

Internationalizing the Small and Medium Sized Firm – four cases

Avanza

Glocalnet

Edgecom

Projectplace

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Executive Summary

The purpose of this thesis is to analyze and discuss perceived factors of success and failure for small and medium sized companies (below referred to as SME's) when entering new markets. Today, as the world is getting more and more global, the approach to internationalization is somewhat changing. Both large companies and SME's see the international markets as natural expansion possibilities.

The shift into the information society is one of the major factors behind this changed behavior. This has led to that firms are better informed about foreign markets and that the difficulties with working on geographically distant markets have radically diminished. Furthermore, many Swedish companies produce technically complex products today. This normally means high R&D costs and a short lifecycle. This forces companies to internationalize at an early point, before the technology/product becomes obsolete or imitated by others. This is especially important for Swedish companies, due to their limited home market.

The traditional approach to international expansion has been that companies take a cautious step-by-step approach. This cautious approach has been especially true for SME's since they normally work with limited financial and managerial resources. The development in today's economy seems to force companies to enter foreign markets in a faster mode than ever before. The recent boom accelerated this trend.

In this thesis, the internationalization process of Avanza, Edgecom, Glocalnet and Projectplace (all Swedish SME's) is presented. These companies all started their international expansion during the recent boom. The lessons made from these cases are discussed and analyzed in the thesis. All of the companies used a more aggressive approach than the traditional step-by-step model but with different outcome. It is evident that the venture capitalists played an important role in the choice of this strategy. They have been one of the main driving forces behind the fast and aggressive expansion. Factors such as having international networks and/or strategic partnerships are considered as key points to handle a more aggressive approach. Furthermore, balancing the companies' internal and external resources and the importance of obtaining relevant market information prior to expansion are also factors that are regarded as crucial.

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We have enjoyed writing this thesis, and hopefully you will enjoy reading it!

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Introduction

As a small country with a limited home market, Swedish companies have been forced to be aggressive on the international markets. The first major phase of international expansion for Swedish companies took place the decades before World War I. At this time companies like AGA, Alfa-Laval, ASEA, Ericsson, Sandvik and SKF started their first international endeavors (Carlsson 1977).

The traditional approach to international expansion according to the findings by the so-called “Uppsala-school” during the 1970’s has been that companies take a cautious step-by-step approach (Johanson & Vahlne 1977). Limited investments are made in culturally and geographically close markets. After the company has gained experience, investments are increased and more distant markets are penetrated. This cautious approach has been especially true for SME’s (Small and Medium-sized Enterprises) since they normally work with limited financial and managerial resources (Lindqvist 1991).

Today, as the world is getting more and more global, the approach to internationalization is somewhat changing. Most companies have an international perspective. Both large companies and SME’s see the international markets as natural expansion possibilities. Nevertheless, companies have different views on their international expansion. Some see it as a normal extension when the domestic market has been explored, other companies view international expansion as an obvious part already from start. The latter companies are often referred to as *Born Globals* (Rennie 1993).

The shift into the information society is one of the major factors behind the changed behavior when internationalizing. This has led to that firms are better informed about foreign markets and that the difficulties with working on geographically distant markets have radically diminished (Nordström 1991). Furthermore, many Swedish companies produce technically complex products today. This normally means high R&D costs and a short lifecycle. This forces companies to internationalize at an early point, before the technology/product becomes obsolete or imitated by others (Lindqvist 1991). This is especially important for Swedish companies, due to their limited home market.

In recent years it has almost been seen as a must within young upcoming companies to have a clear strategy and focus on international expansion. In these cases, the expansion has often started long before the company has reached a mature status on the Swedish market. Venture capitalists eager to reap substantial revenues fast has been one important driver behind this development (Falk & Reimfelt 2002).

Problem formulation

The development in today's economy seems to force companies to enter foreign markets in a faster mode than ever before (Andersson & Gandemo 1993). The recent boom in the market accelerated this trend.¹ Being at a company that has chosen to internationalize is not an easy situation. There are no manuals and books to read that explain what you should do. Both authors have experience from internationalization processes and have seen the difficulties connected with setting up a business in a foreign country.² When investigating the theoretical literature on the area, according to the authors, there seems to be an absence of material dealing with the more practical implications of going international when being small. Many researchers and theories deal with large companies and if at all discussed they treat SME's as embryonic versions of large companies; this is criticized by Andersen (1999). Andersson & Gandemo (1993) question the lack of studies on SME's that establish a physical presence in other countries. All this taken together serves as a major problem.

Purpose

The intention of this study is therefore to provide the reader with insights into an area of subject, which normally is not thoroughly described in traditional literature. The specific purpose of the thesis is to analyze and discuss the perceived factors of failure and success for small and medium sized companies³ (below referred to as SME's) when entering new markets. A more general purpose is to in a descriptive as well as pragmatic way present a number of different case studies dealing with internationalization that will entertain and hopefully educate the reader on the subject. The authors do not in any way intend to analyze the specific reasons why any of the

¹ The dot.com hype in Sweden considered to have started in the summer of 1998 and the bubble started to burst in April, 2000. The boom is regarded to definitely have been punctuated when Ericsson significantly lowered there earning estimates during the spring of 2001 (Björnelid, 2001).

² For a more detailed background on the authors see Appendix 1.

³ See "Criteria for Case Companies" for a more thorough discussion and description of the concept of small and medium sized companies – SME's.

case-companies succeeded or failed. The cases only serve as general examples from which the authors will derive patterns that are used to identify potential factors for success or failure.

Since there are no ways to evaluate the internationalization process in a fully objective sense, focus will be on perceived factors since the study is based mainly on interviews with respondents within the companies (see empirical chapter for a brief discussion on perceptions). From the authors' experience there are many different aspects arising during an internationalization process, and the intention is to use a fairly broad and general perspective and take organizational, leadership and psychological as well as strategic considerations into account. In the end, these factors will be edited and presented to the reader as a list of important points to consider when internationalizing the small and medium sized firm.

Structure of the Thesis

In order to give the reader an experience, which is hopefully easy and worthwhile, the choice of outline has fallen on a classic structure (Andersen 1998). The reader is first introduced to the subject and some general thoughts and remarks about the thesis are made from the authors. The purpose of the thesis is formulated in a specific and a more general sense. The choice as well as an evaluation of the research method is then presented. After that a general and brief overview of the theoretical frameworks considered relevant by the authors is gone through (see theory-chapter for a discussion on this matter). The main feature of the thesis then comes up, an extensive chapter presenting the empirical findings, the four case companies. Before ending the thesis with a list of tentative advice for SME's ready to internationalize, an analysis of certain important themes are made. References, relevant facts about the authors and an interview form (guide) can also be found at the very end of the thesis.

Methodology

This chapter deals with the choice of methodology, the selection of case companies and a brief discussion around research formalities, such as quality and approach.

Research Method

There are two main methods of research possible to use, qualitative or quantitative. The quantitative method is preferably used when there is a need to systemize easily quantifiable data,

based on facts that are clear and objective (Andersen 1998). The quantitative study is limited in the sense that it does not involve more than formal interaction between the researchers and the respondents (Merriam 1994). Using the qualitative method was quite an obvious choice for the authors since that method is preferred when investigating a phenomenon of which there is low knowledge (Andersen 1998).

Research Strategy

The main reason for choosing a qualitative case study instead of a more quantitative approach is that it makes it possible to have a wider approach. This enables a more detailed description of the phenomenon researched and is especially important due to the relative complexity of the process analyzed. Therefore, the choice of a case study will lead to an increased understanding of the internationalization process (Yin 1994).

Research Approach

The authors started with an investigation of certain phenomena in reality. These observations were then used to formulate hypotheses (in the form of tentative advice) about internationalization of SME's; this is what is referred to as an inductive approach (Merriam 1994). The opposite, where a hypothesis is formulated based on theory and tested in reality is called deductive (Wiedersheim & Eriksson 1991). There is also a mixture of the two where the researchers formulate some hypotheses, which are then evaluated through the observation of reality. This is called the hypothetical deductive approach (Wiedersheim & Eriksson 1991). The authors had some vague hypotheses in mind before starting their work but the purpose was to investigate the phenomena first and then formulate the hypotheses, why they can be said to have used an inductive approach.

Data Collection

Yin (1994) talks about six different kinds of data that are applicable to case studies. These are; interviews, documents, direct observations, archival records, participant observations and physical artifacts. The main source of data for this thesis is the interviews conducted with key personnel at the chosen case companies. Company documents and company websites have been used mainly to prepare for the interviews with specific companies and during the selection

process. They were also used to verify some statements of a more factual nature made by the respondents.

Interviews

Interviews were made with at least two people within each company in order to reduce the possible bias from a, for some reason, very positive or negative CEO or Manager, and the possible event of poor recollection. The format of the interviews can be described as semi structured (Andersen 1998). In order to reduce the problems arising from biased and leading questions from the interviewers, the respondents were given the freedom to describe in his/her own words their experience from the company's internationalization process. This was also a quite obvious strategy since the purpose was to discuss perceptions and not just mere facts. An interview form was then used as a checklist in order to make sure that every aspect that the authors judged as critical were discussed. When applicable, specific questions were posed to make sure every aspect was covered. Both authors participated in the interviews in order to reduce any personal bias from any of the authors and thereby further secure objectivity (Merriam 1994). Due to geographical distance and/or other practical problems the second interview in some cases were done over telephone/email. Since one of the authors has previously been working for one of the case-companies, he was also one of the interviewed persons. Due to this fact a third person was interviewed at this company in order to reduce any potential bias from the author. Transcripts from the interviews were written down afterwards and sent to the respondents to make sure all their statements were fully understood and not misinterpreted in any way by the authors (Andersen 1998).

Research Quality

The quality of research can be of very different kinds. In traditional quantitative studies the research quality focuses around validity and reliability. The concept of validity deals with to what extent the researcher is able to measure what he/she sets out to do and reliability is reflected in how replicable the results and studies are (Yin 1994). A case study does by traditional measures not hold especially high research quality. Therefore, many researchers do not consider the traditional measures to be the appropriate ones for qualitative studies. Instead, a high level of inter-subjectivity should be desired, i.e. if others can understand how the authors base their understanding (Glaser & Strauss 1967). In order to achieve this it is important to have a thorough

description of the research process and the authors own experiences and perceptions that have influenced the interpretation of the findings.

As a conclusion about the formal quality, the authors believe to have reached an appropriate level. This has been accomplished by having a detailed description of the method used, e.g. selection of companies, data collection etc. Another important factor for the quality of the study is that all cases have been presented for each company and the remarks given by the company have been taken into consideration by the authors.

Criteria for Case Companies

Having set out to investigate SME's, certain specific criteria were used for the selection of case companies. To define a small and medium sized company, the guidelines directed by the EU were used as a first step.⁴ Furthermore, only companies that still existed on the home market (at least in some form) were considered. The reason for this criterion was that the authors wanted to avoid including companies that had failed with their internationalization process due to not having a functioning business model, i.e. the main reason for failure was not something linked to the internationalization. Since part of the purpose was to investigate the internationalization process from an organizational as well as a leadership viewpoint other criteria were used as well. One criterion demanded that a permanent physical presence through a subsidiary or local office had been set up in at least one other country besides from Sweden. This criterion was chosen in order to be able to investigate specific organizational, managerial aspects etc that arise from having started a local office. Reason for doing so is based on the authors' experience that those aspects pose an important and difficult challenge during the internationalization process. In order for the chosen case companies to be able to present the authors with relevant and accurate information and avoid poor recollection, the maximum time frame from the first step of the analyzed internationalization process was set to a maximum of 5 years. The choice also fell on companies in different industries. The reason for this was to avoid having difficulties distinguishing between patterns that were due to the internationalization process from specific

⁴ The EU definition stipulates that an SME is a company with; less than 250 employees, either a yearly turnover less than 40 million Euro or total assets less than 27 million Euro and independent, i.e. other companies own a maximum of 25% of the capital or voting rights. This definition will be applied based on numbers prior to the internationalization. In some cases, perhaps due to a successful international expansion, the companies might have grown considerable and thereby surpassed the definitional requirements. Furthermore, we will not strictly apply the third criteria since this would drastically reduce the possible companies since many start-ups have owners with more than 25% of the capital or voting rights. We will instead determine if they are acting independently from their owners.

industry patterns. Due to the general trends over last years in Sweden, and the defined criteria, all of the chosen case companies are in some kind of high tech business.

Selection of Case Companies

Having decided to investigate Swedish SME's with a permanent physical presence in at least one other country, thus a company that have reached the fifth step of the internationalization process⁵ in another country, the search for possible case companies started. Following the SME-definition above the authors thought there should be quite a few companies fitting the profile. Through the authors' former knowledge and via company websites, a basic evaluation process was made. As it turned out, quite few companies fitted the profile. Some had been through the process too long ago; some were too big and some only worked with independent local agents or local partners using their brand. The authors also tried to find examples of both failures and successes. After some studies of prospective companies the case companies were chosen and later interviewed.

Since the authors have a qualitative approach a rather small sample of companies were interviewed. The initial thought was to have around five companies in the study. The important factor in a case study is not that a specific number of companies are included. The important thing is that the authors are confident with the saturation of the study (Glaser & Strauss 1967). This can be interpreted as that more companies should be included in the study until a new interview does not provide the authors with considerable new information about the subject researched. After the fourth company, the authors saw no new major themes come up. The internationalization process in the studied companies showed similar characteristics. It was more or less the same aspects that appeared to play an important role in each case. The authors therefore mean that a sufficient saturation had been reached. The authors' previous experience in this field may have reduced the number of companies that had to be included in order to reach a sufficient level of saturation. Here it should again be stressed that one of the authors has been working for one of the case companies, Avanza.

⁵ See figure 1 on page 14 in this thesis (Kotler 1991)

Theoretical Framework

The intention of this chapter is to give the reader an insight into some of the theoretical concepts within the area of internationalization. A brief overview of some classic theories as well as some more recent work on the area will be discussed. Classical internationalization theories do not include specific theories about organization, culture, entrepreneurship etc. Therefore, a smaller set of chosen theories from other areas will be presented as well. These theories have been chosen based on initial conclusions drawn from the empirical study, and are later used in the analysis to support the authors' conclusions. These theories are not in any way exhaustive on the area, but the authors think they present the most relevant selections to support the analysis. The chosen theories discuss aspects that became apparent for the authors during the empirical study. The authors leave the discussion around competitors and their possible impact outside this thesis. Main reason for doing so is that it never came up as perceived to have had an important impact on the success or failure in any of the case companies.

Most internationalization theories and research look at and try to explain the patterns of the process. Since the focus of this thesis will be to find and present factors for success or failure other viewpoints and possible explanations will be discussed as well. One weakness in the authors' opinion with previous research on the area is that most of it focuses on larger firms. Only recently have we seen some contributions about internationalization focusing on smaller firms (see below). This is probably since last years have seen a wave of international expansions, mostly within SME's, some small companies are even said to be pre-destined to internationalize, the so-called *Born Globals* (Rennie 1993 and Nyström-Andersson & Swenson 2001). Size does matter, but several studies have indicated that it is not a restraint when it comes to international competitiveness to be small (De Chiara & Minguzzi 2002). Something the authors of this thesis believe to true, but the process and explanatory factors ought to be somewhat different for SME's. The general discussion around growth and development of SME's falls outside the scope of this thesis, since the focus is on the internationalization process and not why SME's grow. For those interested in reading further about growth in SME's, the work done by Delmar, Davidsson & Wiklund (2001) is recommended as one example.

Some conclusions from a recent empirical study about success factors for internationalizing SME's from Italy made by De Chiara & Minguzzi (2002:151) are interesting to mention. They conclude, "Increased exports have to be supported by an entrepreneurial culture open to change

and learning”. They go on to suggest, “For the firm to remain internationally competitive, internal competencies need to be increased”.

Another recent study by Rainer Jansson (2001) on success factors for Finnish SME’s show that leadership and strategy play important roles. According to Jansson, management and key persons play a central role for a company’s success, especially when it comes to internationalization processes, when the professional and knowledge demands on those people rises. He mentions the lack of relevant management literature that is suitable for SME’s. His experience also shows that planning is a less common feature in SME’s.

Internationalization Theory

Since focus for the thesis is the process and perceived success factors of internationalization, less focus than usual will be put on the reasons for internationalization, choice of market and the choice of entry mode. They are still very relevant as the analysis will show and could therefore not be excluded.

Firms tend to internationalize for several reasons; too small home market, external initiatives to spread the product, built into the business concept, for personal reasons, out of coincidence etc. For a more thorough discussion on the matter of reasons for internationalization we refer to Mattson & Hertz (1998). Choice of market is usually done after thorough market research; these days a more simple task than it was some years ago, most numbers and facts about markets and countries are easily obtainable through the Internet or specialized research companies. To sum up, most authors (Kotler 1991 & 2001, Malhotra 1999 and several others) conclude that the choice of market should be influenced by the following factors; size of market, customer buying power, consumer preferences in the specific country and entry barriers. Other issues that might be of importance depending on where in the world the market entry will take place are based on cultural and language differences as well as political stability (Malhotra 1999). The existence of a working technical and distribution infrastructure can for most companies also be important aspects. When it comes to strategy for the international expansion it is usually the mode of entry that attracts the most interest and resources from the planning. The choices can be seen as a scale of rising commitment to the chosen market (Kotler 1991).

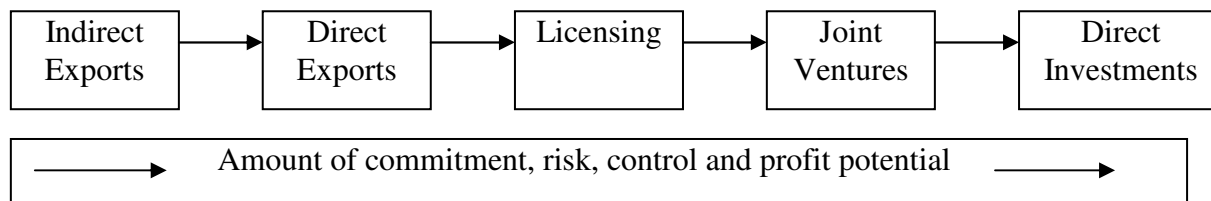


Figure 1. Entry modes to international markets (Kotler 1991)

Today many firms tend to jump very quickly through the stages, see remark about *Born Globals* for example. The firms in this study have all more or less jumped directly to step 5 and made a direct investment through setting up an office. As can be seen in Kotler's model the profit potential rises, but so does the risk which will be seen in the analysis.

Ever since it first was developed by Johanson & Vahlne (1977), the *Uppsala Internationalization Process Model* has been widely used and recognized within the field of research on the internationalization process of the firm. Their basic argument is that firms tend to internationalize in small and incremental steps, due to uncertainty. During this time successive learning and development takes place. This cautious approach has been especially true for SME's since they normally work with limited financial and managerial resources (Lindqvist 1991). Firms also tend to enter countries in an order where the ones with lesser psychic distances away from its own come first. This notion of distance refers to differences in for example culture between countries. The distance also makes it more difficult to acquire specific market knowledge.

Recent work done by Wolff & Pett (2000) suggest that there are two main theories dominating today, the *stage-theory* (Uppsala IP-model) or the *International-at-founding* (Oviatt and McDougal 1994), also by some authors referred to as *Born-Globals* (see above). However, Wolff and Pett (2000) address the question if there is no solution in between, which is something the authors also believe to be true.

Besides from the more recent work mentioned above, many authors have raised criticism against the model; see for example K. A. Nordström (1991) for a thorough description of this critique. In his doctoral thesis he joins this group of critics when he searches for new patterns and explanations of the internationalization process of the firm. Nordström's major conclusions are that the internationalization pace seems to become more rapid than ever. He also finds

⁶ The model was developed during several years and can be found describe in articles where besides Johanson & Vahlne also Wiedersheim-Paul was involved.

indications of a trade-off between the pace on and the level of commitment to particular markets. Millington & Bayliss (1990) suggest that the incremental process that creates knowledge described by the *Uppsala IP-model* is being replaced by research and planning before internationalizing. This is also supported by Nordström (1991) who mentions the higher amount of information and how it enables leap-frogging through the internationalization process model presented by the Uppsala-researchers. He supports and further develops the notion of organizational learning and focus on experience depicted by the model.

One more often used and cited part of theoretical framework around internationalization processes is the work done by Mattson & Hertz (1998) as well as Johanson & Mattson (1988), who discusses the occurrence and importance of having international networks, since many small companies do not have infinite resources, and therefore network collaborations are seen as an important internationalization strategy for smaller companies. “The internationalization process is a cumulative process in which relationships are continually established, developed, maintained, and dissolved in order to achieve the objectives of the firm.” (Ahokangas 1998:43).

A central point in network theory is that different processes within a company cannot be explained without analyzing the networks that a company directly or indirectly is a part of. The roles of networks have attracted a lot of attention in the last decades. It is often said that having a good network is one of the keys for success. For an SME, both industrial and financial networks play an important role when internationalizing. An industrial network normally includes different players involved in production, distribution and usage of services and products (Johansson & Mattson 1988). Financial networks are often of importance for SME’s since these companies normally need to finance their expansion with external capital. In some cases it might be easier to find financing in the country of expansion instead of on the home market. This has to do with the fact that some venture capitalists prefer to invest in their own home region, where they have a better understanding of the market.

The degree of internationalization in a company’s network affects the specific company’s internationalization process. During the internationalization process a company can form new networks in three ways: by creating new relations to networks in the country of expansion that are prior unknown to the company, by creating new relations to actors in networks that are prior known to the company, or by using existing contacts in order to connect to new networks (Johanson & Mattson 1988).

Other theoretical explanatory aspects

In this part a selected set of theories judged as relevant by the authors are presented. The authors find them to be explanatory for the patterns that became apparent during the interviews. The theories can roughly be divided into three areas; *the individual, the organization and the environment*. The individual aspect is for instance the entrepreneurial side of the process. On the organization-level there are things such as cultural dimensions and the management of local offices. Environmental factors are for example market considerations. The chosen theories have a wide range and according to the authors this is due to the complexity in the internationalization process. The format of the thesis only allows a brief presentation of each, but that should be sufficient to give the reader an overview and explain where the authors find support for some of their conclusions in the analysis.

Entrepreneurial

Internationalization per se could be seen as an entrepreneurial act since it is about opening up new markets (new to the company and sometimes to everybody) and seeing new solutions to problems (free translation from Schumpeter 1934). A more extensive discussion on why and how the internationalization is an entrepreneurial act can be followed in Andersson (1996).

When looking at the internationalization process within an SME, the individual entrepreneur needs to be discussed and analyzed. Entrepreneurship often means different things to different people. In this thesis we define it as a company's formal and informal activities aimed at increasing innovation and venturing (Zahra et al 2001). Many small (even larger ones as Andersson (1999) shows) companies have one strong person with both the power and the will to determine the strategy of the company. Andersson (1999) concludes that the individuals are important for the internationalization process of the firms. He also argues that the individual has impact on the mode of internationalization. This can work in both positive and negative ways, since most individuals have differing experiences and therefore see the internationalization process from different perspectives it is important to take other persons' views into account.

Zahra et al (2001) mean that companies can significantly increase the likelihood of success of the international expansion by behaving entrepreneurially. "Successful companies work hard to adapt their products to local cultures, or develop new products that specifically target those markets." They further mean that the learning arising from the internationalization process is crucial for

further success. The new obtained skills are combined to build new competencies that lead to more entrepreneurship through innovation and venturing, which in turn leads to more internationalization.

Figure 2. Fostering Entrepreneurship during International Expansion, model from Zabra et al (2001)

A study made by Chaston, Badger and Sadler-Smith (2001) concludes that the interest for the concept of organizational learning can be traced in the vast amount of literature on the area. However, they claim that too few empirical studies are made and therefore they contribute to the subject with a study that gives support for the reasoning that entrepreneurial companies tend to utilize higher order learning and thereby become more efficient in managing information.

Organizational

The challenge of organizing the internationalization process is very complex and probably the most important as well as difficult task for an SME. Most organizational theories available focus on large organizations and they are perhaps not as applicable on SME's. When looking at the internationalization process from an organizational point of view, close links to entrepreneurial issues are arising, see above for a discussion on this matter. A small firm is usually organized in a very simple way (Mintzberg 1989) with informal communication and information channels. This is usually most appropriate and also works best in the beginning of a firm's life. But when a firm opens up offices in other countries several problems are bound to occur.

A certain challenge is how the internationalization process should be managed. Being small and lacking resources make it hard to develop a complete organization at each location. There will be a tension between the local management and the owners/management at the head-office. Head management need to handle the situation carefully. Local management should be given their independence, yet for the sake of the company and its culture, head management must still exert some control over the local operations (free translation from Watson 1994). A further aspect of setting up offices in other countries is the question of using local management or management from the head-office. The advantages with having local managers are that they have local knowledge of the market and culture. The main advantages with managers from the head-office are that they possess good knowledge of the firm and its core values and strategies. Finding persons having all of these qualities is of course optimal, but that equation is often hard to solve.

Another important aspect of organizing the international venture is the cultural dimension. Johansson (2000:56) makes a major point when he concludes, “Culture is not only a fundamental dimension of any society but a very visible force affecting market demand as well as managerial behavior”. The sometimes problematic aspects of cultural differences between countries is developed in detail by Hofstede (1980) along four cultural dimensions, and the conclusion from his work is that differences between countries are very evident and they should be treated with respect and cautiousness in order to not cause unnecessary disturbances in a company’s organization.

One more aspect of setting up offices abroad is the technical infrastructure and its maintenance dependability. Different local standards and malfunctioning systems could become a major problem. This is especially true for a knowledge intensive company that benefits from close interactions among their employees and over country borders. According to Applegate et al (1999) a strategy for the technical infrastructure is just as important as other strategic decisions. The conclusion should be that these matters should be taken seriously from the beginning.

Being an SME in growth, funding for the expansion can in most cases not solely be solved internally. To at least some degree external funding is needed. This creates dependence towards venture capitalists. The companies lose their freedom to fully decide over the strategy of the company. Many of the failures within the dot-com hype have been blamed on venture capitalists that have forced immature companies to internationalize in order to (hopefully) reap larger gains (Carlbon 2001). This behavior by some venture capitalists has led to significant problems since it puts the companies in need of even more capital at later stages in the internationalization process, which has shown to be difficult to obtain (Carlbon 2001). One reason for this is that the initial investors do not have the funds to take part in these later capital injections, since they are normally more expensive than investments in start-ups. Falk & Reimfeldt (2002) study venture capitalists effects on young companies’ strategies. Among other things they look at how the new owners influence the internationalization process. For many of the companies in the study the new owners pressured the companies to expand internationally in hope of increasing the revenues, which in many cases did not turn out to be the case. In other cases though, the internationalization process have profited from the new owners networks and knowledge of the new market. This is also supported by Timmons (1987) who suggest that venture capitalists’ most important contribution is as an advisor.

The use of professional consultants is becoming more and more common, the complexity of the world makes it difficult and expensive to have all expertise within the company, this holds especially true for SME's since they have limited funds. Johansson (1999) discusses the subject of to what extent SME's use and need external consultants. Drawing from previous research he concludes that few SME's see or even have the demand for external consultants. From his experience as a practitioner consultant though he argues that most SME's very well could and should benefit from consultants. He therefore sees a need to develop certain forms for the collaboration, a discussion that he also develops further in his essay. From his remarks as well as some of the authors he refers to it can be concluded that SME's ought to have the same needs for professional consulting as any larger size company. One limitation he as well as the authors of this thesis sees is the discrepancy between the consultant's fee and the SME's willingness and ability to pay. Common sources of advice for SME's and its owners have been informal networks. But Stevenson & Sahlman (1999) discusses that change and complexity in the world has made friendly advice from former colleagues an obsolete source of valuable information. They argue for a strategy where advisors/consultants are involved deeply and early in the process of an entrepreneurial venture, which an internationalization process can be regarded as. Everybody is not that positive about using consultants. "McKinsey does not know more about the industry than we", says Dag Häggkvist, one of the persons behind Deo.com (Ericson 2002).

Market

One aspect of the internationalization process is that you need to find and attract new customers in other countries. The companies in this study are all dependent on local marketing since they are very small and have to attract local customer within the countries they are entering. They do not possess well-known international brands, such as IKEA. Therefore, marketing towards new customers is usually very costly since you have to spend money on building brand awareness etc. (Kotler 1991). The general aspects of marketing in a foreign country is to be able to adapt your product/service to the local customer, know the local demands, i.e. understand the local market in general (Johansson 2000). One strategy of marketing when entering a new country that has proven to be successful is the use of reference-customers.⁷ The possible success of this depends slightly on what kind of product/service that the company is offering, but initial customers are always important as indirect marketers (Kotler 1991). The importance of using early adopters on

⁷ See www.swedelink.com for a presentation of a step-wise strategy, with reference customers as one important part, which has proven successful on the American market.

a new market to further evaluate the product's/service's ability to attract customers is also discussed and supported by Kotler (1991).

The need to fully evaluate the potential of a market before deciding to enter is quite obvious. The general development towards a global information society has made it a lot easier for companies to learn about foreign markets. The incremental, and thereby learning approach described by the Uppsala-researchers is therefore not to the same extent necessary, since it is possible to obtain most of the information already from the home market. Being an SME it is however a quite difficult task, since it will be too expensive in comparison to their size to make it very thorough. They cannot as large companies afford to spend too much on research; this is why Trade Councils and specialized research companies are probably one of the most cost-effective solutions. Evidence also shows that young firms tend to neglect market research to some extents; they use basic market data together with hunch feelings (Johansson 2000). If a market study should be conducted fully it is important to take all aspects into consideration. Malhotra (1999) presents a useful framework for this, using an extended version of his domestic model he adds factors such as; marketing environment, government environment, legal environment, economic environment, structural environment, informational and technological environment as well as socio-cultural environment. The need to fully observe and acknowledge the impact of cultural differences on customer behavior and preferences are stressed by Johansson (2000).

One specific aspect of research is to choose the timing of market entry. This has had a large impact on the studied SME's. There is no recipe to foresee the future but realistic and cautious calculations are the least that could be asked for. There are numbers of examples where too optimistic ideas about the development of the market and specific industries have caused failures (Schimanski 2001).

Empirical results

This chapter contains the description of the four case companies. The reader will be given a brief introduction to the company before the internationalization process is described in detail. The text has been edited in order for the cases to be easily comparable when reading the different texts, giving the reader a better opportunity to draw own conclusions about the cases. In order to increase the understanding for readers not familiar with the topic the first story has been made somewhat more extensive giving more back-ground information than the others. The reason that not all of them are made more extensive is that the empirical chapter would then have become too long. The choice to extend the case of Avanza, and not any of the others, was natural, due to one of the author's back-ground in the company. This made it easier to obtain a more detailed version of the story.

The empirical result presented is solely the interviewed persons' perceptions of what happened. The authors have not to any greater extent tried to check the reliability in their answers. The primary reason is that the authors in accordance with Bengtsson (1994) argue that perceptions and actions are flip sides of the same coin. People act on their perceptions, i.e. actions and perceptions take place simultaneously. Another reason is that it to a large extent would be impossible to obtain this kind of information through any other sources than interviews and furthermore that it would require more time spent on research than within the scope of this thesis.

Avanza

Brief history

Avanza was founded in the end of 1997 by Per Nordlander, Sven Chetkovich and Urban Stårner. It was then the 9th online-broker to start in Sweden. The founders had previously, working for Öhman Fondkommission, started Sweden's first online-broker, Nordnet. The initial funding was put up by Björn Braathen, a Norwegian venture capitalist.

The idea to internationalize the company was awoken rather early, even if they do not consider themselves to be *Born Globals*. During the summer of 1997, before they started Avanza,

discussions were held with E*Trade⁸ about acquiring a license for all of the Nordic countries. The founders decided to turn this offer down, because that they felt it would take too much time to get up and running. Instead they decided to start their own online-broker in Sweden, and at this time there were no immediate plans to internationalize.

The company was launched with a very successful and aggressive marketing campaign. The main selling point was being the first broker in Sweden to offer a flat rate on transactions (99 SEK per transaction on the Stockholm Stock Exchange). In the end of 1998 Avanza had 5000 clients with trading-accounts.

Until this point, Avanza was more or less just offering very cheap transaction possibilities via Internet or telephone. During the latter part of 1998 the market conditions were changing rapidly. The customers demanded access to much more financial content, such as news, analyses etc. Therefore, Avanza acquired Inside Finans from Scandinavia Online in the first half of 1999. Inside Finans was at that time one of Sweden's most popular financial information portals. This resulted in the creation of a fully-fledged financial service that has received several awards. It was evident that Sweden was quite far ahead of more or less all of the other European countries in the development of advanced online-brokerage services. This fact brought the idea of internationalization back on the table again.

In the middle of 1999 Avanza started the process of securing the capital that was needed if an international expansion should become reality. Later that year Avanza raised 135 MSEK through a capital injection from Catalyst, a British based venture capital firm. This new funding was meant to cover the initial part of the internationalization process. To raise capital for later parts of the expansion was not considered as a problem, since the reserves of available venture capital seemed endless at the time. During the discussions with different venture capitalists the concept of risk more or less never came up on the agenda. Nobody realized or thought about the risks involved if the internationalization process failed.

At this time, online-brokerage was one of the most hyped industries in most European countries and in the USA. More or less all of the major players had expansion plans that stretched over Europe. It was one of the favorite businesses for the venture capitalists to invest in, so funding of these expansion plans was for most participants not a problem. The enormous hype led to very

⁸ One of the largest online brokers in the USA – www.etrade.com

highly valued companies. The most commonly used parameter to value these companies at the time was the number of accounts (customers) that each online broker had. In Sweden, companies was at the peak valued at 30 000 SEK per account. In Germany the number was 190 000 SEK per account. This valuation method was one of the main drivers behind the extreme growth (compared to profitability) focus in the business.

During the extremely bullish year of 1999 the company grew to 13 000 clients. The portal became one of Sweden's most popular websites and had over 300 000 unique users per month in the beginning of 2000. At this time the hype also reached its peak (Björnelid, 2001). Avanza was "courted" by many venture capitalists behaving in a way that almost can be described as desperate. They wanted to invest in this industry since it was believed to grow enormously over the next few years. "You are too slow!" was said by many of the venture capitalists at the investor meetings. Avanza's international expansion had started and they were already growing very fast, but the venture capitalists wanted to see even more and faster growth. This, of course, even more convinced Avanza that internationalization was the right thing to do.

International expansion

The aim with Avanza's international expansion was to become one of the major pan-European online-brokers. This would take advantage of the general internationalization of the capital markets and the large economies of scale that exist in the online-brokerage environment.

The preparation for Avanza's international expansion started in the latter half of 1999. The initial target was set to Germany. The reasons for choosing Germany were:

1. It is the biggest market in Europe;
2. Besides Sweden it had the highest penetration of online-brokerage accounts;
3. It experienced a tremendous growth at the time.

Other countries were also considered, but both management and investors agreed that Germany was the best choice of market to enter first. There was a significant pressure from the investors to expand quickly. As mentioned before, the focus was on growth and not profitability.

There was more or less no research done prior to the expansion concerning specific regulations and fundamentals on the German financial markets. The company did not have a correct picture of the cost structures of the financial markets in Germany. This resulted in quite a few problems

along the road. Furthermore, there was no real budget or project plan in place before starting the expansion. All this was first set in place after entering Germany.

Two persons were sent from the Swedish office to lead the German venture until local management was in place. The Swedish management was involved in some part of the work. A supervisory board was appointed which contained people from the management in Sweden and the responsible persons in Germany. Due to Avanza's general high growth, it was not considered possible to dedicate more resources from the Swedish organization. Since speed was of essence, Avanza decided to use German management consultants as a temporary substitute for the local management. This turned out to be a bad and expensive choice. The company experienced that the consultants almost made more harm than good. Avanza used different headhunters for the recruiting process. At this time it was relatively tough to find qualified personnel in the finance sector. The boom made recruitment a hard process, which resulted in that it took quite long time to fill the key management positions.

As mentioned, the German market was relatively advanced and was experiencing a spectacular growth at this time. In the first half of 2000 the total number of clients more than doubled. The market was totally dominated by four players; Bank 24, Direkt Anlagen Bank, Comdirect and Consors. These were all spin-offs from major German banks. Besides Avanza there were several other online-brokers trying to enter the German market at the same time, both domestic and foreign ones.⁹

The initial plan was to launch the German service in middle of 2000. The major hurdle to get the service online was to get the systems up and running. The systems for an online-broker are complex. The idea was to build a system from scratch and not to reuse the systems that were operational in Sweden. The reason for this was that the company wanted to build a state-of-the-art and highly scalable solution that later would form the base for Avanza's further expansion in Europe. This system consisted of two main parts; a broker and back-office system and an information system. For the first part of the system two German and one Swedish supplier was considered. The Swedish supplier was chosen, mainly because they fitted better with Avanza's further expansion plans throughout Europe. The second part of the system was supplied and developed by a German company. Due to major delays, especially by the Swedish supplier, the service was not up and running on time. The delay by the Swedish supplier was mainly due to

⁹ e.g. Systracom (German), Pulsiv (German) and EQ-online (Finnish)

lack of knowledge of how to adjust their existing system to the requirements necessary on the German market and the fact that the supplier used external consultants with limited internal know-how for the project.

In the latter part of 2000 the market came to a complete standstill. The sharp decline in the stock markets lead to drastically lower trading volumes on the exchanges and the interest in opening online-trading accounts more or less disappeared.

Outcome

In the end of 2000 the German operation had grown to about 40 people and the full-scale service had become as good as ready to be launched. Avanza had during the last 6 months tried to get the additional funding that was necessary to continue its international expansion. At this time initial expansion steps had also been taken in U.K. and the Netherlands. The sharp decline in the financial markets during 2000 made it very difficult to raise more capital. In the beginning of 2001 Avanza decided to terminate all international operations since no new funds were received.

The main reason for the failure is considered to be the collapse of the financial markets. This made it practically impossible to succeed. The delay of getting the systems online also played an important role, since this meant that Avanza missed out on being operational when the market still grew considerably. A different timing of the expansion had probably meant a totally different outcome, but not necessarily a better one.

Lessons

If Avanza would try to expand internationally again they would be more cautious - take it slower. In retrospect the internationalization should probably not have taken place at all. The risks connected with the chosen expansion were too high compared to the relatively small company of Avanza. It jeopardized the survival of the entire company.

An alternative would have been to choose a different strategy. By finding a specific niche, instead of targeting the entire market, the company believes that they might have been more successful and most importantly taken a more reasonable risk compared to the company's size. One option would have been to partner up with some local player, and thereby sharing the risk. This would

also have solved some of the problems that arose due to the lack of detailed knowledge of local market conditions.

Another lesson is that the company should have decided to cut the losses earlier than they did. When the market started to drop in the middle of 2000 they company was affected doubly. The growth on the online brokerage market stopped and at the same time the supply of venture capital disappeared quickly. It would have been wiser, and cheaper, to terminate the international expansion at this time instead of waiting more or less a year to do so.

A more specific lesson is that consultants would have been used in much lesser degree and instead in-house general branch expertise would have been used to a larger extent. In retrospect it might also have been wiser to choose a German supplier for the back-office system. Considering the complexity of these systems a supplier with local knowledge would have diminished the risk of being delayed significantly. As it was know the advantages with the Swedish supplier did not compensate for the extra risk involved.

Today

During the summer of 2001 Avanza was bought by one of its Swedish competitors, HQ.se. The new company kept the Avanza name. The company recently received the award as best Swedish online broker of the year and are today with its close to 100 000 clients the largest online-broker in Scandinavia. Avanza has no international presence at the moment.

It should be mentioned that more or less all online-brokers that entered the German market at the same time as Avanza have closed down their operations in Germany. Furthermore, the four main players on the German market are experiencing severe problems today. The main cause for this is that they, just as Avanza, failed in their attempts to expand throughout Europe. This has resulted in huge losses and many of their foreign operations have been closed down.

Glocalnet

Brief background and history

Glocalnet was founded by Stefan Krook and Andrin Bachman in the 1997. Before that it had been a project within another telecom company, Netnet. At start the co-founders had 30% each

of the company; Netnet owned the remaining 40%. The concept was to introduce Internet based telephony (Voice-over-IP), and thereby offer telephone services at lower rates.

Glocalnet started as a technology company offering their services to independent service providers who then had the contact with the end-customers. In Sweden different factors, mainly the equal access reform (“Förvalsreformen”)¹⁰ lead to that Glocalnet also took an end-user perspective and thereby acted as operator. In Sweden Glocalnet started with offering fixed telephony services and has later on completed the offering with mobile and Internet access services. The technology (Voice-over-IP) did not become the revolution that Glocalnet had expected and today the company has transformed from being a technology provider into a pure service provider. Glocalnet is one of the main contenders to the well-established telecom service providers, e.g. Telia and Tele 2.

Glocalnet have raised capital in several steps and went public in 2000. Catella joined as investor in 1998 and is today the biggest owner.

International expansion

Glocalnet’s international expansion could be divided into two phases. The first deals with the period when the company had a technology provider focus and the second when they had changed to a service provider focus.

Phase one

Being one of the pioneers in Internet based telephony; various international players frequently contacted Glocalnet regarding partnerships. This was often done by a local entrepreneur who was equally convinced of the advantages of the new technology.

This resulted in that Glocalnet in 1999 supplied the necessary technical infrastructure to local companies in Spain, Turkey and Greece. These companies were fully owned by the local entrepreneur and operated under their own brand name. These co-operations also included an option for Glocalnet to buy normally 30% of the local company for a symbolic amount.

¹⁰ Customers can predefine which operator they want to use and do not have to dial a prefix.

These countries were chosen due to the relatively poor sound quality in regular telephony. One of the drawbacks with Internet based telephony was that this technology had not reached the same sound quality standards that clients are accustomed to in northern Europe.

Outcome

In 1999 Glocalnet changed supplier of technology to get a more scalable and reliable network. The foreign companies did not follow this change, which indirectly led to that the co-operation was terminated.

Lessons

Even if this internationalization attempt was terminated, Glocalnet does not have any major regrets. The reason is that this phase of expansion was characterized by very low risk for Glocalnet. The local entrepreneurs took more or less all risk.

Phase two

The second phase started during the beginning of 2000, in the middle of the prevailing Internet “hype”, the time when everybody wanted to see growth (Larsson, 2002). Glocalnet believed they needed to expand to other markets in order to become profitable. Management, board and owners all agreed that an expansion was the right thing to do. Yet, management was keen on being cautious and not to do it too fast. Two business developers and the CEO worked with the internationalization process. Glocalnet did not use external consultants during any phase of their international expansion.

Approximately 6 months of research was conducted before deciding which market to enter. In this process Glocalnet mainly looked at the other Nordic countries, and the final choice fell on Denmark. At this time the Danish market was relatively competitive. There were 4-5 serious players plus an array of additional minor players. During the expansion phase the market became even more competitive when it came to mobile telephony services.

In Denmark a fully owned subsidiary was started. The idea was to create another Glocalnet. Local management with extensive telecom background was recruited. The CEO, Stefan Krook, was present in Denmark one day a week and in his opinion they achieved to create a very good

culture in the subsidiary. Still, cultural differences between Sweden and Denmark in attitudes and business conduct were experienced. This resulted in that the CEO sometimes had to act as a mediator between the subsidiary and the head-office.

Glocalnet were very close to signing a deal with a major player in Denmark (comparable with KF in Sweden). This would have made it much cheaper to market their services. This together with the general down turn on the financial markets in beginning of 2001 was seen as the main reasons for the shut down of operations in Denmark.

Outcome

Since Glocalnet closed down the subsidiary in Denmark they obviously considered it being a failure. The main reason for the failure was the collapse of the financial markets. Closing a deal with a partner could have changed the situation, but not necessary to the positive. If Glocalnet had continued their Danish operations it may have resulted in further losses, especially considering the continued downturn in the economy that has followed the closedown.

In retrospect the company feels that the hype on the financial markets indirectly “forced” the expansion. The extremely high valuation of the company made Glocalnet think it was necessary to expand. Nevertheless, Glocalnet feels that they successfully managed to build a well functioning subsidiary even if the international expansion decision probably was not based on correct fundamentals.

Lessons

Glocalnet believes it would have been better to sign up with a partner in Denmark before opening a local subsidiary. As it was done now there was too much risk in relation to the difficulties of getting a partner.

Today

Another capital injection was done in the middle of 2001. Today Glocalnet have grown to become the third largest service provider on fixed telephony in Sweden (after Telia and Tele2). They have close to 100 000 customers and are on the brink of becoming cash flow positive. Glocalnet has no international presence at the moment.

Projectplace

Brief background and history

The company was founded by Magnus Ingvarsson, Mattias Hällström and Peter Johansson in the beginning of 1998. The founders had previously run a number of international research projects aimed at developing new Internet technology for project communication and collaboration within SISU¹¹. They created the world's first web-based project collaboration service with integrated and secure credit card payments in the spring of 1997, which was called SISU Virtual Workplace. Projectplace's business concept is to develop and provide a web service for professional project management and team collaboration, with focus on inter-organizational projects. The business concept is very easily scalable. Projectplace launched their services in September 1998.

Projectplace is a privately held company with investors including: Investor Growth Capital, i2i Venture and Arctic Ventures. Projectplace's latest (and largest) capital injection took place in the beginning of 2001 when 70 MSEK was raised.

International expansion

In 1999 Projectplace started their expansion to Norway. In the autumn of 2000, subsidiaries were started in the Netherlands and in the UK. Germany, which is the most recent launch, started in 2001. All subsidiaries are fully owned. There have been discussions about further countries, but no additional expansions are planned at the moment.

The decision to expand internationally was something that both management and owners considered being necessary. Nevertheless, a certain pressure from the investors (or just the fact that they had raised a lot of capital) to expand was felt within the company. International expansion was one of the main reasons for raising capital.

Thorough research was done prior to expanding to a market. The main fundamentals that formed the basis for choice of markets were Internet penetration, population size, language, work methods and geographic position. These were relatively easy fundamentals to obtain facts about.

¹¹ Svenska Institutet för Systemutveckling

Norway do not really qualify according to the above fundamental, but that market was chosen due to that Projectplace already had gained a relatively large customer base there and the fact that they were contacted by a person who wanted to run their service in Norway. It was also considered to be a good test market.

Besides the above fundamentals, the UK was chosen since it is a major knowledge center. It was also considered to be of strategic importance to be present in London. Internet penetration and a relative large size were the reasons for choosing the Netherlands. Germany was chosen for its size and its work environment, which was considered to suit Projectplace's services very well. In all cases, Projectplace had already some local customers before entering each market.

The initial idea was that sales, PR and marketing should be done by the subsidiaries. Due to slower uptake than expected, the local organizations have been kept very slim. The subsidiaries are more or less pure sales offices; all other tasks have been centralized. The reason for the slower uptake is believed to be twofold. The general downturn in the economy has affected the growth. The biggest customer sector for Projectplace has been the IT-industry and this sector has experienced the biggest blow in the recent downturn. This has increased the effects of the downturn for Projectplace. The second reason is that the foreign markets were not as mature as expected. This has led to a slower and more cautious international expansion than first intended.

The subsidiaries were/are mainly controlled through budgets and monthly reports. In addition to this the management team and the Country Managers meet 3 times per year. These control functions have been considered to be sufficient. There has been relatively little support from head-office to the subsidiaries. The reason is that, due to the low growth on the foreign markets, it has not been considered to be of highest priority. This has, of course, been seen as negative by the subsidiaries, who do not feel that they have been given the right amount of attention. A further perceived problem between the head-office and the subsidiaries has been that the head-office is very technology-driven but the subsidiaries have a pure sales focus.

Projectplace has relatively few direct competitors in Europe. There is no competitor with a European perspective like Projectplace. In each market there are some local/niche players. There are fewer competitors now compared to when they started their international expansion. This is regarded as negative by the company, since this change is mainly a result of the general slow-down in the market. There are a few companies (e.g. eRoom, onProject, eProject) with similar services in the US, but they have yet to make their entry into Europe.

Instead of any major direct competition, Projectplace is fighting with quite many substitutes, ranging from companies selling software for local installation (instead of fully web-based solution as Projectplace's) to very simple file sharing services such as Xdrive¹².

The foreign markets are characterized by more direct sales activities compared to Sweden. Advertising efforts are hard and have not really paid off. This is mainly due to the fact that it is difficult to pinpoint the customers/users (normally project leaders in different companies).

Projectplace have used limited external consultants in the internationalization process, mainly for administrative purposes. In the UK and the Netherlands Projectplace used headhunting firms to find suitable Country Managers. It was a long and costly process. Furthermore, due to changes mentioned above regarding the responsibilities of the subsidiaries, the recruited Country Managers were relatively overqualified. This has created some frustration from the Country Managers. The gained experience and the decision to take a more cautious approach when expanding resulted in that no local Country Manager was hired when Projectplace started in Germany. Instead they sent down a person from Stockholm who is still running the German office.

Outcome

The internationalization process is considered to be a success. All of the started subsidiaries are still operational, even if they have lower sales figures than expected. If just looking at the original plans/goals it might be considered to be a failure, but taking the general development of the economy into account it qualifies as a success. It has been a relatively inexpensive and low risk international expansion.

¹² www.xdrive.com

Lessons

If they would do it again they would take an even more cautious approach from start. They would do more as they have done when entering Germany. They mean that the strategy used in the UK and in the Netherlands was too aggressive, even if it compared to other companies was relatively cautious. In addition they would to a much greater extent start to work with the local market, e.g. by getting more customer references/cases, before obtaining a local presence.

Furthermore they would in more detail consider alternative expansion models, e.g. using sales agents instead of subsidiaries.

Today

Projectplace employs 37 people today. Approximately 95 000 persons across Europe use their service, of which 50% are based in Sweden. Sales on the foreign markets are picking up. Some of the subsidiaries show positive cash flow. There are no immediate plans for further international expansion. The strategy is to first strengthen their position at the present markets.

Edgecom

Brief background and history

Edgecom was founded in 1994 as a subsidiary of the Unisource Group. KPN, Swisscom, Telia and Telefonica (joined the consortium later) formed Unisource. Their strategy was to build mobile networks and services across Europe. Development was halted in 1996 and the company was transformed into a consultancy company instead. Initially most of the work was done internally, i.e. performed consultant services towards the four founding partners. At this time 20 persons were working in the company.

In 1998, the company started doing business under the Edgecom brand and began operations as an entirely independent consulting firm. As part of the breakup of Unisource, Ericsson acquired Edgecom later that year. The reason for the acquisition was that Ericsson was frequently asked by its customers to provide qualified consulting services. Ericsson was not always able to meet this request and the idea was that Edgecom would help filling this need from Ericsson's customers. The objective has always been to mainly work with external customers. The goal is that 75% of revenues should be generated by external assignments and the rest internally (i.e.

directly from Ericsson thru the company's own needs for management consultancy). Ericsson did not invest any money in Edgecom, meaning that any growth had to be organic.

International expansion

Due to Ericsson's global presence it was necessary that Edgecom opened global offices in order to be able to serve Ericsson's customer. At this time Edgecom were 25 consultants. Most of them were positioned at the head-office in Stockholm. The rest worked out of their London office. The goal was to open 2-3 new offices per year.

The choice of markets was fully dependent on where Ericsson's customer were located. The process of opening a new office was not same on all locations. The most common way was that Edgecom took maximal advantage of the local infrastructure that Ericsson already had in place. This often meant that Edgecom moved into Ericsson's premises. In these cases a local legal entity for the company was not founded. Local employees was hired by Ericsson and then "rented" to Edgecom. The reason for choosing this expansion approach was that it made it possible to get up and running in minimal time. The perceived main disadvantage with this approach was that it led to difficulties in getting the internal IT-systems up and running due to constraints from Ericsson's internal security arrangements. Being a global consultancy, sharing information is of highest essence. The problem with getting a functioning internal IT-system in place resulted in that Edgecom lost speed in some markets. Another perceived problem was the culture differences between the mature company of Ericsson and the start-up mentality that prevailed at Edgecom. On some markets where the above approach was used, local companies were established at a later stage.

In some countries Edgecom used another approach by directly starting own local companies that were located apart from Ericsson. This, of course, meant more initial effort for Edgecom. On the other side it meant fewer problems with the internal IT-systems, which meant that this approach got them up to a fully working global consultancy faster.

Before a new office was opened, Edgecom worked approximately 6 months with getting customers at that specific market (primarily existing Ericsson's customers). During this period it was only people from other offices working on the new market. There was no recruiting done at this stage. First when they had local customers and a significant interest from the local Ericsson Company, the office was opened. At this point normally a consultant from an already existing

office was sent on a one-year contract to facilitate the opening of the new office. The first task was to recruit the “Managing Principal” who was going to head the office. This normally took up to 6 months and Edgecom used specialized local headhunters for this. The company believes that they managed to find the right people. Further recruiting was done as the office generated more assignments. This cautious approach minimized the risk of failure.

The main control measure of the offices’ performance was through P & L reports. Consultancies are easy to control and therefore performance control was never perceived as a problem.

The big challenge was to get people within Edgecom to sufficiently communicate with each other. As global advisors this is crucial for success. A general problem with consultancies is that the consultants devote more or less all of their time in client projects and not on internal tasks. The global expansion increased this problem. The geographic distance between the offices made it even more difficult to obtain well-functioning internal communication. The above-mentioned problems with the internal IT-systems even further increased this problem.

In the beginning of 2001 Edgecom had 11 local offices spread all over the world. They had grown to 133 employees. Being in the telecom industry Edgecom was affected doubly by the downturn in the economy, since the telecom industry was one of the sectors getting the biggest hit. In Q1 2001 Edgecom closed down two of their offices and reduced the workforce to approximately 100 persons. This went pretty smooth, since consultancies normally are relatively easy to scale down.

Outcome

Edgecom consider their international expansion to be a success. They have grown from 20 to 100 consultants and created a true global presence compared to when the international expansion started.

The main reasons for their success are that they have been successful in their recruiting and been able to establish new offices fast enough. Of course, a very important factor for the success is Edgecom’s advantage of being able to “piggyback” on Ericsson when it comes to getting customers, access to existing local infrastructure etc. Another important thing is believed to be the fact that they sent out “ambassadors” from existing offices in order to get the process to run smooth and fast.

Lessons

One thing that the company would do differently is to control information and communication in a more strict way. There have been significant challenges to get information and communication to run smoothly. Another thing would be to have more of the staff from the head-office present when building the new offices, perhaps in the form of a global expansion team.

Today

In the beginning of 2002 it was decided that Edgecom would fully consolidate into Ericsson. They will be merged with Ericsson Business Consulting and the new company will have 250 employees spread over 15 offices worldwide. The reasons are the general consolidation in the sector and that Ericsson wants to better leverage Edgecom in the offering towards their customers.

Analysis

In this chapter the empirical results presented in the previous chapter are analyzed and discussed. The authors have found important aspects within each of the more general viewpoints mentioned above; *the individual, the organization and the environment*. The authors have tried to find different patterns in the cases presented. Thereafter the authors have isolated the most important and interesting patterns for success and failure of the internationalization process. The patterns are then formulated into themes, which are presented and discussed in this chapter. The themes are in many cases closely linked to each other and factors important within one theme may as well be of high importance in some of the other themes. Therefore, many of the themes have aspects from more than one of the above mentioned viewpoints and consequently each theme is presented on its own.

Comparing to classical internationalization theory about large companies the empiric material illustrates in many ways the major differences between being an SME and a large company when internationalizing. Many of the characters normally attributed to SME's such as limited resources and lack of international networks seem to have a significant impact on the internationalization process. The authors believe these different factors also have had an even stronger impact on the studied SME's since these were also very young companies.

Balancing Internal and External Resources

In a young SME the management and/or founders normally play a crucial role both in the general strategic processes as well as in the everyday work, this is also supported by Jansson (2001). Furthermore, being in a start-up phase normally implies that key persons in the organization are still focused on the home market/developing the product. In the case of Avanza, Glocalnet and Projectplace it is evident that the home market was still growing considerably when their internationalization process started and thereby also attracted a lot of focus from the management in each company. This is natural since the home market plays a very important role. In this situation it is hard to optimally use the internal resources/competencies in the international expansion process. Avanza said that they were not able to spare more resources for the internationalization process. Internationalizing is in many degrees building the company again or as Stefan Krook at Glocalnet said: "Our objective was to build another Glocalnet". The authors mean that it is of major importance to take advantage of the knowledge and experience of a company's key personnel in the internationalizing process. These persons have successfully

built the company once in the home country and know the business inside out. They most likely possess qualities that will be more than useful in the internationalization process. This can be compared to the statements by Zahra et al (2001) who stress that taking advantage of the learning process when internationalizing is one of the most important success factors. In the case of Edgecom they state that one of the reasons for their success is that they sent out key persons to help facilitate the opening of a new office. They also said that they would probably take this a step further by sending out an internal expansion team if they would expand again.

Using external advice can be tricky. Evidence from the literature (e.g. Johansson 1990) suggests that SME's can benefit from using consultants in the internationalization process. The authors of this thesis agree with this fact, but stress the difficulties involved. It is hard to judge if the competencies sought are matched by the consultants. The case of Avanza confirms this problem. They hired management consultants to assist the set-up of their German branch. It later showed that these consultants lacked the desired competencies, and their participation was almost experienced as unproductive. Furthermore, it was very expensive.

Independence

As mentioned in previous chapters, young SME's must in most cases find the financing for their internationalization process externally. This was the case for Avanza, Glocalnet and Projectplace whereas Edgecom managed their internationalization without any additional funding. The need for capital is, of course, very individual. The type of industry that the company is operating in decides a lot about how much that has to be raised for the internationalization process. For example, in the case of pure B2C companies like Avanza and Glocalnet this normally means that significant investments in marketing are necessary. In all of the studied companies that used external capital, a significant part of the capital invested was meant to cover costs of internationalizing the company. Just as the study performed by Falk and Reimfelt (2002), this study shows that the venture capitalists have played an important role in the international process. In all cases the companies have experienced a pressure or at least a perceived pressure from the venture capitalist to internationalize. This pressure is according to the authors one of the main drivers behind the focus on speed and aggressiveness that are discussed in more detail below.

Pace

This theme presents according to the authors the most evident pattern when observing the studied companies. In all cases the speed of internationalization was perceived to be of essence. The main reason for this was that all of the companies in the study operate in industries that experienced a spectacular growth at the time of internationalization. A fast expansion would enable the companies to even further benefit from this growth. All companies but Edgecom said in retrospect that they would go more slow if they where to do it again.

It is interesting to notice that none of the companies consider themselves to be *Born Globals*. They all started with a domestic perspective and the thought of internationalizing came at a later stage. This is also the traditional approach, but in recent years many of the new Swedish Internet companies have started with a pure international perspective, e.g. Letsbuyit and Boo.com.

In the process of choosing to internationalize the owners of the studied companies played an important role. They were one of the main drivers behind the focus on speed. Venture capitalists normally take a relatively short perspective and want to get their invested money back as soon as possible. It was even more the case than normal, since the studied companies' internationalization process started during the boom. This made it even more important for the investors that their companies showed high growth. The companies in the study were valued according to growth and not profitability. The more growth they showed the higher the value of the company. The investors were very keen on being part of this enormous expected growth. For example, Avanza was "courted" by many different venture capitalists more or less begging to be aloud to invest money in the expansion of the company. This, of course, had a strong impact on the company. It even more convinced the company and its management that it was the right thing to internationalize. By this discussion, the authors do not mean that it was a wrong decision by any of the companies to expand internationally. But the impact of the venture capitalists is seen as the main reason why the companies internationalized faster than what are normally the case for an SME.

Intensity and Risk

Another pattern, very closely linked to the former one, is the aggressiveness in the internationalization process. This can also be described as how much risk that is involved in the internationalization. As previously explained traditional literature mean that companies use a

step-by-step approach when internationalizing (Johanson & Vahlne 1977). This is said to be especially true for SME's. The main reason for this is the limited resources, both financial and managerial (Lindqvist 1991). The companies in our study internationalized when it was, having a historic perspective, very easy to raise capital for expansion. This fact made it possible for the companies to have a more aggressive approach to their international expansion than the traditional step-by-step approach. In the case of Avanza, they also tried to solve the limited managerial resources by using some of the raised capital to pay for consultants. As mentioned, this did not turn out to be an efficient solution.

Acting aggressively in the early stage of the internationalization process may not always be desirable. By skipping the step-by-step approach you also lose out on the process of improving and refining your business plan. In these young companies it is more the rule than the exception that the business plans change along the way. This can be the result of that the business concept is not fully mature, the assumptions made when entering the new market proved to be wrong, the market condition changes etc. Projectplace experienced that their initial investments in advertising in a new market did not pay off as expected. According to them, the reason was that they did not exactly know the most efficient way how to reach out to customers on the new market. Furthermore, they miscalculated the maturity of the markets. This example shows on the fact that a more aggressive approach does not take advantages of the learning process when internationalizing to the same extent as a step-by-step approach.

Just as mentioned in the discussion about the pace of internationalization, the owners and the general hype played an important role when choosing the more aggressive approach.

International networks

Being young and small normally means that you lack the international networks that are crucial for succeeding with the internationalization process. These networks probably play an even greater role when internationalizing than it does on the home market, since the company is on unknown territory. There are different ways of compensating for this. One is to try to find Joint Ventures on the new market and thereby indirectly be part of a network (Johanson & Mattson 1988). Another is to leverage the owners existing international network. This is what Edgcom did by using the network of Ericsson. For Edgcom this meant that they already indirectly had a presence in the new market. It also reduced the time to get up and running since they could benefit from Ericsson infrastructure in the new market. Most importantly it made sure that

Edgecom had customers in the new market. This is by the authors considered as the main reasons why Edgecom managed to expand as fast and aggressive as they did.

Risks

That the internationalization process takes a reasonable risk level seems to be an important issue. In the cases of Avanza and Glocalnet the companies said in retrospect that the chosen internationalization approach contained too much risk in comparison to the company's size. In the case of Avanza it was said that the internationalization should not have taken place at all considering the risks involved - at least not considering the relatively aggressive approach that was used. According to them, by focusing on a niche market instead of having a very wide approach, a more appropriate risk level would perhaps have been achieved. The experience from Glocalnet shows on the same thing. They state that the Danish venture should not have been started until a strategic partnership had been signed on the Danish market. Without having this partnership the risks involved were too big. Compare with Kotler's model in figure 1 (1991) where a direct investment is characterized by relatively high risk.

One way of significantly lowering the risk of having a too aggressive approach is by securing customers in the new market before entering. Both Edgecom and Projectplace used this approach. For example, Edgecom worked during six months to get customers at a specific market and not until this was accomplished a new office was opened. Projectplace further states that they will use this approach to an even larger extent if they decide enter new markets in the future. By already having customers on the market that a company enters it has to a certain degree already made sure that the company's product or service will work on the new market. These customers also serve as reference customers, which have proved to be a successful concept for many companies in the USA according to SwedeLinkCalifornia. This might, of course, not be a possible alternative for all companies. In the case of Avanza, this would due to regulatory aspects probably not be a viable option. An alternative to getting real customers is making extensive customer surveys instead.

Another way of decreasing the risk is to team up with different strategic partners in the new market. This can be partnerships concerning distribution, marketing, production etc (Johanson & Mattson 1988). For example, getting access to a customer base can prove to lower the marketing costs significantly. As mentioned above, this was what Glocalnet attempted to achieve when expanding to Denmark. As they correctly point out, these kinds of partnerships can in many

cases be established before entering the new market. Taking that approach will even further diminish the risks involved.

Market research

One result of having a very fast internationalization process is that the homework that is needed prior to starting expanding is not always done thoroughly enough. In the case of Avanza this lead to significant problems along the way. This is not anything specific for the companies in this study. As mentioned in previous chapters, evidence show that young firms tend to neglect market research, and that hunch feelings play an important part in the decision process (Johansson 2000). Support is also found in the study by Jansson (2001) which shows that planning is less common among SME's. This may result in that not all different options of internationalizing are considered carefully enough. In the case of Projectplace they stated that they should have had explored different options in more detail before expanding. Specifically they would have liked to furthermore investigate the option of using sales-agents instead of opening own offices. This does not necessarily mean that it had been a better option, but it is, of course, more cost efficient to investigate this before making any investments.

Conclusion –List of Tentative Advice

In this section the authors present a short list of advice for the international process of SME's, which can be seen as a brief conclusion of the findings in the thesis. Some of the advice is of a more general and some of a more specific nature. The advice are derived from the discussions in the previous chapters. The list is not the exhaustive ultimate recipe for success (or failure), but more as important points to consider when internationalizing. It should again be noted that the analysis is based on perceptions.

It should also be stressed that these advice are based on the observation of four relatively similar (young and high-tech oriented) Swedish SME companies having made their international expansion during a point in history which has to be considered to be rather unique. The advice might have been quite different if more traditional companies, e.g. from the manufacturing industry, had been observed. Furthermore, the cases have most certainly been very affected by the specific conditions created by the boom and the following crash which all happened during their time of expansion. If these companies had started their internationalization process during another time in history, the lessons learned most probably had been somewhat different. The advice should be viewed having this perspective. The advice are not placed in any specific order of precedence.

- Make sure that internationalization decisions follow the general strategy of the company, and not just the strategy of the venture capitalists. Try not be too much affected by the short perspective that many venture capitalists take.
- Try to use internal competencies and experiences in as large extent as possible during the internationalization process. The experience and knowledge that the company possesses from building the company on the home market shall be taken advantage of.
- If you decide for an aggressive international expansion, be aware of the drawbacks that arise from not using a more cautious step-by-step approach. A typical draw-back is that you miss out on some of the learning process that normally is very useful.
- Being part of networks in the new market is crucial for success. Important effects of a good network can be to be able to get up and running faster, make it easier to get customers,

reducing the problems of lacking local knowledge etc. Having valuable networks is even more important if you want to make a fast and aggressive internationalization.

- Be sure that the international expansion takes an appropriate risk level compared to the company's size. Otherwise the company's entire existence can be jeopardized.
- Focus on getting customers and/or strategic partnerships in the new market before actually setting up a new office. This way the risk of the internationalization process can be reduced significantly.
- Take the time to make thorough research prior to deciding and planning for the internationalization. Make sure that the business model used on the home market is replicable on the new market. It might slow down the process and be associated with costs, but it will in many cases prove to be a wise investment of time and money.
- Use external advisory with caution. Make sure that consultants add specific knowledge to the company. Otherwise it is just a very expensive way to fill to the lack of personnel resources.

Reflections

This is a fairly small study based on Swedish SME's and their internationalization process and as mentioned, during an era where nothing was really like normal in many ways. Therefore the authors are very hesitant to draw any dramatic conclusions from it, but a couple of reflections can be made. Classical internationalization theories argue for a cautious and step-wise approach to internationalization. Support that companies can benefit from this is found in the study. Evidence is also found that the internationalization process is fairly complex and contains far more aspects than any single theory or framework available today can handle. A challenge for the future would be to formulate a framework for international expansion aimed at SME's that could be used as an analytical tool by firms interested in the option of going international. The authors will not take the discussion any further here, but suggest that *the individual, the organization and the environment* could be used as starting viewpoints since there are aspects within each that are of importance.

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Sten Lundquist, President,

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Websites

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www.glocalnet.se

www.avanza.com

www.edgecom.com

www.swedelink.com

Appendix 1

Presentation of the Authors

Hans Olofsson has worked in the United States for a total of more than a year. His first experience was while working with The Swedish American Chambers of Commerce in the USA, Inc. Through this he came in contact with many smaller Swedish companies, both those already having a presence, and those wanting one on the American market. Lately he also worked more specifically with Swedish companies entering the US market. Working with SwedeLinkCalifornia, an incubator/market entry facilitator in Southern California, he came in contact with both people with extensive experience from foreign market entries, as well as companies who recently had entered the US market or were in the planning process for doing so. His main experience from this can be summed up in a few points. Few smaller companies have well-planned strategies for their expansion. Coincidence, intuition and personal preferences are usually involved. Lack of time due to both weak commitment and scarce management resources are common. Outside help is usually hard to get, consultants are expensive and not always competent enough. Trade Councils' and Chambers' of Commerce involvement should be limited to practicalities and access to local networks.

Michael Wahlgren has worked with internationalization processes for 2,5 years. The first experience he got was at Avanza Fondkommission AB, where he worked with the company's international expansion. It involved market research prior to entry of market and also being one of two persons sent out from the head-office to open the German office. Later on it also involved opening up another office in the Netherlands. The second experience was gained when working at Etheraction AB, a company in the mobile Internet industry. Here it involved setting up the company's business in Canada. Both of these international expansions can be regarded as failures, since both have terminated their international operations. The direct reason for this was the burst of the recent IT-bubble which made it more or less impossible to raise more money for further expansion. In retrospect he question if these internationalization endeavors should have been started at all. According to him the risk was too high in relation to the size and maturity of the two companies. A more risk-averse strategy would in his mind have been a wiser choice.

Appendix 2

Interview form (guide)

The (parent) company

Briefly describe the company's history?

What are the main firm characteristics (industry, size, technology, ownership, legal status, management, organizational structure, culture etc)?

International expansion strategy

Why did the company choose international expansion? Which markets were targeted? Why were these markets chosen?

How did the company acquire knowledge of the local market?

How did the company perform market research prior to the expansion?

What form was chosen for the expansion? Why was this form chosen?

Where there any major co-operations involved in the international expansion?

To what extent was the expansion dependent on external suppliers?

How important was timing for the expansion?

International expansion organization/management

How was the expansion organized?

How were the managers for the international expansion chosen?

Who lead the expansion (entrepreneurs/existing staff or hired professionals/consultants)?

What was the background of the managers (education, relevant work experience, cultural background, nationality and age)?

To what extent was native/local management used? To what extent was native/local staff used?

To what extent was consultants used in the process?

How was the subsidiary controlled by the parent company?

To what extent was the management of the parent company/founders active in the internationalization process?

How was the leadership style and which values were prevailing?

Industry/market environment

Describe the competitive/market conditions (if there are differences between the competitive conditions on the foreign and home market, then describe the foreign situation)?

Where there any (significant) changes in the competitive/market conditions during the expansion phase?

Describe the important market factors (capital markets, labor market, raw material, tax and legislation etc)?

Where there any (significant) changes in the market factors during the expansion phase?

Where there any significant cultural differences?

Failure or success??

What are the specific results of the expansion process (sales figures, number of employees, market share etc)?

Was the expansion a failure or success (the company's view)?

What would you do differently if you were to do it again?

What were the five main reasons for your success?

What were the five main reasons for your failure?