



GÖTEBORGS UNIVERSITET
HANDELSHÖGSKOLAN

Internationalization

- A study on actual internal changes due to major
external internationalization in SMEs

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International Business

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Abstract

In a world characterized by constant change, a phenomenon commonly known as internationalization has emerged; The process in which companies refocus, alternatively shift their business operations across their national boards. While theories such as the Process theory helps us by providing an explanation to the steps taken by a firm in its international expansion, not much has been put forth when discussing the internal changes associated to external internationalization, especially in regard to SME companies; it is within this realm we intended to focus our attention. By conducting a trustworthy case study of three SME companies in Gothenburg and interviewing them we decided to explore the aforementioned phenomenon and with the help of our self-constructed research model scrutinize what could be excavated. What we managed to unveil was that all companies could be analyzed by using our research model and hence the model therefore constituted an unprecedented foundation for investigating the firms and the actual changes they had made. In summary we found that due to major external internationalization subsequent internal changes also occur, however what internal changes and the actions they took differentiated slightly. Conclusion-wise to our surprise we found that all the case companies were more of Born Global internationalization character than followers of the world-renowned Process Theory by Johanson & Vahlne due to their company size and innovativeness. Also all the companies took similar and different actions, which pointed diversity in solutions on coping with internationalization. The result of this thesis is one of the few standing on the threshold, waiting for the door to open to an under-researched paradigm: internal internationalization

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1. Introduction

1.1 Background

In present times "the world is getting smaller" (Nummela, Loane & Bell, 2006:562). The incremental and profound progression seen in technology during the last decades, the easing of trade regulatory frameworks and the emergence of multinational corporations have led to the merger of national markets into a huge global marketplace (Hill, 2009). Globalization, here being an umbrella term classifying the things used in our everyday lives are derived from a more and more complex geography of production, distribution and consumption whose scale has become vastly extensive, if not global (Dicken, 2007). The term globalization is one of the most used, but also one of the *misused* and *confused* words around today (Dicken 2007). Bearing this in mind though it is still relatively evident that this phenomenon has structured and inter-connected happening in the world that we today live in, which is why it is imperative not to neglect why globalization, today, should be important to consider when conducting business.

As a result of globalization and the emergence of a huge merged multi-national-scale marketplace businesses have seen the opportunities of growth and profitability. It is assumed that what firms strive for is an increase in their long-term profits, which is assumed to be equivalent to growth (Williamson, 1966). Due to the lucrative incitements present of the global scene there has been an increase in the number of companies operating outside their national borders. This is evident since many studies have indicated that the internationalization of firms is a process in which they gradually increase their international involvement (Johanson & Vahlne, 1977, 2009). The propensity to be present on markets other than the company's home-market has therefore become a rather normal occurrence in today's world; it is not only large multi-national companies that seek to be present internationally. The number of small firms operating on international markets has been growing (Nummela, Loane & Bell, 2006).

The internationalization of the firm, hence due to globalization and merged markets, has become a topic explicitly scrutinized by scholars and academics. The internationalization process of the firm by Johansson and Vahlne, here being, one of the most cited and renowned publications contributing within this field. However, much attention is given to the external aspects of internationalization whilst the internal aspects remain unexploited in comparison (Nummela, 2004). Certain publications such as Nummela have been acknowledged as exploring the internal aspects when a firm chooses to internationalize its operations. It is therefore intriguing to further investigate, on an empirical basis, how companies change internally when internationalizing their operations.

1.2 Problematization

Johansson and Vahlne (1977) describe internationalization as a process in which firms increase their international involvement by pursuing a step-by-step approach. Traditionally companies expand to countries with low geographical and psychic distance, psychic distance being differences in culture, political system and language etc. By choosing countries with low psychic distance firms can more easily understand the local market and they will find market opportunities easier as the perceived market uncertainty is low (Johansson & Vahlne, 1993). Johansson and Vahlne (1993) also mention the establishment chain showing the pattern by which many companies internationalize. At the start of expansion to a new market no regular export activities are performed in the market, then exporting is undertaken via independent representatives, followed by the set up of a sales subsidiary and lastly manufacturing may follow. The studies that followed the initial Johansson and Vahlne study focused not only on the internationalization process but also the characteristics of firms and foreign markets i.e the external effects (Ali & Christofferson, 2011).

The Johansson and Vahlne study was conducted on large firms while more recent research has applied the model on SMEs (Ali & Christofferson, 2011). During the last years we have seen an increasing active role, being played by SMEs, on the international markets. This has been a significant development within international business trends (Lu & Beamish, 2001). Moreover, we can expect to see more of SMEs momentum-gain in the world economy, mainly due to the decline in government imposed barriers-to-trade and the continuous improvement of technology (Lu & Beamish, 2001). Based on this premise, it is evident that SMEs are and will continue to be one of the primary focal-points of future research within the field of international business.

So far, the majority of the research up to date has had an external focus when considering internationalization. This has created a broad understanding of the firm as a whole going through this process of internationalization (Ali & Christofferson, 2011). However more and more attention is being turned to the processes going on internally linked to the internationalization processes.

A study conducted by Nummela (2004) takes the need of deepening the analysis in regard to internal change due to internationalization by looking at the *context of change*. By adopting a model based on Welch and Loustarinen (1988) Nummela discusses the *context of change*. In other words, looking at *what* actually changes internally due to internationalization (Ali & Christofferson, 2011). *What* changed within the firm during internationalization can be categorized as first- and second-order change which is what Nummela's change model aims to explain. Furthermore, by elaborating around internal change, more research becomes relevant. All firms have different competitive advantages which cannot be understood by looking at a firm as a whole (Porter, 1985). Instead by adopting a value chain perspective where the firms are disaggregated into different activities to

understand how and why a firm creates competitive edge can be studied. By converging the thoughts of Porter (1985) and Nummela (2004) one could state that the understanding in regard to the *process* of internal change could be deepened. All the value-chain operations are interconnected which means that as internationalization increases so does the involvement of the activities (Porter, 1985). Moreover, the strategy and the business plan of a firm tell us which activities demand more attention and therefore are most important to the firm (Nummela, 2004). These activities will therefore have a comparable development.

It is in regard to these aforementioned perspectives, and among others, that this study intends to investigate the actual changes that happen within SMEs when internationalizing their operations. Therefore, the theory in the conceptual framework will start by introducing a basic understanding of the foreign markets and introduce theories of how firm's internationalization, i.e. external aspects, and finally link this to the concept of internal change i.e. internal aspects

1.3 Purpose

The purpose of this thesis is to increase knowledge in regard to internal internationalization through studying how SMEs internally change in order to adapt to the external changes derived from firms' internationalization. The purpose has led to the following research question: Due to the major external changes what kind of internal changes subsequently arise.

1.4 Contributions

By conducting case studies this thesis primarily contributes to the under-researched field of internal internationalization by providing a platform that deepens the understanding of the internal changes that occur due to the major external changes brought on by internationalization. By providing empirical evidence via the case companies this thesis also contributes to a deeper understanding of how the theoretical concepts can explain the changes in real-life. Furthermore by adopting theoretical models (Nummela, 2004, Johanson & Vahlne, 1997, 2003, 2009, et al.) and developing a research model can be a additional contribution to concepts used to analyze internationalization of SMEs.

1.5 Outline of the Thesis

Conceptual Framework

In this chapter theories are presented in regard to internationalization. Theories in regard to the external aspects of internationalization are introduced first followed by the introduction of theories explaining the internal aspects of internationalization. Finally, a research model, combining the

external and internal thoughts is presented.

Methodology

In this chapter the process of how empirical data was collected and analyzed are the main aspects. The three companies chosen from a set of criteria make up case companies. The qualitative data collected from interviews conducted with CEO or former-CEO's, also the trustworthiness and the quality of the study is debated.

Empirical Data

In this chapter the information collected from the case company interviews is presented. The information is presented company by company and within each company sub-structured in external and then internal internationalization. The information from each company shows the changes that have occurred due to internationalization.

Analysis

In this chapter our research model and the empirical data is analyzed and scrutinized. Also here the analysis is structured by first analyzing the external aspects and then the internal aspects of internationalization. The main theme is to exemplify the similarities and differences in patterns that emerge when analyzing and then discuss them.

Conclusion

In this chapter we have provided conclusions derived from our thesis. The research conclusions provide us with answers to our research question and purpose of the thesis when converging the conceptual framework with the empirical evidence. In addition derived answers from the case study's interesting findings are highlighted. Finally, a future research discussion is embarked upon.

2. Conceptual Framework

In order to deepen and elaborate the discussion in regard to internal change and the internationalization processes this conceptual framework is based on the process theory of internationalization (e.g. Johansson & Vahlne, 1977) and on the internal change to internationalization framework (Nummela, 2004). These main theoretical concepts nature and conclusive statements is, in this paper, combined in order to provide a fundamental explanation as to the processes of how internal changes unfold when firms go through internationalization. Furthermore, a model is presented in the closing part, where the mutuality of the internal and external aspects of the firm will be illustrated; this model is of modified character and is a combination of previous studies' conclusions.

2.1 Internationalization Theory

Today, the concept of internationalization is not a term people are unaware of yet feel unfamiliar with. However, the idea of what internationalization encompasses is so large that it means different things to different people (Ali & Christofferson, 2011). Therefore in order to shed some light upon this area of possible confusion a process definition has been chosen by the authors to describe internationalization. According to Welch and Luostarinen (1988) internationalization is described as the outward movement in an individual firm's international operations. However in order to broaden this statement they announced the following definition: "the process of increasing involvement in international operations" (Welch & Luostarinen, 1988:36). It is here important to comprehend that involvement here can take the form of many different aspects such as: economic, institutional and relational perspectives (Ali & Christofferson, 2011).

2.1.1 Psychic Distance

When SMEs undergo internationalization they tend to conduct some kind of analysis of the intended market to identify specific market characteristics. The basis for this knowledge in general coincides within the current knowledge apparent in the firm; and the analysis is carried out by the managers in the firm (Ali & Christofferson, 2011). Johanson and Vahlne (2003) highlight that all firms are connected to the market via business relationships with important customers and suppliers who also have relationships with other firms, meaning that all firms are part of an unbounded business network and thus operate in networks of connected business relationships. The reach of such connections depend on the firm's knowledge of market activities, which is known as psychic distance (Ali & Christofferson, 2011). Psychic distance is defined in terms of factors such as differences in language, culture, political systems etc. which all disturb the information flow between firms and the respective market. Thus taking only psychic distance into account, Johanson & Vahlne's internationalization model predicts that companies will start their internationalization in

markets that are culturally similar and later enter markets with greater psychic distance. As markets with low psychic distance have low market uncertainty they are easier to understand and firms will find business opportunities easier (Johanson & Vahlne, 1993). Furthermore Johanson and Vahlne (1977) state that these characteristics of psychic distance mentioned above are the main features that constitute the differences between international and domestic operations. Moreover they argue that the lack of market knowledge that may arise from cultural differences constraints problem solving.

Psychic distance moreover is one of the components considered by Johanson & Vahlne in their process theory of internationalization (1977). They believed that psychic distance in addition to the state aspects and change aspects portrayed by their model are the fundamental assumptions taken in regard to when discussing a firm on a new market. Therefore further elaborating on Johanson & Vahlne's theory is of essence.

2.1.2 The Process Theory of Internationalization

The process theory of internationalization describes a process where the firm gradually and incrementally increases its business activities abroad and hence increase its international involvement is described by Johansson and Vahlne (1977). Through empirical studies they sought to verify if the process theory, as described, was applicable in reality to a clear extent. Indeed the development of the observing firms seemed to be in accordance with the incremental internationalization view which is discussed (Johanson & Vahlne, 1977). Further elaborating on this consensus it becomes explicitly clear that one starts to question why internationalization follows this process described. One way of explaining it is that the process is the consequence of incremental adjustments made in order to cope with the changing conditions of the firm and its environment (Aharoni, 1966). Following the given consensus a model was developed in order to explain and conceptualize all the steps in the internationalization.

Explicitly clarified is that internationalization is a process which is of incremental character. The process model focuses on gradual acquisition, integration and the usage of knowledge about foreign markets and operations along with the incremental increase of foreign market commitment (Johanson & Vahlne, 1977). The process model in its illustrative form is comprised of a set of state aspects and a set of change aspects which the firm goes through as it starts to internationalize its operations. In the model the outcome of one decision, or if you wish: one cycle of events, constitutes the input for the next decision (Figure 1) (Johanson & Vahlne, 1977).

The model predicts that a firm internationalizes based on the state aspect variable market knowledge (1). Market knowledge is important because it makes it easier to cope with both opportunities and problems that might arise when conducting operations abroad. It can be stated

that two types of knowledge can be acquired by the firm. First, objective knowledge is a type that can be taught while the other type, experiential knowledge can only be learnt through personal experience (Johanson & Vahlne, 1977). Also market specific and general knowledge can be distinguished where both need to be required in foreign operations. Conclusively, the more knowledge about the market, the more commitment decisions (2) in regard to resources changes are taken. This change aspect describes the decision to commit resources to the foreign operations. Here taking into consideration that these decisions are made in response to the opportunities and/or apparent problems on the market. Furthermore the economic effect and the uncertainty effect of each commitment needs to be distinguished. Here economic effect being: associated with increases in the scale of the operations on the market while uncertainty being: concerns in regard to market uncertainty (decision-makers lack of ability to read market-influencing factors) (Johanson & Vahlne, 1977). The subsequent execution of the decision taken is then reflected in the current business activities (3). These current activities, being a prime source of experience, consist of all the activities which are currently being conducted by the firm on the market. Finally, all of this results in the other state aspect variable, which is market commitment (4) (Figure 1). This commitment can be classified in to two types: amount of resources committed and the degree of commitment. The amount of resources committed is linked to the size of the investment on the market, i.e. investment in marketing, organization, personnel and other areas (Johanson & Vahlne, 1977). However the degree of commitment is more problematic to grasp but a reasonable assumption would be that the more resources located in the particular market, the higher the degree commitment is to that market. On the other hand it should not be disregarded that the employed parts of the domestic capacity can be committed to a particular market, which misconstrues the previous statement (Johanson & Vahlne, 1977).

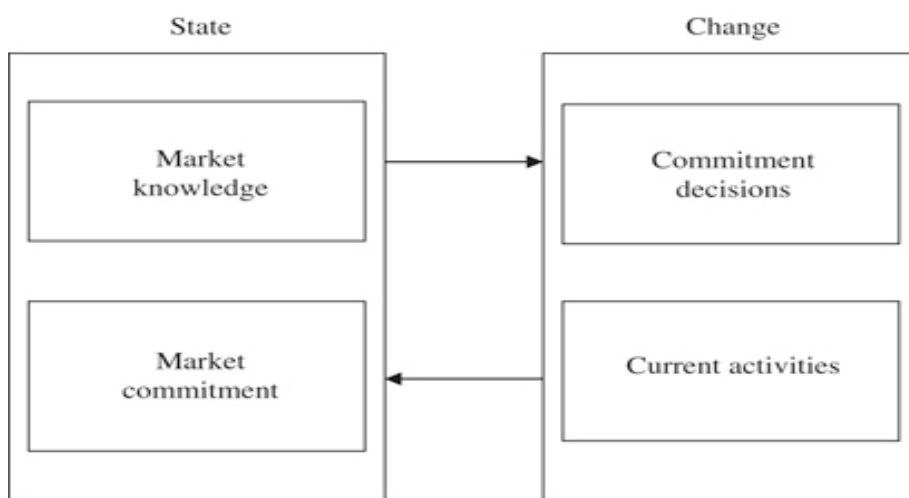


Figure 1: The model framework explaining the process theory of internationalization. Source: (Johanson & Vahlne, 1977)

In addition to the change and the state aspects portrayed by the model are the assumptions in regard

to a firm on a new market. As previously mentioned psychic distance is one of them. Firms tend to, as a first step, internationalize to markets where the psychic distance is low; here referring to that they know the market and can relate to the actors on the market. However the consensus is that as the firm starts to learn more about the market, trust is usually developed which then acts as a catalyst to increase commitment which then results in an increased knowledge gain about the market which ultimately leads to a decrease in the psychic distance (Johanson & Vahlne, 1977). Conclusively it could therefore be stated that because all the actions taken within the model's framework are based on human behavior and development, the model is of dynamic and cyclical character (Ali & Christofferson, 2011). Also here concluding that trust and commitment, which also result in knowledge, are the factors of dynamic character that loop the firm forward through its internationalization process and incrementally increase business activities on the foreign market.

As time goes by and the firm continues to go through the incremental steps of international expansion a natural occurrence is change; the firm begins to change in many aspects. The activities that once were conducted by the firm when operating on the domestic market may not support the activities when now operating with international activities. Therefore adaption might be necessary to cope with the change. Ali & Christofferson (2011) state that the way primary decision-makers respond to the domestic market and interactions within the firm ultimately influence the activities taken by the firm which provides a perspective within the area of interest. Moreover, the process model has received criticism for not being adequately applicable in certain situations: Recent studies such as Knight and Cavusgil (2004) have questioned the process theory's applicability, especially on SMEs. Instead they highlight a recent phenomenon of innovative smaller firms progressing to international markets early, often within three years of their founding. Smaller firms do not possess the financial, human or tangible resources existing in larger firms. Instead these smaller and younger firms benefit from being flexible, less bureaucratic and generally having internal conditions that promote innovativeness. The latter creates new knowledge which constitutes the foundation for the development of organizational capabilities such as critical competencies and embedded routines (Knight & Cavusgil, 2004). As a result they enjoy fewer obstacles than larger firms to internationalization and therefore start internationalizing relatively rapidly. Also, the globalization of markets and technological advances in information and communications, transportation, production, and internal logistics are factors that facilitate early internationalization. In addition to the criticism, a new phenomenon where the business environment is viewed as a "web" and "network", made it necessary to revise the model to a more relationship-oriented approach (Johanson & Vahlne, 2009). Thus, the international activities taken by the firm are initially in response to market information, how they deal with the given information and finally adapting to all of it is more and more related to how the firm manages and creates relationships that the firm is

engaged in (Ali & Christofferson, 2011). Elaborating further in regard to this paradigm is imperative in accordance to the ever-changing business environment.

2.1.3 The Business Network View of Internationalization

Since Johanson and Vahlne's (1977) original internationalization model, business networks have been awarded significant importance in firms' internationalization. Firms are engaged in relationships with important customers, suppliers and other business partners, thus business markets are structured as networks of intertwined business relationships (Johanson & Vahlne, 2003). The importance of networks in the internationalization of firms has led to a revised internationalization model which emphasizes the role of relationships within the business network. In this updated model the concept of psychic distance and liability of foreignness has made way for the liability of outsidership. This new concept of insider/outsiderness has been developed to highlight how knowledge gained from relationships in business networks is crucial for firms' internationalization (Ali & Christofferson, 2011). Johansson and Vahlne (2009) describe an "insider" as a firm that is well-established in a relevant network or networks while a firm that does not hold such a position is known as an "outsider". Johanson and Vahlne (2009) also argue that insidership is necessary for successful business development as it is through relationships within a network companies learn and build trust and commitment.

The 2009 business network model, as the original model, consists of two sets of variables, state and change. The variables are interdependent, meaning that the current state has an impact on change, and vice versa, the basic structure is thus the same as the original model. As seen in the upper left corner of figure 2, "recognition of opportunities" has been added to the knowledge concept to indicate Johanson and Vahlne's (2009) belief that opportunities are the most important body of knowledge which drives the process of internationalization. As Johanson and Vahlne (2009) now believe internationalization is undertaken within a network, the second state variable has been changed from "market commitment" to "network position". According to Johanson and Vahlne (2009) what characterize relationships are specific levels of knowledge, trust, and commitment that might be distributed unequally between the different parties within the network. An outcome of learning, trust and commitment could be developed through a favorable position in the network which is what the firm tries to achieve (Johanson & Vahlne, 2009). In regard to the change variables, "current activities" has been replaced by "learning, creating and trust-building in order to more explicitly show the result of current activities. In this sense Johanson and Vahlne see "learning" as something more than experiential learning, although they still believe that experiential learning is the most important kind of learning. Also highlighting the growing importance of networks is the other change variable as in the revised model has been labeled "relationship

commitment decisions” to clearly show that firms indeed commit to relationships and/or to networks of relationships or they counteractively decrease their commitment which then would have negative network consequences. The commitment therefore, as a result, can increase as well as decrease (Johansson & Vahlne, 2009).

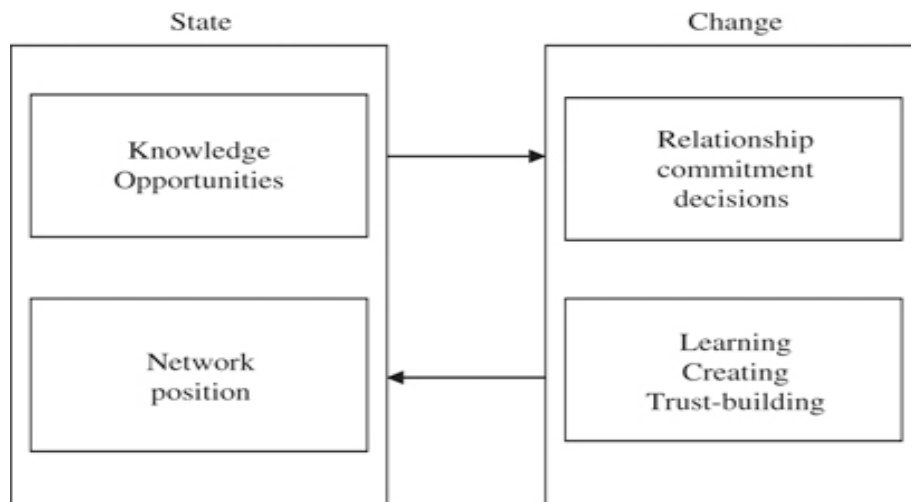


Figure 2: The framework explaining the business network internationalization process. Source: (Johanson & Vahlne, 2009)

The revised model puts stronger emphasis on the learning and commitment that take place in networks as Johanson and Vahlne now believe that these are strongly related to identifying and exploiting opportunities.

Johanson and Vahlne (2009) argue that internationalization depends on a firm's relationship and networks. Therefore, they believe that firms will make their internationalization decisions based on their relationships with important partners who are committed to develop the business through internationalization. These partners could be domestic as well as foreign. Moreover, if a partner of the firm has a valuable network position in one or more countries, then it is likely that the focal firm will follow that partner abroad. By following a partner abroad the firm may enter networks abroad, and this insidership is crucial for identifying and exploiting opportunities. Another reason to why firms follow their partners abroad is that they thereby show their commitment to the relationship, which ultimately is of positive outcome.

In conclusion the revised model is still relevant from a process perspective of internationalization as it takes greater consideration to prevalent importance of relationships and business networks in the ever-changing business environment. Although the business network internationalization process theory sheds light upon the internationalization paradigm, only considering this external perspective does not suffice. In order to give a more accurate view of firms' internationalization, considering internal changes is also of great importance to create an interconnection between the external and the internal aspects of internationalization.

2.2 Internal Transition – A Walk in the Right Direction!

What previously has been concluded is that firms have some underlying propensity to utilize their networks and relationships in order to push themselves through the incremental steps of internationalization, here referring to the work of Johanson & Vahlne (1977, 2009). However issues in regard to the internal aspects associated with internationalization remain untouched or unelaborated. Therefore it seems natural to move from an external point-of-view to a more internal one in order to understand the factors within the firm as internationalization takes place and the linkages between the both views.

The remaining part that needs to be developed is an understanding of the interaction of the internal vs. external. In other words try to locate the linkage between internal activities and the process of internationalization. Ali & Christofferson (2011) state a reflection where this could be observed: Internationalization often starts off by responding to unsolicited orders. Here the departments that are involved with the customers and suppliers and their knowledge and experience are what make the order fulfillments happen; their ability to manage the documents, the language and other requirements. Here, the psychic distance plays a decisive role both for personnel and managers. However, undergoing this process, knowledge is leveraged to the existing knowledge-bank of within the firm which, in the end, results with a change in the knowledge and experience of personnel and managers. In order words a change within the firm itself.

2.2.1 Internal Internationalization – Exploring the Unexplored

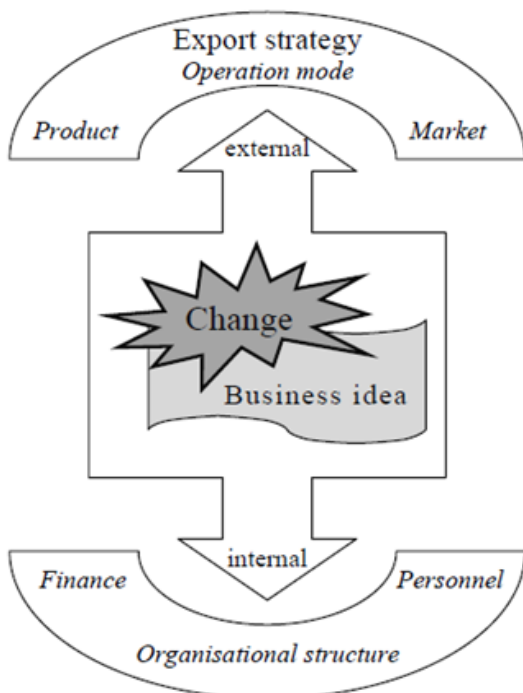


Figure 3: Model linking internal change to internationalization. Source: (Nummela 2004 pp. 408)

A study written by Nummela (2004) sought to elaborate and discuss the changes that were due to internationalization instead of previous work which was focused on understanding the process, not on the content (Nummela, 2004). The focus of this paper was to explore the concept of *content of change*, which explicitly is referred to: what actually changes. Thus change is here defined as the difference in form, quality or state in an organization over a selected period of time (Nummela, 2004). By using a model framework based on the conceptualized paradigm work of Welch & Luostarinen (1988) the relationship between the internal actions (finance, personnel, organizational structure) and the external actions (product, market operation mode, export strategy) associated to change (Figure 3)

can be observed. Here it should be stated that the external actions could be categorized as “foreign environment factors” in accordance to the industry competition, bargaining power of suppliers and customer and the generic strategies paradigms (Porter, 1985). Also it should be stated that there, naturally, are more internal aspects that should be considered. Hill (2009) states in his concept “organizational architecture” – consisting of organizational structure, culture, people, processes and incentives/controls all need to be internally consistent to facilitate a change.

In conclusion therefore internal changes are tightly intertwined and need all to be internally consistent (as one changes, others change subsequently) (Hill, 2009; Nummela, 2004) and thus from a managerial point-of-view understanding changes due to internationalization are of crucial essence.

2.2.2 Context of Change – Connecting the Dots?

To further enable the discussion and elaborate on the application and modification of the model (figure 3) it is elementary to distinguish what is to be considered. By applying the work conducted by Porter, we could shed some light upon this area of discussion. Porter (1985) introduced the concept of a firm’s value chain. A value chain is a collection of all the activities that are performed in order to design, produce, market, deliver and support its product (Porter, 1985). In addition all the activities can be categorized into primary activities (production, sales, marketing, customer services and logistics) or into secondary activities (procurement, human resources, technology development and firm infrastructure). The primary goal of this approach is to study a firm’s operations and see them as discrete underlying blocks of competitive advantage and value (Porter, 1985). By applying this value-chain approach to the model introduced by Nummela, common factors appear. It could be stated that the value-chain activities make up the internal aspects “organizational structure” and “personnel” (Ali & Christofferson, 2011). Exemplifying this compels us to say that organizational structure incorporates all the functions in the firm that are responsible for activities associated with the value-chain while the personnel consists of the individuals and/or groups that make the activities happen and thus ultimately make change possible. By applying this approach further understanding on SME internationalization can be distinguished.

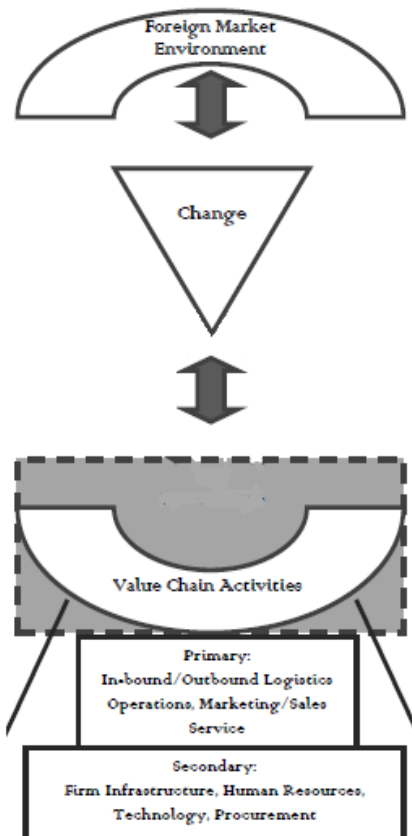
Applying this on SMEs is a necessity for continuing the deepening of the discussion. What can be extracted here is that due to the sheer lack of size, resources and experience within SMEs compared to bigger established companies is what makes them internationalize in incremental steps as previously stated in the process internationalization theory. Ali & Christofferson (2011) reflect on this by then stating that this value-chain approach helps us to identify a pattern of change in the internationalization process. When the firm begins with foreign sales, the sales and distribution functions of the firm are affected and the deeper the commitment to that market becomes, more business knowledge is accumulated which both improves the firm’s primary and supporting

activities, such as; marketing, sales, regulatory aspects etc.

Porter (1985) states that all the value-chain activities and therefore hence all the operations of the firm are interconnected. Based on this premise, as a firm increases the steps associated with internationalization an increase of involvement in the value-chain activities can also be detected. Furthermore, the value-chain activities will adjust and adapt to changes in regard to their processes and routines at different rates, since knowledge from the internationalization will be important to the different activities within different time frames (Ali & Christofferson, 2011). This falls in unison with the statement that the business plan (which lies behind any changes) will dictate which activities are of greater importance to the firm, and thus will have a comparable level of development, as all operations are based on the business idea (Nummela, 2004). However it needs to be highlighted that due to the interconnection between all the activities, coordination is imperative in order to handle the time-frame difference in development.

After having considered both the external aspects of internationalization and the internal aspects of internationalization theory a research model developed by us is presented below. By combining and categorizing the presented theory in regard to the external and the internal parts of internationalization in a model we believe will ease the impediments and ambiguity often associated when having presented many different theories

2.3 Research Model - Digging Deeper



So far it has been seen that there are a number of different models and approaches accessible when discussing internationalization. By combining the aforementioned models in the conceptual framework we have created a model in which we intend to build our research upon. Nummela (2004) clearly depicts and provides us with a model that discusses *what* actually changes internally due to the internationalization of a firm and Porter (1985) strongly argues for a value-chain approach when looking at a company’s different activities. Therefore these contributions constitute what we refer to as internal change. Bearing this in mind, we have chosen to look at the internal changes due to internationalization as a process where the changes

Figure 4: Internal Internationalization model. Sources: (Nummela, 2004; Porter, 1985) Authors' edition.

occur at given frames in the firm's development (the development's inception is when internationalization begins). Also, focus is on some factors considered by Johanson & Vahlne in the model, namely psychic distance, process theory and networks. These contributions, as presented in the conceptual framework, constitute what we refer to as the external changes. However it is imperative to acknowledge that the model states that "foreign market environment" is equivalent to external changes. This relationship (Figure 4) ultimately provides a model on which research is based on. In addition, the model also incorporates the Born Global concept by taking into account that the changes in SMEs occur much faster, in other words the time-span between the external and internal changes are immensely smaller than compared to the firms in The process theory by Johanson & Vahlne (1977) for instance. Conclusively therefore we used this model to look at the actual changes that have taken place internally due to internationalization instead of focusing on the underlying factors that enable internal change.

3. Methodology

When conducting a study it becomes relevant to further deepen the discussion concerning the methodology of the study. We identified the design that intended to apply in this case, discuss the case companies that we collaborated with, elaborate in concern to the data collection, the analysis of the data and finally we commented on the quality of the study. Presenting these components in the methodology we think will result in a better understanding in regard to the characteristics of our empirical evidences.

3.1 Research Design

Since the purpose of this thesis is to elaborate and investigate around SMEs' external and internal changes when internationalizing we are compelled to ask questions such as "why" and "how". Therefore, bearing this in mind, we concluded that it would be most appropriate to use a case study approach; as Yin (2003) states in general when questions "why" and "how" are being posed, case studies is the preferred strategy. The qualitative data collected from the case study that we have conducted aided us in answering the research questions put forth in this paper; this as the strength of the case study is its ability to examine, in-depth, a case within its real-life context (Yin, 2003). As our thesis is of descriptive and analytic nature it becomes evident that the most prominent characteristic of this case study was going to be a bounded one and in our case the bounded element is the respective SME. Moreover, it is important to clarify what our unit of analysis is. Building on this assumption we find it explicitly evident that since our research questions regard the external and internal change process; our unit of analysis is the respective retrospective change process. This assumption correlates with (Yin, 2003) where he highlights that in order to select the appropriate unit of analysis one's research questions must be accurately specified.

3.2 Case Companies

In order to attain information relevant to our thesis and to be within the consensus of information-gathering procedures in case studies we started to look for possible case companies. Our conclusions were that we wanted to interview top management members in the companies and since we study the internal process, find companies who had experienced this process. When targeting the companies that we wanted to collaborate with we had to establish certain criteria which had to be fulfilled so that the companies indeed were relevant for us to have in our study. This as the main goal of the screening procedure is to properly identify the cases before you start the collection of the data (Yin, 2003). It is very important that the criteria that we formulated coincided with our research objectives so that the companies that we chose really are relevant and, hence, the information we gather is of valid nature. Yin (2003) places emphasis on this by stating that prior to collecting the screening data one should have formulated a number of operational criteria whereby

suitable candidates will be deemed as suitable to the case study. Bearing this in mind, we set up the following criteria:

- SME

The case companies in this paper have to be of SME character, this since our intention with this paper is to study the internal process of an SME and no other firm size. SMEs are usually defined as companies with between 1 and 250 employees.

- Internationalized

The case companies in this paper also need to have internationalized their operations in order to be classified as a viable candidate. Since we are studying the internal change process due to internationalization, this criterion is of most essence. We wanted the companies to have been international for at least 5 years, this since change can take time.

The number of companies that fulfill this criteria set forth by us are literally hundreds and all of these we consider are relevant candidates in this paper. Conclusively however the companies that fulfilled the criteria, had time and wanted to be interviewed were the ones that we chosen as case companies; we did not try to narrow the number of candidates down any further as a result. Also all the companies are associated with fictional names as they wanted to be anonymous in the thesis.

3.3 Data Collection

The collection of the data can be divided into two different sub-categories: primary data and the secondary data. In the primary data we find the qualitative information that we have obtained by conducting interviews at our case companies and in the secondary data we find information obtain through reports and web pages.

3.3.1 Primary Data

After choosing case companies we decided that we should start conducting the interviews in order to attain information. Interviews, being one of the most important sources of information in case studies (Yin, 2003) we thought would provide us with the best coverage of what we wanted to know about the companies in regard to our research questions. The person in each respective SME company that we chose to interview was either a CEO or former-CEO and therefore members in the top management. We believed that since they had been attached to their companies since inception they had the best knowledge in regard to what happened during the internationalization years of the company.

When conducting the interviews it was clear to us that we needed to ask the right questions and not

be excessively straight-forward when conducting the interview. As (Yin, 2003) states you are operating on two different levels: first, you are putting forth questions to satisfy your needs in regard to the line of inquiry and simultaneously you are putting forth a combination of friendly and nonthreatening questions to ease tension (Yin, 2003). This was important as the interviewee may feel threatened or intimidated by the questions and can then possibly go into a non-cooperative state or feed distorted information, which is not what we strive for. A combination of *how*, *why* and *what* questions focused around internationalization and change were primarily presented to the interviewee to provide us with relevant information. Moreover, the interviews were conducted in person at the respective company and were also recorded; this as recording most certainly provides a more accurate rendition of the interview (cf. Yin, 2003). This coincides with our thoughts as we believed it would create more credibility in the information when transcribing the interview.

3.3.2 Secondary Data

The data collected in this sub-category comprises primarily of information gathered from web pages and miscellaneous reports. Here, on the web pages, the intention was focused on retrieving trivial data about the companies such as: recent events, organization, business profile, products, company story, visions and goals etc. The miscellaneous reports are referred to as financial reports and other statements.

3.4 Data Analysis

After all the data had been collected from the case company interviews we started to work with and analyze the data. The first step that we took was to transcribe all the interviews so that we could process and work with the information. When this was completed we started analyze the information. When analyzing the transcriptions we started to look for answers that we could use. We decided to look for answers that would be relevant to external internationalization and answers relevant to internal internationalization. After finding all the answers we wanted we started to ponder on how to present the empirical data and how to analyze it, structure-wise. We decided that we here also wanted an explicit structure and therefore decided that we wanted to present and analyze using the same structure when finding answers in the transcriptions: external internationalization and internal internationalization. By adopting this approach consistently across the transcriptions, empirical presentation and analysis we believe ambiguity will succumb.

3.5 Quality of the Study

The quality of the study should in its clearest form, describe the strengths and the weaknesses of the conducted study. Plausibly, one could from this notion choose to break down the strengths and weaknesses and instead study the *reliability* and *validity*. In qualitative research however reliability and validity can be hard to define, therefore in this case the two are conceptualized as

trustworthiness, rigor and quality of the case (Golafshani, 2003).

We believe that by conducting the interviews in person and with people who had the most insight in the respective companies' activities certainly increased the trustworthiness of the study. In addition by having an interview which maintained an open-ended and conversational manner made the interviewee feel comfortable and unthreatened and thereby provided us with credible answers. We also believe that by giving the interviewee the possibility of being anonymous (both personally and corporate wise), sending the transcribed interview to the interviewee to check for misconstrued interpretations, informing the interviewee of our intentions before the meeting and studying the company before the meeting all increased the quality of the study.

However, certain aspects impaired the quality of the study. The fact that the information gathered was substandard in comparison to what we wanted highlights this; Hence, the data collected in its purest form does not 100% accurately measure what it is intended to do, however we did the best we could possibly do with the information at hand. Nonetheless, this does not mean that all the data is corrupt and cannot be used.

Furthermore we believe that by having conducted a case study, certain draw-backs were arisen from that decision. One problem was that the results put forth are very hard to apply in general since we studied a limited number of companies, however this does not imply that the results are without substance and value.

In summary therefore it should be stated that the study in this thesis converges with the consensus that there are certain aspects that improve the case that we are trying to push forward but also certain others that impair our possibility to accurately do so. It is conclusively therefore based on the premise that one has to deductively and rationally decide whether the case here is of applicable nature for further research or reference usage, for example.

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4. Empirical Data

The data presented in the empirical section constitutes the basis for further discussion. Here the three companies' empirical evidence will be provided and will further be scrutinized in the analysis. The data will provide an empirical vantage point from which the conceptual framework could be discussed and its applicability could be evaluated.

4.1 Innovotech AB

Innovotech AB is a company that provides solutions for alarm and safety communications. Founded in 1999, the idea of increasing the security communication in alarms in a respectable financial and simple manner was the driving force. Today, Innovotech, located in Gothenburg with eight employees is one of the biggest actors in the European market and provides its products to more than 20 countries around the world. With ties and presence in one of the largest security whole-sales networks the global business scene was entered effortlessly. With more than 150.000 products sold globally to customers such as high-security banks and common households and a market of 15.000.000 systems that require updates in Europe alone, the market opportunities for alarm and safety communications companies seem to be of perpetual character.

4.1.1 Changes in the external organizational structure

Andreas Johannesson, Chief Executive Officer and co-founder of the company started working in 1999. When he co-founded the company its solutions and concept were based on GSM technology which at this time was a brand-new approach. The solutions prior to the GSM technology were outdated and had been discontinued which created a gap of opportunity in the market. Since the solution that Innovotech offered was easily applicable in every market, they sought their fortunes abroad, which was natural for them. Furthermore after witnessing that the solution that was offered was almost born to be of international character it was natural to evaluate which countries to work with and how they should come to terms with working with these specific countries. Commenting on this the CEO reflects: *"We used catalogues. There are international guides and likewise with catalogues on a European basis which we utilized. After screening we found a whole-sales representative compatible to our needs."* In addition to the catalogues Innovotech also considered psychic distance: *"Cultural indifference is of course something we considered. We started focusing on countries in Western Europe and found a representative in Belgium that was interesting. Moreover, later, after we started working with them it was unveiled that they were a member of one of the biggest security whole-sales networks."* This network which had been randomly stumbled upon proved to be very nourishing for Innovotech. They got in contact with a French actor who had via this network become acquainted with the solutions that Innovotech provided. This would later become one of Innovotech's best customers but was also benchmark for the future success. The

CEO comments on their network position and importance by stating *“Their network was of great help for us. The Belgians started out by testing our products and after a while they started spreading them throughout the network. After a while we started doing business with a French security whole-sales actor, which today is one of our biggest clients. Today we are “in” and renowned within the network and use the network to push out our new solutions. This means that new customers often contact us.”* After concluding that the solution that Innovotech provided had proven to be lucrative around the world (several countries in Europe, Asia and Oceania) and successful internationalization, the CEO reflects on the company's internationalization: *“Speaking in generalities, we have had a smooth ride since our solution, due to its applicability and in-drift endurance was “right in time”. Also due to that we were only three months old when we started exporting we gained a lot of experience instantaneously along with exporting references.”*

4.1.2 Changes in the internal organizational structure

Innovotech embarked on its international endeavors only three months after its founding therefore the CEO cannot recall much before becoming an international actor. The internal changes that have occurred in the company are hard to determine if they are due to internationalization when this is the case. The CEO says *“We have more or less been exporting since day one and have therefore not had a life before these actions; however our company has grown a lot because of it.”* Prior to the year of 2009 the company was considered to be box-movers which means that they were merely focusing on selling their products. However, nowadays, they have shifted their focus and are considered as active and concept-launchers within their networks. It is stated that structural changes and personnel changes were conducted; however they seemed to be more due to refocusing their business approach than internationalization in the words of the CEO: *“Now we focus on a system developed for IP and GPRS instead of GSM which we basically handed over to our GSM producers.”* This shift in focus led to personnel and structural change. Reflecting on this he argues *“Due to this shift to IP and GPRS we expanded the staff from three employees to eight employees in order to handle the growth accompanied; also we took in external competence, here referring to the new board members.”* The company now has three departments in the company, compared to before. It has the logistics department that handles deliveries and billing: here one employee is stationed. Then they have the marketing department: here three employees are stationed and finally the technical department, where the products are developed: here two employees work. All of these value-chain activities have been structured in order to deal with the growth and alterations that have arisen.

The shift from GSM to IP and GPRS will be cash-cow characterized, however it may take some time for the security industry to make the transition. *“I think we will start delivering quite efficiently*

and will probably need to employ two to three new people next year.” Moreover, Andreas is confident that they are the actor to count on when delivering one of the most reliable IP and GPRS solutions. *“We have developed products to Siemens and Ericson among others, so we are extremely technically orientated and have profound competency base within IP and GPRS”.*

4.2 Soluco

Soluco was founded in 2001 by four entrepreneurs, three of which were students of Chalmers University of technology. The company created an IT-product developed for trucks with the intention of reducing fuel consumption and simplifying administration. The product was launched in August 2002 and soon after the first installation was made at a Swedish hauler. The following year represented a commercial breakthrough for the IT-solution as the company gained numerous new clients, including some of Sweden’s biggest haulers. Since its inception Soluco has experienced rapid and steady growth, the company has grown with about 50 per cent annually and growth has been organic as well as external. Moreover due to its fast growth the company has established a strong market position in the industry. Soluco operates in circa ten European countries and has offices in six of them (Sweden, Norway, Denmark, France, Spain and Germany). During the internationalization process the company continuously faced new challenges and thus changes in the company’s organizational structure have been necessary to ensure an effective use of its resources and good service to its customers.

4.2.1 Changes in the external organizational structure

Not long after its inception Soluco started operating in the international market, namely in Denmark and Spain using local sales agents. Although Soluco was keen to expand its business beyond Sweden the way in which the company internationalized was unplanned., it had no clear strategy of where and how it wanted to expand. Soluco was approached by sales agents in Denmark and Spain who were interested in selling Soluco’s products and thus those countries became Soluco’s first international markets, a contributing reason why Spain was deemed as a suitable market was that the CEO at the time spoke Spanish which the company thought would help the company to do business there. The former CEO explained the company’s choice of markets: *“We were interested in internationalizing and when we were contacted by foreign sales agents we were of course interested and excited. In hindsight they were not the optimal partners for us but at the time they approached us we were inexperienced and proud someone wanted to sell our product.”*

As the company developed it accelerated its internationalization and Soluco adopted several entry strategies when expanding in the European market and through trial and error Soluco has found the mode it finds most effective. The company has never left a market but has occasionally started over from scratch with a new strategy. Until 2008 growth had been organic but that year saw the

company implementing a more aggressive overall strategy namely, acquisitions. In the words of the former CEO: *“We tried everything. We tried to send our own personnel to set up shop in the local market. We tried hiring local personnel and let them set up a local office. We tried working with distributors who helped us setting up our business on the local market, that includes distributors selling other products too as well as distributors only selling our products. Recently we acquired a distributor, thereby we got our own business with local personnel in that market. The most successful strategy has been acquiring a local competitor on the market we want to enter, it is an expensive strategy but it has been successful.”* Acquisitions have driven the rapid growth in recent years. In 2009 Soluco acquired a Danish competitor of similar size to itself with revenues of 50 million SEK, this, was in 2011 followed by the acquisition of a French company which also had revenues in the region of 50 million SEK. Thus Soluco has increased its international presence significantly, which is also evidenced in the company’s workforce where currently only 50 of the 120 employees are working in Sweden.

The former CEO acknowledges that the company did not expect psychic distances being so great between Sweden and Spain. Moreover he states that the company has learned a lot from its initial struggles in Spain and now shows greater consideration to differences in culture, language etc.: *“In their world we were from a completely different continent, and thus it was difficult to gain trust from Spanish companies.”* He expands on this concept and explains why trust and commitment are crucial in this industry: *“Our product is a big investment for most companies, often accounting for 4-5 % of the customer’s annual revenues. We are selling a complete business system which leads to a long-term relationship with the customer, thus by purchasing our product they trust us to deliver a great product and if we cannot do that it will have serious consequences for their business.”*

The former CEO believes that to be able to sell the product and gain trust from local customers it is vital to employ local personnel as they are the only ones who possess knowledge and understanding of the local market and society in general. Moreover due to the product being very complex and support intensive and was even more so in the early stages of internationalization when the product was still immature Soluco believed it was of crucial importance to provide support services in the respective market and therefore the company has set up support center in every market it operates in.

4.2.2 Changes in the internal organizational structure

The former CEO felt that Soluco has learned enormously from having an international presence. In the early stages of its internationalization the employees’ experience of internationalization was limited. As the company expanded its international operations the company made a strategic decision to have board members with experience of internationalization. Moreover the recruitment

of the new CEO in 2008 followed the same reasoning as he in the words of the former CEO “possesses vast experience of internationalization and acquisitions”, and since his hiring acquisitions have been the company's main growth driver.

Soluco has since its inception grown rapidly, which consequently has led to much time being spent on solving management issues and restructuring, as the fast growth means that the company continuously faces new external challenges it has to adapt to. Thus the rapid external changes are reflected in ever-changing internal changes. The former CEO states that the challenges present in the company’s external environment generate constant small incremental internal changes which every six months lead to big organizational restructurings, such as new customers that they had to deal with. The company’s business operations have through new clients spread to, in addition to the original trucks operations, include busses as well. This has led to that the company has subsequently created two sections of operations, namely “trucks” and “busses”. Although there are great differences between the two industries Soluco has maintained close connection between the sections. For the employees the constant changes mean that many of them have seen their roles change or being transferred to other offices. The former CEO explains: *“When we opened a Stockholm office we had to move personnel there and then someone else had to do take over their old tasks. Another example is when we got a big Swedish bus company as a new client. The new client meant that we had to allocate two people to work solely with the new client, which meant that we had to recruit new personnel for their old jobs.”*

In order to obtain the local responsiveness the company believes is vital, it has in addition to its central management team created a management team in every market it operates in, with the respective management team being responsible for its individual local market. The former CEO explains: *“The local employees possess the best understanding of the respective local market and therefore it was natural to decentralize much responsibility of the company's operations to the respective market.”*

Part of its internal organizational restructuring has been to centralize logistics to Sweden. All components are stored in Sweden and sent out to the local subsidiary upon request. The former CEO explains the reasoning behind this decision: *“We have centralized logistics. All components are stored in a warehouse in Sweden. Logistics is probably the easiest unit to centralize, we just store all components at the same place and then we are done, and that is why we decided to centralize logistics.”* Other than logistics Soluco has kept its operations, including support and development, decentralized and close to market due to the necessity of adapting to demands of the respective market. The former CEO explains: *“One of our biggest competitors has centralized its support activities, meaning that wherever their customers call from they will be directed to the same*

support center. We on the other hand believe that it is important to keep support activities decentralized as it is imperative to have a presence in the local market and therefore it might not be possible to centralize support activities. Also, keeping support activities in the local market allows the support staff to receive help from the local developers who have sufficient knowledge about the product and thereby the support staff can service the clients efficiently. The reason why we have kept development decentralized is that development is knowledge intensive and it is difficult to get a grip of the development if you have not been involved in the development process.”

4.3 Hydrosorb AB

In the early days of January 2007 the company Hydrosorb AB was founded by Andreas Josefsson in collaboration with Saab Group and Chalmers University of Technology, Andreas Josefsson has since the founding been CEO of the company. The company instantaneously started winning prizes and awards which confirmed that the product which was provided by Hydrosorb had substantial potential. Internationalization was imminent and in April 2007, by being admitted and granted acceptance into the “Marine Energy Accelerator” in the UK, internationalization speeded up. Hydrosorb provides its customers with a product that converts energy generated from flows of tidal streams into electricity. The product resembles a kite with a turbine mounted on its body. Since its inception in 2007, the company has seen growth and expansion on several continents. This has led to a series of alternations for the company where personnel and structural ones are examples among many others.

4.3.1 Changes in the external organizational structure

The CEO of Hydrosorb AB depicts a scenario where it is clear that this company was more or less born to be active outside the borders of its native land. Hydrosorb AB had, from the beginning, intentions to operate abroad and its internationalization was not a coincidence. When founded back in 2007 it was from the beginning evident that Hydrosorb's native market (Sweden) was too small, so they were forced to seek their fortune abroad. Since Hydrosorb relies on waters that are rich in tidal and ocean currents it is pretty clear which markets they want to operate in. They identified the UK as the company’s primary market. The region had a lot of natural resources adjacent to their coasts so they started cooperating with British authorities. However, being able to operate within the UK was more a conscious decision than the results of pure luck. The British would not sit and wait for Hydrosorb so instead they had to play ball. Commenting on this the CEO states “*We contacted British authorities after we stumbled upon a type of advertisement where they were seeking lucrative projects to inject capital in. So we filled in an application and we were granted access to a funded program called “Energy Accelerator” and since then the UK has been our primary market.*” There is no doubt that the UK is the biggest market for Hydrosorb but the CEO is

very clear to point out that they are active in other countries as well, even if the UK is the most prominent example. *“We are geographically dispersed across the globe. We are present in Chile, Korea, Japan, and South Africa as well! Since our product often is a part of a substantial infrastructural project that ranges from several hundreds of millions to several billions of Swedish kronor the geographical scatter is not a concern to us, au contraire, it is beneficial for us.”* The reasoning behind the company’s choice of markets differs slightly. In the UK they had a formalized strategy; a subsidiary was built-up there. This subsidiary acted as a project-company that searched for funding and monetary support and also it created employment. All of these actions were taken to increase the “good” position in the UK and that was the strategy from the beginning. However in the other markets no subsidiaries have been established yet. Instead on these markets they have representatives or other forms of partners as their entry strategy.

Hydrosorb has been on several markets around the world so they have been exposed to cultural differences accompanied to internationalization. The CEO reflects on psychic distance: *“We have definitely observed psychic distance but it did not scare us away from any markets. We knew that in Britain for example they are more prone to bureaucracy and are more hierarchical than in Sweden. So we chose to work with people or companies who were profiled towards Swedish features with free-thinking and flat organization instead to solve our preconceived notion, which has proven to have been effective for us.”* It is today a clear propensity to be part of networks, all the way from the personal level up to the company level. The benefits gained from properly nourishing one’s contacts and personal network could result in benefits on many levels. It is no exception that even Hydrosorb are aware of these network advantages. The CEO reflects and comments with *“Yes, we are in networks. We are in two networks in the UK: “Marine strategy group” and “Renew UK” which are networks focused on questions in regard to wind, water, wave and tidal power. In these networks we are producing technology companies like us and Rolls Royce and Siemens but also all the big power generating companies. We use these networks to push and lobby our products out on markets.”* In Hydrosorb’s case great challenges and daunting problems have actually been avoided. However small and what some would call irrelevant “problems” have been experienced such as time difference, which still is considered to be surmountable. However, the CEO states *“Of course we have encountered problems. Merely being international poses problems. For example when I was in Japan and South Africa problems occurred. I could come home and think that this deal was in the bag and everything was so positive during the meetings. Then nothing happened. The cultural differences were hard to grasp and at first it took so time to learn this and come to a conclusion in the deals.”*

4.3.2 Changes in the internal organizational structure

The CEO believes that the internationalization is responsible for a number of alternations and daunting challenges that have taken place internally in the company. Since they started operating abroad they have increased their workforce, restructured, taken certain actions to control workforce capacity, employee ambiguity management and seen the roles change as more people are instated in the company, among others. For any company changes within the walls of the company are not uncommon when internationalizing its operations, for Hydrosorb this is no exception. One of the first actions taken by the company when it had internationalized was to immediately change the official corporate language from Swedish to English. This put emphasis on that all the employees were adequately (according to the CEO) eloquent in English. Moreover, Hydrosorb has seen most changes in regard to the staff and the organization/structure of the firm.

When the firm was founded the CEO was in charge of all the operations of the firm. However since the internationalization in 2007 the number of employees has increased from one to twenty-two. However, there are twenty-eight who work for the company on a full-time basis. The CEO explains *“In Britain for example we have no employees; instead we have consultants who work full-time. This is due to organizational advantages. Also we don’t need all the troubles accompanied by employment; instead we are just sent a bill to pay.”* All of the employees that are employed are in Sweden, however their nationalities are of different international heritage. The increase in the number of people working in the company has subsequently seen the change in other aspects in regard to personnel and work. The CEO argues that since the internationalization the sales department of the firm has become more and more important. It is important that they are eloquent in English and have the edge. Moreover he concludes that due to senior back-up acquired from the head of the board’s personal network along with that the head of the board himself works 50 % with sales is the reason to their successful handling in this department. The roles played by the employees have changed over the years as more and more people are employed. When they were around eight employees back in 2011 approximately all of them had a good perception of everything that was going on and what everyone was doing. Today this is not the case. This is something that the CEO is aware of. He has acknowledged that this is a concern. Implementation actions such as weekly mails with updates, meetings and other group congregations have sought to deal with possible frustration and feelings of lack of contribution embodied by the employees. The CEO though points out that not only bad things have been the outcome but positive aspects as well: *“Before one could feel confused and frustrated about his or hers somewhat scattered work tasks. Today however we can work more structured and focused. Internal communication is hard but is the key”*

Due to the Hydrosorb's internationalization, significant changes in the company's internal organizational structure have also occurred. In the company's inception it had just one employee, in the early stages of internationalization seven more were recruited. The most recent enlargement of the workforce took place in 2011 when an additional 14 people were hired, taking the total number of employees to 22. Hydrosorb today consists of three departments, "Marketing and Sale", "Economy" and lastly the biggest department "Technology", headed by the technical manager. 18 of Hydrosorb's 22 employees work in the technology department, mainly focusing on product development. The CEO explains the importance of the technology department: *"Due to our product being complex and technology intensive the most important section of our business is product development and that is also why it is the biggest department."* Of the 18 employees in the technology department only three are not directly involved in product development and they are technology project manager, technology purchase manager and IP-developer. Since the company has no manufacturing of its own the technology purchase manager is responsible for purchases of the components needed in the assembling of the product and the IP-developer is responsible for the protection of Hydrosorb's intellectual property. The CEO believes that it is vital for Hydrosorb to have a technology purchase manager and an IP-developer: *"The technology purchase manager eases the workload for the constructors as the purchase manager handles all purchases of components. As I said before the product is technology intensive and product development is an important part of our business. Therefore it was important to employ someone who can make sure our innovations are protected and that responsibility lies on the IP-developer."*

The company has grown rather rapidly since its founding, leading to organization and administration becoming increasingly important. Therefore an administrator has been hired to handle human resource management and other everyday events. The CEO states that the hiring of an administrator has diminished his workload for him: *"The hiring allows me to focus on more relevant issues. The administrator's takes care of matters that might seem trivial but are important to the employees and can be very time consuming."* The CEO also highlights the importance of the administrator in improving communication between employees: *"She organizes team building exercises with the primary objective of improving communication. Our engineers excel at product development, some of them even have a PhD in engineering but they sometimes have difficulties communicating with others and that is something we are trying to improve."*

Expanding operations and a fast growing organization have led to new challenges for all employees and especially the executives. Therefore Hydrosorb has made changes in its top management, in January the technical manager was replaced by a person with more managerial experience. The CEO explains the decision: *The former technical manager was really good at product development*

but he lacked the managerial skills needed in a bigger organization.” Hydrosorb has taken steps towards redesigning its product development. The company has started to break out its product development, implementing a system with more and smaller projects and stronger emphasis on individual responsibility, moving away from the former system where the product development consisted of one big project headed by a project manager. The CEO explains part of what the company has done to create decentralized structure: *“The employees are making their own budgets and setting forth their own goals.”*

In addition to the aforementioned, the CEO stresses that they are now very keen on co-developing and collaborating with partners in production and development of systems since they internationalized. Hydrosorb use a lot of carbon fiber in its product and therefore they collaborate with companies who are prominent in the field. The CEO exclaims that the company would need to hire at least ten to twelve experts to be able to execute what the partner companies are doing. Therefore the partnership is more beneficial for Hydrosorb. *“We pay the partners staff for the job. This solution is a good way of securing that we don’t have too many personnel and that all employees are occupied to 100 %.”* He admits that these partnerships put a lot of tension on the organization in the sense of being able to handle this type of relationship. However, it generates more flexibility and relies much on that they have a structured long-term planning where the goals are clearly stated. This is what makes the co-operation function.

5. Analysis

In this section the empirical data which has been presented is analyzed and scrutinized in regard to the research model which has been put forth. First, we have presented the external internationalization aspects and then focused our attention on the internal internationalization aspects (Value-chain included). This analysis provides answers by explaining and understanding how the empirical data can be applied when juxtaposed to the research model and provides a fundamental basis for the subsequent conclusions.

5.1 External Internationalization

The analysis presented below here comprises of the external internationalization information provided by the case companies. This information is analyzed against the theories compiled within the category “foreign market environment” i.e. external aspects in our research model.

5.1.1 The Decision and Steps of Internationalization

Putting the empirical evidence in regard to Johanson and Vahlne’s (1977) Process theory of internationalization resulted in an array of plausible conclusions. One of the patterns that emerged was that all of the companies show characteristics that are applicable to the process theory of internationalization. Johanson & Vahlne (1977) state that internationalization is a process where the firm in question incrementally increases its business activities over time, and hence increases its international involvement subsequently; this is evident in the empirical data. All the companies started off by being domestic, however very shortly and then internationalized: Hydrosorb and Innovotech were domestic for three months before internationalizing, along with Soluco that internationalizing within 6 months. All of the companies have since over time, increased their operations internationally. However it should also be mentioned here that the data suggests that the thoughts in regard to “Born Globals” are more accurate with our case companies. Since all our companies are of innovative character they seem to speed-up the internationalization process considerably compared to other companies and can therefore be categorized as early adopters of internationalization (cf. Knight & Cavusgil, 2004). This would explain why all our case companies were domestic under a short period of time before swiftly establishing towards international presence. Furthermore the model presented by Johanson & Vahlne (Figure 1) has two sets of steps that illustrate how internationalization takes place. The pattern amongst the empirical data here is that all companies seem to follow some of the steps. For instance Soluco’s adoption of several overall strategies internationally suggest that they gained knowledge and adjusted and the fact that the set up local support centers due to the problems caused without them suggests: more knowledge and commitment to the market (one step). However, one difference does separate the companies. Two of the companies: Hydrosorb and Soluco, started off by internationalizing on a market, and

then later deepened its commitment to that specific market. However this was not the case for Innovotech who has not deepened its internationalization commitment in any of its markets, instead they use representatives and direct sales consistently. Why this is the case for Innovotech is hard to explain but apparently they have found a strategy that suits their product and their industry well. In conclusion, patterns of convergence and divergence are apparent. In conclusion therefore the empirical data does indicate that the process theory to some extent is evident however we believe that the consensus in the “Born Global” approach seems to be more converging in regard to the empirical evidence.

5.1.2 Network

Putting the empirical data in regard to the Business Network model generates some conclusions that could be considered. The business network model (Johanson & Vahlne 2003) (Figure 2) suggests that relationships and trust are important as many firms today are engaged in relationships with many actors and engaged in business markets (which is networks of intertwined relationships). All of the companies are in relationships, however only two of them are in large-scale networks. Hydrosorb being a member in Britain Marine Strategy Group and Renew UK and Innovotech being a member in a large security whole-sales network, both exemplify being active members in networks. Both of them have established a good network position throughout the years and use the network to lobby and push products. Why Soluco is not a member in a network is because of its industry rather than a conscious decision. The only actors within their industry are their competitors and they wish not to collaborate with them. Hence, no network affiliation. Johanson and Vahlne (2003) state that the importance of insidership over outsidership in networks. Being “in” a network is beneficial in today’s world. Innovotech, found its biggest client through the network and Hydrosorb affects governmental bodies with its. Hence, since these companies are “in” networks they certainly have built relationships and trust; and nourished them, which paved their way in deeper into the network. However in conclusion, the discrepancy that not all companies are in networks is perplexing. In general companies with technological products and with an innovative culture are often in networks and other forms of partnership. However this seems to not be the case here as Soluco has no network associations what so ever.

5.1.2 Psychic Distance

The general pattern that emerges is that all the companies have considered psychic distance when conducting international business however all the companies have dealt with it differently. Innovotech, based on the premise of its product's easy applicability and the company's good network position, internationalized wherever they felt it was suitable. Innovotech always consider psychic distance but it has not been the deciding factor in any of its business activities. However

due to the refocus of Innovotech's business approach focused on more complex products which is not as easily applicable on different markets Innovotech might have to reconsider the importance of psychic distance. Soluco, due to the complex and cooperative nature of the product trust and commitment were crucial to gain trust from the clients. Soluco learned that the company's Swedish heritage gave them a disadvantage to local competitors. The only way to overcome this obstacle, known as psychic distance, was to commit to the market. Therefore the company located extensive support activities in the respective market and importantly employed local personnel, thus showing long-term commitment. Hydrosorb knew the differences between Britain and Sweden and then chose a company that was free-thinking and had a flat organization to minimize the cultural differences. The data indicates that the reason why the case companies have dealt differently with psychic distance is based on more than the factors presented by Johanson & Vahlne (2003). We think that all companies are different regardless of their native legacy which makes every new encounter unique, hence psychic distance is never directly applicable in more than one case. If the difference is how the companies dealt with psychic distance one thing in common is that they all disprove Johanson & Vahlne (2003) predictions. They predicted, only taking psychic distance into account, firms will internationalize to markets that are similar to one's home market and then successively moving to other market more unlike one's home market. The empirical data suggests that internationalization does not follow this prediction; instead psychic distance is considered but does not deter companies from first internationalizing to markets unlike their own domestic one. However, psychic distance should not be under-estimated, instead it should always be remembered when conducting international business as the differences in language, culture, information flow between firm and market political systems etc. could upset one's business activities solely by being ignorant.

5.2 Internal Internationalization

The analysis presented below here comprises of the internal internationalization information provided by the case companies. This information is analyzed against the theories compiled within the category internal aspects in our research model.

5.2.1 Personnel, Organization & Structure

The general pattern that first comes to mind is that only two of the companies in question experienced internal changes that were due to internationalization. The deviating firm, Innovotech, stated that the internal changes that had been executed in the firm were more due to a refocus of their business approach than internationalization. This anomaly provides us with an optional reason for internal change which is interesting; however in this thesis their changes are questionable. Nummela (2004) clearly states in her change model that actual internal changes can be due to a

change in the external environment; hence, they are intertwined. Furthermore, Nummela (2004) suggests that organizational structure and personnel are two categories where internal change can be witnessed. The case companies all showed internal changes within these categories and almost all changes were related to either one of them. Soluco increased its workforce to 120 employees and restructured its business operations into “busses” and “trucks”. Moreover they acquired board expertise, recruited a new CEO and decentralized market responsibility and support activities along with centralized logistics activities. Thus the overall structure is of decentralized nature. Hydrosorb changed its corporate language, went from 1 to 28 employees (22 employees and 6 full-time consultants), restructured into three departments: sales & marketing, technology and economy, made board alterations, employed a HR-administrator, recruited a new technical manager and decentralized more operations. Innovotech; changed its workforce from 3 to 8 employees, took in external competency in the board and restructured into three departments: logistics, marketing and technology also show that internal changes have arisen. However, as earlier stated they said an altered business approach over internationalization caused the changes, in this thesis changes are questionable. Since all the information encircled these two categories it could be stated that the two are the main aspects to investigate when looking at internal change. Furthermore, it is previously shown that the value-chain activities make up the structure and personnel of a firm. Porter (1985) states that coordination is imperative when changes in the value-chain activities occur, therefore as a firm internationalized coordination and communication increases. Two of our companies state the importance of increasing the communication as a result of the value-chain activity change. This suggests that Porter’s statement is accurate. An example of the external and internal interconnection, which was exclusive and only present in one of the companies was evident in the case of Soluco and Hydrosorb: Soluco recruited a new CEO with experience in internationalization and acquisitions. The recruitment indicated an important shift in the company’s entry strategy, since the new CEO’s hiring the company has successfully adopted an acquisition strategy which has driven the company’s rapid growth in recent years. Hydrosorb’s recruitment of a HR manager to deal with the increase of personnel is also an exclusive example of dealing with internal change. In addition both Soluco and Hydrosorb attained senior-personnel in their boards who possessed vast experience on internationalization inquires which was of great benefit for the companies. This is especially evident in the case of Hydrosorb where they benefited from the senior board-member’s large personal network. Finally, one of the most interesting aspects is that all of our companies showed indications of being of innovative nature. Elaborating we believe that all the companies were flexible and less bureaucratic due to their sheer size, this is unison with that their internal innovativeness which tunneled for the development of new knowledge and competency is what made their internationalization rapid (cf. Knight & Cavusgil, 2004). In addition to this, we believe

that big firms often have to do a lot of unlearning when transitioning from domestic to international presence; this is also something that does not occur in SME's to the same extent.

5.3 Research Model Assessment

After having analyzed the empirical external and internal parts of internationalization with the theory incorporated in our model suggests that our research model fulfills its purpose in this thesis. Clearly by using the model we have indeed showed what actually changes within our case companies as a result of internationalization, both externally and internally, which was our intention. The fact that the firms are of SME nature and are active in an industry where the embodiment of the Born Global concept is evident strengthens our perception on the research model's importance.

6. Conclusion

In order to close the circle and elaborate on the purpose of this thesis we will in this chapter provide the conclusions derived from the research that we have conducted. We will primarily proceed by answering our research question, where the answer is derived from the findings found in the conceptual framework in convergence with our empirical evidence. In addition to this we will also present conclusions drawn from the empirical data and conceptual framework and highlight interesting findings. Finally, we will present future research and discuss our thesis's role within that realm.

6.1 Empirical and Theoretical Contributions

The purpose of the thesis was to study and examine how SMEs internally change in order to adapt to the external changes derived from internationalization activities. Hence, our intention has been to increase the knowledge in this under-researched field but also to provide reliable information to further studies to be based upon. The research question laid forth in this thesis aims to clarify the aforementioned purpose of the thesis by answering the following: due to the major external changes what kind of internal changes subsequently arise. From our conducted case study we have found that the companies, experiencing major external changes from internationalization such as: internationalizing rapidly and having network insidership, did internally change. Based upon the latter our conclusion is that the actual internal changes themselves varied from firm to firm but could be labeled as changes within either the category personnel or structure/organization. However we would like to highlight certain external and internal changes from the case studies as these were the most prominent conclusions possible to be drawn.

It was found that all the case companies first of all experienced major external changes from internationalization. However interestingly it was unfolded that all the companies internationalized their business activities not far from their respective inceptions. Usually internationalization is considered to be a process where commitment to a market incrementally increases over time but in this case all the companies were early adopters and internationalized vigorously. Subsequently this made us conclude that all the companies were more of "Born Global" character and thus their pure nature as a firm is what facilitated their rapid and early internationalization. In addition to this another consensus was found. What we found was that a majority of the case companies enjoyed prominent network positions which, apart from constituting a major external change, also were beneficial and still are of beneficial character for these companies. The conclusion drawn upon the latter is that companies benefit from having insidership and a prominent position within a network, as this improves the "paving the way" for more international activity.

In addition to the aforementioned conclusions we also found that some interesting internal changes were important to stress. Most of the changes taken by the companies were linked to the personnel (often expanding workforce) or the structure/organization (restructuring) of the firm which compelled us to conclude that these two categories are among the ones where most change have taken place. Moreover it was unfolded that a majority of the firms preferred to attain external competency as an internal change. Whether it was to recruit new board members who had internationalization experience and large extensive network connections, a new technology manager who was more managerial-oriented or a new CEO who had internationalization and strategy-appropriate knowledge, they all exemplify the importance of external competency in the case companies. Furthermore, all the companies had the innovative aura within the company, which often is associated with “Born Globals”. The case companies all displayed internal conditions that satisfy innovativeness such as appropriate knowledge and flexibility. The fact that all the companies had technology departments where most of the employees were employed and most of the work was done pinpoints this consensus and concludes that the SMEs in our case all exert Born Global characteristics.

Especially one conclusion is of conceivable importance to mention. The fact that the “Born Globals” paradigm in this thesis is combined with the work and model of Nummela (2004) introduces a new perspective which can be observed in our research model. The fact that the SME case companies all were early adopters and internationalized swiftly from their respective inceptions introduces a new angle from which internal internationalization can be studied. For instance when studying the work of Nummela, the conundrum of Born Globals is not contemplated on, and thus is not incorporated in her model (2004), but concluding that this thesis does incorporate the two of them we have irrefutably taken the international paradigm one step further up on the evolutionary scale.

6.2 Future Research

In this thesis we chose to study small to medium sized enterprises (SMEs) of innovative character by conducting case studies. What we found was that the case companies had more tendencies to follow internationalization characterized by the concept of “Born Globals” (cf. Knight and Cavusgil, 2004) than by the steps laid forth by The process theory of Johanson & Vahlne (1977). Moreover we found that the case companies made major internal changes within their personnel and structure as a result of the internationalization. For further research it would be interesting to conduct research in a different industry to see if any patterns of similarity or difference emerge, and if so what are they. Moreover the research approach was to conduct case studies. The companies studied had already embarked on internationalization several years ago and were then studied in this

thesis at a given time. In contrast, a process approach would be interesting to study in the future since this would provide more in-depth knowledge of internationalization changes over time. In addition to this a quantitative study, rather than a qualitative, would be of interest since it would allow conclusions to be drawn from a larger population. Finally, to build further on this thesis it would be interesting to study which internal capabilities are a necessity to firms to be able to handle the changes accompanied by external internationalization as it would complement this thesis' findings well and subsequently deepen the understanding of the internationalization paradigm.

7. Appendix 1 - Interview Guide

Presented below are the main questions asked during the interviews.

- Hur började ni internalisera er? Hade ni någon specifik strategi när ni valde att internationalisera er eller skedde det av ren slump?
- Hur valde ni er av land?
- Var ert beslut fullständigt professionellt baserat eller/och beaktade ni t.ex. psychic distance eller kulturella aspekter vid val av land?
- Är ni med i, och i så fall hade ni hjälp av nätverk vid internationaliseringen?
- Har ni stött på några hinder i internationaliseringsprocessen?
- Vilka marknader är ni verksamma på?
- Kan du redogöra företagets utveckling från grundandet till idag?
- Kan du peka på några interna förändringar som skett till följd av internationaliseringen?
- Vilka interna förändringar har skett från grundandet och/efter internationalisering (t.ex. personal, struktur)?
- Kan du rent allmänt berätta om era interna förändringar?
- Hur många anställda har ni för tillfället och hur många kan ni bli inom de närmaste åren?
- Har era erfarenheter av att vara utomlands givit er en ökad förståelse av utländska marknader?
- Hur har anställdas roller förändrats? Har de påverkats av internationaliseringen?
- Vilka kompetenser besitter de anställda?
- Har ni sett externa förändringar avspeglas internt?

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