



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in International Business and Trade

Do Trading Companies Need to Change their Business Models in Response to a General Trend of Increasing Transparency in International Business?

A case study on five Swedish trading companies

Mattias Berglund and Henrik Hast

Supervisor: Bent Petersen
Master Degree Project No. 2016:2
Graduate School

Abstract

As globalization is increasing in pace whilst technological improvements are connecting individuals from all across the world; trading companies, who previously were found to thrive on idiosyncratic knowledge and non-transparency, find themselves in a difficult spot. As intermediaries, trading companies constantly need to ensure their ability to add value in the value chain as they otherwise soon would be bypassed. Despite their antecedents date back centuries, there is a lack of research covering trading companies' strategic behaviors.

The study is set out to bring light to the question if trading companies need to reconfigure their business model in order to respond to a changing environment. The study shows that trading companies can increase their rent seeking without necessarily reconfiguring the business model. The study has identified four alternatives for increasing the rent seeking: market diversification, increased service offering, product diversification or vertical integration. The study has also identified the extensive use of networks for the provision of services, which together with superior network capabilities could create a competitive advantage.

The study has further found that business model reconfiguration for trading companies is highly dependent upon the ability to in fact realize such configurations, and the more resource intense a transformation is, the higher the willingness by upper management needs to be. The relationship between high resource endowments and high willingness can to a large extent be explained by the highly valued flexibility that trading companies possess.

Key words: Trading companies, export intermediaries, trade, forestry products, globalization, transparency, value proposition, flexibility, international business

Acknowledgements

We own gratitude to several individuals and companies for the completion of this thesis.

First, we want to extend our thanks to the respondents and their respective company who released time in their hectic schedules to provide us with the data that we needed. We are aware that your time is scarce and valuable. The study would not have been possible without your participation. Second, we would also like to extend our thanks to our supervisor Bent Petersen who has guided us throughout the whole process and has given us useful insights in the World of research.

Last, we would like to thank one anonymous peer, who has reviewed parts of the process and has given us helpful tips along the way.

Mattias Berglund

Henrik Hast

Gothenburg, 2 June, 2016

Abbreviations

CSR	Corporate Social Responsibility
ICT	Information Communication Technology
JV	Joint Venture
RBV	Resource Based View
WOS	Wholly Owned Subsidiary

Contents

1. Introduction	1
1.1 Background.....	1
1.2 Problem Discussion	2
1.3 Purpose & Research Question.....	5
1.4 Delimitations	6
1.5 Research Outline	6
2. Theoretical Framework	8
2.1 The Resource Based View	8
2.1.1 Network Capabilities	9
2.1.2 Core Competencies	10
2.1.3 Dynamic Capabilities	11
2.1.4 Learning and Governance Structure.....	12
2.2 Business Model Theory	13
2.2.1 Value Network Configuration.....	14
2.2.2 Value Shop Configuration.....	14
2.2.3 Value Proposition	15
2.3 Previous Research	16
2.3.1 The Extended Role of Trading Companies.....	16
2.4 Conceptual Framework	19
2.4.1 Vertical Integration.....	22
2.4.2 The Service Offering	23
2.4.3 Product and Market Diversification	24
3. Methodology.....	25
3.1 Research Approach	25
3.2 Research Design	26
3.2.1 Data Collection Method	26
3.2.2 Research Unit and Sample.....	27
3.2.3 Interview Method.....	28
3.2.4 Data Analysis Method	29
3.3 Qualitative Assessment	30
4. Empirical Chapter	31
4.1 The Current Role of Trading Companies	31
4.1.1 Vertical Integration.....	32

4.1.2 The Service Offering	33
4.1.3 Product and Market Diversification	35
4.2 The Important Resources and its Composition	37
4.2.1 Relationships as a Resource	39
4.2.2 Physical Asset Endowments and Flexibility	43
4.3 Evaluating the Current Business Model	44
4.3.1 The Geography of Client Networks	45
4.3.2 Developing the Business.....	46
5. Analysis.....	51
5.1 The Business Climate for Swedish Trading Companies and Previous Research Revisited	51
5.1.1 Vertical Integration.....	51
5.1.2 The Service Offering	52
5.1.3 Product and Market Diversification	53
5.2 Advancing Rent Seeking	55
5.2.1 Relationships' Role in Rent Seeking.....	58
5.3 Identifying and Realizing New Business Opportunities	60
5.4 Conceptual Framework Revisited.....	63
5.5 Taking Trading Companies into the Future	65
6. Conclusion	68
6.1 Managerial Implications	69
6.2 Theoretical Contribution and Recommendations for Future Research	70
7. Reference List.....	72
Appendix	78

1. Introduction

This chapter will first present the background to the topic focusing on the business of trading companies. Second, a problem discussion will be presented resulting in the purpose of the study and the research question. Last, the limitations and research outline will be presented.

1.1 Background

Trading companies are part of a fast spinning and growing global economy and they have a stake in the energy we consume, what we eat and essentially a part of everything we buy. The trading companies forms an elusive group that together control the sales over half of all freely traded commodities, and the ten largest trading companies exceeds one trillion USD in revenues combined. Yet, little is known of these giants that shapes the World's value chains (Schneyer, 2011). Trading companies goes under a multitude of names, such as: 'merchants', 'export management companies', 'export intermediaries' (Balabanis, 2001) or simply 'traders' (Peng & Ilinitich, 1998). The common denominator is the perception of trading companies acting as middlemen (Peng & York, 2001), and often when trading companies are brought into light, they are met with suspicion (Tamny, 2014). Already 240 years ago, Adam Smith (1776) noted that their role had been questioned for centuries. In feudal time, traders were despised and worth just a shy more than emancipated bondmen. Adam Smith (1776) undeniably defended the value the merchants added and that each community benefits from their existence; and seeing as trading companies still exist, surely, they must have done something right.

Trade with intermediate goods has increased vastly over the last years in proportion to world GDP, which in turn has created ample opportunities in trade of the same. It is the phenomenon of globalization that has enabled the increasing role of intermediate goods in global trade (Drake-Brockman & Stephenson, 2012), and trading companies have been key for this development (Jones, 1998). The main activities trading companies engage in are brokerage, which entails selling on behalf of a producer, or reselling of products where the trader takes ownership of the product (Jones, 1998; Casson, 1998; Ellis, 2001), and as such, trading companies enable and facilitate trade (Jones, 1998; Ellis, 2001). Customers use trading companies based on their ability to lower transaction costs in highly diverse environments and suppliers use trading companies based on their ability to increase exports through their established network of customers (Fung, Chen & Yip, 2007). In short, following the logic of

transaction cost economy, trading companies are able to buy at the highest price and sell at the lowest (UNCTAD, 2013).

Trading companies' profits are made out of price arbitrages in product quality, location and time; and a trading companies' main capability is to handle information that enables them to bridge the gaps in order to seize the opportunities of arbitrage. Therefore, trading companies' profits are not necessarily connected to the price levels of the product. The strategy is to use low amounts of equity and to leverage it with short-term debt. Hence, trading companies are characterized by a light-foot approach where strategies are adapted to changes quickly. The nature of these firms has inhibited them to be traded publicly and all except a few are family owned, employee owned or owned by a small number of shareholders (Meersman, Reichsteiner & Sharp, 2012; UNCTAD, 2013).

During the last four decades, with advances in ICT and transportation along with adaptation of policies aimed towards stimulating trade globally; transaction costs have decreased. Consequently, the former advantage of superior information is not as advantageous as before, since advancements in ICT enables the customer to identify where a product is produced, whom to contact and at what price to buy it at. Moreover, the cost of transportation and barriers to trade have decreased. Therefore, trading companies have been forced to re-evaluate their business models and supply chains since the role as an intermediary is under threat. (Low, 2013)

1.2 Problem Discussion

In a world with more transparency and globalization, trading companies' unique selling points may face the risk of erosion. Although research exists within this field, options for how trading companies can progress, and how to proceed with said developments to adapt in a changing environment, is lacking. Finding a one-size-fits-all solution for all trading companies is in its nature difficult to do since they comprise a wide variety in firm size, resources, contextual setting, products traded and degree of asset dependence.

Amidst increased transparency on markets, profits made out of arbitrage are shrinking. As more actors are entering the business of trading, margins are even further squeezed, thus, forcing trading companies to re-evaluate their business models. One trend that clearly stands

out is the process of vertical integration and acquiring assets, which enables trading companies to diversify their sources of profit (Meersman et al., 2012; Blas, 2013; STSA, 2015). However, venturing into capital intensive activities, such as extraction and processing commodities, comes at a price. The capital required is fundamentally different to short-term debt covering cargoes. Long-term capital is needed in order to cover the acquisition and operation of a processing facility. This puts the trading company at risk of falling prices for the product, which historically have had little impact, or even a positive impact, on profits (The Economist, 2014).

As noted by Fine et al. (2002), the operations and activities are ever changing and the supply chains are becoming more dynamic. As opposed to increased margins through vertical integration, the pure trading strategy might enable increased margins due to stability in the supply chain. Oddly enough, not locking oneself into an asset, a pure trading company is able to choose and design the supply chain as it sees fit, meaning that products and clients can be introduced or excluded quickly if needed (KPMG, 2012). Moreover, trading companies have increased their service offering to include a wide variety of services in addition to trade facilitation. Although, limited man-hours forces trading companies to choose and allocate human resources carefully in order to reap the benefits of an increased service offering. However, choosing which services to offer is a complicated matter (Balabanis, 2005). Additionally, market and product diversification are prevalent among trading companies, which may improve performance for a trading company. On the same line of reasoning, the allocation of resources is crucial since product or market diversification does not automatically improve performance. What products and which markets to engage in thus becomes an important question and is a daunting task (Balabanis, 2001). Therefore, the source of competitive advantage and value creation logic for trading companies is not static and given, it is an ever changing process.

As noted by Low (2013) the only sustainable core capability of a trading company is its ability to adapt to the environment and to identify and grasp the sources of competitive advantages, regardless of its longevity. A possible way to respond to these changes could be to develop dynamic capabilities (Winter, 2003). The concept of dynamic capabilities corresponds with the characteristics of a trading company, as dynamic capabilities refer to the capability of undertaking changes successfully. This entails creating, extending or modifying the existent resource base to fit prevailing market conditions (Helfat, Finkelstein, Mitchell,

Peteraf, Singh, Teece & Winter, 2007). However, as noted by Winter (2003), there is a risk of exercising dynamic capabilities in excess, which might lead to an aggressive search of opportunities. In turn, this could lead to costs exceeding the benefits gained from novel ideas.

As trading in general is a volatile and dynamic business, constantly changeable strategies is a necessity (UNCTAD, 2013). Thomé and Medeiros (2016) state that trading companies' constantly changing strategies is affected by a variety of factors, such as industrial competitiveness, firm resources and capabilities, institutional conditions, or a combination of these factors. This type of flexibility requires a close coordination with the suppliers, and requires a strong integration of several activities within the supply chain. The responsiveness is dependent upon the firm's ability to leverage its activities within the supply chain in order to meet a client's requirements. Both the clients and the trading company need to be flexible and prepared to re-negotiate at all times (Fung et al., 2007). Therefore, relationship and trust becomes more important as you have little knowledge about the partner on the other side, especially when involving cross-national transactions. The importance and concerns of exporters' co-operative relationships with trading companies are highlighted in literature, as it is a difficult task for two individual entities to engage in such a relationship. Chintakananda, York, O'Neil & Peng (2009) highlight the risk of actors acting opportunistically in a relationship where both parties are mutually and equally dependent on each other; which is exactly the case of the exporter-intermediary relationship. Moreover, Pirrong (2014) acknowledges that opportunistic behavior by renegeing on existing contracts from both suppliers and trading companies has been prevalent in a wide variety of products during dramatic volatility. This has inevitably led to substantial financial losses for either of the parties involved.

Although trading companies possess valuable knowledge, they will always face the risk of being by-passed as the supplier and customer might create a direct linkage, rendering the role of intermediaries obsolete. This highlights the issues of how a trading company should relate to its value creation logic and business model configuration. Should they engage in more vertical integration to secure supply, should they diversify their products and markets or should they extend their service offering in order to attract suppliers and customers to make sure that their role as intermediaries is not diminished?

Research up till today has mainly viewed trading companies as a tool for export and as a facilitator of an internationalization process (e.g. Johansson & Vahlne, 2009). The research that do exist mainly focuses on the role and function of trading companies, and the research on strategical decisions made by trading companies are scarce. As trading companies in fact have strategic objectives of their own, it can be concluded to be a research gap in theory where research has failed to focus on trading companies' *raison d'être*. Therefore, there is an urge for more research on this topic in order to close the gap (Thomé & Medeiros, 2016).

1.3 Purpose & Research Question

The research field of International Business has to some degree neglected the facilitators of global trade, and this study aims to increase the knowledge and contribute to the research field by adapting the point of view of the intermediaries. This research further intends to aid trading companies in future decision-making regarding strategical decisions focusing on the value proposition offered by the trading companies. As the problem discussion indicates, the business of trading is very complex and the role of intermediaries is constantly under revision as there is an external pressure on the business model. However, there are potentially numerous options for trading companies to advance their rent seeking, both with regards to developing the current business model or reconfiguring it. This study aims to provide a roadmap for trading companies to remain competitive and assert their role in the future.

With the will to better understand trading companies, and with above stated facts in mind, the authors have formulated one main research question followed by one sub-research questions. The sub-research question is set out to facilitate and simplify the answering of the main research question. The main research question is as follows:

- *Do trading companies need to change their business model in response to a general trend of increasing transparency in international business?*

The sub-research question read:

- *How can trading companies identify and realize new business opportunities in order to increase their rent seeking?*

1.4 Delimitations

The study is based on Swedish trading companies, and in more detail, on a sub-region, namely the Gothenburg region. Accordingly, the study should be viewed as context specific as it is likely that both regional and local factors influence the companies under observation. On the other hand, it gives a comprehensive overview of how trading companies in this region operate. Furthermore, as all companies have their focus, or have had their focus, on forestry products, the industry specificity may limit the generalizability towards the niche sector of forestry products trading.

The study is also limited in time and as a consequence, all aspects may not have been covered. The cases were based on what changes that had been undergone in the past and were already concluded, which gives the respondents the benefits of hindsight. Still, the experiences are what constitute their knowledge base and thus shape the future for the companies.

The study is based on subjective measures and presupposes that what trading companies describe as added value for the clients is in fact valuable. Moreover, the study relies on the subjective answers by the respondents of how successful changes have been. Therefore, since the data is subjective from the point of view of the respondents, the objectivity of the findings is losing in scope. Nonetheless, the aim of this study is not to present a solution for trading companies, rather the purpose is to create a roadmap for the future, all taking departure from what resources and capabilities the trading company possess.

1.5 Research Outline

This thesis covers six chapters, including the introduction, and is outlined as follows:

Theoretical Framework

This chapter presents the theoretical foundation of the study. It takes departure from the resource based view, which then is further developed with the concepts of core competencies and dynamic capabilities. Business model theory is then presented so as to explain how resources could create value. An overview of previous research concerning trading companies is then presented. Together, they help generate a conceptual framework for how trading companies could advance their rent seeking.

Methodology

This chapter outlines how the study was conducted. In more detail, it presents how respondents were selected, how the interviews were conducted and how the analysis was performed. The chapter also outlines how the quality of the study was ensured during the project.

Empirical Chapter

This chapter presents the data that was gathered during the study. Mainly, it consists of the answers made by respondents during the interviews concerning how they perceive that their trading company creates value and how the company has changed over time. The data from the interviews were complemented with secondary data from various sources.

Analysis

This chapter reviews the findings in context of the theoretical and conceptual framework put forth in the theoretical framework. Various findings are compared and assessed with same frameworks.

Conclusion

This chapter summarizes and concludes the findings and insights that have been generated in the study. It answers the research questions and put forth managerial implications and brings light to topics for further research.

2. Theoretical Framework

In this chapter the relevant literature will be outlined. First, the resource based view of the firm will be presented, extended by the concepts of dynamic capabilities and core competencies. Second, the concept of business models and value proposition will be presented. Third, previous research on the topic of trading companies will be outlined, all rendering a conceptual framework for the basis of an analysis for how trading companies can enhance their rent seeking.

2.1 The Resource Based View

Jay Barney's (1991) work constitutes the foundation of the resource based view (RBV), where understanding the sources of sustained competitive advantage is explored from an internal perspective. In more detail, this entails the examination of the link between a firm's internal characteristics and performance. Wernerfelt (1984) makes a somewhat broad categorization of resources, where a distinction is made between tangible and intangible resources. Barney (1991; 1995) presents a narrower definition, where resources are classified into four categories: financial resources, physical capital resources, human capital resources and organizational capital resources. Financial resources include resources such as equity, debt and retained earnings. Physical capital resources entail physical technology used in the firm, plants and equipment, access to raw material and so forth. Human capital resources include training, experience, intelligence, relationships, judgment and insight of individual managers and workers in a firm. Lastly, organizational capital resources are defined to include, however not limited to, a firm's formal and informal planning, formal reporting structure, coordination systems, controlling and informal relationships within the firm.

A competitive advantage can be defined as being able to implement a strategy that is value creating, and not at the same time implemented by a competitor. A sustained competitive advantage is similar to the competitive advantage, but with the addition of competing firms not being able to duplicate these strategies. However, what is seen as a resource in one industry may very well become a weakness or an irrelevant resource in a new industry. If industries or industry settings are changing, a competitive advantage can quickly be overturned (Barney, 1991; 1995). For resources to develop into a sustained competitive advantage it needs to be heterogeneous and immobile; which necessitates that it is developed within the firm so that competitors cannot simply buy it on the market (Dierickx & Cool,

1989). Barney (1995) presents a framework to determine more in detail which resources can obtain a sustained advantage. For a resource to possess this potential, it has to be (1) valuable; (2) rare; (3) imperfectly imitable and (4) possible for the organization to exploit.

As the basic RBV only acknowledge internal resources, it fails to take potential external resource into consideration. Thus, Lavie (2006) builds on the RBV, and applies it to the network resources of interconnected firms. An interfirm collaboration can be defined as a “voluntary arrangement among firms that exchange or share resources and that engage in the co-development or provision of products, services, or technologies” (Gulati, 1998; Lavie, 2006). Lavie (2006) further argues that the RBV does not explain how firms embedded in multiple and frequent relationships gain competitive advantage in this environment. Thus it is an important aspect that should not be neglected, as research has shown that resources of interfirm interactions, so-called network resources, can have significant influence on firm performance (Gulati, 1999; Lavie, 2006). Moreover, a separation should be made between homogenous networks and heterogeneous networks. Partners in a homogenous network appropriate rents from accumulated and shared experiences with similar partners, whereas partners in a heterogeneous network appropriate rents from complementary resources, increased potential for growth and better opportunities for innovation (Lavie, 2006).

2.1.1 Network Capabilities

To what degree networks can be managed has been discussed frequently in academia, mainly because a network can consist of a myriad of firms, which is not controlled by any single firm. However, many scholars have adopted a view where networks in fact could be managed (Ritter, Wilkinson & Johnston, 2004). On the same line of reasoning, Foss (1999) argues that networks could be managed by adopting an RBV perspective. The concept of "network capabilities" should for that reason be brought into light. Network capabilities are those that arise when a firm interacts in a network, although, which still cannot be fully derivable to the capabilities of the focal firm (Foss, 1999). Foss (1999) argues that network capabilities are created via asset accumulation; meaning that when the focal firm interacts with other firms, assets such as reputation, mutual understandings and the undertaking of marketing efforts in general, could be generated. Because it is seen as a type of asset accumulation, it is considered to be both time consuming and costly. Other factors that play an important role in order to facilitate this gradual accumulation are knowledge-sharing, relations built on trust and

standardizations. The stock of network capabilities is then what may offer the focal firm a competitive advantage.

Ritter (1999) similarly tries to explain firm's successful behavior in networks, which is referred to as network competencies. The skill set needed for such an attribute is divided between specialist skills and social skills. The former refers to technical skills and knowledge of the counterpart and is much based upon experiential learning. The latter, social skills, include empathy, communication ability, self reflectiveness etc. Both skill sets are needed since an interchange between two firms include both a social and economic level. Ritter et al. (2004) argue that a firm that possess such competencies and know how to apply them, can view them as core competencies from which they can derive a competitive advantage. For the sake of facilitating a discussion later on, the competencies to manage networks will be simply referred to as 'network capabilities'.

2.1.2 Core Competencies

In dynamic markets, where capturing value and becoming an industry leader is increasingly connected to temporary settings; the criticality lies within the capability of creating products with irresistible functionality or, perhaps, inventing something that customers did not yet know they desired (Prahalad & Hamel, 1990). Performing such tasks is not easy, and should consequently be carefully nurtured and developed (Hafeez, Zhang & Malak, 2002). When a company can do something exceptionally well, and at the same time possess the capability of doing it more successfully than competitors over a long time, it could be considered to be a core competence (Gallon, Stillman & Coates, 1995). Core competencies are considered to be the collective learning within the organization, although the competencies may be fragmented and dispersed throughout a company. It is therefore of importance that senior management commit time to develop a corporate-wide roadmap of the future, establishing the aspiration of the competence building, which facilitates the possibility of quick adaption to changing opportunities. The aim of this roadmap should be to provide for a logic behind product and market diversification, on the basis of core competencies (Prahalad & Hamel, 1990). Core competencies should thus comprise the main focus for strategy at corporate level, as it is considered to be the origin of new business development and the determinant of future business directions (Prahalad & Hamel, 1990; Hafeez et al., 2002).

2.1.3 Dynamic Capabilities

Dynamic capabilities are a concept that has emerged from the resource-based view, and it has grown in importance for strategic management and within evolutionary economics (Johanson & Vahlne, 2013). Successful actors in the global marketplace have proven to be those firms that show well-timed responsiveness and have management with capabilities to effectively redistribute internal as well as external competencies. This ability to reinvent new forms of competitive advantage is referred to as dynamic capabilities (Teece, Pisano and Shuen, 1997). More specifically, Helfat et al. (2007) defines it as: “A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base”.

Teece et al. (1997) state that to what extent a firm’s competitiveness is eroded is dependent upon the stability of market demand, ease of replicability and imitability. In this regard, building upon a resource based perspective, vertical integration and diversification could be viewed as a mean to capture rent on firm specific assets. Hence, in an increasingly demanding environment, Teece et al. (1997) and Zott (2003) argue that dynamic capabilities may be a promising approach in order to gain competitive advantage and that it can have a positive effect on economic performance.

Dynamic capabilities can be an explaining factor behind change, a process which involves a firm’s system of evolutionary learning characterized by decision-making or problem solving activities (Winter, 2003; Zott, 2003). Typically, dynamic capabilities involve long-term commitment to specialized resources, and engaging employees full-time with development projects have proved to be the most prominent approach (Winter, 2003). As opposed to ad hoc problem solving, engaging in long-term development of dynamic capabilities can be costly and may sometimes result in little or no outcome. As Winter (2003) concludes, there are no general rules for riches, and dynamic capabilities are only a tool in a toolkit potentially contributing to a sustained competitive advantage. This is why there needs to be a sound equilibrium between how much resources are spent on trying to exercise dynamic capabilities, and the actual use the firm get out from said investments (Winter, 2003).

2.1.4 Learning and Governance Structure

Dyer & Singh (1998) acknowledge, much like Lavie (2006), the extensive potential benefits of engaging in interfirm collaboration, and that relationships foster potential relational rents that is not possible with arms-length relationships. Dyer & Singh (1998) suggest that knowledge sharing routines, effective governance and relationship specific assets are key in order to create relational rent. Alliances and networks should therefore be considered an option to generate a competitive advantage as they evolve the relationships beyond a simple market relationship to a deeper relationship (Dyer & Singh, 1998). Similar to Barney (1991), networks must be difficult to imitate if it is to generate a competitive advantage (Dyer & Singh, 1998). Kohtamäki (2010) argues that relationship governance structure is essential to facilitate interfirm learning. Relying solely on competitive bidding inhibits the partners to share information and thus prohibit learning. Complementing with social and hierarchical structure will positively influence the learning process of which trust and a feeling of shared purpose is the most important features (Kohtamäki, 2010). Jensen & Petersen (2013) also acknowledge the potential benefits of extending the relationship beyond an arms-length transaction. Still, the reward is not without risk and the result is highly affected by managers' risk perception, risk tolerance and ability to employ risk-reducing measures; and managers' capacity to expand such attributes.

Barkema & Vermeulen (1998) argue that learning is a function of experience, and the greater the experience, the greater the knowledge base and technological capabilities. All of which, from the point view of the focal firm, will enable inter-firm learning. Furthermore, the experience will drive the mode of which firms learn in new contexts. If a firm wants to appropriate new technological capabilities, it preferably do so by acquiring a firm or a part thereof. Contrary, if the aim is to exploit the resources and capabilities of the focal firm, the choice will fall on greenfield investment (Barkema & Vermeulen, 1998). Considering knowledge and experience as a driver, firms may use acquisitions to widen their knowledge base, which subsequently could be exploited by future greenfield investments (Vermeulen & Barkema, 2001). The acquisition mode offers the fastest results, however, bares the risk of overpayment and post-acquisition issues. On the other side of the scale, wholly-owned subsidiaries (WOSs) through greenfield investments requires the most time and technological know-how, meanwhile, offers a higher degree of control. In between is a joint venture (JV), which offsets many of the aforementioned risks, although instead brings forward the issue of

monitoring the partner. In terms of venturing into new lines of business, acquisitions and joint ventures are preferred over wholly owned greenfield investments by firms. As companies learn and gain experience from earlier entry modes, subsequent entries may thus be adapted to the specific contextual factors (Chang & Rosenzweig, 2001). Nadolska & Barkema (2007) point toward a learning bias in the choice of expansion; what has been proven to work in the past will likely be the preferred choice for further expansion in the future. This is also acknowledged by Chang & Rosenzweig (2001), who refer to it as path dependency.

2.2 Business Model Theory

The definition and conceptualization of business models are interpreted and used in a variety of ways. For the purpose of keeping the theories wide enough to be able to fit a wide variety of firms in different industries, although still focusing on a firm level, Osterwalder, Pigneur & Tucci (2005) propose the following definition: “A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm”. Simply put, a business model is the description of what a firm actually does to create and capture value. There are distinct pressures put on a firm’s business model such as competitive or regulatory pressure, changes in customer demand and technology developments. These factors shape the business organization, business strategy and the technology a firm possesses, all of which inevitably will form the business model. The aim is to link the activities within the firm, making sure that the pieces fit together (Osterwalder et al. 2005). Chesbrough & Rosenbloom (2002) suggest that a business model encompasses six functions which are as follows: identification of a market segment, definition of the value chain, a position within a network, a profit potential, a competitive strategy and a value proposition. Zott & Amit (2010) point towards a revenue model as an integral complement in such a design, as it aims to appropriate a share of the value created. Similarly, Chesbrough & Rosenbloom (2002) refers to the architecture of revenues as a critical tool for capturing value.

Teece (2010) argue that there is a fundamental shift on a broad scale with regards to business models inasmuch it is becoming more customer driven rather than supply driven, focusing on offering solutions rather than products, thereby altering the value proposition of a firm. Zott, Amit & Massa (2011) continue on the same line of reasoning and point towards the value creation as the main part of a business model. Stabell & Fjeldstad (1998) have developed a

framework for value creation logics in firms through different value configurations. The value configuration models are derived from a value chain perspective, which by and large is supply-driven. The three models identified consist of a value shop configuration, a value network configuration and a value chain configuration. In this section, an emphasis will be put on the first two configurations.

2.2.1 Value Network Configuration

Today's business society is characterized by an intrinsic web of potential relationships between organizations, individuals and actors. Linking these in space and time is a value creation logic enabled through intermediating technology. The main activity is thus mediating, and the firm aims to link parties that complement each other within the networks. The mediating firm thus establishes, monitor and include or exclude indirect or direct relationships that exist within the network (Stabell & Fjeldstad, 1998).

From the point of view of the focal firm, it does not exist a supplier nor a customer; only clients to whom value is created. The value of the network for any potential client is dependent upon the size of the network, its capacity and opportunities. However, scale and capacity is not only a driver for value, but also for costs. The main activities are network promotion, contract management as well as performing the services itself and maintaining the infrastructure for being able to do so. The linkages within the network must reflect the reality and be adjusted accordingly between clients, both geographically and of respective capacity. In order to be able to adequately assess the individual parties in the network, interfirm learning is of crucial importance (Stabell & Fjeldstad, 1998). As a consequence of above reasoning, Stabell & Fjeldstad (1998) further argues that managing networks is of crucial importance.

2.2.2 Value Shop Configuration

The concept of value shop configuration takes departure from a customer driven model, although derived from a value chain perspective, where focus is put upon solving a need for a client or a customer. As such, the resources used and activities performed may vary as the need differ on a case by case basis. As the basis is the need from a client, the value is created by solving the problem at hand. Key features for being able to offer value are information asymmetry, configuration to deal with unique cases, iterative and reciprocal activities,

different specialties in activities and leverage of expertise. Therefore, employees of firms with a value shop configuration are often experts in their respective fields. The main activities are to identify the problem, identify how to solve the problem, choosing the solution, implement the solution and evaluate the outcome (Stabell & Fjeldstad, 1998). Gottschalk (2005) recognizes that the driving feature in problem-solving circulates around its knowledge intensive nature, thus, the knowledge base of the firm is the most critical resource for a firm applying a value shop configuration. Woiceshyn & Falkenberg (2008) extend the reasoning by adding value of networks, technical systems and managerial systems as important resources. The challenge is to align the resources to a wide variety of different cases of problem-solving. Consequently, the resources must be bundled, unbundled and adapted on a case by case basis, for which acquisitions of external resources could prove a vital tool. There is an inherent path dependency among firms applying value shop configurations to not proceed accordingly. Rather, many firms are bundling their resources and looking for appropriate problems to apply the resources and capabilities on. Sheehan (2002) states that it is not necessarily the value creation that drives the value in knowledge-intensive firms; it is largely how the potential client views the ability of the focal firm to solve a problem that determines the value of the offering and the competitive advantage. In that vein, the reputation of the firm is of uttermost importance in order to increase value.

2.2.3 Value Proposition

Jensen & Petersen (2014) argue that a demand driven model, as opposed to a value chain driven model, could act as a complementary logic to understand how service firms create a competitive advantage. Jensen & Petersen (2014) thus introduce the concept of value proposition, which represents the demand side whereas the value creation logic, comprised of the capacity and capability of a firm, represent the supply side. In that sense, it is the value proposition that is the driver as it is the clients that decides upon the value of the offering. There are two prerequisites for a service firm to generate economic rent. First, the firm must have superior capacity or capabilities over those firms that are competing with similar offerings. Second, the firm must be able to capture the created economic rents.

Jensen & Petersen (2014) acknowledge five different value propositions for a service firm, which are as follows: analytics services, facility services, entertainment services, logistics services and network access services. For the scope of this paper, three will be outlined,

namely analytics services, logistics services and network access services. Analytics services focus on identifying clients' needs or problems and solving them. Thus analytical skills and knowledge about the counterpart are the main resources and capabilities. In the case of analytics services, it is rather a question of competencies than of capacity. Logistics services include safe storage and transportation of goods in time and space. As such, it is driven by the allowance of capacity utilization. Network access services are driven by the capacity of extending the network and capabilities of ensuring the quality of the members. This entails screening capabilities so as to avoid adverse selection. There are elements of economies of scale as the network, on the demand side, increases in value with increasing size. In addition, a network is more attractive from the point of view of a client if the network is far-reaching rather than local. Moreover, a business model can encompass more than one value proposition, in fact, a firm that applies a single value proposition is rare.

2.3 Previous Research

2.3.1 The Extended Role of Trading Companies

The profits generated by trading companies are based on margins, which should cover the costs for wages, organizing and identifying possibilities for intermediation as well as supervision. The profitability is in turn driven by volume and not necessarily the underlying value of the product (Casson, 1998). Trading companies show tendencies to deviate somewhat from this pure trading company business model and have ventured into other activities. Consequently, there is a distinction between “pure” trading companies and “hybrid” trading companies. The distinction is most notable among trading companies that to a large extent have invested in production. There is also a tendency for trading companies to either specialize in products or regions. Therefore, trading companies acquire and possess substantial product- and market knowledge (Jones, 1998). This knowledge could to a large degree be embedded in one another, and it is difficult for a trading company to assess its knowledge base (Greenhil & Miller, 1998). Moreover, trading companies are rarely static and they do reinvent themselves and as a consequence, they might look quite different from generation to generation. It is correspondingly hard to pin-point exactly what factors that account for why a trading company is successful. The ability and flexibility to act on new opportunities and their ability to leverage their main resource, knowledge, has been brought forward for explaining the cases of successful trading companies (Jones, 1998).

The global business landscape is changing in a rapid pace. Some drivers behind the changes are among others an increased market transparency, adaption and commoditization of improved ICT and a deconstruction of integrated value chains (Low, 2013). Globalization has boosted overall trade in absolute terms (Baldwin, 2006), however, as trading companies to a large extent are dependent upon price differences and asymmetric information; increasingly transparent markets have contributed to smaller margins for trading companies (Meersman et al., 2012; Pirrong, 2014; STSA, 2015). Concurrently, as more commodity producers as well as end-users try to capture more value of the value chain, competition is increasing in the commodity marketplace as former clients turn into competitors. In order to capture value, an ability to identify and manage new opportunities is necessary for trading companies (Meersman et al., 2012). Following, three different prevalent ways, in which a trading company can advance their rent seeking, will be presented.

2.3.1.1 Vertical Integration

As margins on pure arbitrage are under pressure, many trading companies have more actively been involved in vertical integration in order to increase the captured value in the value chain (Pirrong, 2014). Hennart & Kryda (1998) offers the auxiliary argument of trading companies being under the threat of extinction, thus, owning an asset for production strengthens the trading company's ability to stay in competition as it secures supply. Vertical integration can be defined as being upstream, midstream and downstream. Upstream vertical integration occurs when a company starts producing its own supply. Midstream integration by trading companies comprise of investments in logistical assets such as storage facilities and terminals. Downstream vertical integration is concerned with how far the trading company should go in terms of the commodity's value chain; i.e. should they refine the commodity themselves and sell it to end-customers. Investments in midstream activities are the clear preference among trading companies. There has also been a growing trend of investments in upstream activities, such as production facilities. Noteworthy, there is a variety in terms of vertical integration within firms, among firms and across industries (Pirrong, 2014).

Vertical integration is not a new phenomenon among trading companies. Historically, trading companies have undergone vertical integration, however, never at the accelerated pace as during the last decade. As vertical integration is resource intensive, an off-take agreement may fulfil similar purposes as vertical integration, but offset the extensive resource commitment. An off-take agreement can still secure supply of input, and is a prevalent

approach among trading companies. Off-take agreements are contracts for a predefined volume or share at a predefined price over a predefined time and can be considered to be a form of quasi vertical integration. (Pirrong, 2014)

2.3.1.2 The Service Offering

On a general note, trading companies offer services that are closely linked to the firm's specific environmental and operational circumstances. In more detail, trading companies offer two types of services: transaction-creating services and physical-fulfilment services (Balabanis, 2000). Transaction-creating services include activities that generate and stimulate foreign demand. Physical-fulfillment services are those activities that process foreign orders and satisfy foreign customers (Bello & Williamson 1985; Bello, Bronislaw & Verhage, 1989). The trading companies' exporting role (broker or re-seller), number of employees, numbers of countries served, numbers of suppliers, business experience and amount of undifferentiated products carried are all found to have a direct impact on the service offering behavior, and by that the willingness and ability of the firm to offer certain services (Balabanis, 2000; 2005). Similarly, if the firm lacks certain resources and capabilities, it may discourage or prevent the firm from diversifying into new, untried services (Balabanis, 2005).

According to Balabanis' (2000; 2005) research, trading companies show a clear trend towards physical-fulfilment services such as 'provision of cost, insurance & freight quotations', 'freight forwarding', 'export packaging', 'quality control of exported goods', 'financing and credit' and 'warehousing', as they are being offered on a frequent basis. Identified transaction-creating services in the studies were 'selection of foreign distributors for suppliers', 'development of export marketing strategy for suppliers', 'advertising and promotion', 'international market design', 'negotiation collaborative agreements on behalf of suppliers', 'product research and design', and 'training of distributor's personnel'; although, these services were only occurring on an occasional basis (Balabanis, 2000; 2005). The trend of increased service offerings is clear, as the frequency of services offered increased between the study conducted by Balabanis in 2000 and the revisited study in 2005. Generally, trading companies can be sorted into three categories: those who focus on physical-fulfilment services, those focusing on transaction-creating services and those applying a balanced mix of the two. The most common approach by companies is to offer the balanced mix (Balabanis, 2005). The main pattern identified of the service offering behavior of trading companies could be a result of an accumulated learning process, a collective wisdom within the sector as well

as a response to outdated rules of behavior (Balabanis, 2000). Li (2004) argues that technological improvements have eroded the basic network logic of trading companies. Today, suppliers and buyers are able to locate and connect each other and commit to deals instantaneously. Moreover, information regarding shipping routes and documentation routines are in many cases provided online. Consequently, some idiosyncratic knowledge has thus turned into easy accessible information. Therefore, trading companies have to offer complementary services in addition to the linking if they are to sustain according to Li (2004).

2.3.1.3 Product and Market Diversification

Adding new services refers to one type of diversification. Balabanis (2001) present two other strategies for diversification, product diversification and market diversification. The attention towards such a strategy is mainly inspired by the success of Japanese trading companies in the 1960s and 1970s. Since trading companies have no or little interest vested in production, they could with relative ease move between product categories. Carrying differentiated products also constitute a safeguard against a particular industry's volatility. The same reasoning applies to a market diversification, increasing number of markets confer a safeguard against downturn on one market. In addition, trading companies always face the risk of being bypassed by the supplied, meaning that a supplier may, after the trading company has established a viable business in the market, sell directly to that exact market. Regardless of which diversification strategy is being pursued, it could offer a substantial growth potential. (Balabanis, 2001).

2.4 Conceptual Framework

Taking departure from a pure trading company trading specialized products on specialized markets as defined by Jones (1998), the value creation logic corresponds to the network configuration as per Stabell & Fjeldstad (1998). As clients are offered access to the trading company's value network, the value proposition corresponds with the network access as per the concept of Jensen & Petersen (2014). Consequently, the required capabilities should correspond with the same logics. As argued by Foss (1999) and Ritter et al. (2004), the key capability for a network-based firm is the capability to manage networks. Still, it is possible to alter the value creation logic and the value proposition, which has been prevalent among trading companies. As there is no literature to the knowledge of the authors summarizing the total array of options being feasible for trading companies, the conceptual framework is set out to give an overview of what activities a trading company possibly could engage in, and

how to approach said changes using a resource based perspective. With the theoretical framework as a stepping stone, a trading company can be considered to have three, not mutually exclusive, options in terms of how to advance their rent seeking. The three options stemming from different streams of research identified by the authors are:

1. Venture into new products and/or markets
2. Increase the service offering
3. Vertical integration

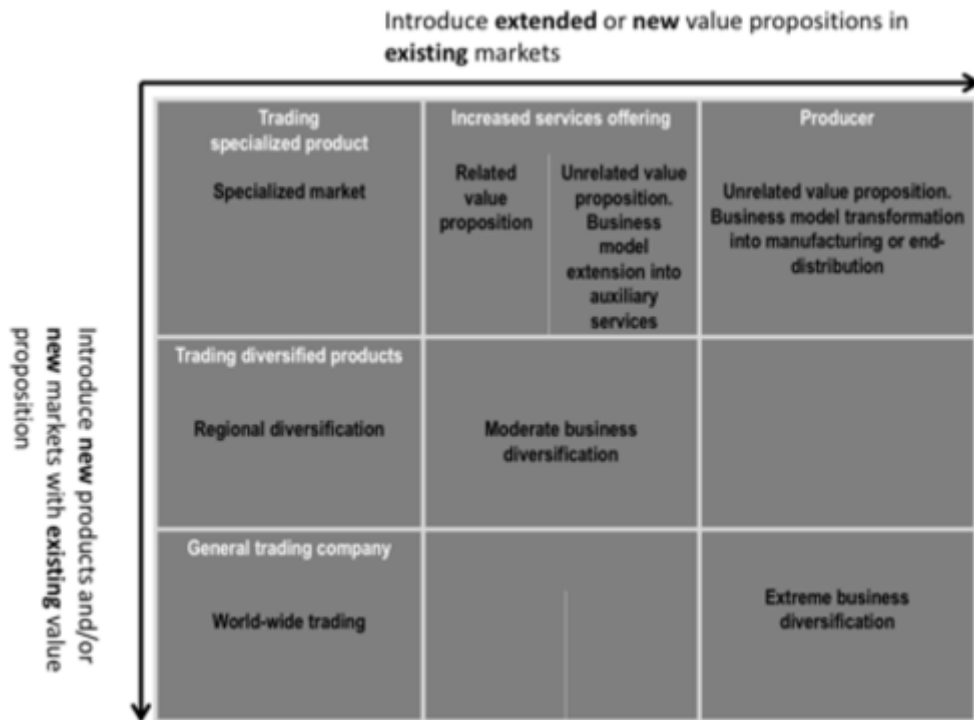
Based on the business model theories presented in the theoretical framework, the authors suggest to additionally apply a concept of related and unrelated activities for trading companies. What are related and unrelated activities will be determined on the basis of the existing value proposition, based on its importance for the creation of value, with the starting point of a pure trading company. A trading company is in essence a service firm, and by definition demand driven from two sides; their suppliers and their customers. Applying the concept of value proposition is relevant for this very reason, as it focuses on the demand side rather than the supply side for value creation. Thus, resources and capabilities required to offer the different value propositions take into account the service based logic of the firm. Moreover, the value proposition could be extended in order to advance the rent seeking without having to reconfigure the business model. Related activities are those that are in accordance with the current value proposition, access to the network, held by the pure trading company. Conversely, unrelated activities are those that comprise a different value proposition. The reasoning behind such a division is the requirement of capabilities for a value proposition. As an example, venturing into trading a new product or a new market is to be considered as related activities, as they are based on the same value proposition, network access; only with a different product or a new market. Vertical integration should be considered as an unrelated activity, as investing in physical capital resources is not related to the value proposition of a pure trading company and confers a drastic change of the business model.

The concept becomes more nuanced when applying it on service offerings, as it can, depending on what type of service it is, be considered as either related or unrelated. Based on what services trading companies offer, as identified by Balabanis (2000; 2005) and inspired

by Jensen & Petersen's (2014) categorization of value propositions, the authors group 'financing and credit', 'insurance', 'negotiation collaborative agreements on behalf of suppliers' and 'selection of foreign distributors for suppliers' as related services as they are based on a network access logic and considered as an extended value proposition owing to the different nature of the networks. 'Development of export marketing strategy for suppliers', 'advertising and promotion', 'international market design', 'product research and design', 'quality control of exported goods' and 'training of distributor's personnel' are, on the other hand, unrelated services as they belong to a value proposition dealing with the offering of analytics services. Logistical services are a set of services that in the case of trading companies is comprised of 'provision of cost, insurance & freight quotations', 'freight forwarding', 'export packaging' and 'warehousing' as per Balabanis (2005) definitions. These services are therefore to be considered as unrelated, as the value proposition deviates from the network access logic.

Applying the three viable alternatives for a trading company to a conceptual framework, with value proposition as the main determinant and with Ansoff's (1957) product/market matrix as a stepping stone, the following matrix can be formulated as per Figure 1. On the vertical axis, market and product diversification leveraging the value proposition of a pure trading company is depicted. On the horizontal axis is increased service offering using an extended or different value proposition. Both a static and dynamic perspective can be deduced from the model. The static perspective depicts where the trading company is located in the model currently, and as a firm can differentiate their value proposition, products and markets, the model can be used to describe such a dynamic process as well.

Figure 1. Diversification Options for Trading Companies



Source: Compiled by authors

Owing to the knowledge intensive nature of trading companies (Jones, 1998), knowledge could be argued to be a trading company’s main resource in order to deliver the value proposition. Therefore, it could be assumed as per the RBV by Barney (1991) that leveraging existing knowledge within the firm could offer a sustained competitive advantage owing to the specificity in a firm’s resources. However, as noted by Woiceshyn & Falkenberg (2008), acquisition of external resources could function so as to extend the value proposition in a more efficient manner. Another approach could be to find complementary resources through partnerships as suggested by Lavie (2006) and Dyer & Singh (1998). The notion of dynamic capabilities suggested by Teece et al. (1997), and which Helfat & Petraf (2003) views as an extension of the resource based view, could offer some guidance on how to succeed with changes. In addition, Jensen & Petersen (2014) argue that the issues of changing a value proposition rather could be an issue of capacity than of capabilities.

2.4.1 Vertical Integration

Vertical integration is, as earlier stated, highly resource intensive. Capital endowments might be the first thing that comes to mind, although human capital resources are not to be

neglected. In terms of upstream integration, going from being a trading company of commodities to actually produce commodities will necessitate a complete different set of knowledge and capabilities, as production is to be considered as unrelated in relation to a pure trading company as it deviates from the business model. The same reasoning applies to some extent to midstream and downstream integration as well, as they require a different set of resources and capabilities. A way to circumvent this issue of lacking knowledge, resources and capabilities could be to adopt Lavie's (2006) framework of shared resources, where the trading company in this case could produce rents from complementary and shared resources stemming from a heterogeneous partnership. On that note, long off-take agreements can in accordance with Pirrong (2014) be considered as quasi vertical integration. It could function as a viable tool for enhancing the value creation as it could facilitate a channel for knowledge transfer. Again, this could be motivated by Dyer and Singh's (1998), Lavie's (2006) and Kohtamäki's (2010) framework of partnership and how relationships and the exchange of resources can enhance rent creation. Yet, bearing in mind that a firm's resources and capabilities influence the strategy, quasi vertical integration might not be a viable option. There are differences between firms such as size, experience and risk willingness, which will affect the ability and willingness to enter into long-term partnerships or asset endowments. Moreover, it is not necessarily a wishful development for trading companies as it deviates from the value proposition of network access. Some firms might want to stick with what they have done and are currently doing. Therefore, sourcing strategies could be expected to differ from trading company to trading company.

2.4.2 The Service Offering

Increasing the service offering could to a large degree stray away from the value proposition of providing access to the network, as some services are defined as analytics services or logistics services. Regardless of which, increasing the service offering is resource intensive, especially with regards to human resources. Expertise, experience and knowledge are crucial resources for being able to offer new services. Even more important is the availability of man-hours as new services require the input of personnel (Balabanis, 2005), and similar to Jensen & Petersen (2014), a value proposition is highly dependent upon capacity. Still, there is a possibility to make use of external resources through partnerships (Lavie, 2006). Thus, additional services could be provided by making use of external resources, either through collaborative partnerships, JVs or acquisitions. This points to the strategy of forming the

resources of a firm to fit the problems to be solved, rather than looking for problems that could be solved using existing resources as suggested by Woiceshyn & Falkenberg (2008). Barney (1991) argues that a firm can acquire new knowledge for a superior value offering, still, extending the resource base requires time. The authors consequently suggest that trading companies may follow an evolutionary path by, first, increase the service offering close to their core services. As per the value proposition; financial and insurance services would be closest at hand as it builds upon a network access logic. The offering of unrelated services using existing resources or by obtaining external resources would therefore be added later. Some unrelated services may still be more feasible than any other activities given the resources and capabilities of a firm. Continuing on the reasoning by Barney (1991), firm specific resources may be developed into a sustained competitive advantage. Combining this with the notion of dynamic capabilities by Teece et al (1997), resources may be better utilized in an extended or new value proposition than by using the same resource for an existing value proposition.

2.4.3 Product and Market Diversification

Knowledge is crucial in terms of product or market diversification. As a prerequisite, a trading company must possess both product knowledge and market knowledge. In order to leverage the existing market knowledge, diversification of products is needed and reversely, if product knowledge is to be leveraged, a market diversification is needed. Therefore, identifying what knowledge is the most valuable resource is of utmost importance. According to Balabanis (2005), diversification is resource constraining, and well apt trading companies might be better off sticking to its original products and markets. Furthermore, the respective knowledge could be embedded to a greater degree than what is perceived (Greenhill & Miller, 1998), which complicates matter further as the market knowledge might be tied to one product and vice versa, which is not easily discerned. In order to be able to diversify using internal resources, it is reasonable to assume that resources must be allocated to the cause and thus affect other activities. Given the knowledge intensive nature of trading operations, developing the proper capabilities in-house does not always have to be the only viable option. If available financial resources are at hand, hiring new personnel or acquiring a company with a homogenous business model could be a suitable alternative for product or market diversification. Both ways of diversification can be considered to advance the rent seeking of a trading company's main resource, namely, knowledge.

3. Methodology

This chapter provides an overview of how the study was conducted. It will describe the choice of research methods and present how data was gathered and analyzed. It will also relate the study to the concept of trustworthiness.

3.1 Research Approach

This study aims to explain how a trading company can adapt to remain competitive in an ever-changing environment. More precisely, how can they adapt to an environment where previous and current value propositions are decreasing in value as a result of increased global connectivity and transparency. This implies that there is a changing process among trading companies, and the study aims to answer how trading companies can respond to these changes.

Most research on trading companies has focused on the role of trading companies, rather than how the role is developed. As there are several opportunities for a trading company to advance their rent seeking, a qualitative study could offer more nuanced findings than a quantitative one in accordance with Bryman & Bell (2015). Quantitative research methods are akin towards theory testing and mainly focus on “what” and “how many” (Bryman & Bell, 2015), which is not applicable for the study in mind. Qualitative research methods are well apt to answer the questions of “how” and “why”, which will give a deeper understanding of the subject under investigation as it is theory building as opposed to theory testing (Bryman & Bell, 2015). In this thesis, the question of “how” is in focus and the “why” acts as a describing factor for the cases under study. Bryman & Bell (2015) do, however, highlight the risk of subjectivity in a qualitative study, and the authors have kept this in mind in order to ensure that the evaluation is conducted as objectively as possible. Moreover, as a quantitative study generally necessitates a better understanding and knowledge concerning the specific topic (Jacobsen, 2002), this would motivate the qualitative approach further. In addition, qualitative research methods aim at describing the reality and the processes (Yin, 2014), which fits well as the aim of the research is to find and identify options that exist for trading companies and how to pursue them. Therefore, a qualitative approach was chosen.

The design of this study has mainly an explorative approach, with some descriptive influences. As the study intends to understand how trading companies could reinvent

themselves, an explorative approach would facilitate the understanding of differences and similarities within and between firms. Saunders, Lewis & Thornhill. (2007) highlight that an explorative study enables the discernment of relationships between different variables. As such, the results are not in any sense predefined, it is indefinite until all data is gathered and analyzed. Still, there will be influences of a descriptive approach as key variables, themes and problems will be explained and outlined.

There are several different qualitative research methods, and as the study intends to discover the reality, a case study approach was adopted. It allows the researcher to investigate a current phenomenon existing in the real world, in other words, a case (Yin, 2014). This study applied both an inductive and deductive angle as a conceptual framework based on literature was used as an entry point for data collection. The conceptual framework was created on the basis of giving the authors a better understanding of the subject, which according to Ghauri & Gronhaug (2005) is a prerequisite for qualified research. The data was used to critically assess said framework and to develop a new framework for context and factor specific options for Swedish trading companies. Therefore, the conceptual framework was re-conceptualized based upon the empirical findings. Bryman & Bell (2015) refers to this process as a sensitizing concept which evolves during the course of data collection. The study involves a deductive approach, the testing of the conceptual framework as well as an inductive approach, the development of a new conceptual framework based on the empirical findings.

3.2 Research Design

According to Bryman and Bell (2015), a research design provides a framework for how data should be collected and analyzed. The framework is moreover set out to generate evidence that is suited to a certain set of criteria as well as the research question formulated by the authors; and the choice of framework is important in order to ensure good quality of the research.

3.2.1 Data Collection Method

To ensure that the research is conducted in a qualified manner it necessitates a well thought-through data selection process. The underlying data in this report stem from both primary as well as secondary data. The secondary data is mainly used in the background chapter, problem discussion and the theoretical framework; where the authors have utilized news

articles, peer reviewed articles, industry reports and literature to collect data. Secondary data, consisting of annual reports, company presentations and company web pages was also incorporated in the empirical section as it provides for a deepened foundation where the authors saw it fit to add some additional information. Secondary data was also utilized to verify certain responses from the respondents, such as products traded, markets served and services offered. However, the main data presented in the empirical chapter is based on primary data, collected via the conducted interviews. Jacobsson (2002) highlights the advantages of utilizing personal interviews for acquiring empirical data, as it allows the authors to tailor the collection of data to the research question.

3.2.2 Research Unit and Sample

It is mainly regarded that a qualitative case study is difficult to generalize, since the basis for conclusions is drawn upon a limited sample size and it is problematic to determine how one case could be applicable to any other case (Bryman & Bell, 2015). Jacobsen (2002) suggests that a case study is most suitable when the sampling size consists of five to ten respondents. Therefore, in this qualitative case study, the authors studied five companies on a firm-level in order to broaden the sampling, rendering a multiple case study design. The advantages of basing research on several cases are that it provides the authors with the possibility to understand how different factors from one case may appear in another (Jacobsen, 2002; Saunders et al., 2007). Thus, the authors believe that this will allow for broader, more generalizable and nuanced conclusions.

A common issue in a qualitative study is the lack of transparency, such as in how the respondents were selected (Bryman & Bell, 2015). Therefore, the authors outlined a set of criteria for choosing the respondents. As trading companies were the types of company that was to be researched, that was set out as the first criterion. In order to reduce variables and facilitate comparability, the second criterion was to study only Swedish trading companies based in Gothenburg. Consequently, removing cultural and context specific variables. A third criterion was that they should trade similar products, hence, the choice fell on companies having a product portfolio in forestry products. Swedish trading companies are large actors on a global level within this industry. The fourth and last criterion was that the respondents from each respective company had to be on a managerial level with insight in strategic decision making. Moreover, all respondents have several years of managerial experience, making them

apt to answer questions regarding managerial issues. The potential respondents were contacted initially via an email describing the authors' intentions and research topic.

3.2.3 Interview Method

Personal interviews have several advantages over for example standardized surveys. One advantage is that it offers the authors a great flexibility, as it allows for possibilities to follow up on ideas, but also to ask follow-up questions immediately, which may enhance the understanding of a statement. It further allows the authors to go deeper into motives and sentiments of the respondent (Bell, 2000). However, Bell (2000) highlights the risk with personal interviews, as the risk for interviewee bias is high as the data is generated through the eyes of the respondent. On the same note, Jacobsen (2002) brings forward a concern regarding the interviewers, as it is impossible for a researcher to have a completely open mind, which inevitably will result in some aware as well as unaware limitations.

In total, five face-to-face interviews were conducted with respondents based in Sweden. Interviews in a qualitative study is generally less structured than those conducted in a quantitative study, as it has more focus on generality and the interviewee's point of view. Thus, qualitative interviews can take the form of unstructured or semi-structured. If the researcher has a clear view of which specific topics are to be studied, then a semi-structured approach is preferred over the unstructured. In a semi-structured interview, the interviewers have a list of what specific questions should be answered, yet, still offering great leeway in how the interviewee can answer. A specific interview guide in a semi-structured approach moreover simplifies the cross-case comparability in a multiple case study (Bryman and Bell, 2015:480). As the authors sought deep and thorough answers within a specific topic, but at the same time sought to maintain cross-case comparability, the semi-structured approach was adopted. The authors decided to limit the number of questions, in order to make the cases even more comparable. The questions were still rather "open" in their nature, allowing for open and elaborated answers. By adopting this design, the authors hoped to increase the possibility of stumble upon information that perhaps would not have come up if the questions would have been more restricted in their nature.

An interview guide was compiled before the interviews, based on the presented problem discussion and theoretical framework. This facilitated the formulation of better and more

relevant questions, which in the end helped form an answer to the research question. The interviews were conducted in Swedish, and both authors were present at all interviews. In addition, the respondents were handed the questions beforehand, allowing them to reflect upon the topic and prepare before the interview.

The interviews ranged in time from 1 hour and 15 minutes to 2 hours. Four of the interviews were audio recorded using two audio recording devices, in case of technical failure to one. One of the interviews was conducted without recording devices per the request of the respondent, therefore, handwritten notes were made, which subsequently was summarized by both authors. According to Bryman & Bell (2015), it is not uncommon that some individuals will reject to be recorded, and that the interview should proceed as insights still can be generated. In addition, all respondents were offered anonymity. All electronic files were safely stored in a password protected database so as to ensure the integrity of the respondents. Furthermore, files were named using codes only known to the authors to maintain the confidentiality of the respondents.

3.2.4 Data Analysis Method

After each recorded interview a transcription was made, which according to Bryman & Bell (2015) simplifies and allows for more thorough, as well as repeated, examination of the answers. Bryman & Bell (2015) moreover highlight the benefits of making the transcriptions shortly after each interview, as it permits for an ongoing analysis that produces insights to interviews done at a later stage. Therefore, each interview was transcribed within 24 hours after completion. When all data was collected and transcribed, it was then combined in a database where each respondent's answer was placed under each respective question and under different color coding. This facilitated the possibility to see differences and similarities between the respondents under each question, in combination with company specific variables. Each question was then analyzed first, in isolation, and second, in combination. The result of this process was then matched with the theoretical framework in general and the conceptual framework in specific, forming the empirical chapter. Memorable and representative quotes were translated into English from Swedish.

3.3 Qualitative Assessment

Following, an assessment was conducted to determine whether or not this study can be considered to be valuable and of good standards. Many researches claim that the underlying ideas behind reliability and validity are based on quantitative research, and thus not fully applicable in a qualitative study. Some researches therefore propose the use of alternative approaches in qualitative studies (Bryman and Bell, 2015:51). The approach applied in this report is Lincoln & Guba's (1985) ideas of assessing a study based on trustworthiness. Trustworthiness deals with the question of whether or not the study is conducted in a credible, dependable, transferable and confirmable manner. The authors increased credibility as the empirical findings was shared with the respondents, allowing them to verify the recorded data. To ensure dependability, the authors saved the transcribed records as well as the recorded tapes from each interview, in order to make them available upon request and open for scrutiny. However, to maintain the anonymity of the respondents, such a request must be approved by the respondents. By adding more context and "thick descriptions" in the database of empirical data, transferability can moreover be enhanced as a reader then can make their own assessment of the cases into other contexts (Bryman & Bell, 2015). As the authors have such a document available upon request, the possible transferability of the study is enhanced. As it is difficult to achieve complete objectivity, confirmability can be said to essentially try to ensure that the researchers have acted in good faith, and not been too subjective (Bryman & Bell, 2015). The authors have kept this in mind, thus, decreasing the risk of subjectivity in the study.

4. Empirical Chapter

This chapter will present the empirical findings from five Swedish trading companies and their respective change process. The findings consist mainly of data gathered through interviews, although secondary data will also be incorporated in order to verify statements made by the respondents. The empirical chapter is structured so as to bring light to findings in relation to relevant theories.

4.1 The Current Role of Trading Companies

One of the most important value drivers for trading companies, as identified by Respondent A, B, C and D, is their ability to constitute a link between two clients with whom they have relationships with. Another major scheme running through all the companies is their view on how they create value for clients; namely, by solving problems. All the companies acknowledge that they perform a task which a client is unable to perform due to either lack of resources, capabilities or willingness. Respondent A defines their value creation as follows:

“A lot is to solve problems. A lot is to enable the producer to solely focus on production and for us to solve the rest.”

There are also differences between products and markets and the element of problem solving differs depending on market conditions, maturity and stability. Respondent C and E state that the value offered by them increases in recession, and all respondents acknowledge instability on markets as a driver for value creation. One example of staying active in an unstable market is to take on a larger degree of risk, as noted by Respondent C. This is the clear trend in China, where some previous clients chose to do business without utilizing trading companies. However, as the environment has become more uncertain in China, many of the producers no longer want to take on the increased credit risk, and therefore, they transfer the risk over to Company C. Still, Respondent D argues that unstable and underdeveloped markets are not a prerequisite for creating value, and that they rather aim to develop with the clients and the markets. As markets and clients evolve, they look for other aspects to create value. Instead of leaving the market, they adapt their offerings to the client. In addition, the sheer complexity of the network of potential buyers for a producer is too great whether or not markets are mature or underdeveloped. As an example, Respondent D mentions that the number of actors purchasing paper is increasing in a rapid pace; whereas they were counted in thousands

before, they are counted in millions today. Identifying a buyer for a product is not the problem, the problem is to identify the right buyer and maintaining a relationship with same; a task a producer is unable to perform according to Respondent D. In addition, for maintaining a relationship, a trading company has the responsibility to filtrate information and bridge cultural gaps according to Respondent C.

All respondents note that the value offering is a self-regulating mechanism. If a trading company has no value to offer, it will not be in the value chain, nor should it try to be. In terms of what products are being traded, Respondent D argues that more value can be added if the product is more complex. On the same line of reasoning, the respondent also states that the value added is high when trading a “bad” product, since it will be harder to sell. Respondent B acknowledges the same value added perspective in terms of “bad” products, which is exemplified by second grade paper, where Respondent B perceives their role to be of higher value to the producers.

4.1.1 Vertical Integration

All respondents noted that their respective company owned little or no physical assets. Although four out of the five companies had some experience from vertical integration. For Company A and D, owning little or no physical assets is considered to be an active strategy as flexibility is believed to be impossible to achieve when heavy physical assets in vertical integration is present. The same, or similar, sentiment was prevalent among all companies under observation.

Respondent A, C and E do see some advantages as well with vertical integration, however, as these investments generally require considerable amount of capital, they are rarely an option. Respondent A argues that owning, for example, a packaging unit or a conversion line are relatively cheap investments, which still can add value. Both are investments that Company A has done. Respondent C argues that owning production factories are viable options if the necessitated capital endowments are low. As an example, a bioenergy factory is considered as a relatively cheap investment, whereas a pulp factory would be much more expensive as it is far more complex. Respondent E follows the same argumentation, and state that if they would engage in vertical integration in the future, they would go towards downstream integration in for example a wholesaler. This type of investment would be rather cheap, but could still add

value in the value chain, similar to the reasoning by Respondent A. Respondent C states that it sometimes can be rather arbitrary in terms of what type of vertical integration approach that is chosen. It depends on how the business idea is presented by a potential partner. If the supplier only needs a contract in order to get financing from a local bank, an off-take agreement could be the choice. If a supplier on the other hand presents the idea at an earlier stage, they might be interested in offering a JV setup. Furthermore, an off-take agreement is in fact by some companies seen as an ‘ownership-like’ arrangement. Respondent A state that taking on a long-term off-take agreement can be seen as another type of ownership as the commitment is extensive, sometimes as long as ten years. In that way, the company becomes rather locked to one supplier. Respondent E highlight the negative aspects of this, as they in this type of arrangement are forced to sell products, and may be forced to do so at a loss as they have agreed to sell something that does not yet have a buyer. To Respondent E’s opinion, this is only beneficial for the producer, who then will be able to present a security to the bank.

4.1.2 The Service Offering

There are many similarities among the services offered by the companies under observation. Some of these services are buying and selling of products, financing, risk management, market information, documentation and logistics. However, Company A and C have increased their service offerings to include services not offered by others to clients. All five companies acknowledge that what services are being offered is based on what the market demands. As all clients are their own entities, needs and requirements can differ. Therefore, what they in particular demand may vary between clients, and consequently determine what is being offered. Respondent D clarifies that the main rule is to listen to the client. Moreover, all companies agree that the main service they offer is buying and selling, and that all other services are just to facilitate that trade. Respondent E portrays the service offering as:

“Buying and selling products is the main principle. Everything else is just like additional equipment for a car.”

Hence, services are mainly offered by the trading companies if the service is connected to a specific trade in which the trading company either takes title of the goods or earns a commission. Respondent A and C state that they prefer to offer all services they have to offer for each transaction, as it is believed to add the most value. Owing to the service content of

the value offering, Company A, B and C does not refer to themselves as trading companies, but rather they label themselves as service providers.

In general, what services are being offered by the interviewed companies differs somewhat. For instance, Company A offers assistance in sustainability and CSR issues. The CSR requirements are becoming stricter and are more demanding for producers, and thus Company A can offer help in this area as a service. They offer this service without charging the client directly, as it is viewed as a package of the relationship. As such, it adds value to the client as this service is expensive to procure from a third-party. On a similar note, Company C offers updates on regulatory issues to its clients, who in turn do not need to procure the service from any other part. In a start-up phase, potential clients often require substantial market reports, a service that Company A offers for free regardless if it leads to a business or not. Respondent A views the possibility of a new business, even if it only turns into a business in one time out of twenty, as an adequate reward for the services. Company A also engages in packaging of goods for end-consumers, however, to a lesser degree than other services. Company C offers technical assistance, where clients may use the resources of the company to improve their technical capabilities. It is a service that is not directly charged for, it is viewed as a tool to solidify an existing relationship. Respondent E highlights the importance of being flexible towards the clients, exemplified by an instance where a client needed assistance in advertisement, which Company E consequently provided through external collaboration with a firm possessing the adequate knowledge.

None of the companies owns their own logistical assets and thus rely on logistical companies for the provision of logistical services. Nevertheless, smart logistical solutions are viewed by Respondent A and B as an integral part of the offering. In contrast, Respondent D argues that there are no differences between the trading companies with regards to logistical solutions; it is the logistical providers that perform the transportation, storage etc. Therefore, it does not matter who does the booking as neither company under observation owns logistical assets according to Respondent D. However, Respondent A put forth a case where a client always had provided their own logistical solutions. Company A identified an opportunity for cost reductions and offered the logistical solution without charging the client, something that was done solely to improve the relationship. In addition, Respondent A acknowledges that smart logistical solutions that works in the long run is the difference between losing or profiting when trading low value goods, and exemplifies this with an instance where logistical costs

constituted 90% of the total costs in a trade. For the same reason, Company C works closely with logistical providers. As an example, there was an instance where they increased loaded volume per container by collaborating with a stevedoring company, and thus reduced overall costs for the client.

With regards to logistical services, Respondent A, B, C and D mention warehousing as a particular service offered, which Respondent D states is of increasing importance. Respondent D argues that it is owing to the development of the clients' requirements of more sophisticated solutions. For instance, whereas some clients previously kept larger stocks themselves, sometimes up to a year of production, nowadays, the same clients keep seven days in stock in order to even out the cash flow. Respondent D further highlights the difficulties of serving these clients through importation without having a warehouse. Similarly, according to Respondent B, producers aim to even out their cash flows and try to minimize their storage of produced goods. This is especially prevalent in the case of second grade paper which Company B trades with. Therefore, they offer quick payment to the producer and takes title of the goods before having a designated buyer. Meanwhile, the goods are stored in a warehouse while searching for potential buyers. Both Respondent B and D acknowledge that the administration of storage requires resources, and both companies have hired personnel to handle the administration, although, as noted by Respondent D, it does not require any particular skills from the employee.

4.1.3 Product and Market Diversification

All companies have a focus on forestry products, mainly paper and pulp, which has been the main focus for at least the last 30 years. However, Company B, D and E only trade paper and pulp whereas Company A and C have widened their product portfolio so as to include a wider variety of products. In addition to paper and pulp, both Company A and C have ventured into trading non-forestry products as well. Respondent C further acknowledges the optionality inherent in trading more than one product, both within and across product categories. For instance, during the turmoil in the wake of the recession following the financial crisis in 2008, paper mills ran into problems of financing the sourcing of pulp. Consequently, Company C offered pulp to be paid in processed paper.

Company D is increasingly trading with second grade paper; a product that according to Respondent D holds little merit to producers, who does not know nor care who the end user is. Respondent D exemplifies with the product ‘milk board’, which is used as a cover for floors when remodeling houses. This particular product is made out of second grade paper and the paper producer is often clueless that the end-product is derived from a paper produced at the mill. According to Respondent D, second grade paper never made it to market before, it was recycled internally at the plant. Respondent B has a similar view on second grade paper, a product category they also put more focus on today. Their view on the matter is also that suppliers pay little attention to who is ultimately buying the product, as the only aim is to find an offset for the product, not to find a new market. The core business of a producer is to produce first grade products.

Another example of where it is possible for a trading company to create value, where it previously has not been captured, is the example of recovered materials, which is an essential product category for Company A and C. Respondent C mentioned that value can be created by simply collecting the waste paper and package it neatly. Waste paper that is packaged carries quite a substantial value, waste paper that is not, is simply waste. Therefore, the collection and packaging of waste paper adds significant value. Similarly, Respondent D refers to waste handling as a high value added task, even though Company D currently does not trade in recovered materials.

All companies under observation have a large geographical coverage, and Company A, B, C and D trade on all continents of the World, whereas Company E is active in Africa, Europe and Asia. However, not all individual markets on all the continents are covered by any single company under observation. Moreover, not all products are global in scope, and Respondent A acknowledges that pulp is the only product that is truly global and thus the only product they trade world-wide. Similarly, Respondent D notes that most paper products are traded more on a regional basis rather than on a global basis. Respondent C also put forth that some markets are only used for sourcing of a product and for sales of another product. With regards to the broad geographical coverage, Respondent B puts forth the inherent value of being on several markets owing to the optionality. A greater geographical reach and more sales channels increase the possibility of finding the best possible offset for a certain product. Respondent C also mentions that even if a supplier only is active on one continent through a trading company, they might have inquiries regarding another continent or specific market.

Therefore, a broad representation by the trading company helps to accommodate the supplier with the information it needs.

4.2 The Important Resources and its Composition

In terms of which key resources a trading company possess, all participating companies stated that it is the individuals within the company, i.e. the employees, that is the most important resource. In more detail, Respondent A, D and E highlight that it is the knowledge and competences of the employees that is of importance. Respondent D argues that the key capability that distinguishes a successful from an unsuccessful trading company is to have a large network of relationships and the capability of processing all information. Moreover, the ability to understand various drivers among clients and from that offer the best possible deal is of great importance. As Respondent A states with regards to what they value:

“...it is mainly the competence within the people, and their ability to craft together smart deals that is the most important resource.”

Another common theme among all participating companies is not to own, or to own little, physical assets. Respondent A and C further believe that low physical endowments only enhance, or intensifies, the role of the employees. Respondent A, B and E also highlight the collective knowledge and experience within the organization, although as Respondent A states, they don't have any extensive routines or manuals to share this knowledge. Respondent B highlights the long business experience of the company, and believes that this organizational experience helps improve all types of functions across the organization.

With regards to how management perceives their employees, Respondent A acknowledges that it has changed over the last years. The traders used to be the heroes and the roles of others were merely to support them. To a certain degree it is still true, however, Company A has a complexity in their operations comparable with a gigantic industrial company, only with fewer employees. Thus, the knowledge base of each employee must be broader and therefore, almost all employees are considered to be core employees. Moreover, Respondent A mentions that a key resource is to have an infrastructure of knowledge, which is exemplified by creating cross-functional teams with the adequate competencies and run projects to solve the problem at hand. Similarly, Company C has increased their focus on cross-functionality. As a mean to

do this, they have hired a human resource professional who partly is focused on improving the way in which different divisions are coordinated in a pursuit to find synergies. Respondent D has an opposing view of supporting roles and is of the opinion that large support functions only incur overhead costs, without any discernible advantages. Further, the respondent does not acknowledge any economies of scale with specialized functions, and thus consider that most roles should be performed by a trader. To the respondent's opinion, a bigger organization only creates inertia within the organization and puts a hindrance to what is important; spending time and efforts on the clients. What makes the difference between a good and a bad trader is the trader's ability to engage in relationships.

For the companies to be able to offer the services and products they offer today, a common denominator is to have the right knowledge; with respect of markets, products and services. All companies bring forward the importance of being active and having a drive within the firm. Respondent E states that they transfer knowledge from senior to junior employees to meet the knowledge requirements, and therefore it is important that the individual has the right drive to absorb this knowledge. Respondent A, B, D and E further believes that being active (i.e. frequent travels, communication and staying updated) provides the firm with a credibility and experience that improves and facilitates the service and product offering. On a similar note, Respondent A highlights the importance of having a good reputation, which is believed to be a key element for attracting new clients.

Understanding the markets, identifying economic cycles and maintaining relationships with clients are aspects that all companies in one way or another values as a prerequisite to be present on a market. Respondent C also brings up the aspect that suppliers usually wish to have an understanding of the markets, and that they often get calls from suppliers that want to know what is going on in a specific market. Referring back to the synergies that could be found between the divisions; having access to knowledge about other markets than the trader him- or herself is active on is therefore considered beneficial. In terms of being active on several markets, Respondent A highlight the importance of having the right people in the right place. All participating companies have a wide market presence, and as Respondent C states, the most fundamental underlying factor is to have a genuine interest to be active on the markets.

Another capability that is highlighted by the respondents is the ability to manage risk. As trading companies operate with a high turnover but with low margins, various risks are always prevalent. The risks are associated with price fluctuations on goods in stock, currency fluctuations and credit losses. Respondent E continues with stating that the obvious credit risk of poorly performing clients is easy to manage. It could simply be analyzed through financial statements etc. It is the risk that cannot be easily discerned that is of particular importance. Small firms could easily start performing poorly owing to personal issues for key personnel in the firm. The key for a trading company is to yield the highest profit with the lowest risk, not yielding high profits with high associated risks.

4.2.1 Relationships as a Resource

A prevalent theme running across the companies is the importance of relationships. It is especially apparent in trading companies as they are dependent on suppliers for products and buyers for the offset of the products. In addition, most services offered are based upon relationships with external service providers, and thus, all respondents acknowledged the importance of relationships for all aspects of their business. As Respondent D said:

“Today, if you don’t have good relationships you will not even stand a chance.”

Another strong pattern that could be observed in all companies was that a lot of the sourcing is conducted via informal contracts or relationships. This means that a lot of the supply comes from non-contractual arrangements, where the focus is rather on maintaining a good and prosperous relationship built on trust. As an example, Company A have had a supplier with whom they have done the same kind of trade with for thirty years without ever having a contract with them. Respondent A recognizes that such a relationship is extremely valuable. Conversely, Respondent D states that these kinds of relationships are destructive for a trading company. Continuity and a feeling of safety inhibit the trading company from innovation and as a consequence, they are going to stick to its old routines.

4.2.1.1 Relational Arrangements

On a general note, Company A, B and C work somewhat more with actual contractual arrangements and more long-term partnership, whereas Company D and E almost exclusively works with informal arrangements. Neither Company D nor E views this as spot transactions. As an example, Respondent D mentions that much of the occasional cargoes are advised well

in advance. A producer usually has sales for 95% of capacity accounted for in their budget. Thus, if the producer manages to produce at a 100% capacity or more they want to sell the excess capacity. Lowering the price to existing customers is not an option and therefore, they turn to trading companies for export. The trading companies do get updates on the projection of produced volume months in advance and in that way, the spot opportunity is not something that just occurs, it is well advised.

With regards to long term partnerships and the involvement of contractual arrangements, Respondent B highlights the importance of having contracts in certain cases, since suppliers to a large extent receive a lot of attention from several trading companies. Signing a contract, and officially stating that you are representing this supplier, is simply a way to secure deals for the future. Company B has a structured approach to how they view suppliers, as they categorize their suppliers in three categories; A-, B- and C-suppliers. The C-suppliers, of which they have the most of, are the producers supplying spot cargoes. The B-suppliers are fewer than the C-suppliers, and they use Company B to increase sales in preferred markets and as such, Company B acts as a prolonged sales arm of the supplier. With A-suppliers, Company B develops objectives and mutual targets in coordination with the suppliers, and there is a constant reporting and frequent visits and meetings with same suppliers. This category includes the fewest suppliers. Respondent B acknowledges that all types of suppliers fulfil a purpose and that a balance must be struck. Still, they work actively with developing their relationships and therefore, suppliers can move between the categories.

There are differences in terms of contractual arrangement between product categories and Respondent C highlights that the underlying incentive behind each respective relationship may differ between divisions. The example they present is that for the pulp division, securing supply is extremely hard whereas finding buyers is easy. Opposingly, the packaging division can get all the supply they want, but finding buyers is much more difficult. Respondent D acknowledges that relationships in many cases outweigh the performance of a trading company as many clients prefer to do business with someone they know. Although, according to Respondent D, this has changed over time. Historically, a client could use a trading company exclusively without any further inquiries. Today, on the other hand, trading companies aren't usually exclusive, rather, they are preferred. This is because clients today receive quotes from more than one trading company, which then can be used as a benchmark.

This means that if the trading company wants to retain the business, they have to meet the price of the lowest or highest bidder. Respondent D exemplifies:

“The development is towards an E-trading platform, everything is more transparent. If you ask a client in the Middle East that we had 15 years ago, he got an offer from 3 (different suppliers). Today, he would receive 50 offers. Still, he just buys from 3, however, he reviews all to see what is happening. There are many instances where we have the lowest price, and we know that we have it, still, we do not get the business. He uses that information to push someone else down.”

4.2.1.2 Maintaining Relationships

All companies acknowledge that relationships must be maintained. Offering services without charging the clients directly is recognized as one way of maintaining a good relationship. Another common denominator identified to be of importance in order to maintain these relationships, regardless if the relationship is built on contracts or trust, is frequent follow-ups and communication. Respondent D elaborates that relationships, whether active or not, are of importance and must be maintained. Regardless of current activities, market conditions could change rapidly and suppliers that may not have exported for ten years might find themselves in a position where they want to export. In such a case, the relationship would be a useful resource. Respondent D states that a contact should never be discarded, it does not require much resources to call them once in a while just to check in. The same reasoning is applied by Company C, as they have an extensive network of clients in a product segment that has yet to take off. The idea is that whenever the product segment shows a substantial growth, these suppliers will need to find offset for their production, hence, they believe it is important to maintain these dormant relationships.

4.2.1.3 The Role of Relationships for the Service Offering

A key resource that all companies acknowledged is the ability to access capital. This could be access to own financial capital, but mainly access to borrowed capital from banks. All respondents argued that being able to finance their transactions is essential in order to carry out the trades they do. Respondent A, C, D and E perceive the relationship with banks, and the ability to show banks that they can deal with risks, to be one of the most important aspects in order to access capital. If the bank understands what trading companies do, and trusts that they can deal with risks, the banks are more likely to offer credits. On the same note,

Company C views continuous and constant re-negotiations as important measures in order to make the organization as effective and slim as possible at all times.

The relational aspect is applicable for the provision of logistical services as well, since none of the companies owns any, or little, logistical assets and consequently rely mostly on third parties to provide the logistical services. Respondent A mentioned in particular that relationships with logistical providers are of crucial importance. The same reasoning applies on insurance services, which all the companies rely on relationships for the provision of. As mentioned by Respondent D, keeping products and credits properly insured is a prerequisite for a good relationship with banks. With regards to the provision of services and relationships, Respondent D state that they add few services themselves, but tie all of the services from third parties together in a package; they have their banks, they have their insurance companies and they have their logistical companies.

4.2.1.4 Learning in Relationships

Despite the high degree of informal relationships, knowledge sharing seems to be present in some form for all responding companies. In order to sell a certain product, the companies need information about the product, something that they learn from the supplier. As noted by Respondent D with regards to the required product knowledge:

“We know nothing of their products, they have to teach us. Our producers are extremely knowledgeable, our customers know a lot and we know the least.”

Conversely, the suppliers take part of the trading companies' market knowledge to a large extent. On the question of how they then perceive the risk of being bypassed, Respondent A and E state that it is something that only will happen if they do not add any value in the process. If that is the case, they don't see any reason to be part of the value chain. Respondent A notes that in the instances when they have been bypassed, as bad as it may have been, it still can be considered as a good thing as it improves the brand of Company A and provides them with a good reputation. Everyone knows who deals with whom, and in a case where a trading company has established a market for a supplier, who subsequently manage to sell directly on the market themselves, serves as an example that will attract other suppliers to engage in business with Company A. Respondent B do still, however, stress that they have to be at least

somewhat aware of what type of information they share, so that the supplier doesn't learn to do exactly everything that the trading company does.

Learning is an important aspect with regards to which mode to choose for acquiring new knowledge. Although, which mode to choose differ between contexts. For instance, neither of the companies have had an equity stake in production where the aim was to learn about production. In the case of Company E, they acquired a production facility, even though they already possessed the knowledge and experience necessary for production. In the case of Company C, one of their joint ventures was solely set up to secure input of supply, and not to learn about production. Along this line, none of the companies acknowledges JVs as a vehicle for an improved way of learning. Rather, there is a preference for acquisitions among the companies when diversifying into new products, although, there has been instances of internally developed capabilities as well. Respondent A mentions that the quickest way to learn a new product is to acquire a company trading that particular product, as the acquisition will generate the required knowledge.

In terms of market diversification, Company A, B and C rely to a great degree on partnerships with local agents. Company C offers a gradual development in which they first identify a market and a local agent, with whom they work closely with. After some time, if the result from the partnership is satisfactory, it may grow into a wholly owned subsidiary either through recruitment or acquisition.

4.2.2 Physical Asset Endowments and Flexibility

All companies are privately owned, and most of them are owned by the employees. Both Respondent C and E state that they value the flexibility that comes with not having to answer to a stock market. Respondent C further mentions that flexibility is a fundamental aspect in the short-cycled business environment they are in. Consequently, if they were to invest heavily in vertical integration, which could require billions of SEK, they would probably no longer be able to be a private company. As they see it, they would most likely have to be a publicly listed company in order to get the capital needed for such investments. In consequence, they would have to focus on quarterly reports, which do not resonate with the long-term perspective in a short-cycled business. Respondent C argues that a stock market would have a hard time accepting that a client fails to pay to terms, even though the trading

company knows that the client will pay eventually. A credit loss one month and doubled profit the next is not something the stock market tolerates. Respondent B is on the same line of reasoning and mention that they in some instances have had an outstanding credit for two years for a client that was subsequently paid.

4.3 Evaluating the Current Business Model

Respondent A, B, C and D perceives the business climate to be changing as they are being squeezed by increased competition from other trading companies as well as suppliers' own sales organizations. A perspective that is shared among Respondent A, D and E is that in essence they are performing the same kind of services as trading companies did over a century ago, it is just how they do it that is different. Respondent A and D acknowledge that those differences are fundamental to the industry. The development is not a generic one applicable to all sorts of trade, as they all recognize that there are differences between markets and products.

Even though most of the responding companies mentioned that they have experienced external pressures on their business models, still, all responding companies perceive the conditions as favorable and that globalization leads to an improved business climate. However, Respondent A, B, C and D find the business climate to be drastically different. This change of business climate has necessitated a light-footed and flexible approach. Respondent A notes that:

“The ability to adapt what we do, how we sell and move the product in an ever changing world - that is the most important part.”

Respondent C and D mention that the speed of communication and in turn the flow of information fundamentally has changed how trading companies operate. It is no longer viable just to leverage the market knowledge and maximize the margin; it is impossible to cheat anyone. Respondent D compares with how the trading companies operated in the 1960s:

“You went to Chile, it took you one month, then you met with clients for one month and filled your order book. After yet another month you were back in Sweden and placed the orders among the paper mills. It took three months to do a deal [...] of course it is different now,

*back then, the mills could not communicate with the customers. You had the customers.
Today, they just pick up the phone.”*

In other words, the customers are not exclusive to the trading company. They are in fact easily accessed by any potential supplier, therefore “having” customers is not enough. Respondent A is of the same opinion, and contemplates that only possessing market knowledge no longer is sufficient for being able to compete.

4.3.1 The Geography of Client Networks

The flows of goods are changing and the trading companies have to adjust their networks to such flows, which is mentioned by all companies. On a general note, Respondent E argues that a trading company has to look for a market with recession for supply and for a market with high economic activity for demand. All companies have adjusted their networks in terms of geography to the flows of goods. Flows of forestry products have historically been north-south, whereas today, south-south flows are increasing. In addition, according to Respondent D, countries without any forestry resources now have paper production, which historically not has been the case. Company A moves in tandem with these developments and Respondent A reflects upon the geography of trade flows:

“...we make graphs on where products are sourced and sold. If you compare them with when I started it is amazing how different it is. Then, we sourced primarily from Asia. Today, Asia is where we sell the most. North and South America were just a small part of our business, and now we source over 60% from there [...] we move with the market [...] we must be where we are of use”

Respondent C also touches upon this subject, and acknowledges that enormous shifts are currently taking place in the world. This is something that Respondent C refers to as ‘moving targets’. As an example, producers of pulp are moving out of China as China is becoming more expensive, and instead relocating to Bangladesh. In other words, the channels have to be updated constantly depending on which product is being traded.

4.3.2 Developing the Business

All interviewed companies are open to pursue leads and new ideas. Moreover, all companies are flat organizations with few hierarchical levels, which facilitates short routes for decisions making and implementation. Although, neither of the companies has written guidelines or handbooks of how to undertake development projects, even if some companies have certain routines. Respondent A, B, C and D all claim that they do not have to actively look for new leads, as much is brought to them through their network of partners or on the basis of their reputation. Company A has this as an active strategy; by appearing on conferences, holding lectures etc., potential actors propose new ideas to them as they regard them as industry leaders according to Respondent A. Furthermore, with regards to how opportunities arise in network participation, Company B had an instance where a client located in Peru who purchased paper from them, informed them he was engaged in the cultivation of corn. Subsequently, the same client wondered if Company B was interested in marketing this corn in Europe. Company B did not follow through in this particular instance. This is a trend among the interviewed companies, that many ideas are assessed but not followed through for various reasons.

None of the companies under observation has specialized resources for business development. Respondent A states that all individuals are hired on the basis of having an entrepreneurial spirit, and regardless of position, all employees have business development elements in their roles. As for routines in Company A, new ideas are to be put forth to the head of the division, whatever the prospect may be. The ideas are then processed through cross-functional meetings, which are held regularly. Respondent A remarks that a lot of ideas are outright crazy but some of them are actually feasible. The consequent step is then to look internally and identify what knowledge and competencies that exists, and quite often there are in fact individuals with substantial knowledge in the matter. Similar to Company A, Company C believes that each individual in their organization should have an entrepreneurial spirit and be apt to find new opportunities. Company C on the other hand, has no clear routines for how new opportunities should be approached. They are, however, very clear on that every opportunity should be evaluated quickly, and if it is interesting it should be pursued. As there are no clear routines, Respondent C acknowledges that there are some ideas that sometimes fall in between the cracks. Further, neither of Company B, D and E have any outlined routines, although, employees with business development elements in their roles knows how

to proceed with new ideas according to the respective respondent. As noted by Respondent B, the door is always open to the managing director, who is the one to contact directly in these matters. In Company D, employees have a certain individual to whom they should present new ideas to.

In order to pursue opportunities, allocation of resources is required, something that may not always be possible. In fact, much of the responsibility lays on the individual who present the idea, and usually this employee's time is scarce. Respondent B suggests that a proper business plan must be developed before going further. Interestingly, there are instances of top-down decisions with highest management backing the project. Both Company A, B and C have had instances where product diversification has been decided on an executive level. All of those instances have been backed with more resources, both with regards to human and financial resources.

Company A, B, C and D are all open to all types of business ventures, or at least keeping an open mind if something interesting is proposed. The main argument is that the trading platform already is in place, and in general it doesn't matter what type of product is being traded since the key elements of financing, transportation, insurance and networking is similar or identical. Although, after researching new products, Company B and D often come to the conclusion that most products already have competitive and fully functional supply and sales channels and thus making it harder to enter. Company E was the only company that made it clear that going outside the core products, forestry products, is not an option, even though the respondent also concluded that in general the trading platform is the same. However, as most of the companies noted, a certain knowledge is always needed when entering a new business area or a new product, and therefore, many ideas do not pass this stage. Nonetheless, according to Respondent D, some knowledge transcends product categories. As an example, the skills needed to trade paper are sufficient for trading pulp, and Respondent D notes that:

“...it is a pleasure for a paper trader to trade pulp, the only reason a paper trader cannot enter the pulp market is old and established agreements between producers and trading companies.”

However, the skills needed for trading pulp is not sufficient for trading paper as it is far more complex. In Company D, pulp trading is just a minor fraction of what is being traded, still, when opportunities arise they do trade with pulp.

How the trading companies in this study have ventured into new businesses have varied; both within and between the companies. In Table 1 the array of the various modes are presented for each company, which then is followed by a presentation of how they relate to their diversification strategies.

Table 1. Diversification Modes

	Product Diversification	Market Diversification	Increased Service Offering	Vertical Integration
Company A	Internal / Acquisition	Internal / Acquisition / Network	Internal / Employment / Network	Internal
Company B	*Employment	Internal / Acquisition / Network	Internal / Network	N/A
Company C	Internal / Employment / Acquisition	Internal / Acquisition / Network	Internal / Employment / Network	Acquisition / JV
Company D	N/A	Internal	Internal / Network	N/A
Company E	*Acquisition	Internal	Network	*Acquisition

Internal Exploiting existing competencies
Employment Hiring external competencies
Acquisition Acquisition of a company
JV Joint Venture
Networks Provided through networks
* Has been divested

Source: Compiled by authors

4.3.2.1 Expanding the Product Portfolio

Connected to the earlier mentioned light-footness and flexibility, Company A and C especially have worked actively on finding new business ventures as top management has decided upon a diversification strategy. Both Company A and C perceived a threat towards their main traded product, pulp. The overall sentiment was that the growth in the industry were to decline, and as a consequence both companies decided to start looking at new products they potentially could include in their product portfolio. For Company A, the first product diversification was the acquisition of a trading company active in the recovered materials trade. It has performed well since the acquisition and it has grown considerably. The subsequent diversification for Company A was decided to be achieved using internal resources, and two employees were dedicated on a part-time basis. Although, using two employees that had other responsibilities was not viable, as they realized that product

diversification using internal resources required specialized human capital. Therefore, one employee was designated on a full time basis to develop the business during a time frame of one year. Respondent A acknowledges that at the time, there were no attractive candidates to acquire and that if it had been one, it would have been a viable solution, if not a preferable solution. Respondent A concludes by stating that it is more difficult to learn how to trade a product internally instead of acquiring a company that does.

Company C has proceeded in a variety of ways as product diversification has been achieved through different means. For instance, the venture into two of the product categories has been achieved through acquisitions and another by using internal resources. A third venture was entered when an individual was looking for a platform to use in a certain trade, consequently, Company C hired the individual to develop the business which has since then grown both organically and through acquisitions. Company A, C and D acknowledge that the ultimate solution is to hire an individual that is knowledgeable in a product as there will be no goodwill associated, which is the case with an acquisition, nor will there be any clashes when aligning two company cultures. All in all, which mode to use for product diversification is rather dependent upon the context.

Respondent B also state that flexibility does not only include product diversification, but also product specialization. To make the decision to move away from trading a certain product requires courage, and just as much thought must be put in when deciding on whether to stay active or not in a product segment. What products that are being traded should always be assessed and Company B has had an active strategy of product specialization and has withdrawn their engagement in several product categories.

4.3.2.2 Diversification into New Markets

Diversification in markets has been undertaken through different means. There are differences between markets, and they are not always comparable. For instance, some markets require a local sales organization with local employees, as it is not possible to conduct the sales from Sweden. Some markets, on the other hand, could easily be penetrated and managed from Sweden. As there are differences between markets, market penetration has occurred differently. Some markets have been penetrated through acquisitions, some via establishments of subsidiaries or by conducting the sales from Sweden, either directly or through a local agent. However, on a general note, market diversification has mainly been achieved using

internal resources. As an example, Respondent B stayed six months in Latin America to develop their business in the region. The relationships established then only require a few visits a year today, and the accounts can be handled from Sweden. Moreover, Company B has an active strategy among the traders in terms of market diversification. Everyone has a target of introducing at least one new client in one new market each year. This is usually performed by travelling to a country where they are not active, adjacent to a country where they are active. Company D has a similar strategy of expanding to neighboring countries from where they are active. Respondent D mentions that in most cases, actors in particular markets often are aware of the markets in neighboring countries and can thus supply Company D with information regarding those markets. Still, most markets already have established sales channels as noted by Company B and C. Respondent B compared a client visit in a new market with paying a visit to a dental clinic; several known trading companies were there and they waited in the same room for an appointment with the potential client.

4.3.2.3 Opportunities via Acquisitions

All companies, except from Company D, have experiences from acquisitions. How the companies perceives the outcomes of the acquisitions, on the other hand, differs. Respondent A, C and E acknowledge the importance of due diligence and the difficulties of acquisitions. Respondent A notes that, first, it may be costly as it is commonly family run companies that are companies of interest, and owners of such companies are usually only interested in selling the company if they can “cash out”. Second, often, it is only the knowledge of a handful of people that are of interest and it may be difficult to motivate them to work in the same manner as employees. Company A has had instances where the due diligence has been poor and thus ended with negative results. Respondent E also adds to the issue of performing due diligence on people as it is more or less perceived as impossible. Respondent D claims that acquisitions are the most common fault among trading companies. It is impossible to get what you pay for as the intention is to get access to the human capital of the firm, and Respondent D argues that you simply cannot buy people. Respondent D prefer the strategy of hiring competent individuals and offer competitive performance based salaries instead. Conversely, Company C states that they have made several acquisitions, and actually managed to refine them into what Respondent C refers to as success stories. Respondent C considers their ability to find undervalued acquisition targets that fits their business model and doing the right due diligence to be important factors behind the successful acquisitions.

5. Analysis

The following chapter will outline the analysis of the study. It is based on the theoretical and conceptual framework in the light of the empirical findings. It further revisits the conceptual framework, which is consequently re-conceptualized. The chapter further analyzes the way forward for trading companies. The last section is aimed to provide for a wider discussion based on the previous findings and analytical argumentation.

5.1 The Business Climate for Swedish Trading Companies and Previous Research Revisited

The empirical findings of this report do to a large extent support Meersman's et al. (2012), Elm & Low's (2013) and Pirrong's (2014) beliefs that the global business climate is rapidly changing, and as most of the responding companies also noted the business climate is becoming more transparent. The findings also support Meersman et al. (2012), Pirrong (2014) and STSA (2015) in the fact that trading companies are being squeezed with the result of having lower margins. However, as noted by Baldwin (2006) and as supported by the empirical findings, globalization also comes with new opportunities. As a consequence, the trading companies have advanced their rent seeking using the three following alternatives.

5.1.1 Vertical Integration

Vertical integration was by no means a prevalent scheme among the participating companies. These findings are not in line with Pirrong's (2014) observation that vertical integration is becoming more common among trading companies, however, as Pirrong (2014) also acknowledges there are differences between industries in terms of vertical integration. An explaining factor for this discrepancy could therefore be that this study is both industry and context specific, both of which could influence how the trading companies operate. Among the trading companies studied by Pirrong (2014), midstream integration was the most common type of vertical integration. Even though the companies under observation in this study engaged more today than before in midstream activities, it is mainly performed via networks rather than through integration. Although, one of the companies did occasionally invest in midstream activities such as conversion lines and packaging units.

The preferred investment mode for vertical integration is not easily discerned. Barkema & Vermeulen (1998) states that in cases where internal knowledge is being exploited, greenfield investments are preferred. However, one of the companies that had invested in production seemingly did so to exploit internal capabilities as they possessed the knowledge internally, although still, the choice fell on an acquisition. Another company entered into production through a JV, not to leverage knowledge and not to learn, but to secure input. This is a strategy that parallels the arguments by Hennart & Kryda (1998). Therefore, acquiring knowledge for further expansion of the business model does not seem to be a driver for vertical integration in the case of trading companies, rather, it is the physical resource of the production unit that is of interest and the value that is added at that stage. Consequently, in such a case, the business model is to some degree reconfigured as per the definition by Chesbrough & Rosenbloom (2002)

Long-term off-take agreements was mentioned by one respondent to be similar to vertical integration, a setup Pirrong (2014) refers to as quasi vertical integration. While contrasting the value configuration by Stabell & Fjeldstad (1998), having a long-term commitment to one particular client is drastically different. Instead of having to balance a network in two ends, a long-term off-take agreement distorts the balance in one end. In such a setup, the trading company is not independent and cannot adjust the network to capacity, as it relies on a producer for the supply and thus the network concept becomes somewhat obsolete. Still, sourcing from primarily one supplier was seen as hazardous and thus the companies refrained from relying on only one producer for supply and consequently, the network-based strategy still held true. Another company stated that off-take agreements could be beneficial for the trading company, whereas another stated it was only beneficial for the supplier. As mentioned by all, production is capital intensive; therefore, off-take agreements can offset extensive capital endowments, while still providing many of the benefits as suggested by Pirrong (2014).

5.1.2 The Service Offering

The key services offered by the companies under observation, in addition to the buying and selling, are finance, logistics and insurance. Balabanis (2000; 2005) observed that services offered by trading companies are closely linked to the firm's specific environmental and operational circumstances, something that also is verified in the empirical chapter of this

study. Similar to Balabanis' (2005) findings, this study's findings also portray a clear trend towards increased service offering. Many of the services identified by Balabanis (2000, 2005) were offered on a regular basis, although, not all of them. Another trend is towards 'physical-fulfilment' services as per Balabanis' (2000; 2005) definition. For the companies under observation, satisfying clients' demand is the most essential approach. Opposed from Balabanis' (2005) findings, capabilities seem not to be a factor of discouragement, as the trading companies utilize third parties to such a large extent as they are not bound to their own resources or capabilities. Capacity can, however, constrain a trading company to what extent they offer a certain service. As an example, offering warehousing services via third parties will still need some human and financial resource endowments from the trading company, and therefore, it cannot be offered in all occasions. Deductively, the access to financial resources will affect the possibility of warehousing products since it will tie up capital. At the same time, some transaction-creating services are apparent, and as all respondent stated that they are flexible in what services they offer, transaction-creating services do appear on sporadic occasions. By and large, the findings support Li's (2004) findings that trading companies must adapt to the climate by offering more than a linking service if they are to sustain. Still, the network basis of constituting a link between a producer and a customer is indisputably the most important feature among the trading companies under observation. Thus, even during increasing transparency, the link itself adds value. The share size of the potential network is underpinning the role of trading companies of connecting two clients.

5.1.3 Product and Market Diversification

According to Balabanis' (2001) study, both product and market diversification have proven to be successful tools for growth. Interestingly, the findings of this study show that the companies under observation are more focused on market diversification, so as to include all continents, than actually venturing into new products. An explanation for this could be that it is more efficient to leverage product knowledge on new markets rather than leverage market knowledge for new products. Market knowledge is no longer as valuable according to some respondents, seeing as transparency has increased, consequently making it harder to leverage that particular knowledge. The reasoning could be underpinned with Barney's (1991;1995) argumentation of the role of valuable resources for the creation of a competitive advantage, which market knowledge does not seem to be. Furthermore, new products are considered to require much more specific knowledge, which seem to be the reason as to why this type of

diversification is held back. Much emphasis is therefore put upon product knowledge on the existing product portfolio, and two companies even had dedicated full time employees engaged in rather specific areas of expertise concerning product knowledge.

Some of the companies had increased their trading in products where the transparency was lower, as the suppliers in those cases were more focused on selling a primary product, and thus allowing the trading companies to deal with the secondary products. The common belief was that as suppliers only wished to have focus on the primary product, as a consequence, secondary products remain rather non-transparent. This was also the reason to why two companies had engaged in for example trade of second grade papers. In such a marketplace and product category, linking a supplier with a customer adds value through network access as per Jensen & Petersen's (2014) definition. In a market where the supplier does not know the buyer, and nor does it wish to, there are prosperous opportunities to employ a business model similar to a pure trading company. The same logic would apply to recovered materials, which also is a product that doesn't have a clear supplier and buyer, thus, the linking is to be considered as non-transparent. However, none of the respondents acknowledge that these industries were entered on the strategic rationale that the transparency was low, rather, they saw a growth potential in the areas. As noted by Jones (1998), trading companies make their profit out of arbitrages. It therefore seems reasonable that a trading company ought to pursue trading in non-transparent products.

The main outspoken driver for market diversification was to seek out unstable and difficult markets. Seemingly, such markets enable trading companies to create more value, such as transferal of risk from a client to the trading company. Geopolitical concerns and unstable macroeconomic environments deter clients from being active on some markets. Therefore, trading companies can alleviate the client from the risk as a means to create value rather than relying on idiosyncratic knowledge of suppliers, buyers and prices levels. Still, the same markets could be regarded as not only difficult but also non-transparent. There may be certain elements in unstable markets as to how business is conducted that is not widespread knowledge and accessible for a client.

5.2 Advancing Rent Seeking

Teece (2010) notes that there has in fact been a general shift among business models transcending into focusing more on solutions. This resonates well with trading companies referring to themselves as problem solvers. However, business model reconfiguration among the companies is not akin towards the feature suggested by Prahalad & Hamel (1990), that the companies are developing something the client did not know it needed. It is rather the opposite; they develop something the client knows it needs. According to Osterwald et al. (2005) the aim of a business model is to link activities within a firm, and making sure that the pieces fit together. There are some similarities with this mindset within the observed companies, as some of them work, or have started to work, actively on creating infrastructures of knowledge. Finding ways to complement competencies within their organizations and creating so-called cross-functional teams is evidence of that. As collective knowledge is highlighted as an important resource in several of the companies, and building upon Woiceshyn & Falkenberg's (2008) reasoning of the challenge of aligning resources to a variety of cases, it should be reasonable to assume that having thought out routines and infrastructures to complement knowledge and competencies are prerequisites to optimize a business strategy. Of course, this will also be dependent upon the size of the company. For a larger company, these routines will be of greater use than in a smaller company, where perhaps one person takes on several roles, and thus embodying a cross-functional team him- or herself.

A prevalent theme among the trading companies is that they over time have gone from having more similarities with pure trading companies to become more alike hybrid companies, as per the definition of Jones (1998). Applying Stabell & Fjeldstad's (1998) framework of value creation logics, the clear trend shows that the trading companies akin towards becoming more 'value shop' oriented. In fact, three companies label themselves as service providers rather than trading companies. To what degree this is a fair depiction is hard to discern, as the services only are offered where the trading companies in fact are engaged in the trade itself, and not in any other cases. Therefore, the value network should be considered as an essential orientation, as most of the trading companies' value creation stem from their networks; and without their relationships they would not be able to offer the solutions they offer today. As all respondents noted, they consider themselves as problem solvers more than anything else. The underlying reasons as to why clients desire intermediaries to solve problems for them are

multifaceted, some of which could be due to a lack of resources, knowledge or willingness to perform the task themselves. As several of the respondents noted, a more transparent and globalized world opens up the possibility for suppliers to perform certain trades themselves. Therefore, solving problems appears to be an important factor, as this offers more value than simply connecting Supplier A with Customer B. Instead, they can create more value and make themselves less expendable by offering problem solving services that clients, for earlier mentioned reasons, may not be able or willing to perform.

One way of gaining competitiveness, improving economic performance and becoming a successful actor on the global marketplace is, in agreement with Teece's et al. (1997) and Zott's (2003) findings, to develop so-called dynamic capabilities. These capabilities are especially valuable in demanding environments, much like the one trading companies face. In general, most of the interviewed companies are open to all types of ideas; at least at an evaluation-state. However, being open to new ideas is not enough to be consistent with the idea of dynamic capabilities. To maximize the effects of dynamic capabilities, a company preferably has a full-time employee working solely with business development, as concluded by Winter (2003). As can be deduced from the empirical findings, none of the companies had any employees working full-time with business development. What could be discerned was that most of the respondents perceived that it was within the responsibilities of each individual to constantly 'keep the ear to the ground' if something interesting would show up. This could be argued to resonate more with Gallon's et al. (1995) discussions of core competencies and that in order to be successful the company needs to possess the capabilities to do something more successful than competitors over time. To some extent, this also resonates with Winter's (2003) proposal that companies should find an equilibrium between resources spent on exercising dynamic capabilities and current activities. However, to balance this on an individual level is evidently difficult. As noted by Prahalad & Hamel (1990), to fully realize the competencies and collective learning within the organization and to facilitate and succeed in business development, a clear road map of the future and convincing engagement by senior management is necessary. It can consequently be argued that the clear lack of routines, in some cases lack of engagement from senior managements, and absence of pure business developers in many of the observed trading companies, can be considered as constraining. Some stones may go unturned, and interesting opportunities may not get the attention it deserves from upper management. The collective learning and making full use of

dispersed competencies therefore stands the risk of not reaching its full potential, and quick adaption to new opportunities may be inhibited.

Finding opportunities, on the other hand, does not seem to be an issue for the trading companies. However, drawing attention to Meersman et al. (2012), identifying opportunities is merely one part, managing opportunities is quintessential for a trading company as well. It seems to be a matter of willingness that determines what opportunities to pursue. In extension, the lack of allocated capacity inhibits, to a large degree, the business model transformation similarly to the conceptual idea by Jensen & Petersen (2014). This is also in line with Balabanis' (2005) findings; that limited man-hours puts an internal pressure on what leads to pursue. How the business climate is perceived and the actual performance of the firm are the main drivers and influencers behind the companies' willingness to change, and by length also willingness to advance their rent seeking. If the firm does not perceive a threat to their business model, they show no eagerness to change, exactly what is evident in the case of Company E. Conversely, when the company perceives a threat to the current business model, the company is keener to reconfigure their business model, as evident in the cases of Company A and C.

If the company or its management has willingness to change, that will not suffice to *de facto* change. Possessing an ability to change is equally important. This ability is in turn influenced by resources, both financial-and human capital. As diversification of services usually can be performed via collaboration with external partners, and less endowments of internal resources is required, the willingness seemingly is much less influential. Comparably, market diversification can commonly be performed via existing internal resources. It could usually be achieved through the means of allocating part of an employee's time for the cause and it could be distributed among a wider set of employees, and in consequence, not resulting in straining the scarce resources of human capital. Product diversification and vertical integration, however, necessitate more resources and require an ability to learn and manage new businesses. Due to the different requirements of abilities and resources in the various diversification strategies, the willingness to change will be underpinning the decision.

5.2.1 Relationships' Role in Rent Seeking

Benefits of engaging in interfirm collaborations deeper than simple arms-length relationships is something that is highlighted by Dyer & Singh (1998), Lavie (2006) and Jensen & Petersen (2013). Dyer & Singh (1998) argue that deeper relationship-based alliances and networks in fact can generate competitive advantage. This is quite apparent in several cases found in the empirical chapter, as contractual arrangements rarely were used, but rather collaboration was based on relationships. The instance of when one of the interviewed companies had worked with a supplier for over 30 years without contracts, and still the supplier kept coming back to the trading company, is a very clear example of such a relationship. Benefits of such relationships are for example the reduced costs of not having to renegotiate contracts and monitor the contracts. Stabell and Fjeldstad (1998) similarly promote interfirm learning and its importance for a network configuration, as it is needed for monitoring members. In addition, Jensen & Petersen (2014) note that a network increases in value by its size and they further argue that for analytical services, knowledge of the counterparty is essential for creating value. This parallels one respondent's belief of what a successful trading company looks like, namely the trading company with the largest network and the ability to process all information. In essence, it points towards the role of learning in relationships both towards trading companies as network-based companies and problem solving companies. In addition, it adds to the notion of having network capabilities as a core competence as suggested by Ritter et al. (2004). The social skills along with technical skills seem to be, as argued by Ritter (1999), a prerequisite for being able to have such competencies. Given the intrapersonal nature of such networks, there must surely be a cognitive limit to how large a network could be, although no upper limit is identified. Maintaining relationships certainly appears to be integral to manage the networks.

The provision of services seems to be easily achieved through the means of working actively with a wide range of different physical service providers, and by using such a strategy, trading companies can advance their rent seeking. In that vein, the networks are similar to the concept of heterogeneous networks as suggested by Lavie (2006). From the point of view of the trading companies, relational rent can be appropriated by utilizing complementary resources, without reconfiguring the business model. As an example, logistical services are offered without owning any logistical assets. Another example of heterogeneous networks would be in the supplier-trading company relationship, where the trading company offer knowledge and

experience in terms of how to sell a product, whereas the supplier offers the capability of production. Still, from a theoretical standpoint, taking the perspective of the VRIO framework by Barney (1995), it is hard to discern in what way these services could be considered as being valuable, rare, imperfectly imitable and possible for the organization to exploit. All trading companies could use the same provider, thus, it is not rare or imperfectly imitable. Moreover, banks can offer the credits themselves, insurance companies can insure the goods directly and logistical companies can provide the logistics themselves. In all essence, services can be procured in the marketplace by a client. In what way trading companies do this better is difficult to assess, and in that sense it is hard to discern how a sustained competitive advantage could be derived. Building upon Dyer & Singh (1998) and Foss (1999), however, the use of networks could be unique and valuable. If a trading company possesses the appropriate network capabilities, it could be able to generate a sustained competitive advantage through its use of network of various physical service providers. Although, the findings in this study show that trading companies do not extend their service offering beyond the scope of a trade relationship. Therefore, it is not a reconfiguration of the business model as the value revenue model is still the same; to make a profit out of margins. As such, it does not correspond with the definition by Zott & Amit (2010). It could instead be attributed to a problem solving setup; whatever the client needs, the trading company could provide. Through the knowledge of their respective clients, the service offering can be adapted. This way, a trading company can package service offerings to match the needs and resources of the clients more effectively than any other provider. Depending on what the client need, the package is then configured. If relying on relationships, a variety of services could be offered without having to invest in physical assets and in consequence, trading companies can maintain the core business model.

5.2.1.1 Learning in Relationships

Kohtamäki's (2010) argumentation of the importance of interfirm learning is applicable in the cases of Swedish trading companies, as interfirm learning inevitably is important for managing and adapting the networks. Social structure seems to have more importance than governance structure as most relationships are built upon trust. Still, as noted by one respondent, competitive bidding is increasing and the relationships are not exclusive to the same degree, consequently, governance structure might need to be implemented if learning are to remain. Jensen & Petersen (2013) do, however, also highlight the risks of engaging in deeper relationships, and suggest that risk-reducing measures should then be adopted. It is

quite clear that many of the interviewed companies are aware of risks. As identified by most of the trading companies; the risk of being by-passed or dropped by a supplier is present, and if they are too dependent on one single supplier they could all of a sudden find themselves in a position without any products to sell. In addition, the bypassing itself provides the trading company with a good reputation, which Sheehan (2002) argues is a key driver for value. Hence, being by-passed is not necessarily bad from the point of view of a company that markets itself as a problem solver. Interestingly, none of the respondents perceived any risk of opportunistic behavior by clients renegeing on contracts. Moreover, they work actively on diversifying their supplier networks to include all from highly inter-connected suppliers to suppliers used only sporadically. Company B's categorization of A, B and C suppliers is a good example of how they distinguish between their various suppliers, to make sure that they have a good balance of embeddedness with their suppliers. The various ways in which they coordinate with their A and B suppliers have a common theme, it creates a shared purpose, which (Kohtamäki, 2010) highlights as a tool for interfirm learning. It can therefore be deduced that the business models of trading companies do not necessarily have to be extensively reconfigured in order to secure input of supply, instead, managing and expanding the networks is of essence. Yet again, if competitive bidding is to increase, it may hamper the development of certain relationships if relying solely on competing with price. The combination of relationship building and the acceptance of competitive bidding should consequently be embraced by the trading companies, as supported by Kohtamäki's (2010) findings.

5.3 Identifying and Realizing New Business Opportunities

The realization of new business opportunities without reconfiguring the business model is wide ranging. Entering new markets seem to be the most viable solution, as most companies have managed to diversify into all corners of the World. There also seem to be a circle-on-the-water approach, where neighboring countries are targeted. Two of the companies had an outlined strategy of doing so and both acknowledge that such diversification could be pursued rather easily using internal resources, which fits Barney (1991) notion of the benefits of leveraging firm specific resources. Product diversification seems to be harder to achieve using internal resources, as it requires more effort and resources. Therefore, most product diversification was achieved using external resources. Comparing this to Barkema & Vermeulen (1998), new line of businesses are usually pursued using external resources. Thus,

venturing into a new product could be considered as entering a new business whereas market diversification is to exploit existing resources and capabilities. The preferred way for product diversification was to hire an individual with the right knowledge; not to acquire a company. The motive is not to acquire a technology or any organizational knowledge, it is commonly just the particular knowledge that resides within a few individuals that is of interest. Acquisition is the second most preferred option and most common since the option to hire such individuals seldom is possible. Acquiring companies also brings forward considerable risk, of which overpayment was highlighted, something that fits the results by Chang & Rosenzweig (2001). Thus, due diligence capabilities are of uttermost importance. Viewing both strategies, the pace of which learning occur seemingly is a key driver. The most time consuming strategy was to develop it internally. Still, two of the companies have pursued product diversification using internal means. However, one of the companies mentioned that an acquisition would have been preferred if there would have been an attractive candidate, which points towards acquisition of external resources being the most effective means. Both cases where diversification has been managed through internal means were backed by upper management, much owing to extensive resources that must be allocated for a successful venture. Even though most companies state that they are open to trade in new products; to actually do so requires more than just the will of an employee. There must be substantial backing by management to succeed. In a way, product diversification can hardly be achieved if an employee just allocates a part of his or her time to the task, there must be an allocation of resources that matches what is pursued. As all modes have been used by some companies, much dependent upon external factors rather than internal, it gives them experience that can be used in further expansion as acknowledged by Chang & Rosenzweig (2001). It provides them with a toolbox for how to proceed in different contextual settings rather than resorting on a path dependency only.

An increased service offering could advance the rent seeking without reconfiguring the business model, of which the use of networks was the most common approach. However, some of the services did not rely upon complementary resources within a network, as they relied purely on internal resources. Most of these services have features fitting into analytics services as proposed by Jensen & Petersen (2014), and comprise of for example market reports, technical assistance and regulatory advisory. In some cases, when a demand in the market was identified, the internal knowledge base was augmented by hiring specialized personnel. Still, these services were not offered beyond the scope of a trading, or potential,

relationship. Therefore, the extra costs of offering these services are intended to be covered in the potential margin of the trading relationship and as such it does not change the business model as per the definition of Zott & Amit (2010). In addition, these services are not easily defined using Balabanis' (2000, 2005) definitions, which could mean that the service offering by trading companies is constantly undergoing a transformation so as to fit market demand.

The networks of potential clients are constantly changing and the trading companies do actively configure their networks to find opportunities, and therefore configuration of networks is to be considered as a necessary tool to increase value and decrease costs. This can be seen as a testimony to adapting the network to capacity as per Stabell & Fjeldstad (1998). In addition, it is closely related to what Stabell & Fjeldstad (1998) refer to as interfirm learning, which is integral in choosing the members for the network and monitoring them. When the trends shifts, the trading companies move with, or adapts to, the shifts. In order to be able to adapt the networks, trading companies must possess skills to both create and manage these networks as suggested by Foss (1999), Ritter (1999) and Ritter et al. (2004). As one respondent noted, much has to do with filtering the information. All in all, this shows that trading companies does not have a single value proposition, they have a multitude, which according to Jensen & Petersen (2014) is the usual case for a firm.

All respondents noted that production is an activity they do not focus on, nor did they have any desire to start focusing on production. In that sense, production is an unrelated activity and would necessitate a business model reconfiguration. Services on the other hand showed mixed results. What services are being offered did not relate fully to what value proposition they had, as logistics was offered on a regular basis by all companies. Thus, it can be suggested that trading companies does not differentiate their service offering based on the value propositions. One approach could be to relate many of the services to a value network approach. Logistical services would be an excellent example of this. In essence, there will be a client in need for storage or transportation. A trading company could bridge that gap and create relational rent by having a network of providers for those particular services. If a trading company's core competence is to manage networks, it could do so by managing their network of clients and logistical providers and rely on logistical providers' core competencies for safe transportation and storage. In all essence, it is an extension of the value proposition of offering network access, although via a different kind of network. The revenue is still based

on margins from buying and selling activities and as such, does not require a business model reconfiguration.

5.4 Conceptual Framework Revisited

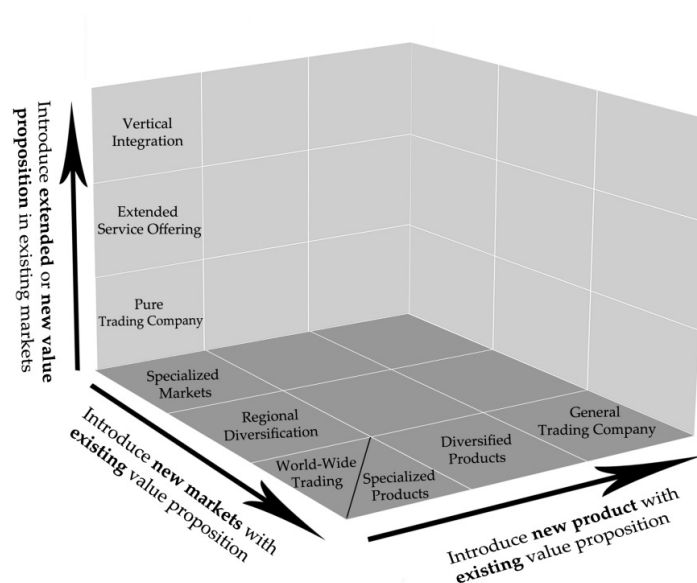
The discussions of willingness to change can be connected to the framework of ‘related’ and ‘unrelated’ activities as presented in the theoretical framework. It is clear that trading companies that have little willingness to change are more prone to engage in activities that are more related to current resources and business models, whereas higher willingness within the organization increases the probability of reconfiguration of the business model. The revenue model and the way to capture value is still predominantly through margins on buying and selling activities. Therefore, an increased service offering, for example, implies an extended value proposition where all additional services are aimed towards generating a profit out of margins.

Trading a new product or diversifying into new markets are to be considered as related activities, as they follow the current business logic of the observed trading companies. However, with regards to the identified important factors of resources and willingness, a distinction needs to be made between these two activities. For all observed companies, there is a tendency towards market diversification through leveraging product knowledge. Even though, from a theoretical standpoint, either product or market knowledge could be leveraged, it does not seem to reflect the reality in what way it is done. It requires, for example, less effort to engage in a market diversification strategy as allocating a part of an employee’s time to the cause is possible. Still, keeping in mind that all markets are not equal, there are contextual differences in terms of norms and established sales channels between markets and therefore, the degree of required resource commitment differs. For product diversification, on the other hand, allocating time from employees to work part-time with such activities doesn’t seem to be a viable option. Product diversification cannot be achieved through leveraging market knowledge; it requires almost entirely new knowledge. This could explain the fact why acquisitions or external recruitment seem to be the preferred choice when it comes to product diversification. Consequently, in the model, product diversification and market diversification should not be on the same axis as they do not correspond fully. Product knowledge could more easily be leveraged on a new market, whereas market knowledge cannot be leveraged just as easily for a new product.

Among the companies under observation, vertical integration was not a prevalent theme. There were instances where some degree of vertical integration had been achieved as well as a case of vertical disintegration. Moreover, it is obvious that the willingness among the companies under observation to vertically integrate is low and it is not likely that a clear trend-shift in this regard will occur in the foreseeable future. Long term off-take agreements were found to be present among the trading companies and should be acknowledged as a form of quasi vertical integration. How this was beneficial for the creation of rents it difficult to determine. To foster relationships beyond arms-length in a contractual form does not seem to be a prerequisite. Rather, relationships based on trust and dependability can offer an effective sourcing strategy that enhances value creation. In addition, they are to some degree risk averse in their sourcing strategies, as they seek to have some sort of security if being bypassed.

Based upon the reasoning in this chapter, alternations of the conceptual model have been made, rendering the following three-dimensional model in Figure 2 where product- and market diversification are placed on individual axes. Moreover, the increased service offering is not divided between related and unrelated activities. Presented in Figure 3 (see Appendix) is an overview that provides an insight to how the diversification applies to the trading companies under observation.

Figure 2. Diversification Options for Trading Companies



Source: Compiled by authors

5.5 Taking Trading Companies into the Future

An apparent feature that is underpinning what a trading company has to do to be successful in a globally connected and transparent market is to be flexible. They have to be able to respond and adapt to market developments, markets in retrogression, changing client demands and new technologies. Therefore, a trading company has to constantly be able to change the way they operate in order to assert their position in the value chain, without necessarily reconfigure their business model. It could be through diversifying by adding products or markets, or increasing the service offering. The latter highlights the need of flexibility for the trading company, to always adapt the offering to the market demand. One clear strategy for achieving this is to develop and maintain relationships with actors providing services. This would in essence be an extension of the network access value creation logic, whether the network concerns customers, suppliers or any external partner. This gives the trading company a flexibility to respond to changes, whilst not taking away one of the core features of a trading company; namely the light-footness. Even though networks can be idiosyncratic and non-imitable as per Dyer & Singh (1998) and Foss (1999), it is difficult to discern how the companies under observation derive a sustained competitive advantage through these partnerships as it is procured in the market place. From a theoretical point of view, it would require idiosyncratic network capabilities so as to inhibit the imitation of any other trading company. One way of distinguish the service offering could be to develop services with use of a trading company's own resources. The services provided in-house are limited and require both competence and capacity, both of which are scarce. Identifying and developing a unique selling point could therefore be of importance.

A prevalent theme among the trading companies was to seek out new markets, which is an attractive strategy as it can be achieved through a gradual expansion using existing resources by allocating a fraction of an employee's time for the cause. However, there is a limited amount of markets to diversify into, and as indicated in the empirical section, many trading companies already have a wide geographical coverage, which hampers the potential of further expansion. The wide coverage offers optionality in trade and thereby the network increases in value, and thus could be considered to be an effective means to develop the business model as an intermediary. Connected with Teece's et al. (1997) view on diversification, it could also be considered as a way to capture rent on a firm specific asset, namely, the product knowledge. There is a preference among trading companies to target difficult markets and make a

business out of bearing the risk of uncertainty. In the extension, they solve a client's problem by relieving the client of the aforementioned risks and thereby, the trading company adds value.

Product diversification, on the other hand, could open up for endless opportunities as there is no limit for how diverse a portfolio could be. There are products with low transparency, where the supplier has no aim to learn about the customer. Hence, such products should be considered as suitable for trading companies to diversify into as the network access offers substantial value. Although, it is difficult to develop capabilities to trade a new product internally and it requires substantial amount of resources, which in turn deters trading companies. Recourse to acquisition is the fastest way, however, proper capabilities for performing due diligence is key, which is particularly difficult when performed on individuals. Moreover, a trading company could be viewed as a platform for trading, and there are several opportunities for economies of scale if it applies to trade in a wider variety of products.

Connected to trading companies' willingness to in fact realize new business opportunities, there will be an unanswered question of which is better; higher willingness or lower willingness to change. All that can be said is that being prepared for changes is of essence, and therefore, there needs to be channels within the organization to handle these changes. There seems to be a lack of dedication towards the cause. Trading companies do get many leads, however, many are leads which are not followed up on. Winter (2003) suggest that full-time employees and specialized resources in development projects are essential to succeed, and thus, a lack thereof may be an explanatory factor for why so many of the trading companies decide not to follow up on leads and opportunities. Dividing the responsibility among a wider set of employees may increase the number of identified opportunities, while at the same time, decreasing the number of realized opportunities as there is a lack of capacity and capabilities. If full-time employees with the right skill set is not an option, developing clear routines for utilizing and bringing together the collective knowledge will be of even higher importance. If this is in place, the company will be more apt to respond to changes and opportunities in an ever changing environment. If the trading company experience or perceive that none of the above realizations of new business opportunities is enough, a reconfiguration of the business model should be considered in order to capture more rent. Of course, this will necessitate an even higher willingness as the entire concept of the trading company will

change. It will also, in the case of vertical integration, be very resource intensive; which also could be an inhibiting factor.

6. Conclusion

The aim of this study was to increase the knowledge with regards to trading companies and to answer the question if trading companies need to reconfigure their business model. The study shows that the overarching feature that must prevail is flexibility, in terms of what services to offer, products to trade and markets to serve; there must be a constant adaptation. Evidently, opportunities can be facilitated and demand pleased via third party companies, without conflicting with a trading company's business model. Rent seeking, today, is therefore possible to conduct without having to reconfigure the business model. The authors have identified an extensive use of networks for the provision of services, a setup that is inherently flexible as the offering is as dynamic as the clients' needs. However, to generate a sustained competitive advantage through the use of networks, the trading company must possess superior network capabilities that cannot easily be replicated by others.

Flexibility can be obtained by creating certain routines or capabilities within the organization. One or several full-time business developers is an example of having the right capabilities to become proactive and reactive to change. Another would be to develop clear routines for how to deal with opportunities that arise in a multitude of settings identified by a wide set of employees, but also how to coordinate and converge the collective knowledge within the organization. Having an infrastructure of knowledge that enables knowledge to be complemented could prove a vital tool. If this is in place, the trading company will be more apt to identify and realize new opportunities to generate rent.

Product diversification could offer endless opportunities, and especially in products where the transparency is low. Such diversification requires idiosyncratic product knowledge, and in the case of trading companies, acquisition of such knowledge seems to be the most viable solution as the development of such specialized knowledge internally require much time and effort. Market diversification on the other hand, is more easily pursued using internal resources as existing product knowledge can be leveraged. Although, there is a maximum amount of markets that could be served, and most trading companies already have a wide geographic coverage making further market expansion hard to pursue. As such, a broad geographical coverage could in general be viewed as a prerequisite for a trading company rather than a way to seek out new rents.

This study has further found that certain changes will necessitate an extensive business model reconfiguration, which means it has to go beyond the concept of a trading company. These changes may demand higher endowments in resources and capabilities, which will offset some of the much needed flexibility and light-footness; but offers instead new possible streams of rent creating.

Regardless of which strategy that a trading company embarks upon, it will require the support of upper management. The ability to diversify or change, and how management perceives the future outlook muchly influence the support such strategies receives. In the end, there are no general rules for riches as Winter (2003) put it, and much will depend on the resources and capabilities of the trading company and what they are willing to do.

6.1 Managerial Implications

This study has shown that there are several ways in which trading companies can respond to increasingly transparent markets. However, it will be dependent upon the companies' willingness to change. This willingness is in turn affected by the managers' beliefs of what the future will hold. What the perceived future looks like should consequently be reflected in the road map for the future, including a possible reconfiguration of the business model.

If the belief is that nothing will change in the future, then they can continue doing what they do today, as nothing is perceived to threaten the current business. If they, on the other hand, see trends towards more transparency, improved technology, increased globalization and higher competition; then they should consider how they could advance their rent seeking. To embark on such a journey not only necessitates sufficient willingness, but also the ability to change. Taking into consideration the ability of a trading company to implement changes, as a mean to seek new rents, the following options, in isolation or in combination, can be deduced:

1. If they are not yet active worldwide, **market seeking** should be the first option to seek new arbitrages on unexplored markets.
2. If they can maintain their role as intermediaries through an extended value proposition by **increasing their service offering**, thereby adding enough value to retain their position, this option should be further explored.

3. If they want to remain competitive without configuring the business model, developing dynamic capabilities or clear routines to quickly and effectively identify and venturing into **new product categories** should be considered. In this way, they can be flexible in the sense that they follow the trends and adapt their product portfolio to where arbitrages can be found and value can be added.
4. If the business is perceived to be squeezed even further, capturing more value in the value chain by **vertically integrating** may be the option. This would entail a rather drastic reconfiguration of the business model, and thereby also necessitates a high willingness.

With regards to market diversification, it is considered to be the most related activity in terms of resources and capabilities. At the same time, it has been concluded that entering new markets does not require a business model reconfiguration. The second option, extended service offering, follows a similar logic. The internal resource base and business model does not necessarily have to be adapted, as it can be accessed via network resources for the achievement of such purpose. The third option, however, requires resources possessing the proper capabilities, making it a more complex diversification, yet, still following the same business model. The last option, vertical integration, constitutes the largest deviation which will drastically alter the business model and will require an extensive resource reconfiguration.

6.2 Theoretical Contribution and Recommendations for Future Research

This study has contributed by identifying and highlighting what a trading company can do to adapt to increasingly transparent markets. This study shows that there are numerous ways a trading company could advance their rent seeking without necessarily having to reconfigure their business model. There is a research gap on trading companies inasmuch they are often perceived to be merely agents. This study takes the perspective that trading companies are their own businesses with their own strategic objective and consequently, it fills a gap in research. There are a multitude of different strategic choices they could make, which has been highlighted in this study.

Given that the study was conducted with limitations, certain new streams of research should be brought into light. This research has applied the resource based view in an attempt to discern how trading companies undergo change. Other fruitful research on trading companies have applied a transaction cost theory or institutional based theory. Combining all three could offer new and useful insights on trading companies.

The study was rather context specific and adapting the view to trading companies outside of forestry trading and located in other countries than Sweden could produce valuable insights. As noted in the study, trading companies rely heavily on networks and relationships, ranging from securing supply, finding an offset for production and for provision of wide set of services. How a sustained competitive advantage is derived with such a strategy is not easily discerned. Therefore, adopting an approach in which both clients and the providers of services is included could generate insights to how trading companies are able to compete.

This study has a qualitative approach and as such it has a focus on explaining how. A quantitative approach would be of interest so as to add the inputs of what. A quantitative approach could generate answers in what exactly is needed for being successful in a change process. Quantitatively assessing what is being offered and how important it is are examples of further avenues of research. At the least, a quantitative research would generate a methodological diversification.

7. Reference List

- Ansoff, H. I. (1957). "Strategies for diversification". *Harvard Business Review*. Vol. 35(5), pp. 113-124
- Balabanis, G. I. (2000). "Factors Affecting Export Intermediaries' Service Offerings: The British Example". *Journal of International Business Studies*. Vol. 31(1), pp. 83-99
- Balabanis, G.I. (2001). "The Relationship Between Diversification and Performance in Export Intermediary Firms" *British Journal of Management*. Vol. 12(1), pp. 67-84
- Balabanis, G. I. (2005). Determinants of export intermediaries' service-mix configurations. *International Marketing Review*. Vol. 22(4), pp. 436-459
- Baldwin, R. (2006). "Globalisation: the great unbundling(s)". *Economic Council of Finland*. Vol. 20(3), pp. 5-47
- Barkema, H. G. & Vermeulen, F. (1998). "International expansion through start-up or acquisition: A learning perspective". *Academy of Management journal*. Vol. 41(1), pp. 7-26
- Barney, J. (1991). "Firm Resources and Sustained Competitive Advantage". *Journal of Management-* Vol. 17(1), pp. 99-120
- Barney, J. (1995). "Looking inside for competitive advantage". *Academy of Management Executive*. Vol. 9(5), pp. 49-61
- Bell, J. (2000). "*Introduktion till forskningsmetodik*". Studentlitteratur: Lund
- Bello, D. C. & Verhage, B. J. (1989). "Performing export tasks in industrial channels of distribution". *European Journal of Marketing*. Vol. 23(2), pp. 68-78
- Bello, D. C. & Williamson, N. C. (1985). "The American export trading company: Designing a new international institution". *Journal of Marketing*. Vol. 49(4), pp. 60-69
- Bryman, A. and Bell, E. (2015). "*Business Research Methods*". 4th ed. Oxford University Press: New York
- Chang, S. J. & Rosenzweig, P. M. (2001). "The choice of entry mode in sequential foreign direct investment". *Strategic management journal*. Vol. 22(8), pp. 747-776

- Chesbrough, H. & Rosenbloom, R. S. (2002). "The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies". *Industrial and corporate change*. Vol. 11(3), pp. 529-555
- Chintakananda, A., York, A. S., O'Neill, H. M. & Peng, M. W. (2009). "Structuring dyadic relationships between export producers and intermediaries". *European Journal of International Management*. Vol 3(3), pp. 302-327
- Dierickx, I. & Cool, K. (1989). "Asset stock accumulation and sustainability of competitive advantage". *Management Science*. Vol. 35(12), pp. 1504-1511
- Drake-Brockman, J. & Stephenson, S. (2012). "*Implications for 21st Century Trade and Development of the Emergence of Services Value Chains*". International Centre for Trade and Sustainable Development: Geneva
- Dyer, J. H. and Singh, H. (1998). "The Relational View: Cooperative strategy and sources of interorganizational competitive advantage". *Academy of Management Review*. Vol. 23(4), pp. 660-679
- Ellis, P. (2001). "Adaptive strategies of trading companies". *International Business Review*. Vol. 10(2), pp. 235-259
- Foss, N.J. (1999). "Networks, capabilities, and competitive advantage". *Scandinavian Journal of Management*. Vol. 15(1), pp. 1-15
- Fung, P. K. O., Chen, I. S. N. & Yip, L. S. C. (2007). "Relationship and performance of trade intermediaries: an exploratory study". *European Journal of Marketing*. Vol. 41(1/2), pp. 159-180
- Gallon, M. R., Stillman, H. M. & Coates, D. (1995). "Putting core competency thinking into practice". *Research Technology Management*. Vol. 38(3), p. 20
- Ghuri, P.N. & Gronhaug, K. (2005). "*Research Methods in Business Studies. A Practical Guide*". 3rd edition. Financial Times Prentice Hall: New York
- Gottschalk, P. (2006). "Knowledge Management Systems: Value Shop Creation". Norwegian School of Management: Norway

- Greenhill, R. & Miller, R. (1998). "British trading companies in South America after 1914". In *The Multinational Traders*. Jones, G. (ed.). pp. 102-120. Routledge: London
- Gulati, R. (1998). "Alliances and networks". *Strategic Management Journal*. Vol. 19(4), pp 293-317
- Gulati, R. (1999). "Network location and learning: The influence of network resources and firm capabilities on alliance formation". *Strategic Management Journal*. Vol. 20(5), pp. 397-420
- Hafeez, K., Zhang, YB. & Malak, N. (2002). "Core competence for sustainable competitive advantage: a structured methodology for identifying core competence". *IEEE Transactions on Engineering Management*. Vol. 49(1), pp. 28-35
- Helfat, C. & Peteraf, M. A. (2003). "The dynamic resource based view: capability lifecycles". *Strategic Management Journal*. Vol. 24(10), pp. 997-1010
- Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M. A., Singh, H., Teece, D. J. & Winter, S. G. (2007). "Dynamic Capabilities: Understanding Strategic Change in Organizations". *Blackwell Publishing: Oxford*
- Hennart, J. F. & Kryda, G. M. (1998). "Why do traders invest in manufacturing?". In *The Multinational Traders*. Jones, G. (ed.). pp. 213-227. Routledge: London
- Jacobsen D. I. (2002). "*Vad, hur och varför? Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*". Studentlitteratur: Lund
- Jensen, P. D. Ö. & Petersen, B. (2013). "Global sourcing of services: risk, process and collaborative architecture". *Global Strategy Journal*. Vol. 3(1), pp. 67-84
- Jensen, P. D. Ö. & Petersen, B. (2014). "Value Creating Logics and Internationalization of Service Firms". *International Marketing Review*. Vol. 31(6), pp. 557-575
- Johanson, J. & Vahlne, J.E. (2013). "The Uppsala model on evolution of the multinational business enterprise – from internalization to coordination of networks". *International Marketing Review*. Vol. 30(3), pp.189-210

- Jones, G. (1998). "Multinational Trading Companies in History and Theory". In *The Multinational Traders*. Jones, G. (ed.). pp. 1-21. Routledge: London
- Kohtamäki, M. (2010). "Relationship governance and learning in partnerships". *The Learning Organization*. Vol. 17(1), pp. 41-57
- Lavie, D. (2006). "The Competitive Advantage of Interconnected Firms: An Extension of the Resource-Based View". *The Academy of Management Review*. Vol. 31(3), pp. 638-658
- Li, L. (2004). "Research Note: The Internet's Impact on Export Channel Structure". *Thunderbird International Review*. Vol 46(4), pp. 443-463
- Lincoln, Y.S. & Guba, E. (1985). "*Naturalistic Inquiry*". Sage Publications: Beverly Hills
- Low, P. (2013). "The role of services in global value chains". In *Global value chains in a changing world*. Elms, D & Low, P. (eds.). pp. 61-81. World Trade Organization: Geneva
- Meersman, S., Rechsteiner, R. & Sharp, G. (2012). "The dawn of a new order in commodity trading". *Oliver Wyman Risk Journal*. Vol. 2, pp. 1-9
- Nadolska, A. & Barkema, H. G. (2007). "Learning to internationalise: the pace and success of foreign acquisitions". *Journal of International Business Studies*. Vol. 38(7), pp. 1170-1186
- Osterwalder, A., Pigneur, Y. & Tucci, C. L. (2005). "Clarifying business models: Origins, present, and future of the concept". *Communications of the association for Information Systems*. Vol. 16(1), pp. 1-25
- Peng, M. W. & Ilinitich, A. Y. (1998). "Export intermediary firms: A note on export development research". *Journal of International Business Studies*. Vol. 29(3), pp. 609-620
- Peng, M. W. & York, A. S. (2001). "Behind intermediary performance in export trade: Transactions, agents, and resources". *Journal of International Business Studies*. Vol 32(2), pp. 327-346
- Pirrong, C. (2014). "*The Economics of Commodity Trading Firms*". Bauer College of Business at the University of Houston
- Prahalad, C. K. & Hamel, G. (1990). "The Core Competence of the Corporation". *Harvard Business Review*. Vol. 68(3), pp. 79-91

- Ritter, T. (1999). "The networking company: antecedents for coping with relationships and networks effectively". *Industrial Marketing Management*. Vol. 28(5), pp. 467-479
- Ritter, T., Wilkinson, I. F., & Johnston, W. J. (2004). "Managing in complex business networks". *Industrial marketing management*. Vol. 33(3), pp. 175-183
- Saunders, M., Lewis, P. & Thornhill, A. (2007). "*Research methods for business students*". Pearson Education Limited: Gosport
- Sheehan, N. T. (2002). "*Reputation as a driver in knowledge-intensive service firms*". Ph.D. diss., Norwegian School of Management: Sandvika
- Smith, A. (1776). "*An inquiry into the nature and causes of the wealth of nations: Volume One*". W. Strahan and T. Cadell: London
- STSA. (2015). "*Special edition - Commodities. Beyond National Boundaries*". Swiss Trading and Shipping Association: Geneva
- Teece, D. J., Pisano, G. & Shuen, A. (1997). "Dynamic capabilities and strategic management". *Strategic Management Journal*. Vol. 18(7), pp. 509–533.
- Teece, D. J. (2010). "Business models, business strategy and innovation". *Long range planning*. Vol. 43(2), pp. 172-194
- Thomé, K. M. & Medeiros, J. J. (2016). "Drivers of successful international business strategy". *International Journal of Emerging Markets*. Vol. 11(1), pp. 89-110
- UNCTAD (2013). "*World Investment Report - Global Value Chains: Investment and Trade for Development*". United Nations Conference on Trade and Development, United Nations: New York and Geneva
- Vermeulen, F. & Barkema, H. (2001). "Learning through acquisitions". *Academy of Management journal*. Vol. 44(3), pp. 457-476
- Wernerfelt, B. (1984). "A resource-based view of the firm". *Strategic Management Journal*. Vol. 5(2), pp. 171–180
- Winter, S. G. (2003). "Understanding Dynamic Capabilities". *Strategic Management Journal*. Vol. 24(10), pp. 991-995

Woiceshyn, J. & Falkenberg, L. (2008). "Value creation in knowledge-based firms: Aligning problems and resources". *The Academy of Management Perspectives*. Vol. 22(2), pp. 85-99

Yin, R. (2014) "*Case Study Research: Design and Methods*". Sage Publications: London

Zott, C. (2003). "Dynamic capabilities and the emergence of intraindustry differential firm performance: insights from a simulation study". *Strategic Management Journal*. Vol. 24(2), pp. 97-125

Zott, C., & Amit, R. (2010). "Business model design: an activity system perspective". *Long range planning*, Vol. 43(2), pp. 216-226.

Zott, C., Amit, R. & Massa, L. (2011). "The business model: recent developments and future research". *Journal of Management*. Vol. 37(4), pp. 1019-1042

Internet:

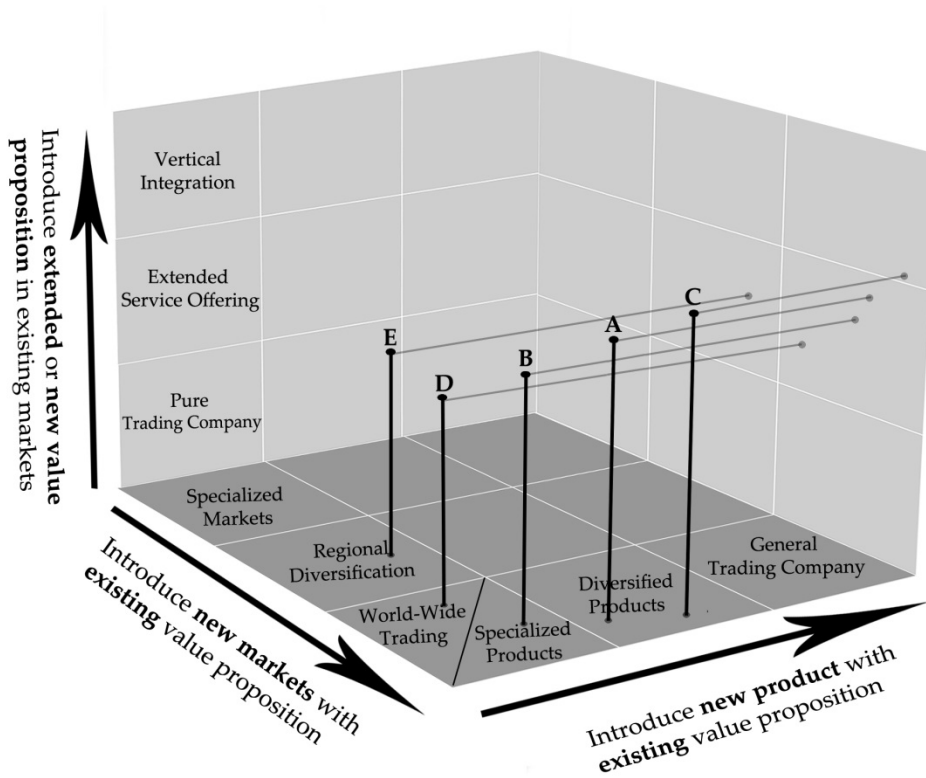
Schneyer, J. (2011). "Corrected: Commodity Traders: The trillion dollar club". *Reuters*, 28 October. <http://www.reuters.com/article/us-commodities-houses-idUSTRE79R4S320111028> (Accessed 2016-05-16)

Tamny, J. (2014). "Do Commodity Traders Really Run The World". *Forbes*, 19 June. <http://www.forbes.com/sites/johntamny/2014/06/19/do-commodity-traders-really-run-the-world/#58ad1b6655ea> (Accessed 2016-05-16)

Appendix

1. Overview of The Trading Companies' Business Models

Figure 3. Overview of The Trading Companies' Business Models



Source: Compiled by authors

2. Interview Guide

- What is your role at the company and how long have you been here?
- What is your previous experience?
- How do you perceive the business climate for trading companies today, and do you think it has changed over the last years?
- Does your company own any physical assets?

- Where/how does your company create value for your clients?
- What would you say is your firm's key resources?

- What services do you offer today?

- Could you rank the importance of these?
- What is needed to offer these services?
- If you have expanded your service offerings, how did you do it?

- Which products do you trade?
- What is needed to offer these products?
- If you have diversified your product portfolio, how did you do it?

- Which markets do you trade on?
- What is needed to be active in these markets?
- If you have diversified your market portfolio, how did you do it?

- How do you source the products you trade? (e.g spot deals, off-take agreements, JV, WOS)
- Do you have any knowledge sharing routines with your respective partners?
- How does knowledge affect your entry mode of new products/markets/services?

- How do you identify new opportunities?
- If you have identified an opportunity, how do you realize this?

- What is the willingness of the company to increase your service offering or to diversify your market or product portfolio or to engage in vertical integration?
- How is the following perceived in terms of risk: a wholly owned subsidiary, a JV/strategic alliance and an acquisition?

- What do you think trading companies should do in order to remain competitive in the future?

- What do you think we should have asked that we did not?