluntary process of decreasing involvement to international operations in response to organizational decline at home or abroad, or as a means of enhancing corporate profitability under non-crisis conditions” . Though this definition is good because it captures most of the characteristics of deinternationalisation, it is highly limited in scope. This is because it looks at deinternationalisation at the narrow aperture of voluntary withdrawal from foreign markets. It does not take in to consideration the fact that firms can involuntary withdraw from
foreign markets due to market pressures (rise in cost, competition etc.).

According to Benito and Welch (1997, p.9), de-internationalisation “is a voluntary or forced actions that reduce a company’s engagement in or exposure to current cross-border activities”. De-internationalisation was viewed across three dimensions; economic, strategic and internationalisation-management perspective. From an economic perspective, a firm would deinternationalise when economic circumstances are declining (e.g. rising costs, falling demand). With the strategic management perspective, a firm would consider deinternationalisation in relation to its product portfolio and business life cycle (e.g. market maturity, strategic fit, liquidity concerns). From an internationalisation-management perspective, internationalisation is viewed as a barrier to deinternationalisation i.e. increase in commitment in foreign operations will lead to decrease in withdrawal from foreign markets. With this view, we accept Turcan’s proposition that the process of cross border activity of a firm is a cause-effect relationship between internationalisation and deinternationalisation. In line of the above, Benito and Welch (1997, p.24) suggest an inverse relationship between de-internationalization and internationalisation arguing that with the passage of time the probability of withdrawal from international operations declines as the commitment to these operations increases. This statement was supported by Drummond who claims that, the longer a person persists with a specific line of activity, the more difficult it becomes to change direction even though it may be economically wise to do so (Drummond, 2004, p.500).

In Carsson’s world, international withdrawal is an error correction mechanism. He distinguished between error of omission and error of commission. In his view, it is an error of omission when companies should have deinternationalise earlier but failed to do so and it is an error of commission when a company should not have deinternationalised earlier but did so (Carsson, 1986). This view of deinternationalisation is very complicated in the sense that it is not quite easy to determine the right time to withdraw from foreign markets.

### 2.3.4.2 Drivers of De-internationalisation

There are many factors that cause firms to de-internationalise. These factors of deinternationalisation have differences in relation to the stage of internationalisation. However, for the simplicity of this paper, I shall group these factors under four main headings; lack of international experience, change in strategy, poor performance or increase in cost and other reasons (Reiljan, 2006). Tables and frameworks will be used to better explain these drivers.

The first group of reasons can be classified under lack of international experience. Reiljan (2006, p.147) attest that, in the first phase of international activities, “several firms do not pay enough attention to the foreign market because its share is small as compared to the home market and managers often turn to underestimate the value of sufficient information and previous knowledge”. Also, most managers turned to under looked the process of internationalisation by expanding rapidly without paying attention to the fact that whether available resources will be able to meet up with the demands of the market. These growing pains have been the leading cause of the collapse of most giant MNCs. There is also one great problem most SMEs even MNCs face when they go offshore; failure to choose a niche market. The absence of this will lead the firm to competition with home producers.
who are well vest with their customers.

The internationalisation models do not pay attention to the possibility that the strategy of the firm may change especially in the case where there is change in ownership and for example foreign owner’s intentions are to use all production of the firm in its local market.

The third reason is related to poor performance and/or increase in costs. According to the Uppsala internationalisation model, increase in production cost at home country is likely to lead to increase in commitment to the target market because of the setting up of a production subsidiary.

Most of the reasons have simultaneous effect and the other reasons are often interrelated. However, there are differences in respect of dominating group of reasons for deinternationalisation in the different stages of internationalisation. For example Reiljan (2006,148) found out that, lack of international experience is very influential in the first stage of foreign market expansion when the firm is exporting its products only to one or two markets, afterwards, its importance declines. Benito and Welch have suggested that in the later stages of foreign operations, internationalisation may turn out to be a barrier for deinternationalisation. At the same time, increase in costs is likely to occur within a long period of time and thus the possibility that this will lead to deinternationalisation is relatively unlikely at the beginning of international activities. Change in strategy is most likely to occur in the later stages of internationalisation as a multinational may want to rationalize its activities and/or concentrate on core activities.

The Internationalisation framework below represents a summary of the decisions that lead companies to deinternationalise. According to this framework, lack of international experience will lead to decrease involvement in international operations. This will in turn lead to rise in cost because of this information gap. When cost increases, managers will be force to change their strategies. All these four forces put together will lead firms to deinternationalisation.
2.4 The Proposed Model of Internationalisation

From the literature review, I have identified several ways in which firms can internationalise. However, there has been no consistent or appropriate way of firm’s internationalisation in most research. It is due to this that I came out with my internationalisation framework presented in figure 3 below. It’s been a long journey and in this framework, I have looked at ways managers can include contingency in their strategy of internationalisation. In the framework, the first box indicates variable to consider when internationalisation has been identified is resources. I call upon managers to critically evaluate both their existing and non-existing resources before embarking on internationalisation. With careful consideration of these resources, I indulge them to engage in to profitable networks in order to get the resources not available to the firm (box 2). As shown in figure 3, this stage is reversible. Networking can either get these resources to the firm or the firm gets the resources through networking. This statement sounds logical but very valuable. After careful consideration of these variables, entry modes should be considered. Does the firm want to start with exporting or establishing a fully owned subsidiary in the foreign market? This factor will depend on the type of industry in which the firm operates (box 3). One very important variable that has not been explored in most researches is timing. When is the right time to go offshore? These four variables put together will influence the firm’s decision to internationalise (box 4). Since I am dealing with SMEs, I know that competition, resource constraints, high operating cost can lead them out of the market. These market signals are not a good feeling that’s why I insist that de-internationalisation must be included in the internationalisation model of SMEs. When some markets are not profitable, SMEs can change routes by concentrating on the profitable ones and withdrawing from the unprofitable markets. There are also situations whereby the firm fails to succeed in all its markets. In this case, I advise on complete withdrawal from those markets (box 6). Can there be a possibility for re-internationalisation? i.e. internationalising back in to that market after acquiring tactic knowledge of the market (box 7).
Figure 3: Diagrammatic Representation of the Internationalisation Model

Source: owner’s own Analysis

Key
1) The dark arrows represent direct paths to internationalisation
2) The grey arrows represent indirect paths to internationalisation
Chapter 3

3.0 Choice of Subject

The interest for further investigation came in as a result of a previous course on networking and internationalisation. In this module, I studied various aspects of internationalisation such as the Uppsala model of internationalisation, why it is common now for home based firms to keep multinationals at bay etc. With this deep understanding of the subject, I thought it will be wise if I contribute to knowledge in this concern. I have been so much concern about how small firms can improve on their business models and be able to compete with MNCs. Because of this, I understood that internationalisation will be the only means in which they can overcome these resource constraints and improve on their business. Nevertheless, though internationalisation will be the key, it is of particular interest for me to guide them towards the paths to take to these international markets. With all this in mind, I saw it as a challenge to embark on a more elaborate study in this area. Therefore, my previous knowledge on internationalisation was beneficial for enriching my ideas and led me to identify my area of interest.

3.1 Preconceptions

Internationalisation generally was understood as the process of a firm conducting business activities in other countries apart of its home country. I knew before this research that because internationalisation involves huge amount of resources (human, physical and financial resources), only large firm firms who have achieved a certain peak and are not resource constraint could dare embark on this journey. Even when they did, it will still not be easy for them to face competition with companies in the host market. As a matter of facts, my knowledge about small firm internationalisation was initiated when we were given an assignment on how we can internationalise companies in our home countries to Sweden. Having in mind that I come from Africa which is less developed, I saw it as impossibility for African firms to cope in Swedish markets. After carrying out extensive research, we found out that even small firms do internationalise especially those with highly technological products and succeed.

In addition to that, I had perceive before that, besides the desire for firms to increase the value of their investment, competitive pressures was the most important motive that drive firms offshore. According to me, when competition becomes too tough in the home markets, most firms were forced to establish production abroad.

In the previous module of internationalisation, I did not really understand the value of networking to firms.

3.2 Ontological Considerations

To critically conduct a research, it is very necessary to understand the preconceptions under which the researcher based his assumptions. In this research, I took the constructive view point. According to Bryman and Bell (2011, p.21), a constructivist position challenges the view that organizations and culture are pre-given. With this, they meant that the learning and discipline in organizations are worked at rather than considering them as pre-existing characteristics. This means people construct their own understanding and knowledge of the world through experience and personal reflection of the experiences.
While studying the paths SMES follow towards internalization, I was very careful not to be guided by my preconceptions. Rather, I made an objective finding of the various reasons cited by the companies and try to understand the similarities and differences between these companies while internationalizing. I also understood that most SMEs internationalized only after careful consideration of the resources in their own companies rather than following other competitors to foreign markets. This affirms to the fact that organizational learning comes in naturally instead of setting stringent rules.

3.3 Research Method

The research philosophy helps us in choosing a suitable research method. According to Bryman and Bell(2011,p.41 ), a research method is a technique for collecting data such as structured interview schedule whereby the researcher listens and watches others. The research method chosen for this study is qualitative which has inductive characteristics. The main rationale for choosing qualitative research is because it places more emphasis on words rather than quantification in data collection and analysis (Bryman and Bell, 2011, p.386). Generally, researchers often employ either deductive or inductive approach for theory development. In a deductive theory, the researcher deduces a hypothesis out of theoretical considerations on the subject matter which he later collects data to obtain findings about whether the hypothesis can be confirmed or rejected (Bryman, 2008). Here, the data collection method is mostly quantitative because hypothesis testing mostly involves sampling of large population of which the analysis of the data must be done with the help of statistical software. My research will be inductive in the sense that the focus will be on trying to identify inherent patterns rather than imposing preconceived ideas on the data. In addition to this, the findings of the research will be compared with theoretical propositions. This type of theoretical proposition is most suitable for my research on the analysis of the paths taking by HTSMEs to internationalisation because the objective of this research is to generate some findings from the data collected from interviews which will be compared with theoretical propositions. A careful consideration of the research method will help in choosing an appropriate research design. The research design chosen here will be a cross sectional analysis. This is because it pinpoints and compares results across different companies. This is very important because to carefully understand the internationalisation paths of HTSMEs, we must understand the variation that exists in different companies concerning the paths they follow to international markets. Since internationalization is not a mathematical model with a fix formula, most firms have different ways in which they internationalize. Carrying out a cross-sectional analysis, will help us explore the similarities and differences among the companies and how to establish a causal relationship between the variables. The research strategy will be descriptive and explorative whereby critical interviews and analysis of documents form the basis of the entire research work. The cross-sectional analysis will be followed up by a case study of four SMEs operating in the highly technological sector of the Swedish economy. This will assist in the tracing of the paths followed by these firms to international markets.
3.4 Research Design

A research design provides a tool for the collection and analysis of data. A choice of a research design depends on certain priorities attached to the research process such as; how does the researcher wish to express causal connections between variables, generalizing to larger groups of individuals than those actually forming part of the investigation etc. (Bryman and Bell, 2011, p.40). The research method chosen depends on the research design. Basically, there are five common research designs employed by researchers depending on their research methods. Just as mentioned above, I have employed the cross-sectional design also known as a social survey. This involves the collection of data on more than one case and at a single point in time in order to collect a body of quantifiable data in connection with two or more variables which are then examined to determine patterns of association (Bryman and Bell, 2011, p.53). The researcher employing this design is primarily concerned with variation in respect of organisations, people etc. which can only be achieved by studying more than one case. In addition to this, the data collection for this design is expected to be completed at a single point in time which means all answers in the questionnaires are provided at once after completion. In this design, I made use of semi-structured interviews for the different cases relating to HTSMEs in Sweden. The variation between these companies is helpful for us to compare the outcome with theoretical propositions. All the questions asked in the interview were answered by the respondents. Through this data I shall obtain useful findings which will help me in exploring my research questions. Using this design, I will try to make sure that the representativeness of the sample being studied in relation to the overall population is adequate. The greatest advantage of this research design is thus derived from its representation of the different cases, which we get through analyzing different reactions of SMEs in Sweden towards their internationalization paths.

3.5 Research Strategy

The two common methods commonly used in conducting research are quantitative and qualitative. Though in most researches researchers employ one method, there are some cases that both methods are used together.

3.5.1 Quantitative Research

Quantitative research is a formal and controlled method of analyzing data. It involves the use of controls, variables and statistics to explain phenomena (Bryman, 2008.p.140). It establishes a relationship between theory and research by using a deductive approach where emphasis is laid on the testing of hypothesis. Therefore, focus here is on the causality between the dependent and independent variable through the use of statistical measures. In addition to this, it involves a predilection of a natural science approach (mostly positivism) and having an objective conception of reality. Hence it is most suitable in researches whose outcomes are to test existing theories. Though this is a suitable method to employ in testing existing theories, Bryman (2008, p.159-160) highlighted many criticisms against it. Firstly, quantitative researchers fail to distinguish people and social institutions from the world of nature. Secondly, the connection between the measures developed by social
scientists and the concepts they are supposed to be revealing is assumed rather than real. Thirdly, the reliance on instruments and procedures hinders the connection between research and everyday life. Lastly, the analysis of social variables create a static view of social life that is independent of people’s lives.

3.5.2 Qualitative Research

Qualitative research is an inductive view of the relationship between theory and research whereby theory is generated out of research. It often adopts an epistemological position known as interpretivist which focus is on the understanding of the social world through an examination of that world by its participants. Furthermore, researchers takes an ontological position known as constructionist which implies that social properties are outcomes of the interactions between individuals rather than the usual phenomenon and separate from those involve in its construction(Bryman,200,p.3666). I use qualitative research strategy for my work and as a result I conduct semi-structured interviews for the collection of data. I choose qualitative research strategy for many reasons. Firstly, I am particularly concern with words, images rather than numbers because I want to conduct interviews to generate a theory and not to test new theory. By employing qualitative research, my research outcome is visible. Secondly, as a part of inductive research, all aspects of my study are carefully designed before data collection so the later stages of my research can be carried out carefully. Thirdly, in my research my main concern is with subjectivity and gaining access to “inside” experience and relate with inside reality of human. Fourthly, in this work, I seek close involvement with the people being investigated. It is only possible in qualitative research because in quantitative research, researchers are uninvolved with their subject and in some cases may have no contact with them.

Criticisms of Qualitative Research

Though qualitative research is most suitable for my thesis, quantitative researchers have cited many drawbacks of this method. Some of them include:

- **Qualitative research is too subjective.** This implies the researcher is sometimes bias with his findings because he attaches much importance on significant areas to influence the outcome of the research.

- **Qualitative research is difficult to replicate.** Quantitative researchers have argued that because qualitative research is unstructured and often reliant on the qualitative researcher’s knowledge, it is very difficult to replicate.

- **It has a problem of generalization.** This is because of limitation in scope. Because qualitative research often involves interviewing just a few people in a sample of a large population, it is not always possible to make generalizations of the outcome of the research to the entire population.

- **Qualitative research lacks transparency.** This is because it is very difficult to establish from qualitative research what the researcher actually did in arriving at the conclusion of the studies. In addition to this, it is sometimes not very specific how the researcher selected participants to respond to the questions on the interview guide. Furthermore, the process of data analysis is usually not clear (Bryman, 2008, p.391-392).
**3.6 Data Collection**

After choosing a suitable research method (strategy), it is worthwhile to select an appropriate method of collecting data based on the research method. Data collection can be described as the means or sources in which we will gather the relevant information necessary in answering our research questions. These sources can be grouped under primary and secondary sources of data collection. Primary data is where we can obtain original or background information on our research questions. These sources include observations, experiments, social surveys like questionnaires and interviews while Secondary data sources are ready made data that have been transcribed by other researchers, authors, companies for the purpose of further research. These sources include books, journals, articles, web-based data about the specific subject (Ghauri and Gronhaug, 2005, p.91-102). In conducting a qualitative research, the researcher often employs both primary and secondary sources of data collection.

My data collection process started with a general review of related articles and books on my topic of interest. My focus was to discover what past researchers had written on internationalisation and what their recommendations for further studies were. This helped me in deciding on what aspects on internalization to write on. With this information, I had the opportunity to discover the gap in existing research and hence establishing a topic to research on. These articles were obtained from the University Library’s electronic search engine at Umeå University (http://www.ub.umu.se/sok/tidskrifter). The ease of access to large amount of secondary data sources especially the books at the Umeå University library has been the most utilized source of information for my study. Due to technological advancements and availability of almost all kind of data regarding any issue and topic on the Internet, Google scholar has been one very useful site for me to obtain some articles and books written in connection to this study.

For primary data collection face-to-face interviews will be employed (semi-structured interview). There are basically two common types of interviews in qualitative research; unstructured interview and semi-structured interview (Bryman, 2008, p.436). In an unstructured interview, the interviewer asks a single question which he allows the interviewee to respond freely with the interviewer simply responding to the points that needs follow up. It is often like a conversation while in semi-structured interviews, the interviewer has a list of questions on the interview guide. He may not necessarily ask the questions as outlined in the schedule. Also, some follow up questions may be asked concerning the topic of interest. Therefore, both interviewing methods are flexible because they are not solely concentrated on the questions on the interview guide. I will be carrying out semi-structured interviews from the respondents based in Umea, Sweden for several reasons:

Semi-structured interviews provide the researcher with the ease of producing a list of questions on specific topics, which are formulated into the interview guide. (Bryman & Bell, 2011). Therefore, it is a working guide of the research questions. Furthermore, since semi-structured interview is less structured, the emphasis is on the interviewee’s perspectives because his point of view is very critical in conducting a qualitative research. In addition to this, since my focus is on the generation of a new theory, it will be important to give much time for the interviewee to expatiate more on what is relevant and important. Lastly, because the researcher can ask new questions that follow up the replies of the
interviews, it helps in providing rich and detailed answers which are helpful for an exploratory study like this one. I will use open-ended questions in the semi-structured interview guide, as it provides much more room to the respondents to express their views and reasons. I plan to follow the interview guide while asking my questions. However, follow up questions will be asked if the interviewee makes mention to a very interesting aspect which I consider useful for the research. In addition to this, the question will be rephrased in case the interviewee doesn’t understand. Before scheduling an appointment with the interviewee, I will make sure that an interview guide is sent to him about three days to the interview in order for him to get himself acquainted with the issues at hand. This will also solve most of the problems of lack of understanding. See interview guide on appendix 1. To be more specific and easy to understand, I have structured the interview guide into four parts: 1) General information about the company, 2) resource-based perspectives and internationalisation, 3) networking and international entry mode, 4) Deinternationalisation.

All these sections relate to variables in my research questions. In addition to this, Bryman (2008, P.442) advised researchers to use a language that is comprehensible and relevant to the interviewees. The language used on the interview guide will be English because of fear of losing some valuable information during translation. As a matter of facts, the CEOs of the companies had a good mastery of English language. Other questions such as their names, position and number of years they have been employed with the company were asked. The settings of the interviews were in the CEOs offices with the doors close to prevent background noise from affecting the quality of the recording. This was also done to avoid unnecessary distraction from other workers in the company. Permission was obtained from the interviewees before the use of recorders. Using a tape recorder is preferable because it helps the researcher focus on the interview rather than struggling to write what he or she got from the interviewee. In addition to this, their identities shall be disclosed if they grant their permissions. The time and date of the interview is decided as per the convenience of the interviewee.

3.7 Selection of Companies

According to Eisenhardt (1989, p.536-537) in his article “building theory from case study research”, he emphasized the importance of case selection for the building of theory. According to him, it is very important because the concept of a population is crucial because the population defines the set of entities from which the research sample is to be drawn. He elaborated that, case study research relies on theoretical sampling i.e. cases are chosen for theoretical and not for statistical reasons. In my thesis, I selected companies that met the following theoretical criteria:

- The Company must comply with the requirements of SMEs as given by the definition in the introductory chapter
- The organization should be highly innovative
- The company should be located in Umea
- The company should have international operations

I choose Umea as the region because it is a small metropolitan city located in the northern part of Sweden. The rationale behind this is that, though Umea is a small city, it has gain the prestige of having some of the biggest industries when it comes with technology. The
fact that these highly technological firms are located in Umea is a good reason to say that internationalisation does not really rely on the location-specific advantage as proposed by the electric model but it all depends on the innovative solutions firms take to the market. Since all highly technological firms are innovative, I have employ innovation as a criterion for the selection of firms in my sample. The interviewees will be CEOS who have been there to watch the company grow. Also, since CEOS make all the major decisions of the companies such as decision to internationalized, I consider them to be appropriate to provide me with all the insight information of their firms.

3.8: Quality Criteria

The most two common criteria in assessing and establishing the quality of a quantitative research are reliability and validity. However, in carrying out a qualitative research, some writers have asserted that qualitative studies should be judged according to different criteria from those used by quantitative researchers. They propose that, it is important to specify terms and ways of establishing and assessing the quality of qualitative research that provides an alternative to reliability and validity (Lincoln and Cuba, 1985 as cited in Bryman and Bell, 2011, p.395). In this light, they proposed two primary criteria which are; trustworthiness and authenticity.

3.8.1: Trust Worthiness: The four criteria of trustworthiness include; credibility, transferability, dependability and confirmability. I shall explain each of these criteria below and relate it to my research.

Credibility: To establish credibility of the findings in a research, the researcher must ensure that the research is carried out according to the canons of good practice. In addition to this, the research findings needs to be submitted to the members of the social world who were studied for confirmation that the investigator understood the social world correctly (Bryman and Bell, 2011, p.396). To ensure proper respondent validation, I sent a soft copy of my findings from the interviews and the webpages via email to all the CEOs of the various companies for proper review. In addition to that, what I understood from the interviews and the webpages of the companies (data analysis) was also send to them. This was also done to avoid the problem of subjectivity which often involves clouding the researcher´s mind with his preconceptions. As a matter of facts, I wanted to provide them with the confidence that they have not been misinterpreted, there was no improper disclosure of some sensitive information of the company. After this was done, the CEOs resent a correction of the written work especially in areas they thought was misjudged. Just like Bryman (2008, p.377) cited in his book, “the purpose of respondent validation is to seek confirmation that the researcher´s findings and impressions are in consistent with the views of the research participants and to seek out areas in which there is lack of correspondence and the reasons for it”. Besides ensuring a good respondent validation, I stick to the canons of good practice of a qualitative research by making sure that all articles used were properly referenced. I also obtained permissions from the respondents before disclosing the names of their companies and theirs as well.

Transferability: It is the degree to which the findings of a research can hold in other context. This has been one of the reasons why quantitative researchers’ have criticized
qualitative research. According to them, the transferability of a qualitative research is often questionable because it often involves a very small sample. However, it is important for the findings of a qualitative research to hold even in the same context or some other context. Lincoln and Guba (1985) as cited in Bryman and Bell encouraged qualitative researchers to provide good description of the organisations in which they are studying. In my thesis, I have carried out an exploratory study by providing a good description of each content. This is to ensure proper understanding of the issue under study and to give others something they can reference on in the future.

**Dependability:** Researchers are encouraged to adopt an auditing approach in order for the trustworthiness of their research to be realized. By doing this, they have to make sure that a complete record is kept for all phases of the research process–problem formulation, selection of research participants, data analysis etc. in an accessible manner (Bryman and Bell, 2011, p.398). Dependability also includes the degree to which theoretical references can be justified. I can assure that all the articles used for this study have been carefully kept, the interview tapes are still in good condition and any other information that was necessary for the proper completion of this work. Due care and diligence was exercise to ensure that the materials were kept in a consistent manner. With this, I can attest that the dependability criterion for my studies was achieved.

**Confirmability:** According to Bryman (2008, p.379), Confirmability is ensuring that the researcher acts in good faith by not allowing his preconceptions or theoretical inclinations sway the conduct of the research and findings deriving from it. Though complete objectivity is hard to achieve in a qualitative research, when conducting the research, I tried not to be overruled by my personal judgments and theoretical inclinations by looking at reality through the eyes of the social actors under study. I made sure that the responses from each question given by the participants were what is going on in the company by not suggesting further answers to them. Analysis of the companies was based on the information provided by the interviewees and not based on my personal subjectivity. With this, I am very sure that I have added some knowledge to preexisting knowledge by contributing on the literature on internationalisation. Hence, I acted of good faith and did not allow my personal preferences to bias my research (Bryman and Bell, 2007, p.398).

**3.8.2 Authenticity:** In addition to the four trustworthiness criteria cited above, Guba and Lincoln suggested the Authenticity criteria. The authenticity criteria stipulates that the research should fairly represent different viewpoints among members of the social setting (Bryman and Bell, 2011, p.398). In addition to representing viewpoints of members in the social world, the research should help members obtain an understanding of the social milieu, help them appreciate the perspectives of other members of their social settings, it should act as a catalyst to help members of the social world change their circumstances etc. (Bryman, 2008, p.379). For this research, the viewpoints of different scholars have been analysed in the literature review chapter. However, the interviewees were just one members of each organization occupying a managerial position. It was not possible to get the viewpoints of other employees of the organization due to lack of time and inaccessibility to these employees. However, for the purpose of my studies, interviewing the CEOs was not a bad choice because they are the ones who mostly make internationalisation decisions due to their experience. The thickness of the data will help readers and companies obtain a good understanding of the problem under study. It will also serve as a catalyst to reshape their thoughts and learn from the examples of other companies when making international decisions.
3.9 Ethical Consideration

Ethics are usually defined as codes and conducts which every researcher should follow in his research. They are usually associated with norms, values and corporate social responsibilities. Ethical issues sometimes revolve around concerns such as how we should treat the people with whom we conduct research and the activities we should or not engage in our relations to them (Bryman and Bell, 2011, p.122). The four common ethical principles are; whether there is harm to participants, lack of informed consent, invasion of privacy and if deception is involved (Diener and Crandall, 1978 as cited in Bryman and Bell, 2009, p.128). While conducting my research, I made sure it impacted no harm to any participant either physical or emotionally. Also, before conducting the interviews, I allocated some time to explain to the interviewees the purpose of the research. This was to avoid the problem of lack of informed concerns. I made sure that I explained to them that the information they provided will not be used as a competitive threat against them. All this was done to avoid invasion of privacy and deception. Moreover, respondents were provided with all kind of confidentiality concerns, and their identity was disclosed with their permission. The use of recorders during the interviews was discussed with the respondents. All the articles I used have been properly referenced to avoid plagiarism.

3.10 Methods of Data Analysis

According to Eisenhardt (1989, p.539), though data analysis is the heart of building theory from cases studies, it is the most difficult and the least codified part of the process. In my analysis, I will start with within case analysis by giving a detailed description of each of the companies in relation to the dimensions on my research question. This helps in the generation of insights because they help researchers cope early in the analysis process with the often enormous volume of data (Pettigrew, 1988 as cited by Eisenhardt, 1989). In addition to this, it paves way for a unique pattern of each case to emerge before investigators proceed to generalize patterns across cases. In a nut shell, the rich familiarity obtain in each case accelerates cross case-comparisons.

The next part of the analysis will be a cross-case comparison of the different companies. Taking in to consideration the fact that information is sometimes processed poorly by researchers, it is of prime importance to do a good cross-case comparism by looking at the data in many divergent ways. Here, I selected categories or dimensions (i.e. dimensions related to the variables on my research question) and look for within-group similarities coupled with the differences within the cases (Eisenhardt, 1989, p.540).

After doing the cross-case analysis, I adopted a pattern matching analytical technique in which I compared the information with my literature review (i.e. theoretical propositions). This is to compare the degree of convergent/divergent between theory and research.
Chapter 4

4.0 Empirical Findings

In this chapter, I am going to critically discuss the findings I obtained from four different companies operating in the highly technological sector of the Swedish economy. Working with these companies has been an exciting job to discuss the potentials that can be embedded even in small and medium sized enterprises. From the history of these companies, we are going to find out why they have been global from inception, why it is so very easy for the CEOs to conclude that they don't have any local market because they have highly innovative solutions that can hardly be afforded by most end users in the Swedish economy. Because of this, these companies have aimed for internationalisation from the onset. The analysis will first of all start from an individual case perspective. After that, I am going to compare results across the various cases. My analysis shall focus on the four pillars of my research questions. Below is a table summarizing the various activities of the companies, their human dimensions, the number of markets in which they are operating in, year of establishment etc. Graphs and figures will be used to fully summarise the value chain of each company as they produce their products to the delivery of these products both in the home and international markets. See appendix (2, 3, 4 and 5) for illustration of the various products.

Table 1: Overview of SMEs Investigated

<table>
<thead>
<tr>
<th>Company</th>
<th>Start-up Date</th>
<th>NO. of employees</th>
<th>No. of subsidiaries</th>
<th>No. of mkts/regions covered</th>
<th>Main products</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seaflex</td>
<td>1983</td>
<td>10</td>
<td>1</td>
<td>Europe, USA, China</td>
<td>Seaflex mooring solutions</td>
<td>100% M.s in Sweden</td>
</tr>
<tr>
<td>Konftel</td>
<td>1988</td>
<td>35</td>
<td>4</td>
<td>50</td>
<td>Conference phones</td>
<td>70% in Scandinavia, 10% globally</td>
</tr>
<tr>
<td>Faltcom</td>
<td>1998</td>
<td>19</td>
<td>Not applicable</td>
<td>Global(43 markets)</td>
<td>M2M communications and systems for alarms</td>
<td>Market leader in Sweden</td>
</tr>
<tr>
<td>Toontrack</td>
<td>1999</td>
<td>23</td>
<td>2</td>
<td>global</td>
<td>Musical software and drummers</td>
<td>Market leader in Sweden</td>
</tr>
</tbody>
</table>

Source: Interview with the CEOs of the firms
4.1 Company 0ne: Background of Seaflex AB

The product Seaflex is an elastic mooring solution for docks/pontoons, wave attenuators and buoys that is unique in its ability to keep the floating application even in positions with high water fluctuations and waves. The innovativeness and uniqueness in this product lies in the fact that it can handle extreme forces and has the longest life expectancy of mooring solutions today (www.seaflex.net/history).

The concept of this product was initiated in 1960 by a Swedish innovator active in the mining industry known as Bertil Brandt. He was inspired to manufacture this product from his visit in a fishing harbor in Cannes in 1968 which made him witness the turmoil that occurred when fishing boats berthed. From this, he realised that a simple and secure rubber mooring arrangement with specially manufactured rubber strap could be the solution. Realising the potential in his invention, he continued to develop a secure anchoring system on his return to Sweden. After talking with the CEO of this company Lars Brandt who happens to be the son of Bertil, he made us understand that he now runs and directs Seaflex. They have a total of ten employees; eight presently working at the head office in Umea and two working with their American subsidiaries.

As a highly innovative company, Seaflex keeps it eyes on constant innovation in order to meet up with the changing demands in the sea level. Due to this, they have experienced rapid expansion as their products are sold all over the world. Over an eight-year period, Seaflex increased its sales by an average of 30% per year and doubled its staff. 90% of all sales are exports. Besides having markets in Europe and America, Seaflex has recently expanded in to Asia and Middle East. This makes it a highly internationalized company. Despite the high cost of a mooring system, Seaflex has remained outstanding among its competitors due to the following reasons; Seaflex mooring system has an integrated rope that can handle extreme water forces. Furthermore, this mooring system requires less maintenance than other competitive products due to the fact that its components are highly durable. Besides all these, Seaflex mooring system pays great attention to the environment as they meet international standards for environmental protection.
**Figure 4: Value chain of Seaflex**

Source: Owner’s own Analysis

Figure 4 clearly outline how Seaflex mooring solutions finally get to their end users.

### 4.1.1 Internationalisation Process of Seaflex

Seaflex been a highly innovative company, internationalisation for it was perceived from the onset even though it took them some time to go to other markets. Drawing from what I got from the CEO, Lars Brandt, Seaflex operated in the Swedish market from 1987 to 1997 having just one customer. This means it took them some years before entering into other markets. When this customer became bankrupt, Seaflex realised there was no way out. They had to thoroughly investigate their business and make some strategic decisions. These decisions led Seaflex in to investing more money in to marketing in order to find more distributors in other countries. This effort was not fruitless as this company is now operating all over the world with one hundred and thirty six distributors. When Lars Brandt was asked what motivated Seaflex to go offshore, he responded by saying that “we were attracted to other markets because we wanted to expand our business and to spread risk in our business”. He continued by saying that, “With just one competitor in the Swedish market (known as Chain), we investigated that international expansion could help in capturing more market shares in Sweden while aiming at growth”. Their decision to go offshore was primarily inspired by the CEO who has a great interest in their family business and had also had some previous international business experience.

The strategy use by this company in entering new markets is very interesting. In the words of the CEO “we follow the international growth of all our main customers (pantoon manufactures) and marina engineers who also seek new markets opportunities. When these customers get the markets, Seaflex now comes in with their mooring solution”. He highlighted an example with a case that happened at United Arab Emirates. According to him, 10 years later, Dubai was not a hot spot for marinas until recently. Due to the present attraction of the market, all pantoon manufacturers have concentrated on this market and also many marina engineers that suggested projects to use Seaflex.
4.1.2 The Influence of Resources on the Internationalisation of Seaflex

When I asked Lars Brandt if they critically evaluate their resources before going to other markets, he highlighted the fact that, before they go in to other markets with their mooring solutions, they carry out thorough market research. The essence of this was to know the attractiveness of the markets in which they have found distributors, the credentials and trustworthiness of these distributors, the available finance necessary for this expansion, consideration of their personnel's and their expertise etc. Their first international market was in France where they found profitable networks. However, internationalisation for them was constraint by mostly financial resources. The CEO iterated that, “financial constraints have a great impact on our company because it contributed to slower entry due to cost of travel and participation in market events, less advertising than desired”. Because of this, they sought for outside capital but due to family ownership interest at heart, Lars Brandt was not ready to sell off part of the family business for very little amount of money.

4.1.3 The Role of Networking and International Entry Mode on Seaflex Internationalisation

Networking has been the bone behind Seaflex success and presence around the globe. Lars Brandt confessed that,” if not for our networks, we could have remained a very small company. Despite the importance of networking partners, companies always take certain factors in to consideration when choosing them. When Lars Brandt was asked the factors they take in to consideration when choosing networking partners, he responded by saying that “The first criterion is that we aim for intermediate companies and not small ones that still have resource constraints. In the other end, we avoid the bigger ones that have highly bureaucratic procedures i.e. those companies that are stocked in their strategies and not willing to accept new technologies. The intermediate companies have enough financial strength, have growth ambitions and easily accept new technologies to help us in our strategies”. With all these factors taken in to consideration, Seaflex is quite sure they won’t have to be face with the option of abandoning their partners and searching for new ones. All these take a lot of time and this is why at Seaflex, market research is the key to get the right product mix, right people, price and promotion. They also take in to consideration the financial strengths and strategic capabilities of their partners. To them, partnership is a mutual relationship. While they have succeeded in capturing some of the competitor’s market share offshore with the help of their partners, their partners also rely on them for support, finance and also some strategic advices on how to run their own businesses. Seaflex’s distributors are also distributors of other competitors. This makes them acquire some of their competitors’ insight information. When asked about the selected international entry mode employed by Seaflex, the CEO responded by saying that “doing business abroad to us lies on our distributors/customers. We sell to our customers (pontoons manufacturers) who later sell to end users together with their own products”. To him, this entry mode is the best because it saves them the cost and time involved in establishing a fully owned subsidiary. He further iterated that, with this kind of entry mode, we spend less in to tapping from already existing companies and their sales structure.
4.1.4 The Impact of Deinternationalisation on Seaflex

Though the concept of Deinternationalisation was a new term to Seaflex, this company have both partially and completely deinternationalised from some few markets that according to the CEO, the information cannot be disclosed for privacy reasons. For Seaflex, the main reason for this was not associated with poor strategic decisions but was primarily linked to unattractiveness of the market. The market was no longer attractive. They realised that staying there entails incurring cost that they can't accrue any benefits from. The only option they had was to seek for solutions in nearby markets and find their customers. The general ideology of Seaflex is that with the kind of business they are involve in, even if one market turns to be unresponsive, they always try to find nearby markets faced with the same institutional settings. This saves them the cost of spending more money on researching. Brandt cited that, “though withdrawing from some markets is not a good feeling, is the right thing to do ones the company starts realizing that revenue is dropping, cost is rising or competitive pressures are becoming tougher than perceived”. He says “for a market like Dubai, if it starts to be unresponsive, they start considering markets close to it such as Abu Dhabi that stills offer a market”. They are not hoping to completely withdraw from these projects because it will create a void and open for use of traditional methods such as piles in that market.

4.2 Company 2: Background of Konftel AB

Konftel is a highly technological company involve in the production of conference phones located in Umea Sweden. The idea of this company was initiated in 1988 when a bank manager in Umea was dissatisfied with all the conference phones available in the market because the sound kept on cutting. This led to the inconvenience of each participant waiting for the other to talk before the next can continue. As a result of this, conversation was difficult and the whole telephone conference experience was frustrating. Peter Renkel who is the present CEO of Konftel today was then an electrical engineer of the bank. Having realised the lapse in the market, he met his friend John Ericksson whom together they started building sound systems in assembly halls and other difficult sound environment. With this new development, they inquired from the bank manager if it will be right for them to build a conference telephone system. When he affirmed to this appeal, that was when the company Konftel started.

This company started as a technical start-up before they moved to bigger markets. Presently, they are leading manufacturer of conference phones in Europe and the second globally. They have 70% market share in the Northern Scandinavia, 30% in EMEA and 10% globally. Their main competitor Polycom which is an American company is the biggest player in the world. The main aim of their success and their sustainability in the telecom and computing business lies in the uniqueness of their technology. This company produces conference phones with a patented audio technology Omni sound which provides crystal clear sound. Their products are of various types sold worldwide under the Konftel Brand. The strategy of this company has always been simple; to grow together with skilled partners in the markets and not be leviathans who dictates them. It is for this reason that they had the opportunities to work with Ericsson, Siemens, Avaya and Alcatel.
these partners, they have had the opportunity to evaluate the value of their investments, to conduct test in their laboratories to ensure that their conference phones work optimally, test the quality of these products, price as well as services. Besides all these, this Umea highly technological company has received several awards over the past years. During the recessionary market, Konftel outperformed its competitors with an annual average revenue growth rate between 2005 and 2008 of 29.7 per cent, nearly double the overall market growth rate of 15.8 per cent. Additionally, Konftel demonstrated the strongest average growth of market share of 12.6 per cent during this period, while its nearest rival achieved 5.7 %. (www.konftel.com/about-us/awards). Apart from doing business effectively, this company pays great attention to the environment. In 1998, Konftel participated in the Eco Design project initiated by the Foundation for Swedish Industrial Design.

4.2.1 The Internationalisation process of Konftel

In an interview with Clarence Jacobson (member of management team and global sales director of Konftel) who have been working with this company for the past 12 years, he iterated that, Konftel is a born global company. This is because they produce highly technological conference phones that serve the entire globe from the start of the company. When Clarence Jacobson was asked about the human dimensions of this company, he responded by saying that, “Konftel currently operates in fifty markets and has subsidiaries in Germany, France, U.K and the U.S”. According to him, they pay much attention on their sales subsidiaries because it is through these subsidiaries that their products are sold to other markets. With their global presence, they have succeeded to outperform all their competitors in the Scandinavia in particular and Europe as a whole. When I asked him about who made the internationalisation decision for the firm, he responded that, “the decision to go international was highly influenced by the management team who have constantly make strategic decisions, revised their business plans to suite the foreign markets, focused on their objectives, reached those objectives and even exceeded their targets”. This is all due to the close collaboration between the members of the management team and the effectiveness in making decisions. Competitive pressures have not impacted this company’s decision to go offshore because they are incomparable to their competitors. According to Clarence, “we go to markets where our competitors have a strong presence because we want to meet up with the challenge of taking over market shares of these competitors. He continued by saying that, “besides this, it is a best strategy for us because it helps us concentrate more on our products and to constantly research and revised our business models”. Expansion, increase in revenue and profitability were other factors cited by him to motivate international expansion. What Konftel do is to manufacture the products, sell these products to distributors who later sell to resellers. From the resellers, the products finally get to the end users. This implies there are two layers between Konftel and the end users. According to this company, internationalisation is not a task companies can just rush in to. Though they had conceived this idea from the beginning, it took some tremendous effort to go to other markets. They conducted a SWOT analysis to discover their strengths, weaknesses, opportunities in other markets and the threats in these markets. In relation to this, Clarence cited the situation where some years back, they discovered they had a potential market in the US but didn’t have the right product to go in to the US market then. From this analysis, they focused on their unique products and to remain in their niche market, internationalised slowly i.e. enter only markets that are attractive, have the right prerequisite for entering these markets and that
they have acquired enough resources (financial, physical and human) suitable for these markets.

**Figure 5: Value Chain of Konftel**

Source: Owner’s own Analysis

### 4.2.2 The Influence of Resources on the internationalisation of Konftel

Konftel being a company that provides a highly innovative product believes that, “*knowing what to do at the right time, in the right place at any given situation is the key to success in any business*” (Jacobsson, 2011). Before moving in to any market, every company understands the necessity of a plan. When Clarence was asked if they critically evaluated their resources before going offshore, his response was that “*we plan for the market by ensuring that we are going in with the right people, the right products, enough finances and the right knowledge*”. He emphasized that, this was done to avoid the risk of future failures. When Clarence was asked if resource imitation acted as a hindrance to their pace of globalization, his response was that “*Resource limitation depends on whether the owner is willing to invest either long term or short term. If the owner is not willing to invest, then things might not work out well*”. He went further by explaining what happened to Konftel in 2007 when they invested in their local sales force, more product development and in training more engineers. This caused them a lot of money. However, they experienced growth but because of the financial crisis in 2009, they had only a 13% growth meanwhile their competitors loose by 20%. In 2010, their revenues rose to 50%. This means the strategic decision to invest in 2007 was later pay off and they finally reached their objectives. Another important question which was raise was whether resource limitation has ever led to a change in the strategic decision of Konftel. Clarence response was that resource constraints in 2001 resulted in the change of strategy in Konftel. According to him, they made two important strategic decisions. “*the first one was to transfer the production of our products from Sweden to China. This was essential to lower cost of production and make use of the cheap labour in this economy. Another decision was to do consultancy work. We sold engineering hours to Ericsson and Siemens to learn more and develop our products*”. After raising enough finance, they later on stopped to concentrate on their products in order not to miss the track in the market. When I asked Clarence the measures they employ in attaining unavailable resources, he responded that, the Swedish
Stock exchange served as another source of revenue for them in 1998 where they raised money to buy more companies.

4.2.3 The Role of Networking and International Entry Mode on Konftel’s Internationalisation

When Clarence was asked about how they enter foreign markets, his response was that they establish subsidiaries in their main markets. According to him, this is the best way to go offshore. He iterated that they have subsidiaries in Germany, France, UK and US that helps in providing their products to other markets. Through this means, they have succeeded in serving other markets. However, when he was asked about the impact of the selected entry mode on the company, he elaborated that the main problem they faced in these markets was the problem of psychic distance. He went further to explain that, When establishing the subsidiaries, the two psychic distance related problems they had were; the fact that foreign people in foreign countries are hired is a main issue because these people have a different culture. Trying to institute the culture of the parent company to these companies is a very enormous task to perform. Another challenging task was setting up these companies. Some countries have highly institutional settings that makes establishment of a company quite difficult and expensive. For example establishing a Konftel subsidiary was quite difficult in France but relatively easy in Germany. They have a future plan of opening more sales subsidiaries in Asia especially in Hong Kong where cost will be cheaper.

Just like most companies do, Konftel rely so much in their networks for success abroad. When Clarence was asked the criteria in which they select their partners, he responded by saying that “we just don’t select any partner to work with. When choosing partners, we find the right distributors who have the right ability to have stock, have good big reseller base so that they can get the products out, have the right marketing capability so that they can work with them on the market, technical understanding so that they can explain to the reseller and also help them train the resellers to reach the end users”. In order for these distributors to carry out these tasks correctly, they seek knowledge from Konftel about their business. Konftel in response seek knowledge from these partners about how their markets work best, what marketing tools will be appropriate for this market, what is operating within their competitors such as the price situation compare with Polycom. As Clarence Jacobsson emphasized, “networking has helped us to understand what is required in different markets. The core of our business is the relationship and trust we establish with these partners”. To ensure cordiality in this relationship, they create a comfortable environment where each party is given the opportunity to understand the other. Despite the importance of networking, he added that, it is not just worthwhile to choose these partners but to establish the relationship when you are ready. They have ones been faced in a situation where they started a network before they were ready to do the work that was required. To avoid this in the future, it is better to say no to available deals than to start a relationship immaturely.
4.2.4 The Impact of Deinternationalisation on Konftel

Deinternationalisation unfortunately is a very sad term for Konftel. This company some years back (in the 90s to be precise) experienced this when they withdrew from the American market. This was because they went there immature when they didn't have the right products. Because of this, they could not cope with competitive pressures from Polycom which led them to the withdrawal from this market. This is closely linked to poor strategic decision making and lack of international experience. The decision makers lacked the ability to foresee and critically analyse the situation back then in the American market. After some years of proper researching and revision of their products, they went back to the American market (reinternationalised). In the words of Clarence, “the only reason why a company should remain in an unattractive market could be in a situation where they find a global company with subsidiaries all over the world who make their intentions known to have phones in their media rooms. If they have just one market, it means they will want to buy occasionally but if they don’t have, they will not buy at all. Sometimes, you can be forced to provide a solution to markets that are not attractive right now but are essential in getting the big deals” (Clarence Jacobsson, April 2011). He urges that, firms should be careful when making decisions to deinternationalise in order not to withdraw so fast.

Figure 6: summary of Konftel’s international framework

Source: Owner’s own Analysis
4.3 Company 3: Background of Faltcom AB

Faltcom AB started its business operations in 1998. For the first two years, the company concentrated on R&D before starting manufacturing in 2000. This company sells and develops system for alarm and machine-to-machine communication (M2M). It has developed rapidly and has secured a leading position in the field of lift communication. Currently they have 19 employees and their products are sold in 43 markets. Their turnovers are very high because there is high trend in the market for M2M communication. Because of a very high potential market, they received a turnover of 43 million SEK last year. They rely so much on their partners and customers to create secure and profitable systems. Their solutions for the M2M segment are aimed at specific application needs, like Remote Supervision, Reading and Logistics. With the help of their skilled engineering forces, they have adapted their solutions to completely fill their customers’ requirements. Faltcom strengthens their customer's competitive edge by adding cost efficient and secure data transmission capabilities to their solutions. With the help of FältComs unique and patent pending technology, their customers can expand their internal networks to mobile or geographically distant units while maintaining their IT policies. The results are more efficient operations and new business opportunities for customers. Just like most telecommunication businesses, the R&D department of Faltcom communications is the backbone for their constant innovation and provision of quality services. This department consists of highly skilled software and hardware engineers within the electronic sector who designs and develops secure data communication solutions. The Ericsson PROPS model for project management is used by Faltcom in their development projects to guarantee the realization of quality solutions within the agreed time frames in their various markets (www.faltcom.se)

Figure 7: Value Chain of Faltcom

Source: owner’s own Analysis
4.3.1 The Internationalisation Process of Faltcom

When the CEO of Faltcom (Mikael Långström) was asked about the current situation of the company, he responded that, Faltcom is a born-global firm, operates in more than 43 markets in 20 different countries in Europe. According to him, they are the market leader in the field of telematics and telemetric, Machine-to-machine communication in the Nordic countries for several years now. Due to the uprising trend in M2M communications, the company has expose plans to further expand in other markets in the future. Their goal is to remain the leading providers of systems for secure and reliable communication. This, they seek to accomplish through the constant research and development which brings innovative solutions to the market. In an interview with Mikael Långström (CEO of Faltcom) he opened up our minds to the fact that, this company had aimed global since from the beginning. The engineers who started the product already knew that it will serve the international market. This confirmed the question of whether internationalisation decisions are influenced by the founding entrepreneurs. When he was asked about their main motive for going offshore, he responded by saying that “the Swedish market is very small for a highly innovative product like M2M communications, we thought it wise to find distributors, partners and resellers in other countries who can serve new markets for our products. In Umea where the company currently operates, they have just two customers. This is to indicate that without their international markets, they can’t reap the benefits of their patented technology. Concerning the question whether competitive pressures pushed Faltcom offshore, Mikael affirmed that,” currently, we don’t have any competitor in the local markets but there are some as in our markets abroad. However, taking in to consideration the fact that we have a unique product offering, we have succeeded through our partners to capture some of our competitors’ market shares. Their main sustainable competitive advantage lies in their pending patent technology which is quite unique as well. Due to the high cost involve in setting up sales subsidiaries abroad, they have solely relied on their distributors to sell their products.

4.3.2 The Influence of Resources on FältCom’s Internationalisation

In Faltcom, they believe that, having the right employees is the key to succeed in the foreign markets. According to the CEO,” if you hire just the right people for the chosen market, it will avoid the frustration of lack of knowledge about this market”. Mikael emphasized that, there is just no way can they go to a market without having the right people (partners, distributors and resellers) to represent the company’s interest. Faltcom was compel to employ an Italian guy as a sales agent in the Italian market because they found this guy well suited for this market. Due to cultural differences between Sweden and Italy such as language barrier, it is very difficult to deal with the Italian customers without an Italian agent who is well suited in the institutional settings of Italy. He emphasized that, under normal circumstances, they won’t have considered hiring a foreigner but because they were face with a challenging situation, they had to make some strategic decisions and change their business models. The statement above was in relation to the question whether resource constraints led to a change of strategy in these firms. Conclusively, it takes this company about two years to carry out research and development on a new product that will suite a particular market. In Mikael’s point of view, Faltcom is always careful not to make the wrong decisions by going in to some markets prematurely. He instills that,
internationalisation is a process that cannot be rushed in to especially a small and medium enterprise like Faltcom that still experiences some resource limitations.

4.3.3 The Role of Networking and International Entry Mode on Faltcom’s Internationalisation.

When Mikael was asked about how the company enters foreign markets, he responded by saying that, “establishing a subsidiary is quite expensive and takes a lot of time. For this reason, we have solely relied on exports and collaboration between our distributors for our products to be sold in other markets”. He elaborated further that, they work actively to create strategic cooperation with established organisations and companies in the IT/Telecom sector. The aim is to establish connection with application developers and system integrators with a wide network of different market segments and end users. Some of these partners include; Hogia Public Transportation systems, Multicom security, Poltech info system, Telia and Umea university. When he was asked what criteria they employed in choosing their networking partners, he emphasized that “we are very careful when it comes to establishing contacts with these partners because we pay close attention to the size of the partner firm, what the partners got to offer in compliment with our products. We also choose distributors who have good reseller base so that our products can reach the end users in the right time”. According to him, after taking all this in to consideration, they know is their duty to train these partners on how to position their products vis-à-vis their competitors, how to educate the resellers and how to get some sensitive information from their competitors who happen to be in the same partnership alliance. However, they have never regretted breaching contract with any partner who doesn't sell their products. From what we gathered from Mikael, if the partners can’t sell their products, it implies they are incompetent. This means continuation of this kind of relationship might cause the company to lose some of its markets.

4.3.4: The Impact of Deinternationalisation on Faltcom

The CEO of Faltcom was quite astonished when I mentioned this term to him. According to him, Faltcom have never withdrawn either partially or completely from any market. This is primary because their products have a great potential and before going in to any market, they research on the best product that will be suitable for that market. Nevertheless, he agreed that, there will be no need for Faltcom to remain in a market that is very costly for the firm. If they are however faced with this kind of situation, the only solution they will employ is to look for cheaper and more attractive markets.
4.4: Company 4: Background of Toontrack AB

Toontrack music is Swedish Developers of software and sound libraries for all aspects of drum and percussion production in digital recording environment. This company is owned by Andreas Sundgren who has been the CEO from January 2007 to December 2009 before handing over powers to Peter Knutsson. It started as Handelsbolag in 1999 but later changed its name to Toontrack in 2005. Their first virtual instrument was released in 2004 while the groundbreaking product EZ drummer was released in 2006. Since establishment, this company has been at the forefront that’s why they are referred to as the world premier developer of virtual instruments. Currently, they have 23 employees and their turnover last year was approximately 30MSEK. They have a mission to create a fusion between organic, electronic, high-tech and vintage, a sound library that covers classic sounds but carry them in to a new decade. The Toontrack music product line features tools for players and producers as well as for beginners and pros, tools for song writing, producing, playing drums and percussion. This company has been making robo real drum samples for years. They started with Drum Kit from Hell and have created various revolutionary products such as DFH Superior 1.0, EZdrummer, and Superior Drummer 2. All their products are highly innovative and offer great solutions to the music industry. It is for this reason that the custom and Vintage SDX produced by Peter Henderson won an award in 2005. Moreover, it features extensive stick and brush of a unique collection of drums and cymbal. Most of these highly priced instruments can only be found in the collections of top studio drummers or hired from rental facilities in the major music centres of the world. Toontrack has always been associated with flexibility in the studio and great tools for the live musicians. Due to the constant innovation in their products, they have succeeded to operate globally with ten distributors in different countries. Some of their distributors include; Luthman which serves the Scandinavian market, Crypton serves their Japanese customers, Algam (France), Midiware (Italy) etc. With all these distributors selling their products in complement with theirs, they have accomplished the dream of being global players. Partnership has been a main rationale behind their success. They have partners like Pearl ePRO live, Presonus, Lexicon, Korg, Sontonics etc. These partners help them to co-develop their products, cross promotion and/or cross branding of products and services.

4.4.1: The Internationalisation process of Toontrack

Toontrack been a born global company, has internationalized with the speed of light over the years. The main aim of this is because of the uniqueness and innovativeness in their products that keeps all their competitors at bay. It has a unique internationalization advantage says „Manager Director because it’s the market leader and not only improving every day in its activities but also that the company is at the moment enjoying a monopolistic market in Sweden”. Presently the company operate and own a store in Umeå (headquarter) and all its customers are in other countries other than Sweden. Its wide range of products comes with the instruments and its software. When the CEO was asked how they chose their partners, his response was that “we find partners that can deliver exactly the quality our customer’s demand, thereby partnering with different suppliers and producers in different parts of the world: Europe, Asia, Australia and Zealand, India and South Africa”. When the CEO was asked what motivated the international expansion of this
company, he responded by saying that, going international has been highly motivated by the location of their customers. He instigated that, most of their customers are found in other markets. BEEN INVOLVE IN A BUSINESS THAT PRODUCES SOFTWARE FOR MUSICAL INSTRUMENT, it is no doubt that this company is a born global company. Their products have a great potential due to the fact that music rules the world today. Taking in to cognizance the fact that they have a niche market, they have solely concentrated on the production of their drummer beats that has the greatest potential market. Most of their customers are located in Canada and the US where the music industry is highly advanced. Going through the profiles of this company, I found out that the founder who has held so many positions in this company has been the man behind Toontrack’s international presence. In his position as a marketing director, he conducted several marketing researches about the best products that will suite the best markets. THAT’S NOT WITHSTANDING, THIS COMPANY HOLDS THE IDEOLOGY THAT, FIRMS SHOULD GO INTERNATIONAL AS SOON AS THEY HAVE A STRONG ENOUGH OFFERING SUITABLE FOR OTHER MARKETS (PETER KNUTSSON, 2011)

4.4.2: THE INFLUENCE OF RESOURCES ON TOONTRACK’S INTERNATIONALISATION

Going by the words of the MD; it is obvious that the secret of the company lies in its going all out and making it right. It started its internationalization not bearing in mind the amount of resource it had. ‘NO, IF THEY DID THEY PROBABLY WOULD NOT HAVE DONE IT, THEY WOULD HAVE BEEN STUCK HIDING BEHIND THE COMPUTERS...’ The internet and its innovative product have given the market a perfect and cutting edge in the internationalization process not minding their resources. They were able to put technology at the forefront; most of the product information and orientation were done through the internet (Company webpage and YouTube) using their dealers and distributors to educate their customers. Peter Knutsson regretted the fact that, because of resource constraints, they can’t do whatever they want. He further stressed that, they could have loved to go to country by country to educate and meet end users or dealers but is impossible due to financial constraints, human resource constraints etc. Due to this, they have to rely on their distributors. However, they try as much as possible to bring out the best in what they have. Finally, the choice of the company’s foreign market depends on where their customers are located. Because a majority of their customers are located in Germany, US/Canada, they have established a direct relationship with their dealers in these countries. This is necessary to educate the dealers properly on how to reach their final consumers.

4.4.3: THE ROLE OF NETWORKING AND INTERNATIONAL ENTRY MODE ON THE INTERNATIONALISATION OF TOONTRACK

Networking has been the greatest asset of this company. This is obvious in the list of all the partners and dealers that they are doing business with in all part of the continent. The company choice of partner is always well considered before business transaction in order to give the best level of service to its customers in all part of the continent. They have also gone through the traditional way of internationalization as mentioned in the introduction of this research; first was through distribution through agents, dealers, retailers and then by direct distribution to its dealers and customers, and finally by subsidiary. There is less risk of failure when you begin with distributors though sometimes these distributors don’t always do what is expected of them(PETER KNUTSSON, 2011)
According to the MD; when choosing partners, “we take in to consideration their track record, sales team, organisational structure, network of dealers and previous experience of software market”. This has assists the company with valuable contacts to evaluate different markets such as France and Germany. As a matter of facts, good partners and distributors has help in building the reputation of the company and improve on its market share.

4.4.4: The Impact of Deinternationalisation on Toontrack

It is not a surprise that the MD does not have any idea about the topic de-internationalization, as this is a new area many entrepreneurs and SME’s have not really considered when going into an international market. This is one of the greatest obstacles that many companies faced after the financial meltdown that lead the global economy in to recession.
Chapter 5

5.0 Cross-Case Analysis and Analysis of Findings

In this section, I am going to conduct a general comparison on the findings obtained from the four cases. Here, special attention will be laid on the similarities and discrepancies between the various cases while linking them with some findings from my theoretical inclinations. The analysis will be done in consistent with the method of analysis as prescribed by Eisenhardt, 1989) section 3.10

5.1 Motives for going to international markets and the chosen entry mode from the four cases

Seaflex conceived the idea of international expansion when their Swedish customer went bankrupt. Though this company has a highly innovative product, the owner did not have a global orientation from the beginning. From their perspectives, they go to markets where they find customers. This implies internationalisation of this company is greatly influenced by the location of their customers. Also, they rely so much on their distributors to enter new markets. As cited by the CEO “When these pontoon manufacturers seek and find new market opportunities, we go in to these markets”. As a consequence of this, Seaflex also follow them to these new markets.

The case of Konftel is slightly different from this. Konftel has as a policy of entering markets where their competitors have a strong presence so that they will be faced with a challenge of capturing some of their competitor’s market shares. Their internationalisation was greatly influenced by their management team who had previous experience of international markets. The strategy employ in this company is that they open up sales subsidiaries in countries where they have bigger markets. It is through these sales subsidiaries that their products are distributed to other countries. In countries with smaller markets, they solely work on finding suitable distributors and resellers who can reach the end users. In a nut shell, they strive to internationalize slowly i.e. not to go to many markets at ones, enter only markets that they have the right prerequisite. As a matter of facts, in every market, they establish a niche position.

As for Faltcom, being a highly technological company alone is a prerequisite for them to have a global presence. The CEO highlighted that;” every aspiring entrepreneur must have a global orientation from the beginning”. This is not different from the case that prevailed in Konftel. Being involved in the production of machine to machine communications which have a high potential market, they knew from the beginning that the horizon of Sweden will not be sufficient for them. With this in mind, they seek international expansion to increase sales (i.e growth motives) and to reduce the risk in the market. Their main competitive advantage lies in their pending patented technology. Due to resource constraints, they have enjoyed working with distributors rather than opening up a sales subsidiary. This has help in saving cost and reduce the risk involve in opening up a subsidiary.
Just like the other companies, Toontrack goes to other markets with a highly innovative solution that keep competitors at bay. They have succeeded in developing their niche markets in the production of musical software and drummer beats. Because of the great potential in this product, they knew from the beginning that this product will serve the international markets. In consistent with what is practiced at Seaflex, they open up sales subsidiaries in markets where they have a majority of their customers and develop personal relationships with distributors in highly potential markets. By doing this, they ensure that their customers’ needs are well taken care of.

From the analysis of the four cases, it was found out that three of the companies went to international markets because they wanted to expand their business and achieve their growth motives. However, Seaflex did not go offshore because of growth motives. They went offshore because they had no customer in the Swedish market. The findings from the three companies is in consistent with the findings of Orser and al (2008) who cited growth motives as the main determinant that drives firms offshore. I also found out that in most of the firms, their decisions to internationalize was highly motivated by the founding entrepreneur. With these findings, I confirm Calof and Beamish (1995); Knigh and Cavasgil (1997) views that it was the attitude of the decision makers of SMES that propelled them to the international markets rather than environmental factors. With this, it is very true that, in order to attain international success, a firm has to not only have the appropriate product and strategy but its decision makers must have the right attitudes as well (Calof and Beamish,1995). It is these attitudes that determine how decision makers perceive the benefits, costs and risks of internationalisation. In addition to this, I affirm the findings by Johnson and Vahlne (1999) who stated that a firm will move in to foreign markets when its decision making system acquires tactic knowledge of these markets. Though this is not part of the research focus, it adds to an additional knowledge developed during the research.

Evidence from the four cases present us with the fact that they are all highly technological firms who produce innovative products that have a sustainable competitive advantage with respect to other competitive products. These findings are closely in consistent with findings from Rammer and Schiemiele (2008) who found out that, firms choose to go abroad with innovative activities when they have a niche market position i.e a low number of competitors and a patent-based technological advantage. Findings by Bell (1995) also confirm this by saying that, the process of internationalisation was strongly influenced by the targeting of niche markets and industry specific considerations rather than the psychic distance to export markets.

According to the stage models, firms choose markets that are psychically close to their home markets before going to markets further away. It also state that firms often internationalized in incremental steps i.e they start with exports, later on establishing a sales subsidiary before starting manufacturing oversees. My findings from Faltcom Company support this proposition because in Faltcom, they rely on their distributors. To them, establishing a subsidiary is expensive hence they employ the traditional method of internationalisation. Findings from the three other companies are not in consistent with the stage models because they establish sales subsidiaries. In connection with their modes of entry, they often choose the less risky ones to save cost. The Faltcom case presents us with the fact that they rely on their distributors because it is less costly and less risky to deal...
with. However, companies like Seaflex and Konftel have established sales subsidiaries in countries where they have most of their customers. This indicates that, not all companies begin with the traditional form of internationalisation. The Toontrack case clearly confirms findings from Angdal and Chetty (2007); Zaheer (1995) who postulated that, as firms gain knowledge and experience in their international markets, they frequently switched to a higher commitment mode which was often from a distributor to a sales subsidiary.

5.2: The Importance of Resource based Perspectives on Internationalisation

In Seaflex, resources play a very fundamental role in their internationalisation process. This company could not have been very successful doing business offshore if they didn't critically evaluate their resources. According to the CEO, their success lies in “using what we have to get what we want”. Through this, they have succeeded in finding appropriate distributors who helped in providing them with information on both general and market specific knowledge. However, because of resource constraint, they experienced slower entry due to cost of travel and participation in market events, less advertising than desired etc. This case is not quite different from what prevails at Konftel as this company considers providing the right product for a chosen market is the key. Due to resource constraints in the past, this company was force to change their strategies and focus on the solution at hand. They believe that, if their owner is willing to invest long-term, it will put an end to these resource limitations as benefits of present investment will be reap later on. However, they concluded that, knowing the right prerequisite for a chosen market can avoid the risk of future failures. In Faltcom, having the right employees is crucial for international success. To them, finding the right people suitable for particular markets will avoid the problem of psychic distance between the home and the host market. With this in mind, they allege that, the concept of market research should not be underestimated. It is very important to have the right people with the right knowledge in order to increase on the market commitment and the commitment decisions. This is in consistent with findings from Johanson and Vahlne (1977). For Toontrack, there was no need for them to critically evaluate their resources before going in to other markets. The CEO stated that, if they had done so, they could have been stuck in their computers. This means, they consider resource evaluation as a time consuming activity. However, they have learned to use what they have to get what they want. It is for this reason that they have adapted to the market by educating their customers through websites like the company’s webpage and YouTube.

From the analysis of the four cases, it is very clear that most SMEs are highly constrained by their resources. Due to this lack of resources, many of them were forced to change their strategies. Looking at this situation, it is quite evident that resources play a crucial role in the international expansion of SMEs. For example highly technological firms have succeeded to overcome this resource constraints by changing their strategies (the case of Konftel), providing consultancy services to software companies, engaging in network with other firms and institutions to help develop their products. Because of this market adaptation, we can say that resource constraint does not at all influence the level of internationalisation of highly technological SMEs but they do help them to make the most out of their investment.

From the data presentation of the four companies, I obtained evidence from three of the four companies (Seaflex, Konftel and Faltcom) that it is of great importance to critically evaluate existing resources before going offshore. According to them, this helps to avoid
the problem of premature expansion and also in determining the strength of the company. These findings confirms findings from the resource based view by Bell et al (1998) who iterated that, the major decisions of firms are based on a total consideration of all the available resources and capabilities of the firm as well as the environmental realities hence achieving a competitive advantage entail possession of resources which are unique and enable a firm to provide value. With all this in mind, I hereby confirm that, for firms to avoid been stuck in their strategies, they must critically evaluate their existing resources before venturing to go to other markets.

5.3: Assessment of the Role of Networking on Internationalisation

At Seaflex, the role of networking is very crucial when analyzing the success story of this company. A personal confession from the CEO of the company affirms to the fact that, if not of our partners, we could have remained a small company”. Because these partners play a very crucial role, they exercise diligent and care when choosing these partners. To them, intermediate companies have always been the best companies to partnership with because they can easily accept new technologies, have growth ambitions, enough financial strength they have a good reseller base and above all, they are not stuck in their strategies. Through these partners, they have succeeded in gaining trust and benefits in the relationship. While these partners help the company in their business, they also educate and provide these partners with strategic advices. Hence we can conclude that, just like most companies, partnership is a mutual relationship at Seaflex. At Konftel, networking has helped them to understand how different markets work. The company seeks valuable information from these partners about their markets such as; how their markets work best, what marketing tools will be appropriate for this market, what is operating within their competitors such as the price situation compare with Polycom. With this market specific knowledge, they evaluate which products to produce that will suite that particular market. However, they have been very prudent when choosing these partners because they form a core part of their value delivery chain. They have also helped in developing their products through their partnership agreement with Siemens and Ericsson hence we can conclude that partnership does not only help this company to understand its market situation but it also helps in the testing and development of their technology. What operates in Faltcom is not quite different from that of the two companies highlighted above. This company has developed strategic cooperation with established organisations and companies in the IT/Telecom sector. The aim is to establish connection with application developers and system integrators with a wide network of different market segments and end users. The story is not different from what prevails at Toontrack who established profitable networks with record dealers to sell their products.

From the analysis of these companies, it can be analysed that, networking is very crucial for any business whether in the home market or foreign market. Finding trustworthy partners who can help in improving the value of the firm has been the goal of any company seeking internationalisation. However, I have found out that, a certain criteria should be put in place when choosing these partners because companies always expect the best from their partners. This can only be achieve by evaluating their inter-firm networks, their reseller base, their financial strength, the size of the partnership firm and the willingness of these firms to learn and adjust to new technology from the partnering company. I also found out that, partners rely on each other for support. While the partners provide the firms with
information about the market, they expect the firm to provide them with information about their company such as the nature of their products, their financial strength, past records of the company etc. These findings supports the findings by Mattson (1988) who propose that a firm's success in entering new international markets is more dependent on its relationship with current markets than on market and cultural characteristics. I also support the findings of Jones(1999); Johanson and Vahlne(1990) who proposed that, networks also speed internationalisation by providing synergistic relationships with other firms, small and large which complement each other’s resources at various stages in the value chain. These findings are clearly against the stage model of internationalisation which proposes that; internationalisation must be a gradual step. I highlight that, through networks, firms can skip the traditional forms of internationalisation and accelerate the process.

5.4 Impact of Deinternationalisation on Internationalisation

At Seaflex, withdrawal from foreign markets occurred in the past because the markets were no longer attractive. Presently, the strategy this company has developed is that if one market turns to be unresponsive or unattractive, they expand to nearby markets in the same region. This means they will partially withdraw from that market but in order to keep the cost of withdrawal low, they have to seek for nearby markets. The CEO iterated that, there is no need to stay in a market that cost is rising, competitive pressures are high or a market where they don’t have any international experience. The situation of Konftel is quite different. They ones deinternationalised from the American market because they didn't have the right products that suit the market at the time. This is related to lack of international experience and poor strategic decision making. This statement clearly confirms Reiljan (2006) findings. However, after some years when they carried out proper market research, they reinternationalised. The CEO advice that, firms should not deinternationalised very fast if the market is unresponsive but rather take some additional time to try to sort things out. Faltcom and Toontrack fortunately have never been faced in a situation where they had to withdraw from the foreign market. Nevertheless, they agreed that, though they are fortunate, deinternationalisation should be planned for. What they meant by this is that, they propose that companies should set a baseline that, if revenues are going down or if the value of the firm is reducing, they either reduce their commitments in that market or completely withdraw. This will avoid companies committing the error of omission. This statement supports Carsson (1986) findings who described international withdrawal as an error correction mechanism. To him, firms commit error of omission when they should have deinternationalised earlier but failed to do so and error of commission when a company should not have deinternationalised but did so.

The findings from Konftel affirm the fact that, firms can reinternationalised after international withdrawal. This is closely linked to findings by Welch and Welch (2009). My findings also accept Benito and Welch proposition of 1997 where they clearly stated that international withdrawal is a cause-effect relationship. They propose that, in the passage of time, the probability to withdraw from international operations declines as the commitment to these operations increases. This situation was clearly witnessed in the Seaflex case where the CEO confirms that it is not easy to completely withdraw from an unresponsive market. Rather, they choose to find markets closer to this market that can offer a better solution at the moment.
Chapter 6

6.0 Conclusion

This paper seeks to explain the motives that drive HTSMEs to international markets and the paths these firms take towards the internationalisation process. I began by analyzing my problem and then after structuring my research questions on what I seek to find. My literature review chapter has so far been focus on the past models of internationalisation and the variables in my research questions. It is these research questions that have guided me throughout the research. Carrying out a cross-sectional analysis of four Swedish firms operating in the high technological sector has been very suitable to bring out the validity of my research.

To answer my first research question; what are the main drivers of internationalisation of highly technological SMEs?

From the analysis of the four cases, 3 out of the 4 companies had growth motives as their reason for internationalisation. This is because they have a patented technology that gives them a sustainable competitive advantage abroad. In addition to this, due to the fact that they have high technological products that are suitable for several markets, they have sought international expansion as a basis of increasing the value of their investment. Other factors such as competitive pressures, international outsourcing, knowledge related perspectives, networking with potential suppliers as indicated in other studies were not obtained in this study. With these findings, we can conclude that because most highly technological SMEs in Umea have a patented technology, they seek international expansion to win over market shares from other market players. By doing this, the value of their investments will increase.

To answer my second research question; what are the successful paths managers must follow when making decisions to internationalise? Is it proper networks, consideration of available resources, proper entry modes or deinternationalising at the right time?

I found out that, even though internationalisation of SMEs is usually constraint by lack of resources (financial, human, physical etc), HTSMEs to an extend have succeeded in by passing resource limitations. What I mean by this is that, resource limitations do not to an extend affect the internationalisation of HTSMEs because they have a unique competitive advantage that opens up a portfolio of opportunities where they can achieve these resources. For example through networking, they have succeeded in overcoming some of their resource constraints. Since international expansion is a risk taking venture, the firms in my research gave me valuable propositions that, firms must critically evaluate their resources before considering international expansion. Evaluation of these resources entails considering the amount of knowledge the firm has about that chosen market, if this knowledge is absent, how to obtain this knowledge, ability to find potential partners to work with, adequate managerial time, skills and knowledge, the right products suitable for the right market. All this information will help the firm in escaping some of the barriers of
internationalisation and reap the benefits of risk taking. Choosing the right entry mode was also highlighted as another critical issue of internationalisation. Concerning this, I obtained mixed findings as three of the firms in my sample open subsidiaries in their main markets while in the other markets, they keep in touch with their distributors. One of the firm clearly stated that, they always strive to choose the less risky mode of entry which is finding distributors. When they understand the market perfectly, they then switch to higher entry modes such as opening up a sales subsidiary. Since a majority of the firms in the sample open up subsidiaries in their main markets, in this light, we can criticized the Uppsala model of internationalisation which highlights that firms often choose less risky entry modes such as distributors before advancing to higher modes of entry. However, because the Uppsala model talks about internationalizing slowly because of reducing risk, I can conclude that it can be the most suitable model for non-highly technological firms. This is because highly technological SMEs have a tendency to break those barriers due to the great potential in their products.

Evidence from our cases proves that, networking is very important for SMEs when internationalizing. It is through these networks that they obtain market specific knowledge and even knowledge on how to develop their products. From their partners, they have been able to understand the markets rapidly and made their products well suited for the different markets. With these findings, I hypothesized that, firms must consider choosing the right partners with the right knowledge before going offshore. It is through this network that they will obtain market knowledge and market commitment which both affect commitment decisions and the way current activities are performed. These findings also support the Uppsala model of internationalisation proposed by Johanson and Vahlne (1979).

Concerning the aspect of deinternationalisation, I obtained mixed findings. Two of the firms in my sample have experience deinternationalisation while the other two have never deinternationalise. From what I found out, deinternationalisation is mostly linked to lack of international experience and poor strategic decision making. We found evidence to support the fact that, deinternationalisation is a phenomenon that is mostly common with SMEs but the probability of HTSMEs to deinternationalise is very slim. Because this is a growing concern, managers were advice to include it as a contingency plan when making their internationalisation decision. General findings about this concept supports Benito and Welch(1997) proposition that with the passage of time, the probability to withdraw from international operations declines as the commitment to these operations increases. This means that, as firms gain understanding of a particular market, they are unlikely to deinternationalise from that market. Hence managers are advised to put in all the three factors together; consideration of their resources, employing the right entry mode and finding the right partners in order to upgrade their knowledge in any specific market. It is a combination of all these three factors that will prevent partial or complete withdrawal in foreign markets.

With all these variables put in place, it is clear that, most HTSMEs in Umea follow a specific path to international markets. Though not quite simple and sequential, some firms consider other factors before others. For example some firms find good partners to work with before making a checklist of their resources. Whatever the case is, the most important thing is that they follow a certain path. It is only by successfully following the right path to internationalisation that will prevent international withdrawal.
Chapter 7
Implications, Recommendations and Limitations of the Study

7.1 Implications

The findings of this study have a number of implications;

Managerial Implications

It is important for managers/owners to access the task involve in internationalisation. In this study, they can access the possibility of using internationalisation as a means of overcoming resource constraints by networking with other firms, distributors and partners. With this, managers are educated on how to draw up their internationalisation strategy and how to choose the right international entry mode. I have provided information that can educate managers on how to include risk in their strategy. This has been achieved in this study through the concept of de-internationalisation. If managers consider the possibility of failure to choose right partners, consideration of their available resources and choosing the right entry modes might lead to the probability of either partially or completely withdrawing from the foreign market, they will be compel to make the right decisions by carefully analyzing.

Implications for policy makers

Through this study, policy makers could access the importance in facilitating the use of international activities by SMEs as a means to overcome resource deficiencies, e.g. by facilitating the formation of alliances with foreign partners for the use of foreign resources (for instance through matchmaking) or by removing constraining regulation, such as restrictions on the free movement of labour.

Academic Implications

Finally, it has contributed to a general knowledge on internationalisation particularly the Uppsala model. Through this study, I have added that, the Uppsala model should include the possibility of firms to de-internationalise from foreign operations if their market commitment and market knowledge keeps declining. With this perspective, I call upon a cause-effect relationship between internationalisation and de-internationalisation to be introduced in the Uppsala model. I have also contributed on the knowledge of born global firms that internationalized rapidly. To this effect, I have open up minds to the fact that, competitive pressures as perceived before do not drive HTSMEs to other markets. Rather, they seek foreign expansion to enjoy their unique patented technology which has gives them an innovative product.
7.2 Recommendations for Further Studies

In my thesis, I have solely analysed the internationalisation paths of highly technological firms and the motives that drive them offshore. I recommend future research on this topic to focus on SMEs that do not belong to the highly technological sector and access if they follow the same paths towards their internationalisation process. In addition to this, I recommend future studies to access whether the motives that drive other SMES to internationalisation will be the same.

I also outlined the importance of networking for the internationalisation of SMEs. With this, I stated how important it is to find potential partners that can help the firm to understand market specific knowledge in particular. I mentioned the possibility of the firm choosing wrong partners. However, I did not access the potential impact of the firm when they choose wrong partners. This aspect can be very interesting to further research on and provide managers with the impact of choosing wrong international partners and how this can be linked to performance. In connection to this, specific roles of partners should be analysed so that their importance should not be underestimated.

I have analysed that it is important for managers to carefully draw their international strategies in order not to miss out some of the variables in the framework of internationalisation. In this framework, I mentioned the possibility of considering the right time to go offshore. However, I did not stress much on this variable. Looking on the uncertainty in the business environment today and the difficulties SMEs faced during their internationalisation process, it is of relevance that future researchers provide firms with concrete information on when is the best time to go offshore in order for firms not to rush in to the process. This information will help SMEs to ascertain if they are ready to face the challenge of competing with MNCs abroad.

My thesis also provides support to Carsson (1986) proposition that when firms de-internationalise, they often commit two errors. Error of omission and commission, the first one deals with the fact when firms should have de-internationalised earlier but failed to do so and the latter deals with the fact when firms de-internationalised when they were not suppose to do. Reading this statement, we can trace the aspect of time when it comes to international withdrawal. I hereby call on further researchers to provide firms with this critical information on the right time to withdraw from the foreign market. Extensive research on this issue will prevent premature or over delayed withdrawal from some markets.
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Appendix 1

Interview Guide

Master’s Thesis in Business Administration.

Topic: Paths taken by SMEs in to Internationalisation

Company:

Name of Respondent:

Location:

Date:

Part one (General information about your company)

1) When was your company established and what transformations have it undergo since inception?
2) What is the current situation of your company? In terms of activities, human dimensions, market share, market position etc?
3) What role do you play in the company? And how has this role influence the company's decision to go international?
4) Who are your main competitors in the local market? Were competitive pressures one of the factors that influenced your international expansion?
5) Besides the reason cited in question 4, what other factors motivated your company to go offshore?
6) Can we describe your company as born global or it has taken your company years to go to foreign markets?
7) How many markets is your company currently operating in?
8) When do you think is the right time for firms to go international?

Part 2 (Resource based perspectives and internationalisation)

1) Did the company critically evaluate its existing resources before going international (human, physical and financial resources)?
2) To what extend have these resources limit your level of internationalisation?
3) What measures does the company seek to acquire those resources that are not available to the company?
4) Has this lack of resources causes managers to change their strategies in order to meet up with the cost in the foreign markets?
5) How the company does choose its foreign markets? Is it in terms of proximity to home markets or in terms of attractiveness to the foreign markets?

Part 3 (networking and international entry mode)

1) How do you enter foreign markets? Is it through joint ventures, acquisition or establishing a fully owned subsidiary?
2) What impact has the selected entry mode on the company?
3) When seeking international networking partners, which criteria do you employ in the selection of these partners?
4) To what extend has your international network improve on the firm’s performance?
5) What kind of information do you usually seek from these partners?
6) Have these networks also help in capturing some of your competitors and improve on your market share?
7) Has your firm ever indulge in to an unprofitable network? If yes, how did it affect the firm?

Part 4 (De-internationalisation)

1) In your opinion, what do you understand by de-internationalisation?
2) Have your firm been ever faced in a situation where they withdrew from foreign markets?
3) If yes, was it partial or complete withdrawal from all the foreign markets?
4) What were the possible causes of this (international market withdrawal)?
5) Do you think de-internationalisation is a right strategy to employ if the foreign market is no longer attractive?
Appendix 2

Seaflex products

SEAFLEX® Mooring System  SEAFLEX® Spring

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Appendix 3

Konftel’s Product
Here you have the example of the Konftel 300 which is latest and most complete conference telephone developed by Konftel

Reprinted by Permission
Appendix 4

Products of Toontrack

  a) EZ Drummer line

  b) Superior line

Reprinted by permission
Appendix 5
Faltcom’s products

a) M2M communications

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<thead>
<tr>
<th>Faltcom</th>
<th>MIIPS®</th>
<th>Commeo</th>
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<tbody>
<tr>
<td>CDMA Communication platform with many areas of use, including mobile LANs and Internet access. Using this terminal you can achieve Machine to Machine communication via CDMA450.</td>
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<table>
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<tr>
<th>Faltcom</th>
<th>MIIPS®</th>
<th>Committo</th>
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<tbody>
<tr>
<td>A communication platform with a wide range of interfaces. A versatile platform with many areas of use, for example secure mobile LANs, Internet access, monitoring of vehicles and eco-driving.</td>
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<table>
<thead>
<tr>
<th>Faltcom</th>
<th>Enterprise</th>
<th>Server</th>
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<tbody>
<tr>
<td>For larger network solutions a centrally located management server is recommended for convenient management of the terminals. This server allows remote monitoring and remote management at a very cost-efficient level.</td>
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<tr>
<th>Faltcom</th>
<th>MLAN®</th>
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<tr>
<td>This software allows simple direct connection of terminals to your company's internal network while maintaining your company's IT policy.</td>
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</table>

b) LiFt phones

| Alarm receiving |
| Alarm receivers for bigger and smaller alarm centres and lift service companies. |

<table>
<thead>
<tr>
<th>Faltcom</th>
<th>ECII™</th>
<th>Flex</th>
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<tbody>
<tr>
<td>Emergency lift phone for fixed telephone line. Available in three different mounting versions.</td>
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| System components |
| Faltcom assortment for emergency lift communication. |

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<th>Faltcom</th>
<th>ECII™</th>
<th>GSM</th>
<th>SE</th>
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<tbody>
<tr>
<td>Emergency lift phone that communicates over the GSM network. Can be used where no telephone line is available.</td>
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