Business in the Cloud

- Internationalization of a small enterprise in the age of cloud services

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Abstract
During the past decade, advances in information technology have facilitated the rapid international expansion of small and medium-sized enterprises (SMEs). Cloud computing has enabled a new wave of firms to offer services on the web regardless of geographic distances. The aim of this study is to explore how cloud computing affect the external variables network and culture in the internationalization process of an SME. In order to explore the impact on these external variables, a qualitative case study is carried out on a business-to-business SME offering cloud services within small and open economies. The findings explain why closeness was important and why the cloud service firm was limited to a gradual internationalization process although the technology has the potential to break this pattern or accelerate it. The results from this study are valuable for scholars since the internationalization process of cloud service firms is an under-researched area. It is also useful for cloud service SMEs when making strategic decisions in the internationalization process.

Keywords: Internationalization process, Uppsala Model, Born globals, Cloud computing, Network, Culture
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1. Introduction

The internationalization process of small and medium-sized enterprises (SMEs) is currently discussed because of changing conditions in the business environment such as the liberalization of world trade, the increasingly globalized economy and technological progress (Gabrielsson & Kirpalani, 2012). The traditional internationalization process is described by the Uppsala Model (UM) and is the most cited internationalization model (Palgrave Macmillan, 2012). UM describes how firms gradually intensify their activities in foreign markets, based on cultural closeness and knowledge accumulation (Johanson & Vahlne, 1977). Despite its wide acceptance UM has been criticized by several scholars, mostly on its sequential process-based view and its emphasis on the liability of foreignness (Johanson & Vahlne, 1990; Barkema, Bell & Pennings, 1996; Moen & Servais, 2002; Forsgren & Hagström, 2007). As a reaction to this critique, Johanson and Vahlne revisited their model in 2009. The revisited Uppsala Model (RUM) is less country-specific and more network-specific due to technological progress and changes in business practices since 1977 (Johanson & Vahlne, 2009). However, since RUM is based on deductive reasoning on a conceptual-abstract level and lacks primary empirical sources, it is open for interpretation. The model is descriptive meaning that it is intended to answer the question “how” rather than “why”.

Contrary to the traditional UM, research has indicated that so called *Born Globals* (BGs) deviate from the traditional internationalization process by undertaking alternative entry modes and pursuing rapid internationalization from inception or shortly thereafter (Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Madsen & Servais, 1997). BGs can be defined as entrepreneurial SMEs offering innovative products/services or other specialized competencies in multiple countries (Oviatt & McDougall, 1994; Chetty & Campbell-Hunt, 2004; Gabrielsson & Kirpalani 2004). Research on this phenomenon has primarily been focused on the definition of BGs and their internal capabilities such as entrepreneurship or marketing strategies (Knight & Cavusgil, 2004; Laanti, Gabrielsson & Gabrielsson, 2007). By comparison, relatively little is known about external variables that interact with and impact on the internationalization process of BGs (Gabrielsson & Kirpalani, 2012). There are several external variables that need further research. Two of these variables, culture and network, are also primary components in RUM.
However, research so far indicates differences between BG theory and RUM on these variables. RUM describes how SMEs gradually intensify their internationalization by building networks from perceived cultural closeness. On the other hand, BG theory suggests that the product and strategy determines network engagement rather than cultural closeness (Pedersen & Petersen, 2004; Laanti et al., 2007).

One of the underlying reasons behind the deviating internationalization process is the development of information technology during the past decade which has facilitated the rapid international expansion of SMEs (Loane, 2005; Arenius, Sasi & Gabrielsson, 2006). These SMEs have emerged as a new wave of firms and have a renewed vision about the web and its opportunities (Bell & Loane, 2010). They view the web as a platform that is characterized by user participation, rather than locally installed software where the information flow is one-way (O’Reilly, 2005). This renewed vision of the web is known as Web 2.0 and cloud computing is the central service model. Cloud computing means that Internet users can gain access to services and applications from anywhere at any time through devices connected to the Internet (Bughin, Chui & Manyika, 2010). The benefits for SMEs include increased information sharing, more effective marketing and reduced communication costs (Bughin, Chui & Miller, 2009). Because cloud computing allows services to be consumed over the web, regardless of geographic distance or time, the boundaries of the firm have become more fuzzy (Bell & Loane, 2010). The way SMEs interact with their environment has therefore undergone change.

Geographic distances tend to be less important with cloud computing and since national cultures are embedded within geographic boundaries (Hofstede, 1983), it could be of interest to investigate how cloud services affect the cultural variable in the internationalization process of an SME. Furthermore, networking and relationship-building have become increasingly important since cloud services involve co-creation with customers (Bughin et al., 2010). Thus, it could also be of interest to investigate how cloud services affect the network variable in the internationalization process of an SME. This will shed further light on the differences between BG theory and RUM on the external variables culture and network. It will be of interest for scholars since the interaction of external variables on BGs is an under-researched area (Gabrielsson & Kirpalani, 2012), especially the emergence of cloud computing and the new
wave of firms associated with this phenomenon (Bell & Loane, 2010). It will also be useful for cloud service SMEs when making future strategic decisions in the internationalization process.

1.1 Purpose
The aim of this study is to investigate how cloud computing, as an emerging service, affects external variables in the internationalization process of a business-to-business SME. The study specifically investigates the impact of a cloud service offering on the external variables culture and network due to the different views between RUM and BG theory. Since the internationalization of cloud service firms is a relatively new phenomenon, we investigate an internationalization case in order to obtain a deeper empirical understanding. We use a case study of a business-to-business SME from Finland internationalizing to Sweden. The aim of the study falls into the research question:

*How does cloud computing affect the external variables culture and network in the internationalization process of an SME offering cloud services?*

2. Theoretical framework

2.1 The Uppsala Model
The Uppsala Model (UM) describes the internationalization process of the firm and is based on empirical observations of Swedish SMEs with subsidiaries in foreign countries (Johanson & Vahlne, 1977). The findings suggest that firms gradually intensify the internationalization process by learning through experience. Experience is gained through gradual acquisition, integration and use of knowledge about foreign markets and operations. The firm increases the involvement and degree of commitment in foreign markets to strengthen their position as a natural effect of learning through its operations. The learning creates market knowledge and enhances the information flow and the operational activities which in turn progresses the market position and creates more market commitment. UM is a dynamic model with no deterministic degree of commitment and no given time reference or entry mode. Nevertheless, the empirical data points at a gradually intensified internationalization; starting up with an intermediate mode and gradually intensify the establishment. Johanson and Vahlne (1977) also find that firms internationalize into geographically close foreign markets because of psychic distance. The
psychic distance is defined as the country-specific differences that prevent the flow of information from and to the market, also referred to as the establishment chain; an observation derived from UM.

_The Uppsala Model revisited_

The development of UM has led toward the view of network theory, due to criticism of the view of knowledge and learning in UM (Barkema et al., 1996; Forsgren, 2002; Johanson & Vahlne, 2009). Especially regarding IT firms, which tend to have a more dynamic environment and a business pace that affect the internationalization process (Forsgren, 2002). Furthermore, Forsgren and Hagström (2007) find a tendency rejecting the assumption of physical closeness, and by that also of the psychic distance in the establishment chain. The Revisited Uppsala Model (RUM) describes a cumulative and dynamic process of learning, trust and commitment in order to establish a successful network position. Revising their model, Johanson and Vahlne (2009) aim to enhance the understanding of internationalization through a new theoretical framework stressing the importance of network relations of the business. The basic assumptions made in the UM are the same in RUM, but with some slight changes. Adding to the model is the view of network theory; firms are embedded in business networks, enhancing the part of market commitment in the UM. Furthermore, the part of current activities in UM is developed into the explicit factors of learning and trust-building. This in turn affects the view of culture, thus the assumptions made from UM described as the establishment chain; it is no longer as much a matter of the liability of foreignness, but of the liability of outsidership. The internationalization is done to strengthen the network position to improve or/and protect the market position. Since networks are nationally borderless, expansion or entry into foreign markets is now more about positioning; being included, having insidership, in the right network rather than national bounded entry (Johanson & Vahlne, 2009).

2.1.1 Network

According to Johanson & Vahlne (2009) the business network contains enabling, but also constraining, interdependent relationships between the different actors in the network. The network is based upon the firm’s business experience, prior and current, and the actors involved. Learning from and creating knowledge through this network establishes a network position in which the firm gains market and business knowledge. The degree of establishing a strong
network position, creating an insidership, will determine the success of the internationalization. This is called the *liability of outsidership* in RUM. Furthermore, Johanson & Vahlne (2009) claim that to be successful, the firm needs both trust and commitment in its business relationships. Trust persuades people to share information, creating further knowledge and possible opportunities and, in turn, a stronger business relationship. Trust creates joint expectations, induces reciprocity and coordinates action. Trust entails integrity, reliability and predictability in the transparent sense of someone else’s business activities. Furthermore, trust is enhanced by high ethical standards. Trust in turn is a prerequisite for commitment. To create commitment, there also has to be willingness and clear positive intentions from the parties involved. This is showed by intentions to continue the relationship by investments and recognizing short-term sacrifices. An extant degree of commitment will persist and increase if a relationship leads to a mutual long-term benefit. Thus trust being crucial for incremental stages in the relationships made, and equally commitment for the latter stages, to establish a successful relationship.

Gounaris (2005), referred to in RUM, says that commitment can be seen through two perspectives; calculative and affective. Calculative aims for results and calculating benefits whilst affective relates to a sense of regard and attachment for the other. Calculative commitment is seen as more transparent and logical whilst affective commitment is harder to anticipate and based on subjective assumptions. Since knowledge is incomplete in most incremental business relations, it can be anticipated that action is based on rational behavior. Through most relations, knowledge is developed after engagement and therefore decisions are made on little knowledge, thus affective commitment through bounded rationality and subjective opinions are common. Therefore the trust-building process is time-consuming and costly in most cases. Neither trust nor commitment is permanent and the actors involved must therefore exhibit tolerance and flexibility for long-term purposes. This will create dependencies but also opportunities which could not have arisen without the relationship, hence these are seen as key factors for successful network positioning (Johanson & Vahlne, 2009).

### 2.1.2 Culture

To create a strong positioning within the network and avoid outsidership, the firm needs to create knowledge (Johanson & Vahlne, 2009). UM discusses experiential knowledge, which is gained
by experience through own operations. Furthermore, market-specific knowledge is discussed in UM, and institutional knowledge and business knowledge are added in RUM. Cultural aspects are entailed in the term *psychic distance*, and are implicitly referring to the learning process and knowledge transfer. It is more explicitly important in UM, whilst implicitly in the term knowledge in RUM. Cultural aspects can be derived from the term market-specific knowledge; knowledge learnt through current activities of the firm (Johanson & Vahlne, 1977; Barkema et al., 1996; Johanson & Vahlne, 2009).

In comparison to national culture, RUM enlights cultural blocks; cultural differences within a country where there can be entirely different markets within different parts of a country (Ronan & Shenkar, 1985; Barkema & Drogendijk, 2007). The firm can benefit from expanding to countries in the same cultural block and then gain knowledge to utilize. In line with UM, Barkema & Drogendijk (2007) argue that too big of a leap between cultural blocks will not be as beneficial. They suggest that prior experiences of internationalization or of entered country in the same cultural block give a better ability to absorb information, thus gain knowledge. Eriksson, Johanson, Majkgård & Sharma (1997) and Shenkar (2001) shed light on the lack of institutional knowledge and business knowledge in UM. They found evidence that language barriers, institutional knowledge; the laws, norms and other standards, and business knowledge; clients, competitors and the market, are factors for successful internationalization. To connect to *Network*, the liability of outsidership is not bounded to country borders. It is rather a boundary concept at the firm-level, which could be related towards a wider region or part of a country (Rugman & Verbeke, 2007; Johanson & Vahlne, 2009). Furthermore, RUM questions the emerging concept of Born Globals and argues that most born globals are really “born regionals”, meaning international activities that do not really span the globe in any significant fashion.

### 2.2 Born Globals

Contrary to UM, research has indicated that a new breed of firms, Born Globals (BGs), deviate from the traditional internationalization process in many ways (Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Madsen & Servais, 1997). There is still no clearly agreed-upon definition of BGs which creates a problem in theory-building with regard to the comparability of results. Nonetheless, Gabrielsson & Kirpalani (2004) suggest that BGs can be
defined as entrepreneurial SMEs, many from small and open economies (SMOPECs), offering either unique technology and/or innovative products/services or other specialized competencies in multiple countries. However, one agreed-upon point among scholars is that BGs from the start-up phase seek to derive innovation from the use of resources and rapidly globalize their business (Oviatt & McDougall, 1994; Chetty & Campbell-Hunt, 2004; Gabrielsson & Kirpalani, 2012).

The deviation from the sequential process is explained by the lack of resources since BGs tend to be small start-up firms (Oviatt & McDougall, 1994; Gabrielsson & Kirpalani, 2012). The resource constraints drive BGs to internationalize by alternative entry modes or methods that do not follow a sequential approach. For example, BGs acquire superior knowledge and capabilities through prior experience of the founding team or from external network actors rather than through gradual experience and knowledge accumulation (McDougall, Shane & Oviatt, 1994; Loane, Bell & McNaughton, 2007; Weerawerdena, Mort Sullivan, Liesch & Knight, 2007). Other notable differences in the internationalization process include the implementation of advanced product strategies at an early stage, the rapid establishment of sales and marketing subsidiaries, and strategically chosen entry modes (Laanti et al., 2007). One of the underlying preconditions behind the deviating internationalization process is the development of information technology over the past decade which has facilitated the rapid international expansion of SMEs (Bell & Loane, 2010). Other reasons are the changes in the business environment such as the liberalization of world trade and the increasingly globalized economy which require more aggressive learning strategies (Chetty & Campbell-Hunt, 2004).

Research on Born Globals can be divided into two main groups; research focused on internal aspects, such as the definition of BGs, and research focused on the impact and interaction of external variables on BGs. By comparison, relatively little research has been done on these external variables (Gabrielsson & Kirpalani, 2012). The external variables that are relevant for the purpose of this study are discussed below.

2.2.1 Network
Since BGs seek to globalize their businesses right from inception and face resource constraints, many scholars suggest that network theory can be applied in order to understand their
international development (Andersson & Wictor, 2003; Sharma & Blomstermo, 2003; Mort Sullivan & Weerawardena, 2006; Loane et al., 2007). Networks are important for new firms as they are dependent on relationships with financiers, suppliers and customers (Oviatt & McDougall, 1994). Globalization has made it easier to pursue BG strategies, but entrepreneurs with a global vision and their personal networks are crucial to the implementation of these strategies (Andersson & Wictor, 2003). This reasoning is supported by Sharma and Blomstermo (2003) who find that BGs possess international market knowledge before their first foreign market entry. The market knowledge is acquired through prior knowledge of the founders and through their network ties. This is further stressed by Loane et al. (2007) who find that BGs founded by management teams demonstrate superior performance compared to firms founded by lone entrepreneurs. The performance was influenced by team-based capabilities such as wider networks, broader market reach and greater resource capabilities and skills. The team-based capabilities were especially crucial in leveraging external financial resources, required for rapid internationalization.

There is a difference between BG theory and RUM when it comes to the concepts of trust and commitment. RUM describes a gradual and slowly progressing trust-building that leads to increased commitment and creation of new market opportunities. This process has been a victim of criticism because of its path dependent nature where new insights are locked out (McDougall et al., 1994; Knight & Cavusgil, 1996). BGs, on the other hand, are more risk taking and emphasize a more strategically chosen network structure where weak ties are preferable over strong ties. Weak network ties are critical for BGs in order to stay flexible to changing market demands and to remain path-breaking. It is also important that these ties are built early since it is harder for firms with long domestic experience to change their mental models and processes (Sharma & Blomstermo, 2003; Mort & Weerawardena, 2006).

2.2.2 Culture

The effects of globalization and technological advances have given rise to a communication revolution and “the death of distance” (Cairncross, 2001). The geographic and cultural distances that traditionally have separated nations are shrinking (Cavusgil & Knight, 2009). A study that investigates the entrepreneurial capabilities in building a BG firm emphasizes the entrepreneur’s preference for cross-cultural collaboration (Karra, Phillips, & Tracey, 2008). The entrepreneur in
the case study deliberately developed complex cross-cultural social networks with international partners in distant countries. The partners were strategically chosen after suitability in the business model rather than geographic or cultural closeness. The complex cross-cultural collaboration network proved to be a difficult to imitate source of competitive advantage. The study concludes that there exist differences in the business environment, or institutional distances between countries, but that the prior experience of the entrepreneur determines the success of the institutional bridging between different business cultures. Other studies also confirms that the founders’ prior experience, capabilities and knowledge about foreign markets facilitates rapid internationalization and helps SMEs to skip stages in the traditional knowledge accumulation process (Moen & Servais, 2002; Ardichvili, Cardozo & Ray, 2003; Loane et al., 2007). Specifically, information and knowledge about foreign markets are more available and enhanced by the advances on the Internet (Mathews, Healy & Wickramasekera, 2011).

A study that investigates BGs perceived familiarity with foreign markets suggests that neighboring or close countries may be unsuccessful to entry (Pedersen & Petersen, 2004). The findings show that managers of entrant firms experienced effects of culture shocks when entering near but not distant countries. Furthermore, the shock effects happened to firms offering customized products rather than standardized products. The shock effects are explained by managers’ psychic distance to foreign countries. Countries of little psychic distance can be defined as foreign markets about which managers believe they are knowledgeable or familiar with local business conditions (Pedersen & Petersen, 2004). Managers tend to overestimate similarities between neighboring countries (O’Grady & Lane, 1996). However, other findings show that managers of BGs recruit knowledgeable employees or engage in pre-entry learning to reduce psychic distances to foreign markets (Petersen & Pedersen, 2002; Ojala & Tyrväinen, 2009). The findings also show that other factors than psychic distance may influence market selection, such as the attractiveness of the market or opportunity-seeking behavior.

2.3 Cloud computing
After the dot-com crash in 2001, a new breed of firms emerged and took center stage in what has been known as the next-generation of computing or Web 2.0 (O’Reilly, 2005). In the previous era of Web 1.0, firms interpreted the web as a one-way flow of information, from the web to the
users (Bell & Loane, 2010). The new era of Web 2.0 is characterized by user participation, making it a two-way flow of information. This means that firms are able to learn from their customers and their demands, at a lower cost, and that co-creation of knowledge has become valuable for firms. A central service model of Web 2.0 is cloud computing where access to networks, servers, storage, applications and services are available on the web (Bell & Loane, 2010; Mell & Grance, 2011).

The concept of cloud computing covers several services such as web-mails, wikis, blogs, social media sites and enterprise systems. Several definitions can therefore be found. McKinsey defines cloud computing as: “accessing computer resources provided through networks rather than running software or storing data on a local computer.” (Bughin et al., 2010, p.10). A more detailed description of cloud computing defines it as constant on-demand access to an online service and accessed through heterogeneous platforms such as laptops and mobile phones (Mell & Grance, 2011). Furthermore, the service is built to serve multiple consumers and to elastically manage rapid change. Lastly, the resource usage can be monitored, controlled, and reported, providing transparency for both the provider and the consumer.

**2.3.1 Network**
Successful firms in the era of Web 2.0 are characterized by close collaboration, co-creation, networking and creativity in the use of existing technologies to develop new offerings (Bell & Loane, 2010). Since cloud services involve co-creation with customers, networking and relationship-building have become increasingly important (Bughin et al., 2010). However, data privacy and security concerns exist when using cloud services. Sensitive data is kept at a location which is out of the customer’s control and there is no agreed-upon policy for data protection (Motahari-Nezhad, Stephenson & Singhal, 2009). Data privacy and security concerns might be a dilemma for cloud service firms when it comes to building trust and commitment. On the one hand they want to be flexible to rapid changes in demand, but on the other their customers have to trust them to a large extent. Our study aims to explore how cloud services affect the network variable in the internationalization process of an SME.
2.3.2 Culture
Cloud computing allows globally oriented SMEs to reach the largest possible community for their offerings, regardless of geography (Bell & Loane, 2010). Cloud computing as a collaboration tool has also increased the productivity of employees (Bughin et al., 2010). The co-creation with customers and the intangible services thus make the boundaries of the firm more blurred (Bell & Loane, 2010). Physical boundaries tend to be less important with cloud computing since the emergence of the Internet has put more emphasis on functional and professional networks rather than geographically situated cultures (Etemad, Wilkinson & Dana, 2010). However, since networks are embedded within geographic boundaries and thus national cultures, the national differences might challenge the borderless idea (Hofstede, 1983). Our study seeks out to explore how cloud services affect the cultural variable in the internationalization process of an SME.

2.4 Summary of theoretical framework
In order to investigate how a cloud service offering affects the external variables culture and network in the internationalization process, we have chosen to apply three concepts to each variable. These six concepts were chosen because they all differ between RUM and BG. All of the concepts, except network position, originate from UM and has been questioned by BG theory. Network position is added in RUM because of critique, but the findings still deviate from BG theory. The framework will be used to analyze the empirical data in order to compare the findings with RUM and BG theory. The presumed impact of cloud computing is presented with question marks because of the unexplored nature.

<table>
<thead>
<tr>
<th>Network</th>
<th>Culture</th>
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<tr>
<td>Network position</td>
<td>Closeness</td>
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<td>Revisited Uppsala Model</td>
<td>Outsidership negative</td>
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<tr>
<td>Birth Global</td>
<td>Flexible</td>
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<td>Cloud service firms</td>
<td>High importance?</td>
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<th>Network</th>
<th>Learning &amp; knowledge</th>
<th>Foreignness</th>
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<td>Revisited Uppsala Model</td>
<td>Gradually increasing</td>
<td>Decreased relevance</td>
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<td>Birth Global</td>
<td>Risk-taking and flexible</td>
<td>Irrelevant</td>
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<td>Cloud service firms</td>
<td>Continuous co-creation?</td>
<td>Irrelevant?</td>
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Table 1. Summary of theoretical framework
3. Method

3.1 Research approach
Since the internationalization of cloud service firms is a relatively new phenomenon, we have chosen to investigate a single case study in order to obtain a deeper empirical understanding of how this technology affects the internationalization process (Yin, 2003). Practical limitations such as context, time and access also determined this approach (Silverman, 2010). Since the phenomenon was relatively novel and unexplored, a single case study approach gave us the opportunity to tell an empirical story rather than to give a generalized picture (Stake, 1995; Yin, 2003). We have conducted exploratory research, meaning that we explored situations in which the evaluated phenomenon has unknown effects (Yin, 2003). An issue with exploratory research is that little can be used to build a theory-grounded guessing on, since little is known (Stake, 1995). To avoid this, we focused on a few concepts to narrow down the research into a well stated framework for studying the phenomenon in a narrow scope (Miles & Huberman, 1994; Stake, 1995; Baxter & Jack, 2008).

Since the case is of an exploratory nature, the method was of a combined nature known as an abductive method (Dubois & Gadde, 2002). This means that we deductively compared the findings with existing theory but also inductively developed deeper explanations of the investigated phenomenon. We support our choice of method with the idea that contributions to a theory can be made when data are more illustrative than definitive (Sutton & Staw, 1995). We believe that theorizing is an ongoing process and an atypical case study can contribute to develop theory further by its illustrative nature, qualitative characteristics and empirical findings (Weick, 1995).

3.2 Data sample

3.2.1 Selection of case
Since the aim of this study is exploratory and aims to investigate a relatively new phenomenon, the choice of case was partly based upon self-selection sampling and partly on purposive sampling (Saunders, Lewis & Thornhill, 2009). This means that the case company itself expressed a desire to take part in the research, known as self-selection sampling. At the same time, we deliberately chose the company due to its relevance for the aim of the study, known as
purposive sampling. The issues that arise with self-selection and purposive sampling are the low likelihood of the sample to be representative and the subjective judgment involved (Saunders et al., 2009). However, self-selection was useful for us in order to obtain a rich empirical understanding of the new phenomenon where exploratory research is needed. Furthermore, purposive sampling was suitable to fulfill the aim of this study. The case might make important insights for future research and following cloud service firms (Gibbert & Ruigrok, 2010).

### 3.2.2 Selection of interviewees

The selection of interviewees was based on to which extent the interviewees were involved in the investigated establishment in Sweden and was able to answer the research question. Since the case company is a small enterprise, the choice of interviewees involved in the establishment was limited. Moreover, interviewing only the case company may create subjectivity. To overcome this limitation, we combined several sources in order to create a data triangulation (Silverman, 2010). The company was therefore asked to suggest an external observer to be interviewed as well as to provide documentation in order to get a more comprehensive picture of the internationalization process. The selected interviewees in this case study are the CEO, the Business Development Manager of Sweden and an external consultant partner. We selected these interviewees since they were the only people actively involved in the Swedish establishment. However, even though the consultant is external, there may be a risk of subjectivity since he helped the company to sell its service. This subjectivity could have been overcome by interviewing a customer but because of sensitive information reasons, we did not get access to any customers.

### 3.3 Data collection

After the selection of case and interviewees, an interview session based on semi-structured and in-depth interviews took place. The interviews were between 60 and 90 minutes long, conducted face-to-face, audio-recorded and transcribed. We used non-standardized interviews, which was advantageous for us in three aspects (Saunders et al., 2009). First, it provided us the possibility to probe answers; asking the interviewees to explain, or build upon, their responses. This enabled a collection of rich and detailed set of data which gave us a more complete picture. Second, face-to-face interviews were preferred by the interviewees because they are less time-consuming and because the study is dealing with sensitive information. Third, it was appropriate to conduct non-
standardized interviews since the questions are complex and open-ended, and the order and logic of the questioning was sometimes varied in order to fully understand the phenomenon.

3.4. Data analysis
After the data collection, the transcribed material was analyzed deductively as well as inductively. The non-standardized interviews resulted in non-standardized data which required to be analyzed deductively by the summarizing and categorizing of information based on a theoretical framework (Saunders et al., 2009). However, since the investigated phenomenon is under-researched and requires exploratory research, the analysis sought to inductively develop explanations of the investigated phenomenon. The analysis therefore started with a less defined explanation of the phenomenon to be explored in order to obtain a deeper empirical understanding.

3.5. Ethical issues
Ethical issues arose at different stages in our research process and we considered our actions during the whole process (Saunders et al. 2009). During the design phase of our study, we recognized that we needed to gain access to sensitive information from the case company. In order to act ethically, we discussed our research proposal and the kind of access we wanted with the CEO beforehand. We then agreed upon anonymity and a version of the study to be reviewed before the final submission. The meeting provided the company with an open and honest picture of our research and since they partly volunteered, their consent was given freely and based on full information. The anonymity was achieved by; not naming the organization whilst still providing sufficient background information, not referencing fully organizational documentation whilst indicating it had been used, only naming the geographical location at the country level, and referring to the interviewees by title instead of their names. By taking these precautions we could use actual quotations from the interviews to support and strengthen our arguments. Since the interviews were audio recorded, we had to make sure that the interviewees did not felt discomfort or stress. Therefore we gave the control of the audio recorder to the interviewees and informed them in advance that they could turn it off at any time. Our general approach complies with the Academy of Management’s code of ethics (Academy of Management, 2012).
3.6. Limitations of method

3.6.1 Reliability
A limitation with an anonymous case study is that similar observations are difficult to generate since the research subject is unknown to other observers (Saunders et al., 2009). However, the purpose of this case study is to understand a complex reality and obtain an empirical understanding rather than constructing reproducible observations. Despite of that, there still exist several threats to the reliability of this study. First, the interviewees may have been subject to errors and bias. The interviews were conducted in a meeting room at the case company’s office building in order to create a comfortable environment and to eliminate abnormal situations. Furthermore, information was supplied to the interviewees beforehand as well as in the opening of the interview to explain the purpose of the study and to avoid stressful situations. We have tried to avoid interviewee bias with the anonymity of the study, which is expected to generate neutrality among the interviewees. We also avoided bias by triangulating our sources, using the interviews with the case company and an external observer in combination with the collection of documentation (Silverman, 2010).

Second, the observers may have been subject to errors and bias (Saunders et al., 2009). To avoid our own potential errors, we have used a non-standardized interview template with open-ended questions which allowed us to probe answers and diminish misinterpretations. To avoid our own bias, we demonstrated attentive listening, repeated the answers and sent an interview summary to the interviewees to get the answers approved and confirmed. This was also done to avoid misunderstandings since none of the parties in the interviews are native English speakers. Furthermore, the approval was a requirement from the interviewees due to the anonymity.

3.6.2 Validity
In order to enhance the validity or the accuracy of our measurements, we used a data triangulation method from three different types of sources; interviews with the case company, interview with an external observer and official company documentation (Silverman, 2010). The high level of validity that is possible in relation to non-standardized interviews is due to the questions being able to be clarified, meanings of responses probed and topics discussed from a variety of angles (Saunders et al., 2009). We followed these guidelines as far as possible. The
The interview questions were also guided by the variables from the theoretical framework and followed a chronological order to ensure relevant measures (Appendix 1-3). Regarding the official documentation, the amount of data was limited since the company is a small and relatively young enterprise.

3.6.3 Generalizability
There is likely to be concerns surrounding the generalizability of our findings, which are based on the use of a single case study (Saunders et al., 2009). However, our purposive sampling is theoretically grounded and allowed us to illustrate a case where the processes being studied are most likely to occur (Silverman, 2010). Thus, the purpose of this qualitative study is not to produce a theory that is generalisable to all populations, it rather attempts to make generalizations from empirical observations to theory (Gibbert & Ruigrok, 2010). The aim was to obtain an empirical understanding of what was going on in a particular internationalization setting and produce conclusions that may be tested in other research settings.

4. Empirical findings

4.1 Case overview
The case company was first established in 2007 where the first two years was devoted to develop a business idea. It was not until late 2009 that the company decided to focus on its current service and started its operations (Appendix 4). The company was founded in Finland, where the headquarters is situated, and established an office in Sweden in 2011, hence a company operating in SMOPECs. The company currently has 15-20 employees and a turnover less than € 50 million, which qualifies it as an SME (Appendix 4; European Commission, 2009). The case company’s uniqueness is demonstrated by its cloud service offering on a business-to-business niche market and it is currently undergoing internationalization process in Sweden as a first-mover. The targeted customer segment can be described as capital-intensive, with a few large domestic actors with international operations. They have a risk averse behavior and a stable demand for the service.

The people interviewed in this case study are the Chief Executive Officer (CEO), the Business Development Manager (BDM) in Sweden and an external consultant partner in Sweden. The
main role of the CEO in the Swedish establishment is to set a strategy and to hire the right people to execute that strategy. He is also involved in the sales process and attends customer meetings in Sweden. Since the CEO is the founder of the company, he has been involved in the internationalization from the very start.

The BDM is responsible for sales and customer relations in the Scandinavian market. He has been involved since the company decided to open the Swedish office in 2011. The main role of the consultant during the establishment was to give the case company more credibility towards their customers, since the consultancy was well established in both Sweden and Finland. He was mainly involved in the first customer meetings in Sweden and withdrew when the BDM was hired.

![Internationalization process timeline](image)

**Figure 1. Internationalization process timeline**

### 4.2 The cloud service

The product is not rocket science according to the consultant and CEO. The CEO describes it as putting two existing technologies into one process and uses it for another purpose than before. In this case it was using media applications in mobile phones, such as pictures and videos, and integrates them into an enterprise system. The integration turned into an online service where you can store and analyze information which systematically rationalizes processes and creates efficiencies for the customers. All interviewees agree that the solution is scalable; it does not require much resource to bring it to a wider market. Translations were also in place for the Swedish market as well as for other potential markets such as the Netherlands and the United
Kingdom. The consultant confirms this and says that market investments, such as resources needed to convince the customers, are obstacles for internationalization rather than the service itself. The service is influenced by customers but with a diminishing effort. Both the consultant and the BDM explain that the process is similar among the targeted customers where the first three customers constitute approximately 90 percent of the functionality. Less effort is therefore needed when designing the service for another customer compared to the previous. The consultant is fascinated by the service’s potential to reduce the time-to-market for customers. He also explained why this kind of service often creates good business models. Creating a system that is critical for the daily operations makes the customers dependent on the service provider. This ensures a long-term relationship and it becomes difficult for the customer to exit. The benefit is a secure income stream, an important element for every firm. The CEO adds that in the end, it all comes down to the service itself, that the solution creates a competitive advantage. The service is customized for a specific process and is flexible for rapid change, and that makes the solution unique.

4.3 Network
The CEO describes how he used his personal network in the start-up phase. Before founding the company, he worked many years for a large firm in Finland where he gained experience and knowledge. At this firm, his ideas and desire to start his own company grew. Later on, a few colleagues from this firm joined his new establishment because he needed their expertise. However, he stresses the importance of hiring new people with different mindsets and backgrounds into his company. He elaborates and states that if you have people around you that have the same background or comes from the same company, you will end up doing things the same way as before. The CEO claims that it was crucial to build up a diverse and talented team to convince the investors to give them resources. Many of the employees in the company have international backgrounds, including the CEO himself. The CEO explains the importance of a diverse and talented team: “If you have a very good team but a very bad idea, still people may invest because you can change your idea. It was what we did for example in our company; we changed the direction a few times”. He claims that there are no recipes for a successful internationalization, many things are dependent on luck or chance. However, he believes that some of this luck can be replaced by networking. The CEO used connections from previous jobs.
and friends when he prepared for making the company international. He realized early on that even if the case company had captured the domestic market in Finland, the company was still very small and young and was not yet known in Sweden. He then used his network to look for an appropriate partner to team up with before entering Sweden. At that time, one of the CEOs friends was a managing director for an IT consultancy in Finland, who recommended the consultant partner in Sweden.

The consultant points out the importance of networking and relationship building for the case company; an SME that wants to grow and internationalize needs references and a few contacts in the right places. An example of that is when the company brought in the consultancy for the first time. The case company was about to sign a contract with one of the largest Finnish customers on their niche market, but the customer hesitated because they believed the case company was too small and too new. They demanded a bigger firm to back up the case company before they signed the contract, and this is when the consultancy came into the picture. The CEO claims that doing business with a start-up is very risky and the solution is to partner up with a big player. The case company started to sell its service indirectly via the consultancy and the consultant became an actor in the case company’s early internationalization. He had prior experience from several IT companies at managerial positions. It was partly his expertise and interest for cloud services that attracted the case company, though the main reason was his network in Sweden and the credibility his consultancy would bring to the company’s intentions.

After the initial phase, the case company’s entry mode was questioned by the Swedish customers who asked about the consultancy’s role. When the CEO explained that they were selling directly in Finland, the Swedish customers wondered why they did not do the same in Sweden. The case company realized that they needed to approach the customers with special and direct attention due to the limited number of customers in this market. The consultant also describes that after the first customer contacts were in place, and credibility gained, the business interests of the case company and the consultancy were contradictory. He describes that their driving force was to sell as many hours as possible, whereas the case company wanted them to invest more into the project. The case company and the consultancy therefore went separate ways. However, both interviewees agree that the cooperation was a door opener and a good way to create credibility in
the initial phase. The foremost door opener though, was that one of the customers in Finland also operated in Sweden, according to the CEO. This is because meetings with the Swedish counterpart were enabled through this customer. The consultant mentions this entry mode as very efficient; SMEs that sell services to a large firm can leverage from its network or be a part of its internationalization. The CEO adds that there are no fixed rules for the choice of entry mode. He believes that you have to adjust your entrance depending on the customer reactions, the specific country and the characteristics of the target group.

The case company decided to rent a local sales office in Sweden and hired the BDM to interact directly with the customers in Swedish. The CEO was satisfied with this decision because the business pace has increased since the BDM was hired. He states that in order to build trust with new customers, good references are necessary, but not enough. He did not have any Swedish network and he experienced entry barriers. The company therefore needed the local office and a local person to decrease network barriers and to increase the perception of trust with potential customers. The BDM confirms this and claims that either you have prior knowledge and network connections or you do not. If you do not have this, you hire a person who has it or has the capabilities to develop it. The BDM did not have any prior industry-specific knowledge but he had the sales experience to obtain it. The same story took place in Finland when the company started its operations. The CEO did not have any sales experience and therefore acquired the expertise by hiring experienced sales people.

Once the first customers were captured in Sweden, the case company could start building long-term relations. All interviewees describe the customer segment as very slow and conservative to do business with. However, once you get a contract with a customer, it is usually long-term. These contracts may last over a decade which means that they need to maintain long-term relations. The CEO describes this as an advantage for a resource limited start-up since continuous revenue streams are crucial for its survival and further expansion. The CEO also mentions that they obtained an ISO certificate of IT security. He was aware of the data security issue that is associated with cloud services and the demands from the customers about this concern. Since many of the customers are competitors within the same industry, the case company may store information from different customers on the same server. Even though the
company’s solution is robust, the CEO believes that the official proof of security from the ISO certificate will increase the perception of trust and credibility. The BDM concur and adds that it is a solid sales argument which leaves little doubt. The consultant agrees that data privacy is a top priority for customers when buying cloud services.

Looking back at the entrance into Sweden, the CEO learned that it was easy for start-ups to do business and establish operations in Sweden. However, the customers acted slower than he expected. He admits that the customer’s slowness may be explained by the size of the organizations and the specific industry, but he also believes that this is a cultural matter.

4.4 Culture
The CEO prior perception of Sweden was that there exists a consensus culture where decisions in general are slow. This proved to be true when the case company approached the Swedish customers. The CEO experienced that you need to discuss more and convince everybody in the customer meeting, compared to Finland where you may only need to convince key people in the organization to make a decision. However, he admits that when consensus finally is reached in Sweden, decisions are carried out fully and fast. Until then, you need to meet customers more times in Sweden than in Finland in order to come to a decision. The consultant also experienced that the case company had a predetermined perception about Sweden. He felt that the company expected business to be slower and the first customer in Sweden helped fulfilling that perception. In that particular case, the consultant claims that it was the customer’s decentralized organization that was to blame for the slow decision-making process. Although the first customer took longer time than expected, he thinks that the case company captured the other targeted customers in Sweden fast and according to the plan.

Another obstacle the CEO experienced was the language differences. Since most people in Finland speak an entirely different language than in Sweden, he expected to conduct business in English. He had experience from his previous jobs that Swedish people were well-acquainted with the English language and that this would not be any problem. To his surprise, only half of the people he met in the customer meetings were willing to speak English. Even if this surprise initially was a communication barrier, he discovered at the same time an opportunity with the
Swedish language that he did not anticipate. Potential customers in Norway and Denmark were willing to meet the newly hired Swedish manager and communicate in Swedish since the Scandinavian languages are similar to each other. This proved to be good news since the Swedish office could be used as a business hub to reach customers throughout Scandinavia. This is confirmed by the BDM who adds that being familiar with the local language and regional culture are key features to successfully conduct business. Besides this, the CEO finds Finland and Sweden fairly similar in business culture. The consultant agrees and adds that this is the reason why you see much business cooperation between the two countries. He believes there is a close tie because of the geographical proximity, the history as one common nation and the fact that Finland has mandatory Swedish language education from middle school. However, the CEO believes that high-quality communication in Swedish is challenging if you are not from the Swedish-speaking minority in Finland.

The Swedish establishment became a central step in the international expansion and the CEO refers to Sweden as the center of Scandinavia. He first had his aim on Denmark but, basing his choice of country on the most relevant network contacts, he decided to follow these into Sweden. One of the learnings of the Swedish establishment is to create similar business hubs in other major countries. The CEO and the BDM mentions the Netherlands as another potential stepping stone for further international expansion. This is partly because one of the company managers are Dutch, but also because the CEO perceives the Netherlands as a strategically and culturally close country to other major markets in Europe, such as the United Kingdom and Germany. Regarding the geographic distance, the CEO believes that it is important to be close to your customers in order to be available and support them whenever needed. The service demands long-term support, preferably in the local language, and may even require changes in the customers’ organizations. This was one of the reasons why they established a local office in the first place. However, he argues that when it comes to the service itself, it does not matter where you use it. The service works regardless of geographic distance or at least wherever there is a network infrastructure. He says that the service can be taken into use within a week in another country. The only adjustments are the translations and minor customer-specific requirements. The consultant agrees that the technological aspect of the service makes geographic distance less important, but he emphasizes the value of closeness in the sales phase which makes geographic
distance important in the personal aspect. In the end it is still humans who make the decisions and needs to be convinced, that is easier to achieve if you are close to each other. The BDM believes in having a regional presence to succeed in personal interaction with customers whilst stressing the importance of linguistic knowledge. Another reason for being geographically close is that the CEO experienced signals that the Scandinavian customers have preferences of buying services from their own country. However, he says that it is possible to overcome this barrier by acting more local and direct.

The next step for the case company is to establish an office in the Netherlands. The CEO believes that a business hub in the Netherlands will have the same effect as the one in Sweden. A central stepping stone which will give them enough credibility to penetrate larger markets on the continent, such as the United Kingdom and Germany. He emphasizes the importance of being well prepared for these large markets where the first impression is the lasting impression. Therefore you need to have enough references and be well established on a few smaller and medium-sized markets. Furthermore, the consultant identifies four clusters for potential growth beyond the Scandinavian market; the German, the French, the Spanish and the Anglo-Saxon markets. He sees much potential in these four clusters since the languages are spoken by a large audience in several countries. Despite the potential, he believes that it is important to pursue them one at a time because of the company’s resource constraints. The consultant thinks that the investment threshold will be much larger if more than one cluster is pursued. Up-sizing the business will lead to latency problems and more operations centers will be needed.

The CEO has a global vision and plans to go to the United States, Canada and maybe Japan after capturing Northern and Central Europe. In the beginning, the case company did not have any other option but to go a step-wise way because of resource limitations. However, once the sales reach a certain level, decisions to pursue a more aggressive and riskier approach are available. The company has a strategy to accelerate the expansion once they reach this level. The CEO continues and says that it would have been easier if they were an American company. Europe is very fragmented, consisting of many small markets separated by language, culture and laws. He claims that you do not have the same obstacles in the United States; language, business culture and laws are almost identical among the different states. The American market is within one and
the same country and very large in that sense. Besides the advantage of the market size, he also states that the American market is more fast-moving and risk-taking compared to what he has seen in Europe so far. Even though the United States, Canada and Japan are located on other continents, they share similar climate characteristics with Northern Europe. The cloud service is developed to handle work processes that are bound to the climate characteristics of the northern hemisphere. Another reason to why these countries are included in the company’s vision. The CEO states that the cloud service is developed partly for this climate but also for process-oriented organizations and people.

5. Analysis and discussion

5.1 Network

5.1.1 Network position
BG theory suggests that you should have a flexible network position with loose ties in order to be able to change to new demands. With changing directions in the start-up phase, the case company followed this principle. The flexibility is possible due to the company’s diversified and talented team. The CEO stresses the importance of such a team for similar reasons. However, it seems as they are less flexible now with long ranging contracts and close ties with their customers. This is largely dependent on the stable demand in the industry which tends to make flexibility less important. Long contracts do not bother the CEO; instead he views it as a positive factor for a resource limited start-up. Even though the case company seems less flexible, the Swedish-based employment is still low so far. Furthermore, if the demand changes or the Swedish market turns out to be less profitable than expected, the company is still flexible enough to change direction or withdraw, due to their Swedish office being rented and the technological nature of the service. A challenge for the case company is the tradeoff between staying fast and flexible and maintaining excellent customer support.

Outsidership in a network is negative according to RUM which suggests an insidership with a strong network position. The case company’s flexible choices in Sweden were possible because of the strong network position in Finland which made them less dependent on the Swedish market. On the other hand, the outsidership in the Swedish network forced the company to try
alternative ways into Sweden, which is in line with BG theory for small start-ups. The attempt to establish with partnership using consultancy ended early and the decision to go through one of the Finnish customers might be risky for future flexibility. Old path-dependent behavior of this customer can be followed by the case company, although the cloud technology has the potential to change this behavior. A stronger network position would have enhanced the possibility to start with direct sales in Sweden from the very beginning, thus a possibility for a faster internationalization. The importance of a strong network position is dependent on the specific industry in which the case company operates, where the customers want long-term relationships. Although the company is satisfied with long contracts and strong ties, there are setbacks. It is important to establish weak ties early on, partly to stay path-breaking but also because it is harder for firms with long domestic experience to change their mental models and processes, according to BG theory.

The case company’s strong ties is in line with RUM, however the company leap-frogged the problem of outsidership in the initial phase by using the consultant and hiring an experienced BDM. The company was also developed by an experienced management team which BG views as crucial to leverage external financial resources needed for a rapid internationalization. Furthermore, since the company is based on an international team, their network may create a difficult to imitate source of competitive advantage. Even though the industry characteristics favors RUM’s viewpoint on network position, and the case company have strong ties, they still have chosen a flexible entry mode. The importance of staying flexible would increase and BG theory would be more relevant in an industry where demand has higher uncertainty.

5.1.2 Trust and commitment
Trust is a top priority for the case company’s customers. In order to gain the initial trust, the company focuses on providing a superior product that increases efficiency for the customer. The service around the product is also in focus. This service is designed to store generated data safely to convince the customers to outsource data through a solution that is less costly and time consuming than keeping it in-house. A signed contract starts a relationship where the customer demand for continuous customization and evolvement of the product drives the relationship. This creates a gradually increasing commitment and the company follows RUM to a large extent regarding trust and commitment issues. RUM’s gradual approach creates dependencies, but also
opportunities. An opportunistic example is when the company followed one of their Finnish customers into Sweden, thus the initial trust was already in place.

Local support is another example where a dependency becomes an opportunity. Since the service changes the customers daily operations, including organizational changes, local support is needed in the change process. This inhibits the flexibility of the case company but it also enhances the commitment to their customers which results in more sales opportunities. RUM’s perspective on commitment, calculative and affective, entails rational behavior on the one side and subjective and emotional on the other. The CEO underestimated the affective commitment when the company entered Sweden. He believed that the efficiency of the service would have been enough to convince the Swedish customers, thus overestimating the calculative commitment. However, the Swedish customers demanded more meetings and a strove for consensus, and this affective commitment surprised the CEO. Trust building is time consuming, to gain the initial trust faster the case company used earlier references and got an ISO certificate for IT security.

BG theory views trust and commitment issues in a different way and emphasizes a more risk-taking approach where the focus is to stay flexible in order to remain path-breaking. BG scholars also criticize RUM’s sequential approach because of path dependency. We identify three possible reasons why the case company follows RUM’s concept rather than the BG concept. First, it depends on the industry characteristics; the customers are risk-averse, demand a high level of security and want to establish long-term relationships. To break into this industry with a BG concept would be difficult and the reliability would be questioned. Second, it might depend on the type of customer in the case company’s industry. The industry characteristics might be typical when selling services to other businesses. The case company operates within a niche market where the potential customers are limited, their needs cannot be neglected. Selling standardized products to consumers in a mass market does not necessarily mean close or long-term relationships and therefore a riskier approach is possible. Third, the cloud service itself entails a high level of trust. Security concerns are always a top priority for a customer since sensitive data about their firm is generated and stored where they have no direct control over it, often on the same servers as their competitors.
5.1.3 Learning process and knowledge accumulation

The internationalization to Sweden put certain demands on the case company where new knowledge was needed in order to be successful. The different aspects of knowledge involve market-specific, business and institutional knowledge. Market-specific knowledge was prior and turned out to be superior for the case company. The processes that the service handles are industry-specific rather than country-specific, hence customer influences are the same in Sweden and Finland. The only new learning about the service during the internationalization was how to adjust it for new platforms and to translate it to Swedish. Otherwise, it was the continuous co-creation with the customers that accumulated knowledge. Furthermore, the company’s business knowledge was prior but they experienced some cultural differences in the way business is done in Sweden, even though the industry shares the same characteristics. This will be discussed further in the section about cultural knowledge. Lastly, the company lacked enough institutional knowledge for an earlier entry into Sweden; the internationalization into Sweden was easier than expected according to the CEO and he regrets that he hesitated for such a long time.

When putting this in perspective of RUM and BG theory, some interesting findings occur. We can see that some of the knowledge was prior and even superior, some were prior but had to be put into new contexts and some was lacking but was of little relevance. In this case, the cloud service offering determined much of the learning process. The relationship that it creates is the foundation of knowledge accumulation. The case company’s service evolves every day through customer demands. This means a continuous stream of new knowledge about the business and the market. Although the product evolves on a daily basis, it does not necessarily mean that market-specific knowledge is gained since it is mostly minor changes on the exterior of a complex core. The institutional knowledge was gained through external advices and was of less importance in this case. However, the establishment of a larger and more advanced subsidiary would have required more learning of institutional knowledge since more laws and government agencies would have been involved. In this case, the number of customers in the market did not require such an establishment. In line with RUM, much of the business knowledge was obtained and adjusted when entering the Swedish market and was based on experience. This is emphasized by the CEO who changed his view of the Swedish establishment, from being a link in the Scandinavian market to be seen as the central Scandinavian hub.
5.2 Culture

5.2.1 Foreignness
The case company’s foreignness is not outstanding since Finland and Sweden are neighboring countries with a shared history. The differences are small according to the interviewees. However, some unexpected differences occurred. The Swedish customers are slow-moving, seem to have a preference for domestic services and are sensitive to foreign languages. Thus, the liability of foreignness in this case refers primarily to language obstacles and notions of conservatism. This may be an industry-specific characteristic or a question of bureaucratic convenience among the decision-makers in the customer organizations. However, the foreignness might also be pivotal since the cloud service is critical for the customer’s daily operations, requires co-creation and sold under long-term contracts. The customer might therefore demand relationships where the communication and support must be in the native language to work as smoothly and satisfying as possible. From a service perspective, the experienced conservatism and organizational inertia might therefore be explained by the customer demand for uncomplicated communication and cultural understanding. Another explanation of the slowness might be that the service is easy to imitate but hard to exit. Since it is easy to imitate, the customer can choose to wait for a local actor to make a similar service and this may create skepticism of the service. It is also hard to exit because it involves long-term contracts and makes the customer dependent of it. This might involve strategic considerations for the customer who needs time to prepare the implementation of the service.

The fact that the case company experienced it easier to approach the Norwegian and Danish customers with a Swedish employee than with a Finnish, confirms that there exists cultural clusters based on similar languages. This regionalism is supported by RUM. Thus, the foreignness is somewhat an obstacle in this case and still relevant in this internationalization process. This is not fully confirmed by any of the theories; RUM claims that foreignness is less relevant than before and BG rather put the emphasis on the product or strategy. RUM does not neglect foreignness but by stating that it is less relevant is somewhat vague. The liability of foreignness has been replaced by the liability of outsidership in a network perspective in RUM. You can question the concept of outsidership and claim that it is related to the liability of foreignness since foreign firms most likely experience outsidership when entering a new foreign
market, potentially with a different language and culture. The two concepts seem to go hand in hand in this case. Since the foreignness in this case is directly related to the interaction created by the service, you can argue that BG is on the right track to focus on the nature of the product rather than the network or country in question. Nonetheless, foreignness seems to matter in terms of language and communication with the customers.

5.2.2 Closeness
The geographic distance is irrelevant from a technological perspective and the cloud service can be consumed anywhere in the world, wherever there is a network connection. Despite this, Sweden and Finland are neighboring countries and geographically close to each other. RUM argues that it is less risky to internationalize to a close country since you can overcome cultural differences and facilitate the knowledge accumulation process. This was true for the case company from a financial point of view; the closeness to Sweden is less risky and financially favorable due to resource constraints. The resource limitations also influenced the case company’s internationalization strategy to stepwise enter other close countries. BG, on the other hand, argues that even if countries are close to each other, risk of cultural shock effects may still be present, especially for customized products. This is somewhat confirmed; the company believed it was knowledgeable about Sweden but experienced surprise effects with language barriers in the customer interaction. However, what the two theories do not thoroughly discuss is the customer influence and product characteristics which proved to be a determinant for this internationalization process.

In the customer aspect, the closeness to Sweden was determined by the customer’s earlier internationalization and present operations. The customer’s path-dependent behavior was followed by the case company to Sweden. Another customer influence was the required credibility, which is why the company had to build it gradually. The customers also required close co-creation, support and communication because the service is continuous and customized to a certain extent. In the product characteristics aspect, the cloud service is contextual-sensitive and requires to be consumed in similar climates and environments as in Finland, where it was developed. The product is also designed for process-oriented organizations that operate in similar ways which limits the amount of countries to seek customers. The product might only be suitable for countries that value efficiency and rationalizations. You can therefore argue that the product
is affected by, and culturally embedded within, the country of origin. This limitation of the product confirms a certain regionalism. RUM argues that the new international ventures rather are born regionals than born globals. However, the technological opportunities makes the cloud service scalable which means flexible to rapid change, adaptive to customer requirements and adjustable to a global market. Rather than closeness from a cultural point of view, closeness is important in terms of resource constraints, customer behavior and cloud service characteristics.

5.2.3 Cultural knowledge
Since the establishment in Sweden was the case company’s first internationalization process, no foreign experience or knowledge in the company’s history of operations existed. On the other hand, some prior personal knowledge of the founder and the management team existed. The knowledge and experience the company did not possess, it acquired by hiring experienced people. From a product perspective, it is also noteworthy to mention that knowledge about the cloud service was prior and superior on the foreign market. The prior knowledge and acquired expertise is therefore in line with BG. However, from a cultural knowledge perspective, the company learned by experience about the Swedish customers and market. Hence RUM’s experiential knowledge is confirmed in this case, although you can argue that the cultural obstacles were overcome relatively fast and the superior product determined the success rather than gradual learning. On the other hand RUM does not specify the time aspect of the learning process and you can claim that the company gained knowledge fast. This makes the model difficult to apply on the new wave of fast-moving SMEs that BG theory describes. Because of the time-to-market advantage with a more or less ready solution, the cloud service enabled a fast learning process. The case company has been established in Sweden less than a year and has already market leadership.

The fast internationalization process described by BG is confirmed, namely skipping a few steps in the knowledge accumulation process by hiring capable people. The cultural knowledge is therefore less important in terms of the cloud service as a superior product and the fact that the knowledge barrier was overcome by hiring local people. However, it should be mentioned that the differences between the two countries are small. The small differences and obstacles that were experienced could have been prepared for by using existing knowledge on cultural dimensions (Hofstede, 2012). More on future preparations will be discussed below.
The findings are highlighted in the table below.

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Table 2. Summary of analysis: cloud service impact on internationalization case

6. Conclusion

The cloud service offering affects the external variables network and culture in the internationalization process in many ways. The outsidership in the network was negative for the case company since it forced them into alternative entry modes which delayed the internationalization. The flexibility in the network position was of less importance due to the stable demand from their customers. Gradual trust-building and commitment was important in this case since the customers are risk averse, the service is customized for a business-to-business market, and the data security concerns require a high level of trust. Regarding the learning process, the product knowledge was prior and superior, the market knowledge was prior but required some learning and the institutional knowledge was gained through external help. The liability of foreignness was still relevant in this case since the cloud service is based on customer interaction where it demands communication in the native language and cultural understanding. However, the closeness to Sweden was relevant in terms of resource constraints, customer behavior and cloud service characteristics rather than cultural closeness. Nevertheless, physical presence was still important for the customers when offering the service. Lastly, the cultural
knowledge barrier was noticeable but less relevant since the barrier was overcome relatively fast by hiring local people and the fact that the cloud service enjoyed a superior position on the Swedish market.

The cloud service firm in this case follows patterns from BG theory when it comes to the superior product knowledge, the prior market knowledge as well as the fast and flexible entry modes. However, much of the internationalization process is in line with RUM when it comes to the sequential approach, the liability of outsidership and foreignness, the gradual trust building and the closeness. Even though the cloud computing technology has the potential to change the sequential internationalization behavior and accelerate the process, the gradual approach was determined by the type of customers, the industry characteristics and the nature of the service.

6.1 Managerial implications
One of the learnings of this case is that the customers affected the entry mode and establishment in the targeted country. There are a number of reasons why a local office and local employees are needed when offering this kind of cloud service. First, the nature of the service requires close customer interaction, support and communication in the native language. A local office can therefore be used to discover and to take advantage of further sales opportunities. Since a cloud service is scalable or possible to rapidly modify, spin-off effects are possible in other customer segments. Second, the long-term contracts and the dependency the service creates for the customers’ daily operations also require a local presence. The dependency creates a lock-in effect which can be used to sell additional or complementary services but also as an entry barrier for upcoming competitors. Third, the lock-in effect was possible due to a first-mover advantage. Since the case company had a first-mover advantage, it allowed them to become the market leader fast with a superior and unique service. An office is needed when you possess a market leadership or have captured a majority of the customers. If the company wants to replicate the same effect in other countries, it will need to move fast and ensure a first-mover advantage. The focus on the customers’ daily operations and the lock-in effect it creates are probably the company’s biggest chance to success in new markets.
To be more efficient, proactive and to avoid cultural obstacles (Barkema & Drogendijk, 2007) we recommend using studies on comparing cultural differences such as the GLOBE study (House, 2004) and Hofstede’s (1983; 2012) cultural dimensions. These studies can be used to compare and analyze countries of interest on several dimensions, this to plan, for example the next, step into the Netherlands. To match and find appropriate cultural clusters, studies such as Ronan & Shenker (1985) and Gupta, Hanges & Dorfman (2002) can be used to strategically choose the next steps in the internationalization. Also, the slowness of the customers should be analyzed to see whether it was an industry trait or a cultural aspect. The benefit with the experienced conservatism and slowness is the entry barrier it may create for possible competitors. The long-term commitment and slowness, that might be a trait in this industry on a global scale, could be used to gain co-creation and significant network access. This can lead to further global market shares and natural expansion of network positions whilst enhancing the quality of the service from customer feedback.

Both the characteristics of the industry and the case company’s desire to sign long-term contracts have put them in a network position with strong ties. It is important for the company to keep that in mind since it inhibits their flexibility. If an unforeseen change in demand occurs or if a new competitor emerges, the flexibility will increase in importance. We believe that the diverse and international management team will have an important role to overcome this issue. The configuration of that team should be closely monitored as the company continues its growth and new talent should be added in accordance with the company’s vision. Their network helped them into Sweden and their Dutch manager has opened a possibility in the Netherlands. The next step might be to recruit German or English talents in the management team to create a bridging effect into these countries. Another benefit of an evolvement of the management team is that new insights are added which decrease the risk of path dependency.

6.2 Limitations and further research
There are several limitations with a single case study approach but many of them raise new questions and open up opportunities for further research. First, we are aware of the contextual factors which influence the generalizability of the case, such as the particular settings of country, industry, market and service (Whetten, 2002; Gibbert & Ruigrok, 2010). However, this
limitation gives ground for further research in other settings. For example, it would be of interest to investigate a business-to-consumer market where there are more standardized products and the customer characteristics most likely are different compared to a business-to-business market. Another factor is the first-mover advantage the case company enjoyed. There might have been other outcomes with a late-mover entry. Other contextual factors include the specific country and industry. It could be of interest to investigate if the slowness of the customers is related to the Swedish consensus-based culture or if this is a matter of organizational size or industry characteristics. Regarding the cultural context, there might be different preconditions in other cultural clusters to further investigate. As the CEO argued, the growth potential for a cloud service SME from a SMOPEC might be different compared to an American cloud service SME. Second, the boundaries of the investigated variables network and culture may not be so clear in reality and may interplay with each other and other variables. There might also be more components to consider within each variable besides the six chosen concepts. Third, to determine the robustness of the findings and produce generalizability, a quantitative study on a larger sample would be needed. Fourth, the impact of the CEO’s involvement should also be mentioned as a limitation since the study is largely based on his experiences and knowledge. It would have been optimal to get the customer perspective on the internationalization, which opens up for further investigation. Fifth, the case company’s internationalization is currently undergoing and a follow-up study in the aftermath of the internationalization may reveal more influences. Lastly, we are aware that several theories explain the internationalization process but we have chosen to limit the study to two theories due to limited space.

One of the key findings of this paper is that the physical presence still is important when offering a cloud service although the technology could eliminate this aspect. If the importance of physical presence is applicable to other cloud service firms would require further research. Another finding is the time aspect of the internationalization stages. The case company in this study proved to be a fast mover and it seems like there is an accelerating effect in the internationalization process where the initial stages seem to go slower and the latter stages experience a faster development. UM does not specify the time aspect and the length of each stage in the sequential process. The accelerating speed of today’s SMEs could therefore be investigated further since the internationalization process seems to be exponential.
7. References


8. Appendix

Appendix 1. Interview template used with Chief Executive Officer

1. Background of the firm and interviewee

What is your position in the company? How involved were you in the establishment in Sweden? What responsibilities did you have?

Describe your professional background: have you earlier experience working with cloud services or working with in Sweden with Swedes? If you have earlier experience from other firms, what attracted you to working with this firm?

Describe the history of the company; founding, investors, people involved etc.

How would you describe the company; business idea, and vision?

Describe the product/service offering. How scalable is the solution? How much does the customer influence it? What advantages/disadvantages do you see with it?

2. Before internationalization

How did you get the resources needed to enter Sweden?

How would you describe the usefulness of your business network before entering Sweden?

How would you describe the usefulness of your work-related experience before entering Sweden?

What perception did you have about the Swedish culture?

How much prior knowledge about Sweden did you have? (norms/rules/market/relations/etc)

3. During internationalization process

How did you enter Sweden? Why this entry mode?

Why did you choose to enter Sweden? Did you have any other markets on your mind? Why not these ones? Would any other countries been more suitable?

How did you get customers in Sweden? Why did you choose to target these customers? Describe your relations to these customers. What activities have you undertaken to maintain the relations to these customers?

Describe the role of data privacy and security concerns when getting customers.
How would you describe the use of your business network in Sweden? How has it evolved?

How did you experience the Swedish culture during the establishment?

How would you describe the learning process during the establishment in Sweden? How useful was your prior knowledge and experience?

4. After internationalization

How has your service evolved after entering Sweden? Why? How has the Swedish customers influenced it? Can you give examples?

How has your perception of Sweden changed after entering Sweden? (culture/norms/market etc.)

How would you evaluate the establishment in Sweden so far?
- What were the biggest obstacles?
- What have you learned by entering the Swedish market?

What were the most important issues for the customers when buying your service?

Describe the role of geographic distance in selling your service.

In retro perspective - what would you do differently if you knew what you know now? Given what you know now, was there something you would have wanted to know before you enter Sweden? Was it the right decision to enter Sweden?

What is your next step? Which foreign market are you aiming for now and why?
Appendix 2. Interview template used with Business Development Manager

1. Background of the firm and interviewee

What is your position in the company? What responsibilities and tasks do you have? When did you get involved in this establishment (of Case Company in Sweden)?

Describe your professional background: have you earlier experience working with cloud services? If you have earlier experience from other firms, what attracted you to working with this firm?

What relation did you have to the case company before they established themselves in Sweden? Did you know about them before?

How would you describe the case company’s business idea?

Describe the product/service offering. How scalable is the solution? How much does the customer influence it? What advantages/disadvantages do you see with it?

2. Before internationalization

Which resources do you think are needed for a successful establishment in Sweden?

How would you evaluate the case company’s business network before entering Sweden?

How would you describe the usefulness of work-related experience for this company before entering Sweden? How would you evaluate the case company’s background/experience before entering Sweden?

Did you perceive that the case company had any preconceived or determined view of Sweden as a country before they came to Sweden?

How would you describe the importance of having prior knowledge about Sweden to become established in the country?

3. During internationalization process.

How would you evaluate the case company’s entry mode of Sweden?

How would you evaluate the case company’s choice of country-specific market? Would any other countries been more suitable?

How did you get customers in Sweden? Why did you choose to target these customers? Describe your relations to these customers. What activities have you undertaken to maintain the relations to these customers?
Describe the role of data privacy and security concerns when getting customers.

How would you describe the use of your business network in Sweden? How has it evolved?

How did you experience the Swedish culture during the establishment?

How would you describe the learning process during the establishment in Sweden? How useful was your prior knowledge and experience?

4. After internationalization process

How has your service evolved after entering Sweden? Why? How has the Swedish customers influenced it? Can you give examples?

How has your perception of Sweden changed after entering Sweden? (culture/norms/market etc.)

How would you evaluate the establishment in Sweden so far?
- What were the biggest obstacles?
- What have you learned by entering the Swedish market?

What were the most important issues for the customers when buying your service?

Describe the role of geographic distance in selling your service.

In retro perspective - what would you do differently if you knew what you know now? Given what you know now, was there something you would have wanted to know before you enter Sweden? Was it the right decision to enter Sweden?

What is your next step? Which foreign market are you aiming for now and why?
Appendix 3. Interview template used with external consultant partner

**1. Background of the firm and interviewee**

What was your position in your company when you participated in the case company’s establishment? How involved were you? What responsibilities did you have?

Describe your professional background: have you earlier experience working with cloud services? What attracted you to working with the case company?

What was your relation to the case company before the establishment in Sweden?

How would you describe the case company and its business idea?

Describe the product/service offering. How scalable is the solution? How much does the customer influence it? What advantages/disadvantages do you see with it?

**2. Before internationalization**

What resources do you believe is necessary for a successful establishment in Sweden for this company?

How would you evaluate the case company’s business network before entering Sweden? Was the network sufficient enough? How important is it for companies like this?

How would you describe the usefulness of work-related experience for this company before entering Sweden? How would you evaluate the case company’s background/experience before entering Sweden?

Did you notice that the case company had any predetermined perception about Sweden? How would you describe it?

How would you describe the importance of prior knowledge about Sweden for the case company? Was it sufficient enough?

**3. During internationalization process**

How would you evaluate the case company’s entry mode of Sweden?

How would you evaluate the case company’s choice of country-specific market? Would any other countries been more suitable?

How would you evaluate the type of customer the case company has targeted? How would you evaluate the activities the case company undertook to maintain the customer relations?
Describe the role of data privacy and security concerns when getting customers!

How would you describe the case company’s use of business networks in Sweden? How has it evolved?

How did the Swedish culture influence the establishment?

4. After internationalization process

What kind of evolvement did the case company’s service take after entering Sweden?

Did the case company’s perception about Sweden change after entering Sweden? How?

How would you describe and evaluate the obstacles the case company faced in Sweden?

What are the most important issues for customers when buying a cloud service?

Describe the role of geographic distance in selling a cloud service?
Appendix 4. Desktop Data Collection

Product description
Equipments and instruments for electrically-based performance, levering, converting, amassment, switch or for control. A software developed for communication for online linking of computer networks for a potential global scale, including applications as a software for mobile devices. The usage includes photography and wireless communication delivery. (Trademarkia, Inc., 2012)

· Market description: Service Market
· Published for opposition date: 2008, December
· start-up date: September 2007
· Company type: Ltd
· Language: Finnish
· Status of company: in the register (of the National Board of Patents and Registration of Finland)
· Line of business: “The company is engaged in mobile services, training and consulting. The company may own and manage real estate and securities.”
Based on the National Board of Patents and Registration of Finland (2012)

Financial - data based on 2010

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Based on Fonecta Oy (2012)
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*Based on the National Board of Patents and Registration of Finland (2012)*

### Organization - data based on 2010

- 5 Partners, all male
  - Nationalities: Finnish; 4, Non-Finnish; 1
- Type of business: single office business
- 5 people in the board of directors
- Same Chairman as CEO
- Established 2007
- Number of employees: 15-20
- Company turnover 0, 2-0, 4 million Euros

*Based on the National Board of Patents and Registration of Finland, (2012)*