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INTERNATIONALIZATION OF SME-S IN THE FINNISH FOOD PROCESSING INDUS- TRY

Cases of Finnish food processing SMEs

Master's Thesis
in International Business

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Besar Berisha and Sunny Lama

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1 INTRODUCTION

1.1 Background of the study

On surface internationalization is explicitly driven by the desire to enhance sales (Morschett et al. 2010, 71). However, motives for internationalization can be diverse ranging from access to larger market, cheaper resources, acquire innovative knowledge, or simply take advantages of existing networks and resources. For example, internationalization is a major strategy for MNEs to capture benefits of a broader exploitation of company specific advantages (Hymer 1976). According to the product cycle theory, firms may internationalize to take production cost advantages of a foreign market even if the primary sales focus is in home country (Vernon 1966). The international entrepreneurship theory suggests that firms internationalize not necessarily for immediate financial gain, but for risk avoidance (Prefontaine, Bourgault 2002). According to Korsakiene and Tvaronaviciene (2012, 304), the main internal motives for internationalization involve the desire to reduce business risk and use available skilled labor.

For many companies, internationalization is a forced choice to survive and grow in an increasingly competitive environment. Paunovic and Prebezac (2010, 73) maintain that enterprises that do business exclusively in domestic markets do not have a long-term future in the global market. However, internationalization can be an expensive, time-consuming and exhausting process for small and medium-sized enterprises. There are barriers that slow down the process and make it harder. (Paunovic and Prebezac 2010, 73) Many challenges of internationalization are associated with liability of foreignness and newness (Lu, Beamish 2001). These challenges have greater strategic implications if the target market is dissimilar to the domestic market and if new subsidiaries are established (Korsakiene and Tvaronaviciene 2012, 298).

Barriers to internationalization may also cover factors such as lack of management skills to inadequate intellectual property protection in foreign markets (Szabo, 2002). The impact of these barriers on the internationalization decision of SMEs, given the resource constraints of SMEs is often more important than it is for large firms. Not only do SMEs have limited assets and financial resources, they also have limited knowledge of international markets, limited international networks, and quite possibly less international experience in the management team. (Onkelinx and Sleuwaegen 2008, 21) This view is supported by Freeman et al. (2006), that smaller firms face three key constraints in going international: (1)lack of economies of scale,(2) lack of resources (financial and knowledge), and(3) aversion to risk taking.

Geographic expansion is one of the most important paths for firm growth (Lu & Beamish 2001, 556.), the international strategies of multinationals (MNCs) such as

choice of entry modes, global coordination, formation of cooperative alliances and developing global-scale efficiencies have received considerable research attention, but research into exporting the international market entry modes of small and medium-sized enterprises (SMEs) have not been studied in depth (Choo & Mazzarol 2001, 292.)

According to Fletcher (2001), the process of internationalization includes stages approach which views internationalization as involving changes in the firm as it increases its commitment to foreign markets. Thus, firms start with the entry mode that requires the least commitment resources and gradually increase their commitment of resources. At this point Johansson and Wahlne (1977) are the one who developed the so called Uppsala model of internationalization of firms. According to the authors international operations are developed in small steps, rather than by making large foreign production investments at single points in time. Typically firms start exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country.

Moreover, the existing literature on the entry mode choice primarily concerns multinational enterprises MNEs, but the activities of small and medium sized enterprises SMEs have received less attention. Meanwhile, the importance of SMEs internationalization has increased tremendously in recent years (Decker and Zhao 2004.) Rasheed (2005) argues that research on international expansion and foreign market entry is well established within the international market diversification literature but has focused primarily on multinational corporations. The internationalization trend for small and medium size enterprises has increased research in explaining the factors that contribute to success.

According to Agarwal and Ramaswami (1992), a firm seeking to enter a foreign market must make an important strategic decision which entry mode to use for that market. The four most common modes of foreign market entry are exporting, licensing, joint venture and sole venture.

Entry into foreign markets, initially and on a continuing basis, should be made using methods that are consistent with the company's strategic objectives. From a strategy perspective, entry mode is influenced by the international strategy pursued by the firm for its foreign venture or market expansion. Thus, the choice of entry mode is made to facilitate the firm's international strategy for a particular market entry. A firm becomes committed to international markets when it realizes that it can no longer attain its objectives by selling only domestically (Albaum, Strndskov & Duerr 2002, 246). In this context we say that internationalization and the choice of entry modes in a foreign country is of very importance and seeks careful and wise steps to be taken from SMEs in particular.

1.2 Problem discussion

This study will take place in Finland, taking into consideration Finnish companies (SMEs) from the food industry. Two cases of Finnish SMEs operating in the food processing industry have been selected for this purpose.

Regarding the topic "Internationalization of SMEs in the Finnish Food Industry", we consider that it is of particular importance to be studied. Different authors have given theories about internationalization process such as Johansson and Wahlne (1977), Cavusgil (1982), Luostarinen (1994). In this context our main approach is to find out how the internationalization process is done in the food industry in Finland among small companies. There are lots of SMEs operating in the food industry in Finland besides Finnish food giants such as Valio, Raisio Group, HKScan etc. A large number of other companies are small and medium in this industry (ETL). Besides food industry is fourth largest industry in Finland after metal, forestry and chemical industry, and that makes us eager to see how small companies are internationalizing in such a vital industry.

Food industry in Finland has a long tradition and the new trends and the future of Finnish food industry is going towards functional and healthy food for the consumers in and outside Finland. Small companies operating in this industry face many difficulties in trying to compete and expand to new markets, that is why these companies are the key of innovation and they have done many breakthroughs in the food industry as well. It is therefore important to understand the internationalization process these companies follow and entry strategies they use, and moreover how they use their limited resources in order to be successful in international markets. These challenges have greater strategic implications if the target market is dissimilar to the domestic market and if new subsidiaries are established (Korsakiene and Tvaronaviciene 2012, 298). Paunovic and Prebezac (2010, 73) maintain that enterprises that do business exclusively in domestic markets do not have a long-term future in the global market. In this context we can say that internationalization and exporting products to international markets is a key success for small and medium companies as well.

1.3 Research purpose

The aim of this study is to find out about internationalization of small and medium size enterprises in the Finnish food processing industry. Thus main focus or research question of this study is: *What is the internationalization process and choice of entry modes by small and medium-sized firms in Finnish food processing industry?*

We are focusing on this particular industry since the products of this industry are vital for our daily existence and of course we should see on to their success in not only

domestic market but also in international markets and their internationalization process as an aspect of engaging in international business.

1.4 Objectives

As the main research question in this research will be:

What is the internationalization process and choice of entry modes by small and medium-sized firms in Finnish food processing industry?

Sub questions:

What were the company's motivations to internationalize?

How do they select new markets in this specific industry?

What factors are most critical for their internationalization speed?

The first sub question is related to the main question based on companies responses on their motivations and drivers of SME internationalization in food industry as one of the major industries in Finland.

The second sub question in this research will be focused on the factors which are critical for their internationalization process to be a success story or probably a failure.

The third sub question is related to the process and steps that those selected companies have been following during their internationalization process.

1.5 SME definition and characteristics

Small and medium size enterprises are increasingly active in international markets, thus contributing to economic growth and prosperity (Coviello and McAuley 1999, 224). According to Carter and Jones-Evans (2006), there is no simple or single definition of what constitutes a small enterprise. One of the earliest attempts to provide a definition was provided by the Bolton Report (1971). Bolton suggested two definitions for the small enterprise. First suggestion was a qualitative or economic approach that tried to capture the range and diversity of the smaller enterprise relative to the larger enterprise. This definition suggested that a small enterprise was so if it met three criteria:

- Independent (not part of a larger enterprise)
- Managed in a personalized manner (simple management structure)

- Relatively small share of the market (the enterprise is a price “taker” rather than price “maker”).

Thus, such criteria are useful because they reflect central features of smaller business. Bolton also proposed a more quantitative definition of the smaller enterprise based on different economic sectors. The table below illustrates the report:

Table 1: The Bolton Report (1971) quantitative definition of smaller enterprise, modified from Carter and Jones-Evans (2006), Enterprise and Small Business

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and quarrying	25 employees or less
Retailing	Turnover of £50,000 or less
Miscellaneous services	Turnover of £50,000 or less
Motor trades	Turnover of £100,000 or less
Wholesale trades	Turnover of £200,000 or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

It seemed that there were obvious problems with such definition and European Commission came with a more uniform definition of Small and Medium Sized Enterprises. In 1996, the European Commission adopted a recommendation establishing the first common definition for small and medium sized enterprises in the European Union. According to European Commission (1999), enterprises qualify as micro, small and medium sized enterprises if they fulfill maximum ceilings for staff headcount and either a turnover cap or a balance sheet ceiling.

Table 2: Adapted from European Commission guide on new SME definition 2005

SME Definition				
Enterprise category	Ceilings			
	Staff Headcount (number of persons expressed in annual work units)	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

1.6 Finnish food industry facts

Finland's food and drink industry is a well-known force on international markets, especially in the Baltic Sea area. The strength of the Finnish food and drink industry is based on knowing the expectations of customers and consumers. The products are tasty and convenient. Successful products and trustworthiness are the result of the strong integrity of food and drinks industry professionals. Quality is further guaranteed by innovative product development and advanced production technology. Close and transparent cooperation across the food processing chain ensures a supreme standard of food safety from raw ingredients to the finished products. Corporate social responsibility policies and a commitment to environmental friendliness are the cornerstones of the Finnish food and drink industry that ensure sustainability far into the future. Finland's food and drink industry is among the best in the world in the development of functional food products. The best known Finnish health innovations include tooth-friendly xylitol, lactic acid bacteria preparations designed to promote a healthy gut, and products intended for controlling cholesterol.

- The food and drink industry is the fourth biggest industry in Finland after the metal industry, forestry, and the chemical industry.
- The gross production value of the food and drinks industry is EUR 10.2 billion. The value added is EUR 2.4 billion.
- Food and drink industry exports were valued at EUR 1.4 billion in 2010 and imports at EUR 3.5 billion.
- The three largest food and drinks industry sectors – meat processing, dairy farming, and the bakery industry – represent 50% of the industry's gross production value.

- The food and drink industry employs almost 33 000 people. The number of individual facilities is approximately 1 900.
- Eighty-five percent of all raw ingredients used in the food and drinks industry originate from Finland.
- The Finnish food and drink industry invests more in research and development than most other countries in Europe: 2.9 percent of the production value in 2009.
- The entire food processing chain employs approximately 300 000 people in Finland, which is around 12 percent of the employed workforce.¹

The following figures below will show a better and thorough understanding of Finnish food industry in different time periods.

¹ <http://www.etl.fi/www/en/>

Table 3: The most important sectors of the food industry 2010, adapted from Finnish food and drink industries federation

	Gross value of production			Raw materials		Value added			Salaries		Employees 2009
	2009 mill.€	2010 mill.€	Change 10/09 %	2010 mill.€	Of the gross val. of prod. %	2010 mill.€	Change 10/09 %	Of the gross val. of prod. %	2010 mill.€	Of the gross val. of prod. %	
Meat processing/ slaughtering	2 466,0	2 452,5	-0,5	1 445,4	58,9	478,4	-8,5	19,5	339,2	13,8	7 979
Dairy products/ice cream	2 379,3	2 416,2	1,6	1 507,4	62,4	423,7	10,3	17,5	242,1	10,0	4 612
- Dairy products	2 259,5										4 244
- Ice cream	119,8										368
Fruit and vegetables	453,2	446,8	-1,4	255,3	57,1	142,1	0,2	31,8	74,8	16,7	1 777
- Potato products	120,3										450
- Fruit and vegetable juices	66,2										109
- Other vegetable and fruit products	266,7										1 218
Fish products	212,1	257,6	21,5	201,0	78,0	40,2	8,1	15,6	29,1	11,3	818
Edible oils and fats	169,5	145,4	-14,2	95,1	65,4	23,9	-5,2	16,4	15,7	10,8	347
Milling products and starch	262,8	229,6	-12,6	132,6	57,8	49,5	7,4	21,6	22,2	9,7	471
- Millin products	216,1										391
- Starch	46,7										80
Malt **	74,8										173
Animal feed	569,0	546,2	-4,0	356,1	65,2	81,0	2,1	14,8	37,0	6,8	776
Beverages	1 107,5	1 154,5	4,2	523,9	45,4	388,0	-47,8	33,6	177,7	15,4	3 332
- Alcoholic beverages	245,6										784
- Cider etc.	13,6										73
- Beer	765,6										2 267
- Mineral water, soft drinks	82,7										208
Bakery products	1 065,4	1 049,5	-1,5	294,8	28,1	408,3	-3,6	38,9	321,8	30,7	7 911
- Fresh bakery products	958,9										7 290
- Crispbread, biscuits etc.	106,5										621
Other food products	1 404,7	1 533,9	9,2	783,6	51,1	418,0	1336,4	27,3	213,3	13,9	4 827
- Sugar production
- Chocolate, cocoa and confectionery	367,2										1 567
- Coffee and tea	264,9										336
- Seasonings and stocks	83,3										310
- Ready meals	315,4										1 621
- Homogenized special diet products	90,3										216
- Other food products	130,5										494
Total	10 164,1	10 232,2	0,7	5 595,2	54,7	2 453,1	6771,4	24,0	1 472,9	14,4	33 023

The table above shows gross value and added value of different sectors of food industry in 2010. We can see that meat processing/ slaughtering, dairy products, beverages; bakery products are the sectors with most high gross value of production with over a billion Euros in value. Also raw material count for over a billion euro in the meat processing and dairy products sectors.

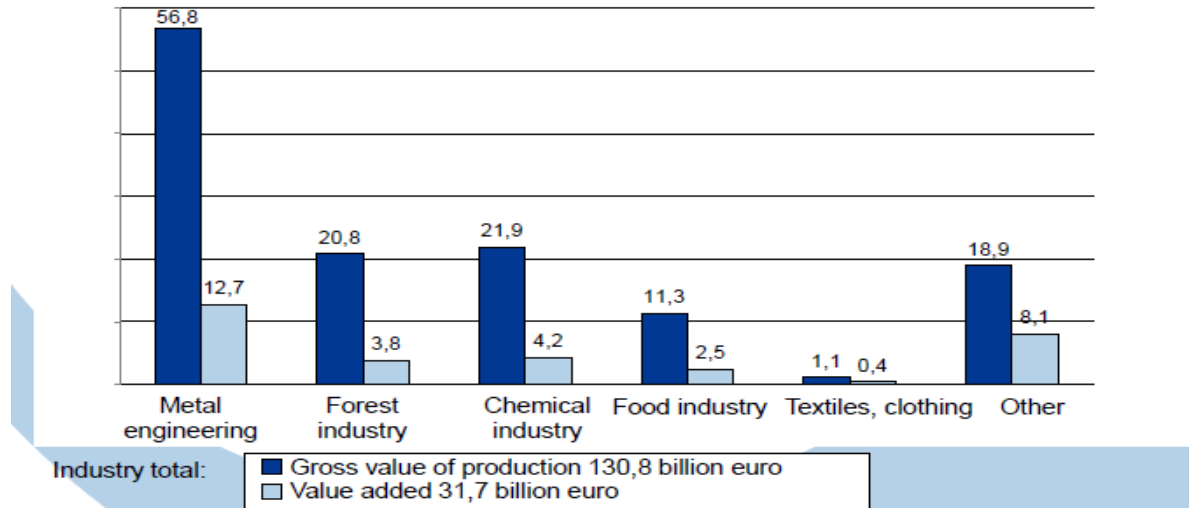
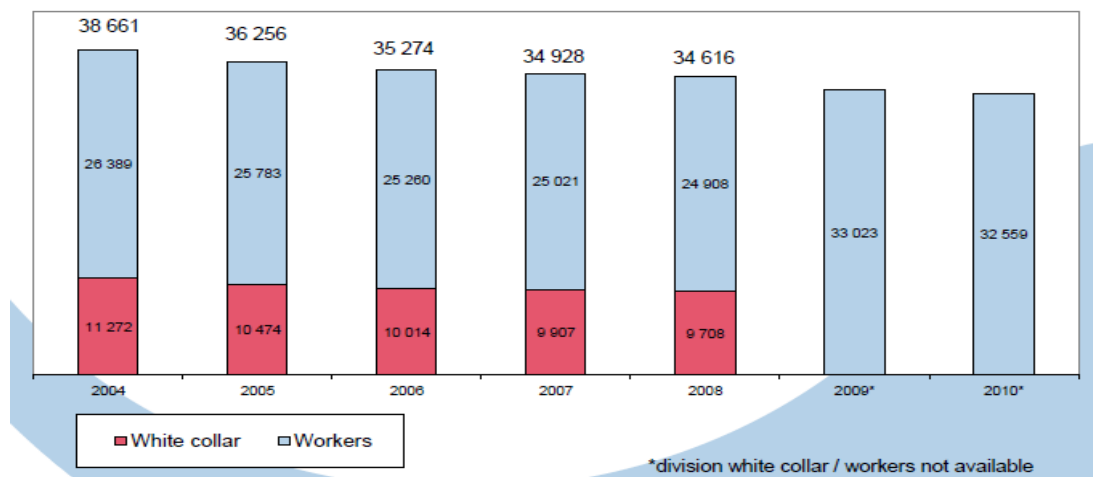


Figure 1 Gross value of production and value added by branch of industry 2011, adapted from ETL

The figure above describes gross value of production and value added by branch of industry. As the largest industry in Finland is ranked metal engineering with 56 billion Euros. In the figure above can be seen that the gross value of production in food sector in 2011 was 11,3 billion Euros and value added at 2,5 billion Euros, which compared to other sectors it can be seen as the fourth largest economic sector in Finland, after metal, forest and chemical industries.



*division white collar / workers not available

Figure 2 Employees in food industry 2004-2010, adapted from ETL

The figure above shows the number of employees working in the Finnish food industry divided as the white collar and workers. Out of 38661, there were 26389 numbers of workers and 11272 number of white collar working in the food industry in year 2004. There was a trend of increasing number of workers and decreasing number of white collar. In the years 2009 and 2010 the number of white collar is not available but the number of workers has increased compared to previous years, 33023 in 2009 and 32559 in 2010.

Value of food imports in 2011 by sales area 3,972 million euro

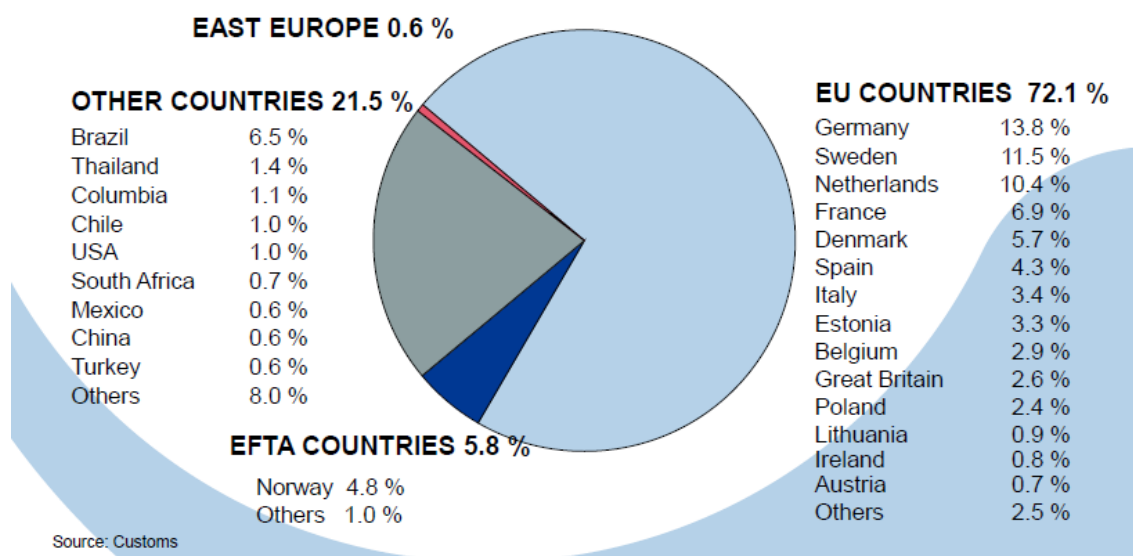


Figure 3 Value of food imports by sales area in 2011, adapted from ETL

The figure above shows the value of food imports in 2011 by the sales area. It is clear that the most imported products come from Europe and Germany, Sweden, Netherlands in particular as with the largest share. From other countries we can see that Brazil is more dominant than the rest of the countries in the figure. The total amount of the imported goods from outside Finland goes to 3.9 billion Euros for 2011.

Value of food exports in 2011 by product category 1,593 million euro

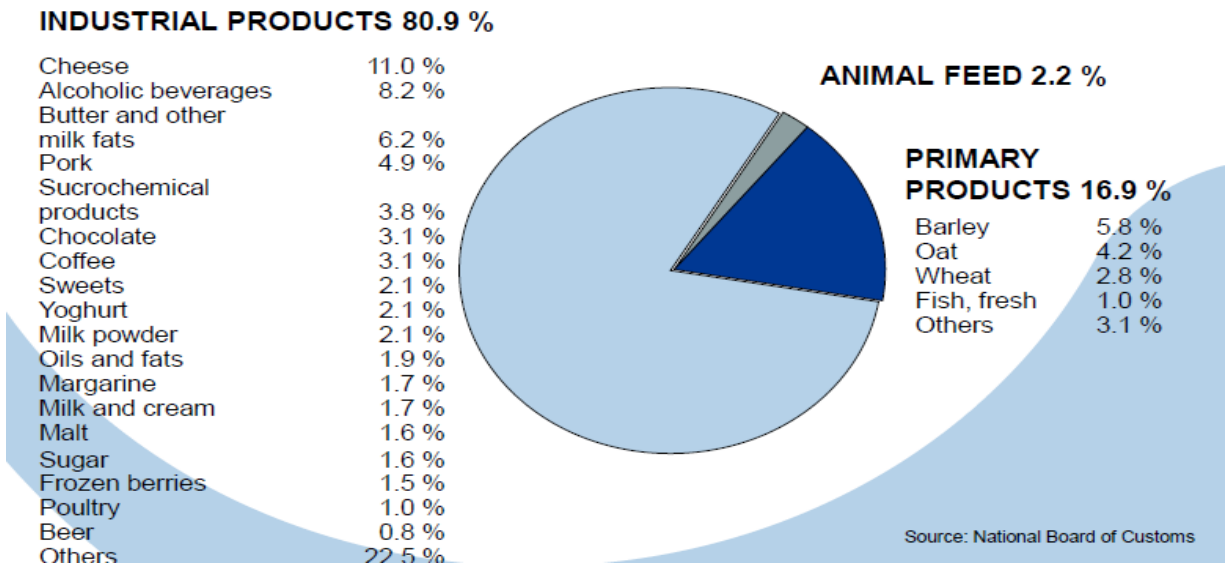


Figure 4 Value of food exports in 2011 by product category, adapted from ETL

The figure above shows the value of food exports in 2011 by product category. Industrial products such as cheese, alcoholic beverages, butter, pork, chocolate have the highest percentage of exports. Primary products like barley, oat, wheat have a lower share in exports. Total amount of exports by product category in 2011 was 1.5 billion Euros.

Value added in food industry 2010 2.453 mill. euro

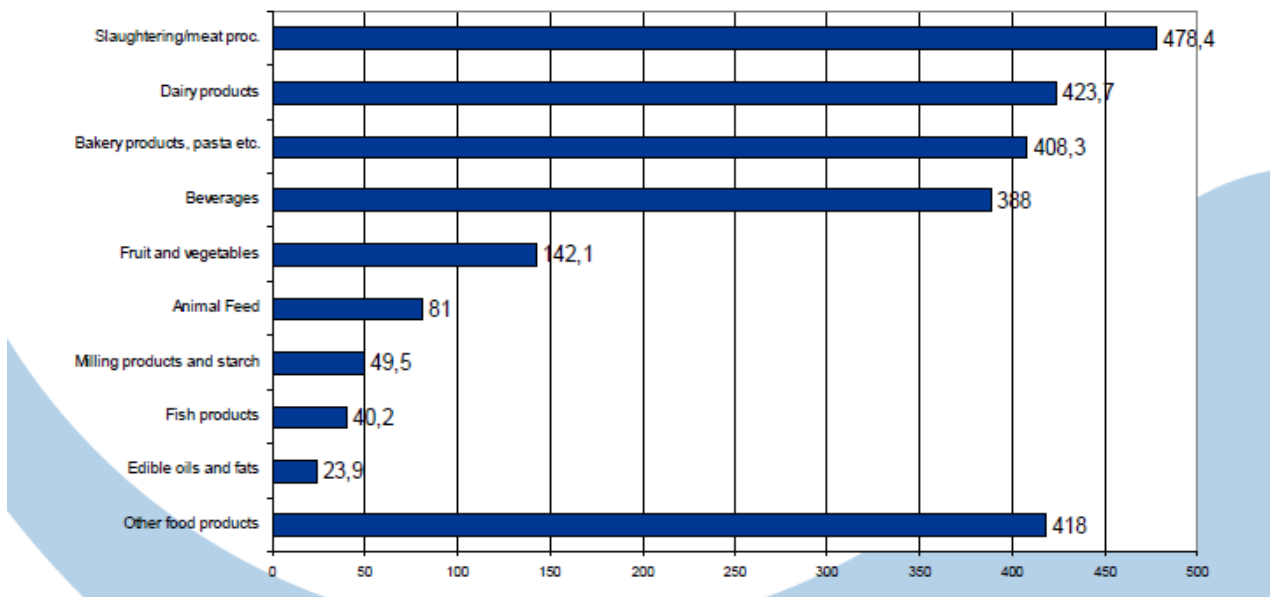


Figure 5 Value added in food industry adapted from ETL

The figure above shows the value added in food industry in 2010. The figure shows that the slaughtering of meat adds the highest value 478,4 million Euros followed by dairy products 423,7 million, bakery products and pasta 408,3 million and beverages 388 million followed by other categories of products with a certain amount of percentage in value added in the food industry.

Export of foodstuffs and export to Russia (billion euro)

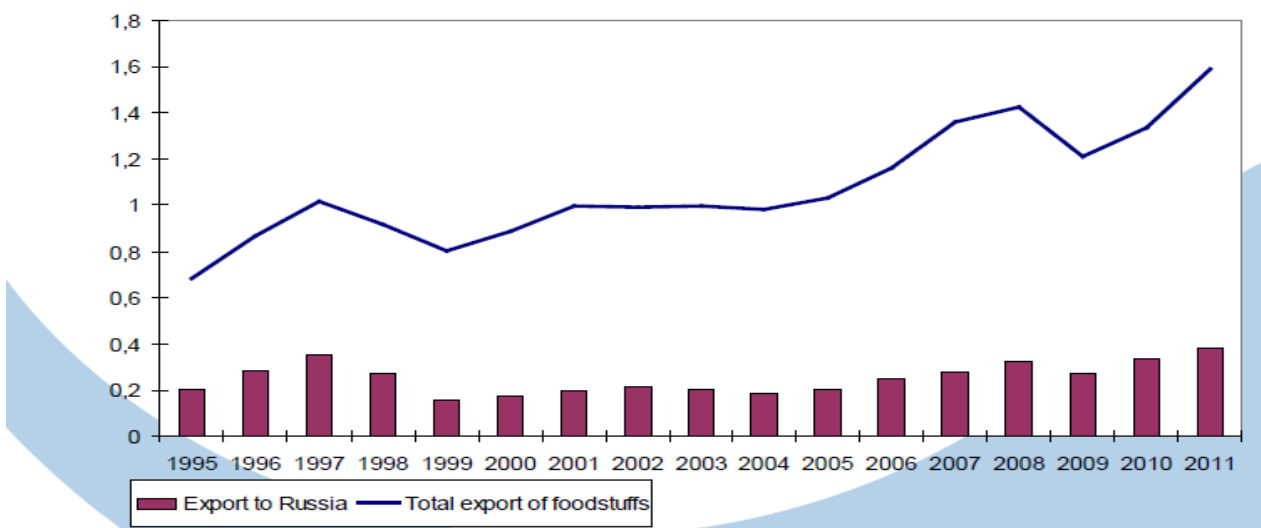


Figure 6 Exports of foodstuffs and export to Russia, adapted from ETL

The figure above shows the export of foodstuffs from 1995 to 2011 and export to Russia appears to be a huge market for Finnish export products. The figure shows that export have increased since 1995 but there were decreases also during the past and exports got back to the increasing trend in 2011. Comparing other exports with the exports to Russia we can say that there a significant amount of export going to Russia at around 400 million Euros of foodstuff. The curve also shows that the trend of food export despite occasional negativities has been increasing since 1995 and onwards.

Gross value of production and value added in food industry 2005–2011

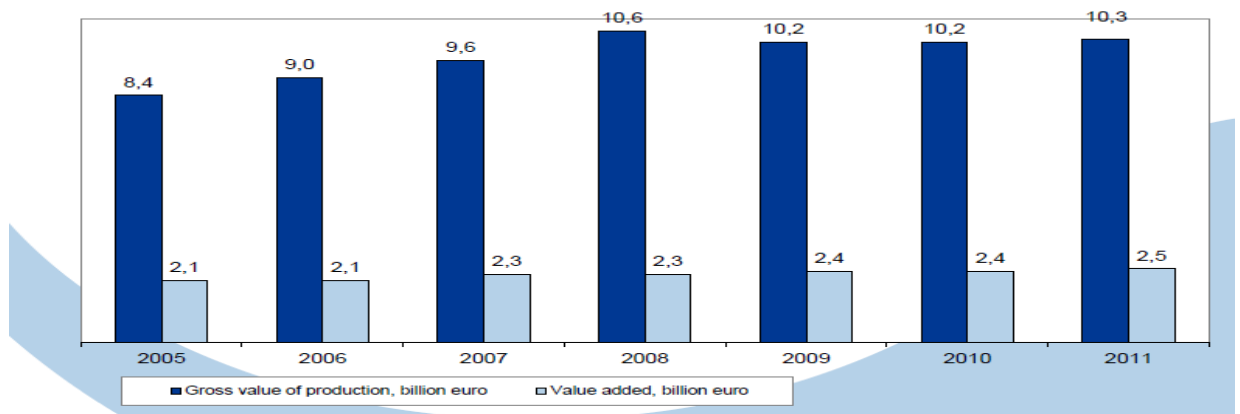


Figure 7 Gross value of production and value added in food industry 2005-2011, adapted from ETL

The figure above shows the development of gross value production and value added on the food industry from 2005 to 2011. We can see that since 2005 there was a good trend of gross value production and value added until 2008, where a slight decline started until 2010, this most probably resulted from the world financial and economic crises in 2008 and onwards. However, in general we can see an increasing trend of value added since 2005 until 2011.

Imports and exports of foodstuffs 1985–2011

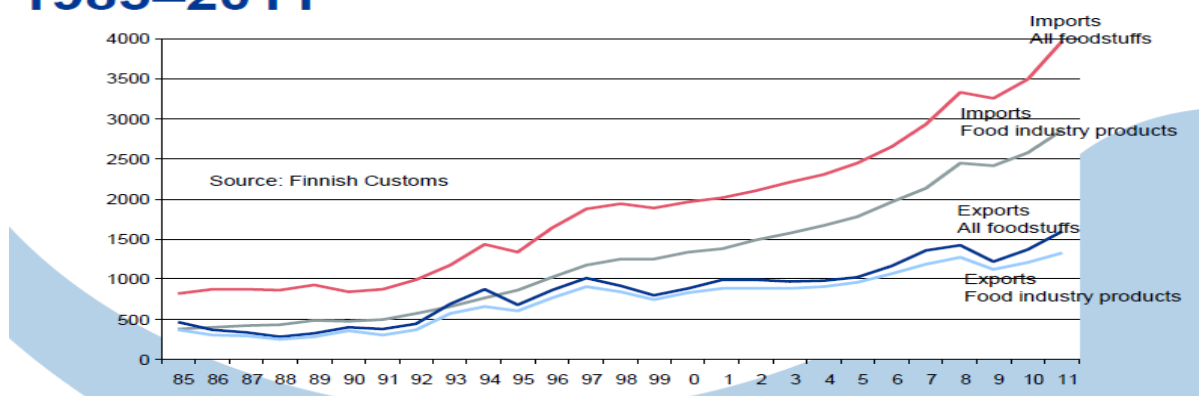


Figure 8 Imports and exports of foodstuffs 1985-2011, adapted from ETL

The figure above shows imports and exports of foodstuffs from 1985 to 2011. From the graph we can see that both exports and imports have been increasing during the last 25 years. Imports have scored a higher value than imports of food products.

Export of foodstuffs 1985–2011

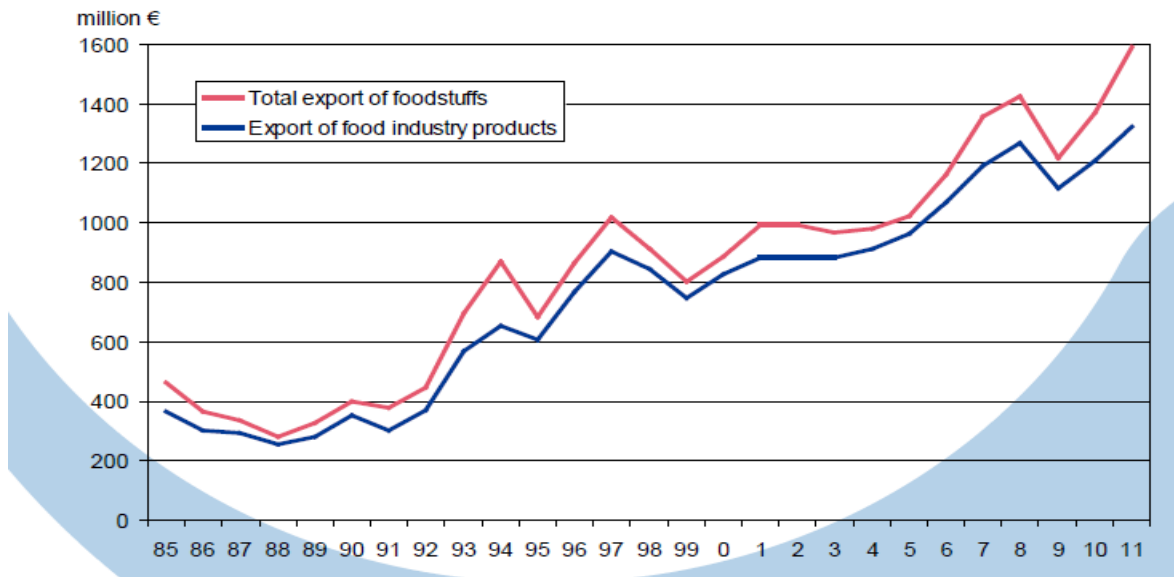


Figure 9 Export of foodstuffs 1985-2011, adapted from ETL

The figure above shows exports of foodstuffs from 1985 to 2011. Seen from the graph above, the exports of foodstuff have been increasing since 1985 and had a positive trend during recent years. Several drops are visible too. The drop caused in 2008 and 09 could be seen as an impact of global economic crisis which affected many industries, including food industry.

Table 4 Finnish food exports by country

1995	%	2005	%	2010	%	2011	%
Russia	29,5	Russia	19,7	Russia	27,7	Russia	26,5
Sweden	14,2	Sweden	15,4	Sweden	17,7	Sweden	16,3
Estonia	6,9	Estonia	9,2	Estonia	9,4	Estonia	8,8
Germany	5,1	U.S.	5,9	Germany	4,3	Germany	5,5
Belgium	4,4	Germany	5,3	USA	4,1	USA	3,5
Norway	3,7	UK	4,4	Norwat	3,9	Denmark	3
U.S.	3,6	Poland	3,2	France	2,8	Norway	2,8
UK	3,4	Norway	2,9	Poland	2,6	Netherlands	2,7
Denmark	3,2	Denmark	2,8	UK	2,5	Poland	2,5
Netherlands	2,8	France	2,8	Denmark	2,2	UK	2,4
Others	23,2	Others	28,4	Others	22,8	Others	25,9
Total	100	Total	100	Total	100	Total	100

Source: National Board of Customs, Finnish Food and Drink Industries' Federation

The table above shows Finnish food exports by country from 1995 to 2011. From the table we can see that since 1995 Russia is the major export country for Finnish products with about 30% of exports. Second largest export market for Finnish food products is Sweden with about 14% of exports. As a third export market for Finnish products is Estonia with about 7% of exports, followed by Germany, USA, UK and other European countries.

Table 5: Food exports by country and product group in 2011

FOOD EXPORTS BY COUNTRY AND PRODUCT GROUP

Russia	1 000 €	Estonia	1 000 €
Dairy products	219 308	Spirits	24 715
Spirits	23 894	Coffee (roasted)	20 166
Farm products	23 102	Meat and meat products	14 115
Meat products	17 591	Farm products	11 824
Fodder	16 289	Chocolate and sweets	11 178
Coffee (roasted)	15 481	Beer	4 903
Grain products	14 258	Grain products	4 180
Malt	13 011	Dairy products	4 016
Milling industry products	7 109	Milling industry products	3 967
Chocolate and sweets	6 092	Sugar	3 678
Fish products	5 966	Fats and oils	3 439
Starch	4 797	Malt	3 051
Beer	4 473	Fish products	2 675
Babyfood	2 549	Margarin	2 074
Others	12 272	Soft drinks	1 266
Total	386 192	Fodder	1 139
		Others	12 036
Sweden	1 000 €	Total	128 422
Dairy products	78 271		
Meat and meat products	30 109		
Chocolate and sweets	29 608		
Farm products	21 170		
Grain products	15 248		
Fats and oils	11 857		
Spirits	8 039		
Fish products	5 748		
Babyfood	3 411		
Milling industry products	3 052		
Juices	3 035		
Frozen berries and vegetables	2 871		
Malt	2 863		
Starch	2 823		
Fodder	2 668		
Beer	2 563		
Margarin	2 425		
Sugar	1 540		
Others	9 990		
Total	237 291		

Source: National Board of Customs, Finnish Food and Drink Industries' Federation

The table above shows three most important and largest markets of Finnish export, Russia, Sweden and Estonia. The table shows all product categories exported in each and every country such as: dairy products, spirits, farm products, meat and meat

products, chocolate and sweets, fish products etc. As it is seen from the table, Russia is the largest export country of all product categories with a total of 386,192 million Euros, Sweden is the second largest with 237,291 million Euros and Estonia with 128,422 million Euros.

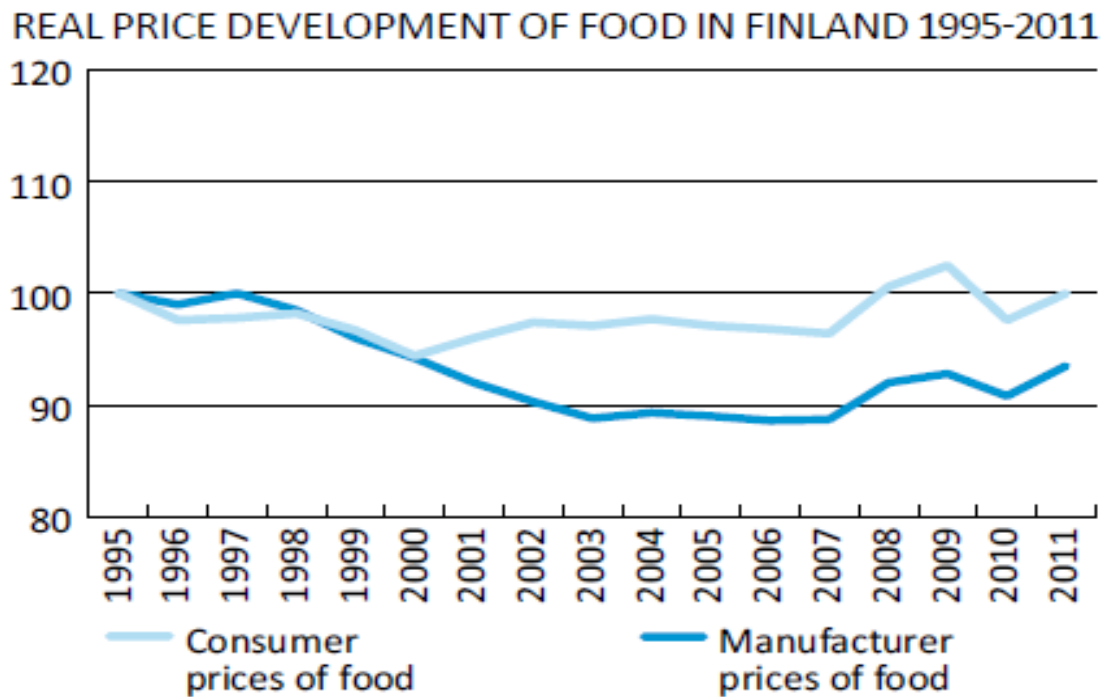


Figure 10 Real price development of food in Finland 1995-2011, adapted from ETL

In the figure above we can see the real price development of food in Finland since 1995 to 2011. We can see that consumer prices of food have been slightly increased in comparison with manufacturer prices of food which have been slightly decreased between 1995 and 2011.

2 THEORETICAL FRAMEWORK

2.1 Internationalization concept

The term international usually refers to either an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad (Johanson and Wiedersheim-Paul, 1975).

Joahnsso and Wiedersheim-Paul (1975), argue that the firm first develops in the domestic market and that internationalization is the consequence of series of incremental decisions. They also assume that the most important obstacles of internationalization are lack of knowledge and resources. Barney (1991), defines those resources as assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve efficiency and effectiveness.

Welch and Luostarinen (1988), argue that the term internationalization needs further clarification. It tends to be used roughly to describe the outward movement in an individual's form or larger grouping's international operations. In addition they argue that the usage could be broadened further to give the following definition: the process of increasing involvement in international operations. An important reason for adopting a broader concept of internationalization is that both sides of the process, inward and outward, have become more closely linked in the dynamics of international trade.

Welch and Luostarinen (1988), also emphasize that definition of internationalization should be stressed that once a company has embarked the process, there is no inevitability about its continuance. In fact the evidence indicates that reverse of de-internationalization can occur at any stage but is particularly likely in the early stages of export development.

The concept of internationalization tends to be used roughly to describe the outward movement in an individual firm's or larger grouping's international operations (Welch and Luostarinen 1988). Moreover the authors define it as the process of increasing involvement in international operations. Thus an important reason for adopting a broader concept of internationalization is that both sides of the process inward and outward, have become more closely linked in the dynamics of international trade.

Different authors make a big distinction between traditional and rapid way of internationalization. Example Johansson and Wahlne (1977) showed that initial internationalization activities of many firms were targeted to psychically close markets and used the less committed modes of entry, such as exporting. According to the authors internationalization process takes place through increase of foreign market knowledge over time primarily through experience and only then they start to increase their foreign mar-

ket commitments and later expand to more psychically distant markets. The so called Uppsala Model explains how foreign market risks are managed by acquiring tacit knowledge about foreign markets and incrementally change their commitments to those markets. So this model is focused on traditional cross border behavior, not on accelerated internationalization or an entrepreneurial behavior of internationalization.

On the other hand Oviatt and McDougall (2005), show the model of entrepreneurial internationalization, born global or international new ventures which target international markets from their inception. Those companies are said to own certain valuable assets, use alliances and network structures to control a relatively percentage of vital assets, and to have unique resources that provides sustainable advantage that is transferable to a foreign location.

Coviello and McAuley (1999) identified three individual schools of internationalization research. 1st, the economic school of Foreign Direct Investment, 2nd the behavioral school of the Establishment Chain (Stage) models, and 3rd the relationship school of the Network perspective.

Economic school of FDI explains internationalization with the argument that firms choose their optimal structure or each stage of production by evaluating the cost of economic transaction. Firms therefore choose the organizational form and location for which overall transaction costs are minimized, transactions perceived to be high risk and requiring significant management time or other resource commitments are more likely to be internalized as part of a hierarchically structured organization (Coviello and McAuley 1999, 225).

The establishment chain or stage models of internationalization or referred to as Uppsala model, it suggests that internationalization activities occur incrementally and are influenced by increased market knowledge and commitment. While the model emphasizes managerial learning, internationalization is described in term of market selection and the mechanisms used for market entry. For example, firms improve their foreign market knowledge through initial expansion with low risk, indirect export approaches to similar psychically close market. Over time and through experience increase, firms increase their foreign market commitment. This in turn enhances market knowledge, leading to further commitment in more distant markets, including equity investment in offshore manufacturing and operations (Coviello and McAuley 1999, 226).

And the third theory of network relationships, refers to the theories of social exchange and resource dependency, and focuses on firm behavior in the context of a network of inter-organizational and interpersonal relationships. Such relationships can involve customers, suppliers, competitors, private and public support agencies, family and friends and so on. Organizational boundaries therefore incorporate both business (formal) and social (informal) relationships. Thus according to this school of research, in-

ternationalization depends on an organization's set of network relationships rather than a firm's specific advantages (Coviello and McAuley 1999, 227).

2.2 Drivers of SME internationalization

2.2.1 *Motives for exporting*

In reviewing the literature concerning motives for exporting, various classifications have been identified in previous studies categorized motives into several broad areas: decision-maker characteristics; firm-specific factors; environmental factors; firm characteristics and ongoing export motives (Crick and Chaudhry 1997, 158).

Perhaps the most important factor in SMEs is the entrepreneur (owner/manager) or senior management team, since these are the decision makers within the firm, and therefore determine the company's commitment to export. This person makes the final decision on whether the company will export, based on a perception of the desirability to sell overseas for reasons such as growth, profit and other objectives. Thus factors which may influence or motivate exporting might be differential firm advantages, available production capacity, and accumulated unsold inventory and economies resulting from additional orders (Crick and Chaudhry 1997, 158).

There are many elements which motivate SMEs to start their internationalization process. These include existence of idle operating capacity, prevalence of home market constraints, pressure by domestic competitors, identification of business opportunities overseas markets and encouragement by external agents

In a broader sense, motivations have been called as the "pushes and pulls" to internationalize and "proactive and reactive" SME motivations. Proactive stimuli denote the firm's interest in exploiting internal strengths or opportunities in overseas markets, while reactive motives exemplify a response to organizational or environmental pressures. (Pett et al, 2004).

A thick number of studies suggest that market conditions directly influence decisions regarding internationalization; increased interests in foreign markets results from falling market conditions at home. Some firms may only export when domestic market demand is limited, and may re-trench when domestic market conditions improve. Moreover, when the firm has gained more resources and experience, the allocation of resources will be contingent upon the conditions in each market. (Kamakura et al. 2012, 245)

2.2.2 *Pre-export behavior of the firm*

The figure below describes the pre-export behavior of the firm before the first step in internationalization process is made. As a point of departure we assume that all industrial firms, when they start, are non-exporters. Looking at a single firm in this situation, the question raised is: Will it become an exporter, and if so, why and when? In order to give an answer to this question, or at least to contribute to its solution, a model is needed which summarizes important factors behind the first step in the internationalization process of the firm.

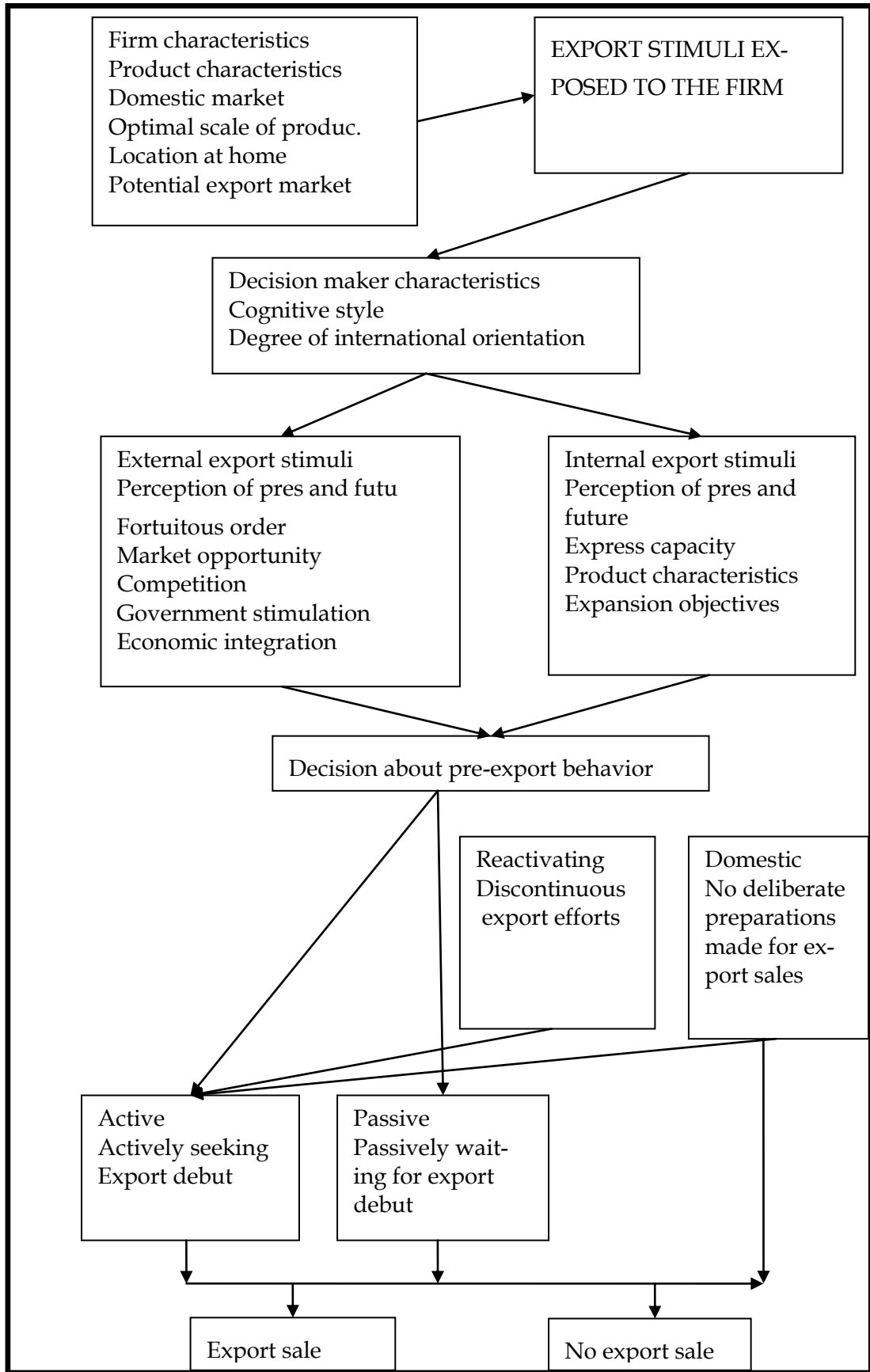


Figure 11 Modified from Olson, Wiedersheim-Paul and Welch (1978), Pre-export activity: the first step in internationalization

In the model of Olson et al (1978), certain aspects of the decision-maker play a central role. In many smaller firms there is perhaps only one decision maker all important, strategic decisions, a true entrepreneur. The stimuli factors are the most dynamic elements in the model and it is the stimuli in the firm's environment which provide the real input in. These stimuli are interesting only to the extent that they are perceived by the decision maker. Among perceived stimuli, the main distinction is between internal and external export stimuli.

In the internal export stimuli are related to the goals of the firm and the extent to which they have been or are expected to become realized in the present environment of the firm. The internal stimuli factors can be specified in different ways: excess capacity in resources of management, marketing, production and finance, product characteristics, expansion goals. These groups of factors are to some extent dependent upon each other.

On the other hand external stimuli identify these factors: fortuitous orders from foreign customers, market opportunities, competition, economic integration, government export stimulation measures.

According to Leonidou (1995), stimulating factors can be found at all stages of a firm's export development process, from the pre-engagement and initial stages to the more advanced and mature stages and may vary within each stage according to frequency, intensity or importance. Moreover, there is evidence indicating that the impact of each stimulus does not remain static, but changes from one stage to another. Stimuli is particularly crucial during the pre-export stage, which has been described as being very sensitive and fragile. According to the author, export stimulus can be of different factors: Accumulation of unsold inventory/ over production, achievement of economies of scale from exporting, encouragement by external agents/ organizations, identification of better opportunities abroad, intense competition in domestic market, possession of competitive advantages etc.

2.2.3 *Role of owner-manager*

The academic literature clearly identifies the key role of owner manager or senior management team in the internationalization process. Moreover, it is argued that the performance of SMEs in international markets is not only a function of the accessibility of resources, but also of managerial competence and firm networks (Hutchinson et al. 2006, 514).

Management is also viewed as responsible for the mode, direction and speed with which the company advances along international path. In most export development models the decision maker is viewed as the key factor behind the firm's progression

from one stage to another, particularly through the interplay of decisions involving foreign market knowledge and commitment (Hutchinson et al. 2006, 515).

According to Lloyed-Reason and Mughan (2002), internationalization decision is characterized by the absence of deliberate logical steps and is constrained by the subjective view and perceptions of the decision-maker. In a larger firm the decision making process would probably be a group activity, within the small firm; this would tend to rest with the owner-manager. In other words the strategic direction of the firm would be determined by a lone decision maker, often owner-manager.

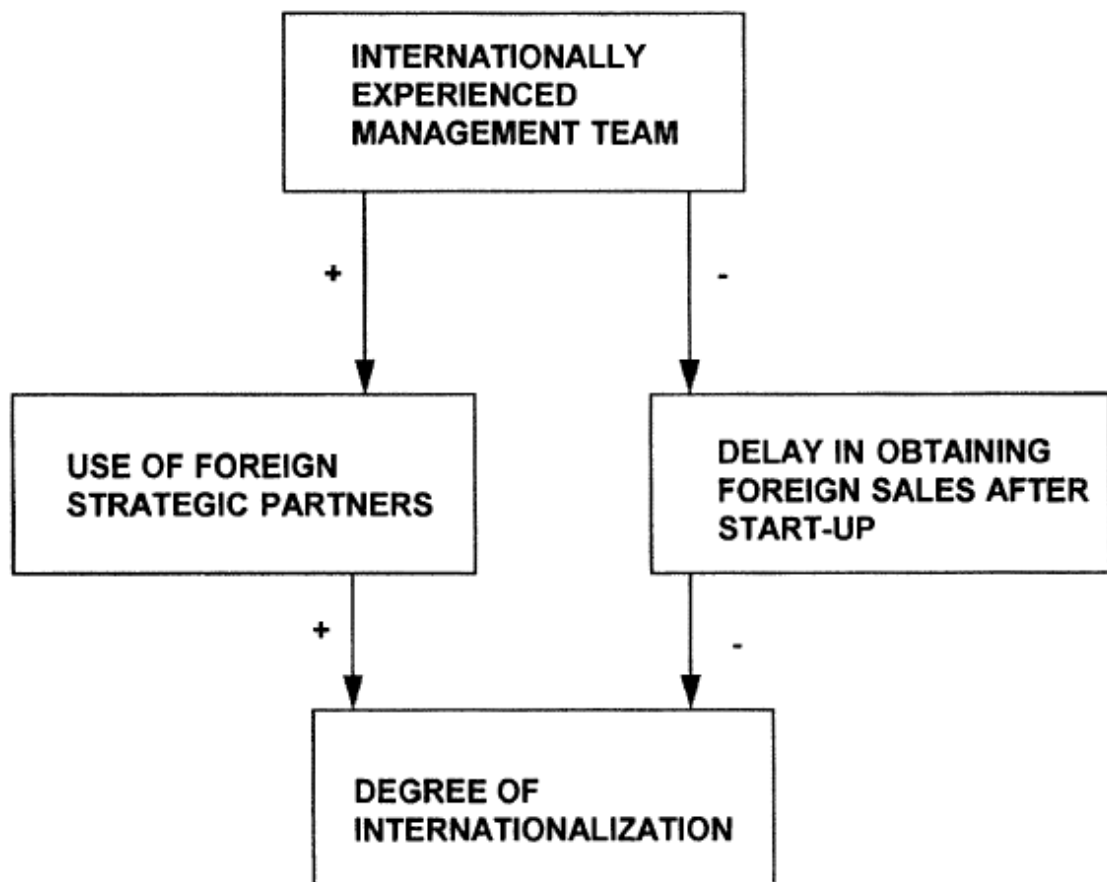


Figure 12 The mediated relationships, adapted from Reuber and Fischer 1997

Reuber and Fischer 1997, point out the importance of management team in the internationalization process of an SME. Especially in SMEs, the founder or the owner-manager plays an important role in this process, as he or she might have international experience. In other words experience of the founder or management team is likely to influence the behaviors of an SME, and these behaviors in turn will influence subsequent firm performance. In the figure above there are two different behaviors that internationally experienced leaders may influence their firms to engage in, which will increase the degree of internationalization of their firms. The first behavior is the use of

foreign strategic partnerships, as experienced managers are more likely to form partnerships because they have the ability to know, attract and engage partners. In this way managers build partnerships or network which they use and in turn speeds up the internationalization degree. The second behavior is the speed with which foreign sales are first obtained after start up. What is of interest in this perspective is not for how long a firm has been selling in a foreign markets, but rather, for how long the firm delayed before selling in foreign markets. Thus SMEs managed by internationally experienced managers are likely to delay less. Furthermore in a study done by Ciszewska and Mlinaric (2010), about the internationalization of SMEs from Slovenia, in a study which included the managerial attitude, internationalization knowledge, and prior experience, has shown that these factors influence very much the level of SME internationalization.

2.2.4 *Push and pull factors*

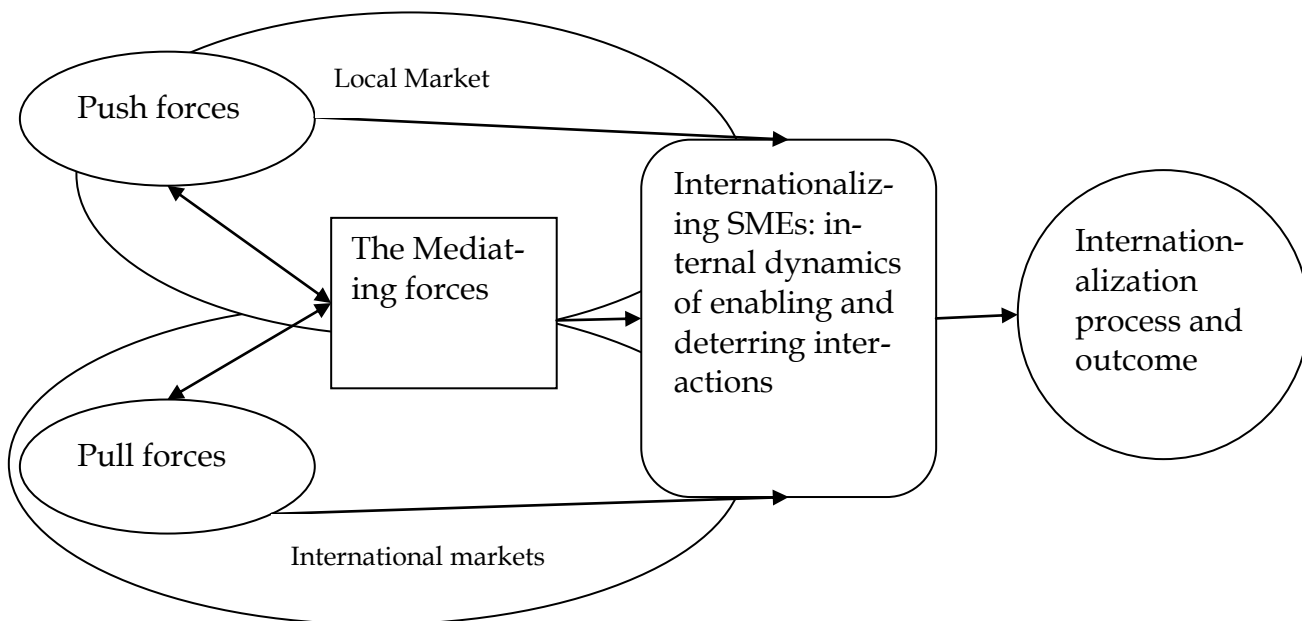


Figure 13 Modified from Etemad (2004), Internationalization of Small and Medium Sized Enterprises: A Grounded Theoretical Framework and Overview

In light of SMEs impressive and rapid success in international markets, the above figure suggests that internationally oriented SMEs must have developed at least an implicit, if not an explicit, competitive frame work. In the depicted figure above, three constructs are termed as the push factors of internationalization, pulling factors of internationalization and the mediating forces of internationalization. Naturally the combined impact of these forces is intermediated by the firm's assessment of: external environ-

ment, its own competitive position, objectives, internal resources and capabilities (Etemad 2004, 5-6).

The push forces consist of a set of forces (drivers) that are usually internal to the firm and exert pressure on the firm from the inside to internationalize. Push factors are entrepreneurial in nature and follow the Schumpeterian quest for creating opportunities especially when the firm has innovative combinations like innovative products, services and processes and it is set to realize them. Pushing factors accelerates SMEs internationalization process to exploit international opportunities, especially when domestic market is shrinking (Etemad 2004, 6-7).

The pull forces consist of a set of forces (drivers), usually in the environment and external to the firm, which enhance the firm's competitiveness or provide attractive incentives to internationalize. These forces attract or pull the firm by signifying the benefits of larger and richer international markets. Pull factors may manifest in terms of providing incentives that entice, if not enable, the firm to internationalize, they may make process cheaper, easier or even faster (Etemad 2004, 7-8).

2.3 Strategies for internationalization

2.3.1 Strategies

Luostarinen (1994) categorizes the major components of internationalization strategy or so called POM strategy:

- Product strategy (what product types)
- Operation Strategy (How, operations modes)
- Market Strategy (Where, markets entered)

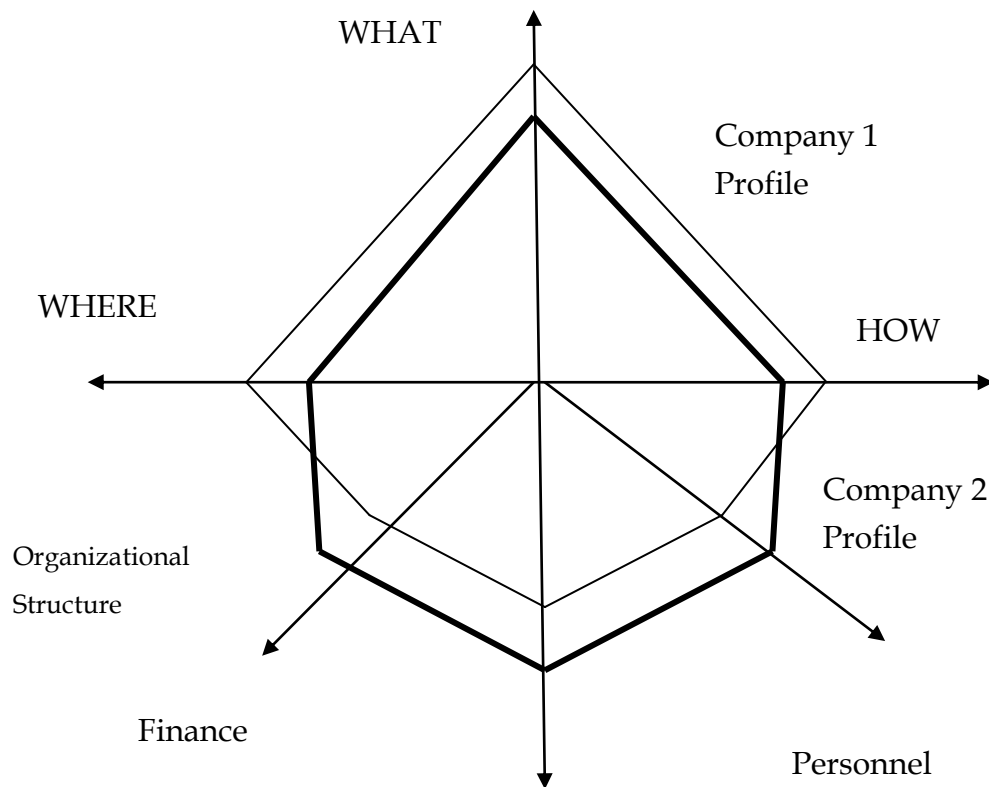


Figure 14 Modified from Luostarinen and Welch 1994

For all of these three components of the internationalization strategy, a fairly consistent and orderly mainstream pattern was identified. The product strategy (intended or emerged) for internationalization developed through the following steps: goods, services, systems and know-how. The operation strategy advanced in the order of NIMOs, DIMOs, NIPOs and DIPOs. For the market strategy, the companies first entered the markets that were geographically, culturally and economically close, markets at short business distances and then gradually advanced to the markets at longer business distances.

2.3.2 *Foreign market entry modes*

Foreign market entry modes is defined as institutional arrangements that allow firms to use their product, service, technology, human skills, management or other resources into a foreign country (Rasheed 2005, 42).

Because tangible (physical assets, organizational processes, etc.) and intangible (knowledge, information, managerial skills, etc.) assets serve as sources of competi-

tive advantages, the RBV of a firm assumes that appropriate mode of entry depends on the nature of resources available to a firm and required for that mode. According to this view, the limited supply of such resources discourages SMEs from committing resources abroad or restricts going international at all. Some firms may however enter new markets by exploiting available resources but must later seek to enhance their resources if they are to progress through the internationalization stages. (Kamakura et al. 2012, 246)

Many countries set aside certain areas for foreign business activities, as location is very important for firm's international expansion. (OLI theory follows) Location is more important for firms aiming to enter into a market on the basis of equity modes rather than those entering foreign markets in non-equity modes, where they either export to the host country or conduct business on a contractual basis. Ownership specific advantages largely reflects the resources and capabilities of the home countries of the investing firms, and that FDI would only occur when the benefits of exploiting and adding value to these advantages from a foreign location outweighed the opportunity costs of doing so. Internalization advantages, as companies try to lower their transaction costs by as many firms engage in cross border M&As to gain new resources, to access in new capabilities, markets, or to lower the unit costs of production, or to gain market power, or to forestall or thwart the behavior of competitors (Dunning 2000).

Host country's risks effects the choice of entry. There are two types of risks involved: contextual risks and transactional risks. Contextual risks are those external risks and uncertainties embodied in the market environment such as: political risks, ownership risks etc. on the other hand transactional risks arise internally from the opportunistic behavior for firms such as defaults on their obligations (Pan and Tse 2000, 538-540)

According to Peng (2006, 196) entrepreneurial firms use one of the three following strategies to enter foreign markets.

Direct exports

Direct exports involve the sale of domestically produced goods in foreign countries. While a passive exporting (prompted by unsolicited foreign enquiries) can be a good way to compensate drops in domestic demands, regardless of higher advantages, many SMEs lack skills and resources to actively and systematically pursue export customers. Export intermediaries may however be used to facilitate exports indirectly (198). Export intermediaries are specialists firms that link exporters to buyers overseas that otherwise would not have been connected. (198)

Licensing/franchising

Where foreign demands cannot be met by direct exports, licensing (and franchising for service industries) can be used to reach foreign customers. A licensing allows proprietary firm to lend its technology and trademarks to foreign firms who compensate by paying royalty fees to the licensor. Licensing/ franchising allow resource-constrained

smaller companies to expand beyond borders with relatively little capital of their own. However, should the licensee produces substandard products consequently damaging the brand, the licensor is faced with two costly and complicated choices: (1) suing the licensee in foreign court or (2) ending the relationship.

Foreign direct investment

In a FDI entry mode, a firm is required to invest directly in foreign operations in forms of strategic alliances with foreign partners (such as joint ventures), foreign acquisitions and/or green-field wholly owned subsidiaries. The physical and psychological proximity enabled by direct control and management of value-adding activities overseas, is essentially useful to better meet foreign demands at a large level. However, the level of complexity and required resources to undertake an FDI mode are enormous as compared to direct exports or licensing. Following that SMEs are principally (perhaps with few exceptions) unable to opt for an FDI entry mode. .

A scheme representation of Entry Choice Factors

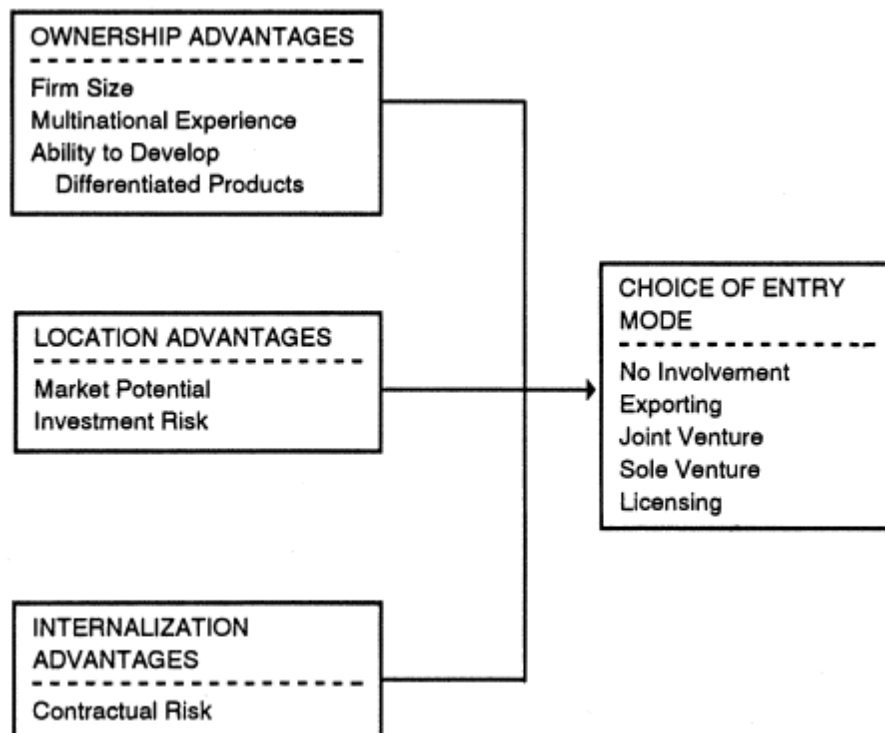


Figure 15 Figure representation of entry choice factors. Adapted from Agarwal and Ramaswami (1992)

According to the figure above, firms must possess superior assets and skills that can earn economic rents that are high enough to counter the higher cost of servicing foreign markets. Firms need assets power to engage in international expansion and successfully compete with the host country firms.

Resources are needed for covering high costs of marketing, for enforcing patents and contracts, and for achieving economies of scale (Ramaswami 1991). The size of the firm reflects its capability for absorption of these costs. Also Dunning (2000), argues that those firms have unique and sustainable resources and capabilities, which essentially reflect the superior technical efficiency of a particular firm relative to those of its competitors.

Firms interested in servicing foreign markets are expected to use a selective strategy and favor entry into more attractive markets. The attractiveness of a market has been characterized in terms of its market potential and investment risk. Market potential (size and growth) has been found to be an important determinant of overseas investment. In high market potential countries, investment modes are expected to provide greater long term profitability and opportunity to achieve economies of scale and lower marginal cost of production. The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and government policies which are critical to the survival and profitability of a firm's operations in that particular country (Agarwal and Ramaswami 1992, 6)

Low control modes are considered superior for many transactions since they allow a firm to benefit from the scale economies of the marketplace, while encountering the bureaucratic disadvantages that accompany integration.

Once a firm decides to enter a foreign market, question arises as to the best mode of entry. Firms can use six different modes to enter foreign markets: exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host country, strategic alliances or setting up a new wholly subsidiary in the host country. Each of the entry modes has advantages and disadvantages (Hill 2009, 493).

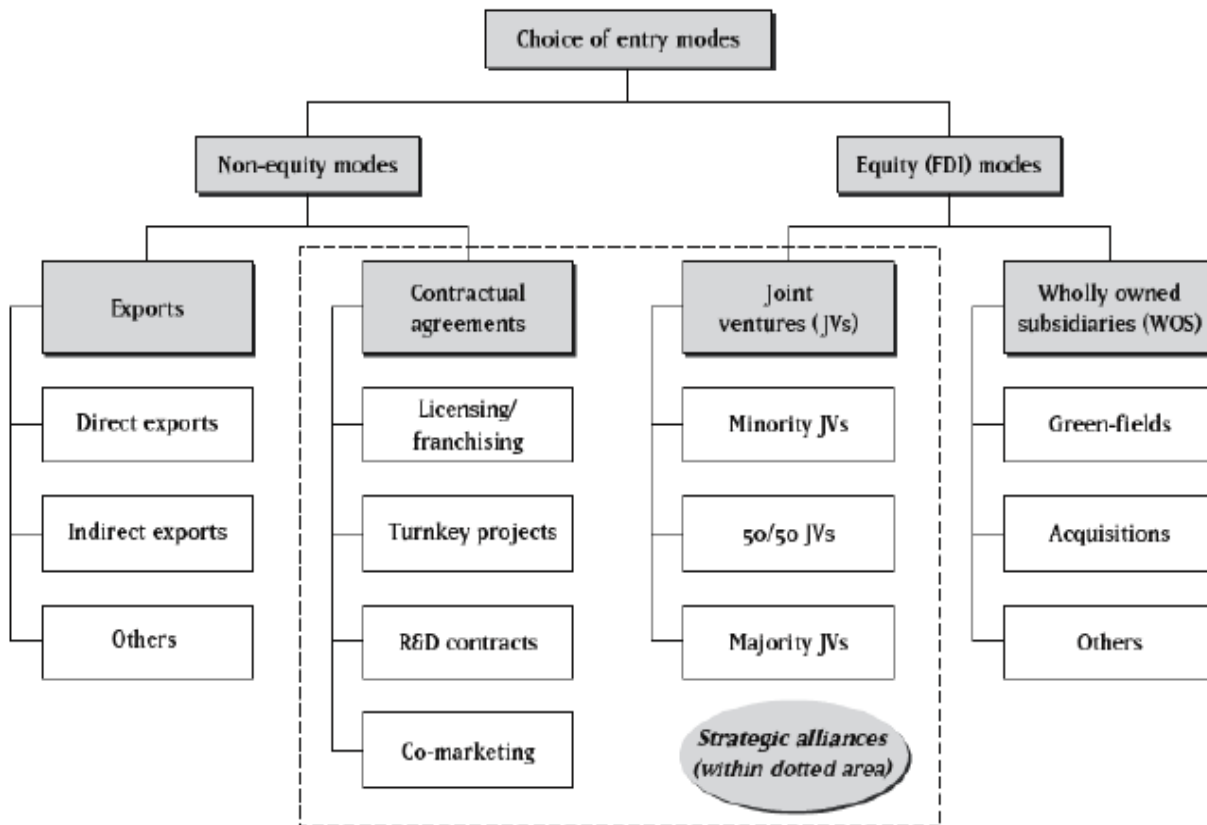


Figure 16 Adapted from Pan and Tse (2005), the Hierarchical Model of Market Entry Modes

2.3.3 *Non-equity modes*

Exporting

Many manufacturing firms begin their global expansion as exporters and only later switch to another mode for servicing foreign markets. Exporting has two distinctive advantages: first it avoids the substantial costs of establishing manufacturing operation in the host country; second, exporting may help a firm achieve location economies. Same time there are disadvantages in doing export, such as to export from the firm's home base may not be appropriate of lower costs locations for manufacturing the product can be found abroad. Other disadvantage of export is that high transportation costs and tariff barriers can make exporting uneconomical (Hill 2009, 493-494). Export can be of two ways: indirect and direct export.

Indirect export occurs when the exporting manufacturer used independent organizations located in the producer's country. Moreover, the producer may have a dependent

export organization as for example an export department that works with the independent marketing organizations and coordinates the entire export. There are two alternatives for a manufacturer who wants to export indirectly: using international marketing organizations and exporting through cooperative organizations (Albaum, Strandskov & Duerr 2002, 275).

Turnkey project

In a turnkey project, the contractor agrees to handle every detail of the project to the foreign client, including the training of operating personnel. At completion of the contract, the foreign client is handed the “key” to a plant that is ready for full operation. This is a means of exporting process technology to other countries. Turnkey projects are most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies (Hill 2009, 495).

Licensing

A licensing agreement is an arrangement whereby a licensor grants the rights to intangible assets to another entity (the licensee) for a specific period of time, and in return the licensor receives a royalty fee from the licensee. Intangible assets include patents, inventions, formulas, processes, designs, copyrights and trademarks. In this type of contractual deal the advantage is that the licensee puts up most of the capital necessary to get the overseas operation going. So a primary advantage of licensing is that the firm does not have to bear the development costs and risks associated with opening a foreign market. On the other hand, there are drawbacks involved such as the firm does not have the tight control over manufacturing, marketing, and strategy that is required for realizing location economies, other drawback are risks associated with know-how which basis of many multinational firms’ competitive advantages, thus most of firms wish to maintain control how their know-how is used, and a firm can quickly lose control over its technology by licensing it (Hill 2009, 496).

Franchising

Franchising is similar to licensing, although franchising tends to involve longer term commitments than licensing. Franchising is a specialized form of license in which the franchiser not only sells intangible property to the franchisee but also insists that the franchisee agree to abide by strict rules as to how it does business. The franchiser will also often assist the franchisee to run the business on an ongoing basis. As with licensing, the franchiser typically receives a royalty payment, which amounts to some percentage of the franchisee’s revenues. The advantages of franchising as an entry mode are similar to those of licensing. As a disadvantage of franchising is quality control (Hill 2009, 498).

2.3.4 *Equity modes*

Joint venture

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. The most typical joint venture is a 50/50 venture, in which there are two parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control. As an example is Fuji-Xerox joint venture. Joint ventures have a number of advantages. First, a firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems and business systems. Cost sharing is an advantage as well. Despite advantages, joint ventures have major disadvantages, as with the licensing, a firm that enters into a joint venture risks giving control of its technology to its partner (Hill 2009, 499).

Mergers and acquisitions

A firm can establish a wholly owned subsidiary in a country by building a subsidiary from the ground up, the so called Greenfield strategy, or by acquiring an enterprise in the target market. The volume of cross border acquisitions has been growing at a rapid rate for two decades. Over the last decade, between 50 and 80 percent of all FDI inflows have been in the form of merger and acquisitions. In 2001, mergers and acquisitions accounted for 80 percent of all FDI inflows. In 2005 the figure was 78 percent or some 716 billion dollars (Hill 2009, 503). A foreign firm may have much to gain in creating value through a cross border merger or acquisition. For the foreign firm, this potential to enhance value may give an advantage to the merger and acquisition process compared with the expansion through organic growth and Greenfield operations (Conklin 2005, 29). Mergers and acquisitions continue to be a highly popular form of corporate development. In 2004 30,000 acquisitions were completed globally, equivalent to one transaction every 18 minutes. The total value of these acquisitions was 1,900 billion dollars exceeding the GDP of several large countries (Cartwright and Schoenberg 2006, 1).

Wholly owned subsidiaries

There are two primary means to set up a WOS. The first one is to establish new green field operations, which refers to building factories and offices from scratch. There three primary advantages associated with green field operations. First, a green field gives WOS gives to a firm complete equity and management control, thus eliminating the headaches associated with JVs. Second, this undivided control leads to better protection of proprietary technology and know-how. Third, a WOS allows for centrally coordinated global actions. The second strategy to establish a WOS is through acquisition. In addition to sharing all the benefits of green field WOS, acquisitions also enjoy and additional advantage of being faster entry speed (Peng 2006, 236-237).

2.4 Internationalization process of SMEs

Thinking of internationalization process then the most known model is that of Johanson and Wahlne 1977, or so called the Uppsala model of internationalization of companies. The model is based on empirical observation of four Swedish companies and studies in international business at the University of Uppsala that shows that Swedish firms often develop their international operations in small steps, rather than by making large foreign production investments at single points in time.

Typically firms start exporting to a country via an agent, then later establish a sales subsidiary and eventually in some cases start production or manufacturing in the host country (Joansson and Wahlne 1977).

In the figure below the model of internationalization as state and change aspects is depicted. The two aspects are resources committed to foreign markets, market commitment and knowledge about foreign markets possessed by the firm at a given point in time. To start with, we assume that market commitment concept is composed of two factors, the amount of resources committed and the degree of commitment that is the difficulty of finding and alternative use for the resources and transferring them to it. Resources located in a particular market area can often be considered a commitment to that market. The degree of commitment is higher the more the resources in question are integrated with other parts of the firm and their value is derived from these integrated activities. Resources located in the home country and employed in development and production of products for a separate market also constitute a commitment to that market. The more specialized the resources are to the specific market the greater is the degree commitment. On the whole, it seems reasonable to assume that the resources that are located in the particular market are most committed to that market, but we shall not disregard the commitment that follows from employing parts of the domestic capacity for a particular market.

In this model, knowledge is of interest because commitment decisions are based on several kinds of knowledge. Very generally the knowledge relates to present and future demand and supply, to competition and to channels of distribution, to payment conditions and transferability of money and those things vary from country to country and time to time. In this model experiential knowledge is critical kind of knowledge because it cannot easily acquired as objective knowledge. An important aspect of experiential knowledge is that it provides the framework for perceiving and formulating opportunities.

In the change aspects are considered current activities and decisions to commit resources to foreign operations. Current activities are the prime sources of experience. it could be argued that experience could be gained alternatively through hiring of person-

nel with experience or through advice from persons with experience. There is a difference between firm experience and market experience, both of which are essential.

Regarding to commit resources to foreign operations, such decisions depend on what decisions alternatives are raised and how they are chosen. Decisions are made in response to perceived problems and opportunities on the market. Problems and opportunities that is awareness of need and possibilities for business actions and problems are part of the experience.

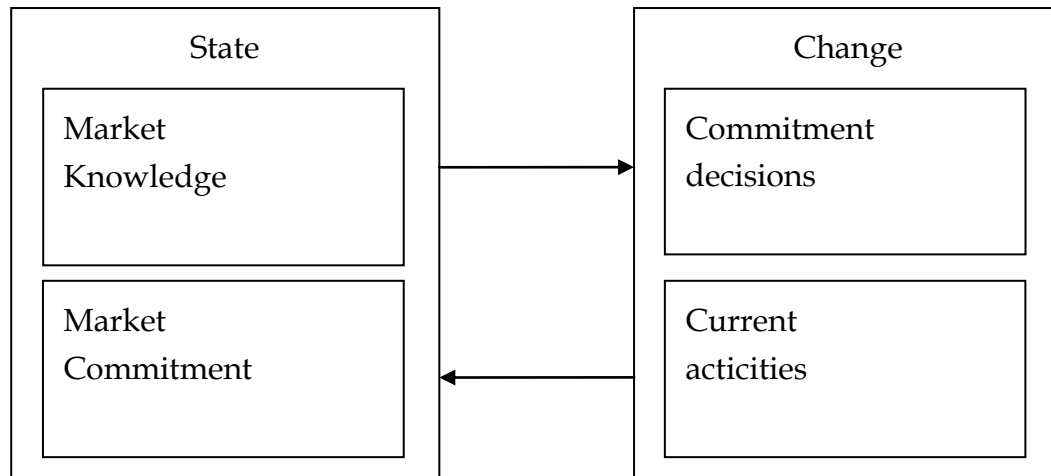


Figure 17 Modified from Johansson and Wahlne (1977). The basic mechanism of internationalization: State and Change aspects.

Luostarinen (1994) sees the internationalization process as a step by step basis where different stages follow each other in a logical order. The author includes the most usual operation modes: traditional export operations, licensing operations (sometimes), direct investment in sales and production, but also he also divides operation modes in four major clusters or categories by using the two most important dimensions as tools, functional and foreign direct investment:

- A. Non-investment marketing operation (NIMOs)
 1. Indirect export
 2. Direct export
 3. Own exporting
- B. Direct investment marketing operations (DIMOs)
 1. Sales promotion subsidiaries
 2. Warehousing subsidiaries
 3. Service subsidiaries
 4. Sales subsidiaries

- C. Non-investment production operations (NIPOs)
 - 1. Licensing
 - 2. Franchising
 - 3. Contract manufacturing
 - 4. Co-production
 - 5. Partial projects
 - 6. Turn key projects
- D. Direct investment production operations (DIPOs)
 - 1. Assembly subsidiary
 - 2. Manufacturing subsidiary

2.4.1 *Traditional vs. born global approach*

According to Peng (2006), it is possible for some (but not all) SMEs to make very rapid progress in internationalization. On the one hand, some advocates argue that every industry has become “global” and that entrepreneurial firms need to rapidly go after these opportunities. On the other hand, stage models suggest that firms need to enter culturally and institutionally close markets first, spend enough time there to accumulate overseas experience, and then gradually move from more primitive modes such as exports to more sophisticated strategies such as FDI in a distant market.

Early international firms have surged in the interest of academic literature, practitioners and policy makers since the early 1990s. After a decade of growth in the importance of this phenomenon and relevant literature, the concept of born global firm has by now become a complex one, in terms of both internationalization strategy and time span and rapidity of internationalization. The time intensity is becoming an important field of analysis in international entrepreneurship studies, together with the firm age at international entry. Other studies focus on the rhythm of the internationalization process over time, the so-called pace of internationalization (Zucchella et al. 2007, 269).

Chandra et al. (2012, 95) maintains that the underlying processes driving internationalization are same in all firms whether classified as born globals or any other type. These processes include firm’s ability to leverage existing knowledge, resources, learning and feedback processes, and the role and impact of network of relationships. Because born globals from inception move rapidly into international markets, they are perceived to be different.

In a qualitative study of born global firms from Sweden and Australia, Andersson and Evangelista (2012, 655) identified two types of entrepreneurs. One of the two is younger, not so experienced but ambitious with new ideas, and wants to fulfill his/her ideas in an own organization. While the other is an experienced employee who cannot

accommodate his/her ambitions and ideas in the large organization he/she works for. And wants to start a new business of his/her own or together with others who share his/her ambitions and ideas.

Recent research identified an increasing number of firms which certainly do not follow the traditional stages of internationalization process; in contrast they aim at international markets or maybe even the global market rights from their birth, thus such companies have been named as Born Global or international new ventures (Madsen and Servais 1997, 562). Question rises here, why does this happen? According to Madsen and Servais (1997), the rise of born globals may be attributed to at least three important factors: new market conditions, technological developments in the areas of production, transportation and communication and finally more elaborate capabilities of people, including founder or entrepreneur who starts the born global firm.

Knight and Cavusgil (2004), define born globals early adopters of internationalization and which are emerging in substantial numbers worldwide. Despite the scarce financial, human, and tangible resources that characterize most new businesses, these early internationalizing firms leverage innovativeness, knowledge, and capabilities to achieve considerable foreign market success early in their evolution. Moreover born globals are defined as business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries.

As there is the traditional model of internationalization defined by Johansson and Wahlne 1977, showed that initial internationalization activities of many firms we targeted to psychically close markets and used the less committee modes of entry, such as exporting. They explained that international actors learn and increase their foreign market knowledge over time primarily through experience, and only then do they start or increase their foreign market commitments and later expand to more psychically distant markets. Their Uppsala Model explains how foreign market risks are managed by acquiring tacit knowledge about foreign markets and incrementally changing their commitments to those markets, so this model is focused on traditional cross border behavior, not on accelerated internationalization or on entrepreneurial behavior.

Models like rapid internationalization of firms or SMEs so called international new ventures highlight how technological advances in transportation, communication and computers permit entrepreneurial actors to form new ventures that internationalize rapidly, such as individuals or small groups of entrepreneurs, international new ventures are said to own certain valuable assets, to use alliances and network structures to control a relatively large percentage of vital assets, and to have a unique resource that provides sustainable advantage that is transferable to a foreign location besides domestic location (Oviatt and McDougall 2005, 540-541). On this matter evidence of another phenomenon, that of born-again global firms, is also starting to emerge. Typically, these are well

established firms that have previously focused on their domestic markets, but which suddenly embrace rapid and dedicated internationalization (Bell et al 2001, 174).

2.5 Measures of Internationalization speed

Despite implicitly credited and rarely positioned as primary conceptual dimension, time is fundamental to internationalization research in that each firm has a history composed of internationalization events occurring at specific points in time (Jones and Coviello 2005, 290). The time at which and over which, internationalization occur provides link between events and processes. According to Jones and Coviello (2005, 286), internationalization is a time-based behavioral process and speed reflects the rate by which a firm undertakes foreign commitments. The speed of process is a key determinant of successful internationalization (Kutschker et al. 1997) representing how fast a firm develops outlets abroad (Verdier 2010, 22). Time is also a key element that distinguishes gradual internationalization to discontinuous internationalization in terms of: (1) the time taken to commence international activity and (2) the speed or rate at which internationalization develops (Jones and Coviello 2005, 290).

Internationalization however is essentially measured in two dimensions- width and depth. While being a true measure of width, time falls short and other measures such as multiplicity of presence in foreign markets and the nature of presence should be used to determine the depth of internationalization. For example, internationalization speed can be measured as the change in the ratio of foreign entities to total entities (Lu & Beamish 2004). The larger the change over a specified timeframe, the higher is the internationalization speed. Slow internationalizes are firms that choose a gradual process with a low increase in the ratio of foreign stores to total stores during a given period of time. The determinants of what constitutes in terms depth of internationalization will also include: leap over country distance, international sales growth, and form of market commitment.

2.5.1 *International sales growth*

The appraisal of performance is generally done at the level of profitability attained against expectations. Two goals most commonly attributed to international expansion are achieving firm growth and improving a firm's profitability (Lu & Beamish 2006, 28). Accelerated market entry, however, refers to gaining a foothold in international markets in most cases rather than conventional beliefs of profits and sales growth (Weerawardena et al. 2007, 302). The speed with which born globals internationalize does not allow them to capitalize on their special attributes (Verdier 2010, 24) and in

the short run establishing multiple platforms in overseas markets are more viable objectives. (Weerawardena et al. 2007, 302-303) Furthermore, Lu & Beamish (2006, 28) suggest that exports may have negative relations to profitability despite its positive contribution to sales. International sales growth hence can be conveniently used as the measure of performance suiting to international out-comes of both young and mature internationalizes. International sales are equivalent to all sales revenues derived from retailers' international operations. (Verdier 2010, 25). Internationalization speed is proxied to the change in the ratio of International sales to total sales over a period of time. The larger is the ratio change over the given period, the higher is the internationalization speed. (Wagner 2004, 452)

2.5.2 *Leap over country distance*

The concept of distance in international business and its importance in the internationalization process was debated for many years. Various aspects of psychic distance usually conceptualized as differences between the home and host countries, have been mentioned as: spatial or geographic distance, economic distance, technological distance, language dissimilarities, cultural and religious distance, time zone differences, distribution channel differences, industry structure differences and psychic distance (Brock et al 2011, 385). Moreover, Child et al 2002, and Johansson and Wiedersheim-Paul (1975), define psychic distance as set of factors preventing the information flows between firms and foreign markets. These information flows included: information on foreign market needs flowing to the firm. information on the product flowing from the firm to the market. Moreover, factors affecting psychic distance include: language differences, culture, political system, levels of education, and industrial development. The concept of cultural and psychic distance is continuously used in international business to explain the cost of entry and firm's ability to transfer core competency to foreign market (Chetty & Campbell-Hunt, 2004; Evans & Mavondo, 2002; Fletcher & Bohn, 1998). It should be noted that psychic distance is the subjective perceived distance assessment of cultural distance, the latter measured by differences in the levels of economic development and education, as well as language and difficulties in understanding messages (Brock et al. 2011, 385). According to Shenkar (2001, 510), the most popular arena of application can be found in FDI, wherein cultural distance has three primary thrusts - (1) to explain the location and sequence of foreign market investment, (2) to predict the choice of foreign market entry, and (3) to account for the performance of firm affiliates in international markets.

According to Delios & Beamish (1999, 917), institutional and cultural variables tend to influence managerial costs and uncertainty evaluations in target markets, and "refers

to conditions that undermine property rights and increase risks in exchange". The joined forces of cultural and psychic distance together with economic (Dow & Karunaratna, 2006; Ghemawat, 2001; Brock et al. 2011) and geographical distance (Carlson, 1974) reflects the notion of business (Brock et al. 2011) or country distance (Jones and Coviello 2005, 292). Country distance is indicative of the extent and intensity of the firm's internationalization activities, and therefore can provide a proxy measure to the depth of a firm's internationalization process (Jones and Coviello 2005, 292). The greater is the leap over country distance, the higher is the speed of internationalization.

2.5.3 Form of Market Commitment

Barriers to internationalization may also cover factors such as lack of management skills to inadequate intellectual property protection in foreign markets (Szabo, 2002). The impact of these barriers on the internationalization decision of SMEs, given the resource constraints of SMEs is often more important than it is for large firms. Not only do SMEs have limited assets and financial resources, they also have limited knowledge of international markets, limited international networks, and quite possibly less international experience in the management team. (Onkelinx and Sleuwaegen 2008, 21) This view is supported by Freeman et al. (2006), that smaller firms face three key constraints in going international: (1) lack of economies of scale, (2) lack of resources (financial and knowledge), and (3) aversion to risk taking. Internationalization is a function of stimulating uncharted opportunities and depressing market barriers. According to Johanson and Vahlne (2003, 92), the organization form used in a foreign country generally represents a thoughtful strategy to overcome the psychic and cultural distance appropriately. It implies that although preferable from the perspective of direct control, more stable forms of market commitment such as FDI will be chosen over exports or licensing, only if "learning advantages of newness" outweigh "liabilities of foreignness". Therefore the form of market commitment itself suggests the speed achieved in terms of internationalization. This is coherent to the logic that internationalization speed is, to some extent, a performance variable in itself (Jones & Coviello 2005; Knight & Cavusqil 2004).

2.6 International entrepreneurship (IE)

International entrepreneurship (IE) research emerged in the early 1990s as a response to the dynamic nature of newly internationalizing firms. Two decades later, the IE domain has become much broader concept, and a distinct field of study now focuses on entrepreneurial internationalization. By establishing the entrepreneur or the entrepreneurial

team as a focal point in the internationalization process, we can better understand how opportunity identification, evaluation and exploitation lead to competitive advantage of the firm. Taken the firm as a bundle of resources (tangible and intangible), entrepreneurial creativity and capabilities are needed to integrate and combine resources so as to construct value innovation and sustainable competitive advantage for the firm. (Peiris et al 2012) According to Roudini and Osman (2012, 127), the idiom “entrepreneurial capabilities” refers to an ability that acquires necessary resources to perform upon opportune moments recognized in the market or new market opportunities creation. Often more crucial at the inception of venture, these capabilities become less important and relevant as the venture matures (Roudini and Osman 2012, 127).

Andersson (2000) maintains that entrepreneurs are all individuals including innovative managers who carry out entrepreneurial actions. The Born Global studies point out that entrepreneurs are important for the development in the Born Global firm and an analysis on an individual level ought to be important for an understanding of small firms’ international behavior (Andersson & Evangelista 2012). Fillis (2001) suggests that SME behavior in the internationalization process could be better understood by looking at the entrepreneurs marketing skills, resource availability, creativity and identification of opportunities. This line of thinking has been supported by several studies. For example, Leonidou et al. (2002) identified managerial characteristics as an important factor responsible for successful exporting. Likewise Bloodgood et al. (1996) found that greater international work experience among top managers were strongly associated with greater internationalization of new high-potential ventures in the USA. McDougall et al. (1994) and Madsen & Servais (1997) both concluded that the background and experience of the entrepreneurs had a large influence on the appearance of Born Globals.

2.6.1 Entrepreneurial cognition

The determination of internationalization process that probably is a group activity in a large organization is often concentrated in the hands of one or few persons in an SME (Lloyd-Reason and Mughan 2002, 123; Zucchella et al. 2007, 269). It is upon the lone decision-maker often the entrepreneur to collect, analyze and use information/knowledge to formulate appropriate strategies for the firm (Zucchella et al. 2007, 269). Because internationalization is an entrepreneurial- driven activity (O’Cass and Weerawardena 2009, 1338); entrepreneurial attitude towards risk, international competition, uncertainty (Harveston et al. 2000; Acedo and Jones 2007) and confidence on partners has major influence on the internationalization process (Sommer 2010, 310). According to Acedo and Jones (2007, 245), perception of risk is the key cognitive factor

as regards rapid internationalization. Rapid internationalization that characterizes entrepreneurs in born global firms (Andersson and Evangelista 2012, 644), is unlikely to happen if the risks associated to cross-border activities are perceived high (Acedo and Jones 2007, 248). On the other hand, lower perceptions of risk will allow a firm to leap forward in the stages of internationalization (Acedo and Florin 2006, 61).

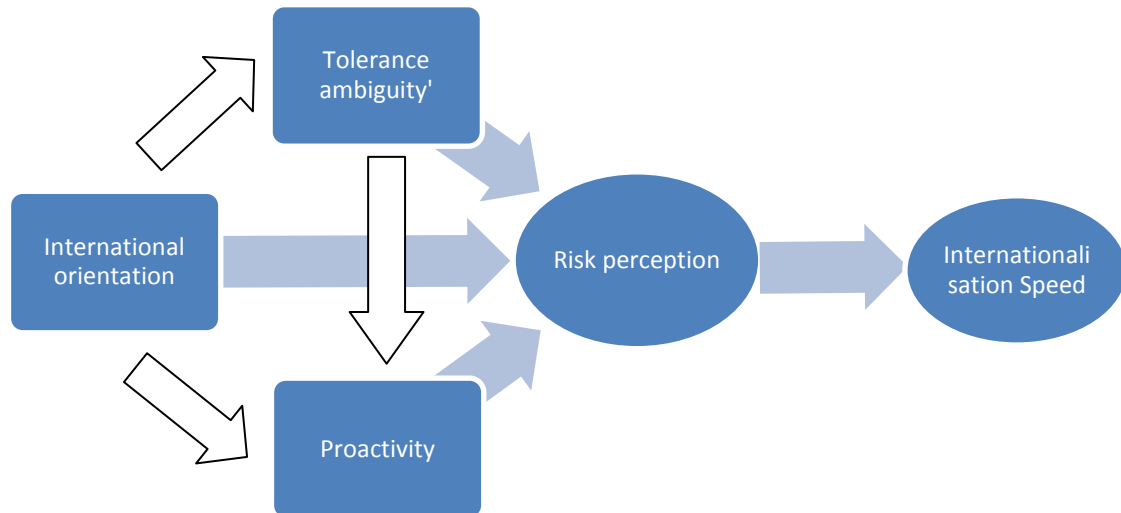


Figure 18 Entrepreneurial Cognition and Speed of Internationalization.
Source: Acedo and Jones 2007, 240

Other aspects of entrepreneurial cognition may include proactivity, tolerance for ambiguity, and international orientation (Harveston et al. 2000; Acedo and Jones 2007), and have direct relations to risk-perception. For example, higher proactive disposition leads to lower levels of risk-perception. Similarly individuals more tolerant of ambiguity (i.e. who feel less threatened in uncertain conditions) are less perceptive of risk. Of all other three cognitive factors, international orientation however has most crucial connection to risk-perception. Often indicative of a deeper and broader education, language ability, and international experience; international orientation enables individuals to be more proactive and less concerned about the risks. (Acedo and Jones 2007, 245) International orientation is the product of a positive managerial mindset defined as “the propensity to engage in proactive and visionary behaviors in order to achieve strategic objectives in international markets” (Harveston et al. 2000). Such managerial mindsets supply added knowledge and insights to entrepreneurs thereby lowering levels of risk-aversion in contexts of internationalization. In contrast, tolerance for ambiguity can increase the level of proactivity but will only have nominal impacts on internationalization process (Acedo and Jones 2007, 248). It is therefore suggested that international

orientation of the decision maker/entrepreneur is a key influence upon the strategic agenda of the firm (Lloyd-Reason and Mughan 2002, 123).

In contrast to attitudinal variables; Sommer (2010, 310) found that trait related factors such as education, age and knowledge of market were irrelevant to intentions of engaging in cross-border business activities. Among educational background variables, according to Zucchella et al. (2007, 279), the knowledge of foreign languages is the only significant variable – helpful in the formation of an international mindset.

2.6.2 Opportunity Recognition

The process of opportunity recognition and exploitation in multinational companies can be fairly long. First, technical experts may individually or in group come up with original ideas. Mid-level managers then perceive these ideas as emerging opportunities and take it to the next level by conducting initial evaluations. If the product/service seems to have potential, senior management sponsors the new project. And outcomes of such projects are later taken to the market (O'Connor & Rice 2001). This process is however shortened in smaller firms because they typically rely on the founder's sole ability to recognize such opportunities and motivation to act upon them. For internationalization to happen at rapid pace, international entrepreneurs of born globals therefore should not only be able to recognize the opportunities associated with cross-border resource and market combinations but should also be knowledgeable and motivated enough to exploit them (McMullen & Shepherd 2006).

According to McDougall et al. (1994), the founders of born globals are individuals who exhibit alertness to opportunities arising beyond the domestic markets. The act of discovery and exploitation of new opportunities are central to entrepreneurial behavior; enabling a firm to move into new markets, seize new customers, introduce new resources, and/or combine new markets, customers, and resources in new ways. Firms that take advantage of domestically based resources (without relying on individuals and resources characterized by embedded international knowledge) to exploit differences between local and foreign markets in terms of quality or cost tend to internationalize at a rapid pace (Di Gregorio et al. 2008, 189-190).

Nordman & Melen (2008, 183) maintain that the founders' and managers' levels of technological and international knowledge are related to how Born Industrials and Born Academics discover foreign market opportunities. Born Industrials started by founders and managers who have high levels of international and technical knowledge tend to discover foreign market opportunities within the context of their search activities. Thus, the discovery of foreign market opportunities by Born Industrials is driven by a proactive behavior and internationalization happens in a structured manner. In contrast, Born

Academics are characterized by their tendency to discover foreign market opportunities in their ongoing foreign market activities. With founders and managers that possess only low levels of international knowledge, Born Academics discover opportunities as a consequence of chance rather than of planned activities. This kind of reactive behavior allows them to be more flexible meaning that Born Academics are more open to discovering unexpected opportunities (however not necessarily better or more profitable opportunities) than what Born Industrials may discover. Yet Born Industrials tend to exploit their foreign market opportunities more rapidly by committing more resources to foreign markets in their initial investments whereas Born Academics generally exploit their opportunities in a more incremental pattern. (Nordman & Melen 2008, 183).

2.7 Resources

According to Ruzzier et al. (2006), resources and competencies play a central role as well before as after internationalization's decision. Barney (1991) defines those resources as assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve efficiency and effectiveness. At the primary stage, they may play the role of internal antecedents as factors encouraging (Hutchinson et al. 2005) or factors hindering the decision of internationalization (Neupert et al. 2006). At the later stage, they can influence rhythm and intensity of the process of internationalization by mediating the decisions regarding increase of international commitment, de-internationalization or termination of international operations (Laghzaoui 2011, 191).

According to the resource based view (RBV) of a firm, appropriate mode of entry depends on the nature of resources available to a firm and required for that mode. The limited supply of such resources discourages SMEs from committing resources abroad or restricts going international at all. Some firms may however enter new markets by exploiting available resources but must later seek to enhance their resources if they are to progress through the internationalization stages (Kamakura et al. 2012, 246). Not only the competing advantage is obtained by adapting a resource before the competitors (Wernefelt 1984) but firms with a stable resource base are also better able to deal with the liabilities of being foreigners, thus increasing their foreign-venture performance (Schwens & Kabst 2011, 323).

2.7.1 Knowledge in internationalization

The importance of knowledge is well documented in the field of internationalization. Knowledge not only has become the key economic resource but also the dominant and perhaps the only source of competitive advantage (Drucker 1995). Several studies (Johanson & Vahlne 1977; Nordman & Melen 2008; Peterson et al. 2003) have confirmed the importance of experiential knowledge as the driving force behind the internationalization process. Because experiential market knowledge is crucial to internationalization but country-specific, it is important to consider the nature of initial knowledge base of the internationalizing firm. Eriksson et al. (2000) argue that closer the relation between foreign environment and a firm's stock of knowledge; the more applicable the knowledge will be abroad consequently facilitating more rapid internationalization of firms. More importantly, the knowledge intensity of the firm is seen as one of the key drivers of internationalization (Autio et al. 2000). It follows that high level of R & D (percentage of revenue spent on R & D being a common measure of knowledge intensity) contributes to a faster internationalization process (Brennan & Garvey 2009, 130).

The role of knowledge at firm level emerges as one of the key differences in the "Born Global" internationalization process as opposed to the traditional internationalization model. While the Uppsala model has viewed knowledge as barrier to internationalization in that acquiring market knowledge influences the internationalization process in an incremental way. On the other hand the "Born Global" phenomenon is being driven by knowledge in that it is largely present in knowledge based industries and competitive R & D levels are driving a faster and earlier internationalization process. (Brennan & Garvey 2009, 129-130)

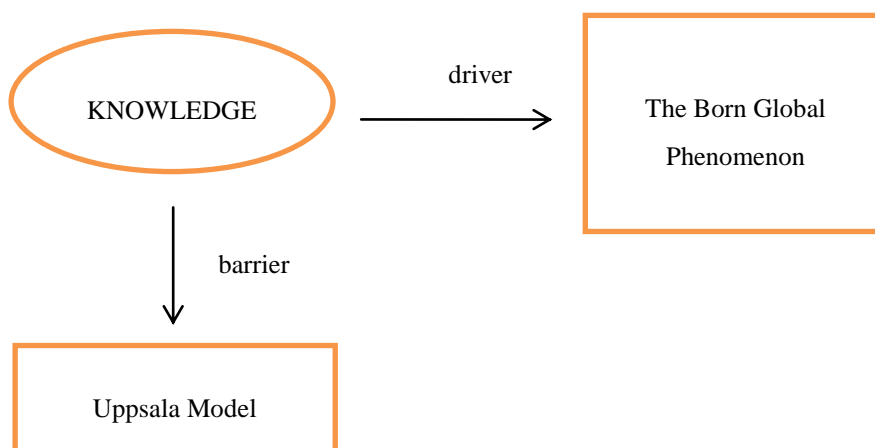


Figure 19 Modified The Role of Knowledge in Internationalization.

Source: Brennan & Garvey 2009

For the organization, the focus of knowledge is structure of coordination, and behavioral routines and work roles of organizational members within which the knowledge of the firm is embedded. However, newly formed Born Globals do not possess those deeply rooted routines, practices, and structures that often characterize long-established businesses; instead knowledge is stored within the individuals starting the firm (Nordman & Melen 2008, 172). According to Brennan & Garvey (2009, 131) the knowledge central to firm's internationalization is accumulated in mainly from founders prior experience, recruitment of individuals with international experience and with the leverage of institutional support.

2.7.2 *Networks and relationships*

Referred to as network perspective, this third school of research draws on the theories of social exchange and resource dependency and focuses on firm behavior in the context of a network of inter-organizational and interpersonal relationships. Such relationships can involve customers, suppliers, competitors, private and public support agencies, family, friends and so on. According to this school of research, internationalization depends on an organization's set of network relationships rather than a firm-specific advantage, therefore externalization rather than internationalization occurs (Coviello and McAuley 1999, 227).

Collaboration in business is becoming common practice amongst firms, and these collaborations can range from informal relationships to more formal ones such as joint ventures, firms capabilities and competitive forces are the main factors forcing firms to collaborate (Chetty and Holm 2000, 78).

Today's business environment is challenging and competitive, and organizations require significant resources to face the challenges that such an environment poses. Therefore, small and medium-sized enterprises (SMEs) may find themselves disadvantaged in comparison with larger, well-established corporations because of their much more limited resources and the fact that they depend on outside entities significantly more. Such a disadvantage may cause problems in the development and launch of innovations. A popular recent response to such disadvantage is the participation in strategic SME networks, which are internationally formed groups of partly independent, profit oriented SMEs that cooperate to improve innovative performance both through multilateral, intranetworking technology and through know-how exchange and development of new products or services (Vincent et al. 2010, 265).

According to Fletcher (2008), a firm that is embedded in a web of relationships has the option of using this web of relationships to strengthen and develop current relationships, to look for new business partners or to dissolve existing business relationships.

Oviatt and McDougall (2005), define networks as a powerful tool for entrepreneur, focusing on the personal and extended networks of the entrepreneur and his/her management team, several studies challenging traditional models of internationalization have drawn upon network theory. Moreover, the authors explained that networks helped founders of international new ventures, or born global, to identify international business opportunities, and those networks appeared to have more influence on the founders country choice than did their psychic distance.

Chetty and Campbell-Hunt (2003, 17), maintain that own resources and capabilities are not sufficient for accelerated internationalization. Especially when internationalization process is sudden, big increases in capabilities and enhanced specialization can only be configured by forming business networks to gain access to distribution networks, technology, market knowledge and information. Distribution networks above all are the key players in determining the internationalization path of firms. (Chetty and Campbell-Hunt 2003)

Additionally, while doing so entrepreneurs must allow access to vital information exchange thereby creating networks simultaneously. (Zucchella et al. 2007, 269) In this way none of the drivers of early internationalization related to business, location and network-related factors are independent from management decisions. Early internationalization, thus, is pushed by business-specific factors, such as being positioned in a global market niche and supported and made sustainable by entrepreneur-specific variables. As follows, among all factors the group of entrepreneur-specific variables provides the most significant results in explaining early internationalization. Entrepreneur-specific factors consist of education, foreign languages and most importantly previous international experience nurtured in family business or accumulated via working in international firms.

3 RESEARCH DESIGN

3.1 Research approach and method selection

Concerning methodology first of all we define what do we mean by terms like “methods” and “methodology”? By methods we typically mean the techniques that researchers employ for practicing their craft. Methods might be instruments of data collection (Bryman, 2008). Yin (2002) mentions six sources of evidence or methods of research such as: documentation, archival records, interviews, direct observation, participant-observation and physical artifacts. Eisenhardt (1989) argues as well that case studies typically combine data collection methods such as archives, interviews, questionnaires, and observations. The evidence may be qualitative (e.g., words), quantitative (e.g., numbers), or both Then methodology is the study of the methods that are employed (Byrman, 2008).

Deductive research approach will be used in this master’s thesis. As Ghauri and Grønhaug (2002) describes in his book deductive method as the draw of conclusions through logical reasoning, in this case it needs not be true in reality, but it is logical. The main difference between inductive and deductive method is that with induction facts acquired through observations lead us to theories and hypothesis, while deduction (logical reasoning) we accept or reject these theories and hypothesis.

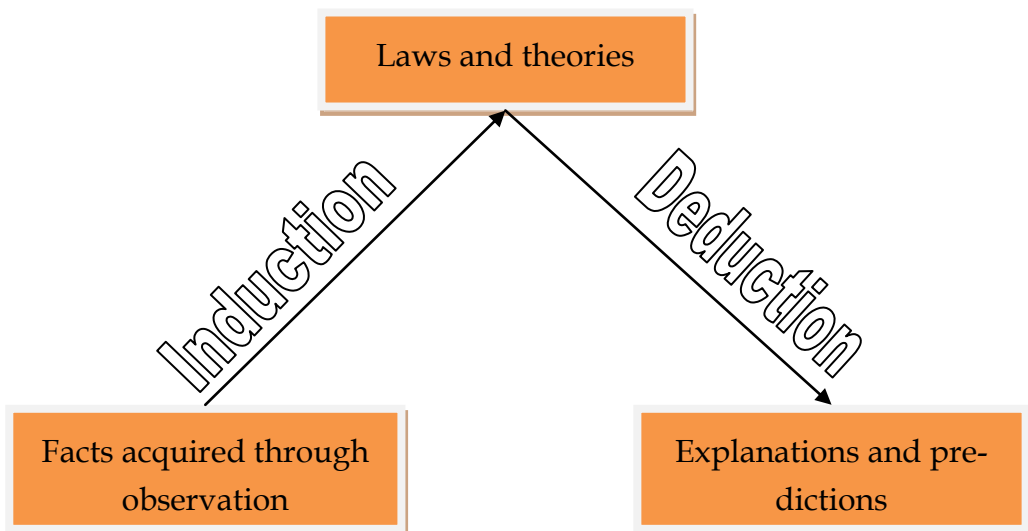


Figure 20 Modified from Chalmers (1982)

According to Yin (2003), a case study design should be considered when: (a) the focus of the study is to answer “how” and “why” questions; (b) you cannot manipulate the

behavior of those involved in the study; (c) you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or (d) the boundaries are not clear between the phenomenon and context. Yin (2003) describes how multiple case studies can be used to either, “(a) predicts similar results (a literal replication) or (b) predicts contrasting results but for predictable reasons (a theoretical replication)” (p. 47)

In seeking to acquire a realistic picture of the research subject in examining Finnish food processing companies in the food industry, qualitative research methods will be used. The primary data will be collected through interviews and other ways of internet and telephone communication interviews.

The advantage on interviews is that it's guided on conversations rather than structured queries (Yin, 2002). Other advantage that we see is as Yin (2002) describes the open-ended questions in which you can ask key respondents about the facts of a matter as well as their opinion about events.

The composition of the interview, questions will be structured in order to make people's responses as comparable as possible. The interview will be built on open-ended questions and it will give a clear understanding for the interviewee by addition information or examples in particular issue.

Yin (2002) mention three types of strategy case study analysis: first is relying on theoretical propositions, second is thinking about rival explanations and third is developing a case description. In our case the analysis will be relied on case description which we will link with internationalization theories.

3.2 Selection of the industry

The industry selected for this Master Thesis research has been the Finnish food processing industry. Food and drink industry is considered to be the fourth largest industry in Finland with a gross value of about 12 billion Euros, after metal engineering, forest industry and chemical industry. As the study is being conducted in Finland it is more wise and natural that a Finnish industry to be selected for research. In a country of high technological developments, Finnish food industry is no exception which has been developed at the level of global standards. Finland's food and drink industry is among the best in the world in the development of functional food products². The best known Finnish health innovations include tooth-friendly Xylitol, lactic acid bacteria preparations designed to promote a healthy gut, and products intended for controlling cholesterol.

² Finnish food and drinks industry federation

The three largest food and drinks industry sectors – meat processing, dairy farming, and the bakery industry – represent 50% of the industry's gross production value.

Finland's food and drink industry is a well-known force on international markets, especially in the Baltic Sea area. The strength of the Finnish food and drink industry is based on knowing the expectations of customers and consumers, the products are tasty and convenient.

3.3 Choice of companies

This study will take place in Finland and will cover Finnish food processing industry and a few selected cases on the basis of their size as they fulfill the criteria of being an SME, and because of the access and acceptance for cooperation with those companies, companies which are involved in this specific industry and which companies are already established in international markets as well. Taking the whole population of those food SMEs is a pretty large number, so the population includes SMEs which have already exporting activities and from this particular group of SMEs 2 cases will be selected. We have found a lot of negative replies from the contacted companies and they were not able to cooperate as some of the key persons in those companies were busy or not willing to participate in any kind of interview. The first company selected is Maustaja Oy, and the respondent is Mr. Juha Korhonen, the export manager of the company. The interview was held through email. The second company is Myllyn Paras Oy, we could not take a direct interview from the company managers but the company publishes a lot of secondary data like annual reports and most of the data are based on the annual report 2012 and online sources of the company.

3.4 Data collection

3.4.1 Primary data

Primary data will be collected by indirect interviews with responsible persons in their particular companies. Telephone and e-mail interviews have been used in order to get the answers from the respective respondents. Due to physical distance and location of companies from Turku, interviews could not be conducted face to face. One case company data are based on secondary sources such as annual reports and company's web sources. In Maustaja company we have interviewed Mr. Juha Korhonen, who is the export manager of the company.

3.4.2 *Secondary data*

Secondary data will be collected from companies' websites and company's documents, at least one of the case companies, as well as from the Finnish federation of food and drink industries reports and analysis.

3.5 **Data analysis**

Data will be analyzed through the technique of explanation building. As Yin (2008), describes it as elements of explanations. To explain a phenomenon is to stipulate a presumed set of causal links about it, or "how" or "why" something happened. The eventual explanation is likely to be a result of series of iterations:

- Making an initial theoretical statement or an initial proposition about policy or social behavior.
- Comparing the findings of an initial case against such a statement or proposition
- Revising the statement or proposition
- Comparing other details of the case against the revision
- Comparing the revision of the facts of a second, third, or more cases
- Repeating this process as many times as is needed

Our research is based on two companies due to difficulties in collecting the data because of the various reasons such as respondents did not want to participate in the research or they had really busy time with their own duties, and we were left with the option of two companies at the end.

Analysis is based on the motivations, internationalization experience and process, entry modes used and markets entered during the process internationalization. Analysis is done through explanation and thematization such as: changes, internal and external factors, time periods, critical events etc.

Operationalization table

Research question	Sub questions	Questions	Themes/ questions
<p><i>What is the internationalization process and choice of entry modes by small and medium-sized firms in Finnish food processing industry?</i></p>	<p><u><i>What were/are the companies motivations to internationalize?</i></u></p>	<ol style="list-style-type: none"> 1. How would you rate the degree of resource commitment or knowledge during the initial stage of internationalization? 2. Which of the following best describes the internationalization process of your firm? 3. Which of the following factors helped your company's internationalization process. 4. Name and total number of countries your company has international activities with (in order, first to last) and year of internationalization or entry in that market. 5. What are the main reasons that your company chose these particular countries? 6. What are the future developments of the company? 7. In how many years from inception did the company go international? <p>Can you describe your companies internationalization process or export model?</p>	<ol style="list-style-type: none"> 1. How would you describe your company's position in domestic market right before going international? Was it important for internationalization? 2. What was the basis or main reason (motives) why your company went international? 3. How about push and pull factors? 4. What was the main benefit of your companies internationalization?
	<p><i>How do they select new markets in the specific industry?</i></p>	<ol style="list-style-type: none"> 2. How did you gather information about the foreign target market before entering that market, what about psychic distance factors like culture, language, political system etc. ? 3. Would you still use the same strategies and methods today to go international that you did during the first time? Why or why not? 	<p>Which mode of entry best describes the internationalization process of your firm</p>
	<p><i>What factors are most critical for their internationalization speed?</i></p>	<ol style="list-style-type: none"> 1. Percentage of total annual sales coming from international sales? 2. Did the founder/owner of the firm or its management have any previous experience in internationalization or international business activities? 3. What was the role of formulating strategy and methods for internationalization? 4. Did the founder/owner of the firm or its management have any previous experience in internationalization or international business activities? 	

4 EMPIRICAL FINDINGS AND ANALYSIS

4.1 Description of the case companies

The case companies description is provided in this chapter, which is concentrated in data gathered on the field of internationalization process and international market entry modes of two case companies. Brief background descriptions of the company histories, their field of industry and basic characteristics and are provided to give an overview of the developments. For each, firstly the background is outlined, secondly, there are given the analysis of motivations, internationalization process and market entry modes.

Table 6 Company short description

Company	Establishment Year	Internationalization Year	Employees		Turnover		Export	
			Before	2013	Before	2013	Before	2013
Maustaja Oy	1972	1995	-	72		14 mil Eur	-	2,8 mil eur
Myllyn Paras Oy	1928	1979	-	190		50 mil Eur	-	6,5 mil Eur

4.2 Maustaja Oy



Maustaja Oy was established in 1972 in the municipality of Pyhäntä. Business was started with the company name Pyhännän Einestuoite Ltd, with some local people and partners. The first product was roasted onion. The actual breakthrough was however achieved in year 1974 by starting manufacturing ketchup. During couple of years Maustaja became the leading ketchup manufacturer in Finland and has maintained this position since then. In year 1977 mustards were added into the product range and during 1980's product range included also jams and frostings. Later on salad dressings, mayonnaise and sport drinks were included.

Maustaja has grown to be a remarkable Scandinavian contract manufacturer. It has around 70 employees and a balance sheet of about 14.3 million Euros, and its present

management is very much involved in the ownership of Maustaja, Ketchups, mustards, salad dressings and jams are the largest product groups.

Customer based business is the way that Maustaja works. Every product manufactured by Maustaja is planned and developed together with its customers. Maustaja operates today as a contract manufacturer of ketchup in Finland and manufactures also over 50% of mustard. Maustaja's customers are chain stores, wholesale traders, manufacturers of food industry and marketing companies, furthermore a large amount of Maustaja's products are being used as components needed by food industry. In addition to the domestic market products manufactured by Maustaja are exported for example to Sweden and Baltic Countries³.



Figure 21 Constraints of internationalization Maustaja

The figure above shows the constraints of internationalization from the perspective of the Maustaja company. According to the respondent the lack of economies of scale and strategic thinking are the most crucial factors in constraints of internationalization process. Lack of resources and risk taking also have a crucial importance, which from the chart we can see that is pretty high,

³ www.maustaja.fi

4.2.1 Motivation

Regarding the motivation about internationalization, there are different motives for exporting and are categorized into several broad areas such as: decision maker characteristics, firm specific factors, environmental factors, firms characteristics, but the most important factor in an SME is the entrepreneur (owner/manager) or senior management team, thus factors which may influence or motivate exporting might be differential firm advantages, available production capacity, and accumulated unsold inventory and economies resulting from additional orders (Crick and Chaudhry 1997). In the case of Maustaja, we can say that this was not the case of a long managerial experience and their will to sell products in international markets but according to the respondent this happened because company's clients started to internationalize and in a way Maustaja was forced to do so. Besides that Maustaja had a strong domestic market growth in the beginning but then it became difficult so the company had to look for new markets. Thus the environmental factors are those which motivated the company to start internationalization process and exporting outside Finland. According to the respondent internationalization is fastest and easiest in Scandinavia, so was internationalization of Maustaja, where barriers of entry have been lowered or diminished at all in today's European Union, as well as growing liberalization, integration and competition in world economies since post World War 2. Another factor which motivate Maustaja to engage in exporting was similar business culture and network relationships which they have with their partners and customers. According to network perspective, internationalization depends on an organization's set of network relationships rather than a firm-specific advantage, therefore externalization rather than internationalization occurs (Coviello and McAuley 1999, 227).

4.2.2 Maustaja's internationalization process

Internationalization is a process as Johansson and Wahlne (1977), describe it as a process of knowledge and market commitment increase during a period of time. On the other hand Luostarinen (1994) sees the internationalization process as a step by step basis where different stages follow each other in a logical order where companies start exporting and followed by licensing operations until the company is fully committed in a international market through direct investment or wholly owned subsidiaries. In this theoretical context we can see that Masutaja Oy started exporting to Russia in the early 90s and later to Sweden in 2000. Analyzing the way in which Maustaja has engaged in internationalization process we can see that it complies with the rule of U-model, engaging in close geographical markets and with psychic similarities. Besides Russia and

Sweden, in the year 2000 Maustaja started to export to Baltic states. A few years later in the year 2007 Masutaja started exporting to Norway and Italy, in 2008 exports start to South Korea and in 2010 Maustaja's products reach Denmark. The figure below explains information we have got regarding internationalization process and the year of entry in international markets.

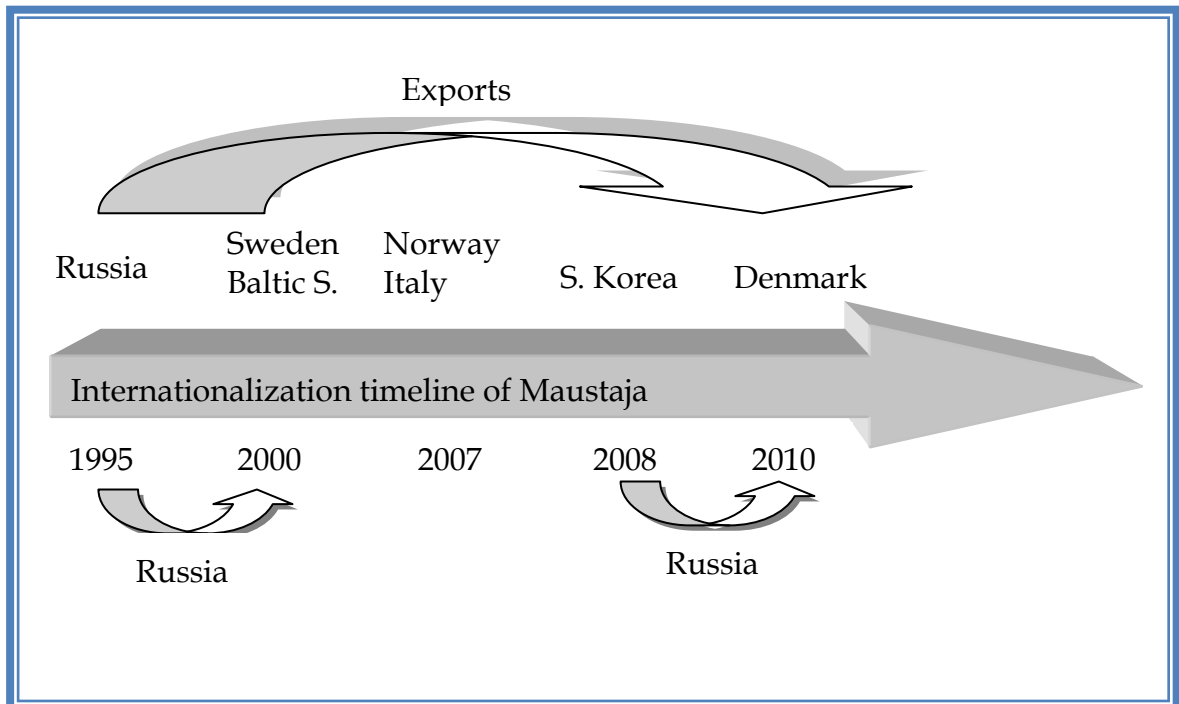


Figure 22 Internationalization timeline of Masustaja

4.2.3 *Entry modes and market selection*

Based on Maustaja's interview, this section will deal with analysis and answers from the interview questions. Maustaja is a pretty old company/bakery, which makes the company having knowledge and commitment to the domestic market in Finland. Maustaja during the past 40 years had a very strong growth in domestic as well as international markets. This growth came due to a very large customer base in Finland, meaning that they have a very large market share as well. As the world was becoming more internationalized and globalized also the company was forced, or in a way was pulled to do so.

Maustaja started its export activities pretty early since its foundation and growing stage. As it is stated by the interviewee: *we started our export activities as our custom-*

ers and clients started to do that. As the domestic market was also shrinking since 1995 and onwards, also company's interest engaging in export activities was increasing. Another key reason that Maustaja started to internationalize was that chain stores as its main customer started to go international and in this way Maustaja started to export.

The first country that the company started to export is Russia in 1995 and Sweden in 2000. In the same year Maustaja started exporting to the Baltic States: Estonia, Latvia, and Lithuania. This really confirms the model of psychic distance internationalization, where Maustaja found similarities over these markets, moreover physical or geographical distance is a key factor for a small company to start exporting. If we take into consideration other factors of psychic distance such: cultural and language differences, political system, economic system etc. we can say that Russia compared to Finland makes a gap in this aspects. In the other hand Sweden and Baltic countries are very much closer and the gap is lower to Finland in all of the factors mentioned earlier.

Table 7 Entry modes by company

Com. and Mode	Export	Licensing	Franchising	FDI
Masutaja Oy	X			
Myllyn Paras Oy	X			X

4.2.4 *Speed of internationalization*

The internationalization process for Maustaja Oy was quite late as it began in 1995, two decades after the foundation of the company. Taken Russia as the first foreign market, it could however be said that the leap over country distance was impressive due to higher psychic distance compared to Sweden which was later entered in 2000. Since 2000 Maustaja Oy has shown characteristics of fast internationalizer penetrating several European markets one after another. A milestone in internationalization was achieved in 2008, when the company entered South Korea breaking barriers of psychic and geographic distance. All these achievements are however toned down a bit by the small share of international sales around 20% of total sales. This could partly be attributed to the less stable modes of market entry used by the company. Direct and indirect modes of market entry used by the company suggest low confidence over internationalization process from the part of the entrepreneur.

4.2.5 *Resources and Internationalization*

Resource, Barney (1991) defines as assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve efficiency and effectiveness. Resources in Maustaja are really based on the employees and managers. Networks are also a very important aspect of companies internationalization. Exports are very much based on networks and partnerships with the customers and businesses. According to the respondent, networking in production is not one of the ways the company wants to be engaged as they do not want to move production in other countries but Finland.

4.3 **Myllyn Paras Oy**



Established in 1928, Myllyn Paras is a family-owned Finnish company based in the town of Hyvinkää. Myllyn Paras is the Finnish market leader in pasta products with a market share of approximately 60%; it is also the second largest company in the flour and flak segment. (Nefco Newsletter 2012, 6) Myllyn Paras has a long history of internationalization with exports dated as early as 1979 to Soviet Union. The Myllyn Paras Oy Group today operates in Finland, Russia, Kazakhstan and Estonia. It manufactures markets and sells flour, flakes, grits, pasta and deep-frozen dough and bakery products. Two of the group's factories are located in Hyvinkää. Flours, flakes, peeled grains and pastas are produced in the mill. Myllyn Paras Oy together with MP Tehdaspalvelut Oy forms the Mill segment and Myllyn Paras Oy Pakasteet together with MP Pakastetehdaspalvelut Oy forms the Frozen Food segment. The frozen food factory concentrates on the preparation of frozen dough and frozen pastries.

In 1988, Myllyn Paras was the first Finnish company to start the manufacture of laminated frozen puff pastry dough. The company has been the Finnish market leader in frozen dough for a long time; the current market share is 70%. In the past few years, frozen baked goods has been one of the company's fastest growing product groups. In 2009, the frozen food factory started manufacturing ready-baked frozen goods. Since the beginning of 2010, the company invests even more also in the HoReCa sector, and it has launched a major product innovation called Lippa Sämpylät (bread rolls).

In collaboration with Finnfund the Group has engaged in major investments in Russia. This has entitled Finnfund a third of the shares in Myllyn Paras' subsidiary company in Russia. The project companies include MP Russia Ltd and its subsidiaries in Russia. Project companies consists of the following companies: the parent company of MP Russia Ltd, and subsidiaries OOO Kolos-Holding, OOO Kolos-Ekspress and OOO MIR in

Moscow region, and OOO Agro-7, OOO Myllyn Paras Kursk and its daughter company OOO Uva in the Kursk region. Agricultural business activities are carried out in the Kursk region. The mill business are practiced in the Moscow area. Currently a mixing and packaging station works in Moscow. The mill construction project is underway. Other fully owned subsidiaries are the OÜ Seventeen and OÜ Myllyn Paras located in Estonia and ZAO Erpolar in Russia. OÜ Myllyn Paras manages sales and marketing activities in the Baltic region. OÜ Seventeen manages a land area in Estonia. In June 2012, the Group established a new subsidiary - TOO MP Apanovka in Kazakhstan. The TOO Nurly Dala, previously owned by the parent company, became 100% owned by TOO Apanovka.⁴

4.3.1 Motivations

Myllyn Paras has a strong position in the Finnish market, which is a market leader in the pasta products with a market share of about 60%. The company's growth continued strongly in the Finnish market. Moreover the company targeted Russia as its second largest market and the growth in the Russian market is continuing, with its direct investments and establishing subsidiaries. Besides that, direct investments and establishing subsidiaries were done in 2012 in Kazakhstan. As a motivational starting point in internationalization were local and foreign network in Russia and Baltic countries, built over the years from the company and which resulted with direct investments in those countries. This is typical market factors which pull the company towards Russian and Kazakh market.

4.3.2 Myllyn Paras internationalization process

Myllyn Paras is a pretty old company and has engaged in internationalization process later in their phase of development and growth. Since 1979 Myllyn Paras started to export to that time Soviet Union, including today's Baltic States. During the financial year 2011, the Group completed the structural arrangements related to its investment in Russia. In October 2011, Syrindi Oy, with its subsidiaries, was merged into the Myllyn Paras Oy Group. During spring 2012, the Myllyn Paras Oy Group's Russian subsidiaries - OOO Kolos-Ekspress, OOO Kolos-Holding, OOO MIR and OOO Myllyn Paras Kursk were sold to the Myllyn Paras Oy Group subsidiary MP Russia Oy.

⁴ www.myllynparas.fi

In June 2012, the Group established a new subsidiary TOO MP Apanovka in Kazakhstan. The TOO Nurly Dala, previously owned by the parent company, became 100% owned by TOO Apanovka. During the financial year 2012, a new subsidiary, OOO Agro-7, was established in Kursk, Russia. The company has not had business activities during the financial year 2012. The company is investing in those particular markets because of the market size and opportunities specially in Russia, besides that Russia's accession to World Trade Organization (WTO) in 2012 is expected to stabilize the business environment and to contribute to the establishment of foreign companies in Russia. Myllyn Paras besides being committed to Finnish market, the company will continue to invest in marketing, in new brands and products and as a main international market will remain Russia. In this context we can see that internationalization process of Myllyn Paras as an SME was slow and committed to the close psychic distance markets, it was a step by step internationalization process with knowledge and commitment increase towards international markets.

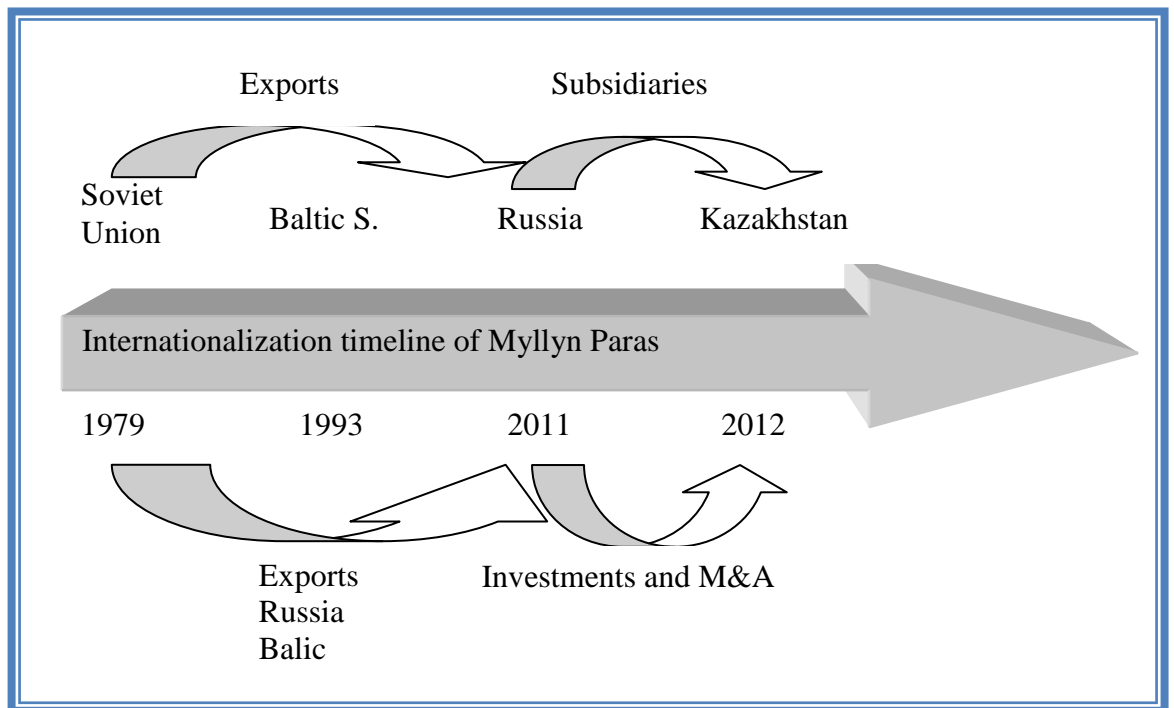


Figure 23 Internationalization process of Myllyn Paras

4.3.3 Entry modes and market selection

Myllyn Paras Oy has been using another type of internationalization strategy besides exporting, this company has used FDI as a mode of entry in countries like Russia, Estonia where Myllyn Paras through acquisition has established its own subsidiaries there, such as: OOO Kolos-Ekspress, OOO Kolos-Holding, OOO MIR and OOO Myllyn Paras Kursk. In June 2012, the Group established a new subsidiary-TOO MP Apanovka in Kazakhstan. Myllyn Paras Oy in comparison with Maustaja Oy has been engaged in international markets through non-equity and equity modes, using exports and direct investment in other countries. Through equity Myllyn Paras has invested in international markets like Russia, Kazakhstan and Baltic countries more than 50 million Euros in the past years. If we look at the case of Myllyn Paras we can see that an SME besides engaging in exports and networks also engages in FDI and equity based internationalization in a slow and committed process, which agrees in total with what U-model tells us about internationalization process and psychic distance impact on it. Myllyn Paras is a company which is making heavy investments in foreign markets like Russia which is a really big market for Finnish exports especially Finnish food products. By this year 2013 Myllyn Paras is going open a new mill in Russia, which really shows the commitment and investments towards Russian market.



Figure 24 Constraints of internationalization Myllyn Paras

The chart above shows the constraints of internationalization from Myllyn Paras perspective. Based on the data, lack of economies of scale and strategic thinking in the process of internationalization are the most important or most crucial constraints of interna-

tionalization. On the other hand lack of resources and risk taking are less crucial constraints of internationalization. In this context this view is also supported by Freeman et al (2006), that when companies engage in internationalization process the most constraints faced are lack of economies of scale, resources (financial, knowledge), risk and strategy.

4.3.4 *Internationalization speed*

Founded in 1928, the internationalization process for Myllyn Paras Oy began in 1979. Soviet Union was the only foreign market served by the company until 1993. Thereafter Baltic countries were added to cross-border transactions one after another. Myllyn Paras Oy has shown competency in managing higher psychic distance from the early phase of internationalization by entering Soviet Union as the first foreign market. In fact it is quite surprising that the company has not targeted Sweden so far despite the relative lower country distance. Since 2011, the company has increased involvement in direct investments and merger and acquisitions. Although the confidence in internationalization process from the part of the entrepreneur seems to be high, the small share of international sales has remained low around 13% of total sales.

4.4 Discussions

The internationalization of small-medium enterprises has been one of the most researched topics in the international business literature. Three main school of thoughts concerning internationalization include: (1) market based view (MBV) that firms target foreign markets due to pressures rising in markets currently being served, (2) recourse based view (RBV) that internationalization depends upon the resources and capabilities possessed by the firm, and (3) network based view (NBV) that firms expand to new markets taking advantages of network ties with suppliers and other collaborators. (Kamakura et al. 2012, 237)

The absence of market factors in determining the course and pace of internationalization can be viewed as the major limitation of this study. For example, the theory of internationalization primarily has globalization in its center and firm's response to recession has been largely overlooked. At surface recession has added barriers to internationalization. While the decline in GDP has affected exports and imports, the collapse of trade in turn may have also intensified the decline in growth and helped to spread the crisis quickly and profoundly across regions (Keppel & Würz 2010, 133) thereby seri-

ously limiting the internationalization prospects of firms worldwide. However, the impact of recession on businesses might be trickier than globalization.

A deteriorating macroeconomic environment may often imply de-internationalization in part of firm's strategy. Simplistic arguments that recession conditions necessarily impede business performance must however be rejected since not all businesses are affected in same ways. Not all firms necessarily experience lower level of performance. Some firms are unaffected or continue to achieve increased sales even in periods of recession. (Kitching et al 2009, 13-14) These diverse effects of recession on different firms can partly be attributed to firm's response suggesting that some strategies and entrepreneurial mindsets are more effective in helping firms cope hard financial times. It follows that there is a need to identify and explain the performance of internationalization strategy in present times of recession.

This research also ignores the relevance of the size of domestic market on internationalization strategy. While small domestic base is a motivation for firms to internationalize, it is interesting to see if firms operating from such regions can also de-internationalize without losing much competitive edge when needed. An inquiry is also necessary to see whether internationalization from small domestic base has any advantages other than favorable entrepreneurial mind-sets.

4.4.1 Major Findings

There are several similarities between the case companies. For example, both companies fit the characteristics of late internationalizers having delayed internationalization for many years. The first foreign market chosen for both companies is Russia (Soviet Union). And both companies enjoy a minor share of international sales. However, there are also many differences between the case companies. For example, Maustaja Oy has taken a rapid approach of internationalization at a later stage, while Myllyn Paras has still hold on to cautious approach to internationalization. The foreign operations of Myllyn Paras have been reserved to Baltic region and Russia while Maustaja has already entered South Korea and Greater European Region. Myllyn Paras Oy in comparison with Maustaja Oy has been engaged in international markets through non-equity and equity modes, using exports and direct investment in other countries. Regarding resources and the use of resources by the companies in the internationalization process we can see that networks and partnerships throughout the value chain are strong and the main source in the internationalization process of the case companies.

5 SUMMARY AND CONCLUSIONS

5.1 Summary

In this study, we found that the case companies spent several years in domestic operations before going international. Thus the internationalization was late and in both cases the first foreign market was Russia despite its higher psychic distance compared to Sweden. However, once going international one of the company internationalized rapidly all over Europe and reached South Korea in Asia, while the other company invested heavily in establishing joint ventures in Russia, Kazakhstan and Baltic region. This study shows that Finnish food industry has a variation in the pattern of internationalization, there are companies who choose only exports and there are companies who choose other entry modes like equity. We assume that such variations are partly due to the different economic and political conditions of target markets pursued by the case companies. We submit our discreet consent to the findings of Welch and Luostarinen (1988) in that patterns of internationalization will vary from country to country over time because of environmental differences as well as developments within a country.

However environmental difference is not the only explanation in the choice of internationalization mode. Because one company has clearly chosen FDI over exports while the other has completely avoided FDI despite similar firm and industry conditions, we suggest that the variations in the pattern of internationalization are largely resulted from different entrepreneurial aspirations concerning internationalization. This is similar to the findings of Tavoletti (2011) that strategy is entirely ‘emergent’ and inspired by the specific talents of the founding team. Meaning that for many smaller firms internationalization is a product of agility rather than deliberate strategic choice.

Labor productivity, innovativeness and foreign market opportunities were seen as marginal motivators. More crucial were domestic stability and enquiries from foreign buyers for decisions to internationalize. Although for both companies, exports has been the preferred method of entering foreign markets, Myllyn Paras has chosen a more step wise method increasing market commitment from exports to direct subsidiaries. Our analysis suggests that this step-wise market commitment was dependent upon entrepreneurial confidence and available institutional support. In summary, the internationalization process for both companies can be explained as an entrepreneurial action driven by willingness to increase sales, favored by the physical proximity and managerial ties overseas.

5.2 Conclusions

The insufficiency of a single theory to explain the internationalization process of SMEs has been proposed in several occasions. This study compiles theories from both streams of entrepreneurship and international business in an attempt to explain how SMEs turn business motivations into internationalization. In this process, first literature on available strategies of internationalization is summarized throwing light on what different modes of internationalization have SMEs pursued in recent times. Then follows a performance appraisal of the internationalization in terms of speed resulted there from.

This study supports earlier theories of internationalization, primarily the Uppsala model and acknowledges internationalization as an incremental process. Meaning that psychic distance is indeed the major barrier of internationalization, and acquisition of international knowledge requires significant amount of time which influences the level of resource-commitment in foreign markets. It follows that due to the risks involved in foreign markets, the least resource-intensive modes of market entry such as direct and indirect exports are generally preferred at the start of internationalization process. As of what explains the non-conventional rapid internationalization process, we conclude that in an internationalized industry and country with established trade flows like Finland, the context in which firms operate may be less significant than the varying level of entrepreneurial skills and confidence present therein.

This study further explains and reveals a strong connection between the dimensions (entrepreneurial cognition and opportunity recognition capability) of international entrepreneurship and speed of internationalization. The international vision of founders and their desire to be market leaders is what really drives the firms to the direction of internationalization. This line of thinking has been supported by several studies. For example, Leonidou et al. (2002) identified managerial characteristics as an important factor responsible for successful exporting. Likewise Bloodgood et al. (1996) found that greater international work experience among top managers were strongly associated with greater internationalization of new high-potential ventures in the USA. McDougall et al. (1994) and Madsen & Servais (1997) both concluded that the background and experience of the entrepreneurs had a large influence on the appearance of Born Globals.

At the resource base of a firm, this study asks whether or not the SME is able to internationalize at a rapid pace. Here, it is concluded that the acquisition and use of networks and knowledge is crucial for internationalization to happen at an accelerated pace. This line of reasoning is supported by several studies. For example, Freeman et al. (2006) found that strategies allowing smaller born globals to expand rapidly are strongly related to networks, usually derived from personal networks of entrepreneurs. Chetty & Campbell-Hunt (2003) identified business networks as necessary tool for big and sudden international activities. Autio et al. (2000) and Oviatt & McDougall (2005) both

concluded that high knowledge intensity is positively associated with faster international growth.

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Internet and other Sources

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www.maustaja.fi

www.myllynparas.fi

www.etl.fi, Finnish food and drinks industry federation (ETL)

APPENDIX/ APPENDICIES

Interview Questions

Please use the blank spaces below the questions to explain your response in detail.

1. General information

Name of company:

Type of business:

Job position of respondent:

Year of foundation:

Number of employees:

Total Balance Sheet:

Contact:

2. Please highlight on the appropriate response by using red color.

- We are not interested in foreign markets
- We are interested but do not export
- We used to export but do not export anymore
- We export sporadically
- We export regularly
- We have distribution contracts overseas
- We have direct investments in foreign markets

3. What is the percentage of total annual sales coming from international sales?

4. In how many years from inception did the company go international? (please highlight the appropriate response by using red color)

- a) from the start
- b) in less than 2 years
- c) in less than 5 years
- d) in more than 5 years

5. Please rate the constraints of internationalization for your company on a scale of 0 to 5 in the given brackets. 0 being the least crucial and 5 being the most crucial factor.

- a) lack of economies of scale ()
- b) lack of resources (financial , networks and knowledge) ()
- c) aversion to risk-taking ()
- d) other....

6. The questions below deal with the motives of internationalization.

6.1. How would you describe your company's position in domestic market right before going international? Was it important for internationalization?

6.2. What was the basis or main reason (motives) why your company went international?

6.3 Which of the following factors helped your company's internationalization process. (Please highlight the appropriate options below by using red color)

Similar market:

Market Opportunity:

Market Knowledge:

Economies of scale

Similar business culture:

Creativity/Innovation:

Local Network/relationships:

Foreign network/relationships:

Other:

7. The questions below deal with the process of internationalization.

7.1. What was the first foreign market and the year of internationalization for your company?

7.2. The total number of countries your company has international activities within European Union (please specify the names, if possible, in order first to last; and year of internationalization).

7.3. What countries outside European Union does the company exports or sell its products?

7.4 What are the main reasons that your company chose these particular country/or countries?

7.5 What was the importance of formulating strategy and methods for internationalization?

8. Which mode of entry best describes the internationalization process of your company? (please highlight the appropriate response by using red color)

Direct Exporting

Indirect Exporting

Licensing/Franchising

Foreign Direct Investment (FDI) please specify:

8.1 What reasons justify this/these entry modes?

8.2 Can you describe your company's export model from final product inventory to the customer?

8.3. What strategies would you use for future international market expansion?

9. The statements below deal with Entrepreneurial Cognition. Please rate your response by using the provided scale.

1=strongly disagree; 2=somewhat disagree; 3=neither agree or disagree;
4=somewhat agree; 5=strongly agree

- a) I enjoy working in uncertain situations. ()
- b) The uncertainty surrounding my company prevents me from doing my best ()
- c) If I see something I don't like, I fix it. ()
- d) No matter the odds, if I believe in something I will make it happen ()
- e) Selling products in foreign markets implies high risk. ()
- f) Exports are an important opportunity for my company. ()

10. The questions below deal with Resources (Please answers below the question)

10.1 How many years of international work experience do the managers have outside Finland?

10.2 How would you describe the skills gap (in terms of financial, networks and R&D) with industry leaders?

10.3 How many of your partners (please explain the governance structure in terms of formal and informal agreements) are headquartered outside Finland?

10.4 What kind of technology (production, sales, R&D) does the company have to acquire externally?