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Master Degree Project in International Business and Trade

The Modern Role of Trading Companies

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Abstract

The evolving nature of trade in intermediate goods and services, developing into fragmented and internationally dispersed value chains has changed the need for high end-services, putting more pressure on service providers to develop dynamic capabilities so to answer to the changing demand. Although there are many types of companies able to offer various kinds of services, trading companies, acting as an intermediary actor in international trade, are perhaps one of the oldest organizational forms. A risk for these companies is that of disintermediation, due to the transformation of the landscape in which they act. Experts are therefore expressing doubts of the continuous existence of an intermediary actor on global markets. However, despite this, trading companies are managing to prosper through strategic adaptation. The aim of this paper is therefore to map the trading companies' strategic adaptation due to the ongoing transformation process and investigate how they have managed to stay competitive in the 21st century. Through nine interviews with four trading companies from Japan and Sweden, in addition with interviews conducted with external actors specialized in international trade, we have been able to draw some important conclusions on how this trend has developed. The findings are presented in two case studies, going in-depth into the particular contexts in which these four trading companies operate. The conclusion is that all of them have been affected by the external transformation and thereby strategically adapted their business model. However, based on internal strengths and weaknesses, along with previous experiences this process has taken different approaches. Therefore a new model has been developed which can better describe the strategic adaptation of modern trading companies in Japan and Sweden, showing a growth of dynamic and flexible abilities to find a strategic fit in the service supply chain, a *Strategic Sweet Spot.*

Key Words: trading companies, globalization, international business and trade, service providers, Japan, Sweden, strategic adaptation

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Abbreviations

GVC	Global Value Chains
IB	International Business
JV	Joint Venture
LNG	Liquefied Natural Gas
RBV	Resource Based View
SME	Small & Medium Enterprises
TNC	Transnational Corporation

Table of Content

Table of Figures

1. Introduction

This chapter will provide the reader with a background of the external environment in which the trading companies operate. A particular focus will be placed upon the rapidly evolving service industry, in order to later on discuss and define the research problem and purpose. The study delimitations as well as an overview of the thesis outline will subsequently conclude this introductory chapter.

1.1. Background

Intermediate goods and services have played an increasingly important role in today's global economy due to the development into fragmented and internationally dispersed production processes. The majority, 80 percent, of these *Global Value Chains*, GVCs, are handled by *Transnational Corporations*, TNCs, which operate a worldwide network cooperating with various contractual partners, affiliates and arm's-length suppliers (UNCTAD, 2013). In order for these networks of GVCs to operate and function efficiently, the importance of service has increased. The increasing need of high-end services, has in turn substantially affected the role played by international service providers (Low, 2013).

Along with this dynamic external change, service providers have developed and reached new levels of maturity, through an expansion of the range of services offered to their customers, resulting in greater customer value (Gillai and Yu, 2013). Although there are numerous types of international services, two main types are *financial services* and *distribution services*. Whilst financial services have received a rather substantial amount of attention in the process of globalization, less attention has been placed upon various types of distribution services (Dicken, 2003). A wide range of organizations may be involved in offering distribution services, such as transportation companies, logistics service providers and trading companies. Of these, trading companies are perhaps one of the oldest forms of organizations involved in distribution services (Dicken, 2003).

1.1.1. The Trading Company Definition & Characteristics

Trading companies have played a rather prominent role in the development of international trade for centuries. A rather interesting fact, which scholars specializing in trading company development such as Brasch, (1978), Kim (1986), Perry (1990), Balabanis and Baker (1993) and Wichmann (1997) agree upon, is the difficulty in conceptualizing the modern trading company due to its dynamic character. A correct definition of what constitutes a trading company has been widely discussed, and difficult to formulate. However, one of the core competencies has been its intermediary role, where the trading companies constitute the link between buyers and sellers. This intermediary role, may be performed where the trading companies act either as a *broker*, i.e. not assuming ownership, or as a *re-seller*, i.e. assuming ownership of the product at hand. *Figure 1* below displays the shift of ownership of products and thereby also of the risk depending on if the trading company serves as a broker or as a re-seller (Casson, 1998).

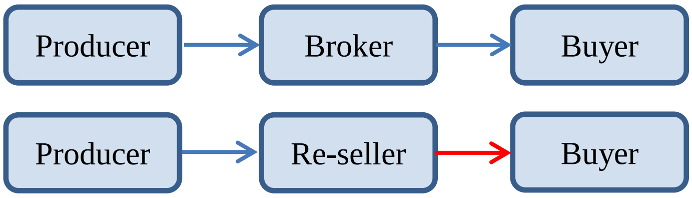

Figure 1: ***Trading Company Intermediary Role*** **(Casson, 1998).**

Trading companies may further choose to specialize by *product* or by *region*. Historically, this has for example been the case for European trading companies where the British trading companies have focused on South America and French trading companies on Africa. The general trading companies tend to combine these two features, the most prominent being the Japanese *sogo shosha* (Jones, 1998). The expertise of the trading companies tends to lie in the market knowledge, offering its customers specific political, cultural or linguistic capabilities. Both small and large firms may choose to work with trading companies. Whereas small firms may choose to use a trading company due to not having the capacity to get to know the market themselves, large firms might benefit from becoming introduced to new markets or access what might otherwise only be peripheral markets (de Geer, 1998). There are various terms used to describe this intermediary role, such as trading house or trading company. While this paper will treat these terms identically, it is noteworthy that a slight difference does exist. Whereas the term trading house may be associated to particularly historical European export merchants, the term trading company does not (Nelson, 1999).

What complicates the definition is the fact that the trading companies may engage in activities beyond trade in its strictest form, known as *pure trading companies*. As of the late 1990s, just a few trading companies were defined as *pure trading companies* due to the diversification into other activities. Other activities might be value added services such as shipping, insurance, finance (Casson, 1998), manufacturing or resource exploitation (Jones, 1998), which lead to the development of a wider definition, known as *hybrid trading companies* (Casson, 1998). However, by taking such an approach the trading company risks becoming less flexible, making it more difficult to close deals wherever they may arise (de Geer, 1998). There are various types of *hybrid trading companies*, taking different approaches. At some point however, when diversifying far enough away from the trading function, the company might better be described by another name than trading company (Jones, 1998).

1.2 Problem Discussion

The pattern of trade has experienced remarkable changes over the last 25 years. Today, due to globalization, the production of goods and services are involved in a combination of intermediated inputs and service activities sourced globally which then later on makes up to the finished product (Drake-Brockman and Stephenson, 2012). This phenomenon has been enabled by modern communication and transport technology and may be a growing source of competitiveness (Low, 2013). As companies keep striving for reaching optimal levels of value chain fragmentation, the trade and production patterns are expected to continue evolving (Kommerskollegium, 2013), thereby increasing the importance of services functioning as the glue holding supply chains together and ensuring its effectiveness (Low, 2013). An ongoing trend has been that of reducing the international trade barriers. An example of this is in 2012, when 75 percent of the globally adopted trade policy measures were related to investment liberalization, facilitation and promotion within various industries, but especially in regards to the service industry. The trend towards liberalization of the service sector has been ongoing for several years. Of all sector-specific liberalization and promotion policies implemented between 2003 and 2012, 68 percent were related to the service sector (UNCTAD, 2013).

There are various types of services related to the efficient operation of global value chains, such as transport, telecom, logistics, distribution, marketing, design, R&D (Stephenson, 2012) and finance, with a variety of providers engaged in offering these services (Dicken, 2003). The high importance of these services, especially logistics and finance, has led to these services commonly being referred to as commodities themselves (Kharlamov, 2013). As not all supply chains look the same, the organizations involved in the efficient execution must master different skill sets depending on the specific context. However, a uniting factor among big service providers is the need for expertise in managing systems requiring continuous human resource investments to keep knowledge at the forefront, and continuously explore new opportunities for expansion. A risk for organizations involved in supply chain operation is that of disintermediation, i.e. that the outsourcing firm decides to cut out the middleman and perform the activities in-house instead. Whether a firm decides to use the assistance of various supply chain operators comes down to what is considered to be the firm's core competence. If a certain activity is considered to be a core competence, or if a firm believes it can perform a certain activity cheaper and more efficient itself, it will not outsource. However, if an activity fills none of these conditions, the activity will usually be outsourced (Elms and Low, 2013). A definition of core competence may therefore be "the knowledge set that distinguishes and provides competitive advantage" (Post, 1997; p.734). In turn, such capabilities might be both timely and costly for competing firms to imitate (Barney, 1992).

An important task, which requires a substantial investment and market commitment, and one which lead firms might be hesitant to pursue, is that of market knowledge and relationship building with local firms, government offices, regional actors and other stakeholders. This service, which in particular can be offered by larger supply chain operators, such as trading companies, may therefore not be an activity which producers wish to handle themselves and thereby preferably outsourced to market specialists. However, building such relationships is both time- and cost consuming and has led to an ongoing consolidation process within the service industry. Also, other types of service providers, such as logistic operators have been affected by the consolidation due to the higher demands for service, flexibility and lower margins. Another factor affecting this process is the customer demand. Rather than having to go to numerous firms to negotiate on each contract, customers prefer turning to one larger service provider which can offer a package deal, comprising all service activities needed. A third factor affecting the expansion and consolidation process within the industry is the rise of e-commerce. Due to low barriers of entry along with high expected future growth potential, the number of actors within this field is expected to grow (Elms and Low, 2013). Globalization, which may be argued to be a by-product of the technological advances and deregulation, is another factor said to further affect the consolidation process (BIS *et al*, 2001). As the term globalization is rather broad, globalization will in this study be defined as; *the process by which economic, political, cultural, social, and other relevant systems of nations are integrating into world systems* (Clark and Knowles, 2003; p.365). Members of the global value chain are facing a situation in which change is inevitable, the actors stand in front of complex, interrelated strategic issues. In order to be successful in such an environment, relationship building within the supply chain will become more important as collaboration is expected to increase so to reduce costs and increase intelligence and knowledge about the market, consumer and other actors (Elms and Low, 2013). Experts are expressing doubts of the continuous existence and development of an intermediary actor, such as *pure trading companies* on these global markets. However, in spite of this, trading companies are still managing to prosper (Ellis, 2001) and have held a prominent and strategic role within the development of *International Business*, IB. Although extensive literature within international business studies exists, few studies have focused on the particular role played by trading companies within this context (Jones, 1998) leading to an interesting question:

1.3 Research question

How have the trading companies strategically adapted to this external transformation process and the increasingly integrated service value chain in order to maintain competitive advantage?

1.4 Purpose

As the global value chains are becoming increasingly integrated, the activities and services provided by a trading company are more diversified than earlier, hence the arena in which the trading companies act is evolving rapidly. The purpose of this study is therefore to research the strategic choices taken by trading companies as a response to the more integrated supply chains and the ongoing transformation process. By investigating this development of trading company positioning within the supply chain and their value added service, we aim to be able to draw some important conclusions about the modern role of trading companies.

1.5 Delimitations

This study is limited to trading company development based on the Japanese and Swedish context, with two trading companies from each country. The reason for choosing Japan as a case example is due to the Japanese *sogo shosha* commonly being used for benchmarking of trading company development internationally (Balabanis and Baker, 1993). Further, the *sogo shosha* have held a rather dominating role in Japan's economy in comparison to that of trading companies in other countries (Kuuse, 1999). In regards to the Swedish case, this was chosen due to the country's trading companies being more international, flexible and aggressive than those of many other countries. In comparison to the trading companies of the United Kingdom or France, countries with a colonial past and where trading companies have tended to focus on markets with common language, Swedish trading companies have faced another situation. As Sweden has a small domestic market with a small geographic area of Swedish speaking people and no colonial past, Swedish trading companies have been forced to expand internationally to all parts of the world. Also in Sweden, the trading companies have played an important role in the country's economy, especially during the 18th and 19th century (Kuuse, 1999). In order to establish a basic knowledge of the subject, previous research within the field is gathered from trading company studies in other contexts. The study is about the trading companies' strategic adaptation based upon the external changes. As there are so many external factors, besides the integration and consolidation process, which may have impacted the trading companies' strategic development, we have chosen to take an internal perspective. This helps us to identify the most important external factors from the managerial perspective, thereby conceptualizing the study. However, by taking such an approach the information gathered will be highly specific to the particular respondents. Although we have tried to overcome this problem by also including external actors to shed additional light on the major external factors and the strategic response taken by the trading companies, the conclusions drawn from this study will be most suitable for the Japanese and Swedish contexts.

1.6 Thesis Disposition

Introduction	The thesis will begin by introducing the reader to the chosen subject, formulate the purpose and study delimitations.
Theoretical Framework	Previous literature on strategic management will be presented before concluding by suggesting a conceptual model.
Methodology	The methodology chapter will provide the reader with a description of how the study has been conducted.
Company Presentations	In the company presentations, all of the organizations included in this study, including the external actors will be further introduced.
Empirical Findings	In this fifth chapter, the findings derived from the interviews with both the trading companies and external actors will be presented.
Analysis	In the analysis, a discussion involving our empirical findings are related and compared to the theories presented in chapter two.
Conclusion	The thesis will conclude by summarizing our findings, resulting in a new way of mapping current trading company development.

2. Theoretical Framework

As the study aims to investigate the strategic development of trading companies, a theoretical overview of the topic strategic management is provided for as well as a discussion of previous research related to trading companies. Finally, in order to conceptualize the study, an already existing model has been adjusted to the contemporary environment and will be applied as our conceptual model in order to better understand the strategic evolution of trading companies.

2.1 A Strategic Perspective

Due to the changing external environment, many firms are now more or less forced into making adjustments to their current activities or business model while continuously striving for profit maximization. Globalization and improved technology are just a few of the external factors which have affected the profit for many firms. When considering what changes to make, a firm may alter its organizational structure, its employee base, technology, production techniques, administration or make managerial adjustments. Organizational change may derive from either within the organization, referring to *internal triggers for organizational change* or from external factors, meaning the *external triggers for organizational change* (Hashim, 2013).

As for the trading companies, the traditional role has lied in serving as an intermediary actor (Casson, 1998), holding the market knowledge, such as specific political, cultural or linguistic understanding as its core competence (de Geer, 1998). As this intermediary role may no longer be needed (Elms and Low, 2013), it is important for trading companies to develop their strategy and hence develop a new strategic positioning so be able to continue to create value.

2.2 Strategic Management Theories

The matter of how to develop strategies and what aspects to consider may differ rather widely between authors and theoretical views. Authors, such as Porter (1980;1996;2008), Mintzberg (1978), and Barney (1992;2001a) have developed distinguishing theories on what to base strategic development upon. The oldest, and perhaps still the most influential wave of strategic thinking, introduced in the 1960s by Alfred Chandler (1962), Alfred Sloan (1963) and Igor Ansoff (1965) focuses on rational analysis, profit maximization as well as the separation of initial strategy formation from its implementation. Strategy formulation can here be stemmed from military thinking and the importance of strong leaders who are able to make rational decisions while remaining somewhat detached from the actual execution, commonly referred to as the individualistic idea of rational economic man. Strategy is therefore built on managers' capacity and readiness to formulate rational long-term strategies based on various matrices and flowcharts (Whittington, 2001). In line with this thinking, Porter (1980) introduced the *Five Forces Analysis* which is to guide firms on which industries may be the most profitable and hence the most interesting to enter. This analysis suggests that firms should consider the threat of new entrants, bargaining power of buyers, rivalry between existing competitors, the threat of substitute products and finally the bargaining power of suppliers when deciding on where it should position itself within an industry so to maximize its return on investment.

However, as a response to this rational long-term strategic planning and industry analysis, a second wave of theory was introduced in the 1970s by the American Carnegie School, and more precisely by Richard Cyert, James March and Herbert Simon (Whittington, 2001). This wave aimed for more of a psychologically realistic approach, considering the human's bounded rationality (Cyert and March, 1963) meaning its inability of taking all possible factors into consideration when taking a decision as well as being biased when analyzing the collected data (March and Simon 1958; Cyert and March, 1963). Mintzberg (1978) was also critical of strategy being developed in a highly ordered, neatly integrated planning mode by a purposeful organization. Instead, Mintzberg (1978) suggested that strategy should be seen as 'a pattern in a stream of decisions' (Mintzberg, 1978;p.935), and separated from the *intended strategy* which might be the plan which is formulated at first (Mintzberg, 1978).

In 1990, Pettigrew (1990) further pushed for the importance of strategy as a process and emphasized the need for also placing strategy formulation within its context, such as the interconnectedness of the past, present and the future. Pettigrew (1990) argues for the history to affect the present as well as the emerging future and argues for there not being any predetermined timetables for strategy formulation, but rather uncertain strategic developments due to the changing contexts. The impact played by previous strategies and firm bureaucracy, was further emphasized by Perello-Marin and Marin-Garcia (2013) in regards to strategy formulation. Also, the authors highlight that the outcome of the implementation to be highly influenced by the past, affected by the interaction of the already existing strategies and the ones newly introduced. Another author questioning the industry as the most important unit in strategy formulation was Rumelt (1991). Rumelt (1991) aimed to calculate the effect of profit derived from industry-specific factors and those derived from business-unit factors. The study concluded by suggesting that industry factors can be said to stand for 9-16 percent of firms' profit while business unit factors represent 44-46 percent. In response to this study, McGahan and Porter (1997), opposed to Rumelt's (1991) study which only included manufacturing firms, included data from all economic sectors except for finance. This new study concluded by stating that industry effects account for a smaller portion of profit variance in manufacturing, but a larger portion in other segments such as the service industry sector (McGahan and Porter, 1997). In another paper from 1996, Porter further defends the importance of good industry positioning and suggests that too much focus on merely internal aspects lead to obsession with operations, meaning that firms will be missing out on the importance of good positioning (Porter, 1996).

In 2007, Porter suggested that the last two decades have brought a new perception of how to best succeed and effectively follow a new set of rules. Key strategic terms have increasingly become a firm's ability to be flexible so as to meet the constant market changes, to benchmark so as to achieve best practice while focusing on a few core competencies while outsourcing the others in an effective manner. In order to remain competitive, the importance of sound strategic directions can be said to have increased (Porter, 2007). However, the difficulty of developing a strategy based on external factors is the importance to distinguish between whether the changes are of a cyclical nature or permanent, indicating a change which will be long-term, thereby requiring alterations to a firm's current business model (Porter, 2008). In an attempt to try and combine these different views on strategic development, Mintzberg (2007) argues for the interplay of various factors such as the environment, the organizational structure and the importance of leadership to mediate between the two, to all affect the strategic direction of a firm. However, Mintzberg (2007) does not believe that the environment undergoes any major changes on a regular basis or experiences periods of large dramatic change, but rather subtle and developing discontinuities which firms must be aware of as they may either undermine the organization over time or provide it with a special opportunity.

2.2.1 Resource Based View

Within the field of IB research, and more specifically within strategic management, the *Resource Based View*, RBV, theory has been very influential (Peng, 2010). As a consequence of the pace of global competition and technological change, managers of TNCs are struggling to maintain competitiveness. In the 1980s, the strategic planning processes were to slow for the even faster changing markets. Hence, a new wave of strategic planning came about, many of which were focused inward, viewing core competences and capabilities (Collis and Montgomery, 2008). Within RBV there are, apart from Barney (1992;2001a;), other authors whom have further developed distinguishing theories, such as Teece, Pisago and Shuen (1997), Makadok (1999;2001), Collis and Montgomery (2008), Henning and Neffke (2013) and many more. Early on, Barney (1992) studied strategy formulation from a resource based point of view, suggesting that a firm's strategy is formulated based upon its internal strengths and weaknesses. Hence, a firm's competitive advantage is dependent upon its internal resources. What are seen as resources may be all assets, such as capabilities, organizational processes, information and knowledge. These factors contained by the organization are the ones foremost used by the firm to achieve competitive effectiveness and efficiency. A competitive advantage is described to be contained by a firm that is able to conduct a value created strategy which is not conducted by a competitor. A sustainable competitive advantage however, is when the competitors do not contain the resources to duplicate the value creating strategy conducted by the firm. The model is based upon four empirical indicators which are found to affect a firm's potential to generate a competitive advantage, namely *rareness, inimitability*, *value* and *sustainability*.

This RBV framework which emerged from the strategy field, suggesting that a company's resources drive its performance in a globalized competitive environment, combines the external perspective with the internal perspective on an individual firm basis. This view describes a firm's superior performance as based upon how to develop a competitively distinct set of resources and deploying them in a well-conceived strategy (Collis and Montgomery, 2008).

There are also other studies which have further developed the strategic research within the wave of RBV, describing how to successfully manage and optimize a firm's competitive advantage. According to this view, the resources and capabilities a firm contains are determining the competitive advantage, but it does not however explain exactly how it is determined. The resources and capabilities of a firm may also have a lifecycle, which may create a more dynamic view of the RBV as it requires an understanding of the different resources and capabilities (Helfat and Peteraf, 2003). Another, more dynamic view of a firm's capabilities and resources, is one that describes the highly technological changes and the globalized environment to be forcing forward a new paradigm of how to achieve competitive advantage. The firms that are successful in such an environment are those which can demonstrate responsiveness and flexibility, coupled with management capability in order to be able to coordinate internal and external competences. These new forms of competitive advantage can be called *dynamic capabilities*. In this meaning, the word *dynamic* refers to the ability to renew competences due to the changing business environment and *capabilities* to emphasize the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external skills, resources and capabilities in order to match the changing external environment (Teece *et al*., 1997).

Dynamic capabilities are also mentioned in the framework created by Collis and Montgomery (2008). The authors suggest that the value a firm creates is determined by a dynamic interplay of three fundamental market forces, which in turn determines the value of a firm’s resources or its capabilities. The reason for this is that a firm's resources cannot be evaluated in isolation but only in interplay with market forces. The resources are valuable in certain industries or in specific markets; hence the resources and capabilities of a firm are highly dependent upon the interaction with each other and upon its context. The three fundamental market forces of relevance in this description are resource *scarcity*, *appropriability* and *demand*. The combination of these market forces determines the *value creating zone* on which a firm can compete (Collis and Montgomery, 2008). In regards to successful strategic management, Collis and Rukstad (2008) further pointed out the importance of finding a *Strategic Sweet Spot*, meaning a place in which the firm capabilities are matched with the constantly changing external competitive context. However, the authors also emphasize the importance of clearly defining this *Strategic Sweet Spot* in regards to its objective, scope and purpose. By keeping the statement simple and clear, everyone within the company can understand and follow it as an overall guidance when making difficult decisions.

As knowledge is a form of resource or capability contained by firms, the addition of this particular resource can be used as a complement to the traditional views upon strategy formulation, as this allows for an alternative perception on strategic thinking. This approach can be used by viewing it from three dimensions; *putting humans at the center of strategy*, treating strategy as a *dynamic process*, and having a *social agenda* (Takeuchi, 2013). This framework can be said to complement the approach presented by Mintzberg (1978;2007), describing strategy as a continuous process. In an attempt to try and combine the model created by Collis and Montgomery (2008) acknowledging the fundamental market forces such as *scarcity*, *appropriability* and *demand* finding a position in which it can compete with the point made by Collis and Rukstad (2008), of making this *Strategic Sweet Spot* clear and understandable by everyone, the following model has been developed. Further, this model also acknowledges the impact played by knowledge as suggested by Takeuchi (2013), both in regards to combining the market forces but also in regards to the ability of internalizing the company's *Strategic Sweet Spot* (see *Figure* 2 below).

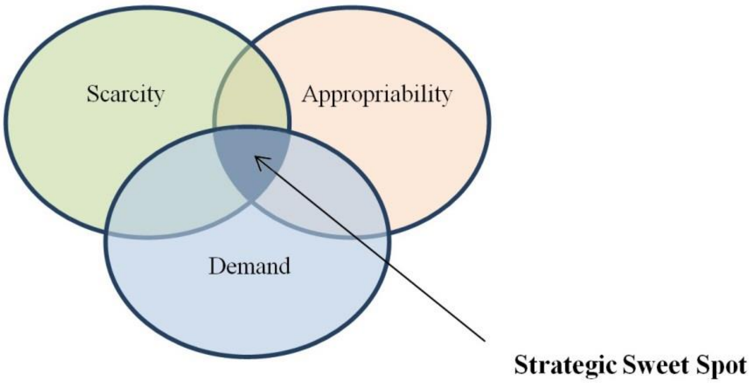

***Figure 2*: *Strategic Sweet Spot* (Kjellin and Lawrence, 2014, based on the models by Collis and Montgomery, 2008, Collis and Rukstad, 2008 and Takeuchi, 2013).**

Another, more recent development of traditional RBV theory was conducted by Henning and Neffke (2013). These authors focused on the relation between skill relatedness and firm diversification. While traditional RBV theory considers diversification strategies to stem from the development of new activities based on already existing, but currently underleveraged resources, the authors wish to add the value held by employee skills and its effect on firm diversification. Core value was by Henning and Neffke (2013) defined as the activity which comprises the largest amount of employees. As labor was found to not be completely mobile, labor flows will partly reflect the industries' geographic expansion. Based on this definition of core activity, the study found that firms were more likely to diversify into industries strongly related to its core activities rather than to industries with which these connections were weak. This may therefore serve as a predicative power for firm diversification.

Although RBV has held a rather prominent position in terms of strategic management research, the theories have also been criticized and questioned. Priem and Butler (2001) describe early RBV as being static and question the *how* behind the RBV theories, and whether or not it could be used in research viewed in isolation. However, since the publishing of early RBV theories many of the issues raised in this study have subsequently been addressed by later RBV research, in the creation of the new theories including more dynamic and explanatory elements (Barney, 2001b). Other authors have further elaborated on the RBV critiques, such as Kraaijenbrink *et al* (2010). These authors seriously question RBV on three points relating to the indeterminate nature of two major concepts fundamental to the RBV, namely *resource* - and - *value* and the *narrow explanation of a firm's competitive advantage*. It is also described how the RBV was developed as a response to the more external view on strategy formulation, such as the framework by Porter (1980). In turn, this means to focus more on the internal determinants of strategy rather than the external, and a description of how and why a firm in the same industry will perform differently strategically. Hence, it does not replace this more external view but rather complements it (Peteraf and Barney, 2003). The RBV theory has also recently been discussed and criticized on two main strands. The first considers the fact that the core propositions of RBV theory are rather broad, leading to the theory lacking depth and specificity. Many authors have therefore suggested ways of developing RBV theory and overcome this problem by complementing the theory through the use of game-theoretic models (Costa *et al*, 2013), i.e. strategies defined as a deliberate set of guidelines aiming to govern the moves by the players (Mintzberg, 1978). The benefit of the complement would be to allow for a more dynamic implication of a firm's resources under certain environmental constraints. The second strand of criticism focuses on the lack of attention paid to the competitive environment and its implications for the deployment of resources in product markets (Costa *et al*, 2013).

2.3 Service Integration and Strategy Adaptation

As concluded from the discussion above, there is no standardized view on which a firm develops its strategies. In order to maintain competitiveness, TNCs operating in the global service markets, such as trading companies, are forced to respond to the changing demands and evolving environment by continuously adapting their strategies accordingly. As argued by Porter (1980;1996;2007) and Pettigrew (1990), the external environment and a particular context in which an organization operates, should be considered as important factors influencing firms' strategic development. Furthermore, the service offered by the trading companies is becoming increasingly difficult to define as the trading companies are integrating into more steps within the GVCs. This strategic integration of other types of functions and service offerings indicates that the strategies taken by trading companies have taken more of a procedural form, in line with the theory suggested by Mintzberg (1978; 2007) or Takeuchi (2013). Therefore, taking consideration to both external factors as well as the impact of organizational differences, rather than Porter's (2008) theory of taking an external focus, is more relevant in order to answer the question at hand. But, there may also be some individual firm characteristics influencing the strategic development. This may be considered to be more in line with the RBV theory, and the model originally suggested by Barney (1992), that the source of competitive advantage is reliant upon a firm's resources. The original notion of the sustained competitive advantage may be somewhat static in its description, which was perhaps true in an environment not as high technological and globalized as today. However, the modern RBV research creates a more dynamic picture of how a firm's competitive advantage is developed and maintained, known as the phenomenon of *dynamic capabilities* (Teece *et al*, 1997). In addition, modern RBV may also be more in line with the model developed by Collis and Montgomery (2008) concerning the value creating zone, or perhaps called a *Strategic Sweet Spot* based on an interplay of external influences, different resource factors and dynamic capabilities. Combined, these theories provide for a framework well suited to try and investigate the strategic adaptation of trading companies as well as how they have managed to maintain a competitive advantage in the transforming arena in which they act.

2.4 Strategic Development of Trading Companies

Due to the very complex nature of trading companies, several researchers such as Kim (1986), Perry (1990), Balabanis and Baker (1993) and Ellis (2001) have made attempts to try and classify and conceptualize them without any major success. Trading companies are sometimes described as ubiquitous entities whose core activities, organizational structures and internal structures are reflected by their history and national contexts. The adaptive skills developed by trading companies in order to maintain competitiveness in a globalized world, is a phenomenon highlighted before. In order for trading companies to survive in the kind of environment they are facing today, timely adaptation and an entrepreneurial talent for anticipating market trends it required (Ellis, 2001). Trading company change has been described as a process adaptation to environmental changes and a firm's internal needs, which over time leads to new structures and strategies (Balabanis and Baker, 1993). Some researchers have tried to explain this organizational change, the changing roles and functions of trading companies in a particular point in time, such as Brasch (1978) and Wichmann (1997). However, little progress has been seen of the mapping of trading company evolution as most studies reflect the special characteristics associated with a particular type of trading company and can therefore not be generalized (Ellis, 2001). Studies of this kind, are often based on a sample of trading companies from particular settings such as for example Japan, which may be said to have a limited utility elsewhere (Perry, 1990). However there are also other views in which the Japanese *sogo shosha* are seen to be a well suggested case commonly used for benchmarking of trading company development globally (Kim, 1986; Balabanis and Baker, 1993).

First, in trying to build a model to understand the trading companies was Kim (1986), who tried to understand and describe the trading companies' activities from a point of view which was not solely based on cultural differences. The existence of the trading company was explained by *the transaction cost approach*, *informational of scale approach* and *the centralized intermediary approach.* The last explanation, which is related to its distribution network, was found to explain the existence of trading companies as offering that which may be difficult for *Small- to Medium- sized Enterprises*, SMEs, to build on their own. Another study conducted by Paul Ellis in 2001, continuing on Kim's (1986) original framework, came to identify five distinct clusters of trading companies, each of which represents a qualitatively different entrepreneurial response to changing market signals. Despite of the fact that the study included different types of trading companies in different contexts, the patterns of the sample's different adaptation were still influenced by economic and institutional conditions on the marketplaces (Ellis, 2001).

In an American study of the trading companies, by Perry (1990) another attempt was made to build a model in order to try and explain the evolution. This was done based upon the further development of another model previously created by Robert Miles in the 1980s. Firstly, the study established a distinction between (1) contingency models with emphasis on the constraints in the environment which influences the evolution, and (2) the process models focusing on the firms' response to these constraints. These two however, were not seen to be applicable in isolation. Whilst the first puts emphasis on a strategic fit between an organization and its environment, the second approach highlights the firm's task of reaching this strategic fit. Hence, Miles (1980) combined the two approaches in his model, which Perry (1990) further elaborated on by analyzing it in combination with other theories such as Porter (1980), transaction cost theory, agency theory and Dunning's eclectic paradigms. The model was also enhanced by including the more dynamic features of the trading companies' strategies to better tailor it to the contemporary environment of the 1990s, including new strategic features, such as the changes to the structures and functions of the trading companies. Already in the 1990s, the trading companies started to integrate up-stream and down-stream into other functions. Therefore, additional perspectives on the environment were included in the model so to better fit the modern environment. The result may best be described to be a more dynamic process model, i.e. a model describing the way an organization manages the constraints that occur in the external environment by adapting its strategies.

Another, subsequent study was undertaken by Balabanis and Baker in 1993, which also developed a framework for analyzing adaptive strategies taken by trading companies. Organizational change was described as an adaptation process to external conditions and internal needs, which may take different structures and strategic growth paths. Furthermore, as the two authors describe strategic organizational change as a rather complex process based on several factors, the study identified two main aspects which influence organizational change, namely *objective* and *perceptual* factors including both external and internal aspects. The *objective factors* are those related to the environmental and organizational forces, and those which contribute to unplanned organizational change. The other group, i.e. the *perceptual factors*, reflects the managerial and organizational perception of the environment and the organization itself. These factors constitute the part of strategic development which leads to planned organizational change. When analyzing the external environment, the research describes two types of environments, namely the *competitive environment* and the *institutional environment*. Whilst the *competitive environment* includes factors which lead to the differentiation between firms, the *institutional environment*, such as government regulation, cultural expectations and firms mimicking the most efficient firms, lead to organizations within the same field becoming increasingly similar to one another. On the internal side, Balabanis and Baker (1993) discuss the influence of an organization's relationship to its environment, and how this might either make organizations more resistant or open towards adapting to a changing external environment. Furthermore the authors discuss the impact of the organizational structure and managerial perceptions on the environment on the strategic adaptation. The managerial perception of the environment was further identified as one of the most important factors, affecting the direction of strategy formulation. Balabanis and Baker (1993) found all of these factors to influence the direction of trading companies' growth and strategy development. Of firms perceived to be in the forefront of trading company development, the Japanese *sogo shosha* appeared to exert a rather strong influence over the European trading companies (Balabanis and Baker, 1993).

2.5 Conceptual Model

In an attempt to try and analyze the development and strategic adaptation trading companies have undertaken over the last years in order to remain competitive in the 21st century, the model initially developed by Balabanis and Baker (1993), (Appendix 1) will be applied. As further emphasized by Miles (1980), Perry (1990) and Balabanis and Baker's (1993) model acknowledges the impact played by both the external and the internal environment on trading company development. Further, this study includes both Japanese and European trading companies, explaining the relationship between the two, hence our interest for taking this approach when looking at trading companies in Japan and Sweden. However, as the model is 20 years old, the model may no longer be appropriate for today's environment so to describe trading company development, which will be left to be seen. In an attempt to apply it to the contemporary environment and the research question at hand, the model has been somewhat altered and developed so as to also include complementary theories. The model developed for this study (*Figure* 3 below) will focus primarily on the strategic direction and chosen growth paths by trading companies. Although there are different strategic growth paths which trading companies may take, emphasis will be placed on that of service development, such as diversification into after-sales maintenance, export financing, insurance, warehousing, advertising, legal services and branding. In order to sum up the ongoing trend of service integration and look to the future, the model will conclude by looking ahead at the trading companies' strategic intention and the expectations of the external actors.

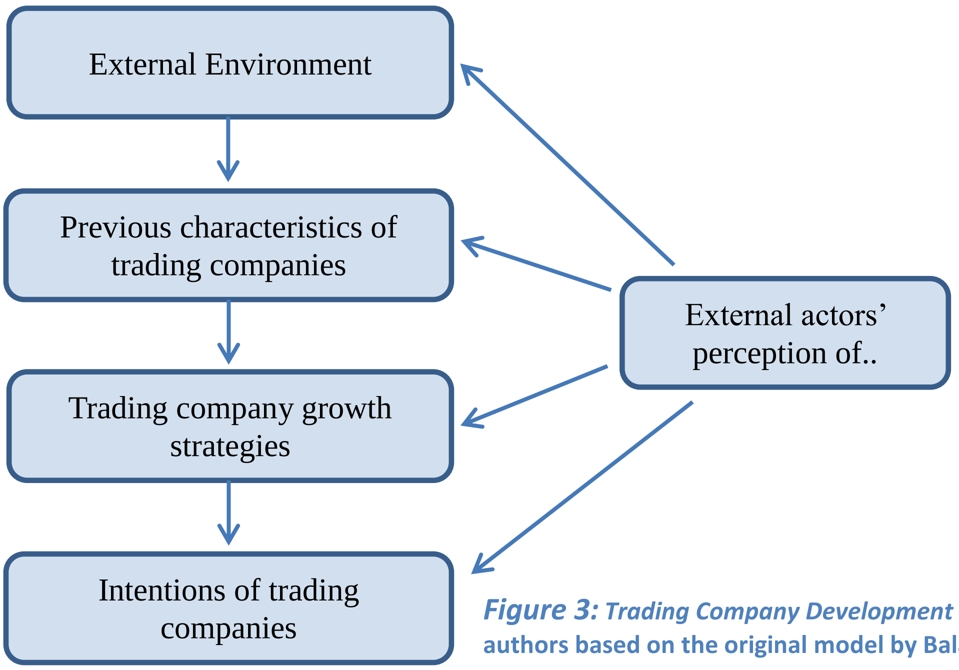

Figure 3: ***Trading Company Development Model*** **(Developed by the authors based on the original model by Balabanis and Baker, 1993)**

2.5.1 External Environment

As mentioned by Miles (1980), Perry (1990), Balabanis and Baker (1993) and Ellis (2001), studying the strategic adaptation of trading companies, the environment in which the trading companies act within are of importance to understand in order to conceptualize the phenomenon. This can therefore be said to be in line with Porter's (1980;1996) emphasis on the industry in which an organization acts. However, although paying close attention to the importance played by the external environment in which the trading companies act, focus will be placed upon the organizational perception of the environmental change (Balabanis and Baker, 1993), especially in regards to the service integration and ongoing transformation process. When viewing the external environment, consideration will also be taken to the institutional environment and competition, when evaluating possible growth strategies. Hence, this can also be said to be in line with Balabanis and Baker's (1993) suggestion of the sogo shosha commonly being referred to as standing in the forefront of trading company development, and therefore used as a benchmark for others.

2.5.2 Previous Policies and Characteristics

Based on the trading companies' perception of the environment, the model is designed to describe the characteristics and the strategies taken in response to these external changes. In order to map the strategic development, one has to establish an understanding of the past decisions and experiences of the firms, as it is argued to have an influence on the strategic formulation and the outcome of the new strategic implementations (Pettigrew, 1990, Perello-Marin and Marin-Garcia, 2013)

2.5.3 Direction and Trading Company Growth Strategies

The trading companies' perception of the external environment, and more in particular the perceptions regarding the transforming landscape in which they act, will serve as the study's baseline. However, when viewing the various growth paths, consideration will also be taken to the impact played by the organizational structure, as mentioned by Balabanis and Baker (1993), as well as the specific internal capabilities which may have affected this development, in line with the RBV theories as discussed by Barney (1992). There are various growth path strategies which trading companies might choose to take, either internal, i.e. building on existing resources, or external growth strategies. When applying an external growth strategy, the most applied method is through creating partnerships with either other trading companies, or with other actors such as manufacturers, banks, the state, or through a mix of theses. The aim when choosing either growth strategy is commonly for the firm to be able to expand its *geographic coverage* or *functional development*, as well as diversify its *service* and *product* *offerings* (Balabanis and Baker, 1993). By studying the strategies taken by the trading companies and reasons behind the strategies, with particular interest in these four strategic directions, an understanding of the strategic adaptation will be facilitated. This will also provide for an understanding of whether or not the competitive advantage obtained by the trading companies during previous years has been maintained and how.

2.5.4 External actors

Other external actors such as the state, export institutes and trading companies' associations are further identified to have an impact on the developmental change of trading companies (Balabanis and Baker, 1993). Hence, the view of the external actors is used as a complement in the study in order to provide for an objective view of the major external environmental factors affecting the strategic development of trading companies as well as a view on the trading companies' strategic adaptation and future expectations.

2.6 Theoretical Positioning

The theoretical positioning of this research can therefore be said to lie within international business, strategic management and more specifically in regards to the unique organizational form of trading companies.

3. Methodology

This chapter aims to provide the reader with an overview of the methodology behind our research. In order to ensure validity and reliability of the study, an overview of the empirical data gathering procedure is given as well as a self-critical discussion.

3.1 Research Approach and Design

In order to study the strategic adaptation of trading companies in Japan and Sweden, in response to the transforming environment, we have developed a conceptual model and a framework of analysis, based upon on an already existing model created by Balabanis and Baker in 1993. In order to better fit the contemporary environment, the original model has been altered using additional theories. Taking such an approach, is similar to the approach taken by Perry in 1990 who built on the original model developed by Miles in 1980. However, one has to have in mind that, although adjusted, the model is 20 years old. Therefore, whether or not the original model created by Balabanis and Baker (1993) is appropriate to explain the strategic evolution of trading companies is yet to be seen, but it is a good way to structure our investigation.

The research design is hence of deductive nature, where we aim to test our theory and conceptual model with the empirical findings derived from our data collection (Collis and Hussey, 2009). More specifically the study will be qualitative, using two separate case examples (Bryman and Bell, 2011), i.e. a *Japanese Case* and a *Swedish Case* in line with the hermeneutical reasoning behind case studies as discussed by Piekkari and Welch (2004) and Lervik (2011). The case study approach is to prefer when the study at hand tries to answer the question of *how* or *why* and when the phenomenon focuses on current issues in a real-life context (Yin, 1994). In addition, using case studies is common in IB research, where the study focuses on collecting data from a cross-border and cross-cultural setting (Ghauri, 2004), such as the case of going in-depth in the strategic adaptation undertaken by the trading companies. Case studies have held a dominating role, being the most popular qualitative research strategy for IB research for many years. Due to its potential of generating novel and seminal theoretical insights, this is perhaps not surprising (Welch *et al*, 2011). As our study aims to shed light on how trading companies have strategically adapted to the changing environmental situation, this method is appropriate.

When using the case study methodology, the context is essential. It is therefore important to understand the dynamics within the setting of a case study. The difficulty of this is that normally the organization, in this case trading companies in Japan and Sweden, do not operate in or exist within a vacuum but interact with the rest of society. Further, the case will have a history and a future in comparison to the period which is studied, which is why it becomes important to also understand the time before and what might happen in the period following that which is studied (Collis and Hussey, 2009).

Therefore, it is important to clearly delimitate the object of the study, i.e. clearly stating the bounded system which is to be studied. If the system cannot be defined enough, it may not be considered a case. Hence, it is important to state the two specific cases at hand. The cases in this study will be focused on a contemporary phenomenon, i.e. the modern role of trading companies. However, as the risk of studying a phenomenon is the lack of it not being intrinsically bounded, meaning that the study may not be called a case, focus has been placed upon creating clear boundaries. Although the data collection process could take numerous aspects in consideration to answer the research question at hand (Merriam, 1998), the study of this contemporary phenomenon will be limited to the views by trading companies themselves with additional input from external actors promoting international trade. As the Japanese and Swedish trading companies have developed rather differently, in part due to the different environmental and institutional settings in which they operate, the modern role will be viewed from both a Japanese and a Swedish setting with two trading companies from each country. By having these two cases, the authors hope to be able to draw some conclusions about the direction in which trading companies are moving.

3.1.1 Research Sample

The study is conducted taking a case-study approach and using two separate case examples, by such an approach we are hoping to be able to spread additional light upon the issue at hand. Although the case examples are not exactly comparable, the global arena in which the different actors act is the same.

The number of trading companies in our study was limited to four, of which two were Japanese and two were Swedish. In regards to the Japanese trading companies, we wished to meet with the *sogo shosha*, of which there are five major companies (the Economist, 2008). Out of these, the two largest, namely *Mitsubishi Corporation* and *Mitsui & Co., Ltd* (McLannahan, 2012) were contacted and responded positively. As for the Swedish trading companies, we aimed to meet with two companies of similar size but which had chosen different strategies of adaptation. Initially, three Swedish trading companies were contacted, of which two responded positively, namely *Ekman & Co.* and *Gadelius Holding KK*. As the respondents included in the study were strategically included in the study so as to answer the research question, the sampling form can be said to be purpose sampling (Bryman and Bell, 2011). Initial contact was conducted through sending emails, either to a general information website or when a particular person had been found appropriate, directly to the potential respondent. When establishing contact with the trading companies, the study was carefully explained in order for us to be able to get access to a person who did not only have a key position within the firm, but also one that had experience within the company, the industry as well as the strategic development over the years. By doing this, we were able to gain as much information as possible about the trading company's strategic development.

Furthermore, although our study is taking an inside the firm perspective, studying the strategic adaptation of trading companies and the perceptions of the trading companies in the matter, the environment in which the trading companies act is of great importance. Hence, as a complement to the interviews with the trading companies, other actors within international trade are included, providing the study with a more external environmental view and displayed as a final, concluding case. The external actors included in this study are important organizations engaged in international trade, i.e. *Business Sweden* in Japan, the *Swedish Chamber of Commerce and Industry in Japan, SCCJ*, and the *Japan Foreign Trade Council, JFTC.*

3.1.2 Data Collection Method

The four trading companies as well as the external actors were all interviewed separately, through the use of semi-structured interviews with people holding key positions, which are specified in Appendix 3. This method is considered appropriate as it provides for flexibility during the interviews, such as allowing for follow up questions if needed (Bryman and Bell, 2011).

The Swedish trading companies however, were interviewed in both Japan and Sweden. The reason for this was that as the ownership of the foreign affiliates was not entirely Swedish, these interviews helped to spread additional light upon the organizations. In total, six interviews were conducted with trading companies and an additional three with external actors, bringing it to a total of nine interviews. Just as what is common in qualitative studies, the data was both collected and analyzed by the authors (Merriam, 1998).

3.1.2.1 Interview Guide

The interview guide can be found in Appendix 2, is based upon the conceptual model displayed in *Figure 3* and is divided into three parts. The first part contains the same questions for all respondents regardless of the respondent being a trading company or an external actor constituting the more structured part of the interview. The rest of the interview guide (Part 2-3) is designed to provide for more of a guideline in the interview process, allowing for potential follow up questions and adjustments if needed (Bryman and Bell 2011).The questions in the first part are introductory, aiming to give a more general view on the external environment by asking for the respondents' perceptions of the external changes. The second part will constitute the in-depth questions of the trading companies' strategic development over time and will more specifically be studying the direction of the *geographic expansion*, *product diversification*, *service development* and *functional development* in-depth (Balabanis and Baker, 1993). As the guide was designed to be used in interviews both with the trading companies and external actors, the second part of the guide was designed in two parts, referred to as part A and part B respectively. Section 2A aims to capture the respondents from the trading companies, i.e. the trading companies' own perceptions of the changes, while section 2B focuses on capturing the external actors' perception of the same changes from another point of view. Finally, part three of the interview guide is more specifically related to the respondents' future intentions and projections of the industry changes and the potential strategic adaptations.

The interview guide is theoretically bounded, with the aim to see if the model created by Balabanis and Baker in 1993, although altered, is still up to date in regards to describing the strategic evolution of trading companies. The strategic decisions of different firms are not only entirely based upon the model however, as it is adjusted to include contemporary theories, including other research within strategic management as discussed in the previous chapter.

3.1.2.2 Interview Process

In order to minimize the loss of information due to memory, the interviews were recorded with the respondents' consent. We were both present at all interviews, were one conducted the interview and the other was responsible for taking notes and controlling technicalities. The interviews were later on carefully transcribed, which was facilitated through the design of the study and the interview guide. As this is also in line with our overall study, we aim to be able to structure the analysis accordingly.

The interviews were conducted in the office of the respondents or at a place decided by the respondent, so to ensure the comfort of the respondent to answer truthfully. Further, the interviews always started with small social talk in order to create a sense of friendliness and a setting in which the respondent felt comfortable. Due to the cultural differences between Japan and Sweden being rather large, we prepared the field trip to Japan by learning about the Japanese business culture. To minimize confusion, the interview questions were sent to the respondents one week before the interviews in order for them to prepare and open up for possible questions in case anything was unclear. The interviews were designed and primarily held in English, as neither of us speaks Japanese. However, the two interviews conducted in Sweden, with Swedish native speakers, were held in Swedish as the respondents were asked and preferred the Swedish language. The fact that the interviews were conducted in several languages can hold both positive and negative features as when the responses are translated they might get a slightly different meaning (Piekkari and Reis, 2004). Each interview took about one hour, which had been scheduled with the respondents in beforehand so as to allow them to plan their time.

3.2 Ethical Considerations

When it comes to the pre-understanding of the authors, one has previous experience of working in a trading company, but will remain objective as this trading company is not included in the study. The other, however, has no previous experience from trading companies. Neither of the authors have any experience of the organizations included in the study, of Japan nor previous experience of research studies within this field.

As one of the most important ethical principles is for respondents to give their informed consent to take part in the research (Collis and Hussey, 2009), all respondents were e-mailed in advance with the question of if they would be interested to participate. In this initial proposal, the authors further included a brief summary of the study so that the respondents would be aware of the intention and scope of what would be included in a possible interview. Further, so to not directly link the respondents' answers in the empirical findings to each trading company, and follow the directions of *Vetensskapsrådet* (Gustafsson *et al*, 2011), the answers will be coded to Japanese TC1 and TC2, and Swedish TC1 and TC2 respectively when presented in the empirical findings.

3.3 Validity & Reliability

The validity of our research was foremost established by the overall design of the study, meaning that the theoretical framework, i.e. adjusted conceptual model, served as a base for the interview guide. By carefully planning the data collection we also made sure that the interviews were in line with the overall study. Furthermore, validity was enhanced by sending the questions to the respondents well in time before the actual interview, giving the respondents time to prepare their answers in advance. The fact that the interviews were conducted with different respondents, within the same trading company but in another national context, allowed for the possibility to verify and compare the answers between the respondents. In turn, this established the reliability of the study. The reliability was further established through combining and comparing the answers to those of the external actors, which described the evolution of trading companies in a similar manner.

3.4 The Analytical Process

The empirical findings were reflected and analyzed in combination with our theoretical framework, based on an already existing model and adding on other theories on strategic management to better fit the contemporary environment. By structuring the empirical findings and the analytical chapter in accordance with the conceptual model, facilitated the analytical process and also making it easier for the reader to follow (Bryman and Bell, 2011). The empirical findings were continuously compared and evaluated in combination to the theories presented in chapter two in order to simplify the analytical process (Merriam, 1998).

3.5 Reflections on the Methodology

There are also other approaches we could have taken to try and answer the research question at hand. In order to get a wider sample, we could have applied a quantitative study sending out questionnaires to an increased amount of trading companies, from several different countries from around the world. This might have allowed us to be able to draw some more general conclusions on the modern role of trading companies. Further, the qualitative study could also have applied other methods for data collection, such as diaries and observations. However, as we wanted to study the subjects deeper and get an in-depth understanding of this phenomenon, interviews displayed through qualitative case studies (Collis and Hussey, 2009) appeared to be most suitable. Another reflection worth mentioning is the possibility of comparing Japanese trading companies from trading companies from other countries. Whereas Perry (1990) states that this is not possible, Balabanis and Baker (1993) view the Japanese trading companies to be in the forefront of trading company development, serving as a benchmark for the development of European trading companies. In this regard, we have therefore taken the view suggested by Balabanis and Baker (1993), although we are aware of the possibility of doing so has been questioned.

The interviews were conducted with individuals holding different titles in the firms, which may be somewhat misleading as the person interviewed in one trading company may not have the same function and responsibilities as a respondent in another trading company. Hence, the respondents may have different perceptions and understanding of the issues at hand, thereby affecting their answers in the interviews. Also, one might question the fact that our study has taken an internal perspective, based on these individuals. Therefore, the views on this development may not always reflect the views and understanding of the organizations as a whole, or even the actual facts of the external environmental changes affecting trading company development.

The respondents were all asked if we could use their personal names and the company name respectively, as it allows for transparency and validity. However, it may also prohibit some information to be revealed as a firm's strategic decisions and their thoughts about the future is sensitive information which may or may not be appropriate to publish. Hence, to include these questions in the beginning of the interview, we opened up for the possibility for the respondent and the firm to remain anonymous throughout this study so to not affect the responses. As some of the interviews involved more than one respondent, the interviewer sometime had difficulty keeping the time schedule as many of the respondents had different views on the questions raised. However, this is not seen as a problem as the total amount of information given was complete and all the different topics on the interview were covered. Topics can be seen in the interview guide in Appendix 2.

Another issue discovered, was that some of the Japanese native speakers had some difficulty expressing themselves in English. Although this may be seen as a minor problem, as all questions were answered in an understandable manner, it is still worth mentioning as it may have had an impact on the answers given and the interpretation of these answers.

4. Company Presentations

As an empirical background, a historic development of the different trading companies and the environment in which they act; Japan and Sweden, are presented in this chapter. Further, as this study has also taken the external actors' perception, a brief introduction to the three external actors; Business Sweden, The Swedish Chamber of Commerce and Industry in Japan, SCCJ, and the Japan Foreign Trade Council, JFTC, will be included.

4.1 Japanese Trading Company Development

The success of Japanese exports can primarily be traced back to the operation of the country's *sogo shosha*, a particular type of trading companies. Although there exists several thousands of trading companies in Japan, most of these are small- and medium-sized firms which specialize in a particular type of product or industry and which are commonly referred to as *senmonshosha* (Dziubla, 1982). However, out of the *sogo shosha*, the five big trading companies are Mitsubishi, Mitsui, Sumitomo, Itochu and Marubeni. The reason for why such large trading companies have developed in Japan is a result of the country's rapid industrialization in the late 19th century and the country's poor availability of natural resources (the Economist, 2008). While Western countries had developed their engagement in international trade over several years, Japan was forced to leave its 200 year-long national isolation and develop quickly in order to catch-up. Due to the Japanese ignorance of foreign markets and languages, whereas many of the Western countries were closer both in terms of culture and language, along with the strong desire to enter the world market posed a great opportunity for the development of trading companies in Japan. Another factor which distinguished the Japanese industrial structure, was the almost non-existence of capital funds available for corporations as opposed to the more developed capital market of the West. A development of the original *sogo shosha* came in the early 1950s, following the end of WWII, when the Japanese government began to encourage the country's leading manufacturing firms and largest commercial banks to develop a new system known as the *keiretsu* groups. The new system favored the capital intensive and technological industries and posed an opportunity for the trading companies to link the large-scale enterprises producing intermediate materials, to the smaller firms focused on various downstream activities. In order to gain access to increased knowledge of cost and pricing structures as well as to establish distribution channels, the *sogo shosha* began to create joint ventures with their client manufacturing firms and competitor foreign multinationals leading to the firms' rapid growth (Dziubla, 1982).

In order to successfully manage such an international business, emphasis has been placed upon significant information- and communication investments. An example of this is when Mitsui and Co., Ltd, in 1973 spent USD 187,6 million on information and communications, placing the company as the second largest communication system investor in the world, second only to the Pentagon (Dziubla, 1982). The middleman model was abandoned in the 1990s, and the trading companies have since moved towards improving their pricing power and taking control of the entire supply chain, such as importing food, process it, handle distribution as well as sell it in convenience stores in which the trading company holds a stake. The *sogo shosha* have also been good in anticipating future needs, through making investments in for example rare minerals and electronic firms (the Economist, 2008). The *sogo shosha* included in this study are the two largest, namely Mitsubishi Corporation and Mitsui & Co., Ltd, and which will be further presented below.

4.1.1. Mitsubishi Corporation

With a workforce spread across a network of over 600 group companies and 65,000 people in 90 countries (Mitsubishi Corporation, 2013), Mitsubishi Corporation is the largest of Japan's *sogo shosha* (McLannahan, 2012). Its origins date back to the 1870s, when the company was founded as a shipping firm. The company quickly developed into various fields and grew larger along with the modern development of Japan itself. After WWII, the original company structure was disbanded into independent companies (Mitsubishi Corporation, 2014a). The current organization was founded in 1954 under the initial name *Mitsubishi Shoji*. In 1968 it invested in its first large-scale investment to develop *Liquefied Natural Gas*, LNG, in Brunei. Already at an early stage, the company began expanding into other activities beyond the mere trading, such as iron-ore and metallurgical coal projects in Australia and Canada. By the beginning of the 21st century, Mitsubishi Corporation introduced a new strategy focusing on the expansion of its value chains (Mitsubishi Corporation, 2014b). Over the years, Mitsubishi Corporation has diversified way beyond its initial trading operations and is now involved in a diverse range of business activities from natural resource development to investment in retail business, infrastructure, financial products and manufacturing of industrial goods. The company considers itself to today be an integrated business enterprise involved in nearly every industry such as environmental and infrastructure business, industrial finance, energy, metals, machinery, chemicals and foods (Mitsubishi Corporation, 2014c).

4.1.2.Mitsui & Co., Ltd

Mitsui & Co., Ltd, the second biggest trading company by market capitalization (McLannahan, 2012) was founded in 1876, just about the time when Japan opened up their economy to foreigners and traded mainly with rice. Later on, Mitsui supported the rapid growth of the cotton spinning industry by importing spinning machines from Britain, and by sourcing raw cotton from China, India and the US. Mitsui acted mainly within light industries until the 1930s, where they shifted focus upon heavy and chemical industries as machineries and mining, which involved a substantial investment at the time. After being forced to dissolute by the Allied Powers, following the end of WWII (Mitsui, 2014a), the company was re-established to the new, current Mitsui & Co by the 1950s (Mitsui, 2014b). The company continued to establish itself as a *sogo shosha* by ensuring access to raw materials, especially those needed in Japan's development of the heavy and chemical industries (Mitsui, 2014c). As other large *sogo shosha*, Mitsui received favorable tax conditions from the Japanese government when investments were made into areas which benefited the Japanese economic development (Rauch, 1996). Mitsui early on diversified beyond the purchasing of raw materials into other areas such as financing or direct involvement in resource development. The corporation integrated vertically, but also diversified its geographic spread (Mitsui, 2014c). In the 80s, Mitsui stepped up its investment in downstream areas as well, in the IT, food and fashion field (Mitsui, 2014d). From the 1990s, and due to the rapid growth of IT, the corporation is focusing its activities more. Closing down unprofitable businesses and focusing on priority areas. During this era, it also became increasingly important to be able to address complex and sophisticated tasks, using the large global network. As the needs of the customers became increasingly complex, Mitsui began creating a multifaceted business through collaborations across organizational boundaries, leading to joint ventures and other forms of partnerships (Mitsui, 2014e).

4.2 Swedish Trading Company Development

The need for middlemen in Swedish export trade developed as the producers, initially primarily iron producers, lacked the necessary skills of the country's regulatory system and the market expertise to export themselves. Although the trading firms generally did not specialize in any particular commodity, iron became one of the dominant sectors. By the 19^{th} century the market for Swedish iron became increasingly difficult, forcing trading companies to diversify into other sectors, leading to the growth of trade of grain as well as sawmill and pulp. As many of the founders of the trading companies, in primarily Stockholm and Gothenburg, came from outside Sweden, the import conducted by these firms was usually influenced by the traders' home countries, such as grain from Germany or colonial goods from England and Scotland. As a result of the export business normally exceeding the import, the trading companies grew rather substantial financial resources over time. Industrialization played a rather significant impact on the trading companies as the development of communications decreased the distance between markets and thereby also the risks involved in long-distance trade. Over time both national and international commerce activities were moved over to the producers while the import of colonial goods was increasingly taken over by retailers. Due to commerce modernization, most of the traditional trading companies were forced to close down leading to only very few managing to survive the 20th century (de Geer, 1998).

Although the period of greatness for Swedish trading companies was in the century prior to the industrial revolution, a few have managed to survive through strategy development and maintained significant roles. The most important role for Swedish trading companies stays connected to the main Swedish production such as iron, steel, paper, pulp and engineering products, and by helping the producers to access markets which might not otherwise be reached (de Geer, 1998). Two such Swedish trading companies which have managed to develop over centuries and large environmental changes are Ekman & Co and Gadelius Holding KK.

4.2.1. Ekman & Co

Ekman & Co., Ltd is a sales and marketing organization, focusing on the global forest industry and is one of the world's oldest trading companies (Ekman, 2010). The company was established in 1802, although the Ekman family had been involved in timber trade since the end of the 17th century. In its first years, the firm traded with various products such as herring and iron, and benefited from its geographic position in Gothenburg which then experienced very successful foreign trading due to the blockade on the continent. Over time the company specialized in various products and the 20th century was dominated by primarily exports of paper and pulp. During this century the company has at times, 1920s and the decades following WWII, in order to safeguard supplies, developed connections to in particular the pulp industry. After being acquired by an investment company pushing for diversification in the 1960s, away from the specialization in pulp and paper, Ekman began to also focus on import and expanded its international organization, particularly in East Asia in terms of consumer goods. *Ekman* continued to act as an independent company under the new owners and changed strategy once again. At this time, the import business was sold off and focus was reassigned to export and the handling of pulp (de Geer, 1998). As of today, the company has continued its focus on the handling of paper, pulp and recovered materials as an independent actor while building up a wide geographic presence with clients in over 100 countries. Besides the trading, the company has diversified and offers a wide range of services throughout the supply chain such as market information and research, invoicing and documentation, logistics and warehouse administration, transportation and insurance, trade finance, currency and interest rate hedging and price risk hedging (Ekman, 2010).

4.2.2. Gadelius Holding KK

Gadelius is one of the oldest continuously operated, foreign-affiliated companies in Japan (Gadelius Holding Ltd, 2010), focusing on bringing high-technology products from all over the world to the Japanese market (Gadelius Holding K.K., 2010a). In 1896 the founder of Gadelius Holding KK, Knut Gadelius, left Göteborg, Sweden for Japan, with the mission of investigating the possibilities of trade with Asia (Hansson, 2010). The first branch opened in Yokohama in 1907, with the idea of introducing unique, high-technology products to the Japanese market (Gadelius Holding KK, 2010a). The initial product portfolio consisted of Swedish matches, the Bolinder diesel engine and the Ludwigsbergs fire extinguisher (Bass and Holmqvist, 1990). Over the years the company has developed its skill and expertise of the Japanese market, helping to guide its customers through the Japanese business, regulatory and cultural traditions. The company has also helped introduce many of Sweden's largest industrial companies to Japan such as ABB, Electrolux (Hansson, 2010), Höganäs, Atlas Copco, Kanthal and Sandvik, (Gadelius Holding KK, 2010a). Besides pure trading, Gadelius has added value to this process by also offering its customers engineering, local manufacturing, sales and after-service functions to its suppliers. Today, the company continues to focus on introducing products from all over the world, particularly from Europe, to Japan while also adding value to the trading through sales and after-market service (Gadelius Holding K.K., 2010a). The company consists of about 240 employees (Gadelius Holding K.K., 2010b) focusing on niche areas which are of importance today (Gadelius Holding K.K., 2010c).

4.3. External Actors Included in the Study

Besides the view from the trading companies themselves, external actors, as identified in the study conducted by Balabanis and Baker (1993), are used so to get a less biased picture than merely including the trading companies' own perceptions. The external actors are expected to be capable of giving a picture of the external environment as well as on the strategic adaption of the trading companies in the respective national contexts.

Business Sweden is a Swedish organization working to facilitate for Swedish companies, in particular small and medium sized companies, to export abroad and also help foreign companies to do business and invest in Sweden. With offices in 57 countries around the world and also with presence in every region of Sweden, Business Sweden may be said to have a rather wide geographic coverage. The company was formed on January 1st 2013, as a merging of the former *Exportrådet* and *Invest Sweden*, and is owned by both the state, *the Ministry of Foreign Affairs*, and by private investors from *Sveriges Allmänna Utrikeshandelsförening* (Business Sweden, 2014). *The Swedish Chamber of Commerce and Industry in Japan* was established in 1992, with the aim of promoting Sweden-related business in Japan. It is an independent, interest-based organization which changes and adapts its activities depending on the needs of its members. The focus, however, is placed upon supporting the Swedish business community in Japan through the building of long-lasting business relationships. Besides developing business relationships, the organization also supports deregulation and harmonization in the Japanese market, thereby improving the business environment for its Swedish member companies (SCCJ, 2014). The third environmental agent included in this study is *the Japan Foreign Trade Council*, the JFTC. The JFTC was originally founded in 1947, as a core private-sector organization within the area of international trade in the early post-year period following WWII and the re-commencement of private trade. Following the great changes to the country's economic and trade environment, the organization was by 1986, re-organized to its current structure. As of today it is a trade-industry association where the core members are comprised by trading companies and trading organizations (JFTC, 2014a). The association strives to contribute to the prosperity of the Japanese economy and international society through trade. Further, the JFTC is engaged in a range of trade-related activities cooperating with the Japanese government of proposing solutions to various trade-related issues (JFTC, 2014b).

5. Empirical Findings

In this chapter we will present our findings derived from our interviews in accordance with the conceptual framework displayed in figure 3 and further described in section 2.5. In order to gain a more comprehensive view of the trading company development and the context in which they operate, the environmental agent perceptions will be displayed in a final section.

The results will be presented as two separate cases, the Japanese case and the Swedish case respectively. Although the companies interviewed have been introduced in the previous chapter, the trading companies will hereafter be referred to as either *Japanese TC1* or *TC2* alternatively *Swedish TC1* or *TC2* as to respect the respondents and the firms' wishes of confidentiality in direct relation to their strategic development. In regards to the external actors, as the questions do not concern their own strategies, their answers will be referenced directly to the various agents. In order to facilitate for the reader, each section will conclude by highlighting the key findings, which will then be further discussed in the next analysis chapter.

5.1 The Japanese Case

5.1.1. Perceptions on the External Environment

As it has become easier for suppliers to deal directly with the buyers, the need for middlemen has decreased, making it increasingly important for trading companies to clearly distinguish themselves from other service companies. One of the factors contributing to this development in Japan has been the development of communication technologies, such as the internet. Another factor has been the improved English language among the general public, which has diminished the trade barrier and facilitated for companies to conduct international trade in-house. As the barriers for entry are decreasing, it becomes easier for new entrants to enter the market, increasing the importance for trading companies to clearly distinguish themselves from other service companies (General Manager, Japanese TC1, 2014 and Executive Member, Japanese TC2, 2014).

Already in the 1970s and 1980s, the trading companies began moving away from the traditional role of only performing trade related activities and looking for ways of adjusting and creating new business models in order to find new ways of making a profit (Executive Member, Japanese TC2, 2014). As of today, both of the Japanese trading companies agree that the investment business has become increasingly important, representing about half of the turnover (General Manager, Japanese TC1, 2014 and Executive Member, Japanese TC2, 2014).

Increased amounts of investments have been made into subsidiary companies over time, in order to find new ways of bringing value to these companies and helping them to find and engage in all kinds of business opportunities within different fields (Executive Member, Japanese TC2, 2014). Rather than keeping all activities in-house, as 20-30 years ago, they have begun to create more *Joint Ventures*, JVs, and invest in local partners, such as logistics-, research- and consultancy firms. This could perhaps be described as the trading companies moving towards becoming more of a parent/mother/holding company where the business is actually carried out by the different subsidiaries (General Manager, Japanese TC1, 2014). Hence, it is also important to note that the transformation process externally affects the subsidiaries different operations individually as well as the trading company as a whole. An Executive Member at Japanese TC2 (2014) explains it as… "*We are engaged in so many different business models where in some we act as more of business service provider. However, in regard to this we still believe to have our special know how, as well as our financial strength, which helps distinguish us from other service providers*". Although positive in one aspect, the size may also be burden in other situations as pointed out by the Executive Member at Japanese TC2 …"*However, a disadvantage with our big size, in comparison to smaller service companies is that they might be able to more quickly adapt and offer more of a customer friendly service than we are able to*".

In regards to competition, there appears to be an increased competition from what is traditionally viewed as the trading companies' buyers and suppliers, as they wish to conduct business directly with one another, without a middleman (Executive Member, Japanese TC2, 2014). However, it is important to distinguish between competitors within the same industry, such as the other five to six major Japanese trading companies carrying out more or less the same business but also competition among the subsidiary companies in the various segments. An example of this is the trading companies' subsidiary logistics companies competing against other logistics companies or an automotive subsidiary competing against other automotive companies (General Manager, Japanese TC1, 2014). Competition between trading companies can further be said to have changed over the last 20 years, from more head to head competition, to an increased importance of distinguishing themselves from other trading companies, focusing and specializing on different business areas. "*As none of us have unlimited resources, it is important to strategically place our resources so that we can* *differentiate ourselves from other trading companies in terms of cash, human resources and so on*" (Executive Member, Japanese TC2, 2014).

As trading companies work in countries spread all over the world, with originally trade related services, their operations and services have been affected by trade liberalization and diminishment of global trade barriers (Executive Member, Japanese TC2, 2014). Also economic factors, such as the Euro crisis and currency fluctuations, have influenced the strategic development affecting whether focus will be placed upon the import or export business. As an economic crisis occurs on one or several markets, trading companies will therefore focus on the stronger markets, not affected or less affected by the crisis. "*It is therefore important for us to have a wide geographic coverage, allowing us to strategically switch focus markets depending on world crises*". Currency fluctuations also have an impact in a short term perspective (General Manager, Japanese TC1, 2014).

Key findings

Information communication technology, such as the internet, along with improved English language skills and regulation development have lowered the barriers for engaging in international trade and thereby decreasing the traditional role played by the sogo shosha. The ongoing transformation process within the service industry has further led the sogo shosha to enter into numerous partnerships or JVs in order to offer a wider service package so as to adapt to the international trend. Economic cycles and currency fluctuations are further factors which affect the development in more of a short term perspective.

5.1.2. Growth Path of Strategic Development

5.1.2.1. Direction of Geographic Expansion

In general, the focus markets will continuously change depending upon the situation in the various markets such as North America, Europe, South America and Africa (General Manager, Japanese TC1, 2014). Whilst 20-30 years ago, focus was placed upon the trade between Japan and USA as well as Japan and Europe, China and other Asian markets, experiencing strong growth, have become increasingly important. Although this overall trend has been rather similar for all Japanese trading companies, the strategies of what markets should be of particular focus has differed (Executive Member, Japanese TC2, 2014). As stated by the Executive Member in Japanese TC 2 (2014) "*Recently, we have begun to focus more on Africa*" whilst…"*The focus market for us, as of the last five to ten years, has been Asia, a market considered to be one of the few markets currently growing. Indonesia is growing rapidly while China's growth is slowing down although this is not to say that the other* *markets are disregarded*" (General Manager, Japanese TC1, 2014). As focus tends to change and develop over time, Executive Member from Japanese TC2 states that they have chosen to build a sort of matrix organization, enabling them to maximize their strategy and seize any business opportunities as they arise (Executive Member, Japanese TC2, 2014). This was also further emphasized by the General Manager in Japanese TC1 (2014)…"*We have a worldwide network ready at all times in order to keep our eyes open for new business opportunities as they might arise*".

5.1.2.2. Direction of Functional Development

"*What we do know is that if we decide to stay at the same place applying the same business model, our company would most likely not survive. There are so many companies which are after our business model, which is why we have to create something new*" (Executive Member from Japanese TC2, 2014). What is interesting regarding diversification is that history tends to repeat itself. At times trading companies have strived for diversification, followed by strategic decisions calling for returning to the origin and where they came from. After perhaps another 10 years and new management, they might call for innovation once again (Executive Member, Japanese TC2, 2014). "*However, we believe such a process to be necessary so to not stand still and let other companies catch up and take over our business. Through this process of trial and error, we are able to continuously develop our strategy*". As for Japanese TC1, half of their investments are now non-trade related which is a trend expected to continue. This is explained by the fact that in order to solely be a trader, it is essential to have something to trade with, which has proved to be difficult for trading companies. When functioning as a trader, i.e. supporting companies to gain access to new or difficult markets, the tendency has been to use the services of a trading company for maybe the first five years, until the producer feels confident to conduct the business themselves without the services of a trading company. But on the other hand, if the trading company instead decides to buy or invest in the company, it will not be earning a commission on sales during a period of time anymore, but rather a return on investment within a longer time perspective (General Manager, Japanese TC1, 2014).

5.1.2.3. Direction of Service Development

The main three to five services offered by trading companies today are financial, logistics, information and marketing, which are based on their extensive overseas offices and global human network (Executive Member, Japanese TC2, 2014). "*We might put priority on different of these services depending on the client's needs, but now the strength lies in the combination of them. It is therefore difficult to state one particular service to be our core, as* *it is really the package deal and the various combinations of these services which is our strength*" (Executive Member, Japanese TC2, 2014). Hence, the basic lies in listening to what the customer needs and then tailor make suits for all kinds of clients. In order to offer such package deals, trading companies might at times decide to enter into partnerships or form JVs with for example logistics-, warehousing- or supplier companies. However, this is usually on a project by project basis. This may therefore also be perceived as one of the strengths contained by the Japanese trading companies (Executive Member, Japanese TC2, 2014). Executive Member from Japanese TC2 describes the situation as follows: "*We place high emphasis on treating everyone outside of our company as customers, both suppliers and buyers. Our job is to be flexible and develop a business model to each particular customer, as this is why they decide to use our services in the first place. If we were to offer a single standard deal, we believe these companies would do business directly with the supplier or buyer. It is the value added which we are able to offer which is important today*" (Executive Member, Japanese TC2, 2014). A General Manager at Japanese TC1 believes its core service offered to its customers to be based on the information, or market intelligence built up over time through their global network, which may be used as their weapon in other fields of business than purely those trade-related. This knowledge can further be said to be their base for offering their customers other services such as logistics, finance, consulting, market entry and coordinating "*If a customer for example would like to form a JV with a firm in another part of the world, chances are high that we will have a local branch in this area and are able to introduce and coordinate the customer in this new market*" (General Manager, Japanese TC1, 2014). Due to the development of information technology this information is however becoming more accessible to the general public, hence also contributing to the changing demand for their market intelligence. But, through their worldwide network the trading company is able to seize this information and create business opportunities before it has become known to the public which is still advantageous General Manager, Japanese TC1, 2014).

5.1.2.4. Direction of Product Diversification

As stated by General Manager in Japanese TC1 (2014)… "*We are active in all industries, from satellites to cup noodles*", the product portfolio is highly diversified. This strength can be used as a weapon in competition, allowing the trading companies to quickly respond to business opportunities as they arise. However, the focus industry may change over time depending upon the state of the markets, profitability and demand. While one of the biggest products today is coal from Australia, the biggest product 10 years ago was LNG in Asia (General Manager, Japanese TC1, 2014). "*As we are active within many different business areas, depending on who is asked, the answer to which is our main industry might vary*" (Executive Member, Japanese TC2, 2014). However, in general, the energy or mineral resource department can be said to have become the most important over the last five to six years. By having a wide product portfolio, the trading companies are also able to shift focus rather quickly depending on the needs. This flexibility and wide coverage, both in terms of geography and industry, is believed to be one of the strengths of the Japanese trading companies (Executive Member, Japanese TC2, 2014).

Key Findings

In order to stay open to new business opportunities, the sogo shosha have developed a worldwide network where Asia, and in particular Indonesia, along with Africa are the focus markets as of today. By diversifying into other functions than purely trade related activities, where over half of the investments are made into non-trade related activities, they may be said to rather serve as investment companies able to offer their customers various types of additional services. As opposed to stating one particular core service, the sogo shosha are focusing on a flexible combination of the traditional trading company services such as financing, logistics, information and marketing, thereby better meeting the individual needs of their customers. Another strength lies in their wide product portfolio, allowing them to continuously enter new areas and shift focus depending on the customer needs.

5.1.3. Future Development

Although the trend of stepping away from the role as a middleman and increasingly taking on the role of a holding company is expected to continue, it is rather difficult to compare the Japanese trading companies with any other businesses in the world due to their special characteristics and strengths built up over time (General Manager, Japanese TC1, 2014). The future view is that the transformation process will continue, but still leave room for the trading companies' operations. "*We believe that there will still be a need for trading companies, where we will continue to flexibly change and develop our business models, both in terms of industry and geographic focus. In the long term, it might be difficult for us to survive as a single purpose oriented company. Perhaps the development will move into trading companies becoming some sort of business enabler, based on engineering capability and on a local or global network*" (Executive Member, Japanese TC2, 2014).

Key Findings

The trend is that the trading companies are moving in the direction of serving more as a holding company. Although the need for trading companies will most likely remain in some aspect, it might be difficult to solely function as a single purpose company. It is therefore important to flexibly change and develop the business model along with the demand. Perhaps the development is moving in the direction of becoming some sort of business enabler.

5.2. The Swedish Case

5.2.1. Perceptions on the External Environment

In regards to the changing external environment, the Director at Swedish TC1 (2014) states that… "*One of our greatest services used to be helping our customers to overcome the language barrier, but we can no longer rely on this competence.*" … the demand for a middleman in international trade has changed. Factors, such as new technology, have had an impact, as it has enabled the growth of e-commerce. In turn, this has affected the behavior of trading companies as it has become easier for producers to see the channels to trade with the final markets without a middleman (Business Development & General Affairs Manager, Swedish TC1, 2014). Another factor is the increased transparency and information communication technology making it easier to access necessary information. As opposed to 30 years ago, having an agent on each market to gather information and report back to the HQ in order to follow what was going on was necessary, whilst today these kinds of global operations are facilitated by using the internet. Also, this increased transparency has made it easier for the customers to gain access to information regarding the current prices around the world, thereby affecting the price negotiation processes (Vice President Logistics, Swedish TC2, 2014).

Further, as there are fewer, but larger actors in the service industry it has not only had an impact on the competitive environment in which the trading companies act, but also on the way the customers are using their services (Director, Swedish TC1, 2014). An ongoing consolidation process can also be seen in terms of the producers, where trading companies have traditionally played the most important role for smaller- and medium sized companies, who have not been able to set up their own sales arm. As these actors are also becoming larger and belonging to a wider network with their own sales functions and agents, the trading role has become less important (Vice President Logistics, Swedish TC2, 2014). "*However, as languages and cultures may vary rather widely between countries and regions, I believe there to still be a need for people with these particular skills of expertise*" (Managing Director, Swedish TC2, 2014). As the trading company role has changed, one might expect the competitive environment to also have changed. However, the Swedish trading companies do not view any new or other types of firms to be competitors in another manner than before, although a fiercer competition between trading companies has been noticed. So far few other service providers have managed to offer similar sales functions as those by trading companies (Managing Director at Swedish TC2, 2014, Vice President Logistics in Swedish TC2, 2014). There are however other aspects to consider in the trading companies' competitive environment that have already changed. An example of this is the fact that trading companies are not solely competing against each other as before, but also against the subsidiaries of the producers purchasing firms on specific markets, in order to get access to direct sales functions (Director, Swedish TC1, 2014).

The dispersed supply chains, the use of offshore methods and the movement of production facilities to low cost countries have all contributed to the increasingly complex international markets. This has had an impact on the strategic development of all trading companies, as it requires competitiveness and significant differentiation, in order to be able to exist on these markets. Swedish TC1 has focused on specific functions relating to product handling and sales, whilst outsourcing other functions to a wide range of partners. By doing this, Swedish TC1 has been able to reach competitive advantage (Business Development & General Affairs Manager, Swedish TC1, 2014). The role of a single standing company serving as an importer, looking for professional products to sell, is still needed as competition is fierce with many actors trying to enter the market (Director, Swedish TC1, 2014). As highlighted by the Director in Swedish TC1 (2014)… "*We know the market and have long-standing relationships which are of high importance when wanting to sell on competitive markets. The importance of personal relationships should also be highlighted as sales are highly based on communication. Although we do see new trading companies wanting to enter our markets we believe the greatest competition to today be coming from the subsidiaries of our customers*" it is clear that Swedish TC1 has strategically specialized on the sales side of the trading role.

Trading companies are further highly affected by the changes in the institutional environment (Vice President Logistics, Swedish TC2, 2014; Director, Swedish TC1, 2014). One example of this is "*It has become easier for us to do business as many of the trade values set to protect local companies 30 years ago have, due to pressures from the EU, USA and other countries within the TPP, Trans Pacific Agreement, have been lifted. Further, we believe such barriers to continue be reduced as there are still some odd local regulations which restrict foreign* *companies to enter*" (Business Development & General Affairs Manager, Swedish TC1, 2014). In turn, this means that the reduction of trade barriers and trade liberalization is making it easier for firms to engage in international trade, hence decreasing the need for a middleman (Business Development & General Affairs Manager, Swedish TC1, 2014). However, this does not only affect the trading companies directly but also global trade in general (Vice President Logistics, Swedish TC2, 2014). Naturally, economic cycles are also influencing the trading companies' strategies (Director, Swedish TC1, 2014; Vice President Logistics, Swedish TC2, 2014). … "*Economic factors such as the global economy play an important role in where we decide to focus our attention. As the US and European economies have seen a slower growth, we have been able to focus our attention to other areas with stronger growth, such as Asia*" (Vice President Logistics, Swedish TC2, 2014). Further, currency fluctuations are highlighted to have an impact on the export and import business, hence also on the focus of the trading companies (Director, Swedish TC1, 2014).

Key Findings

Increased transparency and the development of information communication technology along with customers becoming more demanding, asking for a higher professionalism have affected the development of the Swedish trading companies. Further, the global economy and political factors such as the decreased amount of protectionist measures affect the growth strategy.

5.2.2. Growth Path of Strategic Development

5.2.2.1. Direction of Geographic Expansion

In terms of geographic coverage it is fairly interesting to note that the two trading companies in our sample have chosen different strategies over time. One of the trading companies has focused on a single market, as stated by Swedish TC1's Business Development & General Affairs Manager (2014)… "*Over the years, we have tried different strategies. At times we have focused on several markets, through setting up daughter companies focusing on the Asian markets. However, over the past 20-30 years, we have refocused and concentrated more on the Japanese market*". On the contrary, the other trading company has developed a rather diversified global reach, both in regards to suppliers and buyers. In turn, this has enabled the trading company to adjust and re-focus market areas depending upon global economic fluctuations. At the moment one focus is on China, due to its openness towards trade along with its growing economy (Vice President Logistics, Swedish TC2, 2014).

5.2.2.2. Direction of Functional Development

Although the core role of the Swedish trading companies is still viewed to be that of trading, meaning to serve as the middleman between the seller and the buyer, the two firms have also evolved functionally (Director, Swedish TC1, 2014; Vice President Logistics, Swedish TC2, 2014). For example, Swedish TC2 has entered into a partnership with a merchant bank, which has recently purchased a production facility, and where the trading company will be responsible for sales and distribution (Vice President Logistics, Swedish TC2, 2014). Other examples of horizontal integration has been through the acquisition of a company trading with recycling products and also by purchasing a smaller trading company so to gain access to other markets (Vice President Logistics, Swedish TC2, 2014). As for Swedish TC1, focusing on a single market, the company states to have no interest of entering into production. However, they have started to sell certain products under their company name, as it is known by the customers indicating that their evolvement has been more towards the sales side. This was further strengthened by the Director of Swedish TC1 (2014)… "*We are a sales company, a multi-sales company. What we do is to conduct international business, to connect a firm with another directly or through distributors in the market where we act".* Swedish TC1 does not have all the technical expertise within the product areas in which they act, but are helping their customers gain market shares in their market of expertise (Director, Swedish TC1, 2014). In line with this, the core competence is viewed to be the rich experiences, links and connections in the market carried out by the employees (Business Development & General Affairs Manager, Swedish TC1, 2014)

5.2.2.3. Direction of Service Development

Naturally, due to the long history of the trading companies, the service offered has also changed over time which was further explained by the Director of Swedish TC1 (2014)… "*Once upon a time our trading company was equal to 'Sweden in this marketplace', it was as natural for the particular company which decided to sell here to take contact with us when doing so. The situation was completely different back then"* (Director, Swedish TC1, 2014). In terms of the service offering as of today, Swedish TC1 finds it important to distinguish between the service offered to the seller and the buyer. Towards the seller, the offer lies in supporting the import process and efficiently distributing the products as well as helping out with technical requirements in order to enter the market. Towards the buyer, the service lies in offering good quality products and if there are any problems, also after-sales services. Also, as the customers are demanding a higher service level and a higher level of professionalism, this requires a high level of market knowledge in order to serve the customer at the best possible manner (Director, Swedish TC1, 2014). Increasingly, this service offering constitutes offering a solution, rather than a product. An example is how a buyer will never buy a product without the service, which is why it is important to also include these additional services (Business Development & General Affairs Manager, Swedish TC1, 2014). In order to do so, it requires an extensive market network which is highlighted by the Director of Swedish TC1 (2014)… "*In order to offer this efficient service, we have entered a number of partnerships with various service providers such as banks, shipping companies and warehousing companies*". This was also the case for Swedish TC2, as they view their main service to lie within sales requiring salesmen who know their markets. In addition to that, services within marketing, finance, logistics and insurance are also offered. But rather than entering partnerships in order to offer these additional services, Swedish TC2 has decided to develop them internally through employee training and development. This service package has looked rather similar over the years, although the financial aspect has increased in importance. As banks might be somewhat restrictive in taking risks by lending money to companies which are not completely creditworthy, a trading company may be able to help customers overcome this problem by purchasing the products. Hence, the customers do not have to wait for getting their return on investment (Vice President Logistics, Swedish TC2, 2014).

5.2.2.4. Direction of Product Diversification

The degree to which the two trading companies have developed their product diversification has varied. Swedish TC1 believes it to be important to trade with different products and re-focus depending on the current demand, as it will shift over time. To be diversified could be advantegous as it enables a trading company to focus on the right product at the right time, as described by the Director at Swedish TC1 (2014)… "*We continue to stay open for new possibilities and engage in new products when appropriate*", Swedish TC1 is therefore continuously looking to diversify their product portfolio (Director, Swedish TC1, 2014). On the contrary, Swedish TC2 has chosen to be more industry specific, although they have begun to also enter a few new industries in order to diversify the product portfolio over the last years (Vice President Logistics; Managing Director, Swedish TC2, 2014).

Key Findings

In terms of geographic coverage, the two Swedish case examples have chosen different paths. While one has chosen to focus on a single market, the other has chosen to hold a diversified global reach, allowing the company to change focus depending on market trends. Even though the Swedish trading companies still view their core to lie within serving as a trader, *i.e. as a middleman between the seller and the buyer, the organizations have started to integrate into other functions upstream as well as downstream. Although the main service might be seen to be sales, the trading companies also offer additional services such as finance, logistics and insurance offering their customers a kind of service package deal. As with the geographical coverage, the two Swedish case examples have chosen different paths where one has chosen to focus on one particular industry, whilst the carries a diversified product portfolio allowing the company to change focus depending on current demand.*

5.2.3. Future Development

As the trading company function is expected to continue evolving, it is important for trading companies to continuously adapt, using all of their knowledge and market expertise (Director, Swedish TC1, 2014). The Managing Director at Swedish TC2 (2014) suggests that… *"We will continue to serve as the middleman, being the one offering the market intelligence and important network*"... indicates that the role as an intermediary will sustain. However, even if Swedish TC2 sees themselves keeping this role as a trade intermediary, some changes are expected as it operates in a rather capital intensive industry. Being active in an industry which requires heavy investments, creates an increasing need for efficiency and being able to benefit from economies-of-scale through consolidation. Another expectation for the strategic development, is the continuous process of entering into partnerships with producers, where trading companies step in and take over the sales function or provide financial services to a greater scale than before. As it is too expensive for the producers to set up their own sales function on the smaller markets, there will most likely still be a need for the role as a trader or agent on such markets (Vice President Logistics, Swedish TC2, 2014). Furthermore, it is also viewed as important to continue to diversify, both in regards to the product portfolio but also in regards to the geographic spread, in order to survive the next 20-30 years (Managing Director, Swedish TC2, 2014).

As described by the Director in Swedish TC1 (2014)... "*Perhaps the name trading company will no longer be used, but rather we call ourselves multi-distributor or importers within many business areas. However, so far I believe the name trading company to still be appropriate as it involves so much more, although not the same as it used to*". One possibility might be to become more involved in the upstream supply chain, such as production (Director, Swedish TC1, 2014). The possibility of selling products under the trading companies' own names or getting the producer's approval of producing their product under the trading company name, at a different location, are other possible options allowing trading companies to grow and maintain competitiveness in the future. However, it is difficult to know what the future may bring. As the lines of what constitute a trading company are becoming increasingly blurry, it is difficult to try and define the role or make forecasts for the future (Business Development & General Affairs Manager, Swedish TC1, 2014).

Key Findings

As the transformation of the markets as well as the production consolidation process are expected to continue, trading companies' believe there to be a need for continuous adaptation. Possible solutions might therefore be for the trading companies to move upstream in the supply chain, becoming involved in production or entering into partnerships with producers. The name trading company, although still viewed as appropriate, may at some point be exchanged for something else, such as multi-distributor.

5.3 External actors

5.3.1. Perceptions on the External Environment

As it has become easier for the producers to conduct trade themselves, the trading companies were about 30 years ago faced with the question of what their new role should be. The impression is that they therefore started to integrate into other functions as a consequence (Senior Investment Advisor, Business Sweden, 2014).

Influencing factors for the changes can for example be the new information communication technology, such as online shopping, decreasing the need for a trade intermediary (Senior Investment Advisor, Business Sweden, 2014). Furthermore, as stated by the General Manager at SCCIIJ…"*I believe one of the main reasons for using trading companies in the past was the language skills and extensive knowledge about foreign markets*" Today, thanks to improved language skills and internet connection, it has become easier to find information about new markets and what is going on in the world. In this regard trading companies could be said to have outplayed their role in the traditional sense (General Manager, SCCIJ, 2014). This was also enhanced by an example of the Japanese *sogo shosha*, as it 30 years ago was difficult for Japanese manufacturers to speak English or other foreign languages, making it difficult for them to handle international business on their own. Over time, the manufacturing companies began hiring an increasing amount of students with foreign language skills. As their own exporting activities grew larger, they began thanking the *sogo shosha* for their service and took over the markets themselves. So, due to the internationalization and globalization of the Japanese manufacturers, the function, or space, for the *sogo shosha*'s trading activities got increasingly narrow (General Manager Public Relations Group, JFTC 2014).

The fiercer competition and the need for Japanese companies to reach out to more external markets have pushed for the need to consolidate with smaller companies creating larger and larger actors with own sales functions, which decreased the demand for the service provided by the trading companies. As the trading companies have integrated into other areas, the external view is that the competitive picture has evolved to also include other non-trading companies (Senior Investment Advisor, Business Sweden, 2014).

Other forces affecting international trade and hence also the operations of the trading companies' world-wide is the trade liberalization and reduction of trade barriers. Although local political and regulatory aspects are still of great importance, harmonization of systems are facilitating the engagement in international business and trade (General Manager Public Relations Group, JFTC 2014). The strategic development of the trading companies are also affected by economic factors, such as the low interest rate in Japan during a long period of time enabling the *sogo shosha* to invest and make huge profits. The financial strength has in turn allowed the Japanese trading companies to go both up- and downstream in the supply chain (Senior Investment Advisor, Business Sweden, 2014).

Key findings

The external actors view the information communication technology, higher proficiency in languages, reduction of trade barriers and harmonization of systems to contribute to the fact that conducting international trade is easier today than 30 years ago, changing the demand for the service originally offered by the trading companies. This has resulted in diversification into other functions, competing in other areas than purely trade related activities.

5.3.2. Growth Path of Strategic Development

5.3.2.1. Direction of Geographic Expansion

Although trading companies tend to have a wide geographic spread, the focus markets have changed over the years. Around 15-30 years ago, focus was on North America and Europe, which changed as China became an increasingly important market (Senior Investment Advisor, Business Sweden, 2014). Hence the trading companies, just as most other companies these days, turned increased attention to this region (General Manager, SCCIJ, 2014). Also, the latest trend appears to be an increased focus on South East Asia and Africa (Senior Investment Advisor, Business Sweden 2014). The geographic focus appears to heavily depend on the industries of interest, the diversification strategies and whether or not the markets are growing. An example is how Australia may be seen as a focus within the dairy industry, while Singapore is the focus in regards to finance (General Manager Public Relations Group, JFTC 2014).

5.3.2.2. Direction of Functional Development

The focus of trading companies in general, especially the Japanese trading companies have shifted from merely the trading role. As stated by the Senior Investment Advisor at Business Sweden (2014); "*I would have to say the core advantage lies in their extensive network with experienced expats, the financial resources and the willingness to take risks. However, it is difficult to only state one of these, as I believe the real strength to lie in the combination of these resources*. The General Manager at SCCIJ (2014) agrees that even though it appears as if trading companies are moving away from the traditional role and into manufacturing, it still appears as if serving as a traditional trader for perhaps smaller companies on the countryside, to enter difficult markets without the skills or size to handle the export themselves, may still be needed in some industries or markets. Therefore, it is clear that that trading companies are still serving an important function, but also something more temporary rather than long lasting as they work on contractual basis… *"… as the producing company grows in size, and gains more experience of selling to a particular market, it will most likely choose to handle sales itself*", leaving the trading company without customers after a period of time (General Manager, SCCIJ, 2014).

The large trading companies have become more of a conglomerate, with several smaller companies under a shared roof. In terms of new competitors to the trading companies, one might emphasis other service enterprises involved in trade related activities, such as the logistics companies. The field of logistics has developed heavily over the last few years, becoming highly professional companies within the service industry. It is quite interesting that logistics companies are expanding into other functions serving more as a trading company while some trading companies develop their logistics activities, becoming more like logistics companies (General Manager Public Relations Group, JFTC 2014). This trend is expected to continue in order to stay competitive, where the trading companies are able to offer a type of service package deal depending on the customer needs (General Manager, SCCIJ, 2014).

The financial strength contained by the trading companies, especially the *sogo shosha* but also others, has allowed some trading companies to integrate both up- and downstream in the supply chain. The impression is that by using one of their strengths, i.e. taking risks, the *sogo* *shosha* have begun to invest into various business areas within Japan as well as overseas. Besides entering production, many trading companies also took the risk of serving as banks or venture capitals. As opposed to the Swedish trading companies, the Japanese trading companies are very large and are normally able to have a financially strong bank in the middle of their organization. So even if the Swedish trading companies would be interested in following in this development, it might be difficult as they do not have the same financial resources (Senior Investment Advisor, Business Sweden, 2014). Trading may therefore be said to have become more of a minority role for the Japanese *sogo shosha* which is why many of them are reluctant to being called trading companies anymore. Instead, the name ubiquitous business enabler might be more appropriate (General Manager Public Relations Group, JFTC 2014).

5.3.2.3. Direction of Service Development

From an external view, it appears as if the trading companies are engaged in a wide network of other service providers, such as logistics companies or banks, serving as the connecting link between these companies (Senior Investment Advisor, Business Sweden, 2014). As the demand for a trade intermediary has decreased, trading companies have begun to also look at other service functions to offer their customers, such as the previously mentioned logistics operations or the handling of warehouses. An example of this is how many of the smaller trading companies are closing down and focusing on solely logistics or sales. Due to the development, the perception is that trading companies are either able to offer additional services and efficiently switch between products and geographic markets depending on the current needs to best serve its customers, or become more focused if a small actor (General Manager Public Relations Group, JFTC 2014).

Service development lies in looking at the demand and try to figure out what kind of service the trading companies might be able to offer the customers. It is therefore important for the trading companies to be receptive towards the different needs, in order to offer suitable service. Today, one might describe it as to offer consolidated services to enterprises. Rather than identifying any particular service to be core, the *sogo shosha* offer the services required or best suited for their partners. Therefore, the core service can be said to depend on the customer. If one customer is in a weak financial position, then the service offering to this customer would be said to be finance. If another customer needs market access, then the core service offering to that customer would be market development. In order to be able to offer these wide service offerings, the *sogo shosha* are open to creating partnerships in any field of investment if necessary. Rather, they try to remain as open and flexible as possible (General Manager Public Relations Group, JFTC 2014).

5.3.2.4. Direction of Product Diversification

In terms of product diversification, the Japanese trading companies are viewed to remain quite diversified, although changes may be made based on which opportunities may arise. (Senior Investment Advisor, Business Sweden, 2014). However, it is difficult to pinpoint any particular industries as the *sogo shosha* are always open to new business opportunities and are active within a very wide product portfolio (General Manager Public Relations Group, JFTC 2014). In the case of the Swedish trading companies, large focus is put on the forest industry, where it seems as if there is a need for trading companies to serve as the link between the buyer and the seller. As there are so many small paper mills spread geographicly across the country, there appears to be a need for someone with specific skills to efficiently connect and export these products to customers around the world (General Manager SCCIJ, 2014).

Key Findings

The external actors' view on the trading companies' geographic focus is that it depends heavily on industries of interest, diversification strategies and whether or not the markets are growing. The functional role is no longer viewed as purely acting as a trade intermediary, but rather diversified into other functions to stay competitive. Although, the trading role is still needed, the trading companies, and especially the sogo shosha, have expanded into several other areas up-stream as well as down-stream in the production chains. This process is expected to continue, involving more partnerships with other actors. The service provided by the trading companies, both in Sweden and Japan include additional services rather than purely those which are trade related. The importance lies in being flexible and tailor-make all solutions for the customers. The product portfolios are also changing over time, as the sogo shosha are into a very wide range of industries they manage to stay flexible and take advantage of opportunities. The Swedish are more focused, but still beginning to diversify.

5.3.3. Future Development

All the external actors (See Appendix 3) in our sample highlighted the fact that the Swedish and Japanese trading companies are very different in both size and scale. Although, something agreed upon by the respondents are the abilities obtained by the trading companies to continuously develop in order to stay competitive. As said by the Senior Investment Advisor at Business Sweden (2014)… "*As trading companies are continuously developing I think they will survive also in the future"*. The General Manager at Public Relations Group, JFTC (2014) suggests that the *sogo shosha*'s strengths lie in their ability to strategically respond to the changing business environment. Therefore, rather than *sogo shosha* they could best be described as amoebas or ubiquitous business enablers, which are able to flexibly adapt and strategically fit into the weak points of the value chains offering various services and serving different functions. However, there is no perfect fit for these weak points as they may differ depending on the industry needs.

Perhaps, when referring to the Japanese companies, one should say trade- and investment company, as the profit coming from the investment is bigger than that from the trading commission (Senior Investment Advisor, Business Sweden, 2014). In addition to the Japanese trading companies, it does not appear likely that their traditional role as traders will continue. Instead, their role as investors is likely to grow (General Manager, SCCIJ, 2014). However, what is likely is that they will continue to focus on maximizing customer satisfaction. In regards to if the integration of the service industry and whether or not it is expected to continue will depend on the customer. Lazy customers will most likely go to someone, such as a trading company, which is able to offer a full service package rather than having to close deals with several different specialists. However, detailed and precise customers will most likely continue to close deals with specialized companies (General Manager Public Relations Group, JFTC 2014).

As for the Swedish trading companies, most of them have remained rather focused on a particular industry or market. In terms of country size, Sweden is not much bigger than Japan. However, Japan's infrastructure and logistics is more advanced than that in Sweden which is why there is still a need for someone to efficiently connect the mills and sell to international customers. Serving as an intermediary in these markets may still be demanded in the future, but the trend of increasingly complex functions and services offered by the trading companies indicates that the strategic adaptation by trading companies will continue (General Manager, SCCIJ, 2014). It might be as suggested by the General Manager at SCCIJ (2014) that… *"This was more of the role which the Japanese trading companies had 30 years ago, which is why I would view the Swedish trading companies as what the Japanese trading companies were 30 years ago*" (General Manager, SCCIJ, 2014).

Key findings

The external actors expect the trading companies to survive by strategically adapting to the changes in the market. Integration and diversification as well as stepping away from the trading role are also expected to continue, based on different strategic choices.

6. Analysis

This study has been based upon an adjusted version of an already existing model, illustrated in figure 3. However, it is found that the model from 1993, is no longer fully applicable to describe the strategic evolution of trading companies today, as will be clarified by a discussion of the empirical findings combined with our theoretical framework in this chapter.

As mentioned, the Japanese and the Swedish cases are not exactly comparable and will thereby be treated separately in the discussion of the strategic adaptation. However, due to some similarities in their perception of external environment changes, parallels will be drawn. This chapter will conclude by discussing the views provided by the external actors as well as a brief summary of the analysis discussion.

6.1 External Environment

When reviewing our empirical findings in chapter five with our theoretical framework as introduced in chapter two, we have found examples of where the empirical findings reinforce the theory but also examples of where previous research within the field will be questioned. Although Mintzberg (1978), Pettigrew (1990) and Rumelt (1991) have pushed for a more internal, procedural view upon strategy formulation based upon mainly internal capabilities, Pettigrew (1990) and Mintzberg (2007) have also acknowledged the importance of placing strategy formulation within its context. For others, such as Porter (1980), Collis and Montgomery (2008) and Teece *et al* (1997) the context, in which a firm operates, has been viewed as a key aspect to consider. Whereas Porter (1980;1996) emphasizes the industry as more of a stable but regularly changing context in which firms have to find strategic positioning, Collis and Montgomery (2008) as well as Teece *et al* (1997) acknowledge the dynamic combination of resources and capabilities with the external environment in order to determine the spot on which a firm can create value. In this study, all of the respondents agree to have been affected by the major changes in the external environment, forcing them to adjust their strategies, although the degree and direction might have varied between them (Japanese, TC1; Japanese, TC2; Swedish, TC1; Swedish, TC2, 2014). This was further reinforced by the external actors, viewing the traditional role by the trading companies to have narrowed over time as a consequence (Business Sweden, SCCIJ, JFTC, 2014).

6.1.1 Factors in the External Environment

The two Japanese trading companies, one of the Swedish (Director and Business Development & General Affairs Manager, Swedish TC1, 2014), combined with an external actor (Senior Investment Advisor, Business Sweden, 2014), mentioned the *ease of conducting international trade* and *the facilitation of internationalization processes* due to *globalization* and *trade liberalization* as having a direct effect on the trading companies operations. In turn, these factors have perhaps decreased the need and demand for traditional trading company offerings as it has become easier for the suppliers to deal directly with the buyers, thereby increasing the bargaining power of suppliers. As displayed in *Figure 1*, the role of a pure trading company is the intermediary role, serving as a broker or re-seller of goods on one market to another market internationally (Casson, 1998). Teece *et al* (1997) argues, that as the environment changes, in this case the market in which the trading companies act, firms need to adapt accordingly and develop dynamic capabilities so to integrate and reconfigure internal and external skills, resources and capabilities to match this changing external environment. The reason for why this aspect was not particularly highlighted by Swedish TC2 can perhaps be traced to its more specialized product portfolio' character, in comparison to the other firms included in this study. However, the Vice President Logistics at Swedish TC2 acknowledged an ongoing consolidation process among its suppliers which could increase the suppliers' ability to sell directly to their buyers, risking lowering the demand for their services.

Another key factor highlighted by all trading companies and external actors (See Appendix 3), is the development of *information technology* as influential. Teece *et al* (1997) recognized the technological changes as one of the factors influencing the development of new, more dynamic views on how firms can maintain and further develop its competitive advantage in the increasingly globalized environment. The new technology enables new ways of conducting international trade through e-commerce, opening up the possibility of new entrants, but also provides for better access to information about markets according to all of the trading companies in our study. Market intelligence which is considered to be one of the trading companies' core competences (Kharlamov, 2013), indicates that this has had an impact on how the core competitive advantages have developed over the years. An interesting point highlighted by the Vice President Logistics at Swedish TC2, was that historically the company was able to benefit from market price differences to a larger extent, whereas now the customers are better informed about currency fluctuations and global prices. The director at Swedish TC1 further emphasized the better informed customers to be demanding a higher level of professionalism, forcing the trading companies to develop their offerings. As it has become easier to find information about new markets and easier to stay updated on what is happening in the world, the General Manager at the SCCIJ (2014) believes this to be a major change affecting the need of the traditional function offered by trading companies.

Additionally, another factor related to the facilitation of international trade for firms, also mentioned by all trading companies (See Appendix 3) in this study was the changes to the *proficiency in language*. For the Japanese trading companies, during their time as *pure trading companies*, the level of English amongst the population was significantly lower than today. Along with an improved level of English speaking people among the general public, the need for such an actor has therefore decreased (General Manager, Japanese TC1;Executive Member, Japanese TC2, 2014). As for the Swedish trading companies, the language issue is more of a global matter and how to help customers reach other markets. One of the strengths of trading companies in Sweden has been their global linguistics, facilitating the operations of Swedish firms to conduct international business abroad. Globally, the language skills have in general become more business friendly, facilitating for trading company customers to overcome this trade barrier **(**Director, Swedish TC1;Managing Director, Swedish TC2, 2014). Hence, the original service of the trading company has become less attractive, leading to a change in the market -and customer demand.

The Senior Investment Advisor at Business Sweden (2014) believes that the fiercer competition, combined with the consolidation process creates larger actors on the global markets. In turn, these larger companies are more capable of setting up their own sales functions rather than using a trade intermediary, which has generally decreased the demand for the traditional services offered by the trading companies. This external environmental factor was foremost mentioned by both of the Japanese trading companies, as it has affected them to integrate into other, non-trade related activities. The Japanese *sogo shosha* can be said to have adjusted their operations the most. Their competition can therefore be viewed from two levels, the competition between the *sogo shosha* and the competition within the various business areas in which their subsidiaries act, including other large TNCs. By integrating into other areas, the competition has also changed dramatically including other types of organizations (General Manager, Japanese TC1; Executive Member, Japanese TC2, 2014). The Swedish trading companies, both view the sales functions of the producers to be competitors in a greater scale today than before (Director, Swedish TC1; Vice President

Logistics, Swedish TC2). One difference however is that as Swedish TC1 considers a few more actors, non-trade related, to be competitors today as opposed to earlier **(**Director, Swedish TC1, 2014**)**. This whilst Swedish TC2, on the other hand, does not seem to have been affected by any new competitors but rather increasingly fierce competition from other trading companies (Vice President Logistics, Swedish TC2).

The aspects regarding the *economic factors'* effect on the trading companies' operations are the same amongst the whole sample (All Respondents, see Appendix 3), where currency fluctuations as well as global economic crisis' where mentioned as especially important. *Institutional environment* in the markets in which they act are also of importance as the legislation regarding international trade and trade barriers are affecting their operations. As mentioned by the General Manager Public Relations at the JFTC (2014), one impact played by the harmonization of systems is that of facilitating the engagement in international trade.

As suggested by the respondents in the above discussion, the main external factors affecting their development are closely related, and can be categorized into four major themes; *Globalization*, *Institution*, *Economy* and *Customer demand*.

6.1.2 External Environment Adaptation

Porter (1980;1996;2007) suggests that firms should conduct an industry analysis as a base for strategic development, by finding a new 'strategic positioning' within this environment, and hence a new role which better suits the contemporary environment (Porter, 1980;1996). The importance of adjusting the business model as a result of the changing external environment was highlighted by both of the Japanese trading companies (Managing Director, Japanese TC1; Executive Member, Japanese TC2, 2014), so to allow for new ways of making a profit which can therefore enhance Porter's (1980;1996;2007) idea of industry analysis to allow for new ways of reaching profit maximization. Whilst *Swedish TC1* says to agree with this view (Director, Swedish TC1, 2014), the fact that *Swedish TC2* has not noticed these external changes and adapted to the same degree (Vice President Logistics, Swedish, 2014) is rather interesting. Therefore we may question the theory of a *"one size fits all industry analysis"* as suggested by the rational long-term strategic planning theories (Porter, 1980;1996). Even if the cases are separate from each other, it is obvious from our cases that the main factors perceived to be influencing their strategies have been acknowledged and perceived in a similar manner between the trading companies and also further enhanced by the JFTC, Business Sweden and SCCIJ (2014). What is interesting to notice is that despite of this, the different trading companies have put emphasis on different of these factors as most important in their strategic adaptation. This makes us question whether firms are in fact completely rational when viewing the external environment, or also influenced by their historic experiences (Pettigrew, 1990) and individual perceptions (Balabanis and Baker, 1993), hence including the human's bounded rationality as suggested by Cyert and March (1963). Which may also help explaining the fact the trading companies' adaptation due to this external changes, have been different.

6.2 Growth Paths of Strategic Development

In the previous discussion, the external factors affecting the trading companies' strategic adaptation were identified and it is evident from the Japanese and Swedish cases that changes to the strategies have been made as a consequence, in line with Porter's (1980;1996) theory of industry analysis and strategic positioning within that environment. However, what distinguishes the cases and companies from each other is that they have taken a slightly different growth path depending upon the resources and specific context in which they act, which Ellis (2001) views as being a common development for trading companies. Miles (1980), Perry (1990) and Balabanis and Baker (1993) have all tried to describe the strategic evolution of trading companies and emphasized the importance of combining the influences from the external environment with the internal influences such as the internal resources and functions in a variety of ways. Hence, in contrast to the more external view on strategy, it seems relevant to include the resource based view when trying to understand the strategic adaptation of the trading companies. In line with the RBV and as suggested by Barney (1992), the firm's capabilities and resources determine the competitive advantage, and thereby also its strategy. This cannot be viewed as completely accurate in regards to our cases, as it is clear that there were in fact strong influences from the external environment, affecting the trading companies' strategic adaptation. However, according to critics of the RBV, this view shall not be viewed in isolation but rather in combination with other theories serving as a complement (Peteraf and Barney, 2003; Kraaijenbrink *et al*, 2010). Some of the critiques against the RBV, are also seen to be answered to by the more recent frameworks (Barney, 2001b), such as Teece *et al* (1997) and Collis and Montgomery (2008), which view the firm's internal state in combination with the external environment in a more dynamic manner. A combination of an external and internal view when studying strategic change is appropriate when studying trading companies (Miles, 1980; Perry, 1990; Balabanis and Baker, 1993), and appears to speak in favor for our study as well as there are more aspects than purely external to consider when describing our samples strategic adaptation.

6.2.1 The Japanese Case

Already in the 1970s and 1980s, the Japanese trading companies started to engage in non-trade related activities both up-stream and down-stream of the value chain, as a result of the changing external environment (Executive Member, Japanese TC2, 2014). However, although the strategic changes were made as a response to these external changes, Japanese TC2 (Executive Member, Japanese TC2, 2014) does not explain these changes as rational-purposeful strategic planning (Porter, 1980;1996), but rather a continuous process of trial and error (Executive Member, Japanese TC2, 2014) as suggested by Mintzberg (1978, 2007). As the *sogo shosha* knew that there were many companies mimicking their business model, strategic development and differentiation was needed (Executive Member, Japanese TC2, 2014). The functional development has been to continuously diversify into other areas, taking on the role of an investment company rather than a trading company as agreed by both Japanese TC1 (General Manager, Japanese TC1, 2014) and Japanese TC2 (Executive Member, Japanese TC2, 2014). Over half of the investments made, are now made into non-trade related activities (General Manager, Japanese TC1, 2014). As the market and market needs changed, forcing companies to become more flexible (Hashim, 2013) the Japanese trading companies have also focused on developing their service offering by building on existing resources and capabilities in line with the RBV theories (Barney, 1992; Teece *et al*, 1997; Collis and Montgomery, 2008). One of the main strengths of the Japanese trading companies, enabling them to differentiate themselves from other service providers, as mentioned by the Executive Member at Japanese TC2 (2014) is the financial strength. However, both the Executive Member at Japanese TC2 (2014) and the General Manager at Japanese TC1 (2014), state the development from offering the traditional trading company service to today offer a valuable strategic combination of other services such as finance, logistics, information and marketing. Other strengths on which the *sogo shosha* have built their strategic development, is their world-wide network, geographic spread, market intelligence and diverse product portfolio. This network, which has been built up over time, enables them to engage into new fields of business instantly and often. As their customers are interested in a particular business area or geographic market, the Japanese trading companies have the capabilities of quickly adapting these current resources in order to create new business opportunities and meet the individual customer needs (General Manager, Japanese

TC1, 2014; Executive Member, Japanese TC2, 2014). However, as it is difficult to be everywhere at once, the Japanese trading companies in this study have chosen to build particular focus and capabilities on certain geographic markets and industries to also differentiate from each other (Executive Member, Japanese TC2, 2014; General Manager, Japanese TC1, 2014). The development from being characterized as a *pure trading company* (Casson, 1998), conducting more of a static strategy by developing and maintaining a sustained competitive advantage (Barney, 1992) offering a core service as a broker or a re-seller (Casson, 1998) to be involved into other activities, implicates that the *sogo shosha* have successfully managed to evolve their operations and conduct a more dynamic strategy. Meaning, to be able to juggle all the forces in the external environment together with optimizing their own resources and capabilities to find a spot in which they can compete (Teece *et al*., 1997; Collis and Montgomery, 2008). In the framework by Collis and Montgomery (2008), an organization sees capabilities and resources to be at the heart of its operations which is subject to the interplay of three market forces displayed in *Figure 2*. The Japanese trading companies in our sample, when conducting pure trading company activities answered these questions and realized change was needed for their organization to survive, suggesting the need to look into other, non-trade related activities. Although the Japanese trading companies have expanded through both internal and external growth paths as suggested by Balabanis and Baker (1993), they have not taken a particular growth path in regards to service or product diversification or functional or geographic expansion but rather a mix of all the different paths in order to best serve the customers' new needs as discussed in the previous section. Today, the competitive advantage is viewed as a combination of different service offerings to customers (Executive Member, Japanese TC1, 2014). The combination of services must be continuously adapted and the business model flexible enough in order to continuously adapt and best meet the market demand. In turn, this indicates that the strategies are becoming more dynamic and flexible (Teece *et al*, 1997; Collis and Montgomery; 2008).

6.2.2 The Swedish Case

Although the major external factors affecting the Swedish trading companies are in many ways similar, it seems as though the two have adopted different strategies as a response, which may be because of differences in firm characteristics. Whilst Swedish TC2 has chosen a path of a wide geographic coverage (Vice President Logistics, Swedish TC2, 2014) Swedish TC1 has focused on one market. These two alternative strategic paths, have developed over the years, where both trading companies in the sample have considered their global spread, and the option to diversify into more markets (Business Development & General Affairs Manager, Swedish TC1;Vice President Logistics, Swedish TC2, 2014). In addition, whilst Swedish TC1 contains a very large spread of products in their operations, Swedish TC2 is mainly working within one industry. Something which also has evolved over the years, as Swedish TC1 is continuously looking for new product areas to enter and Swedish TC2 has diversified into a few more product areas (Director, Swedish TC1; Managing Director; Vice President Logistics, Swedish TC2, 2014), although not to the same extent as Swedish TC1. Hence, the strategic development appears to have rather stemmed from a sequential process, considering the alternatives and continuously questioning the strategic development as suggested by Mintzberg (1978;2007). Further, as discussed by Henning and Neffke (2013), diversification strategies, both in terms of geographic and industry expansion might stem from areas in which the firms hold their core capabilities and activities. This also enhances the notion of the RBV on strategy formulation, of it being the firm's internal resources and capabilities which determine the strategy. The development continued in regards to functions, where both *Swedish TC1* and *Swedish TC2* still view their role to foremost be that of serving as a *broker* or a *re-seller*, although also engaged in other functions and service offerings (Director, Swedish TC1; Vice President Logistics, Swedish TC2, 2014). Therefore, this allows us to believe that the Swedish trading companies have stepped away from the *pure trading company* role (Casson, 1998). *Swedish TC2* has increasingly moved into the role of a financer, taking over this risk from the producers when needed as well as entering of a few partnerships with producers (Vice President Logistics, Swedish TC2, 2014). Also, *Swedish TC1* acknowledges the functional changes, suggesting the possibility of calling themselves a multi-sales company (Director, Swedish TC1, 2014). The Business Development & General Affairs Manager at Swedish TC1 (2014) further mentioned a plan to also enter sales functions under their own name, indicating an interest to also expand down-stream in the value chain. The functional development reflects the development of service offerings, which has expanded over the years so as to become more of combination of services, where both of the trading companies offer more of a package deal rather than one core service (Director, Swedish TC1; Vice President Logistics, Swedish TC2, 2014). However, *Swedish TC1* distinguishes the service offered to the seller and buyer, but are in both cases putting emphasis on the market entrance (Director; Business Development & General Affairs Manager, Swedish TC1, 2014), which may be related to the fact that *Swedish TC1* has strategically specialized on one focus market. *Swedish TC2* on the other hand, is foremost mentioning the additional service as a financer towards the sellers to have changed the most (Vice President Logistics, Swedish TC2, 2014).

In contrast to the Japanese trading companies, which have strategically grown in all the four directions suggested by Balabanis and Baker (1993) simultaneously, it seems as though both Swedish TC1 and Swedish TC2, have adapted to a smaller extent. They have in a more specialized manner focused and combined their internal resources and capabilities with the external environment (Balabanis and Baker, 1993, Teece *et al*, 1997). Such as choosing to focus on either a geographical expansion or a diversified product portfolio, rather than growing in both directions at the same time. Naturally, the two cases are distinct from each other in terms of size and scale but it is interesting to draw parallels when describing the strategic adaptation as a combination of external and internal influences by highlighting the contribution to the change from the differences inside of the firm. The Swedish trading companies have hence, based upon another set of internal resources and capabilities found a combination to match the external environment and find particular *Strategic Sweet Spot* in which they compete (Collis and Montgomery, 2008). By offering additional services to the customers than those purely trade related, is also seems as though the Swedish trading companies have developed capabilities to continuously be flexible to offer the right services to the right customers.

6.2.3 External Actors' View on Trading Company Growth Paths

The differences between the Japanese and Swedish trading companies in terms of scale and size were highlighted by all the external actors included in this study (JFTC; Business Sweden; SCCIJ, 2014).

The external actors agrees with the view of the heavy financial resources held by the Japanese trading companies, to have enabled them to make investments both up-stream and down-stream in the value-chain. In turn, this has supported the development of the Japanese trading companies becoming more of a holding company. In comparison, as the Swedish trading companies, do not have a strong financial bank in the middle of their organizations. Therefore it is more difficult for them to follow in the footsteps of the *sogo shosha*, even if they would be interested to do so (Senior Investment Advisor, Business Sweden, 2014). The General Manager Public Relations at the JFTC (2014) suggests that the *sogo shosha* development, based on their capabilities and wide geographic network in several industries, has turned them into functioning more as *ubiquitous business enablers*, offering tailor made service packages based on the customer demand. By managing their resources and capabilities in a flexible manner in order to quickly take advantage of new business opportunities (General Manager Public Relations Group JFTC, 2014) strengthens the suggestion put forward by Collis and Montgomery (2008), of flexible management of its resources in combination with meeting the external environment.

As smaller actors, without the same financial power or specific circumstances as the *sogo shosha*, the Swedish trading companies, have faced a different picture. The difference between the Japanese and the Swedish trading companies indicates that there are not only the external industry specifics that are influencing the strategies of the firms as suggested by Porter (1980;1996;2007) but also the distinctive external environments in which the trading companies act as put forward by Brasch (1978), Kim (1986), Perry (1990), Balabanis and Baker (1993) and Wichmann (1997). However, as all of these were published several years ago, our study may therefore confirm that as of 2014 this is still true. In addition to this, our study also suggests that the differentiation strategies among the trading companies lie within the internal characteristics, in combination with these external environments as suggested by Balabanis and Baker (1993), Teece *et al* (1997), Collis and Montgomery (2008) and Costa *et al* (2013).

The external actors expect the trading companies to survive by continuously adapting to the changes in the market (Senior Investment Advisor, Business Sweden, 2014), which may be done in different ways as discussed by Ellis (2001). This view derived from our empirical study is further that the traditional trading company role will not be needed in the same way in the future (Business Sweden and SCCIJ, 2014). However, the General Manager at the SCCIJ (2014) also points out that they may still be needed in some industries and markets, especially for smaller companies on the countryside wishing to enter difficult markets. This function should perhaps be seen as temporary though, as the producers, once gained experience, will most likely wish to handle the exports and sales themselves. This function was also mentioned by Kim (1986), of where trading companies are particularly important to SMEs.

The strategic adaptation of the trading companies, both the Japanese and the Swedish, has resulted in moving further away from the traditional role of trading companies. If this trend continues, which it is expected to do, they will most likely continue to step away from that role, turning into other types of service companies. Whilst the Japanese trading companies have already made such an adaptation, referred to as *ubiquitous business enablers* by the

General Manager Public Relations at the JFTC (2014), enhancing the description by Ellis in 2001 also referring to the trading companies as *ubiquitous* entities. As said by the General Manager at SCCIJ (2014), the Swedish trading companies may be what the Japanese trading companies were 30 years ago. Although the size of these two countries is similar, Sweden's infrastructure and logistics can be said to be similar to that of what Japan' was like 30 years ago, indicating a need for someone to efficiently connect the producers and sell to international customers. Perhaps, this could further be connected to the statement by Balabanis and Baker (1993), of the Japanese trading companies being in the forefront of trading company development, hence serving as a benchmark for the development of European trading companies. If so, this might suggest that the Swedish trading companies will continue in this direction, following in the footsteps of the Japanese *sogo shosha*.

6.3. Analysis Summary

By studying the strategic growth paths of the sample, it is clear that both the Japanese and Swedish trading companies have been affected by the changes in the external environment, and more specifically by factors relating to the; *Globalization*, *Institution*, *Economy* and *Customer* demand, and making strategic adaptations accordingly.

As a response to the external changes however, the strategic adaptation appears to have been made differently. The strategic research view, with an emphasis on the external environment's influence on a firms' strategic development (Porter, 1980;1996;2007) can therefore be said to suggest an important aspect when arguing for the strategic changes to be influenced by the external factors. However, as the growth paths have been different between the two cases, arguing towards that there are other determinant factors in the trading companies' strategic adaptation, indicating that the theories taking solely an external focus are seen as somewhat static. Hence, as the adaptation has been made differently amongst the cases there are other influences which speak for the more recent internal research view on strategy, such as RBV, to be a well suited complement (Peteraf and Barney 2003; Kraaijenbrink *et al*, 2010), explaining the variety in the adaptation. We can therefore agree with the fact that a combination of the two views are most suitable when studying an organizational change for trading companies, which have been applied before (Miles, 1980; Perry, 1990; Balabanis and Baker; 1993).

The Japanese trading companies appear to have stepped away from the role of trading companies, becoming more of an ubiquitous business enabler, involving both internal and external growth paths as defined by Balabanis and Baker (1993). Although the Swedish trading companies have diversified service offerings and product portfolios, functions and geographic spread, they have not taken these changes to the same extent as the Japanese. The differences can be related to internal resources and capabilities, but also to specific company characteristics and contexts as suggested by Brasch (1978), Kim (1986), Perry (1990), Balabanis and Baker (1993) and Wichmann (1997). Each individual company will therefore have to find their own ways of building on its core competitive advantage, difficult for other firms to imitate (Post, 1997; Barney, 1992). In order to reach such a strategic positioning in today's global market with higher demands for service and flexibility, along with lower margins (Elms and Low, 2013), this positioning might be better referred to as a *Strategic Sweet Spot* which needs continuous evaluation and development so to remain competitive (Collis and Montgomery, 2008). This strategic positioning might then better be viewed to be based on flexibility, offering a wide range of services, so to better meet the individual customer needs as suggested by the General Manager Public Relations Group at JFTC (2014) and the Senior Business Advisor at Business Sweden (2014), in line with the transformation process in the service industry as desribed by Elms and Low (2013) and Kharlamov (2013). Thereby minimizing the risk of supply chain disintermediation as when serving as a sole purpose company (Elms and Low, 2013).

This need for flexibility and constant evaluation of organizational fit in an external environment, suggests the need for new ways of describing the trading companies development in the 21st century. Suggestively, an updated model which can better capture this dynamic aspect of trading companies' strategic development, rather than the altered model based on the framework initially introduced by Balabanis and Baker (1993) and displayed in section 2.5.

7. Conclusion

This chapter will provide for an answer to the research question resulting in the development of a new conceptual model to better describe the trading companies' strategic evolution in the 21st century, which will also demonstrate how the trading companies are maintaining the so called the Strategic Sweet Spot. The chapter will then conclude by proposing an additional model to explain the progression process of trading companies, based on the Japanese and Swedish examples used in this study.

7.1 Research Question Revisited

The increasingly integrated GVC within the service industry and other important external factors, (Elms and Low, 2013) are transforming the landscape in which the trading companies act. Despite of this, Ellis (2001) points out that trading companies are still managing to prosper, although expressing doubts of the survival of trading companies as an organizational form on the global market. What has been clear from our study is that strategic adaptation has been inevitable for the trading companies in order to survive in the 21st century, leading us back to our research question: *How have the trading companies strategically adapted to the external transformation process and the increasingly integrated service value chain in order to maintain competitive advantage?*

Our main conclusion derived from our study is, that the trading companies in our sample have all responded to the external transformation process. Although the model originally developed by Balabanis and Baker in 1993, had been complemented with additional theories so to better meet the contemporary environment, as shown in *Figure 3*, it appears as if this model is outdated to explain the strategic evolution of trading companies in the 21st century. Although Balabanis and Baker (1993) suggested a mix of internal and external growth paths, giving suggestions on four different strategic growth directions, it seems as though the two cases have adapted by taking unique strategic combinations of these four paths in order to best serve its customers in today's environment. By growing in several directions, the sample has evolved to the degree in which they have moved away from the *pure trading company* role, making the trading companies even harder to conceptualize today rather than before.

What has been similar to both of the cases is further the process of strategic adaptation, developed over a long period of time and through trial-and-error rather than as a fixed long-term rational planning. Along with the external environmental changes, the trading companies have continuously considered various growth paths and further developed based on new knowledge and understanding. Hence, by studying the Japanese and Swedish trading companies' strategic adaptation, our study has resulted in a new conceptual model to better describe their more dynamic strategic adaptation.

7.2 New Conceptual Model

As displayed in Figure 4 below, the newly developed conceptual framework for the trading companies' strategic evolution is of a more dynamic character, to better suit the contemporary environment. However, it is important to keep in mind that this model has been developed based on the trading company development in Japan and Sweden and may therefore not be applicable elsewhere. This model will be further explained below.

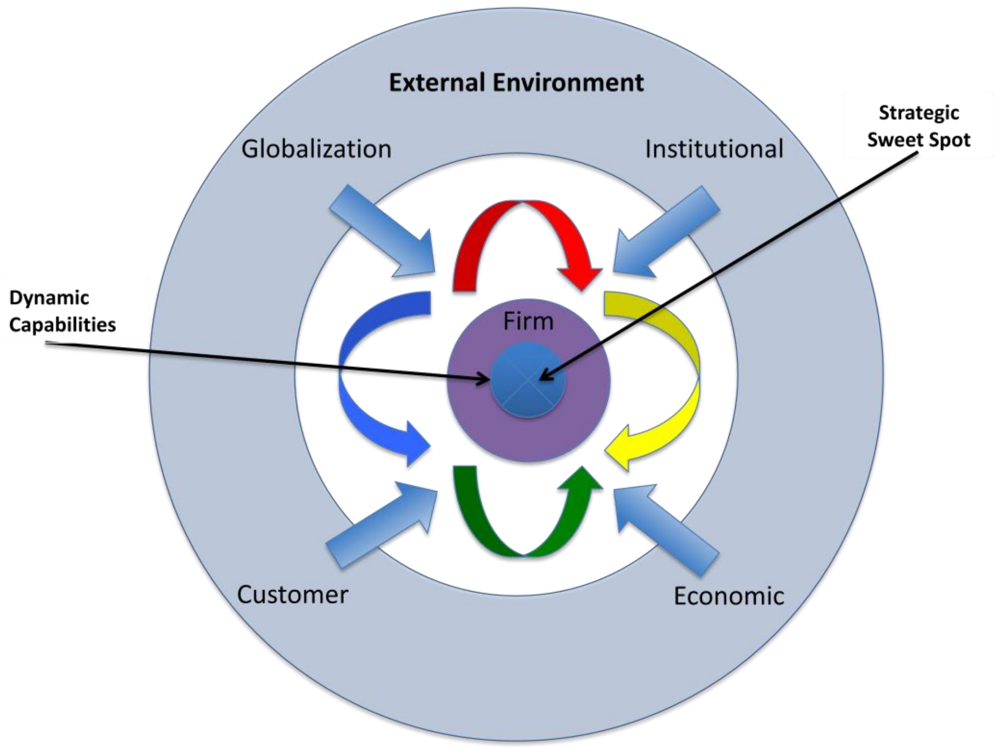

Figure 4: ***Modern Trading Company Development Model*** **(developed by Kjellin and Lawrence, 2014, based upon the model initially introduced by Balabanis and Baker, 1993)**

7.2.1 Influential External Factors

Based on the empirical findings and further in the discussion in chapter 6.1, it is evident that the external factors influencing the trading companies are closely related to one another, although categorized according to four main themes; *Globalization*, *Institutional*, *Economic* and *Customer*. As previously defined in this thesis the term *Globalization* refers to *the process by which economic, political, cultural, social, and other relevant systems of nations are integrating into world systems*. The factors mentioned by the sample which have contributed to the *Globalization* have been; the new information communication technology, improved language proficiency and the increasingly integrated global services' value chains. The *Institutional* influences affecting the functions and service offered by the trading companies are foremost the deregulation of trade barriers and trade liberalization, facilitating the ease of doing international business for companies. Furthermore, the changing *Customer* demand was also highlighted as customers today are expecting a higher level of professionalism. This in combination with the ease of conducting international trade and the facilitation of internationalization processes has significantly changed the demand for the service originally offered by trading companies. Finally, *Economic factors* related to the currency fluctuations as well as global economic crisis were viewed as influential. The institutional and the economic factors where further also highlighted by Ellis (2001), who concluded that these factors affected the strategic development of all trading companies, regardless of nature and context. Hence, we may agree to this statement.

7.2.2 Dynamic Trading Company Capabilities

As concluded from previous research and further by our empirical findings, it is not only the external factors which determine the strategic adaptation of trading companies but also the internal influences. Previously, their core competence was based upon the need of an intermediary actor in international trade, a core competence which can no longer be claimed sustainable due to the external transformation process. It is also evident from the sample that in order to respond to these changes, the trading companies have been forced to, in a variety of ways, integrate into additional functions and service offerings, while also reviewing the possibilities of geographic and product portfolio expansion. These services have to be strategically put together depending on the individual customer needs, requiring a mix of dynamic capabilities in order to continuously be able to change. A feature discussed by several researchers, such as Perry (1990) and Ellis (2001), to be one of the strengths of trading companies. The trading companies in our sample have strategically grown in a combination of all four directions suggested by Balabanis and Baker (1993). Hence, the core competitive advantage appears to lie in a combination of different internal strengths and capabilities which are adjusted to match the external needs of the environment. That is, finding a strategic fit placing themselves wherever needed in the supply chains' weak spots, also described as a

Strategic Sweet Spot combining different resources and capabilities in a flexible and dynamic manner of continuous change. Although the Swedish trading companies adjust their offerings depending on particular customer needs, it is noteworthy that due to their smaller size and scope, do so to a smaller degree than the Japanese trading companies which have enabled them to develop into entities such as *ubiquitous business enablers*.

7.3 Recommendation for Further Research

The new model developed in this study for mapping modern trading companies' strategic development has been based on a rather small sample, Japanese and Swedish trading companies. Therefore, it might be interesting to study if this model could also be applicable to trading companies in other countries and particular contexts.

In regards to the Swedish trading companies, they appear to have moved away from the traditional role as *pure trading companies*, perhaps instead functioning as *hybrid trading companies*. As for the Japanese trading companies, they appear to have taken one step further, also moving away from this role and are therefore perhaps better described as *ubiquitous business enablers*. However, as the Swedish trading companies appear to follow in the footsteps of the Japanese trading companies, perhaps this is an indication of where they are heading. This makes one question of when a trading company transfers from being categorized as a *hybrid trading company*, to a place in which it is better described by another name, such as perhaps *ubiquitous business enablers*, as displayed in *Figure 5* below. As the trading companies appear to be moving in this direction, a better understanding of where to draw the line between being called a *trading company* and a *ubiquitous business enabler* might therefore be of interest for future research.

Figure 5: ***Trading Company Progression Model*** **(Kjellin and Lawrence, 2014, based on models by Casson, 1998; Jones, 1998; JFTC, 2014).**

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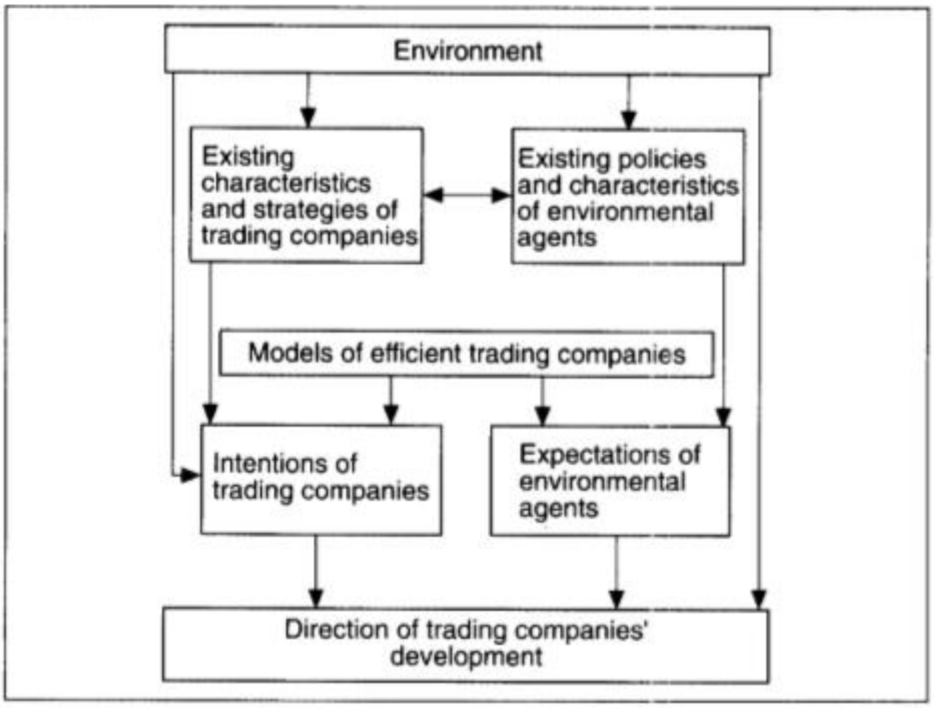
Appendix 1: A Conceptual Framework on Trading Companies' Development



Balabanis and Baker (1993; p.66)

Appendix 2: Interview Guide *Modern Role of Trading Companies*

1. Do you, as a respondent, wish to be treated confidentially in our thesis?
2. Do you want the company's name to be treated confidentially in our thesis?

PART I: General/Standardized/Categorizing

1.1 Company Characteristics

1. How long has the company existed?
2. Annual turnover? Sales?
3. Ownership?
4. Partnerships?

1.2 Perceptions on the External Environment

1. What have you perceived to be the main external factors affecting the strategic development of trading companies?
2. How do you view/perceive the service integration and consolidation process within the international service industry?
3. Are trading companies being directly affected by this integration of the service industry? If so, how?
4. How do you view competition? How do you view the competitive environment? How has this changed over time?
5. Are there other actors today which you consider to be the trading companies' competitors which were not viewed as competitors 15 years ago?
6. How do you view the institutional environment (i.e. government regulation, cultural expectations and mimicking the most efficient firms)?

PART II-A: Growth Path of Trading Companies' Strategical Development

2.1 Direction of Geographic Expansion

1. Which markets do you consider to be your focus markets as of today?
2. Do you focus on a few core markets or a wide geographic coverage?
3. Has this changed over the years? How/why?

2.2 Direction of Functional Development

1. Based upon what constitutes core service/competitive advantage, have you focused upon strengthening the existing functional competitive advantage - or have you tried to diversify into other functions? How has the development looked?
2. Are you mainly involved in trade related activities?
3. Have you integrated into other areas which are non-trade related? Why/How?

2.3 Direction of Service Development

1. What services do you offer today?
2. What do you consider to be your main (core) service which you offer customers?
3. Have you entered into partnerships with other actors in the market in order to be able to offer additional services to customers?
4. Has this changed over the years? Have you diversified your offerings to customers? How/Why? Please give examples.
5. As the global supply chains are becoming increasingly integrated, are you offering a packaged service deal within international trade? Has this changed over the years? In what aspects?

2.4 Direction of Product Diversification

1. Within which industries are you mainly active today?
2. Do you focus on a small/concentrated or a large/wide product portfolio?
3. Has this changed over the years? How/why?

PART II-B: Growth Path of Trading Companies' Strategical Development

2.5 Direction of Geographic Expansion

1. Which markets do you consider to be the trading companies' focus markets as of today?
2. Do the trading companies focus on a few core markets or a wide geographic coverage?
3. Do you perceive this to have changed over the years? How/why?

2.6 Direction of Functional Development

4. Based upon what constitutes core service/competitive advantage of a trading company. Do you see it as trading companies focusing upon strengthening the existing functional competitive advantage - or that they have tried to diversify into other functions? How has the development looked?

5. Are you aware of the fact that trading companies nowadays are involved in other non-trade related activities? Why/How?

2.7 Direction of Service Development

1. What services do you see the trading companies offering today?
2. How do you see the trading companies' core service offered to its customers?
3. Do you perceive the situation in the industry to involve new partnerships between actors?
4. Has this changed over the years? Are the trading companies diversifying offerings to customers? How/Why? Please give examples.
5. As the global supply chains are becoming increasingly integrated, are trading companies offering a wider range of services? Has this changed over the years? In what aspects?

2.8 Direction of Product Diversification

1. Within which industries are the trading companies mainly active today?
2. Do they focus on a small/concentrated or a large/wide product portfolio?
3. Has this changed over the years? How/why?

PART III: Future

1. How do you see the future? Do you believe this service integration and consolidation process trend to continue?
2. What are your intentions for the future?What role do you see yourself holding in 10 years?

Appendix 3: Interview Schedule

Actor	Representative	Interview type
1. Japanese Trading Company1	General Manager	Face-to-face interview, 1 hour
2. Japanese Trading Company 2	Executive Member	Face-to-face interview, 1 hour
3. Swedish Trading Company 1	Director	Face-to-face interview, 1 hour
	Business Development & General Affairs Manager	Face-to-face interview, 1 hour
4. Swedish Trading Company 2	Vice President Logistics	Face-to-face interview, 1 hour
	Managing Director	Face-to-face interview, 1 hour
5. Business Sweden, Tokyo	Senior Investment Advisor	Face-to-face interview, 1 hour
6. Swedish Chamber of Commerce and Industry in Japan, SCCJ, Tokyo	General Manager	Face-to-face interview, 1 hour
7. Japan Foreign Trade Council, JFTC, Tokyo	General Manager Public Relations Group	Face-to-face interview, 1 hour