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The internationalization process of Swedish SMEs and involvement of immigrants

Master's thesis within Innovation and Business Creation

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Abstract

Internationalization is a topic of high actuality, and in this study the spotlight is on how small and medium-sized enterprises (SMEs) access foreign market opportunities and go international. There are a large numbers of studies of internationalization processes but most of them mainly focus on multinational enterprises. There is a need for studies on how SMEs internationalize, what barriers they face and what role immigrants play in the process of internationalization. In this study the purpose is to investigate the internationalization process of Swedish SMEs and the contributions of social networks in the process. Immigrants are introduced as a social network. Drawing on the Uppsala internationalization process model with the network approach, the literature on social network with a knowledge-based view, this study aims to fulfil the above mentioned purpose.

For the empirical study, a qualitative method has been used and semi-structured interviews have been performed in six Swedish SMEs.

The results of our study illustrate that the Swedish SMEs experience several barriers in the internationalization process due to the lack of financial resources and knowledge-related resources. They also gradually start the internationalization process in their neighbour countries. Moreover, the study shows that the immigrants contribute in the process of internationalization by providing the SMEs with market knowledge and through offering experiential learning.

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1 Introduction

This chapter presents the background to the internationalization process of SMEs and involvement of immigrants in the process. It clarifies why this topic is an attractive topic to study. Moreover, this chapter introduces problem discussion, purpose and delimitation that the authors aim to focus on. The end of the chapter is followed by disposition section which gives a short idea about the remaining chapters of the study.

1.1 Background

World is in a high speed of change in every aspect. The world of business is not an exception; it is also in a fast changing process. This process originated from industrial and technical and information revolution which we have witnessed during last decades. At the same time competition has increased in business; not any longer, companies can just limit themselves to domestic markets. Gaining access to new markets and more customers is considered as a fundamental action. As a result, internationalization has turned into an unavoidable issue for companies. Internationalization is commonly understood as a process of adopting firms' operations to an international environment (Calof & Beamish, 1995).

According to Coviello and McAuley (1999), internationalization is the process by which firms improve their understanding of the direct and indirect consequences of international transactions on their future, and carry out transactions with other firms. International markets are very attractive because considerable opportunities for growth come from internationalization (Fabian, Molina & Labianca, 2009). The benefits which firms can attain through internationalization, such as access to a larger customer base, low-cost production, international economies of scale and learning (Hitt, Hoskisson & Kim, 1997) are obvious to everyone involving in this field.

Small and medium-sized enterprises (SMEs) going international may experience various structural forms, based on evolutionary stages or mode of internationalization (Ghoshal & Bartlett, 1988). Some of these structural forms are as follow: export, sales offices, foreign

production, global product or area divisions, licensing, franchising and international joint ventures (DeCieri & Dowling, 1997). According to the European Commission, a SME can be classified as an enterprise which has fewer than 250 employees, a turnover of less than 250 million Euros and an annual balance sheet less than 43 million Euros (Murphy & Ledwith, 2007). This study limits its focus to Swedish SMEs.

SMEs willing to go international may suffer from the lack of knowledge regarding the way of doing a business in a foreign market (Carlson, 1966). Lack of knowledge about foreign markets is a major obstacle to international activities, but such knowledge can be developed (Johanson & Vahlne, 1977). In addition, any foreign market activities will occupy a big part of resources of a SME. In case of failure of any of these international activities, the impact on a SME can be very destructive, and this increases the risk levels of SMEs (Pangarkar, 2008). SMEs that go international experience several other barriers regarding different laws, exchange rate fluctuations, and differences in consumer preferences, heterogeneous cultures, language, new competitors (Ghoshal & Bartlett, 1988), inability in recognition of international business opportunities and lack of contact in the target markets (OECD, 2009).

Lately several studies have confirmed that social networks are crucial for SMEs to achieve international growth (Harris & Wheeler, 2005; Hadley & Wilson, 2003). According to Bjorkman and Kock (1995), a social network is a network of individuals who are connected through relations that consist of social exchanges. In addition, information and business transactions can also be conducted through social relations. Coviello, Ghauri and Martin, (1998) classify social networks as both informal contacts, such as friendship and family, and formal contacts, for example with business and governmental associations. Chen (2003) confirms that informal social networks can work as the initial base to build up formal networks of business relations in new target markets. Social network can help SMEs to identify foreign market opportunities and to facilitate market transactions (Harris & Wheeler, 2005).

Immigrants have been referred to as a valuable social network, which can provide a company with the market knowledge needed for internationalization (Gould, 1994). Faist (2000) defines immigrant as a person who moves from one country to another with the purpose of starting residence there for a significant period of time. According to Gustafsson (2004), Swedish authorities and statistics frequently describe immigrants as for-

foreign born persons. In our study, the term social network or social ties, refers to immigrants.

Immigrants' ties to their home countries can play an essential role in the development of mutual trade linkages. Immigrants' knowledge regarding home-country markets, language, preferences, and business contacts can minimize the transaction costs (Gould, 1994). These aspects are seen to enable SMEs to overcome the barriers in the internationalization process.

In light of the worldwide economic crisis, it has been obvious that Sweden as a free-trade friendly country should discover some ways to enhance internationalization. This requires overcoming the barriers to the development of market knowledge about new target markets. We consider immigrants as a valuable resource that enable SMEs to decrease various barriers to the internationalization process. Therefore in this paper we intend to study the internationalization process of Swedish SMEs and involvement of immigrants in the process.

1.2 Problem

SMEs have difficulties in financing their international activities due to limited size and resources, as well as limited international experience (Onkelinx & Sleuwaegen, 2008) which lead to too little knowledge about new markets. This is one of the main barriers for SMEs going international. Existing research on small and medium-sized enterprises has highlighted that a firm's market knowledge resource is a key factor in its internationalization process (Yli-Renko, Autio & Tontti, 2002). This knowledge consists of knowledge of language, customer preferences, and business contacts that have the potential to decrease trading transaction costs (Gould, 1994).

We believe this knowledge can be achieved by involving immigrants as a social network in the internationalization process. Social networks are vital to the development of market knowledge and the development of formal business linkages across borders (Zhou, Wu & Luo, 2007). Notwithstanding the fact that market knowledge development through social networks is an essential driver in the internationalization of small and medium-sized enterprises, there is still a lack of studies in the mentioned area. Therefore, the problem of this thesis concerns the need for further investigation in the internationalization of Swe-

dish SMEs and involvement of social networks, immigrants in this case, in the internationalization process.

1.3 Purpose

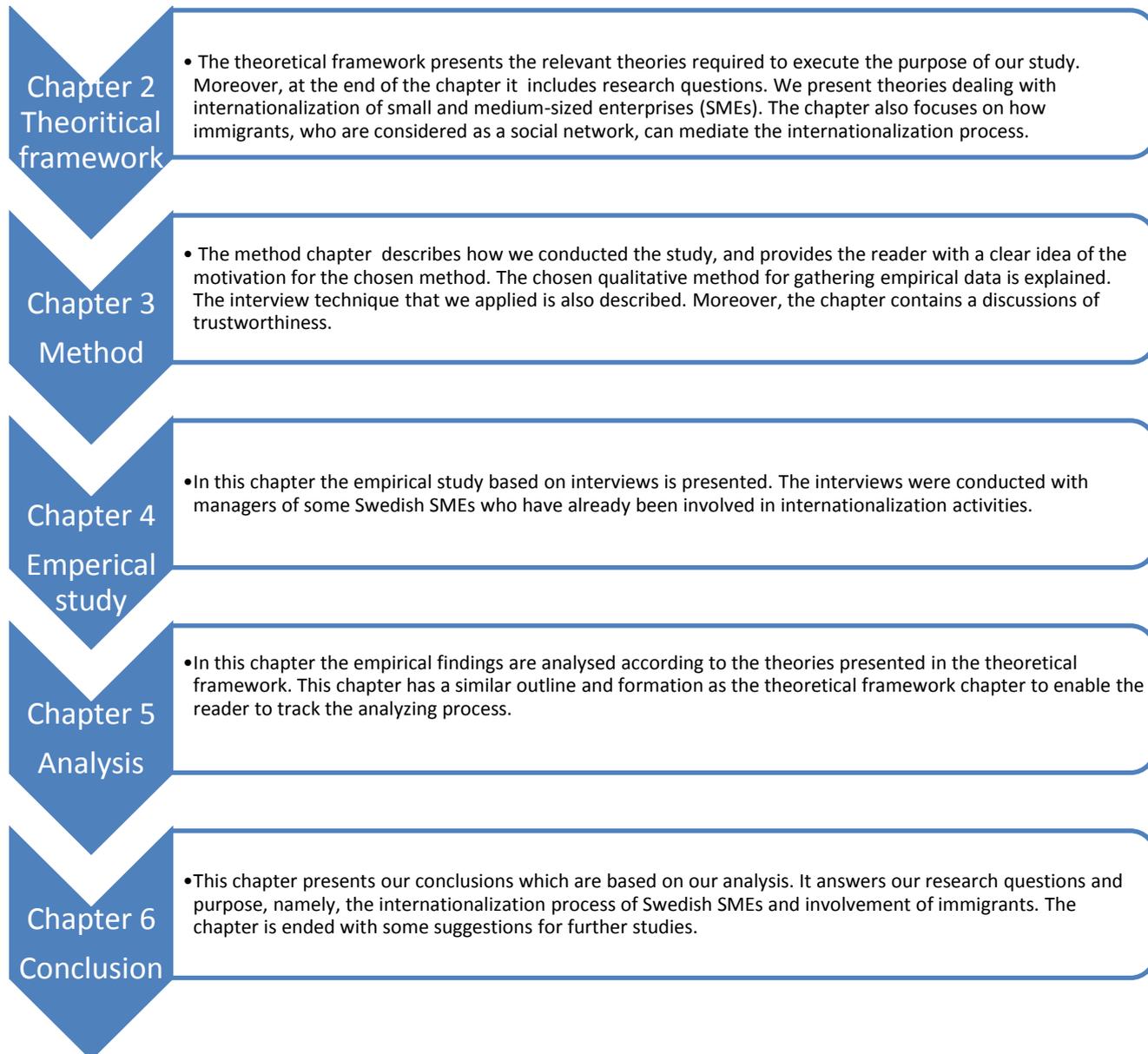
According to Boter and Lundström (2005), lack of resources makes it difficult for SMEs to start internationalization. Lack of resources creates several barriers for SMEs in the internationalization process. One of the main barriers is shortage of market knowledge. Knowledge about new target markets plays a considerable role in the internationalization of SMEs (Boter & Lundström, 2005). We argue that SMEs can achieve this knowledge through social networks that include immigrants. Ellis (2000) also confirmed that social networks are vital to the development of market knowledge and identified global market opportunities. Therefore the purpose of this thesis is to examine the internationalization process of SMEs and the involvement of immigrants as a social network in the internationalization process of SMEs.

1.4 Delimitation

In this paper, we focus on the internationalization process of Swedish SMEs and involvement of immigrants, from the perspectives of Swedish SMEs. We are not considering immigrants' perspectives. Moreover, we have limited this study to the involvement of first generation of immigrants who have the experience of living in their homeland for a considerable amount of time. The choice of firms includes a range of SMEs that have already performed internationalization activities.

1.5 Disposition

In this part disposition of the rest of the thesis is shown. The figure shows the remaining chapters and describes the setup of the thesis.



2 Theoretical framework

Theoretical framework gives insight into previous research conducted in the area of the internationalization process of SMEs and social network. In this chapter, we describe theories concerning internationalization of small and medium-sized enterprises (SMEs). The chapter also focuses on how a social network with reference to immigrants mediates an internationalization process.

We present the Uppsala model (Johanson & Vahlne, 1977, 2009), as the main internationalization theory for our study and discuss the role of market knowledge in an internationalization process. We also clarify how SMEs can gain market knowledge and experiential knowledge through involving social networks of immigrants in the internationalization process. In the design of the theoretical framework, we draw inspiration from the article done in this field by Zhou, Wu and Luo (2007).

2.1 Internationalization of SMEs

“Internationalization” is not a new business term. In the last decade, we have witnessed a growing amount of research about the internationalization of firms. Internationalization is conceptualized as the involvement in activities across national borders (Jones, 2001). Literature presents several approaches based on different models. One of the most well-known theories is illustrated by the Uppsala model (Johanson & Wiedersheim-Paul, 1975). According to this model, the process of internationalization consists of “two change mechanisms. First, firms change by learning from their experience of operations, current activities, in foreign markets. Second, they change through the commitment decisions that they make to strengthen their position in the foreign market” (Johanson & Vahlne, 2009, p. 1412).

In this model, internationalization is described as a gradual process, in which a firm develops its commitment in foreign markets as it obtains experiential knowledge (Johanson & Vahlne, 1990). According to Penrose (1959, 1995), obtaining specific market knowledge enables the firm to take bigger risks and continue its activities for growing in the international market. Due to the changes in business practices, Johanson and Vahlne (2009) revised their model, considering a network approach. The revised Uppsala process model explains that SMEs with no relations with a relevant network are re-

garded as “outsiders.” This outsidership creates numbers of barriers in the internationalization process.

Another well-known model, which focuses on internationalization as a process, is the innovation-related internationalization model (Cavusgil, 1980). The model illustrates that the internationalization decision is considered as an innovation for the firm. It explains the internationalization process through five stages: domestic marketing, pre-export, experimental involvement, active involvement, committed involvement.

Lately, many studies have criticized the stage theories since not all the SMEs follow the stage pattern. Numbers of SMEs enter the international market as soon as they are established. To illustrate the rapid internationalization of this kind of SMEs, Oviatt and McDougall (1994) introduced a model called international new ventures (INVs) and born global theories. As a final approach to the internationalization of SMEs, we would like to present, the holistic approach (Fletcher, 2001) which describes that SMEs can follow a mix of various models in the internationalization process and it also explains that outward and inward forms of internationalization are interconnected and influence each other.

Although there are a variety of internationalization theories, internationalization is still considered as a process. In our study we will focus on the Uppsala model mainly in connection with a network approach, and this will be clarified in detail later in the chapter.

2.2 Drivers for and barriers in Internationalization of SMEs

Traditionally, SMEs constrained their markets to inside national boundaries (Pleitner, 1997) but this is not the case any longer. Many SMEs have stepped out to international markets because they have found that internationalization activities enable them to access potential opportunities in foreign markets and get aware of the needs of international markets (Zhou et al. 2007). Access to these opportunities is beneficial for both domestic and target markets since it enhances economic growth and cuts unemployment (Ruzzier, Hisrich, & Antoncic, 2007).

SMEs become more internationalized, as they become more involved in business activities in markets outside of the home country. This can either be a planned and organized process, or non-planned process results from new opportunities or threat recognition (Al-

abaum & Duerr, 2008). Internationalization is an important issue for firms, as it usually results in vital growth (Luostariinen, 1980).

Growth is a significant factor in driving SME internationalisation but it seems that external factors such as network, social ties, and immigrant links also motivate the internationalisation of SMEs (OECD, 2009). Moreover, Rundh (2007) noted that managers' previous international experience, unique product or technology and limited domestic markets are substantial drives for Swedish SMEs to internationalize.

Internationalization process of SMEs is different from internationalization of multinational enterprises (MNEs); one of the most essential differences is SMEs' limited resources and competences. In this regard Boter and Lundström (2005) pointed out that lack of resources makes it difficult for SMEs to internationalize. Therefore, SMEs are not able to appear on the international markets as often as MNEs. Following OECD (2009), the top four barriers to SME internationalisation process include: 1) limited financial resources 2) difficulty in identifying international business opportunities; 3) limited information for analyses of new markets; and 4) inability to contact potential international customers.

Aside from lack of financial resource, the rest of the barriers are mainly knowledge-related barriers. Knowledge plays a considerable role in the internationalization process of SMEs. "Knowledge is at the core of received wisdom on internationalization" (Prashantham, 2005, p.38). Knight and Liesch (2002) also confirm all the above mentioned barriers in the internationalization of SMEs; moreover, he notes that due to lack of market knowledge, SMEs face difficulty in adapting products and services to international customers.

In addition, any foreign market activities will occupy a big part of resources of SMEs, such as financial resources, comparing multinational firms. In the case of any failure in the internationalization process, the impact on SMEs can be more destructive, and subsequently it increases the risk level of SMEs (Pangarkar, 2008).

Lack of resources makes an internationalizing SME follow a slow and step by step process. Through this gradual process, the firm decreases the risk of losing resources and can improve its market knowledge (Johanson & Wiedersheim- Paul, 1975). One of the relevant dominant theories, which sees the internationalization as a gradual process, is the

Uppsala model (Johanson & Vahlne 1977). The Uppsala model clarifies that the market knowledge can be developed by experiencing the market or finding a position in the relevant network. We will elaborate the model in details next.

2.3 The Uppsala internationalization model

The Uppsala internationalization model has been developed by Johanson and Vahlne (1977, 1990). Among internationalization process theories, it still is the leading model (Andersen, 1997; Fillis, 2001). The model illustrates how companies learn and how their learning has an effect on their investment behaviour. A basic assumption of the Uppsala model is that “lack of knowledge about foreign markets is a major obstacle to international operations, but such knowledge can be acquired” (Johanson & Vahlne, 1977, p. 23). Johanson and Wiedersheim-Paul (1975) found that due to the lack of market knowledge, firms start internationalization gradually in countries with less psychic distance. Later on they go on incrementally by increasing their involvement in other countries.

Firms successively go into new target markets with higher ‘psychic distance’. Psychic distance is defined as “factors preventing or disturbing the flows of information between firms and market. Examples of such factors are differences of languages, culture, political systems, level of education, level of industrial development, etc” (Johanson & Wiedersheim-Paul, 1975, p. 18). The Uppsala model describes that Swedish SMEs generally start with exporting to a country via an agent, later establish a sales subsidiary, and finally, they may begin production in the target country (Johanson & Vahlne 1977, 1990).

Johansson and Wiedersheim-Paul (1975) noticed that when firms go international, they go through a sequence of incremental steps which they named “establishment chain”. This chain includes state and change aspects. State aspects are market knowledge and market commitment. Change aspects include, decisions to commit resources to the internationalization activities and current international activities in the target market. The interaction between state and change aspects boosts a circular process. In this process, market knowledge and market commitment influence the decision to commit resources and the current international activities; and these, sequentially, have an effect on market

knowledge and market commitment (see figure 1). A company can enhance its involvement in a specific international market as it gets experience from its current activities.

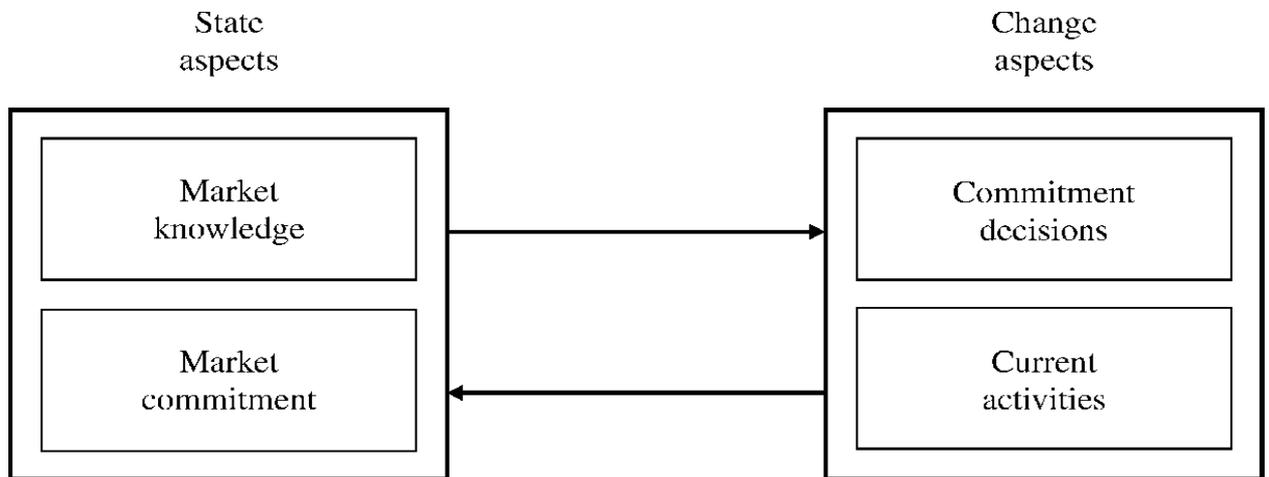


Figure 1: The internationalization process model
Source: Johanson & Vahlne (1977, p. 26)

The internationalization process involves two kinds of knowledge, objective knowledge and experiential knowledge. Market-specific knowledge is considered as experiential knowledge and can be obtained mainly through experience (Penrose, 1959/1995). Following Johanson and Vahlne (1977), experiential knowledge seems to be the main factor for the internationalization of SMEs since it helps SMEs to minimize the barriers involving in the internationalization process.

Recently, several studies have identified an increasing number of small and medium-sized firms which do not follow the stages of internationalization. On the contrary, these SMEs penetrate the foreign markets as soon as they are established as firms. These kinds of SMEs are called born globals (BG) (Knight, 1997).

Since 1977, considerable changes in business environment and theoretical studies have occurred. Lately several studies have revealed the role of networks in the internationalization of firms, (e.g. Coviello & Munro, 1995, 1997). With regards to these changes, Johanson and Vahlne (2009) revised the Uppsala internationalization process model and

noted “now the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers” (Johanson & Vahlne, 2009, p. 1411). They declared that the revised model fundamentally follows the original one. In the revised model they included trust-building and knowledge creation in the establishment chain as they found that new market knowledge is developed through relationships which offer potential for learning and building trust and commitment (Johanson & Vahlne, 2009).

In the state and change aspects of the revised model (see figure 2), they have made some changes. For example, they have added “recognition of opportunities” to the “knowledge” concept. By adding this variable, they point out that they consider opportunities to be the most vital element of the body of knowledge that drives the process. The second state variable is “network position.” This variable was recognized in the original model as “market commitment”. They made this change since they assume that the internationalization process happens within a network. Relationships are characterized by specific levels of knowledge, trust, and commitment of the parties involved. The parties in the relationship will stay in the network if they find the process beneficial.

In the change variables, instead of “current activities” they used “learning, creating, and trust-building”, in order to make the result of current activities more explicit. In this way they illustrate that current activities, in the original model play a significant role to develop knowledge, trust, and commitment. Finally, the other change variable, “relationship commitment decisions,” has been modified from the original model. They added “relationship” to explain that commitment to relationships or to networks of relationships. This variable means that the firm decides either to enhance or decline the level of commitment to one or several relationships in its network.

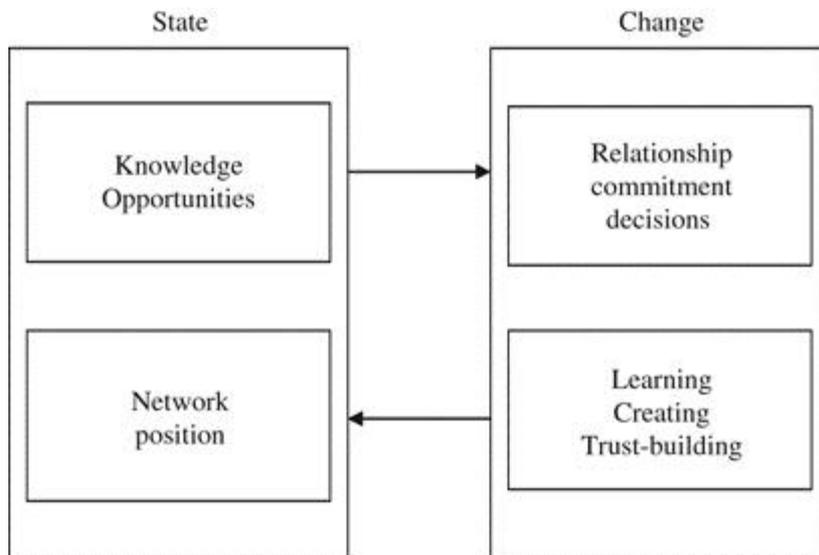


Figure 2: The business network internationalization process model (the 2009 version)
 Source: Johanson and Vahlne (2009, p. 1424).

Following the revised Uppsala process model, a company that has no relation with a relevant network is considered as an “outsider.” If an outsider intends to penetrate an international market, it contains a high risk. In the case of SMEs which have limited resources (such as financial and knowledge-related resources), any failure in the internationalization process will have a destructive effect on the company. Therefore, it is advisable that SMEs find some ways to get a position in a network of a new foreign market to develop their market knowledge, and access other companies’ resources and contacts. The position of the firm in the target market becomes stronger as the firm expands its networks in the market and as a result, the firm will access the available resources and knowledge in the foreign market (Chetty & Holm, 2000).

In this study, we suggest that SMEs can penetrate the relevant network of foreign markets through social networks. Social networks can act as bridging ties that are connected with a specific foreign market (Ellis, 2000). As we mentioned earlier, the social networks in this study refer to immigrants originally from the target markets that the company intends to penetrate. These social networks pose valuable knowledge about the markets. Moreover, they may have contacts in relevant networks that can help the firm to overcome the barriers of internationalization.

2.4 Social networks in the internationalization process of SMEs

Nowadays several empirical studies address the role of social networks in the internationalization process (e.g. Blomstermo, Eriksson, Lindstrand & Sharma, 2004). “Most important, in an age of rapidly proliferating knowledge, the central domain is a social network that absorbs, creates, transforms, buys, sells, and communicates knowledge. Its stronghold is the knowledge embedded in a dense web of social, economic, contractual, and administrative relationships” (Badaracco, 1991, p. 13-14). Social networks are not just restricted to formal relationships. Social networks embrace both informal contacts, such as friendship and family, and formal contacts, for example with business and governmental associations in target markets (Coviello et al., 1998). In this study we define social networks as an informal form of personal relations enclosed in a geographical, social, or institutional space (Sorenson, 2003), such as contacts in homeland, with friends and families and colleagues.

The fundamental basis of social network theories is the transfer of knowledge or valuable information through social links between individuals (Rogers & Kincaid, 1969). Social networks are vital to the development of specific competitive advantages through gathering of market knowledge and the development of formal business connections in the foreign market (Zhou et al., 2007).

Due to the absence of past experience and knowledge at the start of internationalization in a new market, SMEs experience problems not only in achieving information but in interpreting achieved information as well, because information can be, context-specific, and culturally related (Zahra, Hatton & Carlo, 2004). Access to social ties in a foreign market helps SMEs to select, interpret, and structure information into a usable body of knowledge (Holm & Sharma, 2006). As a result, social networks can help SMEs to recognize international opportunities, to set up trust with new partners and to access market knowledge (Amal & Filho, 2010).

Trust based personal networks can facilitate the ability of SMEs to respond to international markets (Oviatt & McDougall, 2005). Such networks seem vital to internationalizing SMEs to enter markets like China, where personal connections such as *guanxi* are the base for any business transactions (Ambler, Styles & Wang 1999). “*Guanxi* is a cultural characteristic that has strong implications for interpersonal and interorganizational

dynamics in Chinese society. It refers to the concept of drawing on a web of connections to secure favors in personal and organizational relations” (Park & Luo, 2001). The lack of institutional trust and mistrust towards strangers lead to scarcity of reliable market information. Therefore in any business transactions, Chinese companies mainly rely on trust-based personal networks (Redding, 1991).

Social networks transfer personal and experiential information more effectively that helps to adjust with the changing conditions more rapidly (Liesch, Welch, McGaughey, Peterson & Lamb, 2002). As we mentioned, in this study we present the immigrants as social networks. Previous research regarding immigrants and internationalization disclose that involvement of immigrants in internationalization processes has positive outcomes for SMEs (e.g. Herander & Saavedra, 2005; Rauch, 1996).

Immigrants can help companies to increase internationalization by exploiting connections to social and business networks in their home countries. They have knowledge about their home country customs and social norms in business transaction. Such knowledge may include information about how to start and execute informal contracts or personal connections that reduce transaction cost (Rauch & Watson, 2004).

In the following section, we point to two main benefits which immigrants as a social network can have for internationalizing SMEs: (1) providing market knowledge and opportunities, and (2) offering experiential learning. As we mentioned earlier, the main barriers to the internationalization of SMEs are lack of financial resources and lack of knowledge resources. We believe that these benefits can help internationalizing SMEs to overcome barriers and enable them to set up reliability, and smooth the development of international expansion at lower risks (Zaheer & Mosakowski, 1997).

2.4.1 Providing market knowledge and opportunities

Immigrants are considered as a partner to their homeland market network. As a social network they can help the company to get into the relevant networks and change its position from an outsider to an insider in the network. It can also enable the company to access more market knowledge and identify potential opportunities (Ellis, 2000). Studies about networks and internationalization support this argument that social networks are crucial to the identification of new opportunities in foreign markets (e.g. Head & Ries, 1998).

Foreign market opportunities seem to be communicated to the firm through its relationships with network partners (Johanson & Mattsson, 1988). According to Johanson and Vahlne (2009), markets are networks of relationships in which firms are connected to each other in different and somehow invisible patterns. Networks enable a firm to gain knowledge about its relationship partners, including their resources, potentials, and other relationships. Relationship partners are ultimately a supplier of business information about their own partners and other faraway actors in the network. Therefore insidership in relevant network(s) is essential for the internationalization of the firm.

Moreover, immigrants' homeland market knowledge, common language and business contacts lessen the transaction costs in the internationalization process (Gould, 1994), which is a vital factor for SMEs with limited resources. Gould (1994) explains two aspects which decrease transaction costs in the internationalization process. The first one is the native language of the immigrants. By involving immigrants in the internationalization process, SMEs can reduce the communication barriers and facilitate the flow of information. The second aspect is the immigrants' knowledge about preferred products in their homeland. So by providing companies with this information, the company does not need to conduct market research to gain the market knowledge. Therefore, cost of achieving market knowledge is eliminated.

Immigrants can also provide new market opportunities by creating trust between SMEs and the other parties in the target market. Social clusters of contacts can be an important source of trust for business transactions with external parties (Burt, 1997). This kind of trust often takes place because of strong social norms and beliefs, associated with the social network. It can be an effective means to enhance credibility, and reduce uncertainty (Zhou et al., 2007), subsequently, it decreases the need for formal controls in business transactions.

2.4.2 Offering experiential knowledge

Experiential knowledge can be developed through learning by doing and is not easily transferred to others (Michailova & Wilson, 2008). According to the Uppsala model, learning by experience leads to more specific knowledge of foreign markets and this is the type of learning that enables the firm to develop its internationalization activities (Johanson & Vahlne, 2009).

“Experiential market knowledge includes two different aspects: business knowledge and institutional knowledge. By foreign business knowledge, we mean experiential knowledge of clients, the market, and competitors and by foreign institutional knowledge; we refer to experiential knowledge of government, institutional framework, rules, norms, and values” (Eriksson, Johanson, Majkgard & Sharma, 1997, p. 343). Institutional market knowledge is related to psychic distance, and to the liability of foreignness (Johanson & Vahlne, 2009). In a study of experiential learning in the internationalization process, Eriksson et al. (1997) found that lack of institutional market knowledge and business knowledge requires considerable amounts of time to overcome. It can increase the cost of internationalization process.

“A close scrutiny of the Uppsala Model reveals that one extremely important, underlying assumption is the crucial role of the people who are involved in the foreign operations. It is their experiential learning and their decision-making that drives the internationalization process, and not the headquarters or some other group in the firm” (Forsgren, 2002, p. 268).

Johanson and Vahlne (1977) argued that people who experience working in any markets are aware of problems and opportunities of that specific market. Therefore, it is obvious that firm can access experiential knowledge by hiring the individual who have already experienced the business process of the target market. Because of their past experiences, they would be able to interpret information from the inside of the firm and from the market.

Having the above mentioned context in mind, we argue that SMEs would be able to overcome the barriers related to lack of experiential knowledge to international operations by involving immigrants who have experienced the target market. They can offer their experiential knowledge to the firm. In this way fewer resources will be devoted to gaining market knowledge. This knowledge will be achieved in a short amount of time which plays a considerable role in current fast changing international environment.

2.5 Our main theoretical points

The purpose of this study is to investigate the internationalization process of Swedish SMEs and involvement of immigrants in the process. To fulfil this purpose first we elaborated how small and medium-sized enterprises (SMEs) access foreign market op-

portunities and internationalize. Therefore, we referred to the main drivers for and barriers involved in this process. Moreover, we discussed the internationalization process of SMEs according to the Uppsala model. The model is based on empirical observations from studies in international businesses at the University of Uppsala that illustrates that Swedish firms start internationalization from neighbour countries and in small steps (Johanson & Vahlne, 1977). We also considered the revised Uppsala internationalization process model (Johanson & Vahlne, 2009, p. 1411) which elaborates, “Now the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers”. In the revised model they include trust-building and knowledge creation since they found that market knowledge is developed in relationships.

Later on, to address the second part of the purpose namely involvement of immigrants in the internationalization process of Swedish SMEs, we elaborated on how immigrants as a social network can mediate the process of internationalization. Therefore we argued two main contributions which immigrants can make for internationalizing SMEs. The first one is, providing market knowledge and opportunities and the second one is, offering experiential learning. This theoretical discussion leads to the following research questions.

Research questions

1. Why do Swedish SMEs internationalize?
2. How do Swedish SMEs internationalize? Do they face any barriers in the process?
3. Have Swedish SMEs involved immigrants as a social network to overcome barriers?
4. Which kind of contribution have social networks made, for example, in terms of market knowledge and experiential learning?

3 Method

Saunders, Lewis and Thornhill (2007) recommend two methods of data collection, qualitative and quantitative. This thesis uses a qualitative method. The empirical material is based on interviews that relate to the internationalization of Swedish SMEs. This chapter illustrates how we conducted our interviews and which questions have been asked. In the last section we discuss the trustworthiness of our study.

3.1 Qualitative study

Two different approaches of research design are qualitative and quantitative methods. These methods depend on the research question and perspective of study (Jankowicz, 1991). In this study we use a qualitative method since it helps to get more in-depth information about a chosen topic. Kumar (2005) argues that the choice of method depends on the purpose of a study topic, process of data collection and analysis of data. Studies which are related to business environment are multidimensional and often require a qualitative method (Maylor & Blackmon, 2005). According to Gillham (2000), a qualitative method helps researchers to bring to light different ambiguities of phenomena. Another author argued that “A qualitative research process is always to some extent unique; it creatively applies the basic rules and often also creates new ones” (Alasuutari, 1995, p. 1).

Internationalization process of Swedish SMEs and involvement of immigrants in the process is not measurable enough to conduct a quantitative research. A quantitative method, could have been used if we had quantifiable data (Maylor & Blackmon, 2005), so we use a qualitative method that suits with our study purpose and research questions. As Creswell (2007) explains, we conduct qualitative research when we want to take notice of individuals’ experiences. Moreover, according to Schostak (2006), the main benefit of using a qualitative method is to get more possibilities to be more personal and participative.

By using a qualitative method, we can be flexible in asking different questions. It also helps us to understand the circumstances and settings in which SMEs involve immigrants in an internationalization process.

3.2 Data collection

The selection of technique for gathering data depends on the topic of a study. According to Yin (2003), data collection entails a variety of sources. Examples of data collections are: primary sources such as personal interviews, surveys, observations and secondary sources such as financial report of a company.

The most helpful source of original and essential data is primary data because it can provide the most useful and original data. Interviews and surveys are the main sources of primary data (Yin, 2003). On the other hand secondary data is actually existing data (e.g. annual report) (Kotler & Fox, 1995). Researcher can use both sources in conducting a study. Collection of primary data requires much time and cost as compared to secondary data (Brorsen & Irwin, 1996). But secondary data is not always sufficient for a study, therefore primary data is essential (Ghauri & Gronhaug, 2005).

This thesis aims to investigate the internationalization of Swedish SMEs and the involvement of immigrants as a social network in the process. We did not have any access to secondary data such as documents about internationalization and foreign markets for the companies included in the study; therefore our study is entirely based on primary data.

The technique used for primary data collection in this study is interview. By using personal interviews we believe that we can get more up-to-date and precise information about the internationalization of the companies and the involvement of immigrants in the process. Information regarding this process is not normally kept in the companies' documents and most often only the top managers of the companies are mainly involved in the internationalization process and have information about it. According to Wrenn, Stevens and Loudon (2002) interviews can be conducted in different ways such as, personal interviews, mail interaction interviews and telephonic interviews. Compared to mail interaction and telephone interview, personal interviews are more useful and flexible. Moreover, Ghauri and Gronhaug (2005) point out that, interviews can be classified based on the substance of the study question/s into; structured, unstructured and semi-structured interviews. In this study we use a semi-structured interview technique to collect primary data.

We used semi-structured interviews. It is not highly structured as structured closed-ended questions and it is not so unstructured that interviewees are free to talk about any topic. The semi-structured interview is flexible and reachable. It also helps to reveal essential and concealed information about human and organizational behaviour (Qu & Dumay, 2011). In the following subsections we focus on the number of interviews and on how the interviews were conducted.

3.2.1 Number of interviews

In order to get information to fulfill our study purpose we have chosen six Swedish small and medium-sized companies mainly located in the province of småland. In some cases to get further information, we conducted the interviews more than one time with the same interviewees and in total we have conducted 11 interviews. The respondents were managing directors, and CEOs of the companies. We have chosen these companies because they have already internationalized. Conducting interviews with managing directors and CEOs helped us to get in-depth information about the background of the company and their internationalization process. They have better knowledge about the procedures the companies apply in the internationalization process as well as the involvement of immigrants in their internationalization activities.

The following table provides a brief overview of the companies and interviewees. More information about the companies will be presented in the empirical chapter.

Table 1: Companies' overview:

Company	Year of starting	Year of internationalization	Interviewees' name & position	Interview date
MP Bolagen AB	1953	1953	Peter Josephson Managing Director	February, 2011
Zinkteknik AB	1985	1993	Sven-Erik Svensson Owner	April, 2011

Trivselhus AB	1992	1994	Andreas Ek CEO	March, 2011
Elitfönster AB	1924	1993	Jonas Netterström CEO	April, 2011
Plannja AB	1967	1971	Per-Olof Stark President	April, 2011
Haraburda Handel	2009	2009	Margaretha Laike Owner	April, 2012

3.2.2 Conducting interviews

A total of eleven interviews with six companies have been conducted in this study. We experienced different challenges to get these interviews. At the beginning of the process we selected more than 20 companies and tried to contact them via email and telephone. But several of the companies did not answer or declared that they did not have enough time for an interview. After all the emails and telephone communications we could finally get appointments with six companies' top managers. Three of these companies were located far away from our resident area and were reached after travelling for two hours. Although it was difficult to get an appointment for the interviews, the outcome of each interview was satisfactory. The managers provided us with valuable information in regard to the purpose of our study, namely the internationalization process of Swedish SMEs and involvement of immigrants.

Before any interview, brief information about the purpose of our thesis and interview questions was sent to the interviewees to give them some ideas of the matter under study. At the start of the interviews, we asked the interviewees if we could record their voice and if we were allowed to disclose the name of the company and interviewees in our thesis. Moreover we explained how we would use their information. Since it is important to explain clearly the main purpose and problem of the study (Saunders et al., 2007), we clarified that our purpose is to investigate the internationalization process of Swedish SMEs and involvement of immigrants as a social network. Later on, the inter-

viewees were asked to give some information about themselves and the company. Then we went to the questions one by one from our interview guide.

Our interview guide, which can be found in appendix 1, has been designed according to our research questions and divided into four sections.

- The first section asks about the reasons behind the internationalization of Swedish SMEs.
- In the second section we raise questions regarding barriers that Swedish SMEs face in the internationalization process.
- The third section clarifies the involvement of immigrants as a social network to overcome the barriers.
- Finally, in the fourth section, the questions discuss the contributions that immigrants have made in the internationalization process, for example in terms of market knowledge and offering experiential learning.

However, additional questions were asked during the meeting in order to obtain more details about the topics under discussion. The interviewees were given significant freedom to discuss and elaborate their answers to the questions but we kept control and supervision in order to get answers regarding the topic.

3.3 Trustworthiness

In this part we discuss the trustworthiness of our data collected through the use of the qualitative method. The quality of a research can be assessed by its trustworthiness (Lincoln & Guba, 1985). In case the of a qualitative study, trustworthiness is considered as how harmonious the collected data presents the reality of the companies (Merriam, 1995). According to Graneheim and Lundman (2004), a qualitative study is conducted based on data from narratives and observations. They emphasised that findings of a study must be as trustworthy as possible and every study should be assessed in relation to the procedures used to build up the findings. They also assumed “reality can be interpreted in various ways and the understanding is dependent on subjective interpretation” (Graneheim & Lundman, 2004, p. 106).

“The issues of the inappropriateness of quantitative criteria in the assessment of qualitative research and the plurality of qualitative research are important to the understanding of any model of trustworthiness of qualitative research”, according to Krefting (1991, p. 215). Lincoln and Guba (1985) described four criteria of trustworthiness namely credibility, dependability, transferability and confirmability for qualitative study. Here in order to depict the trustworthiness of our study we follow this classification.

3.3.1 Credibility

According to Shenton (2004), credibility refers to how accurate the empirical data has been recorded. The credibility criteria are considered in order to validate the results of a qualitative study, as credible or realistic, by considering the perception of the respondents. There are two ways to accomplish credibility of qualitative research, “firstly to carry out a research in such a way that the probability that the findings will be found to be credible is enhanced, and secondly, to demonstrate the credibility of the findings by having them approved by the construction of the multiple realities being studied” (Guba & Linkoln, 1985, p. 296).

To collect accurate empirical data the method of data collection is a considerable issue. Regarding our study, we used a qualitative method to increase the credibility of the findings. The respondents can explain themselves better with qualitative in-depth interview. In order to achieve creditability, before conducting any interview we forwarded an email including a short description of our study topic and key terms and the interview questions to the interviewees. Also we defined what we meant by knowledge, internationalization and social network. Furthermore, in order to avoid possible misleading of information, all interviews were recorded and written down word by word immediately after the information was received. At the end of the interview, we used a member check to strengthen empirical findings. Member check validates the correction of gathered data from interview (Merriam, 1995).

3.3.2 Transferability

Transferability refers to the degree to which the findings of the qualitative study can be generalized or transferred into different contexts or settings (Guba & Linkoln, 1985). Thus it refers to how the conclusions are drawn and how they can be used or applied in another study. But in general, qualitative studies are difficult to transfer into other situa-

tions as they are limited by specific number and type of organizations (Shenton, 2004). In this regard, Lincoln and Guba (1985, p. 297) noted that “Transferability inferences cannot be made by an investigator who knows only the sending context”. That means it is not the researcher's responsibility to make an index to be transferable; the researcher can just provide a sufficient database to allow the readers to judge the transferability.

This study is limited to the six Swedish SMEs. Although our aim is not to generalize the results of this study to all Swedish SMEs, we still assume that the results to some extent can be generalized and applied to other Swedish SMEs which have the similar situation and resources.

3.3.3 Dependability

Dependability is concerned with the repeatability of the conducted study and conclusion. It indicates to what extent the method for collecting data will provide dependable findings in addition to how the result from the raw data is drawn (Saunders, Lewis & Thornhill, 2009). The purpose of conducting dependability test is to make sure that the same findings and results are obtained if another researcher goes through the same process that the study has accomplished. This means that with the same study carried out for a second time, the same outcomes are achieved. Dependability indicates that the use of a similar method and technique by a different number of researchers at a different point in time should create similar research outcomes (Lincoln & Guba, 1985).

Authors of qualitative studies can achieve dependability by clearly presenting the method used for empirical data (Shenton, 2004). In order to attain dependability, we have explained all techniques being applied and followed throughout the whole study. Moreover, we have added our interview guide in Appendix 1 to facilitate for the reader to understand the questions. The result is based on the analysis of the collected data. The analysis has been conducted in accordance with the theoretical framework. It should be considered that conducting semi-structured interviews may not provide the same result every time.

3.3.4 Confirmability

Lincoln and Guba (1985) define confirmability as the extent to which the authors can display neutrality in study analysis. Therefore, the reader should be informed about pos-

sible bias or misrepresentation faced during the conduct of the study. Patton (1990) noted that in studies related to business fields since tests and interviews are designed by humans, the interference of the researcher's biases is unavoidable.

In this regard our study presented our perspective in the theoretical framework and we have clarified what we mean by internationalization and social network. We have also illustrated how Swedish SMEs internationalize and how the social network can mediate the internationalization process of SMEs. The whole study has been carried out through the perspective of the theoretical framework.

4 Empirical study

This chapter presents the data collected through interviews. First, we briefly inform about the companies profile and then we move on to the interview questions. The questions have been designed according to the theoretical framework. The purpose is to attain a clear picture of the internationalization process of the Swedish SMEs under study with the focus on the involvement of immigrants as social network. The presentation of data is followed by a short analysis that helps smooth the progress of the data analysis process in the next chapter.

4.1 Company profile

The following section presents the companies' profiles. It includes information regarding products, headquarters and production plants and sales offices.

4.1.1 Company 1: MP Bolagen AB

This company has four business areas. The first one is Cable Management, which offers products for cable support such as cable ladders, cable and lighting channels, wire baskets, tele/computer racks, profiles, outlet- and minipoles, floor boxes and trunking systems. The second area of business is Shipping and Pulpwood; shipping section has developed its own transportation system with carrier vessels operating according to a ro-ro system. The Pulpwood section imports pulpwood from areas around the Baltic Sea and northern Europe. The third area is Pressing Tools which constructs and produces cutting, bending, pulling and follow-on tools. It also produces prototypes. The fourth section is Firming and Forestry in the district of Vetlanda and forestry at Falsterbo Bruk in the district of Västervik. The headquarters is located in Vetlanda, Sweden. Today the company has business with Scandinavian countries, Germany, Russia and Poland (MP Bolagen AB, 2012).

4.1.2 Company 2: Zinktechnik AB

Zinktechnik AB is one of Europe's leading zinc casting operations in Småland, Bredaryd and Mostar in Bosnia. It represents the segments of automotive, electronics, telecom / IT, construction and equipment. Zinktechnik AB aims to offer a sustainable and cost-effective alternative to companies which need to supplement or replace other materials

and/or manufacturing methods using cast zinc components. It also offers information concerning the material zinc. The headquarters is located in Bredaryd, Sweden. Today the company has expanded its business to the Scandinavian market and to some other European countries such as Romania, Poland, Spain and France (Zinkteknik AB, 2012).

4.1.3 Company 3: Trivselhus AB

Trivselhus AB is a leading wooden house supplier in Sweden and provides villas with high quality, stylish design and low energy. It is one of several house suppliers in Småland with long tradition and vast knowledge of the manufacturing of wooden houses. The company was founded in 1992. The main plant is located 15 km south of Vetlanda in Korsberga, but the houses are also manufactured at the plant nearby Landsbro of Sweden. It has about 25 sales offices from Malmö in the south to Östersund in the north. It exports to Norway through its own subsidiary Trivselhus Norge AS, as well as via various partners to the Åland Islands and England. At the time being Trivselhus AB has about 200 employees. (Trivselhus AB, 2012).

4.1.4 Company 4: Elitfönster AB

Elitfönster is Sweden's largest manufacturer of windows. It belongs to a group called Inwido AB. It produces windows and balcony doors for both small and large buildings. The company was founded in 1924. The head office is located in Vetlanda, Sweden. Production fields are located in Vetlanda and Lenhovda. Sales offices can be found in Stockholm, Malmö, Kongsvinger in Norway and in Sorø in Denmark (Elitfönster AB, 2012).

4.1.5 Company 5: Plannja AB

Plannja AB is one of Europe's leading brands in thin steel sheet products for the building market. Its product systems make building easy and more economical and add aesthetic appeal. Plannja manufactures highly upgraded building products and product systems in thin sheet of quality Swedish steel and aluminium. Finishing operations include surface coating, profiling, pressing, bending, etc. The range of building products in thin steel sheet includes profiled wall cladding and roofing sheet, roofing tiles, rainwater goods, flat sheet and roof safety components. The Plannja Group is part of the Svenskt Stal AB (SSAB) Group, the leading manufacturer of Swedish quality steel. Plannja's

parent company, with group management and head office, is based in Luleå, Sweden. The Group's largest production unit is also part of the parent company. Today the company has sales offices in Denmark, Norway, Romania, Poland, Germany, and Russia (Plannja AB, 2012).

4.1.6 Haraburda Handel

Haraburda Handel is a small company which is the Scandinavian agent for ZAK S.A. ZAK S.A. is one of Poland's largest chemical manufacturers, located in the resort Kedzierzyn-Kozle near Krakow in the south of Poland. ZAK has manufactured nitrogen fertilizer agent for 60 years. All ZAK's brands are well established in the European market, where they are known for its exceptionally high quality. The company Haraburda Handel was founded in 2009. It is located in Kivik, Sweden (Haraburda Handel, 2012).

4.2 Internationalization process

The intention of the interviews was to collect data for investigating the internationalization process of Swedish SMEs and involvement of immigrants as a social network in the process. Following the main objective of this study, this part will present different aspects discussed with the managing directors and CEOs about the drivers and barriers that Swedish SMEs experienced in the internationalization process. In addition we clarify the structural forms that these SMEs have followed.

In order to understand the internationalization process of Swedish SMEs, the interviewees were asked to explain the drivers for their internationalization and the barriers they faced during the internationalization process.

4.2.1 Drivers for internationalization

In response to the question regarding drivers for internationalization, Peter Josephson, the Managing Director of MP Bolagen AB, mentioned that the answer of this question has its root in the establishment story of the company. He explained that the company was started up in 1953 by the German entrepreneur, Werner von Seydlitz. He immigrated to Sweden as a refugee and started his business in Vetlanda. After World War II in

Germany a lot of houses were destroyed. At that time the German market faced a high demand of wood to build up houses again. After immigrating to Sweden he got an idea to export wood from Sweden since Sweden had a huge wood industry. In terms of decision for starting internationalization Managing Director of MP Bolagen said:

“It was a great opportunity in the German market. Since Werner was native German, he had good knowledge about the German market and had a lot of contacts. So, he started his business by exporting wood from Sweden to Germany.”

So according to what he stated, Werner’s market knowledge and contact (Gould, 1994) made him aware of the need of the German market and led him to recognize the opportunity in the market. This was the main driver for starting internationalization.

The CEO of Zinkteknik AB, Sven-Erik Svensson also answered to this question by giving brief information about the history of the company. He explained that the company is established in 1985 in Småland, Bredaryd and the company started with making door handle sets for IKEA. Later on IKEA supported him to produce more variety of products. In the following years the company had a considerable progress in production. He also added that since Sweden is a small market, the company production was more than the market demand. Therefore, he decided to export to other countries.

“I got the feeling that Sweden doesn’t need so much of our products, we should go out of the country in order to grow. At the start of our company, we decided to be the best in Sweden, after five years we wanted to be best in Scandinavia, then after fifteen years we wanted to be best in Europe and now we want to be the best in the world.”

Zinkteknik AB decided to go to the other markets to grow. Here the limited domestic market was the main drive to internationalize (Rundh, 2007). They found that internationalization activities enabled them to access potential opportunities in new markets.

Regarding Trivselhus AB, the drivers for starting internationalization activities has been different from what we discussed in the previous SMEs. The CEO of Trivselhus AB, Andreas Ek noted that the internationalization process was not thoroughly planned; the company was forced to go international because of the situation that the company faced in the domestic market. He mentioned:

“Trivselhus AB had to internationalize in order to survive because in 1993 there was a big financial crisis in Sweden. Almost every house company in Sweden went bankrupt. During the 20th century the Swedish market didn't have a good situation, therefore the company tried to start a business in Germany, which was a good market”.

In this case the financial crisis in Sweden made the company experience the threat in the domestic market and on the other hand, the high demand in the German market was a considerable opportunity for the company to survive. These two issues drove the company to start internationalization in Germany. Following this argument we can declare that the main drivers for internationalization were threat and opportunity recognition (Alabaum & Duerr, 2008).

The fourth company, Elitfönster AB mainly sells to the local market. Only two percent of their products are exported to foreign markets. In response to the question about drivers for internationalization, the CEO of the company Jonas Netterström stated:

“We are mainly a local company and just two percent of our products are sold outside of Sweden. We export our products in order to grow and test the potential of the foreign markets. We sell to some European countries like Denmark, Finland, Ireland, Norway, Poland, Russia and the United Kingdom and we hope to get more known in these markets and develop our export activities. Also in Japan we sell a special sliding door. This product is quite unique and outstanding. That's why we thought it will find a good market outside of Europe.”

In the case of Plannja AB, the President, Per-Olof Stark discussed the drivers for the internationalization process of the company. He stated that Plannja AB developed a unique product that encouraged the company to introduce the product to other markets.

“We knew that our product was not something that any other company had. We had a good product that was innovative and unique. And we were sure that there was a high demand for it in the other markets. This led us to take a step toward the other markets.”

In the case of this company, the development of unique products (Rundh, 2007) is considered as an important driver for the internationalization.

And finally, Haraburda Handel is a family business which was founded by a Swedish woman and her Polish boyfriend. The company imports fertilizer from Poland to Sweden as an agent. At 2008 the price of grain increased internationally, consequently Swedish fertilizing industry raised the price of fertilizer. This high price made the farmers including Margaretha and her boyfriend search for other suppliers outside of Sweden. Since Marek was Polish, he had some contacts and friends in Poland. He used these contacts to find information about Polish fertilizing products. The Polish fertilizing market had a good quality product as well as lower price. They found this situation as a good opportunity to start a business and import the fertilizer from Poland to Sweden. Margaretha, the CEO, made the following statement:

“Since both Marek and I come from farmer families, we had knowledge regarding fertilizing products and Marek s’ information about the Polish fertilizing products and his contacts in Poland gave us the idea to start the business.”

Both founders seem to rely on their past experiences (Rundh, 2007) to start the business. Referring to Alabaum and Duerr (2008) the main driver for the internationalization was recognition of the opportunity in the market. High demand in the Swedish market and appropriate supplier in the Polish market made the internationalization possible.

4.2.2 Structural form and potential barriers in the internationalization

In the previous section we discussed the drivers for the internationalization of the SMEs. Now we will discuss how the SMEs started the internationalization process and in addition, which structural form of internationalization they follow, i.e. export, sales offices and foreign production, and which barriers they experience in the process.

In the case of MP Bolagen AB, the company was international from start. At the beginning it exported wood material from Sweden to Germany, but later on the situation in both the Swedish and German markets changed. The Swedish wood industry got very strong and demanded lot of raw materials. Therefore the company started importing as well. Now the company buys raw material from Germany, Russia and Poland and ships it to Sweden. The company has another business section, the Pressing Tools section, which mainly exports the products to other markets. The CEO mentioned that:

“Since the company had limited resources, we could not sell to faraway markets. Therefore in the Pressing Tools section, we started to sell to our neighbor markets such as Finland, Norway, and Denmark. In the Scandinavian markets there are less barriers related to language, culture, contact and rules. We don’t have our own companies in the Scandinavian countries, we have partners from the local market since we believe, for example in Norway you should be Norwegian to understand the Norwegian market and be able to sell. Today we have a sister company in Germany close to the Polish border and a sales office in West Germany. Most of our international activities are performed through export and sales offices.”

Each country has its own business system and networks. SMEs should find the way to get into the business networks of the target market. By being in the business network the company can access more market knowledge and useful contacts (Blankenburg, 1995), otherwise gaining this information is costly and time consuming and it makes the process of internationalization slow. When it comes to the markets with higher psychic distance, entering to the business network get harder, as Johanson and Wiedersheim-Paul (1975) pointed out. Therefore a small company like MP Bolagen faced some barriers such as unknown rules and regulations, different culture and lack of market knowledge. As the CEO mentioned:

“At start of the internationalization process with Russia, we experienced some problems regarding bureaucracy. We mainly work with the forest industry. In Russia, the forest belongs to the government and doing business with the government involves a high bureaucracy. You need the right stamps and right paper and right contact.”

But Zinkteknik AB started the internationalization process differently. In order to contact international potential customers they started to present the company in the international exhibitions. To answer the question of how the company started internationalization, the CEO stated:

“In 1993 for the first time we presented the company and our products in Hannover Exhibition. And it took five years till we got the first order from a German customer.”

Due to the lack of international market experiences and international contacts, it took a long time to enter the target market. Later on during each international experience, the

company developed its experiential market knowledge. Referring to Johanson and Vahlne (1977), consequently this led the company to commit more to the internationalization activities in other new target markets. Today the company has expanded its business to the Scandinavian markets and to some other European countries such as Romania, Poland, Spain and France. The company mainly contacted the customers through exhibitions. Moreover, the CEO added:

“We tried to sell to our neighbors, Finland, Norway, and Denmark since it was the closest available markets to us. It is easier to sell to markets with the same culture because you know how the customers will react. Then we moved on to the other European markets. We are an intensive exporter; nearly 60 percent of our products go outside of Scandinavian countries to France, Germany, and Romania. We have no sales office rather than this office in Sweden and one in Bosnia. We mainly present and sell our products through exhibitions. There the potential customer can see our products and we can negotiate and make order afterwards.”

Zinkteknik AB even took a bigger step and started foreign production in Bosnia. Zinkteknik Bosnia is a sister company of Zinkteknik in Sweden and is fully in line with Zinkteknik guidelines in terms of high technology, knowledge, automation, quality and environment. Regarding foreign production in Bosnia, the CEO explained:

“We have customers from Germany and Poland. These customers have plants in low cost countries like Bosnia. They buy the joinery parts from us and assemble them in their factory in Bosnia. We need to transport the orders to these customers two times a week. So to reduce the logistic cost we went to Bosnia and started production there.”

In the case of Trivselhus AB, as mentioned earlier they were bound to find another market to survive and they started with the German market via a German agent. Later on the company’s financial situation improved and it developed the international business activities by exporting to Scandinavian markets via agents. But 95 percent of the production is for the domestic market and just five percent go out to the European market. Regarding the process and the structural form of the internationalization process, the CEO stated:

“Business with Scandinavian companies is not complicated for us, since Norway and Denmark have the same standard regarding house construction rules and techniques.”

Also we don't face communication problems in these countries. We sell to some other European countries such as Switzerland and England; in both of these cases we use Swiss and British agents. With these two agents we can manage the business in English and since both of them have been living in Sweden for a while they are kind of familiar with the Swedish way of doing business. As a whole the business activities go well with them. Although we wanted to expand our business to China, we have not been able to make it, because we didn't find the right contact."

Similar to MP Bolagen and Zinkteknik, Trivselhus also considers the Scandinavian market as a more available and manageable market because of the similarities in language and culture and standards. These similarities decrease the uncertainty involved in the internationalization activities. The SMEs have limited resources therefore they should consider the risk of entering markets with high psychic distance and any failure has an extensive effect on the company (Pangarkar, 2008). The main barrier to enter the Chinese market was to find the proper contact. In a market like China, network and contact play a considerable role for a new internationalizing SME.

Our fourth company, Elitfönster AB exports its products to some European countries such Denmark, Finland, Ireland, Norway, Poland, Russia and the United Kingdom through its sister companies. It also exports to Japan through a Japanese agent. The CEO explained:

"In any industries there are some networks. The actors in any networks meet often through different seminars and exhibitions. In this way we meet different companies in the industry and we choose the ones which suits our business. In this way we started co-operation with our sister companies."

As mentioned above just two percent of the products go to the foreign markets. We wondered why the company did not increase its internationalization activities and which barriers stopped them to develop their foreign business. The CEO disused this issue as follow:

"Our products are very Swedish and follow Swedish standards and mainly match Swedish design. And sometimes it doesn't match with the other countries standards. Also because our products are very heavy, transportation cost is very high and our factories

are just in Sweden, so we don't find it profitable to send the products to the faraway markets."

About the internationalization process of Plannja AB, the President mentioned that normally when the company intended to enter a market, first of all they started with a marketing research to gather information about the new target market. They have used the Swedish Export Counsel or other networks in the industry, such as their suppliers and customers. They also went to exhibitions to contact possible customers. It mainly takes six to seven months to study a new market and collect information.

"For Plannja with few resources it was easier to start with neighbor countries as there were fewer barriers about culture and language. We started our penetration through agents. In this way we could test the market because we wanted to see the potential of the market for our products and allow the market to recognize our products and create awareness about our brand. When we found out that the market had a good potential for our products, we acquired the agent. Today the company has sales offices in Denmark, Norway, Romania, Poland, Germany, and Russia."

The company later extended its internationalization a step further by starting production in other countries such as Finland, Poland and Romania. To clarify this, the CEO said:

"To be competitive we needed to deliver the products to our customer in a week after the order. Since we normally don't have mass production, and each order has its special specification, we have to start production after receiving the order. It mainly takes a couple of days to produce. So we can't spend so much time on delivery. Also the transportation cost is very high. All these issues led us to start foreign production in some countries."

In the interview the CEO also declared that Plannja AB wanted to expand beyond the boundaries of the European countries but due to lack of knowledge about the new target market (Knight & Liesch, 2002), they had difficulty in identifying opportunities in those markets.

"We are interested to go to other markets in Asia or the US or China but we don't have the courage to start, since we are a small company and we do not have proper knowledge of working in those countries."

Plannja AB and Zinkteknik AB both intended to go to the market with higher psychic distance. Both companies experienced the same barriers regarding the lack of market knowledge and contacts. On the other hand, when it comes to internationalization, Harburda Handel is similar to MP Bolagen. Using Knight's (1997) concept both are considered as born global.

In answer to the question about starting the internationalization process, Margaretha, the CEO, referred to her previous experience in the agriculture field as well as her boyfriend's market knowledge and contacts in Poland. She clarified the process of internationalization as follow:

“When the price of fertilizer increased in Sweden, my boyfriend and I including some other farmers started to look into other markets to find a cheaper fertilizer. Because my boyfriend Marek was from Poland, we thought it was wise to look into the Polish market. Marek had some relatives and contacts who were farmers in Poland; he called them and got some information about their fertilizer suppliers. The price of fertilizer was considerably lower than the Swedish price. He contacted those suppliers and ordered two trucks of fertilizer. We looked at it as a one-time operation but later on we got the idea and courage to continue. Of course, to start the operation the role of my boyfriend's knowledge and contacts were incredible and without him it was impossible.”

Now Harburda Handel works as agent for ZAK S. A. located in the south of Poland. Harburda Handel gets orders from the Swedish trade actors and manages the whole process of ordering and shipment from Poland to Sweden.

In answer to the question about the barriers they faced in the process, Margaretha said,

“My boyfriend is from Poland so it was very easy for him to contact the suppliers in the market, and negotiate the purchase. He already was aware of the business relations in the market. All these factors helped us to start the business smoothly but without him, definitely I would have had a lot of problems in communication because not so many people speak English in Poland. Moreover, since Poland has been a communist country before, we Swedish people don't have so much knowledge about it.”

In this section, we presented the discussion with the interviewees about why and how they internationalized and what barriers they faced in the process of internationalization.

It was noticeable that the SMEs had different drivers for internationalization. The desires to grow (Luostariinen, 1980) inspired some of the companies to internationalize. Finding another market in order to survive (Alabaum & Duerr, 2008) was also a driver for some of the SMEs under study. Inventing and developing a unique product (Rundh, 2007) was also a considerable factor that motivated the SMEs to step outside of the Swedish market. But regarding the question about how the SMEs internationalized, there are considerable similarities in their internationalization process.

The Swedish SMEs mainly entered the market through agents who represented the company in the foreign market. Generally, if they found the development positive, they substituted their agents with their own sales offices or acquired the agents. But in some cases like Zinkteknik AB and Plannja AB after they bought the agent, they noticed that there are even more possibilities to grow in the target market. Therefore they began to build a production plant in the country. We also noticed that the Swedish SMEs started their internationalization process in the neighbor countries like Denmark, Norway, and Finland due to the similarities in the language, culture and business system. Later on the SMEs enter other markets with more psychic distance. This refers to the Uppsala model and as Johanson and Vahlne (1977, 1990) argue, SMEs often start internationalization gradually with neighbor countries.

Regarding the barriers in the process of internationalization, it seems that the main barriers were limited financial resources, lack of specific market knowledge and inability to get the proper contacts in the business network of the target market (OECD, 2009).

4.3 The involvement of immigrants in the internationalization process

After understanding the background of the SMEs and the drivers for and the barriers to their internationalization activities, the questions of this section focuses on the involvement of immigrants in the internationalization activities. To investigate this matter we asked the interviewees the following questions: first, do you have any immigrant employees in your company? Second, have you involved them as a social network in the internationalization process of the company? And what kind of contributions did they make in the internationalization process? Third, could they help the company to overcome the barriers in the process of internationalization in a new target market?

Regarding the first question, if they have any immigrant employees, the Managing Director of MP Bolagen stated:

“Yes, we have a lot of immigrant employees from different countries like Poland, Bosnia, Kosovo and Iran. They are not working in the office. They mainly work in the production area. We know they are very skilled and hard working. We have a very good experience about these people”.

To answer the second question regarding the involvement of immigrants as a social network in the internationalization process, he noted:

“Yes, we have experienced the involvement of immigrants in the internationalization process. We import forest raw material from Russia. To manage this business we employed a Polish lady. This lady was already living in Sweden and we employed her since we needed someone who could talk Polish and Russian. She speaks Polish, Swedish, Russian, English and German. At start we employed her as a translator but as she got experienced in the business, we involved her in the international business activities. She is now very important for our business. Every time when we go with ships to Russia, she is there and takes care of all the paper works.”

Regarding the third question about the contribution of immigrant employees, he believed that in the case of business with Russia, the immigrant employees played a considerable role to overcome the barriers they faced.

“In Russia we work with the forest industry, which belongs to the government. In Russia, bureaucracy is quite heavy; you need the right stamp and the right contacts. She is the one who has this information. Otherwise handling the bureaucracy will be a big challenge for us and the process would take a long time and it would be more costly.”

According to the Managing Director of MP Bolagen, this employee first worked just as a translator but later on, due to working in the business area both in Sweden and Russia, she developed knowledge through experience. Experiential knowledge market is an important factor in the internationalization process, because it includes not only business knowledge but also institutional knowledge (Eriksson, et al., 1997). In the case of handling bureaucracy in Russia, the institutional knowledge played a remarkable role. By involving the Polish lady, the company could deal with the bureaucracy because she had

the specific market knowledge, common language and business contacts. And it resulted in decreasing the transaction costs in the internationalization process. Gould (1994) also confirms that immigrants can decrease the transaction cost due to their native language and their market knowledge.

Zinkteknik AB also has employed immigrants from Bosnia. The CEO of the company explained that these employees first worked in the factory. When the company decided to set up a production plant in Bosnia in order to reduce the transportation costs, the CEO involved the Bosnian employees, who were a couple, in the internationalization process of the company.

“To reduce the transportation cost we decided to build a factory in Bosnia which has exactly the same technology of our factory in Sweden. We started with training the Bosnian couple. The husband Nafia has been working for us for seven years in the factory. He was a smart hardworking man. We also trained the wife Sanela to work with the economic part. She was a smart and fast learning lady. To set up the factory, first we found the place for the factory. We gave Nafia the responsibility to do this job and manage the establishment process of the factory. And Sanela’s responsibilities were to arrange the administrative job.”

Regarding the immigrant employees’ contribution to overcome the barriers in the internationalization process in a new target market, the owner clarified:

“I think we would have never succeeded if we did not have them. They are very important for us. Since they were living in Sweden for a long time they understood the Swedish language, culture and the Swedish way of doing business. They also knew the language and culture of their homeland. This market knowledge was very valuable in internationalization of our company. They had good contacts as well. We needed some local people to work in our factory in Bosnia. Therefore Nafia and Sanela introduced some of their friends and relatives to us and brought them to Sweden. These new employees got the training for the job and some more information about Swedish ways of working and team work as well. After the training we sent them back to work in our factory in Bosnia.”

The interviewee also emphasised the difference between the Swedish and Bosnian organization cultures and regulations. He believed these differences could have been a big

barrier to the internationalization process. But involving Sanela and Nafia made them aware of this issue and helped them to overcome this barrier.

“Here in Sweden the business organization system is flat. The employees are given freedom to do their job but in Bosnia still the hierarchy system characterizes companies. They have a tight supervision on the employees. Therefore employees always want to have a boss. Moreover, the paper system is quite different from how it is handled in Sweden. Sanela did a good job in this regard. She knew the system and the bureaucracy, and the right way of getting documents from the government.”

Similar to MP Bolagen AB and Zinkteknik AB, Trivselhus AB also has immigrant employees. They come from Kosovo, Denmark, Finland, Poland, Bosnia, China and Russia. Some of them work in the factory; some others work in the office in the technical or the sales sections of the company. But a difference between the first two companies and Trivselhus AB is that Trivselhus has not involved any of these immigrant employees in the internationalization of the company.

But Trivselhus AB has penetrated different markets with the help of immigrants. These immigrants mainly worked for other companies or for the agents of Trivselhus AB in the target markets. They were not employed by Trivselhus, they just cooperated with Trivselhus AB regarding the internationalization process. To make this issue more clear the CEO stated:

“The immigrants who are cooperating with us have had their own companies in other markets and they have mainly been the ones who have contacted us for cooperation. For example, in the case of Switzerland, the Swiss guy who now works for us as an agent has already lived about fifteen years in Sweden. He wanted to go back to Switzerland and make a business there. He knew the Swedish market and the Trivselhus products and he knew that our products were suitable for the Swiss market.”

In Trivselhus AB there are some other similar cases regarding the process of internationalization, such as the company agents in Åland and Germany.

The interviewees described how the internationalization process has happened in these two cases.

“In the case of the German agent, a German guy who has been living in Sweden for twenty years and had offices in Munich contacted us to start cooperation and export to Germany. Today he is our agent in Germany. The Åland agent is a Swedish guy who is married to a lady from Åland. He bought a house from us and built his house in Åland. Later on he contacted us to start cooperation. He knew the Swedish market and our products and the lady had the knowledge about the market in Åland. Their market knowledge enables them to start a business in Åland as our agents.”

Following the CEO, in both the above mentioned cases the immigrants’ contributions enabled the company to enter the markets in Germany and Åland. They actually introduced the possible opportunities in the German and Åland markets to the company.

Elitfönster AB also has not involved any immigrant employees in the internationalization process of the company. The CEO explained to us:

“We have many immigrants in our production plants but unfortunately we have not involved them in the internationalization process of our company. I believe they can help us to enter a new market because they know the culture, religion and language of their homeland which can be a new target market for us. At a start of our internationalization process we sent Swedish people to the target markets. For example in Poland, first we sent a Swedish CEO, and it was not easy to handle the business there because of a different culture and tradition. But nowadays we have changed our policy and we follow local policy. It means we hire local people in our agents or sales offices. For example in Poland we hired a Polish CEO, in Denmark we have Danish people, and in Norway, Norwegian people work in the company.”

Like all the other SMEs, Plannja AB also has employed immigrants. To some extent it involved them in the internationalization process. The President of the company responded to the question, if the company has any immigrant employee, as below:

“Yes, we have hired people with different background in the production areas and the offices. They are working in various positions. For example, we have an Italian guy who is responsible for international purchasing from Italy. He moved to Sweden after being married to a Swedish lady. We have a Polish lady who works in our accounting department. She moved to Sweden after she met a Swedish guy. We also have a Russian lady in the accounting department.”

In answer to the other question, regarding the contribution of immigrants in the internationalization process, the President mentioned:

“I personally think Swedish companies can learn a lot from the immigrants. The Polish lady who works in the accounting department has been helpful for us in doing business with Poland. She is a good support in the case of any misunderstanding in the documents related to the Polish market, since she knows the language, organizational systems and regulations in both countries.”

Moreover, the interviewee mentioned:

“In our office in Romania, we have a Romanian manager who came to Sweden in the early 19th century and now he is back to Romania to run our business. We knew him through some customers. We employed him as the manager for our office in Romania.”

“Besides, in the case of Denmark when the sales grew, we acquired the agent. We kept the local manager but we sent some Swedish employees to help him in the sales. Because we think the knowledge and contacts of the local manager can smooth our business in the target market.”

We also asked the President if the involvement of immigrants helped the company to overcome the barriers regarding lack of market knowledge and lack of contacts in the target market. He answered:

“I think it would be extremely difficult, costly and inefficient to send a Swedish manager to Romania or Denmark to run the business. The local managers have not only the specific market knowledge also because of their contacts in the market; they have access to the relevant networks of the industry. In this way they can easily get information about customers, suppliers and other related issues. I believe if we have had a Swedish manager in these offices we would have to spend a lot on market research.”

In the internationalization process of Plannja AB, the immigrants' contributions were very effective for the company. Because the managers were local, they had good market knowledge and contacts in the local market. These issues decreased the necessity for market research.

Finally, Haraburda Handel is a very special case regarding the involvement of immigrants. The base of the company was settled by the involvement of immigrants. The

company is established and managed by the owners Marek and Margaretha. In accordance with our interview guide, we asked if they have any immigrants in their company and what kind of contributions the immigrants made in the internationalization process of the company. In response to these questions Margaretha said,

“Yes, Marek is the only immigrant in this company. He is also one of the owners of the company. As I mentioned before, he is the one who mainly started the company. He managed the entire process from searching the market to find a proper product with a good price, contacting the suppliers and arranging the shipment.”

To answer the question about the contributions of the immigrants in the internationalization process, she mentioned:

“Without Marek, I would not be able to start the company. He knew the Polish language and culture. He had contacts and relatives in Poland which made it easy for him to get information about the market. He just could pick up the phone and call some friends to get information of potential suppliers and products or check the products online. The language would have been a big problem for me if I personally wanted to do business with Poland.

When it comes to Haraburda Handel, the immigrant’s previous knowledge and contacts allow the company to grasp the right supplier and products.

5 Analysis

In this chapter the empirical data are analyzed and discussed using the theories and concepts of the theoretical framework presented in chapter 2. The chapter first presents the drivers for and barriers to the internationalization process of the Swedish SMEs. After that, it illustrates how the Swedish SMEs internationalize by following the Uppsala model. Then we analyze the contributions of immigrants in the internationalization process of the Swedish SMEs.

5.1 Drivers for internationalization process of Swedish SMEs

In chapter two, according to the previous literature, we clarified that SMEs generally start with local markets. After stabilising in the local market, they get enough confidence to consider other markets in an international context. But this is not the only way to start the internationalization process, recently there is increasing number of small and medium-sized firms which are born global and they penetrate the international markets right after their establishment. For both cases, internationalization is an important issue, as it usually results in vital growth (Luostariinen, 1980). Moreover in chapter 2, we presented common drivers for the internationalization of SMEs.

According to the top managers of the companies included in our study, growth was the main driver for internationalization (OECD, 2009) but in each case some other external drivers also motivated them to internationalize, such as unique product or technology, limited domestic markets (Rundh, 2007), new opportunities and threat recognition (Alabaum & Duerr, 2008). These factors inspired the companies to start the internationalization process.

Among the SMEs under study, MP Bolagen AB and Haraburda Handel both are born global and started their international business because of the recognition of an opportunity in the markets. The founders of both the companies are entrepreneurs who recognized the opportunity because of their past experiences regarding the Swedish and the target markets' demand and supply. But in the case of Zinkteknik AB, the company first established in the local market and after several years of working in the market, it found

a stable situation in the Swedish market. But the market demand for its products was less than its production capacity. The company was not able to sell all of its products in the Swedish market. The limited domestic market motivated the company to consider other markets. The first step which Zinkteknik AB made was to present the company at international exhibitions.

Following Alabaum and Duerr (2008), threat recognition also pushes firms to go outside of a local market. Trivselhus AB is a good example of this. Following the economical crisis in the 20th century, a lot of Swedish companies in the same field including wooden house supplier went bankrupt and Trivselhus AB also experienced this threat, so in order to survive, it had to find another market outside of the country.

Elitfönster AB mainly sells in the local market and just two percent of the products go to the international markets. In order to grow, the company has taken some steps to enter other markets but due to some barriers it has not been able to extend the international activities further. Besides growth, the company experienced another driver associated with one of their products. The company developed an innovative sliding door, which was quite unique in both the domestic and the international market. Due to its uniqueness, the product has found a good market in Japan; hence the company has started to sell the product in Japan via a Japanese agent.

Plannja AB had also the same driver for its internationalization process. According to the President of the company, they knew that their products are unique and attract a lot of attention both in the Swedish and in the foreign markets. This issue motivated the company to start the internationalization process. They gradually entered the neighbor countries and later on extended the process in other European markets.

In the following scheme, we depict the main drivers for the internationalization of Swedish SMEs according to the theoretical framework and our conducted interviews.

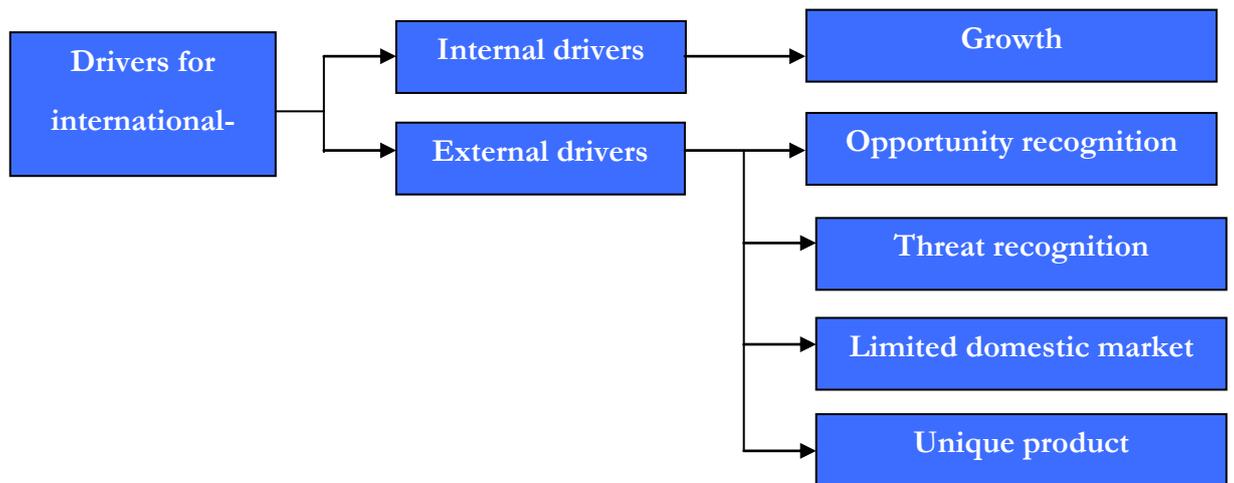


Figure 3: Main drivers for the internationalization process of Swedish SME.

5.2 Barriers to the internationalization process of Swedish SMEs

After analyzing the drivers for the internationalization process of Swedish SMEs, we go to the barriers that the SMEs experienced in the process. One of the most common barriers in the internationalization process of SMEs is limited resources (Boter & Lundström 2005). These resources embrace financial resources and knowledge resources. Aside from lack of financial resources, SMEs face other barriers which are mainly knowledge-related barriers including difficulties in identifying international business opportunities, limited information to analyze new markets and inability to contact potential international customers (OECD, 2009). Collected data from the interviewed top managers also confirmed this concept. Nearly all of our interviewees mentioned limited financial resources as one of their main barriers in the internationalization process. Due to lack of financial resources, companies are not able to handle high transportation costs involved in the shipment of their product to foreign markets. For example in the case of Elitfönster AB, high transportation costs make the company unable to expand its internationalization process.

Moreover, lack of financial resources made it difficult for the SMEs to dare to go out of the domestic market and to experience the international markets. Therefore they were not able to achieve the needed experiential knowledge regarding the international markets. According to Johanson and Vahlne (1977), experiential knowledge leads to more specific market knowledge, which is required to develop the internationalization activities. They believe that this kind of knowledge only can be achieved through the firms' experience of foreign activities. A clear example of this barrier can be noticed in Zinkteknik AB. In this case the process of getting into the first foreign market took a long time due to lack of international experience of the company.

The lack of knowledge regarding government, institutional structure and rules is also one of the barriers that the SMEs faced in the internationalization process. Johanson and Vahlne (2009) also confirmed that this kind of barriers is more obvious in the target markets with higher psychic distance and in such markets the company also suffers from liability of foreignness. For example in the internationalization process, MP Bolagen faced some barriers related to unknown rules and regulations, and high bureaucracy in the Russian market. In Russia, governmental procedures are quite different from Sweden and it makes the business process very slow.

Following OECD (2009) another knowledge-related barrier is inability to contact potential international customers. Trivselhus AB and Plannja AB both have attempted to start their international activities in the Chinese market. But they could not fulfill their purpose due to the inability to get the right contact. In the Chinese business culture, there is mistrust towards strangers and this factor has been explained through guaxi culture. Therefore, if a company intends to enter the Chinese market, it should find the right contact to be able to enter the related business network. Being an outsider in the business network prohibits the company to achieve needed market knowledge. Following our theoretical framework and the collected data through our interviews, right contacts in the market enable the firm to overcome the liability of foreignness (Johanson & Vahlne, 2009) and change its position from outsider to insider. In the case of Trivselhus AB and Plannja AB, lack of right contact has still kept them as outsiders in the Chinese market. This situation has put a significant obstacle in the internationalization process of the companies.

Gould (1994) referred to language as an important factor in the internationalization of SMEs. He clarified that lack of language proficiency of the target market creates communication barriers. Subsequently it increases the transaction costs for the companies. Relying on the data gathered through interviews, it was obvious that most of the companies have struggled with this problem.

In general, according to the theoretical framework and empirical data, we conclude that main barriers in the internationalization process of Swedish SMEs can be summarized into lack of resources. These resources are mainly financial resources and knowledge-related resources. Knowledge-related resources can come from the lack of financial resources. The most common knowledge-related resources are lack of specific market knowledge, lack of contact and lack of language proficiency, as pointed out by figure 4.

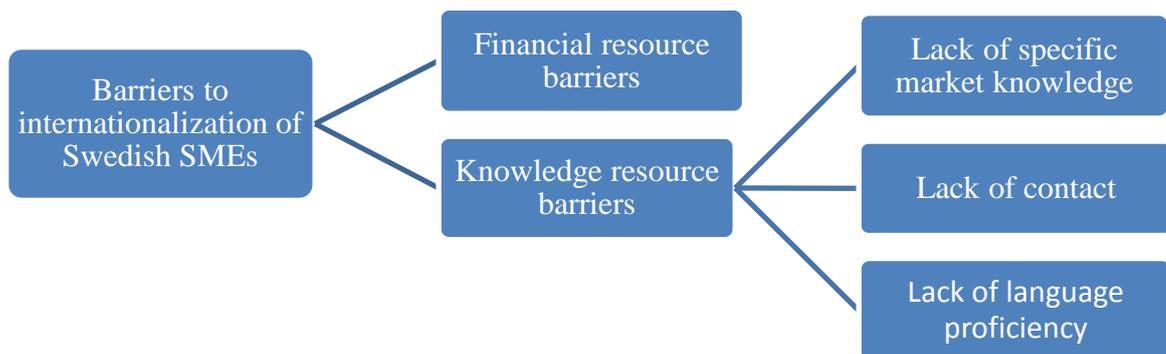


Figure 4: The main barriers in the internationalization process of Swedish SMEs.

5.3 The Uppsala internationalization model

Following the analysis of drivers for and barriers to the internationalization process of the SMEs, we move to consider how the SMEs started and extended their activities in foreign markets, and which structural form of internationalization they adapted i.e. export, sales offices, foreign production.

The data collected from the interviews show that the companies' lack of resources made them start internationalization gradually and step by step. This is exactly the main concept of Uppsala model and it is called establishment chain (Johanson & Vahlne, 1977). The SMEs under study mostly followed a similar pattern in the internationalization process. They started with the neighbour countries, which have more similarities in the lan-

guage, culture and business system. In most cases they started with Scandinavian countries. Later on the SMEs step by step entered other markets that were further away in terms of psychic distance. Johanson and Wiedersheim-Paul (1975) define psychic distance as factors like different language, culture and political systems which make it difficult for companies to access information about the target market.

Another noticeable pattern regarding the SMEs is about the penetration actors. The companies mainly entered the market through agents who represented the company in the foreign market. Generally, if they found the development positive, they substitute their agents with their own sales offices or acquire the agents. In some cases, like Zinktechnik AB and Plannja AB, as growth continued they began manufacturing in the target market. Generally they followed the Uppsala model. The model describes that Swedish SMEs generally start with exporting to a country via an agent, later establish a sales subsidiary, and finally, they may begin production in the target country (Johanson & Vahlne 1977, 1990). This process is called establishment chain. We have depicted this process in the following scheme.



Figure 5: Establishment chain

Source: Johanson and Vahlne (1977, p.24)

This chain is quite time consuming. But our interviewees mentioned that because of their limited resources, it is the most effective way to get more knowledge about target markets. In fact the experiential knowledge that the SMEs gain during the process enables them to handle the uncertainty and obstacles faced in the internationalization process.

We discussed earlier in the theoretical framework that Johanson and Vahlne (2009) lately have highlighted the importance of network relationships in the internationalization

process. Relying on the collected data from the interviews, we noticed that the SMEs have used their international networks to start and develop their international activities.

In the case of MP Bolagen AB and Haraburda Handel, they did not follow the gradual process of internationalization at the start of their business. They are considered as born global since they went to the international market as soon as they were established. Both these firms are established by individuals with international experience. The founders had several contacts in the target market. Using these contacts enabled them to get into the related business network in the target market. These companies deviated from the establishment chain of internationalization just in the start of their internationalization process, but later on in the process of development of the international activities, MP Bolagen AB actually followed the establishment chain and chose the markets with lower psychic distance to expand its international business.

5.4 Social networks in the internationalization process of SMEs

As discussed in the theoretical framework, in this study we refer to immigrants as social networks. Social networks are able to transfer the required knowledge through interpersonal ties and social links between individuals (Rogers & Kincaid, 1969). Relying on literature and our data from the interviews, involving immigrants in the internationalization process can provide market knowledge and opportunities and offer experiential knowledge.

All the SMEs under study have immigrant employees in their companies, but not all of them involved these employees in the internationalization process. For example, in the case of Elitfönster AB, although there are a large number of employees working in the factory, none of them were involved in the firm's internationalization activities. The CEO of the company declared that he believed that immigrant employees have high potential to contribute in the process of internationalization but the company has not focused on this issue yet. All the other five SMEs, to some extent, have involved their immigrant employees in the internationalization process. In the following sections we analyze the contributions of immigrant employees in these five companies according to the theoretical framework.

5.4.1 Providing market knowledge and opportunities

According to our data gathered through our empirical study, one of the common contributions of immigrant employees in the internationalization process was associated with language. The ability of immigrant employees to talk in Swedish and in the native language of the target market reduces the communication barrier and facilitates the flow of information. This issue subsequently decreases the transaction costs (Gould, 1994), which is a vital factor for SMEs with limited resources. Moreover, the fluency in the language of the target market enables the immigrant employees to contribute in establishment of proper contacts.

According to the interview data we recognize that another essential contribution of immigrant employees is to provide the companies with specific market knowledge. They provide the companies with the specific market knowledge in two ways; first they may already pose this knowledge due to their past experience. Second, as a social network they connect the companies to the related business network. According to Johanson and Vahlne (2009) being in a business network enables the firm to gain knowledge about its relationship partners' resources, as well as the resources and requirement of faraway actors in the network. In both these processes the company access specific market knowledge, which is essential to recognize new opportunities. MP Bolagen AB is a good example in this case. By involving the Polish employee, the company could gain the specific market knowledge regarding the Russian market. This knowledge enabled the company to understand the governance structures, rules, regulations and overcome the high bureaucracy in the Russian market.

From the collected data we also discover that contact is a fundamental factor, which allows the company to access market knowledge and related network. Gould (1994) also referred to contact as a useful means to lower the transaction costs in the internationalization process. In most of our cases the contacts established by immigrant employees were very effective in the process of internationalization. For example in the case of MP Bolagen AB and Haraburda Handel, the contacts that the entrepreneurs had in their homelands provided them with more specific knowledge about the related industry networks and enabled them to recognize the opportunities in the market.

Our empirical findings identified several particular personal contacts that immigrants established in the process of internationalization, such as contacts within a specific in-

dustry, with family and friends and governmental organizations. Among these contacts, industry-specific contacts are considered as the most useful ones when the company intends to launch a business or find an agent in a foreign market. But such contacts are not easily accessible. In the case of Haraburda Handel, the Polish entrepreneur did not have personal contacts within the fertilizing industry but he used his family and friends in order to access specific industry contacts and collected the required information.

One of the barriers SMEs face in the internationalization process is high bureaucracy in the business process in developing countries. Bureaucracy involved in negotiating, delivery and payment processes create high transaction costs for SMEs. By creating mutual trust between the parties involved in the internationalization process, companies can skip the bureaucracy involved in negotiating, delivery and payment process. This can save time and reduce transaction costs. Immigrants' contact is a vital means to improve the mutual trust. Bonds of interpersonal trust can guarantee business transactions, by this means it leads to cost efficiency (Zhou et al., 2007).

In the case of Zinktechnik AB, the immigrant employees used their friend and family contacts to find a suitable location for the factory. Additionally through these contacts they could find people suitable for the positions in the sales office and factory in Bosnia.

5.4.2 Offering experiential knowledge

As we discussed in the theoretical framework, Johanson and Vahlne (1977) considered lack of market knowledge as a major barrier to SMEs' internationalization. They believed that the company can gain this knowledge just through its own activities in that market. But lately they developed the model further due to the importance of networks in the internationalization process. They added that the position of the firm in the related network in the target market enables it to gain market knowledge (Johanson & Vahlne, 2009). According to the interview data, it is evident that all of the SMEs under study used their international networks to access the experiential market knowledge. In the case of MP Bolagen AB and Haraburda Handel, past experiences and contacts of the entrepreneurs in the target markets equipped them with the experiential knowledge regarding the markets.

According to Johanson and Vahlne (1990), experiential knowledge is the essential factor in the internationalization of SMEs, since it is considered as the important means to diminish market uncertainty. A considerable aspect that has been uncovered during the study is that in some cases, the companies tried to involve Swedish employees in the internationalization process, but the Swedish employees' contribution was not highly effective, due to lack of experiential knowledge. This issue has led most of the SMEs to involve local people in their offices outside of Sweden.

Trivselhus AB, Elitfönster AB and Plannja AB mainly have followed a local policy in their offices located outside of Sweden. It means they involved the local people from the target market. In the case of Elitfönster AB, in the entire sister companies in Europe and Japan the employees come from the local markets. Trivselhus AB also have agents in the United Kingdom and Switzerland and in both this cases the managers and employees mainly come from the local markets with high experiential knowledge of the markets. In this way their experiential knowledge about handling business in the market mediates the process of business activities.

Regarding Zinkteknik AB, Trivselhus AB and Plannja AB, in some cases the managers of their agents have lived in Sweden for a certain period. Later on they left Sweden for their homeland and started working as agents in the target markets. For example the sister company of Zinkteknik AB, in Bosnia, is managed by the Bosnian couple, who lived in Sweden for some years before they went back to Bosnia to cooperate with Zinkteknik. There is the same story regarding the Romanian agent of Plannja AB and German agent of Trivselhus AB. In these cases the agents have a wide range of experiential knowledge from the Swedish market as well as the target markets.

6 Conclusions and further studies

This chapter presents our conclusions which are based on the analysis. It answers our research questions in order to fulfil our study purpose, namely, the internationalization process of Swedish SMEs and involvement of immigrants. The chapter ends with suggestions for further studies.

6.1 Conclusions

The purpose of this study was to investigate the internationalization of small and medium-sized enterprises (SMEs) and involvement of immigrants. We analyzed different drivers for and barriers to the internationalization of Swedish SMEs. We have also studied how the SMEs internationalized. Finally we investigated the involvement of immigrant employees in the internationalization process of each studied company. We considered what kind of contributions the immigrant employees made and how they helped the companies to overcome barriers in this process.

Based on the analysis we draw the conclusion that the SMEs stepped outside of the domestic market due to various drivers. The analysis shows that the main driver has been the desire to grow the business. But several other factors such as opportunity recognition, threat recognition, limited domestic market and unique products also motivated them to start or expand the internationalization process. But during the internationalization process the SMEs experienced several barriers which were mainly due to shortage of different kinds of resources.

Lack of financial resources and lack of knowledge-related resources were main barriers the SMEs faced in the process. Most common knowledge-related barriers were lack of specific market knowledge, lack of language proficiency and lack of contacts in the target market. Subsequently, these barriers made the SMEs take small steps in the process of internationalization and enter the target markets gradually. Relying on our analysis, we recognized that most of the SMEs follow the establishment chain of the Uppsala model. Due to the lack of resources the SMEs started with the neighbour countries with lower psychic distance. At the beginning of the internationalization process, the SMEs

exported through agents, later on if the sale progress was positive, they acquired the agents. Finally in some cases the companies started production in the foreign markets.

Regarding the involvement of immigrant employees in the internationalization process of the SMEs, when weighing the evidence, the contribution in the process was different. In most of the cases immigrant employees just worked in the factories. But in some cases the immigrants could enable the SMEs to start or develop the internationalization process because of the language proficiency, specific market knowledge, contacts in their homeland and their experiential knowledge regarding their homeland market and in some cases regarding the Swedish market as well. These contributions were highly valuable for the SMEs to overcome barriers in their internationalization process.

As we mentioned earlier, SMEs face various barriers. Barriers mostly increase the transaction costs involved in the internationalization process. For example, a company has to devote a large amount of its resources to conduct or handle communication barriers, conducting market research, finding the right contacts, and access related business networks. But during this study we came to this conclusion that involvement of immigrants could manage the mentioned issues and as a result decrease the transaction costs of internationalization process.

6.2 Further study suggestions

In this study we investigated the internationalization of Swedish SMEs and the involvement of immigrants in the process of internationalization. But during the study we noticed some other issues aside from our study topic. For example, we recognized that the involvement of immigrant employees depended on the companies' management. If managers considered the knowledge and the competencies of immigrant employees as a resource, they involved the immigrants in the of internationalization process. Otherwise they used the immigrants only in the production areas. Therefore, we suggest that studies also direct attention to managers' perceptions regarding the involvement of immigrants in the internationalization process.

We conducted our study from a SME perspective but further studies can use an immigrant perspective and reveal other important aspects of internationalization, market knowledge and experiential learning. We limited our study to Swedish SMEs but it can be interesting to investigate the same topic with a focus on SMEs in different countries.

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Appendix 1

Interview questions

- 1- Can you give some information about your company and your position?
- 2- Could you tell us about the international situation of your company?
- 3- Why did you go for internationalization?
- 4- How did you start internationalization process? Which structural form of internationalization do you follow i.e. export, sales offices, foreign direct investment with foreign production?
- 5- Did you experience any barriers in the internationalization process of your company? Please explain.
- 6- Have you any immigrant employee in your company?
- 7- Have you any experience of involving immigrants as a social network in internationalization process of the company?
- 8- What kind of contribution they had in the internationalization process?
- 9- Could immigrants help you to overcome the barriers in the process of internationalization in a new target market?

Appendix 2

Interviewees' contact information

Company (C)	Interviewees' name & position	Contact info
C-1. MP Bolagen AB	Peter Josephson Managing Director	info@mpbolagen.se
C-2. Zinkteknik AB	Sven-Erik Svensson Owner	Sven-erik.svensson@zinkteknik.se
C-3. Trivselhus AB	Andreas Ek CEO	info@trivselhus.se
C-4. Elitfönster AB	Jonas Netterström CEO	Jonas.Netterstrom@inwido.se
C- 5. Plannja AB	Per-Olof Stark president	perolof.stark@plannja.com
C-6. Haraburda Handel	Margaretha Laike Owner	info@haraburda.se