Internationalization Process of Swedish SMEs
How Swedish SMEs internationalize their business operations by developing and capitalizing international opportunity

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Uppsala, May 2012.
Executive Summary

The purpose of this thesis is to study how two small and medium sized Swedish apparel firms internationalize their business activities.

The international business activities are more frequent now than ever because cross border trade barriers are much less today. The companies internationalize their business operations for several reasons. High saturation in the local market, cheap supply line, hunting for resources and potential opportunities in the international market are the driving factors for internationalization. The small and medium sized enterprises (SMEs) have no exception from such motives. Generally (SMEs) have fewer resources than big multinationals therefore internationalization is more difficult and challenging for (SMEs). The existing internationalization theories highlight several ways for internationalization. The internationalization process model depicts that companies extend their business activities from less to far psychic distance countries and gradually increase their commitment in the international market based on experiential knowledge i.e. knowledge learned by doing. The revised model argued that companies involve in internationalization by utilizing domestic or international network. The psychic distance concept argued that companies face two types psychic distance i.e. inter – country and inter – firm psychic distance.

We developed our interaction process model for internationalization. According to the interaction process model when firms start interaction within network these have higher psychic distance level and lower trust and commitment because firms initially interact occasionally. With the passage of time as the interaction of firms within network gains some pace the psychic distance level started to reduce and trust and commitment builds upward. Finally a stag arrives when psychic distance level reached at least stage and inversely trust and commitment at higher level and this result into international opportunity. Thus firms by hunting international opportunity gets involve in internationalization. Inversely, international opportunity can also be developed at initial or middle stage and interaction process start at later stages. But in such situation psychic distance level is comparatively high and trust and commitment will be low because there is no or lesser interaction among firms. The internationalization in such a way will be more risky.
Table of Contents

1. Introduction ........................................................................................................................................... 5
  1.1 Background ....................................................................................................................................... 5
  1.2 Small and medium sized enterprises (SMEs) .................................................................................... 6
  1.3 Internationalization ......................................................................................................................... 6
  1.4 Purpose and problem definition ....................................................................................................... 7

2. Literature Review .................................................................................................................................. 8
  2.1 Psychic Distance .............................................................................................................................. 8
    2.1.1 Inter-country and inter-firm distance ....................................................................................... 8
  2.2 Uppsala Internationalization process model .................................................................................. 9
    2.3 Uppsala model revisited ................................................................................................................ 10
    2.4 Theoretical conclusion .................................................................................................................. 13
    2.5.1 Interaction process model ....................................................................................................... 15
    2.5.2 Limitation of model .................................................................................................................. 17

3. Methodology ......................................................................................................................................... 18
  3.1 Research philosophy ....................................................................................................................... 19
  3.2 Research purpose ............................................................................................................................ 19
  3.3 Research approach .......................................................................................................................... 20
  3.4 Research strategy ............................................................................................................................ 21
    3.5 Data collection method .................................................................................................................. 21
    3.6 Sample selection ............................................................................................................................ 21
    3.7 Data Analysis ............................................................................................................................... 22
    3.8 Validity and Reliability .................................................................................................................. 22

4. Empirical Finding .................................................................................................................................. 23
  4.1 Company H ...................................................................................................................................... 23
    4.1.1 History ....................................................................................................................................... 23
    4.1.2 Growing Power ......................................................................................................................... 23
    4.1.3 Forward internationalization ..................................................................................................... 23
    4.1.4 Backward internationalization .................................................................................................. 25
    4.1.5 Main finding of Company H ...................................................................................................... 25
  4.2 Company A ...................................................................................................................................... 26
    4.2.1 Positioning in Asia ..................................................................................................................... 27
    4.2.2 Main finding of Company A ...................................................................................................... 27
  4.3 Common patterns of Company H and Company A ....................................................................... 28

5. Data Analysis and discussion ............................................................................................................... 29
  5.1 Interaction process model ................................................................................................................. 29
    5.2 Modified model ............................................................................................................................. 31

6. Conclusion .......................................................................................................................................... 32

7. References ........................................................................................................................................... 33

Appendix ................................................................................................................................................. 36
  Figure 1 Psychic Distance ...................................................................................................................... 9
  Figure 2 Revised Uppsala Internationalization Model ........................................................................ 11
  Figure 3 Interaction process model ..................................................................................................... 16
  Figure 4 Methodology Overview ....................................................................................................... 18
1. Introduction

In this part introduction of the subject is available that why authors have chosen this subject as a focus of research. This chapter starts with the description of background of topic and then detail introduction of the topic and concluded with the development of purpose and research question.

1.1 Background

The international business activities has sharply enhanced since 1989. After the collapse of Soviet bloc, Europe as single entity i.e. European Union, Euro as single currency, formation of World Trade Organization (WTO) and Chinese entry in it, implementation and expansion in North American Free Trade Area (NAFTA) has contributed towards international business activities. Increased international activities create the need of cooperation and collaboration between cross border partners in order to access new markets, raw material, cheap labor, relax environmental rules, modern and efficient manufacturing facilities (Johnson et al., 2006). Companies cannot afford without capitalizing the international business opportunities as the national barriers for trade and investment are declining (Hill, 2007).

Large number of companies took initiatives to establish their position in the foreign markets. Companies headed towards international market for several motives. These may include deteriorating potential or high saturation in the domestic market, escalating domestic competition and potential opportunities in the foreign markets. It may also be efficiency, resources and international network seeking approach for internationalization. Sometimes companies may enjoy excessive resources and tend to utilize these in the foreign market to enhance growth.

Companies internationalize their operations in the foreign markets for several reasons these includes market seeking, efficiency seeking, resource seeking and strategic resource motives (Dunning, 1993). Karagozoglu and Lindell (1998) identifies that foreign market opportunities and foreign inquiries are the main internationalization motives for the companies. Unique knowledge or technology and small domestic market are basic reason behind
internationalization (Free man et al, 2006). Harris and Wheeler (2005) argued that inter-
personal relationship laid down base for successful internationalization.

1.2 Small and Medium-sized Enterprises (SMEs)
European Centre for Enterprises and Industry defines SMEs as: Any organization which has annual turnover not more than 50 million euro and/or annual balance sheet not exceeds 43 million euro and employed less than 250 persons (European Commission, 2005).

Table 1: EU Definition of SMEs:

<table>
<thead>
<tr>
<th>Enterprise Category Sheet</th>
<th>Employees</th>
<th>Turnover</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 m</td>
<td>≤ € 43 m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 m</td>
<td>≤ € 10 m</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ € 2 m</td>
<td>≤ € 2 m</td>
</tr>
</tbody>
</table>

As SMEs are on the way to develop their role in the international market, the researchers are also getting interest in them (Zahra, 2005). The literature on internationalization of SMEs is on the increasing trend (McDougall, Oviatt and Sharda 2003). Internationalization can positively affect the SMEs by enhancing growth and hence chances of survival. It can also overcome its liability of youngness (Coviello and Munro, 1997). Goshall (1987) stated that SMEs can build valuable skills based on new knowledge acquired through internationalization. But on the other hand internationalization of SMEs can confronted them with additional obstacles due to new regional territory and inefficiency to gain competitive advantage in the new intense market (Evangelista, 2005). Yip, Biscarri, and Monti (2000) argued that due to high requirement of investment and commitment internationalization is more complex for small firms. Hence SMEs have to take extra care while going abroad.

1.3 Internationalization
Enormous amount of research on internationalization has been conducted so far. Every one focuses on a particular issue or highlight specific points. But only few internationalization studies succeed to gain enormous attention and acceptance from well know international business scholar and professionals. The internationalization studies of Johanson and
Wiedersheim-Paul (1975), Uppsala Internationalization Model by Johanson and Vahlne (1977), Revised Uppsala Model by Johanson and Vahlne (2009) and networking oriented approach by different authors have been used. Johanson and Wiedersheim-Paul highlight the importance of psychic distance for internationalization which was later on also discussed by other authors. The Uppsala Model defines the internationalization through series of steps by which companies establish their internationalization position. It begins with export and finish at production unit. The Revised Uppsala Model shifts its pendulum towards networking and its role in the successful internationalization. The networking is also discussed by other scholars. These theories only limitedly applied to small and medium size Swedish firms because these firms followed a different establishment pattern. This pattern is difficult to find in other studies and may have not been highlighted yet.

1.4 Purpose and Problem Definition

The purpose of this thesis is to examine how small and medium size Swedish Apparel firms internationalize their business activities. We will study two small and medium size firms Company A and Company H in order to know their internationalization establishment pattern. Due to the privacy issue we will keep the original names of the Company Hidden.

Johanson and Wiedersheim-Paul (1975) and Uppsala Internationalization Model by Johanson and Vahlne (1977) describe the internationalization in gradual steps. The Revised Uppsala Model (2009) emphasize on networks. An effort will be made to know what sort of steps these firms have actually taken to enter in the international market.

**Research question:** How small and medium sized Swedish apparel firms internationalize their business activities?
2. Literature Review

This section provides theoretical background of thesis. The theories like Uppsala internationalization process model (1977), Revisited Uppsala model (2009) by Johanson and Vahlne, internationalization theory by Johanson and Wiedersheim (1975), the psychic distance model by Hallen and Wiedersheim – Paul (1979) and different networking concepts have been used to equip the reader with solid understanding of internationalization theories.

2.1 Psychic Distance

There is always some sort of distance between organizations which buy and sell and this distance not only prevail in the geographical form but also in psychological form. These distances make the business more challenging by interrupting the normal flow of information, finances and even products. The term ‘psychic distance’ is used by Vahlne and Wiedersheim-Paul to symbolize the factors that hold back the trade prospect between countries. They have emphasized on the level of economic development and education as key factors that influences the level of psychic distances (Hallen and Wiedersheim-Paul, 1979). They also added that Psychic distance is the combination of cultural distance, country risk and some other factors interconnected with strategy deployment. Firms pay considerable attention to psychic distance while taking strategic internationalization decision (Vahlne and Wiedersheim-Paul, (1973).

2.1.1 Inter-country and inter-firm distances

The psychic distance between two firms comprised of inter-country and inter-firm distances. Initially inter-country distances bears strong impact subsequently inter-firm distance attains higher attention. Inter – country distance refers to distance between two countries e.g. home and foreign country distance for international company. Initially in the internationalization process these inter – country distances are extensively emphasized and are the focal points for the companies. Whereas Inter - firm distances gauge the difference between two firms of different countries. In the later stages such Inter – firm distances become the focus point and get superior attention than Inter – country distance. This process of changes is presented in the following figure (Hallen and Wiedersheim-Paul, 1979).
As presented in the figure, Information, trust and purchase: any of these three factors can start the interaction between a buyer and seller. In normal situation the interaction might probably start from information leading to trust and finally purchase. The psychic distance plays distinct role throughout the process interrupting the normal flow among these factors. There is possibility that psychic distance will increase and the interaction between buyer and seller will never take place due to this increase. In contrast to that, the decrease in psychic distance will make it easier for the firm to interact with each other and buying and selling will take place in quicker time. The more the buyer and seller will interact the better the relation between firms is likely to be and the interaction will get maturity (Hallen and Wiedersheim-Paul, 1979).

Evans and Mavondo (2002) study also found that psychic distance is very important in business and there is key relationship between psychic distance and organizational performance. In their study it is found that there is a negative relationship between psychic distance and organizational performance. A number of other authors also studied similar relationship. O’Grady and Lane (1996) suggested that psychic distance plays more important role in business than physical distance which means that operating in a country which is physically located near doesn’t always might be more successful.

### 2.2 Uppsala Internationalization Process Model

The Uppsala Internationalization Model developed by Johanson and Vahlne (1977) emphasis on gradual increase in commitment in the foreign market. The model focused on foreign market knowledge being the key barriers in rapid internationalization. As the knowledge increases opportunities and associated risk becomes more visible. As a result, increased
knowledge stimulates and increases the firm’s commitment in the foreign market. Thus companies internationalize incrementally and steadily as the knowledge progress (Johanson and Vahlne, 1977). Internationalization is thus seen as an incremental process. Firms often develop their international operation in small steps and gradually increase the size of their operations (Johanson and Vahlne, 1977). The psychic distance is an important aspect in the internationalization. Firms prefers to internationalize in nearby psychic distance markets rather than starting in a market which has far psychic distances and few factors like differences in language, culture, business practices, and industrial development matters during internationalization (Johanson and Vahlne, 1977).

Firms use its network to better establish themselves in the market. For example, some persons employed by the former agent or distributors are involved in the development or acquisition of subsidiary (Johanson and Vahlne, 1977). This study shows that business network or network of people is an important source of knowledge. The decisions to deploy resources in the foreign market depend upon the opportunities and problem arises in the market (Johanson and Vahlne, 1977). According to Johanson and Vahlne (2006) “this opportunity development is an important outcome of commitment”.

2.3 Uppsala Model (U-M) Revisited

Much has changed from company behavior, economic environments, research direction to legal structure since the original Uppsala Internationalization Model was introduced in 1977. It has also been criticized by a large number of well known academicians while on the same time Johanson and Vahlne themselves realized that model needs to be revisit keeping in mind the context of modern business practices.

Johanson and Vahlne introduced the revised version of the model in 2009 with a number of major changes to the original model. The original model viewed business actors as being an independent entity where the new model views actors being linked together in a network based on relationship where they are interdependent on each other. The original model viewed physical and psychic distance as being a major factor affecting the internationalization decision which is much less significant and valid in present context. On the other hand business relationship and firm’s position within network has gain more importance as individual actor has limited access to knowledge.
The main idea behind the revised model is that firm is embedded in a network of different actors who are dependent on others. One of the prime reasons for internationalization is to strengthen the position in the network whereas the traditional view was solely based on overcoming barriers. Decision like which market to enter and how to enter largely depends on the existing relationship in a network. Likely to the original model the new version also consists of two variables “state” and “change”.

![Figure 4 Revised Uppsala Internationalization Model](source: johanson & Vahlne 2009)

The revised model depicts the same picture with slight changes in the original model. Recognition of opportunities is added to the knowledge variable under state aspect. As opportunity is the subset of knowledge which is considered as the most important part of the knowledge to drive process as well as other important components like needs, capabilities, networks of related and unrelated firms. According to Johanson et al (2005) opportunity development process is same like relationship development and internationalization process. The opportunity development process may involve one firm by learning about other firm’s needs; competencies, market and network hence the focal firm identify an opportunity. The opportunity identification process can also be driven by two or more firms at the same time. The opportunity either can be identified or generated but opportunity development process includes both. Such a process is based on trust and commitment among firms within the network. Authors consider the opportunity development process as an interactive. This process gradually increases its opportunity identification and exploitation. So the opportunity identification and exploitation is same like internationalization process and relationship development process.
The 2nd state aspect market commitment is replaced with network position. The authors argued that internationalization process can be motivated through network. The relationship among firms within network is based on knowledge, trust and commitment level and it has affect on internationalization process. The firms within network may have different level of these variables and it has direct influence upon their successful internationalization. When firm realize that process is potential rewarding, learning, trust and commitment will lead the focal firm to enjoy partnership or network position.

Within change aspects current activities are changed with learning, creating and trust building. In the original model learning through activities was highly emphasized and as the companies involve more in routine operations, it enhances their experiential knowledge. Hence the increased experiential knowledge through current activities enhanced commitment. Learning is used here in comprehensive meanings as it includes experiential and other types of learning. The existing knowledge, trust and commitment level have profound effect on the process of learning, knowledge creation and trust building, especially when potential opportunity is available. Higher the level is more rapid and intensified the process will be. The opportunity recognition is integral part of developing and strengthening relationship.

The final change aspect is relationship commitment decision which was originally used as commitment decision. This demonstrates commitment to relationship or networks of relationship. The firm within relationship network expands or shrinks level of commitment and it can be viewed by entry mode decision, investment level, organization changes and dependence level. Commitment variation will either make the relationship strong or weak. Firms generally involve in two types of commitment decision, either to invest in new relationship or protect and strength the existing one.

The model implies that firm’s relationship network plays an indispensable role while taking internationalization decision because the firm’s internationalization depends upon its relationship network. Hence firm needs to go abroad by utilizing domestic or international network. The focal firm can join any other foreign firm which has potential network position in one or more countries. By collaborating with such a firm the focal firm has access to foreign network. This network can be used to identify and capitalize the potential opportunities based on mutual trust and commitment. The second reason to go abroad can be,
when a firm in the relationship is tend to go or already is abroad. In this situation the firm asks the focal firm to follow and the focal firm by responding positively expresses its commitment for relationship. Where focal firm should go it depend on certain variables like opportunity recognition by focal firms and its partners or where the partners have strong network position. If the focal firm have insufficient relationship in the foreign market it can choose that market where relationships are easy to develop. Alternatively middleman such as agent or distributor can be used. After establishing sufficient relationships with customers, agents or distributors can be replaced by establishing own subsidiary.

The firm needs to build new relationship when they establish in a new market which has a different network. The new relationship either can be formed by shaping the previously developed relationship or forming a completely new one. The supplier or buyer or both can come up with the proposal of forming relationship. A buyer might show interest and propose to supplier and thus initiate the relationship. The overall activities within the market and network are termed as a “cumulative process” where relationships are gradually built up, maintained and even restructured based on short and long term prospect. A firm’s activities within network enable it to have access to resources and in turn allow achieving other goals (Johanson and Mattson, 1988). These networks have significant importance to identify new opportunities; access to foreign markets, competitive advantages, and to acquire international knowledge. During internationalization process, building and maintaining relationship networks are the integral part (Ellis and Pecotich, 2001).

2.5 Theoretical Conclusion

According to Hallen and Wiedersheim (1979) Inter – country and inter – firm psychic distance are focal points for the companies to enter foreign markets. In the beginning inter – country distances are heavily emphasized therefore most of the resources and attention is mainly diverted to understand and over-come the in-country distances. While on the later stage the importance is shifted towards inter – firm psychic distances. Therefore this inter-firm psychic distance becomes the focal point. The interaction between both the parties’ buyer and seller may start with information, trust and purchase. Normally interaction starts with information which leads towards trust and finally purchase. Throughout the interaction process psychic distance has an important consideration and interrupts the normal flow among all these factors like information, trust and purchase. The increased psychic distance hampers the transaction to occur. Contrary to that firms will easily interact with each other in
decreased psychic distance. The frequent interaction will decrease the psychic distance and strengthen the relationship among buyer and seller.

The original Uppsala model by Johanson and Vahlne (1977) highlight the internationalization through a series of steps. The firms first enter in less distance countries and subsequently expand their operations towards far psychic distance countries. The foreign market knowledge deemed the key internationalization barrier. The increased foreign market knowledge makes the opportunities and associated risk more visible. The foreign market knowledge is mainly increased through learning by doing which is called as experiential knowledge. Former employees of agents and distributors are also an important source of knowledge. As the knowledge enhances it also enhances firm’s commitment in the international market. Thus firms enhance and expand their international operations.

The Revised Uppsala Model viewed the business actors as they are interdependent and interconnected in a strong relationship network. The model depicts that firms internationalize their business operations to strengthen their position within network. The revised Uppsala model stressed that firms tend to go abroad while using their domestic or international network. The relationship of firms within network does play significant role for internationalization. The focal firm can join any other international firm which has strong network in the foreign countries. Strong relationship and networking with such a firm enables the focal firm to have access to other foreign networks. Such a network grounded on mutual trust and commitment can be utilized to identify and hunt international opportunities. Another way of Internationalization can be when a firm within network is already operating abroad or preparing to go and ask the focal firm to join. Thus the focal firm by accepting offer shows its commitment for relationship (Johanson and Vahlne, 2009).

According to Hallen and Wiedersheim (1979) Inter-country and Inter-firm psychic distance are the main barriers for internationalization during the interaction process. If both the parties succeed to reduce the psychic distance then transaction can took place otherwise vice versa. But actually this model does not take in consideration international opportunity development and capitalization during the interaction process. According to Uppsala Model (1977) companies tend to go in less psychic distance countries and expand their commitment as their knowledge increases. In contras the original Uppsala model is unable to explain internalization opportunity, interaction, and relationships of firm within network. This model also lacks the concept of international opportunity. The revised Uppsala (2009) Models entails
that firms need to strengthen their relationship within network. The local or international network can be used for internationalization. These networks help to identify and capitalize the international opportunities. The favorable position of a firm within network is only possible if the firm has reduced psychic distance. But the revised Uppsala model is unable to grasp the concept of psychic distance.

Keeping in mind the pros and shortcomings in the above mentioned theories we have developed our own interaction process model that includes the internalization factors like psychic distance, trust and commitment, relationship within networks, interaction among firms and finally development and capitalization of internalization opportunity. And this is how the firms internalize their business operations.

2.5.1 Interaction Process Model

Based on the above mentioned theories we have developed an interaction process model for internationalizations. The continuous interactions among firms within network ultimately develop an international opportunity and by capitalizing such opportunity firms singly or mutually internationalize their business operations. Such internationalization through developing and hunting international opportunity is possible if psychic distance among firms within network has been reduced up-to sufficient level. Because only then trust and commitment among firms within network will be build up. In the presence of higher psychic distance there is no concept of trust and commitment among the parties therefore it will be difficult to develop international opportunity. Hence there will be no internationalization in the absence of international opportunity because the interaction process could not reduce the psychic distance. Internationalization is a combination of continuous interaction between firms within networks. The interaction is an ongoing process. Initially firms within network occasionally interact with each other and bear higher level of psychic distance hence trust and commitment level among firms within network is at least stage. As the interaction process gains some momentum and transaction frequency increased among firms. The psychic distance started to decrease and inversely trust and commitment initiate to build up. The interaction process has been divided into four phases as shown in the figure. In the 1st phase when firms initiate interaction process bear higher psychic distance and least trust and commitment among them. In the 1st phase firms rarely interact with each other. As the interaction process continues the psychic distance reduced to moderate level and trust and commitment increased to lower level in the 2nd phase. Because the interaction is somewhat
increased at the 2\textsuperscript{nd} phase. The continuity of interaction process in the 3\textsuperscript{rd} phase further reduced the psychic distance to lower level and escalates the trust and commitment at moderate level. At this phase the firms are in much easy relationship with each other because the pace of interaction has been increase than the earlier two stages. In the 4\textsuperscript{th} phase of interaction process firms reached at least psychic distance level and enjoy higher trust and commitment. At the 4\textsuperscript{th} phase firms within network are enjoying much easy and favorable relationship with each other within network. Owing to very frequent interaction relationship and trust and commitment is better than any previous phase. Subsequently, interaction process develops an international opportunity and firms by capitalizing such an international opportunity internationalize their business activities.

Figure 5 Interaction process model
Source: developed by authors
2.5.2 Limitations of Model

1. The opportunity can also develop either at initial stage or during the interaction process. The internationalization based on such an opportunity carries high amount of risk because firms don’t know much about each other. Therefore, firms in such a situation bear higher psychic distance and lower trust and commitment due to no or rare interaction.

2. There can also be possibility that firms after fourth phase of less psychic distance and higher trust and commitment could not succeed to develop any international opportunity and hence no internationalization.

3. The firms despite of continuing interaction could not enjoy higher trust and commitment because the psychic distance could not be reduced up-to sufficient level.

4. It is also possible that psychic distance again start to escalate after the 4th phase.
3. Methodology

In this chapter data gathering journey will be discussed, in order to answer the research questions. Chapter will be started with the research philosophy and research purpose followed by approach and choice of research strategy. Then further elaboration of data collection method and sample collection, finally data analysis and validity and reliability of whole research method will be presented as shown in figure 6.

Figure 6 Methodology Overview
Source: Tim Foster (1998)
3.1 Research Philosophy

Current research is about the internationalization of SMEs means how small and medium sized firms enter and internationalize their business activities and this purpose put the authors into the situation of carry out social science research. It is fact that in different research fields different researches can interpret their surroundings in a different way and that can be based on their past experience, backgrounds etc. so it is very important that the researcher provides the information about which scientific method they are going to use to interpret the world and as there are various scientific approaches in research field.

One can follows the positivism if the research is objective base, and believes that the interpretation is made without using personal experience. However, there is one more approach exists in research philosophy, that is realism, where reality is totally independent of human thoughts and beliefs.

According to Saunders et al. (2009) the philosophy of Realism is somehow similar to positivism stressing on that this world is independent of people’s knowledge about it, so scientific theories can be confirmed as to be truth which are related to the reality (realism). This research has a philosophy based on realism because in this research reality is totally independent from human personal thoughts and believes.

3.2 Research Purpose

Saunders, et al. (2009) explains that in order to complete the studies on a specific problem three different kind of research purpose can be chosen depending upon your type of problem. And these are exploratory, descriptive and explanatory. Exploratory study is very useful to clarify your understanding about a specific problem like if you are unable to understand the specific nature of the problem. Because actual meaning of exploratory study is to find out means what is happening? To find new insights and access phenomena in new light after asking questions about a specific problem.

An extension of exploratory research is descriptive research in which drawing of accurate profile of persons, events and situation is important. It is important to draw a clear picture of problem prior to collect data. And finally explanatory research which creates a causal relationship and the important thing here is to study the problem in order to explain the relationship between variables.
This research has a research purpose which relates to all three above mentioned purposes like we will explore, describe and explain the internationalization of small and medium sized companies that how small and medium sized companies internationalize their business activities. We will explore the new insights for a successful internationalization and will describe the existing situation of the companies how already developed the international opportunity and finally will explain the key facts behind the successful internationalization and opportunity development after using the gathered data of interviews which is main purpose of this research.

### 3.3 Research Approach

Saunders, et al. (2009) explains the deductive and inductive as a division of two research approaches. If the researcher develops a theory or hypothesis and design a research strategy to test the theory or hypothesis then it’s called deductive approach and if the researcher develops a theory on the base of collected data then it’s called inductive approach.

Approach suits to this research is deductive the reason behind is that the study is about to test the interaction process model based on literature with the empirical findings and try to find a relation between them.

(Thomas, 2003) explains one of the simplest way to differentiate between qualitative and quantitative method is that if research involves in describing the characteristic of people and events without any involvement of measurements is called qualitative and on the other hand if research has a focus on measurement and amounts like (more and less, large and small) is called quantitative method.

The chosen approach is qualitative because conducted interviews mainly concerned with words, statement and expressions rather than any kind of numeric data and comparison stuff. Because qualitative data is very useful to explore the internationalization activities of small and medium sized companies.
3.4 Research Strategy

Saunders, et al. (2009) argued that, research strategy is a basic plan for researchers which explain how the research will be carried out and as well as every strategy can be used for exploratory, descriptive and explanatory research.

Secondly a clear research strategy is very important to conduct a research. The research strategy should belong to the research questions and the objective of the research. Finally, it is necessarily important the research strategies should be mutually exclusive. For example it is possible to use one strategy along with other strategy like one can use survey strategy as part of a case study.

Yin (2003) describes that there are mainly three reasons involved in the choice of research strategy, research questions, control over behavior events and finally focus on contemporary events.

This research is mainly focused on research questions so the best suitable research strategy is case study. Because the study has a main purpose to understand and test how small and medium sized companies internationalize their activities with the help of interaction process model so more suitable research strategy is cross case study.

3.5 Data Collection Method

Saunders, et al. (2009) illustrate that, previous literature laid down a strong foundation for any research. Any research can be divided into three categories of data collection method primary, secondary and tertiary data. Normally data collection start from primary to secondary and finally tertiary is difficult to collect and less reliable. The reason is that the primary data is difficult to collect and locate.

To increase the level of reliability and for deep insights in this studies the data collection started from tertiary to secondary and then to primary data. The secondary data source is from different articles international businesses, journals of international studies and book definitions and university of Uppsala library database and the primary data will be collected from interviews of two small and medium sized Swedish companies.

3.6 Sample Selection

The cross case study approach has been used so according to Saunders, et al. (2009) in cross case study approach careful sample selection is very important to gain in-depth detail of the
organization. The internationalization process of Swedish apparel Companies Company H and Company A have been studied.

The focused companies are small and medium enterprises (SMEs). We have interviewed manager and owner of the firms who has long bondage with the firm and possess in-depth understanding of their internationalization. In an SME, owners are thought to have most number of information and our plan is to get an insight to their internationalization.

The choice of organization and respondents will be based on mainly two criteria:

1. The respondent must be an SME based in Sweden
2. The respondent of the firm must be in the management team who has significant understanding of the firm’s internationalization.

### 3.7 Data Analysis

The collected data has sorted out to a manageable level in three steps. In the first step irrelevant data has deleted and in the second step displayed the necessary data in the form of words, sentences and statements. And in the final step all the collected data have been tested against the interaction process model that has already developed in theoretical section and draws the conclusion on the base of this analysis.

### 3.8 Validity and Reliability

As this research will carried out on qualitative data so the credibility of the data is very important, which will totally base on the validity and reliability of data. Saunders, et al. (2009) explains the validity is concerned with weather the finding are about what they appear to be about and reliability refers to the extent to which data collection technique and data analysis methods will yield the consistent findings. One of the important things in the whole methodology part is to fulfill the reliability and validity criteria by using different techniques. For the sake of to minimize the errors and wrong information in the research, different method has been used. The two companies for interview have been selected very carefully, which represent the whole data. First a very comprehensive research has been done to find the exact companies which are closer to our research purpose then before conducting a detailed interview an email has been sent to companies to aware them about our purpose of study and
to identify their interest in it. The formulation of questionnaire has been made by keeping in mind all the aspect of purpose and research questions.

4. Empirical Findings

4.1 Company H

4.1.1 History
In 1914th Victor XXX has just sewn up the first set of backpacks and put them on his bicycle and headed towards local foresters and farmers to try his luck. Outdoor equipments price 90 öre per piece and this how company H started. And soon becomes the earliest and the leading firm which has specialization in outdoor clothing and equipments.

4.1.2 Growing power
Today Company H has become the largest supplier of outdoor equipment. Company H consists of 500 different articles and expanded from Sweden to Scandinavia, Europe and Japan and now 96 years in the outdoor business. Above all, to make most extreme and demanding pursuits, Company H comes up with the central idea to make a layer-by-layer system in which the parts interact as a building block for an outfit that can be made to work under almost any conditions.

So as a whole Company H’s products are dedicated to outdoor enthusiasts, with a rich, personal experience that differentiates Company H’s products from other brands.

4.1.3 Forward Internationalization
Company H has sales operations in a number of European and Asian countries. The operational model consists of both fully owned subsidiaries and distributor or agent to sell their product.

With respect to that Company H has head office in Sweden where they control all the subsidiaries. And the countries in Europe where they have fully owned subsidiary are Norway, Denmark, Finland, Germany, United Kingdom, Japan and South Korea. The company H started selling through distributors in Switzerland, Austria, Italy, France, Benelux countries Belgium, Netherlands, Luxemburg (Changing to new subsidiary), Spain, China. And the country where company H has a plan to open is Poland, Czech Republic and Russia. And in future company H has also plan to start business in USA, Canada, Taiwan and Vietnam.
Internationalization outside Nordic region basically started around 2000. Company H started to internationalize within Europe which is nearby market. Internationalization of Company H was rather reactive than a proactive approach which means other companies came and shown interest for Company H products to sell in their country. This is particularly true for Company H internationalization in most of the European countries and in Japan. At present, two different types of operations are in use by company H. Company H uses different market entry modes for different markets. The major difference entering a market with distributor is that Company H can enter the market directly by selling product where risk is more due to high level of psychic distance. There are some other advantages of using distributor for example: distributor is responsible for own warehouse in the respective country where they initially store the product before they distribute to the other partner shops and this is considered to be one of the costliest part. Distributor first buys the products from Company H and then Company H deliver the product. In some cases Company H initially entered a market using distributor but later on established own subsidiary as sales of products increased significantly and Company H acquired more knowledge about the market. The reason Company H prefer to use distributor is that it takes much shorter time as compared to establishing own subsidiary and obviously a risk averse approach. For example, brand of company H entered in Japanese market using distributor almost 12 years ago and that was a reactive approach. One distributor from Japan came to them and asked for licenses to distribute their products. However, from last year Company H established its own Subsidiary in Japan. Because, it was easy for Company H to enter in a new market without much additional investment. Like Japan, many other European operations also started using distributor and in many cases distributor came to Company H to get distribution ship in the respective country.

On the other hand South Korean operation was started directly by using own subsidiary. The reason for that, they had better knowledge, resources and network to establish subsidiary in the South Korean market and they had resources and networks to establish own subsidiary and currently South Korea is one of the most successful operation. In 2011 Company H entered China and Hong Kong using distributor. Even China is very big markets and has enormous possibilities but Company H finds it very challenging and risky to establish own
subsidiary. The main reason why they are entering China using distributor is that this market is very different than other market than they are operating and they want to take less risk. Now Company H is working to enter in Taiwan. In future they are planning to enter in Vietnam.

4.1.4 Backward Internationalization
As stated by business development manager, Company H currently buys from China. The Company H started to buy from China about a decade ago even though the company is very old. Moreover, majority of the apparel companies are outsourcing manufacturing from third party manufactures using agents or business partners. This trend particularly became very popular from last decade. Asian countries, particularly China was offering very low price as compare to other countries. At the moment they have huge proportion of merchandise which is purchased from China. Company H found agent in china through its business network.

4.1.5 Main Finding From Company H
The biggest obstacle and a challenge at same time in starting a business into a new market is related to psychic distance the actual cultural difference with includes trends, traditions, climate, market structure, even companies from outside find a big potential in a specific market but they can’t ignore the psychic distance which can be a price difference in different markets and how they adjust these thing in a specific time period. The same case is with Company H they started internalization in nearest markets with least psychic distance to avoid risks and to keep maximum trust and commitment.

On the other hand Company H has extreme concern with trust in a relationship with a distributor who is distributing Company H’s products in another country. Is that distributor is actually delivering the same brand value to customer’s that the company actually owns? And I high psychic distance markets where trust and commitment level is low it’s hard for Company H to trust on distributor and its take time to reach and trustful relationship. More over Company H described the high potential in Canadian market with respect to outdoor clothing and equipment but they shows the concern of psychic distance in the form of different market from Europe the pricing different tax and regulation different that creates a trust gap. So that indicates that how important is that psychic distance, and trust and commitment factor.
4.2 Company A

Company A mainly deals with work wear apparels and products and was founded in Uppsala in 1889. The Company A has long standing history and experience in apparel selling and offers wide range of quality work wear products both to organizations and professionals. The Company A has five stores based in Uppsala, Bromma, Hammarby, Västerås and Landskrona in Sweden. The Company A also directly sells the products to corporate customers generally by visiting them.

Buying and selling are the core business activities of Company A. Owing to vast extensive experience and meticulous product knowledge the company offers good standard products. Hence company with its own brands also offers various other well renowned top quality brands such as PX, Snickers, Fristad and Jobman. Therefore, availability of wide products range makes the selection convenient for the buyer in order to have all type of working stuff at one place. The Company A since its foundation has grown to become one of the largest independent chains in the country. The Company A mostly buys from local suppliers but recently it has started buying from international manufacturers as well. Recently company buys small proportions from China; in the beginning it placed very small order now slowly the volume is increasing. But still majority of the products are acquired through local suppliers.

4.2.1 Positioning in Asia

Company A started to purchase from a Chinese manufacturers through an agent. The agent was introduced by a domestic Swedish firm. The introducer firm was also working with the same Chinese agent. Basically the domestic network of Company A with other firms in Sweden helped them to know an agent with whom they are still working. The Company A has good domestic network and within this network interaction is frequent and enjoys good trust level with other firms.

Initially both Company A and Chinese agent experienced different obstacles especially communication problem due to various reasons. The language was one of the main reasons. These obstacles lead both the parties towards confusion and misunderstandings. But with the passage of time continuous and frequent interaction between both the parties paved the way towards smooth communication and now communication barriers have been removed.
significantly. Both the parties now understand and trust to each other and over the course of time a good relationship has been developed. At the moment both are very comfortable with the partnership.

At one point of time Company A also started to purchase from Bangladesh. The same Chinese agent helps them out to buy goods from Bangladesh. Actually the Chinese agent has another country office in Bangladesh. However supply from Bangladesh has been stopped due to some reasons.

The Company A tried to extend their supply line toward Vietnam and Sri Lanka, two other important places for sourcing apparel. In both cases their network of contact helped them. The board member of Company A knew a Sri Lankan person who is currently living in Sweden and that person introduced Company A with Sri Lankan manufactures. To enter in Vietnam the same agent in China worked for them and tried to help them to enter Vietnam. However, in both cases they couldn’t find a suitable supplier.

4.2.2 Main findings of Company A

According to the above mentioned findings Company A has mostly the local suppliers and basically has a local business in Sweden. Even they know the fact of cheap suppliers in China and the threat of getting more and more competitive local market. Company A went very late to get supplies from China and that all happened in the presence of domestic Swedish firm who was already taking supplies from China. That all indicates the psychic distance and low trust and commitment level of Company A while doing business with Chinese suppliers. Company A made their trust on Chinese suppliers in the presence of domestic Swedish firm who helped Company A to deduce the psychic distance lever and to increase the trust and commitment level at initial level.

But in the later stages Company A also faced many problems with Chinese suppliers in the form of communication on quality and reliability which leads to a misunderstanding between them. But with the passage of time as interaction increased the psychic distance is start going decrease and trust and commitment level is start going increase.

And at the final stage Company A reached to attain a international opportunity where they can trust on the Chinese suppliers and can commit resources there and can keep themselves competitive in domestic market in the form of price and quality and all the procedure is done with minimal level of risk. And this international opportunity opens the door for Company A to attract other Asian markets who has the same market trends that China has.
4.3 Common patterns for Company H and Company A

Company H and Company A have some common points and patterns during their internalization process that both companies gave huge consideration towards the psychic distance like Company H has not started selling in Canada even though they have a huge market there and for Company A they started buying from China so late even though they knew the situation of the high competitive local market.

On the other hand, their trust and commitment level was also so low at the start of internalization process and on the later stages as the psychic distance started reducing and the trust and commitment level started going increase and these whole findings give the clear indications of the continuous relationship between psychic distance and trust and commitment during the internalization process of Company H and Company A.
5. Analysis and Discussion

This section contains analysis of empirical findings acquired through interviews. Based on theoretical framework a model has been developed through which all the findings have been analyzed. The rationale behind to analyze and discuss the findings is to know, how does SMEs internationalize their business activities?

5.1 Interaction Process Model

The interaction process model entails that firms through frequent interaction by reducing psychic distance ultimately develop an international opportunity and then by chasing such an opportunity internationalize their business operations. The psychic distance and trust and commitment does play significant role but both have inverse relationship to each other. The model comprised of four phases in the 1st phase when firms start interaction bear higher level of psychic distance and lower level of trust and commitment within network. As the interaction process continues the psychic distance reduced at moderate level while trust and commitment increased to lower level in the 2nd phase. With the passage of time due to frequent interaction the psychic distance further reduced to lower level while trust and commitment inversely enhanced to moderate level. In the 4th and final phase owing to the continuity of interaction process within the network, finally a stage arrives when firms have least psychic distance level and enjoys higher trust and commitment and this result into development of international opportunity. Thus firms by exploiting such an opportunity start or expand their business activities into the international market.

This notion exactly applies to Company A because it has good domestic network with frequent interaction among firms and therefore enjoys good level of trust, confidence and commitment with other firms. Another domestic firm within network introduced a Chinese consultant to Company A. The Company A started to interact with Chinese consultant over a certain period of time. The interaction between Company A and Chinese consultant bring them closer and both parties started to transact with each other. Initially orders were placed in small quantity but with the passage of time quantity of order is increasing. So the higher trust and commitment based on least psychic distance owing to frequent interaction within the domestic network developed an international opportunity for Company A. Hence Company A by hunting that opportunity cross its national borders and entered into international business
activities. Hence Company A follows the same internationalization pattern as mentioned in interaction process model.

Initially the relationship of Company A and Chinese consultant went through different ups and downs and bears a high level of psychic distance therefore trust and commitment was very low because they rarely interact with each other. Both the parties face misunderstandings due to communication problems but they continue to interact with each other. The frequent interaction steadily continues to reduce the psychic distance and escalate the trust and commitment. Now both the parties are in much easy relationship than before and share good level of trust, confidence and commitment due to least psychic distance. This least psychic distance further developed international opportunities for Company A in Bangladesh and Vietnam. Both the opportunities were highlighted by agent in China. The Company A tried to exploit both the opportunities to extend their supply line. Bangladeshi supply line was discontinued after some time but supply line from Vietnam could not be started due to some reasons. The essence is that as the psychic distance between both the parties reached at least stage therefore trust and commitment escalate to higher level with continuous interaction. This leads towards development of international opportunities Company A by exploiting these opportunities expands its international operations. Again foreign expansion for Company A is same as mentioned in interaction process model.

Most of the internationalization for Company H towards other European countries, Japan, China and Hong Kong was started through agents or distributors. The distributors contacted the Company H to sell products in their domestic market. The distributors were individually invited to visit the office of Company H in order to familiarize them with the Company H and to create feelings for the brand. So the contact of distributors creates an internationalization opportunity for Company H. The Company H by accepting offers from distributors internationalizes their business operations towards Japan and other European countries. Hence international opportunity was developed and capitalized at pioneer stage without indulging in frequent interaction. Therefore all the other stages of reducing psychic distance and building trust and commitment were either bypassed or followed by the opportunity. This type of internationalization pattern is totally against the concept of interaction process model. Because in the interaction process model development and capitalization of international opportunity is at last stage when psychic distance reached at least level and trust and commitment is higher owing to frequent interaction with other firms within network.
The Company H during their operations in Japan started to develop relations and network within nearby countries especially in South Korea. The relationship development and interaction process with other actors within network continued over a certain period of time. This continued interaction process bring the firms within network more close by reducing psychic distance and building trust and commitment. Subsequently an opportunity was identified in the South Korean market. The South Korea having a large number of population and good buying power was treated as potential market for Company H. So Company H capitalized the identified opportunity by entering directly with sales subsidiary. So the South Korean operations exactly followed the same pattern as mentioned in the interaction process model. Because the frequent interaction among firms within network reduced psychic distance and builds trust and commitment which ultimately leads towards development and capitalization of opportunity in the South Korean market.

Figure 5 Interaction process model
5.2 Modified Model

In our original interaction process model we were of the view that firms internationalize their business operation by hunting international opportunity developed after completion of interactions process. After testing the model with two cases in real life we came to know that opportunity development and subsequent internationalization does not depend upon any stage or completion of interaction process. Opportunity development and subsequent internationalization can be at any stage. It can be before, during and after the completion of interaction process. But risk level has direct association with the opportunity development and utilizing stage. The internationalizations prior to completion of interaction process carries high risk and vice versa. Model is equally applicable both to SMEs and big multinational firms for internationalization. Some of the earlier models focused either on risk taking or risk adverse approach but this model includes both. If opportunity is developed and capitalized at initial stage it will be treated as pro risk model but if opportunity is developed and chased after complete interaction process it will deemed as low risk model.

6. Conclusion

The two small and medium sized Swedish firms Company A and Company H have been studied in this thesis. The Company H mainly deals with outdoor clothes and equipment while Company A sells work wears apparels and products. The thesis examined that companies does consider various factors and later on these factors have strategic impact while taking internationalization decision. The thesis concludes with the development of a interaction process model that describe the whole cycle of opportunity development in four stages that firms initially have higher level of psychic distance and lower trust and commitment in totally a new market. But owing to frequent interaction with the passage of time the psychic distance continues to diminish and trust and commitment started to build up. Finally after the completion of interaction process the firm reaches a position where psychic distance is at least stage and trust and commitment at higher level at this stage ultimately a international opportunity develops. Hence firms internationalize their business activities by hunting that opportunity which is also risk free. Firms also involve in internationalization by hunting the
opportunity at initial level and then start frequent interaction which include high level of risk but quick decisions because time is also a very important factor to enter into a new market. So there are many factors involve that effects the decision making of a firm towards the internalization into a new market. Like time, risk, psychic distance, trust, commitment, market size etc but some factors are more common and important in under discussed firms and that are the psychic distance and trust and commitment level and that’s the main reason firms go abroad first to least psychic distance countries and markets even they have less potential but totally secure investment.

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Appendix

Questionnaire

N.B: Following questionnaire has been used to collect empirical data for the interview. However, it is to note that our interview was semi-structured. Majority of the questions has been asked based on the given answer by the respondents.

1. Please briefly let us know about your company. i.e.
   - Year of foundation.
   - Nature of business.
   - etc

2. Please let us know about your company international operations (selling and buying)
   - What are the countries your company operating?
   - How did it start?
   - Present level of operations?
   - etc

3. Please let us know about the motives of internationalization.

4. How does your company develop new business in a new country?

5. Please let us know about your business network. How did your business network helped to internationalize (i.e. to find supplier or partner)- if applicable?

6. How the relationship between your Company A and partner is developed?

7. Please let us know about the differences in business practices in different countries your companies are operating.

8. Have you ever experienced difficulties to continue operation in any country? If yes- please let us know in detail.
9. Have you ever experienced difficulties to continue working with any supplier or partner? If yes- please let us know in detail.

10. How the distance like, language, culture, working norms, economic conditions between your company and your foreign agent/distributor or company affect you?.

11. How does your business relations progress?.