The generator of innovations

- The case of Swedish entrepreneurs and innovation creation in Lithuania

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ABSTRACT

The purpose of this thesis is to analyze Swedish entrepreneurs and how they recognize opportunities in transition economies. In order to reach the intention of thesis, a case study of three Swedish firms have been conducted with interviews.

Theoretical framework consists of the entrepreneurship theory, opportunity recognition process and innovations which all are relevant to the study and research questions. The empirical findings include the case firms view on entrepreneurial characteristics, opportunities and innovations.

The conclusions of the thesis are that opportunities are recognized by individuals with specific characteristics. Suppliers, customers and agents can influence opportunity recognition process and direction.

Key words: Entrepreneurship; opportunity recognition; innovations; transition economies.
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1. INTRODUCTION

The thesis is going to represent the understanding an entrepreneurial behaviour by examining the process of opportunities’ recognition and exploitation in Swedish innovative firms. It is going to be built on existing theoretical studies in the area of entrepreneurial opportunity recognition and exploitation in order to create innovations and internationalized firms’ activities.

Following chapter introduces the background of the topic and follows by a discussion of the research problems. Thereafter, chapter presents the research questions and the purpose of the research.

1.1. Background

Globalization is rapidly changing the business environment. Market becomes saturated with various of goods and rivalry among firms is increasing. In order to achieve a market position firm needs to compete. In rapidly changing innovative environment it is crucial for firms to have up-to-date technologies. It is important to recognize opportunities where many firms do not see them yet. One of the ways to compete and gain a market share is to create and develop innovations. Significant role in the innovation process plays entrepreneur and his or her ability to recognize profitable opportunities. The successful entrepreneurship requires specific characteristics of entrepreneur who is considered as driver to identify, evaluate and exploit opportunities (Shane & Venkataraman, 2000). Internationalization is considered as an important part of entrepreneurship which involves opportunity identification and exploitation in terms of potential to exchange goods and services among the partners in foreign markets (Ellis, 2011). International entrepreneurship requires a superior ability to recognize opportunities in order to take advantage of it and successful performance in foreign markets.

1.1.1. Entrepreneurial characteristics

The first raise of interest of the topic is to understand which entrepreneurial characteristics lead to recognize profitable opportunities. According to Mtigwe (2006:13), entrepreneurial behaviour is “a courageous managerial value creation process through which an individual engages in innovative, proactive, calculated risk-taking behaviour designed to prosecute foreign business opportunities presented by multinational market success and imperfections for financial and non-financial rewards”. It is very important to understand the entrepreneur
as the main driving force within the firm. Entrepreneur is seeking for opportunities which results in firm’s profitability. Entrepreneur is likely to take greater risk. In rapid market there is no time for long decision making process. Entrepreneur is assumed to make decisions fast, take a risk and generate successful innovations. It is important to know which characteristics lead entrepreneur to make decisions faster and to see opportunities where others do not see in order to develop these characteristics to generate a better firms’ performance.

1.1.2. Find generator of innovations

The second reason for the rise of interest is to explain who the generator of innovations is. Entrepreneurship theory (Venkataraman, 1997) has accepted that opportunities are recognized by individual not firms. It is significant to identify who is the entrepreneur within the firm and who recognize the opportunities in order to generate the innovation process. The challenge stays beyond the question if entrepreneur is usually the owner of the firm or it can be person in lower hierarchic organizational position. In order to develop firm’s opportunity recognition and innovation processes it is important to know who is driving the firm by entrepreneurial behaviour. The theory (Shane & Venkataraman, 2000) states that ability to recognize exploit opportunities is related to two factors: first, access to valuable and suitable information, and second, urge to benefit from the discovered opportunities. Moreover, it is significant to understand which characteristics lead entrepreneur to recognize opportunities. Afterwards he or she can develop these characteristics in order to exploit the opportunities in innovation process. Being innovative is crucial aspect for firms since globalization influences the greater competition and market saturation with variety of goods. There is a need for new technologic capabilities in many daily life sectors, so innovations must be easily accessible. Many firms could not exist without continually developing the way of producing and performing. Hence, it is significant to understand the necessity of being innovative in order to compete in rapid market and meet current demand.

1.1.3. Creating innovations in transition economies

The third motive to study field is the importance of understanding the benefits for Swedish firms to create innovations in transition economies. It is generally accepted that economic changes expose variety of international opportunities but the perception of transition economies as a markets with different characteristics could lead to misrecognize opportunities for internationalization. It is assumed that Swedish entrepreneurs perceive transition economies such as the Baltic States as a different market which causes the
uncertainty to internationalize (Huettinger, 2008). The Baltic States as an emerging market engender great potential and have high technological capabilities but lack the financial resources to invest in development. Swedish enterprises are the innovation leaders (European Commission, 2011). Transition economies are unsaturated with new sort of products, thus have a demand of innovations and new investments. It is important to analyze the benefits which Swedish firms can gain by creating innovations in transition economies instead of domestic market.

1.2. Problem discussion

There exist several issues why opportunity recognition process can be a difficult task for Swedish entrepreneurs in internationalization process.

Entrepreneurship literature defines entrepreneur in terms of who the entrepreneur is and what he or she does (Venkataraman, 1997). Venkataraman (1997) addresses the problem of entrepreneur’s definition and links problem with two phenomena: the role of entrepreneur as individual and the presence of beneficial opportunity recognition. The theory defines entrepreneur as a person who establishes a new organization, where in “real-life” cases entrepreneur not always is the establisher of the firm. It is not clear distinction between entrepreneur and owner of the firm, where not always firm’s owner is main idea generator. To define who is the main idea generator and has entrepreneurial mindset within the firm is significant for all firms. For the Swedish firms it is very important to know who has an entrepreneurial mindset within the firm and who is able to generate ideas and encourage firm to grow. Entrepreneurs are likely to learn and move fast, have the great ability to be up-to-date. Once you define such person in firm, it is necessary to invest in his or her personal characteristics’ development which leads to greater opportunity recognition, risk taking ability and innovation generating. Swedish market is not large and is saturated with local competitors; hence it is very important for Swedish entrepreneurs to recognize international opportunities in order to grow. In the perspective of entrepreneurial behaviour entrepreneur is assumed to be opportunity seeking and driven individual. Opportunities recognize and exploit individuals that stand behind the firm. Furthermore, entrepreneurs are likely to see many opportunities.

But the problem stays to make clear differentiation between profitable and non-profitable opportunities. There can be recognized many opportunities, but it is necessary to implement only profitable ones, which can lead firm to the better market position and become the market
leaders. It is important to validate and weight the recognized opportunities that implementation process would bring less-costs with maximum outcomes.

Swedish entrepreneurs usually see Lithuania and other Baltic States as a different market which can cause much effort and high investments to start business there. Lithuania is geographically close and from managerial perspective it is not huge differences which would require high investments. The problem stays beyond Swedish entrepreneurs’ perceiving Lithuania as a ‘far’ market, but it could bring many possibilities.

Market is saturated with variety of products and customer has a great ability to choose what to consume, hence the need of innovation in all industries is increasing. Firms are likely to create new products, but new inventions itself do not lead to successful performing. The problem according to Kuratko, Morris and Covin (2011) is that entrepreneurs usually start with the innovation process of creating new goods which are not demanding in the market. Firms have many ideas and technologic capabilities, but not all inventions lead to successful performing in the market. The environmental changes cause challenges in understanding the customer problems and needs in the ways to create innovative good.

1.3. Research questions

In order to answer primary question, the thesis poses secondary research questions:

How do Swedish entrepreneurs recognize and exploit profitable opportunities by creating innovations in Lithuania?

How do individual characteristics influence entrepreneurial behavior in market place?

The first sub question aims to describe the specific entrepreneurs’ characteristics which lead to ability to recognize opportunities and to exploit only the profitable opportunities. The question is found as relevant since it is significant to understand which characteristics lead to better performance of entrepreneur who is considered as a main driving force within the firm and who leads to greater firm’s profitability levels.

How do Swedish firms recognize opportunities in Lithuania?
In the second sub question it is intended to explain the reasons which lead Swedish firms to recognize opportunities and to the decision to internationalize activities in Lithuania. The question is relevant in order to understand the main drivers and managerial urge in Swedish firm to look into Lithuania as an attractive and possible market and the process of opportunity recognition.

The third sub question aims to analyze and describe the benefits for Swedish firms to create innovations in Lithuania. It is significant to understand the benefits which can be gained by internationalized the innovation process in Lithuania.

1.4. Purpose

The purpose of the thesis is to contribute to the understanding of how Swedish entrepreneurs recognize and exploit opportunities by creating innovations in Lithuania. The thesis outlines individual characteristics that influence entrepreneurial behavior in the market place and examines what reasons that lead Swedish firms to recognize opportunities in Lithuania. Furthermore, the purpose is to inspect how creation of innovations in Lithuania influences competitive advantage for Swedish firms. The overall purpose of the thesis is to contribute to the knowledge about opportunity recognition process for Swedish entrepreneurs and the benefits of creating innovations in transitions economies.

The main purpose of the thesis will be reached through:

- *Defining* the entrepreneurs’ characteristics which influence the better firm’s performance in the market place.

- *Analyzing* the reasons to recognize opportunities in transition economies; how the identified opportunities of creating innovations result in competitive advantage.

- *Explaining* the process of opportunity recognition and innovation creation.
2. METHODOLOGY

The methodology used in this thesis will be presented in the following chapter which describes research approach, method and strategy. Furthermore, the chapter outlines the sample selection, data collection, primary/secondary data, validation and reliability. The chapter is finalized with methodology and source criticism.

2.1. Research Approach

There are two different views in the research which are related to the relationship between theory and empirical data, namely the deductive and inductive approach (Patel & Davidsson, 2011). According to Bryman and Bell (2007), the most common approach is the deductive theory. Through this, the researcher sets up one or several theoretical hypotheses that may undertake an empirical examination where the theory gets confirmed or rejected. Consequently, the foundation of the deductive approach is entirely based on the theory, whereas the inductive approach is founded in practice in order to formulate theoretical hypotheses that will be confirmed or rejected. Bryman and Bell (2007), argues that the inductive approach is generated on the basis of collected empirical data. This approach can be viewed as a reverse of the deductive process.

In this thesis the deductive approach will be used as it promotes the purpose of the research questions. Therefore, the complexity of the topic cannot be strengthened by existing theory as entrepreneurial characteristics are difficult to measure. Consequently there is a limited amount of theory on which it is necessary to base empery. In parallel to the research strategy of using a case study, the deductive method is the most suitable. Initially in this research, theories and models will be analyzed in order to create the framework. Thereafter the framework will be applied empirically. The prior knowledge of the authors will also be beneficial in the practical process.

2.1.1. Creating the framework

Various internal and external conditions, concerning entrepreneurial behaviour, have been addressed in previous studies. In order to answer the research questions, a broad literature review on entrepreneurship has been conducted to identify what aspects have been uncovered by the existing literature. After the screening the literature, the framework will be created. It is going consist of three dimensions. The framework will be put in context of Swedish
entrepreneurs internationalized in Lithuania in order to find out what is applicable and what is not and then to seek an explanation for WHY or WHY NOT.

The outcome of this procedure is a theoretically developed conceptual framework on three dimensions of analysis:

- Entrepreneur’s characteristics;
- Opportunities recognition
- Creation of innovations.

2.2. Research method

Methodology is a technique for data collection. There are two different methods in selecting the methodology to use in terms of the role that theory should play in relation to research; the quantitative and the qualitative research method. The quantitative method has a scientific approach and has been influenced by positivism. The theory of positivism focuses on different parts rather than the whole view. The quantitative method is therefore the weight of quantification in the collection and analysis of data, usually in the form of “hard” data such as numbers and statistics. In contrast, the qualitative method is based on social science and is interpretive and constructionist in character and focuses on “soft” data in the form of words, such as interviews, participant observation and focus groups. In the qualitative approach, the researcher departs from the question "how much", which is the focus point of the quantitative approach, and instead focuses on "why" and "how" (Bryman & Bell, 2007).

When using the quantitative method, Bryman and Bell (2007) argue that there is a need for a clear structure in order to ensure that issues and focus points can be delineated. The researcher is rarely in contact with the study objects and the focal point emphasizes the researchers view. Moreover, the authors state that the quantitative method is macro-oriented and generalizing.

The qualitative method is micro-oriented and based on the contributors’ perceptions where the researcher is trying to perceive reality through the participants' perspective (Bryman & Bell, 2007). The interview is unstructured in order for the participants to speak freely. Within the qualitative method, Bryman and Bell (2007) mean that the method does not take starting point in theory - it is a consequence of the research with focus upon the participants view. The qualitative research focal point is people where firms are undertaking a socially constructed reality and according to Holme and Solvang (1997) this method is based on the
researcher's interpretation of the generated information at the same time as frame of reference, motives and social interaction needs to be considered.

The qualitative research method has, according to Gubrium and Holstein (1997), four traditions. Firstly, the authors argue that the method is *naturalistic*, that is to say that it experience reality as socially constructed and is based on people and their interactions in a specific environment. Bryman and Bell (2007) argues that it is only by the qualitative method that we can understand people's feelings and experiences. Secondly, Gubrium and Holstein (1997) claims that the qualitative method is intertwined with *ethno-methodology* that is associated with naturalism where the social order is shaped by conversations and interactions. Thirdly, the authors means that the qualitative method has a tradition of being *emotionless legalistic* and is based on a desire to understand people's inner experiences. Fourthly, Gubrium and Holstein (1997) argue that the method holds a *post-modern* and open view to the ways in which social reality can be constructed.

The research method that best emphasize the purpose of the thesis is based upon the entrepreneurs experience and therefore the qualitative method will be used during the research process. In accordance to the deductive approach the qualitative method is most adequate for the reason that the empirical data will be gained through the performance of interviews. The analysis of the chosen theories in combination of the interviews assume that this symbiosis, in which personal views and experiences are the focus, will best be accomplished by using the qualitative method in order to answer the questions.

![Figure 1](https://via.placeholder.com/150)

*Figure 1* The most important steps in a qualitative research

*(made by authors based on Bryman & Bell, 2007)*
2.3. Research Strategy

According to Yin (2012), there are five research strategies that are often used when gathering empirical data such as case-studies, experiments, surveys, historical studies and analysis of sources. Each of these strategies has positive and negative aspects which the researcher has to take into account in order to choose the most appropriate strategy – it should be based upon the problem. The author argues that a case-study method is appropriate when a “how” or “why” question is being asked about a contemporary set of events over which the investigator has little or no control (Yin, 2012). According to Scholz and Tietje (2002), a case in the case-study is an empirical unit that can be evaluated, in which scientific and practical interests are linked to. Our choice of research strategy is the case study method which is justified for four reasons: (1) scholars have not researched to great extant the phenomenon of Swedish firms creating innovations in transition economies; (2) the research questions focus on the WHY; (3) the topic of entrepreneurship is contemporary; and (4) the research is interest in Lithuania as an example of transition economies because of close geographical and psychical distances.

2.3.1. Design of the case-study

As we have defined the case-study and argued why we chose this research strategy, the following part will describe the design of the case-study.

One of the key elements in designing a case-study is whether a single case-study or a multiple case-study shall be the basis for the research question. According to Yin (2012), a single case-study requires uniqueness for the specific firm. The characteristics of Swedish entrepreneurial firms cannot be strengthened by any theory and can therefore not be considered as unique. For this reason and for the intention of replication logic we have selected a multiple case-study.

In order to gain empirical data for the case-studies, we will interview entrepreneurs of three firms. We will use several sources of evidence, studying industry reports, company documents (that will be studied one week before the interviews) and conduct in-depth, qualitative, semi-structured interviews with the founders. The respondents will be introduced with the questions two days in beforehand in order to be well prepared for the interviews where they will be asked to reflect upon their firms formation in parallel of the three dimensions of the literature-driven framework. The interviews will be the main and the most
important source as they contribute with first-hand information about the creation of the thesis. As a complement to the interviews the respondents will be given a questionnaire with topics not yet covered in the framework.

2.3.2. Considerations of the case-study

Regardless of used method, there are other aspects to consider. Bryman and Bell (2007) argue that the most common criticisms of qualitative research are that it is too subjective, which means that it is based on the researcher's perception of what is important. Another aspect, which the authors argue is often criticized, is that it is not possible to repeat the results of a qualitative research; the result depends on the fact that people and the circumstances are never identical. Thus, we have chosen to reply the logic by conducting a multiple case-study. Seen throw a psychological view, people has an impact on the environment, such as during interviews (Hultén, Broweus & Dijk, 2008). For this reason, the same person has lead all the interviews in order to affect the result as equivalent as possible. Given that qualitative research often involves unstructured interviews with a few people, the result does not work generalized in other environments. Despite this, we will allow the respondents to speak as freely as possible considering that the research topic concerns entrepreneurial behaviour which demands a non-static method. It is often criticized that it can be difficult for the researcher to establish, in a concrete manner, what has been discovered or how conclusions have been developed (Bryman & Bell, 2007).

To make a research there was chosen to study firms by two considerations - type of firms and replication logic. It was decided to study innovative Swedish firms which are established in Lithuania for the reason that the topic has been vaguely touched before. For the purpose of replication logic, we choose to study three different firms established in Lithuania to increase the validation of the theory.

2.3.3. Sample Selection

In order to select appropriate firms for this study, following criteria’s were developed. The firms that were chosen should be:

- Swedish firms
- internationalized in Lithuania
- entrepreneurial and innovative
The reason to select identified criteria is based on aim to examine internationalization process of mature market in transition economies. Swedish firms were chosen due to fact that Sweden is mature market with high technological development. In the next step we have chosen Lithuania as an example of transition economies due to the fact that Lithuania is one of the geographically closest countries from transition economies.

The purpose during the sample selection was to capture different views, experiences and knowledge that can contribute to answer the research in relation to the framework. Jacobsen (2002) argues that people have different views, practices and behaviours. Variations in the comments are usually associated with the characteristics of the individual. Moreover, there are several criteria’s for the selection of respondents – one of these is the information criterion. This means that the selection should be based upon whom can generate the most accurate and relevant information on the subject (Jacobsen, 2002). During the sample selection process the Swedish Trade Council were contacted. The samples selected were acquired through a list of Swedish firms that are established in Lithuania.

According to Bryman and Bell (2007), the best way carry out an interview is to perform personal interviews. The authors’ means that the approach is most appropriate for qualitative studies. The ability to read body language as well as the mood in the room can be considered as an advantage. Due to the respondents’ different requests, geographical distance and time limitations, the interviews will be conducted through personal meetings, via telephone and email. The choice of firms for this thesis is based on the three criteria’s stated above and has been collected from three different lists found on the Swedish Trade Councils homepage, which then has been reviewed and evaluated in order to make a suitable selection.

The three firms selected for the empirical research were Accell AB and other two firms wanted to stay anonymous. In order to easier understand the research findings we will call firms by Firm A, Firm B, Firm C.

Firm A (Accel AB)

The first case study firm is Accel AB. The firm supplies automotive industry to all continents of the globe. Firm’s customers are generally OEM and Tier 1 Automotive customers. The main focus of the firm is producing wide variety of sensors and electro-mechanical components. Firm was established in 1987 in Sweden and in 1994 Accel Elektronika UAB
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was established in Lithuania. The firm has 340 employees, whereas 7 are Swedish. Interview was conducted via phone with managing director Magnus Nilsson.

**Firm B (Anonymous firm)**

The second case study firm wanted to stay anonymous. The firm was founded in 1963. It is a Swedish company that manufactures a wide range of storage for home and office. 45 years after the start, firm’s products have become a major decorating feature in the homes and offices of over 30 countries. Firm established its manufactures in Lithuania and Mexico in 2002. The firm has 650 employees, whereas 470 work in Lithuania. Now the firm is seeking suppliers in China, Taiwan and Vietnam. The personal interview was conducted with two persons - purchasing manager and owner of the firm.

**Firm C (Anonymous firm)**

The third case study firm wanted to stay anonymous. The firm was founded in 1954. The head office of the firm is situated in Mölndal, Sweden. The firm has 40 employees, whereas 13 are in Lithuania. Marketing and sales department and also one of the manufactures in Lithuania were established in 2004 with responsibility of sales in Russia and the Baltic States. The main company products are ventilation systems. The interview was conducted via email with managing director.

**2.4. Data collection**

According to Bryman and Bell (2007), interviews are probably the most widely used method in qualitative research where the flexibility makes it efficient. For this reason, the data for the empirical part primarily will be collected through interviews. The authors argue that there are two different interview methods; *qualitative interview* and *structured interview*.

These differ in several aspects, where the qualitative research method tends to be much less structured, whereas the quantitative research method is highly structured in order to obtain as high reliability and validity as possible in its measurement. This is because it gives the interviewee the opportunity to talk more freely and the interviewer a possibility to steer the interview in any preferred direction. Furthermore, Bryman and Bell (2007) argue that well-filled and detailed answers can be the consequence of performing a qualitative interview as the technique fits the questions better.

In a structured interview the researcher has prepared a clearly formulated set of questions to be answered. In the qualitative research method the emphasis instead lies on the formulation
of the main questions to be able to focus on the interviewees' own perceptions. The qualitative interview puts the interviewee's perspective in focus while the structured interview reflects the researcher's own interests.

Bryman and Bell (2007), state that the use of qualitative interviews can vary considerably. In this thesis a semi-structured interview will be implemented where the interviewer has an interview-guide in assistance with specific topics. This allows the respondents to speak more freely in addition to a structured interview as well as it facilitates the interviewer to cross-compare the different results in the cases. Based on these substances, the interviewee formulates the answers in a free way. As a complement to the interviews, the respondents will be given a questionnaire with questions not covered in the framework.

2.4.1. Primary and secondary data

Secondary data is empirical information that someone else has collected for a purpose (Patel & Davidsson, 2011). The advantage of secondary data is that it can easily be developed as well as it points out the disadvantage that the theory has its origin for another purpose (Bryman & Bell, 2007). By this the authors mean that one can get an insight into how the substance previously has been treated and developed.

Patel and Davidsson (2011) argue that it is the closeness to the information that determines whether the data is primary or secondary. The primary data consists of empirical information that the researcher himself has collected via interviews, so-called first hand reports – collected in order to answer the researcher's specific problem. In this thesis, primary data is mainly used as this restores in accurate information that provides clear answers to the problem. This has resulted in a focus mostly on the data conducted from the various interviews that have been carried out through personal contact, Skype, telephone and email.

2.5 Research quality

One of the most important aspects of writing a thesis is that the result must be relevant and reliable. Validity and reliability must reflect how the data is collected, interpreted and presented regardless of how the research process looks like. In qualitative studies, the authors clearly describe the problem in order to demonstrate the logical conclusions (Jacobsen, 2002).

There are identified four criterions to evaluate the quality of the research (Yin, 2012). They are as follow as: construct validity, internal validity, external validity, and reliability. Yin (2012) argues that the identified four criterions should be applied for the case study in order
to verify the quality of the research. According to Merriam (2009) the most significant criteria are reliability and validity.

In order to maintain the validity and reliability, this thesis will be developed through theoretical books, scientific articles and interviews. The interviews will be performed through personal visiting, phone interview and through email interviews. All interviews are going to be carried out by using an interview guide that will be formed after the theoretical framework. The interviews will be recorded and performed by the same interviewer in order to increase the substantiation.

2.5.1. Internal and external validity

According to Jacobsen (2002), internal validity can be described as the point where authors’ findings are consistent with reality. Internal validity intends to describe the establishing of the relations (Yin, 2012). Internal verification may be reached through different stages: triangulation; controlled by participants, observation, horizontal governance, participants’ collaboration, the researchers’ framework. In this thesis the empirical data has been collected through interviews where the respondents were given the questions, conducted from the theoretical framework, two days before the interview. This was done in order to increase the validation as it allows the interviewee to be well prepared. In the interview that was performed via email, the respondent was given the phone number and email address of the interviewer and were asked not to hesitate if he had any questions. Moreover, after receiving the email interview, the respondent was contacted via telephone in order to reconcile the material. According to Merriam (2009), a cast study strengthens the validation of a research which has been considerate in this thesis. The process of the thesis has been carried out through reviews of theoretical literature, scientifically articles and other electronically sources, as well as empirical data such as interviews. The process of the literature selection was highly critical where mostly was chosen scientific articles from high-ranked journals. Furthermore, articles was chosen by citation index between publications.

External validity, on the other hand, describes the extent to which the research’s findings can be generalized or applied in other situations – how transferable it is (Merriam, 2009). Therefore it is necessary that the research is validated internally. The research of this thesis has been done on three cases which increases the validity. For the purpose of this thesis, the timeframe and other resources, the number of cases has been accurate as the result can be generalized mainly for Swedish firms. The outcomes of the research can be applied for
Swedish entrepreneurs entering transition economies in innovation creating process. The interviews have further been cross-analyzed in order to generate a high comparable result. The thesis has also been performed by three authors who have contributed with different views and approaches that can strengthen the thesis validation.

2.5.2. Reliability

The final criterion of the research quality verification is reliability. This criterion shows the ability to repeat the results of the research. Reliability is about how great the trust and credibility of the result is and how well the survey can be trusted (Jacobsen, 2002). Bryman and Bell (2007), describes reliability as a measurement of whether the result is stable and reliable or not. When using the qualitative study with a personified context, the result cannot be repeated as instants human behaviour is never static and can therefore not be generalized. An individual's mood can also play a crucial role in the answers that are being given (Hultén, Broweus & Dijk, 2008). In this thesis the first interview has been performed in person where the dialogue has been recorded in order to emphasize the outcome further and prevent the result from being interpreted subjectively.
3. THEORETICAL FRAMEWORK

In the following chapter theoretical framework of the thesis is presented. First, thesis defines the entrepreneurship field and why some individuals, and not others, discover and exploit opportunities. Second, describes entrepreneurial opportunities and process of their recognition and exploitation. Third, explains innovation necessity in transition economies and the process of idea’s converting into innovations.

3.1. Entrepreneur’s characteristics

The definition ‘entrepreneurship’ has been heavily discussed and the entrepreneurship literature and Venkataraman (1997) defines entrepreneur in terms of who the entrepreneur is and what he or she does. The research by Shane and Venkataraman (2000) states that it is possible to make the distinction between entrepreneurial and non-entrepreneurial behaviour. According to Kuratko, Morris and Covin (2011) entrepreneurial behaviour have four key elements that:

- Includes involves an ongoing process;
- Creates value in the marketplace;
- Puts resources together in a new way by which they create the value;
- Engages behaviour driven by opportunities.

The most common terms of entrepreneurship includes creation of a new venture, innovations or putting new combinations of resources, recognition and exploitation of opportunities, resource obtaining, risk taking, profit seeking and value creation (Kuratko, Morris & Covin, 2011). Although, there are many entrepreneurship perspectives discussed, the centre of entrepreneurial behaviour is creation (Kuratko, Morris & Covin, 2011). Seven perspectives on the entrepreneurship nature are summarized in Figure 2. As can be seen in Figure 2, entrepreneurship is creation of wealth, enterprise, innovation, value, jobs, change and growth.

Returning to the field of entrepreneurial and non-entrepreneurial behaviour, the key distinction lies in the individual’s ability to recognize and exploit the opportunities for creating an additional value (Shane & Venkataraman, 2000). Now it is well established that entrepreneurship begins with an opportunity and entrepreneurs recognize them in order to create a new value. As well it is accepted that opportunities are recognized by individuals not
firms (Venkataraman, 1997). Hence, central role in opportunity recognition and exploitation plays an entrepreneur.

![Figure 2: Perspectives on the nature of entrepreneurship](image)

Figure 2  Perspectives on the nature of entrepreneurship

(created by authors based on Kuratko, Morris & Covin, 2011, p. 10)

Nevertheless, opportunity exists, and it can be exploited if an entrepreneur recognizes and understands the potential of exchanging goods and service among the partners in domestic and foreign markets (Ellis, 2011). Douglas (2009:3) states that “entrepreneur looks at the world through different eyes; see the future better than others do, see opportunities that others do not see”. Based on this view, one of the central questions in the entrepreneurship field addresses: why entrepreneurs recognize opportunities “better” than non-entrepreneurs (Shane, 2000; Shane & Venkataraman, 2000).

To date, entrepreneurship scholars have been identifying and examining conditions under which entrepreneur is able to recognize opportunities “better”. The explanation of entrepreneurial behaviour lies in personal, cognitive and social network differences (Dyer, Gregersen & Christensen, 2008). Individual characteristics and environmental forces influence entrepreneur’s ability to recognize opportunities. Recent research (Jintong, 2010) proves that interaction between the individual and environmental forces results in a high level of opportunity recognition. However, environmental forces affect individuals but these forces cannot explain individuals (Shane & Venkataraman, 2000).

In order to find why some individuals identify opportunities where others do not, it is needed to examine what factors contribute to the development of ability to recognize and exploit opportunities. Based on prior studies, thesis suggests examining specific entrepreneur’s characteristics as following as: human capital, social capital, and entrepreneurial alertness in
order to understand the entrepreneurship process and individuals ability to recognize profitable opportunities, see in Figure 3.2.

![Diagram of Human Capital and Social Capital]

**Figure 3** Entrepreneur ability to recognize opportunities

*(created by the authors)*

### 3.1.1. Human capital

Traditional human capital theory has been applied to entrepreneurship by associations with entrepreneurial discovery and exploitation (Shane, 2000; Shane & Venkataraman, 2000). The origin of human capital as a concept can be traced to the work of Theodore Schultz who is known by his work in development economies and human capital. Schultz (1959) states that investments in education and learning lead human to wealth. Economists (Schultz, 1959:111) seek of capital definitions that keep capital in touch with the marketplace as “only those classes of wealth those are commonly only bought and sold in the marketplace”. Schultz (1959) takes investments in person into account and defines the concept of human capital as the acquired skills and knowledge “embedded in individual”. Human capital includes competencies, knowledge and personal attributes as creativity and provides individuals which increase their cognitive abilities, leading to more productive and efficient potential activity (Schultz, 1959). Prior research by Shane (2000), states that human capital consists of **prior knowledge** and **previous work experience**.

Prior knowledge, according to Shane (2000), has three dimensions: prior knowledge of markets; ways to serve markets; and customer problems. Jintong (2010), suggest intangible assets that can be gained from all three dimensions: knowledge of the markets facilitate to understand market demand conditions; prior knowledge of ways to serve market knows operations and rules in market; and prior knowledge of customer problems helps to create new product or service to solve the customer problems.
Previous work experience is related to the development of the skills and needs that urge individual for action (Bird, 1989). According to Bird (1989), individuals who have industrial experience have a better understanding of market conditions. Previous work experience is a competence that can be learned by doing.

Individuals differ in their ability to recognize opportunities. Venkataraman (1997) created the phenomena named as ‘knowledge corridor’. It can be understood that individuals cannot recognize opportunities if they have not entered the ‘knowledge corridor’. Therefore, different individuals, prior knowledge and previous work-experience facilitate certain individuals for better opportunity recognition in places where others cannot.

3.1.2. Social capital

*Social capital* includes value of social relationships where individuals take benefits from their connection between partners and developed relationships (Jintong, 2010). Social capital consists of two dimensions where individuals differ – *structural capital* and *relation capital* (Bird, 1989). Both dimensions facilitate to develop network ties by making connections and developing trustworthy relationships which lead to firms effectiveness.

Structural capital refers to the connection between partners, who and how individual reaches where the most important condition is the network ties between partners (Jintong, 2010). Whereas, the relation capital refers to the personal relationships which people have developed thought a history of the partnership (Jintong, 2010). Relation capital focuses on partner relationships which consist of respect, trust, emotional support and psychological release (Bird, 1989). Individuals with high level of relation capital embody trust, respect and corporation (Jintong, 2010). Information exchange is more effective when partners know each other.

There is a distinction between human and social capital. The difference is that human capital looks on individuals where as social – relationships between individuals and their formed networks. Human capital measurements can be done without much confusion by achieved education, qualification or prior working experience, comprising with social capital which measurements are diffuse and often simplified by measuring values and attitudes.

3.1.3. Entrepreneurial alertness

Entrepreneurial alertness first time was explained by Kirzner (1973) who states that alertness is entrepreneurial activity to seek “better” opportunities for “better” results. Kirzner’s theory
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is based on Austrian economic approach and is accepted in the entrepreneurship theory. Kirzner (1973) argues that among market partners is no perfect knowledge and ignorance exist, due to market imperfections entrepreneurs are activated to recognize opportunities. Kirzner (1973:74) defines entrepreneur as “being alert to the opportunities that exist already and are waiting to be noticed. In economic development the entrepreneur is to be seen as responding to opportunities rather than creating them; as capturing profit opportunities rather than generating them”. Opportunity recognition is related to the cognitive capacities of individuals as intelligence and creativity (Shane, 2000). Entrepreneur drives the changing process in markets uncertainty thus each market is characterized by opportunities for entrepreneurial profit. These opportunities are created by earlier errors and alert entrepreneur discover these errors (Kirzner, 1997).

Kirzner (1973), states that an successful entrepreneur recognizes market imperfections on the basis of imperfect knowledge and information. Thus, he or she by exploiting superior knowledge captures profits. The nature of alertness is spontaneous and cannot be produced or improved ahead, as well as individuals differ in their alertness (Kirzner, 1973). Entrepreneur who actively searches for opportunities through personal contacts is more beneficial than public information sources.

3.2. Entrepreneurial opportunities

Entrepreneurial opportunity has emerged as an important part of entrepreneurship field and opportunity recognition plays a critical role. Shane (2000) argues that opportunity recognition often is the first step in the entrepreneurial process. Shane & Venkataraman (2000:220) define entrepreneurial opportunity as “these situations in which new goods, services, raw materials, and organization methods can be introduced and sold at greater than their cost of production”. Whereas Singh (2001:11) defines it as “a feasible, profit-seeking” potential venture that provides an innovative new products or services to the market, improves on an existing product/service, or imitates a profitable product/service in a less than-saturated market”. Shane and Venkataraman (2001) argue of Singh’s entrepreneurial opportunity’s definition and claim opportunity not necessary need to be exploited by a new venture instead it need to include methods how entrepreneurs recognize opportunities. As well prior research (Smith, Matthews & Schenkel, 2009) discuss the complexity and challenges of defining an entrepreneurial opportunity.
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Approach by Shane and Venkataraman (2000), as it have been establish earlier, states that individuals differ by their characteristics that influence their abilities to opportunity recognition and the process of entrepreneurship. According to Shane (2003) importance should be given not just to individual’s characteristics but as well to the distinction between different types of opportunities. Shane (2003:18) argues that the distinction of different opportunities because “variation in opportunities themselves can account for at least some of the observed patterns in entrepreneurial activity”. Prior research by Smith, Matthews and Schenkel (2009) examines opportunities, which is important when examine process of opportunity recognition. Research (Smith, Matthews & Schenkel, 2009) separates two types – tactic and codified opportunities. “A codified opportunity is well-documented, articulates or communicated profit-seeking situation in which a person seeks to exploit market inefficiency in a less saturated market” (Smith, Matthews & Schenkel, 2009:44). The nature focuses on imitated improvements of products, services, raw materials or organizing methods (Smith, Matthews & Schenkel, 2009). In contrast, a tactic opportunity is profit-seeking situation what is difficult to document but its nature focus on the improvements or new innovations of products, services, raw materials or organizing methods (Smith, Matthews & Schenkel, 2009).

3.2.1. Opportunity recognition process

The field of entrepreneurship addresses the question: how opportunities for creation good and services come into existence (Shane & Venkataraman, 2000). ‘How’ question engages the process of opportunity recognition and exploitation. The basic framework can be applied – individual’s characteristics influences his or hers ability to recognize opportunities. Opportunity recognition is subjective process and shaped by individuals different characteristics (Venkataraman, 1997). As discussed, different individuals discover different opportunities based on their way of gathering and processing information. For instance, entrepreneurs with higher human capital should better perceive profitable opportunities (Jintong, 2010) or international opportunities (Ellis, 2011). International opportunity is recognize and exploit in foreign markets (Zahra, Korri & Yu, 2005) or the chance to conduct exchange with new partners in new foreign markets (Ellis, 2011).

Shane (2000) identifies two different process of opportunity recognition – systematic search and discovery. Research by Smith, Matthews and Schenkel (2009) claims that codified opportunities are more likely to be discovered by systematic research and tactic opportunities
identify due to prior experience. Kirzner (1997:73) states that “profitable opportunity by its nature cannot be systematic search because searcher is aware of the nature of what he or she does now know”. When not knowing what to search for, individuals cannot systematically search for it and Kirzner states (1997:72) that “entrepreneur is at all times scanning the horizon and ready to make discoveries /…/ each such discovery will be accompanied by a sense of surprise”.

Opportunities exist because there are market imperfections and individuals are aware of different knowledge (Kirzner, 1997). Imperfections are created by the changes in the business environment. And the market exchange among the partners is made by the freedom of entrepreneur to enter the market where they see profitable opportunities (Kirzner, 1997).

3.3. Innovative Entrepreneurship

3.3.1. Definition of innovation

According to Högselius (2005:6), innovation is “new ways to create economic value”. Innovation is the driving force of economic growth, welfare development, creating new jobs and et cetera. Globalization process encourages and accelerates the evolution of innovations, which become a key advantage in international rivalry for business. By meaning that economic, social and environmental resources are used in new combinations and engender an extra value (Dodgson, Gann & Salter, 2005). Innovation is one of the driving forces for the firms to survive in competition and grow. It is the specific tool of entrepreneurship which generates capacity to create wealth.

Innovation is an invention, which creates a customers’ need fulfilling. It can be seen as a way to exploit opportunities and make a successful implementation in the satisfactory return in the business. Innovation itself has no particular shapes, colours or sizes and it is considered as the result of entrepreneurs’ imagination, creativity, exploration, and rationalization of the current resources. According to Alvarez and Merino (2010), innovations refer not only to a creating a new invention, but also it can be defined as the new view and combination of already existing resources within the firm. It is related to combination of different processes in the firm, such as managing decision, process and marketing. The definition of innovation includes not only a successful generation of new ideas, but further more it includes the process of ideas exploitation, improving, operation and diffusion (Dodgson, Gann & Salter, 2005; Govindarajan & Trimble, 2010). According
The definition of innovations can clearly be explained only “in the context of the particular social and cultural environments” where the innovations are created, developed or/and used. Berkun (2007) argues that innovations are always a combination of previous inventions with additional features. He claims that, when seeking for ideas and opportunities in innovation creating process, it is significant to consider existing products or services which could be improved. Westland (2008:6) identifies innovations as a product or service which involves new features in the market, or which is “commercialized in some new way that opens up new uses and consumer groups”.

According to Schumpeter (1911) there are two kinds of innovations: product and process (in Edquist, Hommen & McKelvey, 2001). *Product innovation* refers to new or improved products and services. Edquist, Hommen and McKelvey (2001), claims that in order to analyze the product innovation, it is important to raise the question WHAT. Product innovation includes only the created or improved product itself not the process. *Process innovation* refers to technological and organizational changes. It analyzes HOW goods and services are produced. Technological process innovation refers to improvement of production process through technological changes, whereas organizational process innovation refers to new combinations and ways to manage the work including new forms of organization (Edquist, Hommen & McKelvey, 2001).

![Figure 4 Innovations](created by authors based on Edquist, Hommen & McKelvey, 2001)

Innovation does not essentially mean that it is totally ‘new’ and generates only radical changes. Högselius (2005) argues that product and process innovation can be ‘incremental’ or ‘radical’. *Incremental innovations* are related to improvements in existing products or processes. It is based on current resources of organization and leads to minimal risk.
Incremental innovations prosper the competition in the market with the current product or service. *Radical innovations* are related to completely new products or services for the market. It is based on R&D. The biggest risk is to produce product or service which is not demanded in the market due to research limitations. To create radical innovation which will be successful in the market takes longer time and requires greater commitment.

### 3.3.2. Models of innovation

There are five main models of innovations namely as Rothwell´s five generations of innovation (Rothwell, 1994). The model defines an historic outline mainly of industrial innovation process from 1950´s. Rothwell´s five generations of innovations models defines innovation as a process with great-integration requirements. The earliest model is related to technology-push which refers to a supply side in the innovation process and includes basic science, design and engineering, manufacturing, marketing and sales activities. It shows connection R&D and capability to produce demanding products (Rothwell, 1994). The second generation model was called market-pull model, where the main driving force was seen as customer needs. This model suggests analyzing market need in the first step, where the next step is to develop and produce a new product. According to (Wonglimpiyarat, 2004), the main con of the second-generation model is that there is a great highlighting on market-pull developments to optimize existing products with a large number of short-term projects. The coupling model is the third generation model. It is focused mostly on technological capabilities and R&D, but it is also linked to new customer needs (Rothwell, 1994). The fourth integrated model includes learning and importance of feedback. It refers parallel and integrated processes (Rothwell, 1994). The last Rothwell´s generation model is called as system integration and networking. The model is very similar to the fourth one, but it includes not only networking activities, internationalization strategies, R&D improving, supply chain management development and communication between the firms, but also the time as importance of being ‘fast innovator’ (Wonglimpiyarat, 2004).
Rothwell (1994), argues that the development of all five generation models shows the same characteristics as the previous one, but adds extra factor which becomes important in economical and social environment changes.

### 3.3.3. The process of innovation: from idea to implementation

Govindarajan and Trimble (2010), identifies innovations as the involvement of different components, such as creating and realizing an idea. Implementation of innovations requires gradual process. According to the authors, each innovation has a unique implementation process, but it is possible to create a framework of the process of innovations. According to Govindarajan and Trimble (2010), innovation is much more than just good, new ideas. Usually it is only primary stage and the real challenges stands beyond ideas. To convert the idea into successful innovation is a long term process, starting with imagination and ending with exploitation. The greatest challenge to convert ideas into impact is related to managerial skills. Innovation cannot be secluded from other ongoing processes inside the firm. The limitations to innovation are usually not linked to creativity and technological capabilities, but to skill to engender process into successful impact (Govindarajan & Trimble, 2010).
Thus, the first step in innovation process is always an idea. According to Thomke (2001), invention cannot be implemented without clear idea and experimentation. But it is frequent that there are many ideas inside the firm, but only several can be implemented (Morris, 2011). Govindarajan and Trimble (2001), argue that firms are more focused on ideas instead of their execution. The challenge stays in preferring ideas which may lead to successful implementations.

In order to distinct ideas, the second step is ‘need finding’ (Morris, 2011). It is a search for opportunities where ideas could be implemented and where not. In this phase, firms are finding the gaps in consumers’ needs fulfilling. In this phase the ideas are excluded or selected for further development process. The challenge is to choose the direction of opportunity recognition. Morris (2011) argues that there are two types of markets: ‘core’ which is familiar, with low level of uncertainty, and ‘edge’ which is related to high level of uncertainty and consumers with unknown needs for the firm. The ‘edge’ markets give greater advantages but also create higher level of risk and unpredictability. However, the ‘core’ markets are less risky and easier predictable, but create higher competition. Morris
The Generator of Innovations (2011) suggests for firms to focus on both directions. It is very important to implement ideas in the accurate time and place.

The next step in the innovation process is gathering information and makes a market research. The firm is creating a framework of the idea and customers’ needs are interpreted. The most valuable idea is chosen and after market research is done, the selected ideas are executed and converted into inventions. The idea is not the most significant step in innovation process; the challenge lies in successfully implementing most valuable ideas in the right time.

Afterwards, the prototype of new invention is made. Innovations may take shape only by examine them into practice perspectives (Morris, 2011). But it is not innovation itself without accurate implementation process. “No innovation has value until it is ‘completed’ and ‘complemented’ in various ways through the various processes of innovation management” (Westland, 2008:35). Implementation should take a part in each step and each level of organization in innovation process in order to launch successful invention. Successful innovation implementation requires strategic management which involves the combination of all taken actions within the firm. But the main problem, according to Govindarajan and Trimble (2010), is that many firms still are focused on efficiency instead of development of innovation. Another problem according to Kuratko, Morris and Covin (2011) is that entrepreneurs usually start with the innovation process of creating new goods, whereas they should begin with the opportunity recognition to see the possibilities of new concepts.

3.3.4. Role of innovations

Innovation is vital for economical growth. According to Baumol (2002), without innovation the education development and the economical growth may be slower. Even innovation requires the current commitment of financial resources; it has the positive expectations for larger return in a long-term perspectives (Golovko & Valentini, 2011). It is important to understand the benefits and necessity which innovations can bring.

Ahmed (1998) highlights the characteristics that distinct innovative firms and less innovative or non-innovative ones. The characteristics are as follow as:

- management financial and emotional commitment;
- accurate market assessment in planning process;
Several comparative studies have provided the empirical verification on the positive influence for firm growth by being innovative (Cassiman & Golovko, 2011; Golovko & Valentini, 2011). It is arguing that product or service innovation is a significant aspect in successful market expansion and efficiency (Cassiman & Golovko, 2011). An innovation process that generates demanding product or service and has technical capabilities helps for firms to gain sustainable competitive advantage (Dodgson, Gann & Salter, 2005; Piergiovanni & Santarelli, 2006). But to understand the customer needs and produce demanding products is the greatest uncertainty in innovation process (Westland, 2008). Previous researches show that innovative firm’s are more likely to be flexible which relates to greater performance in process development and implementation of new ideas. Innovations may lead to better product performance and higher productivity levels through improved technological equipments and adoptions what increases firm’s competitiveness (Piergiovanni & Santarelli, 2006). The product innovation by creating new inventions and exploiting them into new sort of goods may lead the firm to gain a greater market share and manage the competition among rivals. Whereas, the process innovation may lead the firm to reduce costs and be more efficient, thus, innovations increase capabilities. Furthermore, Dodgson, Gann and Salter (2005), argue that the main motive of being innovative is to get sustainable competitive advantage by creating an efficiencies and additional value. Innovative firms are able to achieve greater results in competition for market share in both: domestic and international markets (Zahra & Covin, 1994). In particular, innovation can not only create new product or service, but as well increase customer’s willingness to pay more (Cho & Pucik, 2005). The other benefit for firm of being innovative is insensitiveness in recessions and economic changes (Golovko & Valentini, 2011). Innovative firms are more likely to understand the changes in consumer needs and dynamically combine technological and non-technical improvements within the firm.

3.3.5. Innovations and internationalization in transition economies

As previous researches show (Cassiman & Golovko, 2011) innovation seems to be an important motive to entry new markets usually through exporting or searching new opportunities in reducing production costs. The motive for firms to start-up operation in
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overseas markets is greater demand for the products as well as spread out the R&D costs through the larger selling volumes (Cassiman & Golovko, 2011). In the internationalization process firms usually extend gradually through different processes. Mainly it is started with exporting and after getting more experience and knowledge firms are involving in more advanced international operations, such as joint venturing and foreign direct investments (Johanson & Vahlne, 1977). Firms which export or produce their products or services in foreign market may have an access to different sources which are not able in domestic market. In this case, firms can gain more knowledge and different experience and use this advantage to improve the innovation (Alvarez & Robertson, 2004). Clerides, Lach and Tybout (1998) argue that firms may get new awareness from foreign customers about demanding products, new designs and the ways to improve manufacturing process. The learning-by-exporting may help to adopt new technologies in extended markets and develop new products or services (Cassiman & Golovko, 2011). The firms’ learning abilities and gaining experience through internationalization process may influence the quality not only of firms’ performance, but moreover the quality of innovations themselves. It can lead not only for creating and generating new ideas, but also by producing higher-quality innovations. By that firms may be able to increase market share in both: domestic and foreign markets and increase number of sales (Golovko & Valentini, 2011).

Transition economy is an economy which has been changed from planned to free market economy. This process has been seen in former Soviet Union countries. To see transition economies as a possible opportunity to produce innovations with lower costs could bring great benefits for the firm. According to Högselius (2005), it is visible distinct in economic and social development in Central and Eastern Europe comparing to Western countries. Transition economies are considered as unstable economies with low domestic purchasing power. In order to follow the Western countries there is a need of involvement in the further development of goods, services, technological progress and have less active implementation of existing things (Högselius, 2005). Radosevic (2003) argues that even the Eastern EU countries have showed good results in economic growth, it was rarely related to technological or scientific progress and exploitation of innovative opportunities. The technological innovation and progress in post communism countries after the fall of socialism has not been related to R&D but only to primary forms of production process improvement (Radosevic, 2003). Developing innovation sector is significant in transition
economies in order to economical growth in long term perspectives (Grilo & Thurik, 2006). Innovativeness is the key for firms’ competitiveness in transition economies. In spite of the obvious necessity of innovation-driven economies in the Eastern Europe, there have not been to large extent deep empirical researches in this sector to analyze the current situation and problems (Högselius, 2005). The challenge is beyond the impacts of the former economic structure of transition countries. In centrally planned economies entrepreneurship was restricted since it was focused on economies of scale and the innovations driven by entrepreneurs were not supported by business culture (Högselius, 2005). But it creates opportunities for foreign direct investments for the reason of cheaper labour and overall production costs in transition economies. Developed countries see it as a great possibility to produce their innovations and gain competitive advantage through cost reduction.

3.4. Theoretical synthesis

The theoretical synthesis defines and summarizes the extensive entrepreneurship and innovation theories and aims to explain, not just describe, the process that brings entrepreneur to recognize and exploit opportunities.

Entrepreneurs’ characteristics

Entrepreneurs differ in their characteristics and theoretical synthesis takes in consideration human capital, social capital and entrepreneurial alertness in order to understand entrepreneur and his or her abilities.

- **Human capital** is a result of prior knowledge and previous work experience facilitate to understand market demand conditions.

- **Social capital** is a result of structural capital and relation capital that enhances growth of firm and more effective communication among partners.

- **Entrepreneurial alertness** is characteristics that urge entrepreneur to take risks where others do not want, that facilities entrepreneur for more benefits.

Entrepreneurial opportunities

In the market exist opportunities for an entrepreneur to recognize. The opportunity recognition is a subjective process, shaped by entrepreneur characteristics. Entrepreneur is
free to enter a market where he or she sees opportunities, and recognition process has a sense of surprise since opportunities cannot be recognize systematically.

**Innovative entrepreneurship**

- **The process of innovations**: Innovation is much more than just an idea. The real challenges stand in implementation process. The greatest uncertainty in innovation process is consumer needs and the challenge stays in creating demanding product. Firm must choose right direction and understand if the market exists for it. Innovation must be managed in all each action and cannot be secluded from other processes within the firm.

- **The role of innovations**: An innovation process that generates demanding product or service and has technical capabilities helps for firms to gain sustainable competitive advantage. Furthermore, innovations may lead to higher productivity levels and better quality at lower costs through improved technological equipments. Innovative firms are more linked to understand the change in consumer needs which leads to firms’ flexibility.

- **Innovations in transition economies**: Innovation is an important motive to entry new markets usually through exporting or searching new opportunities in reducing production costs or increasing quality. Creating innovations in transition economies generates opportunities for foreign direct investments for the reason of cheaper labour and overall production costs. Even the Easter EU countries have not high technical capabilities; it is great advantage for developed countries to internationalize their activities into transition economies.

![Figure 7 Theoretical synthesis](image-url)
4. EMPERICAL FINDINGS

This chapter consists of primary data which has been collected through the interviews with three Swedish firms. Firms are named as Firm A, Firm B and Firm C. With the intention of easier understanding of the findings, the empirical findings will be presented firm by firm and constructed according to theoretical headings.

4.1. Firm A

Firm A supplies automotive industry in many counties of the world. The main products are sensors, control units and switches. The firm has shown the continuous growth since the start in 1987. In 1994 firm was established in Lithuania where are the main manufacturing facility and R&D. Because of expansion into the Baltic States, Firm A had new opportunities such as easier access to unique R&D capabilities and cost-efficient producing. The strategy of the firm consists of design quality; manufacturing quality and service quality. The main goals of the firm are to create long lasting relationships with customers, encourage employee involvement in quality improvement action and ensure good quality at competitive price. The firm’s motto is “Continuous Improvements in Focus”.

Firm A is a privately owned company founded by the owner Steen Nilsson who has been retired for ten years. Steen Nilsson started the agent business where Magnus Nilsson joined the firm in 1994. At that time he was working as a design engineer at Saab, since 1989. Both partners internationalized into the Lithuanian market and spent there one week per month during several years.

Our respondent at Firm A is a managing director Magnus Nilsson. He has a long time experience in working in electronic industry. Magnus Nilsson main responsibilities are sales and customer support. Mr. Nilsson is also a member of the board of the company in Lithuania (Accel Elektroinka UAB).

4.1.1. Characteristics of entrepreneur

Managing director of Firm A Mr. Nilsson explains important entrepreneurial competences such as technical skills, language and social competence. Managing director believe that technical skills and competences for electronic design are “very, very important”. Language is crucial in order to communicate without misunderstandings. Moreover, software and technical knowledge is a required and important competence to facilitate an effective
communication. Social competence is vital that the employees are social as it consequence in “the feel-good-vibrations”. Managing director explains firm’s needs to trust the people they work with and have fun together with them. It is not possible to go forward if they do not “feel that they fit together”. Managing director explains that they had the fortune to “find good people” and of having a lot of fun during the years. Firm, together with their department in Lithuania, has worked with other firms in The Baltic States where they did not come along where they did not get the trust from their side. Due to the lack of trust the project failed.

“It was not failing for competence, it was not failing for economy – it was failing for lack of trust” – Mr. Nilsson

Managing director states that good relationships are important as it leads to quicker decisions. Good knowledge about partners also enables the firm to make quicker decisions without further inspections. A firm that requires verifying all decisions during communication slows down the process.

The respondent of Firm A clarifies that the biggest challenge for firm was to understand the atmosphere, language and culture of how the western industry is driven. Managing director describes the understanding for the business in Lithuania as “not well spread”. He argues that Lithuanians were not used to aim for economical factors which he believes are rooted in the history with Russia. With the intention of increasing the understanding, the firm involved the employees on business trips to visit customers and to be part of meetings and discussions. The reason for this is learning by experience.

The most valuable lesson according to Nilsson is to have trustable partners who are involved in the firm as it eases the process of bureaucracy, legal requirements, regulation and rules in the governments. From a Swedish perspective it is difficult to understand these factors as they are reversed from Lithuania and according to managing director, Lithuanians do not understand the automotive industry and Swedes do not understand the bureaucracy.

“You are a thief until otherwise has been proven. Whereas in Sweden you are not a thief until the opposite has been proven” – Mr. Nilsson

It is a different approach from what Swedes are used to. Nilsson concludes by explaining how valuable their Lithuanian partner has been. Without them the firm would have had much more difficulties. The managing director states that it is very important to find trustable persons in the organization who are self going and can take decisions. With such team the
firm can feel secure with profitable sales. Moreover, it is necessary to take small steps in order to reassure the firm’s financial capital and ability to guide the project. He argues that a firm needs to be prepared to lose what they invest as well as the firm should not take a risk with ‘wild’ decisions.

4.1.2. Opportunities

Firm A in Sweden was originally an agent-company who represented Japanese automotive suppliers such as Volvo and Saab. By coincidence, the reason was that Japan became too expensive where the firm got requirements from customers to find cheaper production in locations where the customers could move their production. That never happened but during the investigation firm met companies in Lithuania which had competences in electronics and at the time Saab had quality problems with one other supplier and asked firm if they could find a new supplier for them. Then, by chance the firm sent the specification to the Lithuanian firm who had a solution that was acceptable. Consequently Firm A created a joint venture with the Lithuanian firm. Managing director explains that this procedure was actually to solve a technical problem; it was not a strategic decision to start the business production in Lithuania. Moreover, he explains that the firm saw the opportunity of growing in the market and found new products in Lithuania. Today the firm only sells products developed and produced in Lithuania and has no relation with Japan at all. Nilsson argues that the reason for starting business in Lithuania was due to the competence the firm found in the market.

4.1.3. Innovations

The managing director of Firm A states that there were several challenges in the innovation process. The first challenge for firm has been to find well equipped practical solutions. The ideas have been a little bit too wild and non practical which has worked well for the firm in theory but consequently not as good in practice. Nilsson explains that the world is not as simple as it appears initially. Moreover, it is important to bear in mind that an innovation must be sellable – the price should be acceptable to the customers, otherwise it will not sell. Reliability is very important also. Lithuanians were not used to work in the production – instead they repaired the products. This has been a challenge for Firm A from the beginning, although managing director agrees that the knowledge has improved a lot. The development of the country has increased a lot and has therefore been beneficial for the firm. A non-practical product is designed with extremely high tolerance for mechanical parts. These
might not be producible in theory. The high tolerance cannot be met and therefore the total design is not working.

The benefits of being innovative are to find new ways for higher qualitative products at lower costs. As all business is costly it is crucial to produce at lower costs as customers’ demands high quality as well as acceptable prices. Firm A is a comparably small firm which enables them to more flexible than their competitors. Managing director believes that they can make faster decisions and attend to quicker engineering meetings. As well, the firm does not have to make deep researches, which are necessary for large firms in order to make decision. The firm as important factor defines location. In Lithuania the cost structure is lower for that reason they can produce with lower costs comparing with competitors.

Future plans for the firm is clear and managing director explains that Firm A has planned to expand in Lithuania and, to a small extent, in Sweden. The firm's intentions are to continue business in Lithuania where the firm plans to build competence centre and key production as long as it is profitable. The managing director believes that from a business point of view the firm delivers to every continent of the world, and therefore cannot expand any further.

4.2. Firm B

Firm’s B headquarter is established in Sweden, Småland. The firm designs, manufactures, and sells paper storages for home and offices. The emphasis is on combining its own design, functions, inspiring colours, and innovative solutions. The firm works with different materials – recycling fibreboard and paper laminate.

The firm was established in 1963. The greatest changes in the firm started in the 1970’s and the boom in recycling came in 1980’s. The demand led to a rapid expansion of the firm. At the time, the firm is capable to meet the increasing demand for innovative solutions, with three modern manufacturing facilities and lading quality with appropriate design. The focus of the firm is design and product developments which lead to seek an innovations and different solutions for modern storage needs.

The interview was conducted with two persons – the purchasing manager and the owner. The purchasing manager is working with Lithuania and Mexico manufactures. The founder of the firm is the father of the current owner.
4.2.1. Characteristics of entrepreneur

The founder of the firm was a factory worker and had knowledge of the product’s raw material. His son, the current owner, has been working in the factory since he was a child. The experiences and knowledge he has gained through the work, and his academic knowledge consists of Swedish gymnasium and one study year in the USA. As important knowledge owner finds that he is able to read financial books.

“I did not go academic way; I went the other way, the hard way - worked at my father's company since I was 7 years old” – the owner

The other interviewed person is the purchasing manager. His academic knowledge consists of the highest education in economies and logistics. His previous working experience has been as the salesman in an industry that is not similar to the industry where the firm is operating. Purchasing manager states of the educations increasing role in the society but argues for the need to real life experience and knowledge.

The owner and purchasing manager state of the necessary competencies in their business such as the ability to see opportunities everywhere, ability not to give up and work hard. They claim that individual should be willing to learn, be humble and social.

As the biggest challenge in the internationalization process firm finds the ability to communicate with different cultures. Purchaser founds that communication challenge that brings culture not the language barriers; in fact the knowledge of the English language is high in managerial level. The firm finds Lithuanian culture as similar to Swedish and claims that there is just the Baltic Sea that separates both countries.

“We have a plant in Mexico with Mediterranean and Spanish culture, and everything, “manjana manjana” /.../ we feel really close to the Baltic States. It is closer to Lithuania than it is to Stockholm. It is just an ocean.” - Purchasing manager

Firm maintain of the risks that appear with new partners. The lesson that firm has learned during the years is to think in a long term plan and do not risk with a relationship or quality for a “better price”. Production with lower price materials is likely to bring more cons than pros.

“New supplier comes up with a price that is 40 per cent lower /.../ sometimes you are very close to say NO to supplier that you have worked /.../ stay close to the one that you are comfortable with”- the purchasing manager
It has two types of customer: multinational corporations and SMEs. IKEA is one of the multinational customer and the firm claims to be one of the oldest partners of IKEA. At the moment, the firm supplies IKEA with 7 – 8 products in 5 different colours. The manufacturing for IKEA USA market are located in Mexico, whereas for the European market in the Lithuania. Through experience and communication with big partners firm has learned a lot in order to grow and learn. The experience benefits firm and individual to achieve higher goals and decreases the uncertainty.

“IKEA is one of the reasons why company is here where it is, we have learned a lot when working with IKEA. They are tuff but they are fare” – the purchasing manager

The firm finds their knowledge and experience as important assets. This knowledge and experience have been gained with academic education and experience in the marketplace. The competitive environment has lead firm to gain knowledge. The firm states that the competitive environment is more likely to give a better understanding and knowledge for further activities in the marketplace.

4.2.2. Opportunity recognition

The founder was a 20 year old, Swedish factory worker, when he came up with the product idea during working in the factory that produced raw materials for the new product. One day founder took the car and went to the Gothenburg to offer his new product to the market. The first shop visit was unsuccessful and the product idea was rejected, when the second shop visit led to the first order.

“One Saturday he (founder) took a car and drove to Gothenburg to visit some stores. The first store told to him – young man you are stupid, go back home and work” – the owner

Firm B started manufacturing facilities in Lithuania because of the opportunity to produce cheaper. The firm states that they were forced to move production to Lithuania because in Sweden it is too expensive to produce. According to firm experience, costs in Lithuania have increased, but the costs in Sweden as well, and calculations in the “real money” show the same difference as 10 years ago and give benefits to produce in Lithuania. Economical changes have affected the business in the Lithuania and it is much easier to work in Lithuania since it is the member of the European Union.
“People in the Lithuania want to show improvement and be the leaders /.../ today it has become in Sweden that people are always counted that they have a work and you should be happy that I (employee) am here.” – Purchasing manager

The firm claims that mentality of Lithuanian people is different from the Swedish people when it comes to working attitude. As well firm states that Swedish people are tend to take the working place for granted due to the mature economics. The firm finds the mentality of Lithuanian as a mixture of Swedish and Russian mentality since both countries have had an influence in the Baltic States.

4.2.3. Innovations

In order to meet coming increases of the production costs in the Lithuania, firm has made a lot of investments such as automatic machineries.

“There will be an increase of salaries that is for sure” - the purchasing manager

The purchasing manager states that there are always challenges in the innovative process. It is very important that the process would be managed fluently, where all activities are involved - from taking the raw material to the end customer service. The challenging is to integrate and develop customer relationships. The firm thinks wisely how to manage the transportation process in order to be friendly and integrated.

The purchasing manager states of innovations in order to compete and survive in the marketplace. The firm claims that every action must be with such way of thinking. It is significant to focus on being one step forward and come up with new ideas constantly.

“If you are not innovative – you are out” – the purchasing manager

By creating new and innovative products, the firm is standing in front of competitors. The firm is willing to come up with new ideas and bring them for customers instead of waiting for customers’ request. The firm is working with different alternative suppliers and because of that firm is more likely to come up with new ideas. Moreover, the firm is capable to implement ideas for the reason of innovative solutions. The key to success is to work close to the suppliers and customer in order to get integration and create demand product.

“We can always go out and see what more things we can produce” – the purchasing manager
The firm has a vision of growth and it they are willing to achieve this plan with integrating activities and innovations. Firm B assumes that by innovations they may find the way to better success in the market place.

4.3. Firm C

Firm C is mainly producing ventilation and energy equipments - from dampers and flue components to complete ventilation systems. The firm is located in Sweden and currently is exporting to the Baltic States and Russia. Firm C offer certified products which are tested. The focus is to provide high-level services. A key success for firm is the encourage growth of employees which lead to company growth. The firm’s members are focused on building the corporate culture which enhances creativity process. At the moment, the firm has not further expansion plans in the Baltic States. The main focus now is Scandinavian and German markets.

The respondent at Firm C is a Sale orientated managing director.

4.3.1. Characteristics of entrepreneur

The firm claims that for the firm’s success it is important to have strong financial control, long-term customer relationships, and enhance sales activities. The managing director has a master degree in economics; he joined the firm as sales person and after couple of years was promoted as managing director. In 2004 firm established manufacturing facility in Lithuania and after a year sales agent encourage to open a sales and marketing office. The sales and marketing office helps to understand and expand into Russian market. As the biggest challenge to enter the Baltic States market firm identifies cultural differences and different market needs. In The Baltic States there are different segments where you should think about the segments with high quality requirements and price sensitive customer group. The firm states that the expansion process and time of growth were longer than expected, especially in the 2008 when the Baltic countries faced a financial crisis.

“The cost and time to grow volume is higher/longer than expected” – Managing director

The firm has learned to understand different markets and diversify customers’ needs regarding different quality requirements.
4.3.2. Opportunities

The respondent at firm claims that the ideas they got is usually from existing customers. Moreover, they got suggestions and business proposals from their agents and distributors.

The firm to establish the marketing and sales office in Lithuania saw as a great opportunity. The proposal firm got from existing agent.

The firm states that it is very important for the firm’s successful internationalization process to cooperate with people who have experience of international business. As the possible action to improve the firm’s managing, he suggests to involve experienced people in the firm’s board. For that reason, the firm will have more opportunities to seek for partners and suppliers in foreign markets. He argues that it is important to find the right way to source part of the products internationally.

4.3.3. Innovation

The firm claims that the key to success is being focused on innovations. He argues that the main benefit of being innovative for the firm is the possibility of a new market accesses with reasonable margins. If the firm is producing similar to its competitors’ products, innovation gives lower prices. According to managing director, innovative solutions give technical advantages. The firm is ahead its competitors because of technical and quality level of products. It is very important to have complete innovative solutions including design of all systems and process. Even the innovations give benefits, there are challenges also.

Firm C states that idea is just primary stage. But firm has no challenges in implementation process since they are working in this field for long time and not inventing new products often.

“It is important to understand if the market exists for the innovation and to choose the right way to produce” – Managing director

Firm C agrees that innovations help to improve their products related to customers request because of innovative solutions. The biggest challenge is to understand the customer needs and to analyze the markets. It is important to understand if the market exists for new innovation, to choose the right channel and define quality verification before the sales process.

Firm C states that Lithuanians did not have knowledge about technologies, and how to do business, because country was used to planned economy by government. It took some time
for the firm to adopt Lithuanian workers to Swedish standards. But producing in Lithuania generates an opportunity to produce cheaper and with investments of time and money firm achieve accurate standards and productivity levels.
5. ANALYSIS

In the following chapter the theoretical framework will be combine with empirical findings. We will discuss and analyze which characteristics of entrepreneur our case firms define as a most important within the firm, how firms recognize opportunities, and what is the role of innovations in the firm.

5.1. Entrepreneurs characteristics

5.1.1. Human Capital

Schultz (1959) defines the concept of human capital as the experience and knowledge “embedded in individual”. Prior research by Shane (2000) suggests that human capital is a result of prior knowledge and previous work experience.

When analyzing prior knowledge we will take in account prior knowledge that can be obtained though academical education and previous work experience. According to Jintong (2010), prior knowledge facilitates to understand market conditions. Firm A. Managing director have a master degree in economics. After studies he worked as a design engineer in Saab from 1989 till 1994, when he joined the firm and created joint venture in Lithuania. Firm B. Firms owner have a certificate of Swedish gymnasium and he have spent an exchange year in the US. During studies in gymnasium and secondary school, the owner worked at firm, which was found by his father. Purchasing manager has a bachelor degree in economics with specialization in logistics. After studies he worked as a sales person till he joined the firm. Firm C. Managing director have a master degree in economics. After studies he started to work in the firm as a sales person and after couple of years he got promoted as a managing director. Parallel between theories and ‘real-life’ cases can be drive, when analyzing respondents’ education and work experience they have. In Firm A, B and C, all managers have a highest education, when is Firm B the owner’s highest education is a gymnasium. The academical education is not the only factor that should be takes in account in order to understand if prior knowledge facilities to understand market conditions. In firm B and C directing managers have an experience as sales persons. We believe that prior knowledge as a sales persons for Firm B purchasing manger and Firm C sales and marketing managing director, give them needed prior experience for better sales, thus understand market conditions where they are working. Firm A managing director has been working as a designer...
in Saab, that facilities his knowledge about automotive systems producing market, where he is working. Firm B owner do not have an work experience in other firm, but he have been working in the firm since childhood, and that facilities his knowledge of the firm and market, that is needed when owning a firm.

When analyzing previous work experience we will take in account the development of the competences for an action in the market (Bird, 1989). It can be obtaining through previous work experience in the market and learned by doing (Bird, 1989). Firm A states of the difficulties in Lithuanian bureaucracy system. The firm claims that Swedes do not understand the bureaucratic system in Lithuania, but Lithuanians do not have an experience in the automotive industry. Due to the fact the firm has trustable partners; Swedes have developed their own competences in the Lithuanian bureaucracy system. The firm states of the important role of Lithuanian partners without whom Swedes would not be able to adopt market needs in such short period of time. Firm B states of the challenge of suppliers and their offers. The firm often receives an offer with lower cost than they have with their long-term partners. During the years, firm has learned not to risk with the partners, stick to the partner they are comfortable with and always think in long-term perspective. Firm C states of the challenges in the internationalization process in Lithuania, where customers are price sensitive. The time of the growth was longer than expected and especially after a crisis in the Baltic States in 2008. Firm states of the agent who encourage the firm and his contributions during the internationalization process in Lithuania. Thus, can be drawn a parallel between the theories and ‘real-life’. Each firm has challenges where they needed to develop their competencies. Firm A faced difficulties with bureaucracy system, Firm B – trustable partners with a quality firm requires, and Firm C – price sensitive Lithuanian market with different segments. We assume firms are aware of these challenges before they are acting in the marketplace, but they are not aware how difficult it may be. Moreover, we find a parallel among all the firms, but it cannot be found in our theory – the time. All firm states of the timing and development of competences. We observe that by the time firm develop their competences in the marketplace. As well theory does not cover the role of partners, which we absorbed in Firm A. Firm A states of the partners that helped them with an understanding of the market, where Firm B states of their suppliers and Firm C of the local office. We believe that the timing plays an important role in the firm’s actions in the marketplace.
5.1.2. Social Capital

Social capital includes value of social relationships where individuals take benefits from their connection between partners and developed relationships (Jintong, 2010). Bird (1989) categorizes social capital in two dimensions such as structural capital and relation capital. Structural capital refers to the overall connection between partners and their network ties, who and how you reach. Structural capital enhances the growth of the firm. Firm A, who exploited their clients in the Japan who led firm to find Lithuania as a new location for production. As firm says it was coincidence not a strategic choice. Firm B is exporting their product in every continent of the world. They have used their clients and customer needs to expand firm’s manufacturing facilities or suppliers. For instance, firm opened a manufacturing facility in the Mexico because it is closer to the US market. Firm C had an agent in Lithuania who encourage and facilitate firm to Sales and Marketing department and manufacturing facility in Lithuania. Thus, can be seen the parallels between theories and ‘real-life’. In all cases, structural capital enhances the connection and growth the firm by internationalization. Firm A used their network ties in Japan, Firm B – uses suppliers and clients who bring them business ideas for internationalization, and Firm C – the agent in Lithuania encourage for an expansion into Lithuania. The partners encourage all the firms for internationalization the ways they did not see before. We assume that partners have a significant role for firms’ actions in the marker, thereby growth.

Relation capital refers to the personal relationships between the partners and the relationships they have developed during the partnership. Relation capital leads to the respect and the trust and information exchange is more effective when partners know each other. Firm A stands for a trust they have with Lithuanian partners. In the beginning it was difficult to understand the atmosphere and the culture of the Lithuanian partners. But firm always have felt that there is something more than just knowledge - ‘good vibrations’. Firm explains that the firm needs to trust the people they work with and have fun together. They have had the fortune to “find good people” and have had a lot of fun during the years. Firm explains that when project fails, it is most of due to lack of trust. Firm A stands that good relations are important, sometimes even more important that knowledge. Firm B states of their biggest partners IKEA with a proud because IKEA is well-known company and trustable partner in the industry. Even more, firm claims that new suppliers need to be chosen carefully, because not always cheaper price for raw materials will lead to long term profits. If everything is working with ‘old’ supplier, firm are not likely to risk with alternative partner. Firm is more likely to look on long term perspective and calculate on intangible assets. Firm uses their sales and marketing office in Lithuania to understand their clients and market in Lithuania and Russia. Firm argues that long-term relationships and strong financial control enhance sales activities where they put a lot of focus on building relations. Personal attributes as creativity and being self going is required skills in order to be efficient in the business. Importance of having
trustworthy relationships with suppliers and customers over a long period of time, as more stable and trustworthy is valuable within the firm. Even if it will cost a little more, it will be more cost-efficient in the long-term perspective due to the high qualitative outcome of a strong reliable relationship. Hence, we drive parallels with the theory. As can be seen in the Firm A, business deal can be successful there is missing the trust among the partners. The Swedish way of doing business can be seen in all cases, where the money do not come as the first asset, but the trust and relations is considered to be an important. Personal relationships affect a partnership, and in exchanging goods there is needed trust among the partners.

As another important characteristic we found cultural dimension that influences the relation capital among the partners. Firm A states of the roots from Russia, where economics was not important and there was no competition between state owned firms’ factories. Due to this firm needed teach Lithuanians how to think Swedish style and not all relationships in Lithuania was successful because firm did not felt physically close. Firm B says that Lithuania is much closer to Sweden than they thought before; they even remember history when Sweden owned the Baltic States. Firm argues that between the countries is just an ocean and in the map it is closer to the Lithuania than to Stockholm. Firm states that due to the Soviet Union Lithuanian people are hard working comparing with Swedes and do not take job for granted. Mentality they are close to their manufacturing facility in Lithuania. For this reason firm find easily to corporate with Lithuanians and they can trust on their working attitude. Firm C communicate with the sales and marketing office through their agent who encourage them to open the office. And firm find the mentality different but states of the positive features such as open minded and risk taking persons, which are needed when doing business in the Baltic’s or Russia. Cultural dimension under relation capital is not covered by the theory but we assume that cultural dimension influences the relation capital, thus, relation that can be developed. In all cases, can be seen Swedish consideration about Russia influence on Lithuanian mentality. Firm A states that Lithuanians do not have so high level of economical way of thinking; Firm B states that Lithuanians are more hard working and they are willing to work, where Firm C find Lithuanians as more risk taking and open minded, what is needed for exchanging business in countries such as Lithuania and Russia. We assume that Swedish entrepreneurs in all cases have developed their trust with the partners and the cultural differences between Swedish and Lithuanians is not so high. The highest difference lies in the perception rather than differences that may lead to failure of business.
5.1.3. Alertness

Kirzner (1973) argues that alertness is a required characteristic of an entrepreneur in order to seek enhanced opportunities and take a risk where other does not want. Firm A found Lithuania as an attractive market to internationalize. They established a joint venture with Lithuanians. The firm is willing to invest in the Lithuania but is careful with ‘wild’ investments. They invested in Lithuania in small steps, in the beginning it was just an repairing, when now the competences of the people have increase and manufacturing in Lithuania bring benefits. Firm B is seeking for an alternative partners continuously. They believe it benefit not with lower costs, but as well with ideas for new projects. That facilitates variety of products, and firm therefore are tend to offer the products for their customers, not waiting when customers make the order. The purchasing manager describes competences such as creativity when doing business, always to be ready to wait unexpected and risk, but not with the quality and relationships. Rather be open-minded for now solutions and expected situations. Firm C states that the Lithuanian market is fast changing and things in Lithuania have been changed a lot during the years. So they have made changes in their strategy of Lithuania. If in the begging they were just manufacturing, than now firm has a Sales and Marketing department. Anyway, uncertainty in marker create problems when calculate profitability towards the speed and demand. They are feeling than in Lithuania it is needed to take risk in order to catch the market conditions. Empirical data shows that firms are willing enter the Lithuanian market because of benefits they find as attractive. In Firm A and B, firms show that they are ready to make and investments and commitments in Lithuania gradually. Firm B has made investments in manufacturing facility, but more carefully they are investing in new suppliers. Firm C states of the Lithuania as new, rapid growing, thus risky market, that we state that firms who are investing in Lithuania need to be ready for a risks and uncertainty.

5.2. Entrepreneurial opportunities

Singh (2001) defines opportunity as situations by improving or imitations products/services in less saturated market. The nature of the opportunity focuses to improve or imitate products, services, raw materials or organizing methods or improvements or new innovations of products (Smith, Matthews & Schenkel, 2009). Firm A was looking for a new manufacturing facility after technical problems in the Japan. They found Lithuania as attractive because they saw knowledge as well as growing market. At the moment, the firm does not corporate with Japanese partners anymore and is the products are produce just in Lithuania. Firm B was
looking for a manufacturing facility to increase the costs. They find Lithuania because it was geographically close, later firm found Lithuanian people working attitude, something they did not consider before. The firm is willing to stay in Lithuania till they will gain profits. Firm C internationalize in Lithuania because they already had sales there, they opened manufacturing facility and then had an opportunity to produce products there. As other opportunity appear easier access to the Russian. At the moment, firm is willing to expand by every year more into Lithuanian and Russian market. Thus can be drown parallels with the theories. In all cases firms were looking to improve their products in less than saturated markets. Firm A moved from Japan to Lithuania, and Firm B and C from Sweden to Lithuania. As can be seen Firm A and B found opportunity to decrease the costs by producing in the Lithuania and it was possible because the workers have knowledge and skills. Moreover, Firm B states of the working attitude they found as attractive. Whereas, Firm C founds opportunities to decrease the costs and afterwards increase the sales. As can been seen in all three cases the firms stated to operate in Lithuania by the different circumstances in terms of decreasing costs or increasing sales.

5.2.1. Opportunity recognition process

The entrepreneur in his nature is free to enter a maker where he or she sees opportunities (Kirzner, 1997). According to Kirzner (1997), opportunity recognition process cannot be systematic; moreover, entrepreneur is scanning for the opportunities with a sense of surprise. Firm A were looking for an opportunity to solve the technical problem and found that they can solve the problem, as well as produce cheaper in Lithuania. Firm was surprised that Lithuanians do not have a ‘western way’ of thinking. Thus, investments in production were gradually, till they opened the joint venture and sold just products made in Lithuania. Firm B states that they were forced to move their production to Lithuania because to produce in Sweden was too expensive. Firm’s made calculations in ‘real money’ shows that firm is gaining more profits by production in Lithuania. They states that the production costs in Lithuania are still cheaper than in Sweden, even if the salaries have increase. But firm have invested in automatic production lines in order to meet future challenges. Firm C started to produce in Lithuania and after opened Sales and Marketing department. After manufacturing, they saw a potential in Lithuania and Russia. Firms did not systematically look for Lithuania as destination but they found with a sense of surprise the opportunity to produce cheaper and increase the sales. Empirical findings shows that opportunity recognition has a sense of surprise due to the fact that firm did not valuate all the benefits they can receive from
Lithuania. Lithuania was chosen because it was cheaper to produce, as well as people had knowledge and skills. And we assume that geographically and physically close distance motivates Swedish firms to recognize Lithuania.

5.3. Innovative entrepreneurship

5.3.1. The process of innovation

According to Govindarajan and Trimble (2010), innovation is much more than just an idea. It is only primary stage in the process of innovations and the real challenges stand beyond it. Usually the firm has many ideas, but the challenge is to implement them (Morris, 2011). Firm A claims that there are many ideas within the firm, but only several of them can be implemented and one of the challenges is to find well equipped innovative solutions to implement their ideas. Firm B argues that there rarely are any challenges to come up with new ideas of process or product innovation. The implementation is the most challenging process which requires great planning and well execution of the process. Firm C states that idea is just primary stage. But firm has no challenges in implementation process since they are working in this field for long time and not inventing new products often. Thus, we can draw the parallel with theory and research cases where all firms state that there are many ideas within the firm. Two cases (Firma A and Firm B) agree with theoretical statement that challenge is to implement ideas into innovation. Firm A adds that here stands the challenge to find well equipped solutions for implementation process. Firm B states that successful implementation should be well planned and executed in order to succeed. But the Firm C argues that there are no challenges if you work with similar innovations long time. It can be assumed that there are many ideas within the firm, but the challenge is to implement them into successful performance. Uncertainty is reduced only if firm has enough experience in innovation process.

According to Westland (2008), the greatest uncertainty in innovation process is consumer needs and Dodgson, Gann and Salter (2005) argue that the challenge stays in creating demanding product. Moreover, theory argues that before start creating an innovation, firm must choose right direction and understand if the market exists for it (Morris, 2011). Since Firm A is producing for big companies, so they are creating innovations by customers’ request. They do not see the challenge in understanding the market demand. But Firm A claims that important factor is not only to implement demanding innovation, but it must be sellable also. Whereas Firm B defines the challenge to develop customer relationships in
order to understand their needs in long term perspectives. They are working close to suppliers and customer so that they are able to integrate and create demanding innovations. Firm C agrees that the biggest challenge for them is to understand the market demand and analyze customers’ needs and to choose the right direction to implement firm’s ideas. Firm C claims that they are able to produce demanding product because of great integration with the customers and suppliers. Hence, theory defines the main challenge for firm understanding the market demand and two cases (Firm B and Firm C) define it as a greatest challenge within the firm. Whereas one case (Firm A) sees no challenges in understanding the market demand since they are producing by customers’ requests. In the theory of our thesis there are no clear solutions how to understand the market demand and customer needs, but firms give a suggestions. Two cases define as important factor in problems solution working close to suppliers and customer in order to integrate and understand their needs. From Firm A, we can assume that it is also solution to have big customers and produce only by their request than there is no risk that innovation will not succeed in the market. Moreover, theory uncovers the process of setting price but according to Firm A, it is very important that innovation would be selling for appropriate price. Theory states that is important to choose right direction to implement innovations. But only one firm defines it as an important factor.

Furthermore, theory argues that innovation must be managed in various ways and in all processes within the firm (Westland, 2008). Govindarajan and Trimble (2010) agree that innovation cannot be secluded from other processes within the firm. Firm A states that it is crucial to manage innovation process carefully and wisely. According to Firm B, it is significant to generate innovation process fluently, where all processes would be involved – from taking raw material till the sending to end customer. Everything should be planned. The firm thinks wisely how to manage the transportation process in order to be friendly and integrated. Firm C agrees that it is crucial in innovation process to have complete innovative solutions in each activity within the firm including design and all process. Consequently there is a parallel between our cases and theory. Theory defines the process management as important in order to succeed. All three cases agree that it is very important to manage innovation process fluently involving all activities from the beginning till the end customer. It is necessary to have complete innovation process in order to execute innovation which leads to greater performance in the market.

5.3.2. The role of innovations
An innovation process that generates demanding product or service and has technical capabilities helps for firms to gain sustainable competitive advantage (Dodgson, Gann and Salter, 2005; Piergiovanni and Santarelli, 2006). Firm A agrees that innovations lead to better performance which influences position in the market place and be in front of competitors. According to Firm B, they are willing to come up with new ideas and bring them to customers instead of waiting customers’ request only because of innovative solutions. Innovations help to create demanding products and be in front of competitors and to gain sustainable competitive advantage. Firm B assumes that by innovations they may find the way to better success in the market place. Firm C confirms that the key to success is being focused on innovations. Firm C claims that the main benefit of being innovative is not only to gain competitive advantage, but also the possibility of a new market accesses. Thus, all three cases and theory define that innovations result in gaining competitive advantage. Moreover, it was not showed in our theory but two cases claim that innovations also lead to ability to enter new market and innovations lead to better performance in the market place. Combining the theory and empirical finding, we can assume that innovations are a key to gain competitive advantage and get easier access to new markets.

Furthermore, theory states that innovations may lead to higher productivity levels and better quality through improved technological equipments (Piergiovanni & Santarelli, 2006). According to the respondent of Firm A, innovations lead to find new ways for higher quality products at lower costs. Because of innovative solutions, Firm B is capable to implement ideas. Firm B states that high technological abilities lead to higher quality and capabilities. Furthermore, innovations help to reduce production costs. Moreover, Firm C states that innovations give technical advantages which leads to higher quality. Firm C confirms that if they are producing similar to competitor’s products, innovations generate lower prices. Therefore, theory and all three cases agree that innovations lead to better product quality. All three cases define that innovations is a tool to lower production costs. Firm B and the theory state that innovations also lead to higher productivity levels, which can lead to gaining competitive advantage.

According to Golovko and Valentini (2011), innovative firms are more linked to understand the change in consumer needs which leads to firms’ flexibility. The respondent of Firm A agrees that innovations may help to make decision faster and be more flexible. Firm B states that innovations lead to be able to produce demanding products according to customers’ needs changing. Whereas Firm C agrees that innovations help to improve their products
related to customers request because of innovative solutions. Hence, theory and two cases (Firm A and Firm B) claim that innovations are related to firms’ flexibility. Whereas Firm C mentions that it helps to create demanding products. We can assume that innovations do not lead to flexibility itself. They lead to firms’ ability to improve existed products or create new inventions according to customers’ request. Innovative solutions help to make decisions faster when the firm has required knowledge to create demanding innovation.

5.3.3. Innovations in transition economies

As previous researches show (Cassiman & Golovko, 2011) innovation seems to be an important motive to entry new markets usually through exporting or searching new opportunities in reducing production costs or increasing quality. Creating innovations in transition economies generates opportunities for foreign direct investments for the reason of cheaper labour and overall production costs (Högselius, 2005). Furthermore, Radosevic (2003) argues that the Eastern EU countries have not high technical capabilities and the growth was rarely related to technical progress. Firm A defines a benefit of producing in Lithuania was to find ways to produce cheaper and create new products. By establishing manufacture in Lithuania firm solved technical problems. Even Lithuanians were not used to work in the production, they had required skills. Firm needed to transfer their technical knowledge but it was the smallest investment. The firm as important factor defines location. In Lithuania the cost structure is lower for that reason they can produce innovations with lower costs comparing with competitors. Firm B claims that Lithuania was strategic choice to produce innovations cheaper. Lithuania did not meet the exact standards, so firm needed to learn Lithuanians to produce high standards products. In order to meet coming increases of production costs in Lithuania, firm has made a lot of investments such as automatic machineries. Lithuania as previous planned economy had not high technical capabilities but it was high enough to meet requirements. Firm C states that Lithuanians did not have knowledge about technologies, and how to do business, because country was used to planned economy by government. It took some time for the firm to adopt Lithuanian workers to Swedish standards. But producing in Lithuania generates an opportunity to produce cheaper and with investments of time and money firm achieve accurate standards and productivity levels. The theory and cases state that international customers generate different technical knowledge and experience. All three cases and theory define that innovations lead to motive to entry new markets and search different ways to produce cheaper and/or increase the quality. All three cases show that Lithuania had required skills to transfer the production
there. Theory states that transition economies have lower growth in technology. The cases state that there were challenges concerned to technical capabilities – Lithuanian firms did not meet required quality in the beginning, so firms needed to transfer their technical knowledge and capabilities for the firms. All cases agree that Lithuania has not well developed technological skills and knowledge. According to Firm A Lithuanians were not used to work in the producing, they repaired products instead. This has been a challenge for Firm A from the beginning. All cases claim that the knowledge of Lithuanian workers about innovation process has been improved a lot because of investments of time and learning of Swedish firms.
6. CONCLUSIONS

In the final chapter the conclusions of this thesis will be presented. To begin with the sub questions will be discussed and answered which lead to overall conclusion and the answer to our primary research question. The chapter ends with the recommendations for the firms and further researchers in the field of Swedish entrepreneur creating innovations in Lithuania.

6.1. Answering the research questions

Innovative entrepreneurship is the new area which firms need to take in considerations. The overall purpose of the thesis is to contribute to the research of innovative entrepreneurship and explanation of opportunity recognition process for Swedish entrepreneurs. We will initially answer to three research sub-questions in order to answer main research question which lead to overall conclusion of the thesis.

Sub-questions are as follow as:

- How do individual characteristics influence entrepreneurial behaviour in market place?
- What reasons lead Swedish firms to recognize opportunities in Lithuania?
- How does creation of innovations in Lithuania influence competitive advantage for Swedish firms?

And the main research question is:

- How do Swedish entrepreneurs recognize and exploit profitable opportunities by creating innovations in Lithuania?

The first sub-question concerns on individual characteristics that influence entrepreneurial behaviour in market place. According to the theory, individual is influenced by his human, social capital and alertness. The human capital consists of prior knowledge and experience. These characteristics give greater understanding of the market conditions and demand. Entrepreneur who has a higher level of experience and knowledge is likely to lead the firm to better performance into existing and new markets. When referring to social capital, we can conclude that it is crucial to have social communication skills in order to built easier communication process. The empirical findings demonstrate the important role of culture, what was not covered in the used theory. The research cases show that understanding of the
different cultures which influence communication with less misunderstanding between the partners and/or suppliers. The cultural differences in the way of thinking and acting between Swedish and Lithuanian mentalities are shown as influential in communication process rather than language knowledge. The challenges lie within the ability to create trustworthy communication when both parts understand and ‘feel’ each other in two way communication. Alertness determines personal creativity, expectations of outcomes which are unexpected and fast decisions. Alertness influences entrepreneur to see opportunities rather than a risk for actions in the market place. That leads us to the second sub-questions.

The **second sub-question** concerns what reasons lead Swedish firms to recognize opportunities in Lithuania. Entrepreneurs were not systematically looking for an opportunity to produce in Lithuania, but they found Lithuania as an attractive destination with a sense of surprise. The empirical findings show that in all three firms needed to change their strategy due to competition and high production costs in Sweden. Lithuania was chosen because they saw opportunities such as decreasing manufacturing costs by producing in a country where they have skills and competences, working spirit and responsibility. As well we believe that significant role for Swedish entrepreneurs plays the fact that Lithuania is geographically and physically close and the country has enough of international experience. We believe that an important factor for an entrepreneur is the people involved, such as employees, board members, suppliers, and partners, who lead to the opportunity recognition. For that reason, the firm has a better chance to recognize opportunities in environments they did not consider before. Moreover, we believe that the people around the firm, who is international partners, are more likely to engage the firm for international opportunities. Empirical findings show that opportunities were recognized due to agents’ and customers’ request. We assume that firms’ customers and agents have power to encourage firms in new directions and ways to source products internationally what they have not recognized yet.

The **third sub-question** concentrates on how does creation of innovations in Lithuania influences competitive advantage for Swedish firms. Through our analysis we find that all cases define innovations as a crucial factor in order to survive the market competition and gain sustainable competitive advantage. All three cases define producing in Lithuania as a great advantage because of cheaper labour and overall production costs which leads to competitiveness. The challenge of producing innovations in Lithuania in the primary stage was quality demands. Swedish firms needed to put effort in teaching Lithuanian employees about quality requirements and technological capabilities. But all cases agree that it is worth
to invest money and time in return in long term perspectives. Empirical findings show that because of innovations firms are likely to be more flexible and can improve existing innovations or implement their ideas easier which lead to being ahead of competitors. Theory and our research cases define producing demanding product as a tool to gain sustainable competitive advantage whereas theory states that the main challenge for the firms is to understand market demand and create demanding innovations. The theory suggests that firms should start the innovation process with ‘need finding’ whereas the empirical part shows that there is another solution to create demanding product by implementing ideas when the firms are working close with their customers and suppliers in order to get suggestions and offers directly from them. Furthermore, empirical findings and theory determine that innovations lead to higher productivity levels, better quality at cheaper costs which we assume conduct to higher firms profitability in long terms perspective and gaining competitive advantage.

The last, we will answer the main research question:

**How do Swedish entrepreneurs recognize and exploit profitable opportunities by creating innovations in Lithuania?**

Through the analysis, we found that opportunity recognition is a subjective process that is influenced by certain entrepreneur characteristics as: human capital, social capital and alertness. Human capital leads for better knowledge about the market conditions. Human capital is a combination of the education and the knowledge that entrepreneur have gained and developed. We believe that there are specific characteristics that each individual have, but such characteristic as urge is a crucial since entrepreneur is always looking for new opportunities in the market place. Where, social capital influences his or her ability to create network ties for firms’ growth, as well as to develop partnership with a higher level of trust and respect. Social capital is crucial for firms which want to internationalize, due to the necessity to interact with different employees, customers, suppliers and partners. Social capital does not include just language and communication process, but as well the ability to create the trust. Empirical findings show that the trust and respect are important for an exchange to take a place.

Therefore, alertness influences entrepreneurs’ ability to have a continuous attention into the marketplace and ongoing situations. We conclude that alertness is important when entrepreneur faces new situations and a risk takes a place.
As important factor we found cultural differences that were not covered by our theory. Cultural differences have challenged the communication process that Swedish entrepreneurs find between Sweden and Lithuania. They state that there is a difference but they perceived Lithuania as physically distant market. Thus, we assume that entrepreneurs during the time have developed their communication with Lithuanian facilities and it easier further internationalization into the region. We conclude that Lithuanian market is more psychically closed with Swedish market, but there is the economical and technological development gap. However, findings show that gap is decreasing and Swedish entrepreneurs are more willing to invest in Lithuania.

Opportunity recognition is higher if entrepreneur has a higher level of these special characteristics. The process itself is a discovery rather than a systematic search, since the entrepreneur is now aware what to look for, but his characteristics leads him to gather available information and make a market exchange. Empirical findings show that those Swedish entrepreneurs are likely to recognize opportunity after encouragement of their partners or suppliers who have a specific request. Lithuania has been chosen due to the fact it offers cheaper production or firm sees opportunity to sell more. We assume that in order to recognize profitable opportunities it is significant for firms to have an issue to start looking for them. The key in opportunities’ recognition process is developed relationships between partners, suppliers and customers.

We conclude that creating innovations in Lithuania generates competitive advantage for the Swedish firms. Lithuania was taken as one of the examples of transition economies, which have lower technological development. Creating innovations in Lithuania influences higher productivity and quality levels at lower costs. Firms are able to produce cheaper, hence they gain competitive advantage. But there stands the challenges also. In order to start successful innovation implementation process, firms needed to transfer their technical knowledge. The investment of time, effort and money was low comparing with the outcome. The case study firms confirmed that because of internationalization process in Lithuania they are able to compete and be in the position where they are now. We conclude that there is a great opportunity for the firms from developed countries to create innovations in transition economies since the labour and overall production costs are lower, even the technical knowledge and development are backward.
6.2. Limitations of the thesis

This research has several limitations. First, our case study is based on the interviews only with Swedish firms which have internationalized activities in Lithuania. Due to lack of time and geographical distance interviews were chosen to be conducted only with firms from one country. The outcomes could be generalized to higher extent if the interviews would be conducted with firms from several Scandinavian or other developed countries which have internationalized activities in different transition economies.

Furthermore, interviews were conducted only with three firms. The research could be more generalized if the analysis would be based on more interviews. However the pattern was relevant since all cases showed similar results and we can draw the parallel with the theoretical part.

The research would be deeper if the interviews also would be conducted with the managers of Lithuanian firms. The results would show the both sides: the internationalization process of Swedish firms and the learning and adaptation in management processes of Lithuanian employees.

6.3. Suggestions for further research

Entrepreneurship is comparatively contemporary theory which has not been researched to great extent, especially in the field of internationalization process in transition economies, where entrepreneurship exists for short time due to previous planned economy.

There is a lack of researches which examine internationalization process of Swedish firms in Lithuania. The researchers are rarely looking in the cultural differences, hence we decided to not touch upon the impact of cultural differences in our research. But the cultural difference was defined as one of the biggest challenges in internationalization process.

For that reason we strongly suggest to base further researches on analyzing and explaining cultural impact on entrepreneurial behaviour. We consider this area both interesting and highly contemporary, and in need of further research.

We suggest to touch upon topics such as innovative entrepreneurship in transition economies and cultural differences in management between developed and transition economies. Moreover, we recommend for further researches to gather more information and conduct analysis based on larger number of interviews from different countries due to increase of validity of the results.
APPENDIX

Questionnaire

Linnaeus University

QUESTIONNAIRE
ENTREPRENEURIAL BEHAVIOUR

The purpose of the thesis is to investigate the distinction between entrepreneurs and non-entrepreneurs ability to discover opportunities, being innovative and successful in expanding to overseas market. The thesis explains an importance of seeking for opportunities before starting the innovation process.

We appreciate your contribution for our research by completing this form.

Background information

Number of employees: ______

Firm establish in the Baltic States in ____ (year)

The level of education (check applicable)

☐ High school
☐ Bachelor degree
☐ Professional degree
☐ Master degree
☐ Other, (please specify) __________

You position and responsibilities in the firm __________ (describe in your own words)

Entrepreneur characteristic

1. How would you describe the top three competences that you found necessary in order to be successful in your firm?
2. What advice would you give to an entrepreneur starting out today?

3. How did you come up with the idea for your business and product?

4. What has been the biggest challenge in the internationalization process?

**Opportunity recognition**

5. What has driven you to start a business in The Baltic States?

6. How would you describe the most valuable lesson that you have learned?

7. What are the firm’s plans for future expansion in The Baltic States and other international markets?

**Innovative entrepreneurship**

8. What are the challenges in the innovation-process, from the starting-point of the idea to the implementation of the idea?

9. What are the benefits of being innovate?

10. What is your advantage against competitors?

*Would you like to receive a copy of the summary report for this survey?*

☐ Yes ☐ No

*Thank you for the answers - Elina, Zane and Raimonda*

*If you have any questions please do not hesitate to contact us.*

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Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.

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