Uncovering ambiguities of internationalization:

*The case of Swedish SMEs entering Polish Housing Industry with energy-saving solutions*
Abstract

SMEs aiming to internationalize are facing multiple difficulties due to lack of network relationships, resources and experiential knowledge as well as high risk and uncertainty levels. For instance, the level of ambiguity and uncertainty at the internationalization process is higher in institutionally distant markets, like Poland towards Sweden. It is important to understand how different the Polish market is, and what are the different regulations and rules that Swedish SMEs have to follow. Therefore, the purpose of this paper is to examine sources of ambiguities, and provide a strategic fit, by analyzing external environment in Poland and defining Swedish firm’s internal resources which impact the process of internationalization. To accomplish this purpose, the authors have conducted a qualitative research by multiple case studies involving three Swedish SMEs internationalizing in Polish market or similar foreign market.

The theoretical framework comprises the theoretical concept of the strategy from IO view and RBV perspectives, external environment and internal resources and strategic fit, as well as theories regarding internationalization. The final point is theoretical synthesis that shows the relationship among these theoretical concepts. The empirical part demonstrates findings that derive from the interviews of case companies.

Finally analysis of the collected empirical materials in relation to the theoretical framework selected for the topic is provided. The last chapter summarizes our findings and provides recommendations for the SMEs on what to consider when conducting successful internationalization process.

Keywords: Small and medium-sized enterprises (SMEs), Emerging markets, Strategy, Institutional organization view, Resource-based view, External environment, Internal resources, Strategic fit, Competitive advantage, Internationalization.
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1. Introduction

1.1 Background

The growing globalization is being highlighted as the most important change in the World economy in modern times. It has been defined as the worldwide movement toward economic, financial, trade and communications integration. The impact of the globalization on the company is reflected in reductions of trade barriers, reduced cost of communications and international transport, and greater global integration of capital markets. Globalization has fundamentally changed competitive landscape of markets and industries, as both markets and industries globalize (Wiersema and Bowen, 2008) and international companies become global players. This new reality created a global market, where cross-borders relationships are natural for multinational firms. As this process is developing, it created space not only for large multinational enterprises (MNEs) that operate internationally, but also small and medium enterprises (SMEs) are able to operate efficiently in foreign markets, by having access to technology (Hitt, Keats and DeMarie, 1998).

The process of internationalization became easier due to the globalization of markets, infrastructure, new technologies, and overall facilitated information exchange, including internet, better information-processing and communication technology. This created greater awareness of international economic opportunities. The competitive landscape embedding international companies has also changed as a result of newly acquired access to capital, goods, information, and technology from around the world, ‘often with a click of a mouse’ (Porter, 1998). This was followed by the demand for re-defining the competitive advantage; since this is the main factor leading to firm’s superior performance. Competitive advantage primarily emerge from matching the given environment and internal resources (Porter, 1998). Matching can be interpreted as strategic fit. Therefore it is crucial for SMEs to analyze the resources that it possess and fit it to the external environment of targeted country, in order to achieve competitive advantage.

The precursors of internationalization were MNEs from developed countries, characterizing with strong international position according to high level of resources. They have been entering at first the closest markets and the most similar, thus the most predictable ones. As the globalization was developing, and competition was growing, companies began searching for new markets for their products. Emerging markets
became natural next step in internationalization, to develop the base of economic pyramid (London and Hart, 2004). Companies searching for sustainable growth, profits and innovative solutions, discovered that there is a large economic potential in low-income markets, at the Bottom of the Pyramid (BOP), where competition is low, and opportunities are promising (Prahalad and Lieberthal, 1998). Also the global financial crisis in 2009 had an impact on directions of economic expansion, as numerous firms failed to internationalize in mature markets. On the contrary, development prospects in emerging markets continued to thrive.

SMEs are multiplying their vertical connections across-borders within globalizing industries, despite relatively weak legitimacy in their industries and among potential customers, in both their home markets and foreign markets (Johanson and Vahlne, 2009; Ojala, 2009). This is possible due to internal resources enabling them to conduct successful international expansion.

However, entering new markets differs according to the level of uncertainty emerging from psychic distance and institutional differences between the countries (Johanson and Vahlne, 1977; Jansson, 2007). Each market might require different strategic approach. The psychic distance is influencing flows of information between the market and the company. The difference emerges from language, culture, political systems, level of education, and level of industrial development. Psychic distance is correlated with geographic distance (Johanson and Wiedersheim-Paul, 1975), but not always. It might emerge also from cultural and historical background (Khanna and Palepu, 2013). The authors expect that the psychic distance between Poland and Sweden is high, despite geographically close location. High uncertainty requires different strategic planning than predictable and safe markets. SMEs typically start exporting with low resources commitment, first to neighboring countries or countries that are similar in terms of business practices and then commit its resources further in each next step.

Rapid technology development and globalization has brought opportunity as well challenges to field of international businesses. For SMEs entering emerging markets, cost leadership is difficult to achieve, therefore companies entering new markets build their strategy on differentiation basis, by focusing on the value of high quality and reputation. Entering emerging markets requires not only differentiation, but also new business models and innovative solutions. Suitable strategy for the emerging markets and one of the recently discovered solutions is the concept of Tailored Products Development (Prahalad and Hart, 1999). In housing industry, where many construction and interior components are made-to-order, the innovative approach of mass customization creates opportunity to obtain sustainable competitive advantage through differentiation.
The most important obstacle in the process of internationalization has been indicated as the lack of knowledge about targeted foreign market (Johanson and Vahlne, 1977). Emerging markets characterize with high-risk for the new entrants, both because of their heritage of political and economic instability, but also because of the inner uncertainty resulting from rapid economic reform programs (Arnold and Quelch, 1998). It has been previously proved that small firms begin internationalization with low resources commitment in order to avoid risk, and the internationalization is a gradual process, where level of cross-border relationships increases proportionally to the amount of knowledge acquired (Johanson and Wiedersheim-Paul, 1975). How to measure the risk and decrease complexity, which resources can be the key to success and which factors influence the study, depends on the individual company. Yet, some holistic characteristics of the process have been discovered in scientific literature.

1.2 Poland as an emerging market

Poland has very high foreign direct investments (FDI) inflows, it has developed the infrastructure, liberated the market, and it can be considered as a country standing on the border between emerging and emerged countries.

Poland is one of the countries liberalized economically in 1989, when the former Soviet states became sovereign and independent. Since the fall of the Iron Curtain, Poland has refashioned itself as a model of free-market economics. From 1989 to 2007 its economy grew 177 percent (Bloomberg Business, 2013). It is the largest market among the former Eastern bloc countries of Central Europe with a huge amount of potential customers. The opening to foreign direct investment, and later entering the European Union, became the most important steps in country development. The economic growth had impact on population’s incomes and stronger purchasing power (Jansson and Sandberg, 2008).

Despite the fast growing economy and large inflows of FDI, as well as financial help from European Union, the purchasing power still remains one of the lowest in Europe. FTSE Group, organization creating stock markets indices, placed Poland as an Emerging market in their list publicized in march 2015 (Wyborcza, 2011).

The data below confirm that Poland is still an emerging country. There are large differences in minimal salaries, which is five times higher in Sweden than in Poland. Also there is almost five times higher GDP per capita in Sweden. The GDP per capita shows the relative performance of the countries. The high GDP per capita
index means high standard of living. The table above shows that it is five times lower in Poland. While Poland’s transition to a market-based economy has increased, some structural foundations still need reinforcement. The labor market remains rigid, and business regulations still lag behind standards. Membership in the European Union helps to ease trade restrictions and attract investment (The Heritage Foundation, 2015). Poland is the largest recipient of European Union’s structural and cohesion funds, with €72.9 billion pledged from 2014-2020. These funds will be given to support continued infrastructure development, environmental protection, and environmental remediation projects (Export, 2014). Poland has been indicated as one of 7 World’s best directions to invest in currently (Fortune, 2015).

Table 1 Poland’s economic data for 2013

<table>
<thead>
<tr>
<th>Factor</th>
<th>Poland</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimal salary USD</td>
<td>410,00</td>
<td>2134,00</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>11,3%</td>
<td>8%</td>
</tr>
<tr>
<td>FDI incomes(mln USD annually)</td>
<td>182 566</td>
<td>11 820</td>
</tr>
<tr>
<td>GDP per capita USD</td>
<td>13,653.7</td>
<td>60,380.9</td>
</tr>
</tbody>
</table>


1.3 Problem discussion

SMEs aspiring to internationalize are facing multiple difficulties due to limited resources, lack of industry legitimacy (Ojala, 2014), limited knowledge, high risk and uncertainty levels (Wiedersheim-Paul, Olson and Welch, 1978; Johanson and Vahlne, 1977; Jansson, 2007). The lack of knowledge about the targeted market, lack of network relationships, and inability to communicate in local language has been highlighted as the most influential obstacles in the process of internationalization. Managers and other decision-makers find it difficult to operate in environments which are not fully understandable. The level of ambiguities and uncertainty is higher in institutionally distant markets, like Poland towards Sweden. Ability to communicate efficiently, interpret properly attitudes, mindsets and gestures of business partners, might become crucial for successful cooperation.

Jansson (2007) states that in emerging markets B2B relationships begin from negotiating the price. When the price is agreed, other issues can be discussed. The
customers’ needs are shaping the demand, and therefore selling highly differentiated products in high prices requires providing large volumes of knowledge. On the other hand, companies from developed countries that want to maintain competitive advantage, provide innovate products according to their local customer needs. Successful firms conduct continuous research, innovation and flexibility to their production capabilities. Products consumed in developed countries may be difficult to sell in emerging markets; therefore they have to be tailored to local tastes as well as local spending power, and companies are advised to charge prices that local customers can afford (Jansson, 2007).

It is also important to understand how different the Polish market is, and what are the different rules that Swedish SMEs have to follow to be efficient. This is a cultural context, which embeds the company and its external environment (Jansson, 2007). It includes the cultural distance and psychic distance (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Ojala, 2014) between Poland and Sweden.

Entering emerging market with high quality differentiated product is difficult, as these markets typically compete on price (Prahalad and Hart, 1999). It is difficult especially for SMEs from developed countries, as they have higher production costs resulting from components prices and higher labor costs. These factors make it difficult to compete on price with local producers, who are usually able to imitate high technology (hi-tech) products. Intellectual property (IP) rights are insecure in emerging countries and quality is unreliable (Khanna and Palepu, 2013). Emerging markets are low-income economies, where customers are searching for low prices products or substitutes, or even imitations. The low IP protection and lack of trust creates additional shortcomings for business cooperation. The typical difficulties when entering emerging markets include fields of how to segment the market and relate to the low-spending power of the major parts of the market (Jansson, 2007).

Although Poland seems to have made an exemplary transition by creating a mature democracy, achieving the highest growth rate in Europe, and reducing the share of GDP stemming from government-owned activity from 100% to 33% within seven years (Garten, 1997) it is important to remember, that emerging markets are growth oriented, but also uncertain, complex and turbulent (Jansson, 2007). Political changes in Eastern European emerging markets have occurred in a result of reducing the Soviet influence after the demise of communistic system. In the context of development of Poland, radical, institutional changes that activated evolutionary adjustments in the Polish economy to meet the challenges of the international environment, was the systematic opening of the economy to foreign direct
investments (FDI). Market needs for foreign products led to opening domestic markets to foreign firms. New economic development and changes in political rules made it easier for international firms to enter the market (Hitt, Keats and DeMarie, 1998).

Institutional infrastructure of the Polish economy is still under development and it characterize with high complexity within bureaucracy. It is difficult for Swedish SMEs to operate in this maze of unexpected rules and actors. Institutional development is a complex and lengthy process shaped by a country’s history, political and social systems and culture. The process of creating well-functioning market in Poland is still undergoing. However, regulatory bodies such as national and local governments are far more influential in Emerging markets than in developed countries, because of the recent historic background of command economies or closed markets (Arnold and Quelch, 1998). Since Poland is former communistic state, it still has some regulations that have been introduced during the transition to protect the domestic economy, and some other legal regulations introduced in relation to its membership to European Union. These legal regulations are different from the open economies of developed countries in many aspects. They are more complex and bureaucratic, and therefore difficult to follow for Swedish companies. Therefore, Swedish companies entering Polish market might find it very difficult to operate in this environment.

The most important factor influencing trade is indicated as the ease with which buyer and seller can come together to do business. In developed markets there is a range of specialized intermediaries. In emerging markets it is difficult for buyers and sellers to find each other (Khanna and Palepu, 2013). According to Cassia and Magno (2015) the main institutional barrier affecting business-to-business companies entering EMs is the lack of locally developed sales and after-sales networks. Emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together and this is prime source of higher transactional costs and operating challenges.

Many companies from developed countries realized the potential of Polish market, which can be seen in the FDI growth, especially after its entrance to the European Union (Sandberg, 2012). Competition has been growing, as there have been more global players entering the market. The choice of proper strategy influences the whole process of internationalization and the company’s performance in the new market. In this atmosphere of delimitations, companies have to create a strategy to enter a new market efficiently and achieve sustainable competitive advantage in the market. The
essence of creating a strategy is to make the most effective use of its core resources and capabilities (Grant, 1991).

1.4 Research Question

Main research question: How can Swedish SMEs enter the Polish market efficiently and achieve competitive advantage with energy saving solutions?

Sub-question 1: What external environment do these companies experience when entering the Polish market?

Sub-question 2: What internal resources of such SMEs are required to achieve competitive advantage in Polish market?

Sub-question 3: What are the key success factors when entering the Polish market?

1.5 The purpose

The purpose of this paper is to examine external environment, as well as define and describe internal resources which impact the process of internationalization and identify success factors influencing the process, and based on that provide recommendations for the Swedish SMEs aiming to internationalize their operations in Poland.

1.6 Delimitations

The authors delimitate the research to Swedish SMEs entering housing industry of Polish market. The study is placed in housing industry context. Industrial context will be limited to housing environmentally friendly solutions for interior decoration and construction with focus on wood, and energy saving systems and heating systems.

The authors will analyze the situation of three Swedish SMEs producing high-quality products and operating internationally. The products related to heating segment can be considered as advanced technologically and innovative. Products provided by the Swedish sawmill are environmentally friendly and produced in use of innovative technologies.
The study will focus on the specifics of the emerging market of Poland. The context of the study will be energy saving solutions for the green housing industry.

1.7 Thesis outline

After the introduction chapter, the thesis follows the outline as showed in Figure 1.

Figure 1: The thesis outline.
2. Methodology

2.1 Research Approach

Scientific literature provides a profound presentation of three types of research approaches that are deductive, inductive and abductive (Alvesson and Sköldberg, 2009). According to Dubois and Gadde (2002) definition, deductive approach is starting from current theories to develop propositions that are in progress and make them can be tested in the reality. Inductive approach is starting from data which derives from the real world. Abductive approach is going in between current theories and empirical materials. It supplies a better understanding of research objectives. Alvesson and Sköldberg (2009) also mention that abductive approach is combined with deductive and inductive research approach.

The researchers employed inductive approach (from the reality) as starting point to conduct this study. The starting point of this research is induction. It begins from the reality that some Swedish SMEs have had operations in the Polish green construction industry. Some other Swedish SMEs are interested in and seeking for appropriate opportunities to enter Poland to internationalize. In order to give convincible recommendation to companies which are interested in entering the Polish market in the future, the authors interviewed representatives of firms which have entered Polish market. Then, the researchers adopted abductive research approach to go in between empirical findings and theories to analyze the project. The researchers used theories to support the observations of empirical materials. During the process of interviewing, the researchers adjusted the appropriate theories to mutually match empirical data and theories. Therefore, the researchers are able to precisely answer research questions and valuable suggestions to this project.

2.2 Research Method

As to this study, the researchers employed qualitative research method rather than quantitative research method. The reason why is that quantitative approach is usually applied in natural science field (Strauss and Corbin, 1998). Analysis of quantitative approach is concerned with numbers and database (Denscombe, 2010). Quantitative approach is a solution to research questions that involve the quantity (Merriam, 2009). Additionally, qualitative research is relevant to understand individuals’ interpretation of their experiences, including how they perceive circumstances where they deal with
as well as experiences what they gain (Denscombe, 2010). Denscombe (2010) also says that qualitative research is related to small-scale study, which is able to be fully described.

This study is concerned a small-scale research which the researchers intend to find out convincible answers to “how these three selected Swedish SMEs to internationalize and operate in Polish market”. The study consists of understanding of Polish market where the firms have operations and interpretation of international experiences that firms get. Moreover, the background of this research project is related to unstable situation and changeful environment (Arbnor and Bjerke, 2009). From these aspects, qualitative research method is more appropriate to this study.

2.3 Research Strategy

Five research strategies can to be employed when conducting research, they are: experiments, surveys, archival analysis, histories and case studies (Yin, 2014). As Yin (2014) states, the choice of research strategy mainly depends on research questions. Additionally, Yin (2014) defines case study strategy as an in-depth investigation that inquires contemporary phenomena in the reality. Denscombe (2010) says that case study approach has been widely used in social research. In addition to that, case studies are applied when “the major research questions are questioned by ‘how’ or ‘why’; when researchers are lack of control over behavioral events; and when the study is centered on contemporary topics or phenomena (Yin, 2014). Merriam (2009) states that case studies are able support a better understanding of complicated phenomenon to researchers. In contrast, it can study things more detailed than other strategies (Denscombe, 2010).

For this research, the authors adopt case study research strategy as it is a suitable option to answer this study research question of “how”. This study investigates the contemporary phenomenon that increasing SMEs intend to internationalize to enter foreign markets in the reality that Swedish SMEs intend to enter Polish market. The main research question of this study is Swedish SMEs. Moreover, researchers do not have strong control over accidental events in the study. Based on the above reasons, case study is an appropriate strategy to conduct this study.

2.3.1 Case study design

After deciding to employ case study research, authors need to consider that how many cases to be applied next. According to Yin (2014), single case study or multiple case
studies approaches are available to employ. Obviously, single case study means that empirical data is gained from just one case. Multiple case studies mean that empirical materials are obtained from two or more cases (Merriam, 2009). Yin (2008) states that multiple case study is beneficial to improve the quality of research.

In this research, multiple case study is adopted. Applying multiple case study facilitates researchers achieve more convincible research results since it possesses more empirical data to be analyzed. The purpose of this paper is to give reliable and practical recommendations to those Swedish SMEs which have not internationalized and entered Polish market. Through gathering and comparing successful experiences from multiple SMEs which have been in Polish markets is more feasible to get holistic results to this study. After comparison, the common successful international experiences are available to use as reference for companies which have not entered new markets.

2.4 Selection of Case companies

How to select suitable cases is vital to ensure the outcomes and quality of the study. Denscombe (2010) states the selection of a case “needs to have fairly distinct boundaries”. Researchers should possess the ability to select one or a few appropriate cases among a wide range of instances (Denscombe, 2010). When selecting cases, two principles could to be applied. The first is that researchers have known attributes of the selected cases. The second one is that the selection criterion is explicit and justified (Denscombe, 2010). The researchers have two criteria when selecting Swedish companies: size and segment or industry. In order to support convincible outcomes, authors prefer to select SMEs which have successfully been internationalized in Poland. Also have non-established firm which has internationalization experience in similar countries.

Sustainable Sweden South-East and Sweden Business offer the authors a list of Swedish SMEs that have been operated in Polish market or have planned to operate in Poland. All of the companies operate related to the green and energy-saving housing industry. When sampling the cases, researchers could select according to convenience and purpose (Merriam, 2009). Originally, the authors select cases based on purposeful sampling, which is based on the purpose of this project. In order to understand Polish market in depth and provide reliable information about differences, rules and conditions, those selected firms are the most suitable to meet the requirements for data collection. Convenience sampling is based on restriction of location, time, etc. (Merriam, 2009). During the process of ensuring interview firms, the researchers
employed convenience sampling approach. Baryard, who is the representative of Sustainable Sweden South-east assisted authors to contact with listed firms, took factors of location and availability of the interviewee into consideration which involves convenience sampling, the authors got three Swedish SMEs owners to interview.

2.4.1 Company presentation

The authors provide the presentation of selected case companies at the following table.

Table 2: The presentation of the selected case companies

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Segment</th>
<th>Location of the company</th>
<th>Number of employees</th>
<th>Interviewee</th>
<th>Date of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euronom AB</td>
<td>Heating (and cooling) System</td>
<td>Kalmar</td>
<td>9</td>
<td>Åke Hjort</td>
<td>12th of May</td>
</tr>
<tr>
<td>Lars Carlsson Trävaru AB</td>
<td>Wood</td>
<td>Älmeboda</td>
<td>14</td>
<td>Anders Carlsson</td>
<td>13th of May</td>
</tr>
<tr>
<td>Gabriel Keramik AB</td>
<td>Heating (and cooling) System</td>
<td>Timmernabben</td>
<td>20</td>
<td>Lars Burmeister</td>
<td>18th of May</td>
</tr>
</tbody>
</table>

2.4.2 Interviewees presentation

Åke Hjort is the owner and director of the company. He founded the company in 1979. He is responsible for R&D of developing new products and business development in foreign markets. His bachelor domain is Mechanical and Material Engineering, master program is Nuclear Steam Supply Systems. He possesses rich and professional knowledge and experience.

Anders Carlsson is a part owner of the company together with his brother. He is responsible for production supervisory, logistics and sales. He is educated House Building Engineer, graduated from University in Växjö. He started working for the company twenty years ago, at a very low position, when he was a teenager. His experience includes production routines, deep knowledge about the product, and administration and management knowledge.
Lars Burmeister holds the position of Managing Director, and part-owner. He is responsible for business development in foreign markets. He has been working in the company for 20 years. Before that, he lived abroad in Australia for 16 years, working for large multinational Swedish corporations such as IKEA and Atlas Copco. He has wide professional experience in international trade (sales, import, export). Before he joined the company, it specialized in making small ceramic decorations like cups. Due to his entrepreneurial insights, he introduced the new product of ceramic stoves and begun international expansion.

2.5 Data collection

Collected data for researches could be primary data and secondary data. According to Denscombe (2010), social researchers widely use four ways to collect data, they are: questionnaires, interviews, observation and documents analysis.

In the early stage of the data collection process, the authors have divided the companies into three segments and investigated the groups of companies within each segment: segment of housing, design and construction – focusing on wood, segment of heating and cooling systems and solutions and segment of energy efficiency and energy saving. The authors would collect both primary data and secondary data to use.

2.5.1 Secondary Data

Secondary data is the information that usually collected by other researchers or organizations (Merriam, 2009). The main source of secondary data is previous documents. In this paper, secondary data is regarding Polish institutional aspects, internal and external strategic fit, including information of competitors, potential customers, governmental and EU regulations and financial-support programs, which primarily gathered from published articles, company documents or databases.

2.5.2 Primary Data

Primary data is mainly gathered by direct interviews and observation (Yin, 2014). In this study, the researchers collected primary data from on-site interviews with selected cases interviewees in Sweden. Primary data is also regarded as a main source of data. This study is concerned with international experiences, by face-to-face interview is valid to know about case companies internationalization process which is crucial to research this project.
In order to understand the external environment in depth, the researchers made a field research to collect primary data in Poland. This research was conducted in Bartycka Housing Trade Center in Warsaw, Poland. According to selected research companies, the authors researched from three different segments which match the case companies’ products, they are: wood dealer, heating pumps and stoves. The transcripts of interviews of this field research are provided in Appendix I.

2.5.3 Interviews

The authors decided to conduct this study and collect data by interviews. As Denscombe (2010) defines, “interview is an attractive proposition to project researchers”. It involves open meetings aiming to generate valuable data to meet requirements of research purpose (Denscombe, 2010). If the researchers’ purpose is to gain implicit information like interviewee’s experiences and feelings, interview approach is more suitable to the study (Denscombe, 2010).

There are many forms of interview, for instance, structured, semi-structured and unstructured interviews (Merriam, 2009; Denscombe, 2010) which are common. Structured interview is seen like a questionnaire, which includes a series of prepared questions with limited options to the respondents to reply. It is more suitable to collect large scale data (Denscombe, 2010). Unstructured interview conducts as interviewers start from introducing the topic, then give initiative to interviewee(s) to express their ideas or experiences (Merriam, 2009; Denscombe, 2010). However, researchers are easy to lose control of interviews. Semi-structured interview involves a list of open-ended questions and the order of asking questions is flexible (Denscombe, 2010).

In this research, authors determined to employ semi-structured interview as the purpose of this study is to understand interviewees’ internationalization experiences. Open-ended questions are appropriate to gain complete answers that cover necessary aspects. Before implemented the interview, authors designed a question guide which matches points of theoretical framework. It is offered in Appendix II.

Supervisor helped authors to examine and revise interview guide in order to conduct high-quality interviews. The researchers implemented on-site interviews at each company. Each interview spent approximately two hours. In order to ensure the outcomes of interviews, interviewers paid more attention on communication with interviewees to achieve each point. The interviewers were approved to record each conversation.
2.6 Data Analysis

During the whole research process, data analysis has lot difficulties in conducting (Merriam, 2009). Yin (2014) states data analysis comprises test and examination evidence to answer the research questions of the study. Yin (2014) also provides five techniques to be adopted when analyzing data from cases, consisting of pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis.

In this paper, the researchers analyzed empirical data by using technique of pattern matching. It contrasts empirically investigated pattern with theoretically predicted pattern. If these are matching, it facilitates improve the internal validity of the study (Yin, 2014). The authors adopted abductive approach with induction as starting point to analyze data, which is combining examining theories and empirical findings. The researchers employ gathered empirical materials to apply to the theoretical framework, in order to find if there exist expansions or new explanation to the employed theories.

2.7 Research Quality

It is significant to researchers to obtain convincible and valid outcomes after conducting the research. In terms of validity and reliability is usually to be employed to test the quality of research. There are three specific strategies to adopt, these are: internal validity, external validity and reliability (Yin, 2014).

2.7.1 Internal Validity

The internal validity, compared with the reality, is concerned with how accurate the research outcomes are (Merriam, 2009). Researchers ought to measure the accurate degree of the research findings. Merriam (2009) provides three strategies to enhance the validity of research findings: triangulation, validation of the respondent and peer review. In qualitative research, triangulation is regarded as the most widely used strategy. Merriam (2009) defines triangulation as utilization of multiple investigators, multiple sources of data and multiple methods to confirm findings. Additionally, selected theoretical propositions come from different researchers and perspectives. For instance, the authors use both RBV and IO view of strategy.

To make sure internal validity of this study, the authors utilized multiple researchers which entire study is done by two authors all the time, including a Polish author is
more familiar with local situation. Collected data includes both primary data and secondary data. Moreover, the researchers grasped the opportunity of seminar and supervision which contributes to get inputs from peer review. Therefore, the internal validity of this study is improved.

2.7.2 External Validity

According to Merriam (2009), external validity is defined as what extend the outcomes of a research can be adapted to other context, concerning whether it can be generalized in terms of time, location, etc. Similar to enhance internal validity, Merriam (2009) also provides two strategies to strengthen the external validity. The first strategy is utilizing highly descriptive and detailed data of the outcomes of a research (Merriam, 2009). The second one is purposefully based observe in the cases selection which involves a wider scope.

By interviewing appropriate candidates in depth, the authors possess the competence to represent the internationalization experiences and the differences between Swedish market and Polish market in detail in the empirical findings. Based detailed materials on the empirical data, the authors offer sufficient description in the analysis and conclusion chapters to give convincible recommendations to those Swedish SMEs have not internationalized and entered in Polish market with similar segments, which will increase generalizability and external validity to this study.

2.7.3 Reliability

Reliability refers to the extent to which the research findings can be replicated if the research is done again and totally follows the same approach (Merriam, 2009). The purpose of reliable research is to minimize faults and avoid misunderstanding as well as bias (Yin, 2014). It is difficult to have the same research result when conducting a qualitative research as human behavior and experiences vary all the time (Merriam, 2009). Until in detail recording the conduct of the research, then next researches strictly followed in the same way can obtain the same result (Yin, 2014). Merriam (2009) describes keeping an audit trail and using triangulation are two approaches can enhance reliability of research. Audit trail refers to offer description in detail and documentation of data collection process and its analysis (Merriam, 2009).

The recordings of interviews and documentation of collecting data process are preserved by the authors. As a start point of the project, this paper achieves reliable results and lays a foundation for the following further research.
3. Theoretical Framework

3.1 Strategy

The strategy formulation provides answers to two strategic choices: where to compete and how to compete. In order to formulate strategy, organizations need to identify and interpret strategic issues. This process involves scanning, selecting, interpreting, and validating information and establishing priorities among issues (Schneider, 1989). Providing an organization with a common purpose, goals and a set of actions to reach the goal ensures that everyone is working for the success. Strategy is the mean by which organizations achieve their objectives (Grant, 2013).

The strategy can be interpreted as positioning, which concerns competing for the present reasons of competing (product market scope, geographical scope, vertical scope) and ways of competing (what is the basis for the company’s competitive advantage). Second type of strategy is the direction, which concerns preparing for the future, and includes vision statement, mission statement and performance goals, and also guidelines for development and growth modes (Grant, 2013). It provides a guide to operate between potential relationships that the company might engage in. Building and maintaining networks of relationships in emerging markets is the critical strategic issue (Jansson, 2007). The strategy facilitates clearer understanding of the organization for employees and factors that are required for them to succeed. It helps organizations to understand their core capabilities, identify and address weaknesses, mitigate risks and focusing on the right things.

Two major theoretical approaches have been investigated in the scientific literature in relation to SMEs internationalization process: the industrial organization theory (IO) and the resource-based view theory (RBV).

3.1.1 Industrial Organization View

The Industrial Organization (IO) is the traditional approach, which was founded by Porter (1980) and it states that the firm’s strategy should target either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies, and the company is advised to choose only one of them. This perspective suggests that SMEs which are not able to compete on price, should implement differentiation strategy. They can choose between general differentiation and differentiation with focus on one
segment. Porter defined only two specific and opposite types of competitive advantage: cost-advantage and the differentiation-advantage (Porter, 1980).

This concept has dominated the scientific literature at the beginning. It emphasizes external analysis of global markets, as exemplified by the Porters Five Forces framework of the external environment analysis (Zou and Cavusgil, 1996). Competitive advantage derives from firm's ability to handle Porter’s five forces: rivalry among existing competitors, threat of new entrants, bargaining power of buyers, threat of substitute products, bargaining power of suppliers (Porter, 1980). This theory is based on the stakeholders’ behaviors and attitudes, and analyses external environment and the company’s relation towards five external forces. It is important to note at this point that globalization increases the number of stakeholders, thus it makes it much more difficult to identify and analyze competitors (Hitt, Keats, and DeMarie, 1998).

There have been identified two assumptions in the IO-based theory of strategy (Barney, 1991):

- firms within an industry or a strategic group are identical in terms of the strategic resources that they control.
- if resource heterogeneity should develop in an industry or a strategic group, perhaps through new entry, this heterogeneity would be very short-lived because the resources which firms use to implement their strategies are highly mobile (Barney, 1991).

These two assumptions in effect treat the firm as an abstract economic entity and often as a black box, not as a social institution with an economic purpose, for which the external environment imposes requirements to which a business must adapt. It is important to note that this perspective has neglected internal characteristics as drivers for economic performance (Zou and Cavusgil, 1996).

3.1.2 Resource Based View

The scientific literature discovered that business performance not only depends on its market positioning among other market players and that internal organizational characteristics also play an important role, and therefore analysis of the IO perspective only can lead to incomplete explanation of global strategy and performance (Zou and Cavusgil, 1996).
The resources based view became very popular recently among researchers examining SMEs organization process. RBV based strategies are founded on internal analysis of the company, on its own resources and competencies, which especially depend on knowledge that the company already possess and its ability to absorb new knowledge and to learn efficiently (absorptive capacity and path dependency). The new competitive landscape and globalization created the demand for more innovative approach to strategies, especially for those small companies, who are not able to compete either on price or differentiation.

The resource-based view of strategic management focuses on sustainable and unique attributes of the firm, which are difficult to imitate (Barney, 1991). RBV recognize the importance of intangible knowledge-based resources in providing a competitive advantage (Johanson and Vahlne, 1977). They address not only the ownership of resources, but also the dynamic ability for organizational learning required to develop new resources (Zou and Cavusgil, 1996). This has led to an improved understanding of firms’ diversification strategies.

Scientific literature highlights importance of resources such as strategic leadership, dynamic core competences, focusing and developing human capital, effectively using new technologies, and employing valuable strategies (Hitt, Keats, and DeMarie, 1998).

In contrast to the IO-based theory, the resource-based theory views internal organizational factors as the determinants of strategy and performance. Unlike the IO-based theory, which argues that competitive advantage can be sustained by the firm’s conduct in response to industry structure, the resource-based theory contends that product distinctiveness or low cost are tied directly to distinctiveness in the inputs (resources) used to make the product (Zou and Cavusgil, 1996). The source of competitive advantage is difficult to copy resources (Barney, 1991) rather than monopoly power or market position which brings persistent, above-normal earnings to the firm.

3.1.3 Combination of IO and RBV

To provide a complete explanation of the forces driving performance in foreign market, both theoretical perspectives must be utilized. In the scientific literature there has been limited attempt to integrate the diverse perspectives of global strategy, the independently developed IO and the resource-based theoretical views (Zou and Cavusgil, 1996). The literature points out that RBV can be considered as alternative
towards the traditional IO according to views on competitive advantage interpretation. There are at least three alternatives: positioning the resource-based view relative to IO-based theories of competitive advantage (Porter, 1980), positioning this view relative to neo-classical microeconomics, or positioning it relative to evolutionary economics (Barney, 2001).

The IO-based view base on external environment analysis and the resource-based view focus on the internal environments, which mean that they can be considered as complementary perspectives. The merge of the IO-based theory and the RBV theory provides an integrated framework of global strategy. Incorporated in the framework are both external industry globalization drivers and internal organizational factors. Furthermore, both external globalization forces and internal organization factors must be considered in developing theories or formulating an effective strategy for competing globally (Zou and Cavusgil, 1996). The framework that the authors are going to use in this paper is based on the dominating theories of scientific literature in the field of internationalization. The authors have created this model, which is based on the model of Grant (2013) and Jansson (2007).

The framework will be utilized to analyze both internal resources and external environment in relation to the clear goals establishing for entering specific market, and factors influencing effective implementation of the entrance strategy. These features are leading to a successful strategy, which is a source of the competitive advantage within the market.

Figure 2: Combination of IO and RBV, based on Jansson (2007) and Grant (2013) theories
3.2 External environment

It is important to understand which features of the external environment are relevant to strategy formulating. Grant (2013) highlights that the core of firms' business environment is formed by its relationships with three types of players: customers, suppliers, thus also ability to maintain good relationships with them, and competitors (Grant, 2013).

External environment of emerging country markets is complex and dynamic, and therefore it is crucial to analyze it in order to understand it before taking a risk of investment. The dynamics of external environment and its continuous changing creates uncertainty. A company has two options for handle the environmental complexity: to absorb it or to reduce it (Jansson, 2007). Complexity reduction means following own, well-known routines. Complexity absorption means networking with people that are having useful connections and following the given market rules. Collecting information and creating an information network about the complex environment as well as correct interpretation can reduce complexity. The knowledge about environmental developments, potential partners for the network and institutions understanding can be achieved by scanning and analyzing the market environment (Jansson, 2007). Knowledge about external environment can be divided into three categories: events, trends and patterns, and structure.

One of tools to understand the external environment is institutional perspective of the networks, which makes the environment more predictable (Jansson, 2007). Institutions provide "the humanly devised constraints that structure human interaction" which can be called “rules of the game” (Peng, 2003). The crucial issue here is the ability to manage information that is accessible but difficult to interpret. Institutions are able to reduce uncertainty in the meaning that they decrease complexity and increase predictability. Institutional analysis provides an approach to interpreting, understanding and managing the external environment.

3.3 Internal resources

The term “resource” is used in a very broad sense by the theorists and it can be defined as assets, capabilities, organizational processes, business attributes, information, knowledge, and so forth, controlled by a firm and enabling it to conceive of and implement strategies which improve its efficiency and effectiveness (Zou and Cavusgil, 1996). Resources in general can be considered as stocks of available
tangible or intangible factors that are owned or controlled by the firm and converted into products or services, using a variety of other resources and bonding mechanisms (Ruzzier, Hisrich and Antoncic, 2006). Grant (2013) recognizes three types of resources:

- **Tangible resources**: financial, physical
- **Intangible resources** (organizational capital): technology, reputation, organizational culture and brand
- **Human resources**: skills, know-how, capacity for communication and collaboration, motivation

Characteristics of the most important resources include features such as: superior in use, hard to imitate, difficult to substitute, and more valuable within the business than outside. This kind of resources can arise from experience which create internal skills and routines or from acquiring them from outside of the firm (Grant, 1991).

The most appropriate types of resources to examine in strategy research are the skills and organizational routines which drive business activities. These are features that are underlying the firm’s ability to link activities or share them across units. The resource-based theory recognizes firms’ physical resources as the important drivers of strategy and performance. It places particular emphasis on the intangible skills and resources of the business as the main driver of competitive choice (Barney, 1986).

However, it is difficult to identify and define the most important resources for the successful internationalization. Network provides resources for internationalization (Ruzzier, Hisrich and Antoncic, 2006), due to mergers and cooperation of two firms. This also generates, or integrates, tacit knowledge between individuals engaged in the network. It can be also seen as a resource. This kind of interaction is the foundation for internationalization model of Uppsala, where experiential knowledge (tacit) leads to increased market commitment.

Barney (1991), for example, argued that resources must be valuable, rare, imperfectly imitable and not substitutable, while Grant (1991) proposed that resources must capture durability, transparency, transferability, and replicability.

It is important to recognize the practical role of the external resources towards internal resources. External resources are considered to be factors influencing development of the firm’s internal resources, such as relationships with various expert organizations, research institutions or universities, activities traditionally associated with
co-operation in any field from R&D to international, including after-sales services (usually in the form of alliances between firms), where both partners share an interest in developing resources jointly (Ruzzier, Hisrich and Antoncic, 2006).

3.4 Strategic fit

A strategic fit (Grant, 2013) or referred as matching (Jansson, 2007), is the degree of consistency between external environment and internal resources and capabilities. Porter (1996) states the important status of fit that the firm’s competitive advantage derives from the way “its activities fit and reinforce one another”.

As to the conceptualization of strategic fit, there are two primary orientations to characterize it: descriptive and normative (Venkatraman, 1990; Xu, Cavusgil, and White, 2006). The descriptive orientation presents “the relationship which existing among a series of theoretically relevant variables without the linkage to performance”. The focus of this perspective is searching which patterns can make firms survive (Xu, Cavusgil, and White, 2006). By comparison, the normative concept perspective specifies the linkage between fit and performance. The focus of this aspect is about Etzioni’s (1961) proposition that congruent organizational types are more effective than incongruent ones (Venkatraman, 1990; Xu, Cavusgil, and White, 2006).

When a firm intends to perform well, contingency theory states that external context and internal structure have to somehow fit together (Gammeltoft, Filatotchev and Hobdari, 2012). Understanding what the characteristics of the external environment are is important to prepare an efficient strategy that will ensure long-term profit and growth. The fit operations are able to shorten the expenditure or enhance the possibility of differentiation (Porter, 1996). The strategy has to incorporate broad, strategic direction but also specify how can activities such as sourcing, R&D, manufacturing, and marketing be coordinated and integrated across borders (Zou and Cavusgil, 1996). This is important due to achieving and maintaining direct relationships within networks with the customers and suppliers and other stakeholders. In order to achieve strategic fit, decision-makers within firms must unremittingly struggle to match organizational goals with the external environment (Hambrick and Canella, 2004; Sirmon and Hitt, 2009).
3.5 Competitive advantage

Competitive advantage over competitors derives from efficiently implemented business strategy. The competitive advantage can be achieved either when the company has a natural, social or economic advantage towards its competition or when it has the potential to earn a higher profit. When the competition successfully implements the same competitive advantages, the company has to implement a sustainable competitive advantage. The definition of sustainable competitive advantage is according to Jansson (2007) when the competition is unable to duplicate it. The reason for strategy formulation is increased profitability. And the tool to increase profitability is to achieve competitive advantage. There is a strong linkage between resources, capabilities, competitive advantage and profitability (Grant, 1991). But the fast changing and thus highly demanding competitive landscape creates new meaning of competitive advantage. The theory of competitive advantage assumes that it exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). According to Barney (1991) the competitive advantage can derive from resources that are scarce and valuable at the same time, and if these resources are also difficult to duplicate, substitute and hard to deliver, they can sustain the advantage. Competitive advantage occur when an organization acquires or develops combination of attributes that allows it to outperform its competitors, like for example highly trained and skilled personnel human resources (Wang, Lin, and Chu, 2011).

Competitive advantage derives also from changes and relies on the firm’s ability to respond to them (Grant, 2013). From the outer changes aspect, the ever-accelerated updating of science and technology, the growing diversified buyers demand and varying prices. The inner changes mainly originate from companies own innovation. The emphases on price, quality, satisfaction of customer’s needs, and increasing focus on innovation create a phenomenon of hyper competition.

Therefore in order to achieve and maintain competitive advantage, companies have to implement a strategy, which might be based on the internal resources of the company (resource based view) or the external environment analysis. Both approaches provide different types of strategies, all equally aiming in achieving competitive advantage. The choice of an entry mode influence also company’s performance in the foreign market.
3.6 Internationalization

3.6.1 Internationalization process of SMEs

SMEs are currently becoming an important type of actor in the global market. The internationalization becomes possible for the resource-poor companies due to technological advances and lowered trade barriers between countries (Jansson and Sandberg, 2008). The urgency for internationalization derives from the need of overcoming challenges related to a small domestic market, niche product offerings, and a consolidated retail sector. However, it takes more time and efforts for SMEs to internationalize (Wismiarsi and Shihab, 2014).

Internationalization is a process in which firms gradually increase its international involvement (Johanson and Vahlne, 1977). One of the most popular models of internationalization is the Uppsala model developed by Swedish researchers (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). They investigated the process of internationalization based both on knowledge and resources, and given a cultural context, explaining that companies tend to enter similar markets first in order to minimize risk and complexity. The Uppsala model focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and additional commitments to foreign markets, in a context of recognizing the importance of psychic distance and trust (Johanson and Vahlne 1977). The model states that the internationalization can be pictured as a process of increasing international involvement as a result of different types of learning, where general and experiential market knowledge and resource commitment affect decisions and current business activities. Firms increase their international involvement in small incremental steps within those foreign markets in which they currently operate (Ruzzier, Hisrich and Antoncic, 2006). The four sequential steps are called the Establishment chain: export, intermediary, subsidiary, production plant. The scientific literature concerning SMEs internationalization recognizes the establishment chain as the most relevant order of SMEs activities when entering new markets (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Because of increasing attractiveness and profits and the trend of global business, internationalization represents the general trend of firms, including both large-scale firms and small-scale firms. Large-scale enterprises not just possess the advantage of sufficient and global resources and competences, valuable and related knowledge and experience as well as the extensive network due to the previous foreign units, also the ability to escape the uncertainty and high risk. In contrast SMEs possess limited knowledge about certain
international markets, narrow connection with international networks, and SMEs entrepreneur behavior circumscribed by little international experience (Kalinic and Forza, 2012). They also have disadvantages in terms of handling barriers to internationalization such as limited capital and management system, lack of time, experience, information resources, and environmental restrictions (Jansson and Sandberg, 2008). For SMEs, for lack of necessary resources, experience and networks, the entrepreneur behavior can become the most crucial element of the development process.

3.6.2 Entry strategy

3.6.2.1 Entry modes

Before companies begin operating in foreign markets, they ought to have an entity which represents itself to operate its business affairs. In other words, when a firm decides to enter a new market, it should choose and employ a type of entry modes among several choices. Such as export, including direct export and indirect export, joint venture, contractual agreements (e.g., licensing and franchising), or setting up a wholly-owned operations through acquisition or investment from the beginning (Pan and Tse, 2000; Laufs and Schwens, 2014). The choice of option is crucial to the company’s future development in the overseas market. Laufs and Schwens (2014) mention that the selection of entry mode into foreign markets would have impact on the degree of commitment, especially for SMEs.

When a firm decides to enter new markets, afterwards, it should choose and employ a specific form among several choices to operate in foreign markets. Entry mode is a core topic of internationalization research field. Laufs and Schwens (2014) mentions that the selection of entry mode into foreign markets would have impact on the degree of commitment, especially for small and medium-sized enterprises (SMEs). Moreover, the option is crucial to the company’s future development in the overseas market.

Primary entry modes are export, joint venture, license and franchise, acquisition an existing firm, as well as wholly owned organizations. Different researchers have diversified classification of modes for entering a foreign market. For instance, Pan and Tse (2000) group these entry modes into two major types: equity-based modes (including wholly owned operations and equity joint ventures) and non-equity-based modes (involving contractual agreements and export). However, Cavusgil, Ghauri and Agarwal (2002) divide entry modes into three forms: export, contractual agreements
and investment. Authors adopt a four-type-mode method which includes export, contractual agreements, joint venture and investment to conduct this thesis.

Export mode

Export modes consist of direct export mode and indirect export mode. Direct export relates to firms directly sell products to foreign markets through local importers or intermediary, such as agents or distributors. Indirect export mode refers to firms supply products to local exporters like intermediary, and then local exporters take responsibility to sell products to foreign markets.

During the internationalization process, exporting is one of the most popular ways chosen as the first step by firms to enter and operate in foreign markets. In the Uppsala model, exporting is regarded as the first step of internationalization process (Johanson and Vahlne, 1977). Due to lack of operational experience and experiential knowledge about the local market, in order to possess these necessary knowledge and experience, firms have to employ exporting which facilitates firms to increase sales growth, as the initial operations in new markets.

Contractual agreements mode

Contractual agreements traditionally involve two types, which is licensing and franchising. These modes need relatively low resource commitment (Hill, Hwang and Kim, 1990). Hill, Hwang and Kim (1990) say that contractual agreements would block a company’s resource commitment to monitoring the staff in their new work circumstance.

Joint venture mode

Joint venture mode refers to associate with resources and capabilities of two firms and establish a new enterprise (Harrigan, 1986). It is a practical access to gain complementary resources and capabilities from each other. Moreover, through joint adventure is able to share risk and cost between the two parties. However, it is possible that internal circumstance of the company with low control, both side employees may have divergence and conflicts. The degree of resource commitment required in a joint venture is uncertain. It lies on the form of joint venture (i.e., minority, majority, or equity joint venture) (Hill, Hwang and Kim, 1990).
**Investment mode**

Investment mode is formed from setting up wholly-owned operations through acquiring an existing firm or greenfield investment from scratch (Pan and Tse, 2000; Laufs and Schwens, 2014). Acquisition entry mode means that a company enters a host country market through acquiring the equity of an existing local firm (Fong, Lee and Du, 2014). In contrast to other entry modes, acquisition is the easiest form to possess the vital local resources and capabilities which have difficulties to access internally (Chen and Hennart, 2004). Acquisition is considered to possess deeper extent of host country identity which may shorten the foreign entrant’s home country identity. Compared with acquisition, the latter type requires higher degree of resource commitment. Since internationalized company has to undertake overall expenditure of setting up a new company and operating in new markets (Hill, Hwang and Kim, 1990).

![Figure 3: Continuum of entry mode strategies, adopted after Gollnhofer and Turkina (2015)](image)

3.6.2.2 *Entering emerging markets*

The choice of both entry modes and total strategies differ depending on the type of targeted markets. The global players enter as many markets as possible, but their strategies toward each country market may be different. The success of expansion to low-income markets is influenced by recognizing that patterns of economic development in developed countries may not be relevant in these environments (London and Hart, 2004).

Emerging countries have an adolescent market economy in comparison with more mature markets, and they are still transforming through liberalization and privatization processes (Jansson, 2007). They characterize by low and middle-incomes when analyzing level of poverty, low average living standards, low market capitalization relative to GDP, low stock market turnover and low sovereign debt ratings, economic liberalization, open to FDI, recent economic growth (Khanna and Palepu, 2013). Therefore it is crucial to understand the differences when formulating a strategy, and preparing plan of expansion to emerging markets.
3.6.3 International network and knowledge

Scientific literature recognizes two key factors influencing internationalization process: knowledge and international networking (Kalinic and Forza, 2012; Johanson and Vahlne, 2009). Traditional SMEs are considered at low speed internationalization, unless they possess a broad international network (Kalinic and Forza, 2012). Therefore commitment in existing networks and achieving a position in a network is critical for the success of the process. The major obstacle in internationalizing is the liability of outsidership and foreignness (Johanson and Vahlne, 2009). This risk is an important issue to overcome in the internationalization process. The outsidership position could prevent the firm from developing any business or ability to begin the process of internationalization.

The network perspective to internationalization process provides an appropriate framework for understanding firms as embedded actors in business networks. According to the network approach internationalization is seen as a process in which relationships are continuously established, developed, maintained and dissolved with the aim of achieving objectives of the firm (Ruzzier, Hisrich and Antoncic, 2006). Networks make market entry possible even in very distant markets (Ojala, 2009).

Except the importance of commitments in foreign networks, literature highlights also importance of acquiring existing knowledge and experiential knowledge, which can be critical in the process of internationalization (Johanson and Vahlne, 2009). This kind of knowledge is highly tacit and can be learned only from previous experience. What is more, experiential knowledge provides the framework of perceiving and formulating opportunities. It relates to the company’s experience and decision-makers’ experience, and it can be considered as a result of absorbing, transforming and integrating experience into useable knowledge.

Experiential knowledge is crucial and critical in internationalization process, as well as for firms who already operate internationally. There are two types of experiential knowledge: general knowledge and market-specific knowledge. General knowledge refers to, marketing methods and mutual characteristics of certain types of customers. The market-specific knowledge relates to features of the firm’s external environment, thus relationships with important market players. Trust plays an important role in recent research on relationship development and commitment building, thus also creating business networks. Trust can substitute for specific national market, which the firm decides to enter, such as its business mores, cultural patterns, the structure of the market system, and traits of the individual customer firms and their personnel.
For instance when a firm lacks necessary market knowledge, it encourages people to share information, build collective expectations and is especially important in situations of uncertainty. It is also crucial in the early phases of relationship. Trust is a major determinant of commitment (Ruzzier, Hisrich and Antoncic, 2006). It is important to note the role of psychic distance in the process of integrating with foreign network, as researches notify that it complicates the process of building trust and commitment among potential foreign partners, and tend to increase the time and resources needed to become an insider in a foreign network.

3.6.4 Differences in country context

The culture is being interpreted as the collection of assumptions, values, and normative behaviors of a group of people (Ojala, 2014). The cultural differences can be measured by Hofstede’s cultural dimensions, which are identified as power distance, individualism, masculinity, and uncertainty avoidance (Hofstede, 2001). It is important to analyze what is the cultural distance at the process of internationalization, because the growth of distance changes proportionally to the growth of uncertainties. And uncertainty and ambiguity are the most important obstacles in the process (Johanson and Vahlne, 2009). There are many studies on how cultural distance between groups in various countries affects foreign entry and trade in negative ways, including examination of different values between people, on differences in communication style and cultural stereotypes (Ojala, 2014).

Uncertainties and ambiguities arising from the cultural distance may be critical for SMEs who have limited resources (Johanson and Vahlne, 2009). National culture may be a critical factor to influence international relationships. It has an important influence on interpretations and responses, as different cultures may interpret and respond to the same strategic issues in different way. This impacts the process of decision making and behaviors. The national culture can influence the relationship of the organization with the environment as well as the relationships among people within the organization, thus it may affect information gathering and efficient integration of resources (Schneider, 1989). Analysis on how distance factors interact with market attractiveness and network relationships can deliver useful information on how to operate successfully in a distant market.

Scientific literature recognizes also another dimension of distance between markets, which is psychic distance (Johansson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Ojala, 2014). The psychic distance refers to an actor's perceptions of a foreign country, and is defined as the sum of factors preventing the flow of
information from and to the market. For example, the difference in language, education, business practices, culture and industrial development. When firms enter business networks that are entrenched in another institutional environment, the firm need to overcome entry barriers or it may suffer from a liability of foreignness (Hilmersson, 2011). Especially differences in language have been seen as having a negative effect on the market entry of small and new ventures. Asymmetrical nature of the buyer and seller in the theory of psychic distance can become crucial factor influencing relationships within the network. A seller from one country may have a different degree of understanding of a buyer from that which the buyer has of the seller (Ojala, 2014).

This type of psychic distance can be also measured by Hofstede’s cultural dimensions (Hofstede, 2001). Power distance by Hofstede (2001) is defined as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally”. Individualism level measures whether people’s self-image is defined in terms of “I” or “We”. In the strategy formulation process these dimensions will affect who is involved in processing the issues (Schneider, 1989). Another dimension is masculinity, which explains what motivates people to be leaders. It illustrates that the society is driven by competition, and the dominant values are achievement and success. Long term orientation means that people have a strong concern with establishing the absolute truth. Uncertainty avoidance was recognized as an important factor influencing international relationships. It measures the way that a society deals with the fact that the future can never be known (Hofstede, 2001).

3.7 Theoretical synthesis

In order to understand the theoretical framework clearly and in depth, the selected theories will be presented together in the theoretical synthesis.

We will implement theories of external environment and internal environment at the first stage, in order to understand strategic fit between industrial organization and internal resources of each company. With the overall purpose to examine both external and internal factors influencing the process of internationalization, we aim to define and describe internal resources and identify external factors influencing the process. The thesis is based on the definition of strategy which concerns and outlines two main theoretical approaches: the analysis of SMEs internationalization process from the Industrial Organization view regarding external environment perspective, as
well as the analysis of SMEs internationalization process from Resource Based View regarding internal resources.

Figure 4: Overview of the theoretical framework.

The strategic fit is interpreted as the source of competitive advantage which will be examined in further part. When the internal resources match is consistent with external environment, it is called strategic fit (Grant, 2013) or matching (Jansson, 2007). If a firm seeks good performance in internationalization process, Gammeltoft, Filatotchev and Hobdari (2012) state that external environment and internal resources have to somehow fit together. Afterwards, the firm’s competitive advantage derives from the strategic fit (Porter, 1996). The competitive advantage is able to be the key success factors when firms internationalizing in foreign markets. According to Barney (1991), the competitive advantage is possible to originate from resources that are scarce and valuable and if these resources are also difficult to duplicate, substitute and hard to deliver, they can sustain the advantage. Competitive advantage occur when an organization acquires or develops combination of attributes that allows it to
outperform its competitors, like human resources which are highly trained and skilled employees (Wang, Lin, and Chu, 2011).

The internal resources can be a source of competitive advantage. Also strategic fit between internal and external environment can become the competitive advantage. Therefore we placed the theory of competitiveness as deriving from the environmental analysis.

Further part of theoretical framework consists of conducting the decision of internationalizing and resulting from that selection of entry modes. If the firm achieves stable performance in domestic market, it often decides to internationalize to foreign markets. Moreover, the internationalization becomes possible for the resource-poor companies due to technological advances and lowered trade barriers between countries (Jansson and Sandberg, 2008). At that time, companies could employ their competitive advantage to guide themselves through internationalization. After describing internationalization process theories, the entry mode investigation is the last approach to our theoretical synthesis.
4. Empirical findings

4.1 Country context

The Hofstede centre offers tools to measure differences between countries. The graph below provides visualization of cultural differences between Polish people’s mindset and Swedish individuals thinking style.

![Comparison of Poland and Sweden](image)

Figure 5: Comparison of Poland and Sweden, adopted from Hofstede Center (2015)

The greatest difference is shown in the level of Masculinity and Uncertainty Avoidance. Possible misunderstanding and misinterpretations between parties may arise from these distinctions. However, Polish and Swedish citizens are similar in the level of individualism. The study of Hofstede provides very interesting interpretation of insights, thus also behaviors which can become important external force influencing a success of internationalization. For example at a score of 68, Poland is a hierarchical society, where people accept the hierarchical order (The Hofstede center, 2015). In Individualist societies people are supposed to look after themselves and their direct family only.
Masculinity value system causes that people “live in order to work”, managers are expected to be decisive and assertive, the emphasis is on competition and performance and conflicts are resolved by fighting them out. In this value system performance and achievement are important, and status proves success (The Hofstede center, 2015).

Poland has a very high preference for avoiding uncertainty. Countries exhibiting high uncertainty avoidance have inflexible beliefs and behavior and are intolerant of uncommon behavior and ideas. In these cultures there is an emotional need for rules, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation (The Hofstede center, 2015). Another dimension is the long term orientation, where Poland scores only 38, means that they are normative in their thinking. They exhibit great respect for traditions, and a focus on achieving quick results (The Hofstede center, 2015), which is opposite to Swedish insights. Societies with a low score in this dimension have a tendency to cynicism and pessimism. They do not put much emphasis on leisure time and have the perception that their actions are restrained by social norms and feel that gratify themselves is somewhat wrong (The Hofstede center, 2015).

4.2 Industrial context

Poland is currently implementing multiple facilities for companies providing energy saving solutions. Although prices of energy in Poland are one of the lowest in Europe (0.14 euro/kWh), however when considering the purchasing parity, it becomes the fifth largest price in Europe. Prices of energy in Poland are not growing fast, but the analyst assume that the total prices will be growing due to ineffective distribution infrastructure and increasing commissions of energy distributors in Poland (Money, 2015).

Poland is currently creating a new shape of energy policy, which will be compatible with the EU directives, but also will equilibrate economic development. The European Commission have introduced regulations according to which, member countries are about to reduce emission of CO2 by 20%, increase the share of renewable energy to at least 20% of consumption, and achieve energy savings of 20% or more. The goal is also to implement the Strategic Energy Technology Plan, which is the EU's strategy to “accelerate the development and deployment of low carbon technologies such as solar power, smart grids, and carbon capture and storage”
In a result new regulations have been recently formulated. One of the most important is the ordinance for technical conditions which should be fulfilled at buildings constructing. Changes relate to the EP index, which defines the annual consumption of the building on non-renewable primary energy for heating, ventilation, cooling and domestic hot water, and warm isolation (Muratordom, 2014). It is important to note, that companies who implement energy saving solutions are able to receive up to 90% of refunding, partly from the commune, and partly from the EU. The intermediary organ when applying for funds is a bank. The company who wants to apply for additional funds contacts a bank in order to receive a credit and the bank applies to commune to refund part of the credit (Appendix I). Therefore currently it is very good time to invest in this sector.

Large extent of the EU funds for Poland will be utilized in environmentally friendly solutions for housing industry, as the housing industry is characterized with high pollution. The conventional construction materials have adverse effect to the environment protection. According to a report of European commission, buildings utilize the highest amount of energy within the EU (42%), and the emission of CO2 by the buildings is 36% (European Commission, 2015). Therefore energy-saving in housing industry has been identified as one of the most important direction of additional investments by the EU.

![Figure 6: The share of total EU energy consumption, adopted from AGC Glass Europe, 2015.](image)

Polish companies state that the energy saving housing industry is still a niche. It came out that some solutions, including solar energy collectors, are inefficient, and therefore sales of these products drop significantly. However, other solutions, such as the stoves, photovoltaic collectors and heating pumps become more and more popular (Appendix I). When it comes to wood, there are not too many providers of Swedish wood in the market. The local distributors of wooden floor admit, that the quality of
Polish wood is often very low (Appendix I). Wood is the main material to construct energy efficient houses, however knowledge about this type of solutions among Polish people is limited.

According to stoves, there are several sources of information and advertising platforms: Świat Kominków, Elle Decoration Polska, Dom and Wnetrze, Cztery Kąty. Sources of information and new customers for the pump installation are tradeshows for installation industry, local MTP in Poznan and global ISH in Frankfurt, Germany.

4.3 Case Companies

Three companies have been selected to interview. One of them, Lars Carlsson Tra, is currently operating successfully in the Polish market. The company is achieving constant growth and development. Second one, Euronom, is in strategic change situation by changing its focus from one type of products to another. The company has had a first mover advantage in Poland, but due to fierce competition it faced a decline in turnover recently. The third one, Gabriel Keramik, is preparing to enter Polish market, however it has been operating in Russia, and already has some experience from successful internationalization in emerging countries. The firm’s experience has been helpful for understanding which internal and external factors influence the process of internationalization.

4.3.1 Lars Carlsson Trävaru AB

Lars Carlsson Trävaru AB is a sawmill that primarily manufactures sawn and planed wood. The company was established in 1901, and now it is a fourth generation family business. Lars Carlsson Trä also runs a haulage business connected to Tingsryds LBC. There are 14 people employed including truck drivers.

Its business scope ranges from retail sales of timber, pellets and chopped wood. The wood is dedicated mainly for construction industry, all types of house buildings and floors, excluding furniture. Most of its production is destined for the Swedish market, but partly exported to Denmark, Poland and England. The company produces only two types of wood: pine and spruce, and spruce amounts for 85% of the production.

4.3.1.1 Internal resources

The key resource among all internal resources is the human factor. Lars Carlsson Trä is having the right people working in the company. Expansion to the Polish market
began when they acquired the proper human resources. It began with collaboration with Thomas, who is currently a part-owner of the Polish branch. His personal characteristics and entrepreneurial style can be considered as difficult to copy internal resource. He owns 5% of the Polish subsidiary and is employed with fixed salary and commission, holding a position of Director. Thomas is a carpenter, thus he holds good understanding of the material. This is his tacit experiential knowledge. His strength is fluency in English, motivation and ability to develop the business. Acquiring Thomas to the company was caused by an opportunity. He had no background or previous experience in sales and limited experience in working with Scandinavian wood, but he was talented, self-driven and motivated. His friendly attitude and easiness in committing in relationships with people is also considered as strong skills. He won the trust from the interviewee after a series of events. At the early stage of collaboration Thomas has been selling wood to the Polish customers as an external agent and paying invoices of Lars Carlsson Trä in advance, before delivery. Later commitment and experience created trust between both parties, and Thomas was offered to join the company.

Lars Carlsson Trä’s resources also include flexibility in production, high quality, reputation and brand name. The company can produce the product in every dimension and in high quality technical standards.

According to their resources, the firm owns advanced sawmill production plant, which ensures the highest quality of drying and automatic, standardized production and innovative machines. The company owns transportation trucks and organizes delivery on its own, therefore delivery times are their core competence. It is optimized in price, as they supply many customers at once. They also possess a waste management system, which aims at waste minimization by selling sawdust and other types of waste, in order to cultivate environmentally friendly approach.

In 2012, the company opened a subsidiary in Poland. A magazine and sales office was opened in old PGR (communistic-type collective farm). The company purchased a 600 square meters land in Pomeranian area. Having a magazine and products available physically for customers to see them and to choose from, as well as providing ability to buy and collect the product immediately without waiting for delivery, created core strengths of Lars Carlsson Trä in Poland, as most of their competitors sell with at least few days delivery policy “there are not so many places where you can buy and take home on the same day” (Carlsson, 2015). The company wants to establish a Showroom in the future, in order to collaborate with other providers of environmentally friendly solutions, preferably with other Swedish SMEs.
The goal of this project would be providing training on how to utilize the wooden skeleton efficiently, as Polish customers have limited knowledge about the product. The Showroom would be build at the PGR property.

4.3.1.2 Internationalization

Lars Carlsson Trä’s began internationalization process with Denmark and United Kingdom. In UK it was represented by intermediary and later through another sawmill which had connection there. It was too difficult to operate in the market, as there are specific regulation and the market is ruled by big volumes and local standard dimensions. Lars Carlsson Trä is too small company to operate in the UK market. Still, they trade also with Egypt and North Africa, where the low quality products are being sold.

Few years later the decision about beginning process of internationalization in Poland is arose. It was founded on opportunity and chance. There was not a strategy or a plan behind this decision. In 2005 after a storm they had overproduction of wood in stock and wanted to get rid of this. Throughout their network on connections, they began selling directly in Poland with the help of Thomas, who was coordinating logistics of trucks and getting commission based salary. In 2012 Lars Carlsson Trävaru AB intended to buy a local land and change the intermediary into subsidiary. According to Polish laws and regulations, the firm had to pay lots of expenditures in order to own the land. Also, Thomas had to become a part-owner, as foreigners are not allowed to buy plough grounds in Poland (old PGR was a plough ground for agriculture). Before the operation, the firm collaborated with consulting firm to obtain professional advisory whether the FDI is a proper strategic choice for them. This contact remains in their Polish network now and whenever they need advisory, they can contact the representative of the consulting company directly.

The customers are both private customers and other companies. In Sweden they include private people, small local heating companies and some specialized retail stores with house building materials, isolation etc., and also one house factory specializing in building villas for Swedish market. Sometimes it happens that they supply their competitors, “we could be selling to another sawmill if they need a specific customer for product that we have” (Carlsson, 2015). In Poland, the firm sells to other SMEs customers “the big companies are going to eat you, by pressure, you can’t sell to anyone else, you have no other clients and you depend on them. If we sell big volumes to only one firm and they bankrupt, we will lose lots of money. When we diversify, the risk is lower” (Carlsson, 2015). Unlike in Sweden, there are no specific
standards for production in Poland and customers can order anything. Sweden is very standard focus.

Polish government is also a potential customer. The company received a proposition from local government to take part in a bidding to supply a construction of a pier. Eventually, the government has chosen a French company who offered the lowest price, as the bidding was based on price offering.

In terms of Polish market, the firm supplies almost the same products as in Sweden. Polish customers want the product plain, but Swedish customers prefer the rough material because they are painting on it. The firm searches for customers through internet, but most often it finds customers by recommendations and advertisements in magazines and local Polish radio.

The firm’s competitors in the Polish market are German, Finnish, Estonian, Latvian and other Swedish companies. Their sizes are bigger and they possess more financial resources. In Sweden, all local sawmills are big, and it is too difficult for them to trade in Poland. Polish market is fragmented to small players. Swedish sawmills want to sell much bigger volumes in one dimension. Therefore they often supply Lars Carlsson Trä who then re-sell the wood is smaller parts to Poland “I buy from them and make products of it and then sell it. We are able to supply different dimensions within one truck. If you want to build a house you need many different dimensions (Carlsson, 2015). Even though the competition is fierce in Polish market, the firm does not feel pressure from the competitors.

Although there are no trade barriers in Poland, Polish governmental sector plays an important role when entering the market with direct investment. The local government was another side party actor at a process of purchasing the property in Poland. The process was very much complicated and costly, as it was based on old Soviet documents. Lars Carlsson Trä had to cover all additional costs, including costs of preparing the actual maps and documents, measuring the land by surveyor, checking the soil quality and provide it to the commune. Also the bureaucracy was very much complex, as they had to wait eight months for the first decision. Every query had to be done personally in the commune. Papers were sent to the Ministry of Agriculture for acceptance. They had to provide ownership documents from Sweden also, everything certified by a notary. They also had to pay taxes for using the land before they started renovating and actually using it. Farms have very low taxes, so the first tax was very low, but when they started selling, the taxes increased immediately. They considered this as very strange. The taxes were negotiable, so they made new declarations for the
commune and lowered the cost of utilizing the property. They pay annual taxes for the land and VAT, which is 23%, and it is one of the highest in Europe. Anders Carlsson admitted that going through this process without Thomas would be impossible.

4.3.1.3 Performance in the Polish market and future goal

The firm rates its performance in Polish market as very good and very important for the company. Sales in Poland generate 25% of the total annual turnover, and it doubled from previous year. The company forecasts further growth, and therefore they are searching for more sellers.

The main differences between Polish and Swedish market is that Polish customers do not have knowledge about the product. Therefore we must provide complete information about advantages and application of the product. Due to the lack of experience and knowledge about the product, Polish customers do not have any specific demands. They order special dimensions quite rarely. However, price plays very important role in Poland. The price is more important than quality, and the customers want the product to be cheap. This trend is changing very slowly.

Lars Carlsson Trä wants to explore the market. They currently build a Show House to demonstrate the customers how can their product be utilized in energy saving houses industry, and to provide training on Swedish construction style. The project will be directed to the network of potential customers, including architects, engineers, construction companies, floor panels’ producers and housing developers. The house is about to be built in three weeks, which is a great advantage over the regular houses constructing. The aim is also to film the process of constructing and use it for promotional purposes, for example to add it into company's YouTube channel. The house will be equipped with innovative energy saving solutions, such as heating pomp.

Poland is not really ready for the wooden houses, although it used to be its original construction material originally. The most popular materials in Poland are concrete and bricks, although wood has many advantages, it is easier to warm in the winter, it is easier and quicker to construct and deconstruct, it is more flexible and production doesn’t generate pollution.
4.3.2 Euronom AB

Euronom AB is a Swedish SME located in Kalmar, both the main office and stock. The company hires 9 employees in Sweden and at least one in each foreign office. They have offices in almost every European country. Euronom began from manufacturing heating boilers. They made the first air/water heating pump in 1977 and since that time it specializes in this field. The company changed the range of products into energy saving solutions, including solar panels, photovoltaic solutions and heating pumps.

Euronom offers a comprehensive program of heat pumps, solar collectors and boilers for different fuels, such as wood, pellets, gas, oil and electricity. Qualified technical development work is an important part of the activity. The results from theoretical and practical research within heat pump, solar energy and combustion technology are followed up and completed with in-house experience and tests.

Euronom FlexiFuel is one the world’s most flexible Agenda 21 systems for private houses and small apartment buildings. The centre of the system is an accumulator tank which can be connected to heat pumps, solar energy collectors, pellet boilers, wood boilers and district heating. The latest focus is given to heating pumps, ExoTank. It is energy-saving solution which collects air from each room in the house as a ventilator and exchanges it with fresh warm air. It enables saving 60% of the normal use of heating energy in the house. The product is oriented to heating and ventilation purposes. The company has developed innovative products that produce green energy.

4.3.2.1 Internal resources

The key internal resource is the knowledge of people. Employees work in the company for a long time and most of them are working for life. They have a very good team work and they meet twice a day to discuss ongoing issues. They don't have any secrets, conflicts. The owner does not hide anything from employees and they are having close relations. Anders, who is an agent in Poland, has Polish origins, he raised up in Sweden, but his parents are half Polish and half Swedish. He does not receive a fixed salary, but he owns 40 percent of the stocks in Polish market and his salary is totally commission based. His strength is that he knows the industry and he speaks Polish and Swedish fluently, which facilitates knowledge flows.
The heat pumps are technologically advanced, these are innovative products in very high quality, high efficiency, and made of stainless steel. The material is an advantage over competitors, because most of them produce of normal steel and in few years in wet climate they get rusty and product stops working.

According to the ventilation heating pumps, there are only three companies in the World who can produce this product, because it is relatively new and very much innovative. Euronom’s laboratory is the only one in Europe to develop Flexi Fuel. The company possesses long experience in research on combining different sources of energy. Euronom has very good reputation. They also provide two years guaranty on their products.

4.3.2.2 Internationalization

Euronom works internationally through a network of agents and manufactures in different countries. In the green energy field, the firm started internationalization in the late ‘90s from Germany, Poland, and then Latvia, Estonia, and Finland.

The reason why Euronom begun operating in Poland was based on opportunity initiated by Anders and his father, who recognized a potential in Polish market in the ’90s just after the transformation of Polish economy from communism to capitalism. Currently the company increases operations in Poland, because there is a good conjuncture for housing industry “lot of building activities are going on, like family houses, it grows rapidly. It looks like it was in Sweden in the 50s” (Hjort, 2015). Also Poland is very stable economically and offers many opportunities.

When Euronom entered Poland, they had the first mover advantage and didn’t have to monitor competitors' prices. But currently the competition is fierce, and therefore they had to change price policy and set lower prices.

There are many competitors providing similar products. They provide relatively good quality products and they are bigger than Euronom. The main competitor is Nibe, the biggest producer of heating pumps in Sweden, operating in the whole Europe and now going also to USA. Nibe also holds very good position in Poland. Bosh, a German manufacturer, is a competitor as well. Bosh is a large company manufacturing heating pumps in Sweden. Other competitors are CTC, an old Swedish company and Termia owned by a Danish company, Danfoss. Termia and Danfoss have the same products under different brands. The competitive situation in Europe is very difficult “German companies put on very low prices and it becomes difficult to compete, as they have
also good quality products. Additionally, there is over-production in Europe” (Hjort, 2015).

In Europe the situation is difficult, because large German players introduce low prices, due to over-production. It became too difficult to compete on price, and therefore after monitoring different areas, Euronom decided to change the strategy and focus on one differentiated product: ventilation heat pump. Only Nibe and two other companies produce the same product. Before Germans start to produce the same, Euronom has around five years of advantage. Since Nibe is a large company, it is not as flexible as Euronom.

Except customers and competitors, there are relatively big cooperation chains in Polish market. There are networks of 200-300 installers cooperating. They have strong position in the market, as they own small individual businesses themselves, but they are cooperating to get better prices or marketing arrangements as a collective. Now the firm is negotiating with one of these networks and trying to convince them to sell its products.

The firm had previous experience in internationalizing in Russia, before entered Poland, selling boilers for gas and oil. Through internationalization process in Russia, the firm obtained understanding of the Russian business culture which is considered as similar to Polish.

4.3.2.3 Performance in the Polish market and future goal

Euronom is not satisfied with its performance in Poland, due to growing competition and highly diversified market. It is extremely difficult to compete for a company providing high quality products in price which is higher than average. Also the energy-saving solutions are still a niche in Poland, and knowledge about this type of products is low, therefore customers are not able to compare the products and choose better quality. Energy saving requires high investment in the beginning and this cost is often too high for customers in Poland.

Euronom wants to strengthen its position in Poland, increase sales and explore the market. The share of total annual turnover coming from Poland varies within 5-8%, but in the future the firm is calculating around 20% incomes from Poland in total turnover.
Currently Euronom is in the strategic change situation. They focus on differentiated product which is the ventilation pump. Since there are only three manufacturers operating in this area in Europe, this is an opportunity for Euronom to achieve superior performance with second mover advantage.

The firm plans to employ a new strategy to push on the ventilation. “We have begun negotiations with different governmental institutions in Poland. We will receive some additional European funds from PARP, which is very much interested in the investment to help us to begin production of the new product in Poland” (Hjort, 2015). Currently the firm is working on a project, which is a heating system for a new university in Poland. Euronom is also looking forward to interesting new opportunities in Warsaw area. Their intention is to acquire a motivated and skilled person to develop the business in Poland.

4.3.3 Gabriel Keramik

Gabriel Keramik is the producer of heavy duty ceramic stoves. The manufacturing, sales and administration is located in Timmernabben, Sweden, and this is their only office. The firm was acquired in 1925 by Gabriel Burmeister and since that time it was run by his family. There are less than 20 people employed in the company.

The firm is a family business, as there are two brothers and cousin involved. According to the division of roles, one brother is responsible for activities, marketing, sales and networks in Sweden, and the other for activities abroad, including export, personnel, marketing and business development. The organizational structure is flat with many independent distributors abroad.

The company produces heavy duty stoves characterized by energy efficiency, due to its heavy body which can absorb the heat and radiate it gradually, which gives a long lasting effect of heating. The efficiency depends on the type of the house, and it is more efficient in well isolated, relatively new houses. The product is highly designed and can be customized to customer’s individual needs according to colors and decors. It is dedicated to upper and upper-middle class of customers. The company sells mostly B2B. The product is at the high price level with high quality and unique modern design focus. It has not been imitated by any other company.
4.3.3.1 Internal resources

The company’s core competence is production of unique tiles which can be customized according to customers’ needs. The key resources of Gabriel Keramik are technology, know-how, reputation, design, but also highly skilled labor. Also motivation, good communication and collaboration of human resources can be considered as internal resources. The skills and know-how of personnel play an important role as they produce highly specialized product. Financial resources are at good level, although the performance has been sinusoidal at some periods of time because of unstable conjuncture.

The customers appreciate design, energy saving and security. Also the delivery system, guarantee and safe packaging as well as well-structured and easy to understand assembly instruction are valued by the customers.

Gabriel Keramik is the biggest producer of stoves, thus can be considered as the market leader. It is much bigger moneywise, turnover wise, and listed in stock exchange.

4.3.3.2 Internationalization

Gabriel Keramik has one strategy of internationalization for every market. It has been modified only in Germany, as comparing to German market players they are very small. Moreover Germany was one of their first destinations for operating internationally. Nowadays company enters each market by establishing independent agent or intermediary, who is responsible for each market. The process of selecting an intermediary is never random. It is founded on a solid research and criterions settled for the potential candidate. The company prefers to establish one intermediary in each country in order to achieve better communication, control and understanding. In Norway they have one general agent. He has a wide experience, knowledge and is able to represent the company and introduce the product in a very good manner, in a role of an ambassador. Establishing collaboration with a good distributor, who has a good understanding of the product and is also good with sales, is crucial for the success of the company in foreign market.

Gabriel Keramik already operates in most of the northern European countries. The first markets outside Sweden where they began their sales operations, were Norway and Germany, in 2005. In Norway the process was founded on one exclusive contract with distributor who is currently responsible for the whole market. In Germany it was
different, as they had about 30 distributors. They did not use any organization like Sustainable Sweden to find the intermediaries. One of the German intermediaries has been found through connections with German tourists visiting Timmernabben. The company uses online positioning and e-marketing when they prepare for the entry. The target of the promotional activities is general and the aim is to create the demand from the consumer, in order to facilitate the process of sales to distributor. It is easier to sell the product when customers are already searching for it.

Lately they have conducted successful internationalization in Russian market, which is considered by the interviewee as similar to the Polish market when it comes to business rules. The goal was to find one distributor in Moscow and one in St. Petersburg. They ordered a market research from Business Sweden, the organization facilitating international trade for Swedish SMEs. The organization scanned the market and provided a list of 50 Russian companies, potential distributors, among which 5 has been chosen as matching the profile. Direct face-to-face meetings have been conducted and finally two distributors have been chosen.

Gabriel Keramik doesn’t monitor competitors, as there is only limited number of companies producing the same product. The product is complicated and advanced technologically. The competitors are both Swedish and international. One of them is a producer of metal fireplaces, who acquired a direct competitor of Gabriel Keramik, who was making similar product. The takeover was not successful and now the company is closing down. It is important to mention, that all the competitors provide products with much lower prices. The competitors can only compete on price, since they are not able to provide better product. Environmental efficiency and the pollution level have been tested and the result was giving an advantage over competitors.

The company participates in tradeshows only in Sweden. The customers are mainly B2B segment, distributors, but also individual customers. The company works a lot with architects. The latest customized production with tailored dimensions went to a hotel in Amsterdam. The architect was from London, but received recommendation from the company through a dealer in Holland.

4.3.3.3 Performance in the Polish market and future goal

The company has not entered the Polish market yet. They have made some basic research and discovered that there has been a huge market for stoves in Poland before the II World War and the stoves are still in use at some old buildings. Later the focus was on central heating and gas heating, but the conjuncture changes and due to oil and
gas fluctuations, heating becomes more and more expensive. People want to minimize this cost, and are searching for solutions. The heavy duty stoves are energy-saving and high quality design pieces. The target in Poland is upper market, people who can afford the high price.

Since this is not a volume product, not a mass production, Gabriel Keramik is searching for representatives who have experience in this kind of product, and are able to target the upper class of customers, preferably in Warsaw. The company is searching for a distributor who is active and self-driven, who will believe in the product and who will initiate the collaboration. In order to find the distributor, the company usually does a foot-walk, to discover companies who are dealing with similar products.

The strongest competitors operating in Poland are German companies, as these are large companies, but belonging to the same category, and they already operate in the market. All important stove producers already operate in Poland, so there is a very fierce competition there.

Polish market is interesting for Gabriel Keramik because it has not been explored yet. The company recognizes large possibilities, good position of upper-middle and upper class, and one of the biggest in Europe volume of population. Also this is their natural destination, since their previous internationalization process was conducted in almost all neighboring countries.
5. Analysis

5.1 External environment

The Polish housing industry is leaving the crisis deriving from economic recession of the recent years, caused by effects of the global financial crisis. The segment growth will likely be driven in the next few years by the funds from the new EU perspective invested in infrastructure and residential construction. The start of 2015 brought the best moods in construction in three years, according to analysts (Ministry of Treasure, 2015). Poland became interesting destination for companies providing housing solutions. However, except opportunities within the market, companies have to face challenges and threats. These opportunities and threats can be identified at the analysis of the market.

To analyze the external environment efficiently it is crucial to distinguish the vital from merely important. Company that wants to make profit, has to create a value for a customer, therefore it has to understand its customers (Jansson, 2007). The three types of players create industrial environment and company’s business environment: customers, suppliers and competitors (Grant, 2013). The business environment of a company consists of all the external factors that may influence decisions and performance, therefore it is important to understand the external environment in foreign country market, both on country and industry level.

5.1.1 Country context

The Hofstede’s dimensions of cultural differences analysis measure Poland at high power distance and high individualism. These two factors constitute a “contradiction”: although highly individualistic, Polish people need a hierarchy. Therefore, it is important to organize a flat structure of communication, having a personal contact with everybody in the structure, allowing to give the impression that “everybody is important” in the organization, although unequal (Hofstede Center, 2015). The hierarchic structure can be observed in different aspects of company’s functionality. Lars Carlsson Trä found it extremely difficult to deal with local community when committing direct investment. They found Polish rules strange and incomprehensibly complex. Especially covering costs of creating official documents of the land from their own resources seemed unreasonable, because they expected that the documents should be covered by the government. Also the method of calculating tax which was changing
according to the type of activities assigned to the property and to the size of property
and the must to deal with the government personally seemed ambiguous for the
Swedish side. The adolescent economy and complex institutions are typical for
emerging economies, due to its recent transition (Jansson, 2007).

Relations within existing networks are critical to avoid the liability of outsidership and
foreignness (Johanson and Vahlne, 2009). Trust and commitment play an important role
in relationships development and commitment building, as trust may become a
substitute for market knowledge (Ruzzier, Hisrich and Antoncic, 2006). Before
initiating collaboration with Thomas, Anders from Lars Carlsson was not able to fully
trust him because of the psychic distance and stereotypes about Polish people. This
insight has created a distance and limited trust at first transactions. This was omitted by
acquiring experiential knowledge and mutual understanding, based on which further
cooperation became smooth. Also Thomas was paying in advance for each order at the
very beginning in order to exclude risk at the producer’s side. This was appreciated by
the Swedish firm. Swedish model which is low emphasis on the hierarchy while
emphasis on the group and on relationships is high (Hofstede, 2001), differs from the
Polish model, and this can be considered as psychic distance.

When it comes to Hofstede’s dimensions on power distance, Lars Carlsson Trä
recognized the high level of power distance in an attitude of construction workers
purchasing wood for housing skeleton. The dimensions and volumes are often incorrect
in the engineer’s or architect’s project. Based on his experience and education, Anders
Carlsson, the owner of Lars Carlsson Trä, had an opportunity to inform the person
responsible for purchase that the specification of the material in the project is incorrect.
But due to the power distance between the architect and that person, one could not
criticize or provide negative feedback to the one who made the project, as he was higher
in the hierarchy. The level of individualism is similar in Poland as in Sweden.
Masculinity dimension can facilitate operating in the Polish market as it provides
information on what is the driving force behind employee’s motivation and what
factors influence people’s choices. Since Polish people value achievement and success,
it can be a tip on how to structure a strategy, how to present the product in line with this
mindset, and how to motivate employees. Also the uncertainty avoidance analysis can
provide much useful information on how to operate in Poland, as it states that Polish
people need clear rules and are not flexible with their beliefs and are intolerant to
uncommon activities. Understanding this difference may become an opportunity to
achieve competitive advantage.

According to the high masculinity level in Poland performance and achievement are
important, and status proves success (Hofstede, 2001). Therefore these can be factors motivating employees to be more efficient. As an example, Lars Carlsson Trä employed Thomas, the former agent, and in order to purchase the land in Poland, gave him 5% ownership. Also, his formal occupancy was changed into Director, which is strongly related to status creation.

All the three case companies have former experience in entering countries similar in terms of psychic distance. The psychic distance proportionally increases the level of uncertainties. It is the way of the actor’s perception of the foreign market and the degree to which it is easy to share information within the market (Johanson and Vahlne, 1977). The information flow is difficult due to the language differences first of all. There is also quite a significant gap between the industrial developments between the countries, which is also a dimension of psychic distance. Sweden is one of the most developed technologically countries in Europe, while Poland represents low level of industrialization. Since Poland is former Soviet bloc country, which has been opened only for 25 years now after 44 years of communistic centrally planned economy. It is still complex for developed countries when it comes to levels of hierarchy and bureaucracy (Jansson, 2007). Another characteristic of psychic distance is its asymmetrical nature for the buyer and seller. A seller from one country may have a very different degree of understanding of a buyer in a foreign country from that which the buyer has of the seller (Ojala, 2014). Gabriel Keramik began its internationalization process from Scandinavian countries and Germany, which are definitely close when it comes to psychic distance. Later expansion was based on these first experiences. This type of experiential knowledge is critic in the process of internationalization (Johanson and Vahlne, 2009). Poland is less developed industrially and has lower access to technologies, and therefore Polish companies are unable to produce highly differentiated products, which create an opportunity for Gabriel Keramik for superior performance. On the other side, Poland also has lower individual purchase power index and this factor creates a threat in selling high price products. Euronom began from Finland and Germany, and followed with Poland, Latvia and Estonia. Both Euronom and Gabriel Keramik identify Polish cultural dimensions as similar to Russian.

5.1.2 Industrial context

Swedish SMEs searching for opportunities in the Polish housing industry can usually position themselves on the premium products level due to the overall high reputation of products produced in Sweden and more advanced technologies and usually much higher resources than those of similar local SMEs. However, the IO view assumes that
firms analyzed in their external environment have the same strategic resources and only their relations with the stakeholders influence their performance (Barney, 1991). Understanding the industrial context provides a path to recognize threats and opportunities within the market. Ability to understand external characteristics can be a driver for economic performance (Zou and Cavusgil, 1996). Factors such as politics, culture, and social are important to understand threats and opportunities in the future (Jansson, 2007). However, the core of firms' business environment is formed by its relationships with three types of stakeholders: customers, suppliers, and competitors (Grant, 2013). Recognizing and understanding competitive forces that the company is facing is able to position the firm where competitive forces are weakest. Another approach is to achieve understanding on what do the customers want. So the success factors are based upon two dimensions: analysis of demand and analysis of competition. The demand analysis provides information on who are the customers and what are their needs, while the analysis of competition describes what drives competition, how intense is the competition, and how to survive it (Grant, 2013). According to the three case companies, they all use only local suppliers, who are reliable and their relationships are stable. They do not purchase any raw materials from local Polish suppliers. It doesn’t influence the process of internationalization, and therefore will be delimited in further analysis.

The IO emphasizes external analysis of global markets, including threats and opportunities. Additional funding for a niche market can be considered as an opportunity to gain competitive advantage (Barney, 1991). Companies that implement energy-saving and environmentally friendly products in their houses or buildings, are potential beneficiaries to receive additional funds from governmental organizations. The National Fund of Environmental Protection and Water Management introduced recently loan subsidies, which are available both for private investors and public buildings. The total budget for the program for years 2013-2018 is 30 million zl (Euro 7.5 mln). Conditions of the investment program for the energy savings solutions include low demand for energy and low CO2 emission (The National Fund for Environmental Protection and Water Management, 2015). With the growing updating of techniques, construction industry, thus also housing industry, shifts from conventional method to newly industrialized path which involves ecological modernization and sustainable living environments. In most developed countries of Europe, energy-saving solutions generate only little additional costs comparing to the total cost of construction building, but in Poland, the cost reaches up to 20%, and an expected return in investment will occur in few years, which is why these solutions are not very popular. This creates also demand for less expensive products with prices customized to
5.1.3 Customers

The type of customers that Euronom is seeking to attract and win in Poland is companies or private customers who are searching for energy saving solutions for their properties. Ability to commit in relationships with this type of customers is one of success factors (Johanson and Vahlne, 2009). However, not every company is able to create relationships in distant markets. The first stage is to select a target for commitment. Ability to connect with target customers efficiently depends on strategic fit (Jansson, 2007; Grant, 2013). This means to integrate external environment with internal resources (Zou and Cavusgil, 1996). Lars Carlsson Trä is targeting companies who purchase wood as a raw material for further manufacturing of the end-products. There are many companies searching for timber product, including construction companies, floor panels’ producers, producers of wooden houses (called Canadian houses), producers of garden houses and terraces, engineers and architects. There is a wide range of applications for this type of wood. The external environment characterize with large number of potential customers, and low number of competitors providing exactly the same product. Choosing a right network can be the prime source to reduce uncertainty (Ojala 2009).

On the contrary, Gabriel Karamik has only limited number of potential customers due to the high price of their product. Gabriel Keramik is aiming to enter Polish market with an intermediary and sell the stoves to individual customers from upper-middle and upper class, but also to stores selling heating stoves. In order to create the demand for product, they have to reach their target first and inform the potential customers that the product exists and that it is available. This is how they create the demand from the bottom. Most of the individuals from upper class cooperate with architects when building a new house. This will enable to create a commitment within a network of linkages with different stakeholders and prevent positioning itself as an outsider. The outsidership of foreignness in the new market is one of the most serious threats of internationalization (Johanson and Vahlne, 2009). Customers usually depend on architect’s suggestions. The type of customers purchasing designed stoves are often individual customers, and less likely corporate customers, for example hotels. They make their choice throughout an architect and the architect cooperates with distributors, who provide from 10- 40% of discount on a product for the architect. Thus the architect works as a sales person and receives a commission. The architect purchases goods himself with the discount and re-sale it to the customer without a discount or with minimal discount, for example 5% to create a value for the customer. Many distributors
of high quality products cooperate with architects in this way. There are many networks of specialists within a market. Direct linkages with different architects can provide a commitment into a network of sellers. Membership of a network and linkages between individuals facilitate knowledge flows and internationalization process (Johanson and Vahlne, 2009).

In order to reach contact with customers, it is important to have a network in the market. Companies who monitor their competitors and customers are better informed, they possess a dynamic capability and ability to recognize an opportunity to join a project or maximize its incomes. Creating linkages with local players is a way to strengthen company’s position in the market (Ruzzier, Hisrich and Antoncic, 2006). Lars Carlsson keeps contact with a local consultant who has been creating a consultancy report for them before committing FDI in Poland, in order to have a relationship with someone who can be helpful in unpredictable situations. The firm intends to create linkages with local networks also to increase its commitment in the market and share knowledge about the product. Advantages of Swedish wood are not familiar to the Polish distributors. The sellers claim that pine and spruce are the best types of wood for Polish climate. They also stress that the person who applies the product at the customer’s property, influence the decision of his choice. Usually construction workers or architects recommend the product (Appendix I). Therefore the knowledge and level of product awareness of the construction workers and architects or engineers influence the competitiveness of a company.

Gabriel Keramik already had a meeting with potential intermediaries in Poland, in order to create a network of contacts. Since Euronom has the longest experience in operating in Poland, they have the strongest network of connections, including governmental connections, connections in universities and other companies. They are being recommended by their customers to different projects throughout their network of connections, including scientific projects by local schools and polytechnics.

For the heating industry there are three important sources of potential customers indicated by Polish companies: Świat Kominkow, and tradeshows for installation industry, local MTP in Poznan and global ISH in Frankfurt, Germany. There are also other popular magazines for housing industry which can be used to create the demand among potential customers: Elle Decoration Polska, Dom and Wnetrze, Cztery Kąty and specialist branch magazine for engineers, Inżynier Budownictwa, which is supplied to all active engineers in Poland (Appendix I).

In Poland there is a favorable conjuncture for this type of energy saving solutions. The
The main reason for that is that energy and gas costs are relatively high due to old fashioned distribution system. The Ministry of Economy describes the current situation of Poland as follows: “high demand for energy, inadequate fuel and energy generation and transmission infrastructure, significant dependence on external supplies of natural gas and almost full dependence on external supplies of crude oil, as well as commitments in the field of environmental protection, including climate protection” (Ministry of Economy, 2015). Both case companies providing heating solutions, Euronom and Gabriel Keramik confirm, that the conjuncture depends on the country policy. External factor influencing the process of internationalization is the price of energy in the market. High energy prices can become a success factor. When the prices are high, there is a demand for energy saving solutions in order to reduce costs.

Polish government provides few different programs to support energy saving. Customers who want to implement energy saving solutions in their houses can apply for additional funds from banks or local communes. Some grants amount for 70% of the total investment (Appendix I). There has been a program focused on saving energy and promoting renewable energy sources, introduced recently by the Ministry of Environment and the National Fund for Environmental protection and Water Management. The aim of the program is to reduce consumption of energy and eliminate energy wastage, and also to improve energy efficiency by 20% by 2020 according to the European Commission regulations. Additional educational and promotional activities about energy efficiency and use of renewable energy including green houses will be provided. Individuals or developers who want to apply for the grant, has to verify and confirm the energy efficiency of the project before applying for a bank loan. These programs facilitate higher investments for private customers. The refund of part of the costs reduces the investment. Thus, more customers can afford the energy saving solutions. This factor creates an opportunity for Swedish companies providing high quality product to operate successfully by increasing their sales.

5.1.4 Competitors

Ability to generate profits depends on the intensity of competition in the segment (Grant, 2013). Since solar energy collectors market became saturated, number of competitors (supply) is growing, and the number of customers (demand) is stable, it becomes more difficult to sell the product. As globalization increases number of stakeholders, it becomes more difficult to identify and analyze competitors, thus to achieve competitive advantage (Porter, 1980; Hitt, Keats and De Marie, 1998). The competition is also aggressive in this segment, as there are many global players, including MNEs who provide high quality products in very low prices. As these
companies decrease the average price, because they are selling out their stocks, it is impossible for small company to compete with them. Euronom highlights the competition as the strongest external force restraining their performance in Poland. Thus, the company decided to implement strategic change management, which is changing a focus from solar energy segment to heating pumps with ventilation. Euronom has only two global competitors in this segment, and both of them are very big, and therefore not as much flexible. This is an opportunity for Euronom to achieve second mover advantage in Poland, by following business activities and knowledge spillovers of Nibe. This also depends on many factors. Polish distributors admitted that Swedish producers of pumps are the World leaders, but since they don’t have any subsidiaries in Poland, and their goods can only be purchased from abroad, it is too risky and too difficult for them to cooperate with the Swedish SMEs (Appendix I), especially due to guarantee policy that will be difficult to meet from a distance. Also a difference that is important to note at that point is that German producers provide ten years guarantee on their products (Appendix I), and Euronom provides only two years guarantee. This might be a factor of failure, as it decreases competitiveness of the product.

Many features determine intensity of competition. One of them is the industry attractiveness and easiness to enter (Porter, 1980). The ceramic stoves segment is not new or innovative, but the manufacturing requires special technological support. In Poland the stoves are handmade, constructed individually against the wall. The highly designed and difficult to imitate stoves can become attractive to the customers from the upper class, but only under condition that it will be hard-to-reach, thus unique (Appendix I). Exclusive stoves offered locally in Poland are provided by German producers.

Lars Carlsson Trä has many local competitors in Sweden, but all of them are much larger and not able to sell small volumes and flexible dimensions of their product. This leads to competitive advantage as the large sawmills are not able to compete in this segment. When it comes to wood industry, the most popular types of wood in Poland is oak and ash. Pine and spruce is not easy to find in the market, and the knowledge about this type of wood is limited, as well as knowledge about drying and consequences of using low quality types of wood. Therefore there are not too many distributors or producers offering the same type of wood.
5.2 Internal resources

Competitive advantage and business performance depends on firm’s internal resources which are difficult to copy and on firm’s ability to adapt to changing environment. The greater rate of change within the external environment, the more likely is that the internal resources will provide a secure foundation for a long term strategy (Grant, 2013). Theoretical research recognize three types of resources, which is tangible (financial, physical), intangible (technology, reputation, band) and human (skills and know-how) (Grant, 2013). The primary goal of resource analysis is to understand its potential for creating competitive advantage.

5.2.1 Tangible resources

Lars Carlsson Trä pointed out their subsidiary in Poland as a source of competitive advantage, as the customers are able to see the product and understand how different it is from their competitors’ products. They own a land with a magazine and currently they are about to build an office with a showroom. The subsidiary capability facilitates more knowledge flows (Barney, 2001), for example about customer values and about the market. The company owns a large production plant in Sweden, where it manufactures the wood, and a magazine and buildings for waste management. The sawmill is equipped with production machines which are highly advanced technologically. Also they own a transportation company and few trucks. The product is also considered as tangible resource. Lars Carlsson Trä specialize in processing pine and spruce in highest quality of drying and automatic, standardized production.

Euronom possess a head office and R&D laboratory, together with a magazine in Kalmar, Sweden. The R&D center is equipped with advanced electronic machines which are highly innovative and efficient. It is the only laboratory in Europe that is able to develop flexi fuel. The laboratory objective is to combine different sources of energy and installation solutions. The building where the company is situated is being connected to the innovative combined energy saving system, and it enables to save 60% of the normal usage of energy. The company provides a comprehensive program of heat pumps, solar energy collectors and boilers for different fuels, such as wood, pellets, gas, oil and electricity. One of their products is FlexiFuel, one the world’s most flexible Agenda 21 systems for private houses and small apartment buildings, and the latest innovative product ExoTank, which enables saving 60% of the normal use of heating energy in the house. The company has developed innovative products that produce green energy.
Gabriel Keramik listed their high turnovers and financial resources advantage as an important source of competitiveness. The competitive advantage can derive from tangible resources including financial, as achieving financial advantage over competitors is not easy to capture (Barney, 1991). The company owns a production plant in Sweden and a head office. The company produces heavy duty stoves characterized by energy efficiency. The product is highly designed and can be customized to customer’s individual needs according to colors and decors.

5.2.2 Intangible resources

Lars Carlsson Trä possesses advanced technologies for the wood treatment. Electronic solutions facilitate production management and provide standardization. They also possess trade secrets which facilitate the process of selling wood in specific situations, for example after storm, when they have overproduction. The company is family owned, and therefore the organizational culture is specific. There are few family members working in the company, and they feel like this is an important part of their lives. They feel organically committed to the business, and they have high responsibility approach to its performance.

Euronom’s strongest resources are innovative technologies and patents behind them. Both product as a technology is innovative and the technologies used for the production plant. Their source of competitiveness is also high quality components for their products, such as stainless steel or vacuum pipes, and innovative heating solutions. The company has a strong organizational culture and routines, as they cooperate closely and discuss important issues together, thus facilitating knowledge flows between employees. Euronom highlighted that creativeness in providing complete solutions for energy efficiency and reputation is extremely important.

Gabriel Keramik’s production plant is equipped in technologically advanced machines to produce high quality product. There is a design office, as they develop their own unique designs of the product and its functionality. They also own a trade secrets deriving from the owner’s experience, know-how and skills. There is only one person responsible for export and the company operates successfully in many European markets.

All the three companies have recognizable and valuable brand names and very good local and global reputation. They also have a wide and developed network of contacts in their local markets, and usually one linkage in each foreign market. Each linkage has its own network, which is usually not accessible directly by the company.
5.2.3 Human resources

All interviewees highlighted importance of language skills in communication and knowledge flow between the branches. In Poland, the constructors and managers are in their 50s and they grew up in the previous political system, thus they have been forced to learn Russian in school. They usually do not speak English. Therefore, language skills are considered as a great advantage of human resources (Lars Carlsson Trä, 2015). One of the strengths of the human resources, which are the same for Euronom’s representative in Poland, is Polish origin, ability to speak Polish language and other foreign languages, which facilitates information flow between parties, as well knowledge of the culture and position of an “insider” within the country (Johanson and Vahlne, 2009).

All the research Swedish companies pointed out competences and skills of their employees as the main internal resources within the company. Lars Carlsson Trä and Euronom have internal agents who operate in Poland. They report directly to the management in Sweden and provide information on their performance, as well as discuss all the important decisions. Therefore they can be considered as internal resources of the companies. Their personal skills and competences have superior value for the company. Especially experiential knowledge, ability to communicate efficiently, know-how and the position of an insider within the new market network are sources of competitive advantage for companies (Barney, 1991). This kind of human resources can increase their commitment in the new market and increase performance as well as strengthen relationships, leading to superior profitability (Johanson and Vahlne, 1977; Ruzzier, Hisrich and Antoncic, 2006; Kalinic and Forza, 2012). This is reflected in theoretical framework by emphasis on people as strategically important to a firm’s success, as systems and routines acquired throughout experience contribute to the creation of new knowledge, and specific human capital skills and they are not easily imitable. These specific resources that are difficult to duplicate lead to competitive advantage (Barney, 2001).

A part of the human resources is the entrepreneurial process of cognition, discovery, understanding market opportunities, and coordinated knowledge. These entrepreneurial insights may also be a source of competitive advantage for a company, because they are related to tacit individual knowledge, and therefore they are difficult to copy. Anders Carlsson, the part-owner of Lars Carlsson Trä has a wide experiential knowledge about the process of production and sales, due to which his product is highly competitive and environmentally friendly. He has acquired the knowledge working at the company since very young age, as it was his family’s business. He has learned from
his father and grandfather and possessed exceptional skills and deep knowledge about
the segment. According to Euronom, Åke Hjort has the entrepreneurial mindset which
is the driver for company’s success as he is able to adjust to market changes. The
company has been changing both industries and strategies several times, working in
many different markets in almost all European countries. The logic behind these
decision was opportunity driven and included large portion of knowledge coordination.
The decisions were founded on implementation of new innovative technologically
products that have been discovered under his leadership and his development. It can be
interpreted as the heuristics-based logic in quickly learn about and assimilate the
implications of new changes for specific discoveries (Barney, 2001). The base under
this entrepreneurial leadership was his high education of an engineer and experiential
knowledge.

The entrepreneurial style of management of Lars Burmeister, Managing Director of
Gabriel Keramik is an extraordinary vision of the company, supported by consistent
efforts to reach the goal in creating international company, leader in his segment, with
very high quality and very good reputation and strong brand. The foundation here was
an expert knowledge in the field of sales, marketing and operating globally. Entrepreneurial alertness, entrepreneurial knowledge, and ability to
coordinate resources especially in complex environments are viewed as resources in
their own right. The entrepreneur’s knowledge and absorptive capacity through
experience and learning is the key to achieving a competitive advantage (Barney,
2001).

Experiential knowledge and path dependency from previous processes of
internationalization in similar markets are considered as important intangible resources.
International experience by top managers represents firm-specific tacit knowledge that
is difficult to imitate (Barney, 2001). All of the three researched companies have a wide
experience in internationalization. Euronom has over 15 years of experience in
internationalization with different products and different segments. The experience
from other emerging markets is the most crucial at this point, as these markets represent
complex and dynamic environments, and thus require specific strategic approach. Lars
Carlsson Trä has begun its internationalization in 2002 and always the export went
through intermediary company.

Resources required to overcome the liability of foreignness is engagement in a network
(Johanson and Vahlne, 1977). Network provides resources for internationalization, as it
generates tacit knowledge between individuals engaged in the relationship, and
experiential knowledge leads to increased market commitment. Ability to commit in a
network is a resource which may lead to competitive advantage (Johanson and Vahlne, 2009). However networking, as Lars Burmeister highlighted, requires specific personal skills of active possessing new partners, customers and other stakeholders to be linked in the network. The networks for housing industry includes groups of installers, architects, engineers, distributors, complementary services providers, but also with financial institutions to secure payments or provide tailored financial services for customers (credit in cooperation with a bank). Research has suggested that local firms are interested in using foreign alliances to acquire advantages over their domestic rivals, in emphasizing the importance of network ties as an intangible resource (Barney, 2001). The agent of Lars Carlsson Trä has personal skills such as communication and self-driven motivation, as well as entrepreneurial style in ability to develop business on his own, despite limited knowledge about the industry and little experience in sales.

5.3 Internationalization

The most common way of internationalization is to follow the establishment chain of the Uppsala model, beginning with domestic sales, then direct export, followed by hiring an intermediary or an agent, through opening a subsidiary till production in the targeted country. However, Swedish companies often begin the process of entering emerging markets with indirect distribution which is using an intermediary (Jansson and Sandberg, 2008). Selecting a partner for collaboration at the emerging market is not easy. Companies searching for partners in emerging markets emphasize criterions such as unique competences, local market knowledge and access to the potential partner, as the most important in the process of choosing an intermediary (Hitt et al., 2000).

Lars Carlsson Trä’s began internationalization process with Denmark and United Kingdom. It has been operating with an intermediary and with other sawmill, but the rules and conditions in UK were too difficult to operate efficiently, and therefore they gave up. It was their experiential knowledge about internationalization. When the firm decided to enter Polish market, they did not have any knowledge about the market, and therefore they operated only through their intermediary. Their performance in the Polish market was a process of gradually increased international involvement (Johanson and Vahlne, 2009), as they have started from direct export, through intermediary and recently they have opened a subsidiary.

Euronom has been working internationally through a network of agents and manufacturers in different countries. In the green energy field, the firm started internationalization in the late ‘90s from Germany, Poland, and then Latvia, Estonia,
and Finland. They consider Poland as similar to Russia, and they based their operations upon this experience.

Gabriel Keramik has one strategy of internationalization for every market. The company aims to enter Polish market by establishing independent agent or intermediary, who will be independent and responsible for the whole market. The same strategy has been effective for the company in other countries from the region, including Russia.

5.3.1 Entry strategy

Firms selling abroad can use direct or indirect distribution channels of exporting. Direct selling consists of sales subsidiaries and wholesalers, which allows controlling the network of connections and managing relationships with other market players. Indirect selling via an intermediary can be a solution in situation of limited firm resources or commitment, the presence of legal barriers, strong competition, highly dispersed markets, less differentiated products, limited exporter experience (Johanson and Vahlne, 1977). Market uncertainty and ambiguity creates a space for indirect commitment, which is less costly and easier to terminate (Johanson and Vahlne, 2009). Gabriel Keramik recognized a suitable solution in indirect distribution throughout independent agents in each market. The strength of this entry mode is that it requires low resources commitment, limited and predictable investment, and less involvement in sales process. Since there is only one person responsible for the process of global expansion, it is easier to share responsibility with different intermediaries in different countries. The intermediaries monitor each market and communicate directly with the producer, who plays a role of a head office. Each intermediary partner is selected on a specific method basic. There are three main criterions of selection: ability to communicate in foreign language, industry related experiential knowledge and size of a company. For SMEs it is easier to collaborate with similar size partner, as employees can be matched in linkages related to functions for efficient knowledge flows. Each linkage of employees share knowledge related to their specialization in the organizational structure. Gabriel Keramik provides training on the product firstly, and the recipient of the knowledge has to be familiar with similar products type in order to understand the information. Intermediary is a second level of internationalization in the establishment chain after direct export and before subsidiary (FDI) (Johanson and Vahlne, 1977).

Intermediary agent can be a source of relevant information about the market that can develop relationships and networks between producers and users of knowledge by
providing linkages. Firm can create new knowledge through exchange in its networks, as networks provide extended knowledge base (Johanson and Vahlne, 2009). Knowledge that grows through experience in current processes is crucial to the learning process. Experience results in more differentiated view of the market, and of the firm’s own capabilities (Johanson and Vahlne, 2009). Prior knowledge facilitates discovering opportunities. Opportunity identification is a side-effect of ongoing relationship. Strong commitment to partners allows firm to acquire knowledge making it possible for it to discover opportunities. Johanson and Vahlne (2009) argue that operating through intermediary creates low commitment mode, because relying on an agent means relying on external source. The Uppsala model (Johanson and Vahlne, 1977) state that commitment to a market affects the firm’s perceived opportunities and risk. According to theory, the company commit to the market by committing its resources to the market (Johanson and Vahlne, 1977). Highly differentiated products are also difficult to imitate and they are the source of competitive advantage and economic value.

Euronom and Lars Carlsson Trä have slightly different approach to export. They sell their products via indirect distribution channels, but they have implemented solutions in order to control the sales and network directly. Both at Lars Carlsson Trä and Euronom, agents have been engaged in the company by receiving ownership of the Polish branch. Thomas at Lars Carlsson Trä owns 5% of the stocks, and Anders at Euronom owns 40%. The drivers behind that are motivation, stronger commitment, personal commitment into firm’s performance, more trust and lower dependency, better information flow and stronger collaboration. According to Lars Carlsson Trä it gradually increased its involvement in the market. At first it was direct sales via Thomas who was mostly dealing with logistics, and then the cooperation evaluated into intermediary and at the current step in subsidiary. This order is in line with the establishment chain by Uppsala model, where companies engage their resources gradually.

5.3.2 International network and knowledge

Euronom is in a strategic change process, as it is changing its focus from solar panels to an innovative ventilation heating pump. The Uppsala model approach to the change aspects states that it increases the market knowledge and stimulates further resource commitment to foreign markets (Ruzzier, Hisrich and Antoncic, 2006). Euronom has not been satisfied with its performance in the Polish market, as their sales dropped and competition increased. The market became saturated, especially due to German MNEs who underestimate prices of heating solutions, as they have over production in their stocks. Euronom found it very difficult to operate in this environment in Poland and
therefore they decided to focus on differentiated, innovative and difficult to imitate product, which gives them competitive advantage. Jansson (2007) explains that strategic change situations might occur in the emergent market. This type of change deriving from the company is called reactive. The company will undergo strategic renewal because of the significant changes which derive from changing operating segment from water heating pumps to ventilation pumps, and strategy of stronger positioning at the Polish market. For Euronom it is also important to maintain its dynamic capabilities, which mean to renew competences in changing business environment. One way of increasing competitiveness is to identify difficult-to-imitate internal and external competences and support most valuable products. The dynamic capabilities approach provides a framework which can both integrate existing knowledge and facilitate acquisition.

In order to acquire the knowledge about Polish market, Gabriel Keramik has to implement organizational learning process into its Swedish unit. Successful implementation of the organizational learning process is equal to knowledge transfer. Knowledge can be transferred by selecting partners who have strong managerial and technical capabilities (Hitt et al., 2000), but the process depends on absorptive capacities of the firm. The knowledge holders are individuals. Tacit knowledge is hidden in minds of experts, who have the best skills and experience. It is highly personal and hard to formalize. Therefore it is crucial to identify the knowledge creators and knowledge holders within the market, in order to acquire it successfully. Acquiring knowledge about the market can facilitate the decision about strategic entry mode for Gabriel Keramik. The role of knowledge in the internationalization of companies has been well recognized by the scientific society which identifies the knowledge accumulation as a key influence on firms’ internationalization (Johanson and Vahlne, 1977). It is important not only in accordance to expansion into new markets, but also for the successful growth of the business in the markets in which the company is already operating.

Lack of institutional market knowledge and business knowledge requires longer time to overcome and higher costs of internationalization (Johanson and Vahlne, 2009). For example, Euronom had the first mover advantage when entered Poland in 1990’s, but the product was too innovative to operate efficiently. The first mover advantage can be a threat when customers do not possess any knowledge about the product. The first mover has to explore the market and create demand, and this is costly and time consuming. At this moment, Euronom holds the second mover position behind Nibe, and this is profitable, as it can follow the shortest paths by learning on someone’s mistakes. This position is beneficial according to limited resources and small size on
Euronom.
6. Conclusions

The purpose of this paper is to uncover ambiguities of internationalization and provide analysis of factors influencing this process in the emerging market context. The main findings of this thesis will be summarized in order to answer the research questions.

6.1 The answers to the research questions

The process of SMEs internationalization is a complex and complicated topic. It becomes even more labyrinthine when the subject of the analysis concerns entering emerging markets. This usually implies the issue of competing with highly differentiated products, as small companies is rarely able to compete on price, due to their limited resources. However the research on entering an emerging market with high quality differentiated product and with focus on a niche segment of the energy saving solutions implies many more miscellaneous ambiguities.

6.1.1 Research sub-question 1

What external environment do these companies experience when entering the Polish market?

The external environment of Poland influences the Swedish SMEs conducting the process of internationalization in many ways. In some segments competition is fierce, especially in the solar energy collectors sector, due to high interest of this field during last few years, when governmental sector provided additional financial support for this industry. It became a hot topic due to latest European regulations and high prices of energy. However, some other environmentally friendly sectors, including raw material for green houses, are free from competition to some extent. The conclusion here is that the threat of competitive forces can have a strong impact on company’s performance. Possibility to monitor competitors provides a perspective to forecast competitors’ future strategies and base on that recognize the opportunity to achieve and maintain competitiveness. Understanding the competitors enables to predict their responses to market changes and plan own strategic moves.

Other element of external environment is the customers’ analysis. Customers in emerging markets have limited possibility to compare products and understand its uniqueness or quality. The reason for that is that the market has been opened only for
25 years, and all the advanced technologically products or raw materials from foreign countries are relatively new. Therefore customers have limited knowledge about the products, and the demand is low. The conclusion at this point is that it is not easy to acknowledge the customers’ needs in distant markets, not only because of cultural differences and industrial differences, but also because of the lack of research possibilities. The typical characteristic of external environment in distant markets shows ambiguity and uncertainty. The rules, regulations and thinking styles differ from the domestic ones. It derives from cultural distance and psychic distance and the most analyzed within scientific literature method to overcome these is acquiring knowledge throughout commitment in relationships with local networks. Awe conclude that acquiring a linkage with the new market and building up a commitment through that has been highlighted in the literature as a source of competitive advantage. The linkage can be a single individual or a company, who plays a role of intermediary bundle.

6.1.2 Research sub-question 2

*What internal resources of such SMEs are required to achieve competitive advantage in Polish market?*

We conclude that when entering new markets, the company has to understand its strengths and core competences and base on that build up a competitive advantage. The resources that are important for companies are those which are difficult to imitate or copy. Swedish companies characterize with strong reputation and recognizable brand names, and also access to high technologies. Therefore they provide innovative and high quality products. Our conclusion, based on the result of the case studies suggests that internal resources are crucial in achieving superior performance in a foreign market. Acquiring human resources, which are not really internal, but they are committed in long-term and stable, has the uppermost impact on the process of internationalization and achieving competitive advantage. Companies tend to track a proper intermediary in order to represent them in distant markets. They usually sign contracts with intermediary companies (B2B), but they commit relationships with individuals. The criterions include measuring its experiential knowledge, motivation, personal skills such as ability to operate in a self-driven manner, and foremost knowledge about the market and ability to communicate efficiently with potential customers. Some other factors are pointed out as friendly attitude and organizational skills. We conclude that the company seeks to control the intermediary. Usually the intermediary plays a role of knowledge broker, and this is highlighted as the threat of this type of cooperation. However, a firm can commit the intermediary by signing a
specific type of agreement, where the agent becomes a part-owner of the foreign branch. The conclusion is that this approach facilitates knowledge flows and justifies controlling his performance, thus creates a need of reporting to the head office.

6.1.3 Research sub-question 3

*What are the key success factors entering the Polish market?*

The key success factor when entering Polish market is the ability to acquire knowledge. The knowledge about the market can be acquired throughout an intermediary or by commitment in a local network. This type of collaboration with a local intermediary is the main success factor. Individual predispositions of an intermediary or an agent have been pointed out as the main success factor when entering new market.

It is also important to understand the cultural differences which may influence the process of internationalization. Power distance, uncertainty avoidance and individualism provide characteristics of Polish potential partners and employees, who are focused on achievement and status. We assume that the differences between Polish and Swedish individuals mindsets can be a source of ambiguity, as two different parties can interpret the same situation differently.

6.1.4 Main research question

*How can Swedish SMEs enter the Polish market efficiently and achieve competitive advantage with energy saving solutions?*

In order to enter Polish market efficiently in energy saving solutions, Swedish firms can focus on understanding the demand and driving forces behind customer’s decisions. This type of solutions is still a niche in Poland, and the customer’s knowledge about different solutions is low. The first investment in purchasing the product, which usually is very high, can be an obstacle for customers. We conclude that providing comprehensive information about the product, its advantage over other products and the expected return on investment can increase the customer demand. It is also important for companies to establish a goal and a strategy to conduct it, taking under consideration own competitiveness. This can be done by recognizing its internal resources, external environment, ability to achieve strategic fit and position itself among rivals, and base on that understand own competitive advantage in the new market. A profound understanding of competitive environment is critical for creating
successful strategy. Creating a strategy means setting up a direction, identity and exploiting the sources of superior profitability. A part of it is the choice of entry mode and level of commitment decisions, as this will influence future performance and knowledge flows. The conclusion here is that to enter the foreign market efficiently, a firm has to understand where it is competing and how it is competing, what do the customers demand and in which direction is the company developing.

6.2 Managerial implications

Polish people have limited experience in using advanced technologies or high quality products produced with the use of high technologies. Those solutions that are well known and understood for Swedish customers are not recognizable for Polish customers. In order to provide knowledge about specific energy saving solutions, we recommend the companies to engage the decision-makers in a process of acquiring knowledge about the product. The stakeholders who assist in the process of purchasing materials by customers should be involved in learning process thus increasing competences. These are architects, technicians, engineers, installers, construction workers and sellers. This can be conducted by opening local R&D centers at local schools and polytechnics to provide the knowledge directly to the future decision-makers, as well as to strengthen brand awareness among young generation future network members. We also recommend organizing conferences in order to share the knowledge about energy saving products and construction methods directly to the actual decision makers. We assume that acquiring a competitive advantage will be easier in the future, when external environment adjust more to the high quality energy saving solutions.

In order to enter the Polish market efficiently we recommend considering proper entry mode, with direct or indirect export. Direct export enables direct involvement in the network and therefore provides better control over the performance and relationships. We recommend engaging in existing network or creating a network of relationships, to eliminate the threat of outsidership. Furthermore, in our opinion creating a network of Swedish companies providing energy saving solutions can be a source of competitive advantage. Each Swedish SME operates in different environment, but in the same niche segment of energy saving solutions. These solutions can be complementary among one another, and they can coexist in one project of constructing a building, by providing sustainable solutions. According to this approach, the companies have the same target of customers. The collaboration and partnership can provide linkages to new stakeholders and potential customers, who
already are existing in a partners’ network of contacts. The collaboration between Swedish companies can broaden their horizons. The collaboration can be based upon common resources, which is reputation and high quality. The companies can achieve stronger position in the market as their collective competences would be much higher and the scope of operating much wider. This type of commitment can lead to providing complex holistic approach to energy saving housing industry, in the field of constructing energy efficient houses and providing heating solutions for them. This would be also a source of sustainable competitive advantage, because this type of collective commitment would not be replicable by competitors.

Also focus on internal resources, among which human resources are the most influential in the process of internationalization, is crucial for the company. The human resources in the internationalization process have to possess language skills in order to ensure knowledge flows between parties, has to possess sales experience and entrepreneurial style of self-driven approach to performance. Commission based salary can be a tool of motivating the agent to increase sales level, thus also his own salary.

6.3 Theoretical implications

The main theoretical finding is related to knowledge management. The analysis of the case companies shows that the intermediary acts as an external bundle which connects the company with the networks. Company operating in foreign market does not have any direct relation with the stakeholders, due to inability to communicate in foreign language. Therefore the company depends on the intermediary. In order to minimize the dependency, firms typically try to engage their external agents together with his knowledge about the market, and transform the intermediary into internal human resource. The company commits the intermediary by an ownership agreement. In this way the intermediary becomes a part-owner of the foreign branch. As a result, the knowledge flow increases, as the agent reports directly to the head office, and his personal engagement improve. Otherwise the intermediary acts as a knowledge broker, and the knowledge flows can be manipulated or incomplete.

6.4 Limitations and future research

The purpose of this thesis is to give recommendations to Swedish SMEs who are aiming to enter Polish market. The recommendations of this paper are reached from a case study including three companies. However, only two of these companies are
operating in Polish market. Third one, Gabriel Keramik, has not begun to internationalize in Polish market yet. However, the company has large international experience in northern and central European countries, and also in Russia which is regarded as similar to Poland according to its industrial environment and cultural context. From this perspective, it would have influence on the validity of recommendations. The results can be generalized to other Swedish SMEs. The interviews have been conducted both on Polish and Swedish side. From the Polish perspective, the researchers informally interviewed some companies. It is difficult to measure the adequacy of the interviewees’ answers.

In order to carry on this project and extend more valuable findings, future research could widen the research scope to conduct more interviews and collect more materials from Swedish SMEs those who have located in Polish housing industry with energy-saving solutions. In the meantime, future research also could interview Polish interviewees to provide valuable information form Polish perspective. Additionally, future research could apply quantitative approach to enhance quality of the research, using empirical data to reach also scientific and specific results.
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Articles


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Interviews

Roza Grigoryan, Flowair, 9th of May.

Åke Hjort, Euronom AB, 12th of May.

Anders Carlsson, Lars Carlsson Trävaru AB, 13th of May.

Lars Burmeister, Gabriel Keramik AB, 18th of May.
Appendix I - Polish companies interview

Flowair

Flowair is Polish producer of heating and cooling systems. The company was established in 2003 and few years later became a well-known expert in economic heating and ventilation of medium and large-cubature structures. It is a manufacturer of water heaters, air curtain, curtain-heaters and heat recovery units. Additionally, it is the exclusive distributor of the Italian gas heaters Robur. The company puts also great emphasis on global development. The firm employs 22 employees.

It is 100% Polish company with Polish capital. It operates in Pomerania where the headquarters, sales offices and manufacturing facilities are located. It is very strongly associated with the Pomeranian Science and Technology Park in Gdynia (PPNT), in which the department of R & D is located. The product is innovative, the company possesses several patents, and it is tailor made.

Projects that they supply include warehouses and halls, public buildings and workshops. They have been beneficiary of EU funds for innovation and development several times. The company's organization is flat. There are some representatives who are responsible for specific markets.

The interviewee

Roza Grigoryan was born in Armenia and therefore she speaks fluent Russian. She is responsible for sales in Russia, Kazachstan, Mongolia and other former Soviet Union states. Her strong position and success are caused in large extent to her understanding of cultures and fluent Russian speaking, as she is being considered by Flowair Asian partners as "their man", she is familiar to them, and therefore more trustworthy. Roza has been working in the company for 7 years. She has been recruited by her boss via professional online site, where people add their professional resumes: goldenline.pl.

Style of making business between prior Soviet countries is different than id developed countries. The relations are more personal, closer, and there is a characteristic rule, that after making a deal, the parties give one another a small gifts in a sign of good will. This rule is not applicable in developed countries, as may be considered as bribery.
Roza has the position of Trade Director, but she has only one employee who reports to her directly. The employee is responsible only for complains.

**Internal resources**

Their core competences are design, innovation and technology. Customers value individual approach, a wide range of products, complete solutions, wide experience in implementation and ethical behavior.

**Internationalization**

The company operates in 28 European and Asian countries with very good success in the former soviet bloc. The main source of new customers and contacts is participation in International Tradeshows of installations, among which the biggest are MTP Poznan (http://instalacje.mtp.pl/en/) and ISH Frankfurt (http://ish.messefrankfurt.com/frankfurt/en/besucher/willkommen.html). In order to find local customers they conduct a field research. It is by going around an area for few days, searching for construction projects and contacting them directly with an offer.

In order to prepare for the market entry, they make a research to understand prices. There is the lowest price border set up by the owner, which is the minimal price, below which sales is not profitable.

They find companies producing similar products, with similar quality and make similar price for the specific market. Differences in prices for different market are significant. But still it wouldn't be profitable for eastern customers who get lowest prices to re-sell their products to western countries, because the VAT, customs duty, transportation costs and all the other costs will exceed the prices that they offer directly to western European companies.

After setting up the price, they create the offer. Sometimes it happens that the price is not correct, this comes out when they lose for example three projects one after another, and then they start to analyze what is the reason for that, and modify the price. The price is the most important factor influencing the sales process, as the market belongs to the customer, and customers always care about the price. Of course they have very good offer, and they know their strengths, they have good reputation, and high quality products, but price has to be tailored.
Field research

The research was taken in Bartycka Housing Trade Center in Warsaw. Large group of stores located in that place are wood dealers, but they specialize in floors. There was only one store providing heating pumps and three stores with stoves.

WOOD dealers (floors only)

Solid board of wood: there are only two types of wood available: oak and ash, sometimes, also dark exotic wood. The board of wood is usually lacquered or oiled, or lacquered and oiled.

Producers (who are potential customers for Lars Carlsson Trä):


Price of wooden floors depends on dimensions. Prices range from 110zl to 280zl per square meter. Panels are more popular recently because they are easier to apply and usually those who apply at customer's house they recommend a type of floor. They recommend the easy ones. Another argument is that it is not possible to place a floor heating in wooden floor, so for that occasion panels are better. All of the distributors sell oak and ash in different colors, and no one of them was offering pine or spruce floorings. They say that pine and spruce are the best floors for Polish climate.

HEATING PUMPS: [bbt.com.pl](http://bbt.com.pl)

Heating pumps as an investment is much higher than regular installations, but the utilization of them provides 4 times less costs of use than the regular gas heating, when it comes to water heating and floor heating. Heating pomp has low parameters of reinforcement. Total price for installation and the pomp, the boiler, is around 50 000zl. It is connected to external energy collector. Guarantee is given for 10 years, reparation is free, but replacement not. They sell Dimplex, Budems and Atlantic. The investment costs for the heating pomp returns in 12 years. The interviewee did not recommend solar collectors, as the accumulation of investment costs is after 18 years.
Some communes provide additional funds to people who want to buy the solar energy collectors, but this can be profitable if the fund covers around 70% of the price.

Comunes (gmina) provides funds for energy saving solutions, together with EU. To get these funds, a project developer has to apply for a credit to a bank, and the bank provides a credit line, but up to 90% of this credit is covered by commune and EU. So the customer pays only 10% of the price. Some producers of solar panels cooperate directly with banks.

Pumps are never complaint, only some electronic issues may appear, but these are usually dialed by phone. Currently in the market there is a trend that gas boilers sales is decreasing and the heating pumps are increasing.

The best provider is Dimplex. It is solid and very good quality, efficient, it has high COP factor- which is the factor of heating efficiency. "The top best pumps are made in Skandynavia, but it is not possible to import their products, because guarantee will not be given on a distance, and it's too difficult to order from a distance. They don't have any offices in Poland. German companies have their sales offices here in Poland and it's easy to deal with them. They have both magazines and representatives in Poland".

PROMAG (energy saving solutions, photovoltaic solar energy collectors)

www.promag-gaz.pl, Krzysztof Roguś- sales person

There are lots of customers interested in energy saving solutions nowadays, especially that they may receive different refunds. The market for photovoltaic solutions is growing rapidly. The first project of governmental support was called Procurement, where the panels were leased to the customer for the time of using, and the financial support from the commune was up to 90%. But there is a limitation that two financial options cannot be merged.

Currently the most popular program of financial support is Konsument, which can be runned throughout a foundation called Help Energy (www.helpenergy.com.pl) which enables contacting a bank and offering credits and subsidies.

How do they sell? Promag has a callcenter, which operates in a form of back office for salesmen, and setup meetings for them. Therefore each salesman is meeting at least 10-15 customers a week. The product is being sold together with credit and refinancing option (tailored financial solutions).
Currently a new law will be implemented in Poland, according to which individual customers will be allowed to re-sell and distribute their own over-production of energy with a fixed rate of 0.65PLN from OZE.

Competitors. It happens very often that Polish companies who call themselves producers actually purchase solar panels from China and only apply their own brands to these. They sell product as their own, while it is Chinese in fact.

www.eco-heat.pl

www.kalmar.waw.pl

STOVES

scan.dk/pl they sell only their own products, and they make-to-order ceramic stoves. Any ready product is easy to imitate in Poland, because there are many tileries. The most important success factor for highly unique and premium product is that it will be hard to reach, not available everywhere and not for everyone.

komo.pl they distribute french stoves Invicta (most expensive cost 16 tys zl= 32 000sek), Max Blank price 18000zl= 36000sek
Appendix II - Question Guide Swedish Firms

1. General internationalization and path dependency
   a. What is your position and experience in this company?
   b. Could you please tell us about the company (establishment year, location, products, competitors, customers)
   c. What is the international experience (spread) of the company today?
      - When did you start international business?
      - To which markets?
      - Entry modes?
   d. Why is the Polish market interesting for you?

2. Internal resources and capability
   a. What did you know about the market before entry?
      - Did you have former experience of similar markets?
      - Where do you find information about the Polish market?
   b. What are your core competences?
   c. What are your key resources (physical, financial, human, intangible ones) and capabilities (ability to use resources)?
   d. How different are your resources from your competition?
   e. How do you differentiate from your competition in terms of price, quality, delivery time, financials and environmental principles)?
   f. What are the key success factors for the company in the Polish market?

3. External environment
   a. When did you enter Poland and how? Any specific challenges?
      - With which products/in which sector?
   b. Who are your customers?
      - Why do the customers choose your product? (value added: delivery system, supportive systems, special ordering, CSR, post-sale services, flexibility?
      - Price vs differentiation advantage?
   c. Who are your competitors?
      - Global/local ones
      - What are the competitive advantages of your competitors?
   d. Who are the main actors on the Polish market besides customers and competitors?
      - What network do you have in Poland? How do you build it?
   e. What do the Polish market offer you? (Potential sales vs. cheap resources?)
   f. How has your performance been in the Polish market?
   g. What are the main differences between the Polish and Swedish markets?
      - Price levels?
Overall customer demands?
Demand of high quality products?
Demand of environmentally related products?

4 COMPETITIVE STRATEGY
a. How have you adapted to the Polish market?
   How flexible is your offer?
   Price levels?
   Product?
   Routines?