Establishment of Insidership Positions in Institutionally Distant Business Networks
ESTABLISHMENT OF INSIDERSHIP POSITIONS IN INSTITUTIONALLY DISTANT BUSINESS NETWORKS

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Abstract


Since the opening of formerly closed markets in Eastern Europe and China in the early 1990s, numerous firms have sought to capture the growth opportunities prevailing in the virgin but institutionally distant business networks in these countries. I claim that the entry process into an institutionally distant business network has been realised when the entering firm has reached an insidership position in the network. To advance this idea, the thesis introduces the overlooked medium-sized multinational exporter (MME) and answers the following overarching research questions: (I) how do MMEs establish insidership positions in institutionally distant business networks, and (II) what critical abilities are developed by MMEs in the process of entering an institutionally distant business network? To answer these questions, qualitative and quantitative methods have sequentially been mixed to first give an in-depth understanding of the empirical field, and second to verify and generalise some of the most central tentative findings. Empirically, the study reports from a case study of eight firms in the Baltic Sea Region and from an on-site survey of 203 Swedish firms with experience of entries in Eastern Europe and/or China. Five individual essays are presented—all designed to reflect different aspects of the institutionally distant network entry process. The findings are condensed in the cover of the thesis, where it is claimed that an insidership position is reached through three main phases: the Scouting phase, the Qualifying phase and the Shielding phase. Furthermore, it is found that the most critical abilities developed through the institutionally distant network entry process is local experience-based knowledge of high specificity. It is shown that previous experiences, generated in different business networks in mature markets, are not useful in the network entry process in immature markets. As a consequence, there is reason to believe that the entering firm needs to develop unlearning abilities to replace obsolete or misleading experience.

Keywords: internationalisation process, entry process, network insidership, emerging markets, institutional distance, business networks, liability of outsidership, liability of foreignness, SME, export
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Mikael Hilmersson
Kalmar, April 2011
PREFACE

In spring 2005, I thought my academic studies had come to an end. I had just submitted my master's thesis (Hilmersson, 2005) for publication and received my master's degree. It was time to leave academia and enter the industry—a new chapter in life was ahead for me! Soon, however, I realised that four years at university was not enough; my curiosity had not been alleviated. I was not satisfied and believed that these years at university, crowned by a master's thesis written in St Petersburg, Russia, was not challenging enough. Luckily, instead of closure, the thesis became the beginning of an interesting, challenging and unforgettable journey. Ultimately, it is a journey that the reader of this thesis will take part of. But first I will share some important experiences prior to the start of my doctoral studies in early 2006.

My interest and curiosity provided me with the strength needed to complete the doctoral studies, and it grew stronger while writing my master's thesis. In the thesis, I studied the Russian operations of a medium-sized Swedish supplier to the pulp and paper industry. Despite 15 years of supplying the Russian market, the sales manager and the founder of the firm perceived severe difficulties in Russia. Although the firm supplied a few large Russian pulp and paper plants, it felt it was unable to communicate with its customers, had difficulties meeting new customers and accessing information about developments in Russia. In early 2000, the situation worsened: even with an annual sales increase of 5 per cent (over the last five years) in Russia, market shares were lost. The annual market growth reached almost 15 per cent for the same period of time. The situation was critical as the Russian market was predicted to be one of the most important markets for the industry's growth in the coming decades. Furthermore, there was a fear that lost market shares in Russia would have spillover effects in other geographical regions. In sum, the managers of the firm had a highly constrained knowledge about the market and were unable to change the situation 15 years after its first sales. For my thesis project, I spent three weeks in Russia performing interviews with different actors (e.g., the Swedish trade council, one of the customers, a private consultancy firm) to collect data. I also spent a few days in Helsinki, Finland, where on two
occasions I had meetings with a highly recognised consultancy firm in the particular industry. At that time, my theoretical focus mainly concerned choices of entry mode in the market. I was concerned with the fact that the current intermediated entry mode of the firm involving an agent was the main problem. Thus, looking back at my recommendations in the thesis, a drastic summary of my suggestion was that the firm should set up their own subsidiary in the Russian market in order to increase control over its activities. However, I stressed that in order not to lose even more market shares, the firm should be very careful not to weaken the relationships that the agent had with local market customers. As a consequence, I stressed that one requirement for the firm to succeed with its own subsidiary would be to give the CEO of the agency a top position in the soon-to-be established subsidiary.

After my master's degree and the presentation of my findings to the case company, I was asked by a Swedish multinational firm to write a business plan for one of its new services. The firm was about to launch a telephone-based interpretation service for Swedish exporting firms. My assignment was to evaluate the potential of the product and formulate a business plan for the service. To formulate a strong business plan, I interviewed roughly 40 Swedish firms exporting to Eastern Europe, which was the target market for the service. To evaluate the service’s potential and understand in which situations it could be used, I needed a broad understanding of the interactions with customers in the market at various levels. Thus, the interviews covered CEOs, marketing managers, as well as employees involved in after-sales service. Of greatest importance was to understand the extent to which language and communication barriers in their interactions with customers and other stakeholders in Eastern Europe were perceived. During the project, my findings from the master’s thesis project were validated on a broader group of firms in different industries. In many cases, the interviewees described severe problems of accessing market information, identifying new customers, and in reaching a point where future developments in the market could be foreseen. From many of the firms, I understood that entering these newly opened markets in Eastern Europe was considerably different and
more challenging than entries into markets in Western Europe such as Germany, France or the UK. The informants specifically explained that it was hard to reach a point where difficulties, uncertainties or problems related to the firm’s activities in Eastern Europe were not at the top of the “to-do list”. In sum, it seemed like these markets caused more problems, and therefore required more energy than the income they generated. In the project, I therefore did not doubt that the problems experienced by Swedish firms were huge. However, my recommendation was not to launch the service mainly because of the fact that very few of the informants believed that an external interpreter could assist them in highly specific industry language. Thus, there was a need but the business model was not the right solution. Ultimately, the service was never launched and my three-month project came to an end.

At this point, Hans Jansson, my professor and master’s thesis supervisor, contacted me. He had just received funding for a research project on what he introduced as the “the third wave of internationalisation of firms”. The empirical focus of the project was to study the internationalisation to and from emerging country markets. He believed that my thesis would serve as a solid ground for a doctoral position in the project. For me, this was just the challenge I was looking for and an opportunity too interesting to pass up. I immediately agreed, and a few months later my journey as a doctoral student began.

With my experiences from interviewing 40 firms concerning their Eastern European operations, I had a fairly good idea of the empirical focus of my study, which has not been much changed over the years. Its core can be summarised as an interest in understanding how relatively small firms capture the rising growth opportunities as new markets opened after the fall of the Soviet Union. From my previous experiences, I knew that the internationalisation of this type of firm was mainly export trade rather than investment driven. Therefore, I was mainly concerned with how a position could be created in the market network. Consequently, I was interested in developments beyond strategic decision-making such as market or entry mode choice, specifically how the firm can reach a situation where it is an established actor in the market.
Whereas my empirical interest has remained, my theoretical understanding and phrasing has been extensively developed. While searching for a framework suitable for the particular problem, I found inspiration in the network perspective on firm internationalisation mainly for four reasons. First, the network perspective on firm internationalisation provides a solid ground for analysing the internationalisation from a sales perspective, as it was first developed in marketing research. Second, this perspective was developed for analysing the business relationships and networks of industrial firms, which I have been specifically interested in. Third, a network perspective was motivated by the argument that the markets of my interest are described as network societies. Fourth, the network approach is inspiring because it focuses on the interactions and processes between actors in a network as they evolve over time. Apart from these four aspects, the network perspective provided me with very suitable terminology for my empirical observations from my previous experience. In retrospect, it is very clear to me that what I was struggling with before and seeking to examine in this thesis is how relatively small firms can reduce their liabilities of network outsidership and establish a network insidership position in business networks that are different from the firm’s home base.

Therefore, the quest for insidership in these newly opened business networks serves as the common denominator of the essays in this thesis, and it is also the focus of the thesis cover.
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1 INTRODUCTION

1.1 Background

The opening of new markets in Eastern Europe, along with liberalisations in China, India and South America, has redrawn the map of international business over the last decades, which serves as the springboard for this thesis. The harmonisation of economies witnessed was manifested by the reunification of Germany, the liberalisations in China, Russia, India, and South America, and the two enlargement steps of the European Union in 2004 and 2007. As for the latter, during a decade and half, the newly accessed member states had turned from occupied to independent nations, from a one-party system to democracy, from a centrally planned economy to a market economy, from membership in the Warsaw Pact to NATO. As a consequence of the harmonisation of the European community, the Baltic Sea turned from moat to open sea and red velvet carpets replaced the iron curtain, as the Baltic Sea became the first inland sea of the European Union. This enlargement of the European Union is seen as a major demonstration of a general trend of economic integration in the world economy.

These changes in the global economy have had a major impact on the pattern of firm internationalisation, and we have witnessed an altered direction, pace and extension of this internationalisation. According to Jansson (2007a,b), there is reason to talk about a third wave of firm
internationalisation. The first wave integrated the European economies with the U.S. The second wave integrated these two economies with the East and Southeast Asian economies. In the third wave of firm internationalisation, the European, U.S., and East and Southeast Asian economies are increasingly integrated with the newly opened economies in Eastern Europe and China, as firms extend their business operations into these markets. At the same time, we see firms from these countries entering the European and U.S. markets. This third wave of firm internationalisation has been one of the major strategic challenges as well as opportunities for firms operating internationally since the early 1990s. The newly opened business networks in Eastern and Central Europe, along with the Chinese business network, has provided growth opportunities beyond more mature markets of the Western and in 2002, Brazil, India, China, and Russia were predicted to be the growth engines of the world economy for the coming two decades (Cavusgil, Ghauri and Agarwal, 2002).

Researchers have not overlooked the changes in the global business environment and its consequences for the pattern of firm internationalisation. To explain the increased pace, new directions and widened extension of internationalisation, two main streams of research have evolved.

First is the focus on various aspects of the extended and altered direction of foreign direct investments by multinational enterprises (MNEs). These studies have turned their interest to the investments by MNEs in previously closed markets, as well as to the emergence of MNEs from these developing economies. Whereas the former stream of research has sought to develop or test the relevance of existing investment theories in explaining MNE behaviour in an alternative setting, the latter questions existing theories and argues for the development of alternative models, reducing the existing models’ home market biases. A common denominator of these studies, however, is that they focus on the investment driven international expansion
of MNEs. Although there is no universal definition of an MNE, it is
described as a firm that controls and manages production establishments in at
least two countries (Teece, 1985), and these foreign direct investments
indicate that the MNE is a substitute for the market (Rugman, 1981;
Hennart, 1980; Buckley and Casson, 1976). Researchers studying MNEs,
however, most often turn their attention to larger firms than suggested by this
definition. A Swedish example is that the 70 most internationally active
Swedish firms employ more than 1,000 persons each (SOU: 2008:90). Five of
those are listed on the Fortune Global 500 list, a list wherein the 50 largest
firms based on headcount employ more than 250,000 persons each. In
addition, the 500 largest MNEs account for 90 percent of world foreign direct
investment (FDI) and over half of world trade (Rugman, 2000).

Second, we have witnessed an astonishing increase in research with regard
to the increased pace of internationalisation. Starting when the terms High
technology start-ups (Jolly, Alahuhta and Jeannet, 1992), Born globals
(McKinsey, 1993) and International new ventures (Oviatt and McDougall,
1994) were posted, studies of a previously unobserved international SME set
off. This type of firm was defined as one that “… from inception seeks to
derive significant competitive advantage from the use of resources and the sale
of output in multiple countries” (Oviatt and McDougall, 1994, p. 49). The
occurrence of such firms intrigued the research community as traditionally
SMEs had been assumed to suffer from a resource and experience constraint
(e.g., Coviello and Munro, 1997; 1995; Fontes and Coombs, 1997; Kirby and
Kaiser, 2003). Their lack of experience, newness and relative small size were
predicted as limitations for international success (Coviello and Munro, 1999).
To understand why and how this type of firm had succeeded abroad,
researchers turned to the founder or entrepreneur of the firm for an
explanation. Inspiration was therefore found in well-established
entrepreneurship theories, for example Schumpeter (1934) and Kirzner
(1973). To succeed internationally, the resource constrained firm needs to act entrepreneurially, and the entrepreneur is therefore seen as the most vital resource of an internationalising SME (Oviatt and McDougall, 2000; Andersson and Evangelista, 2006; Andersson and Evangelista, 2006; Andersson and Wictor, 2003; Chetty and Campbell-Hunt, 2003).

I claim that this rising division between SMEs and MNCs is paradoxical. As scholars, we are led to believe that internationalisation either concern the investment driven international expansion of MNEs or the entrepreneurial early stages of internationalisation by the smaller firm. Thus, on the one hand we have the experienced and resource rich type of firm with multinational investments abroad. On the other hand, we have a type of firm with constrained resources and limited international experience, which is forced to be highly entrepreneurial in its early stages abroad. In this thesis, I claim that the extant literature falls short in two important respects. None of the evolving perspectives in the literature captures the situation faced by already internationally active SMEs that seized the international expansion opportunities arising as a result of the opening of this virgin soil for growth seeking firms.

First, it can be questioned whether theories on MNEs are valid for examining the international behaviour of SMEs, which is a frequently questioned theme in the literature. For example, it has been suggested that there is a strong correlation between firm size and entry mode choice in foreign markets (Nakos and Brouthers 2002; Zacharakis, 1997). The main reason seems to be that SMEs are different because they have more limited managerial and financial resources (Zacharakis, 1997). As a consequence, SMEs have been shown to prefer to enter foreign markets without making any significant foreign direct investments (Erramili and D’ Souza, 1993), and setting up a subsidiary abroad is often an investment beyond the ability of a smaller firm (Pedersen and Petersen, 1998). Additionally, it has been
substantiated that SMEs cannot spread their costs in the same way as a larger firm (Meyer and Skak, 2002). These claims have been verified in empirical studies of SMEs, which have reported that European SMEs have very few foreign subsidiaries (ENSR: 2003). A similar pattern was found among Swedish SMEs and their operations in the Baltic Sea Region (Jansson and Sandberg, 2008), among Danish and Austrian SMEs in Eastern Europe (Meyer and Skak, 2002), and among Italian SMEs in Central and Eastern Europe (Dalli, 1995). Thus, although the main body of research studying entries into emerging markets has focused on foreign direct investments and entry mode choices of MNEs, less is known about the entry of SMEs (Jansson and Sandberg, 2008; Meyer and Skak, 2002; Nakos and Brouthers, 2002).

Second, the growing amount of research on international new ventures (INVs) does not capture the situation of already internationally active firms and how they have managed to capture the rising growth opportunities, as these new business networks were opened to foreign firms. Instead researchers have focused on the very first steps abroad of SMEs. As a matter of fact, in the Swedish economy, 90 per cent of the medium-sized firms are already internationally active exporters. On average, these firms export 40 per cent of their turnover, and the products are on average sold to 15 countries (SOU 2008:90). Thus, among the medium-sized firms, we find an important type of firm with an already developed export. This is a group of firms that does not share the situation of an INV. Instead of seeking, from inception, to derive significant competitive advantage from the use of resources and the sale of output in multiple countries, this firm has followed a traditional international expansion process. It is a type of firm for which significant growth opportunities became available in the early 1990s. Furthermore, it is a complex firm, as it does not have the strengths and flexibility of the smaller firm, nor does it have the experience and resources of a large MNE (Johannisson, 1992). This thesis aims to highlight this type of firm that throughout this research
will be described as the medium-sized multinational exporter (MME). Apart from an implicit intention to further developing knowledge related to this type of firm, the focus is directed to how MMEs have managed to extend their international operations into the newly opened business networks in Easter Europe and Asia.

To examine the foreign market entry process of MMEs, I seek to integrate internationalisation process theory with an institutional network perspective on business markets (Jansson, 2007a,b). This integration follows along the lines suggested by McAuley (2010), Björkman and Forsgren (2000), Johanson and Vahlne (2006), and Covielo and McAuley (1999), who argued that the network perspective and the internationalisation process perspective are not truly distinct from one another. While the internationalisation process perspective is useful in describing the characteristics of the individual firm, the network perspective highlights the business context of the firm (Björkman and Forsgren, 2000). Therefore, a more holistic view will be given when integrating these two perspectives (Johanson and Vahlne, 2006). More specifically, I seek to examine the foreign network entry process, which is described as the steps taken to facilitate the development of business relationships between companies from different countries (Ghauri and Holstius, 1996). Inspired by recently received research, I argue that the entry process has been realised as the entering firm has reached an insider position in the business network (Johanson and Vahlne, 2009). This integration of theoretical perspectives aims to contribute to the literature in two respects, which are further developed in the subsequent section.
1.2 Theoretical departure

From research following the network perspective, we know that firms engage in business relationships that in turn are interconnected in a web constituting the foundation of a business network (Håkansson and Johanson, 1993; Axelsson and Johanson, 1992; Johanson and Mattsson, 1988; Håkansson, 1982). In this perspective, internationalisation takes place as the firm establishes positions in networks that are new to the firm, develops positions in networks wherein the firm already has an established position, or when coordination between networks is increased (Johanson and Mattsson, 1988). As a consequence, internationalisation in the network perspective has been described as the outcome of firms’ activities to strengthen network positions (Johanson and Vahlne, 2009). In contrast to alternative research streams, this perspective directs its focus to events that take place in the firms’ network relationships prior to, during and after the foreign expansion decision (Forsgren, Holm and Johanson, 2005; Johanson and Vahlne, 2009; 2006; Jansson and Sandberg, 2008). Thus, the network perspective on firm internationalisation focuses on the processes and interactions between network actors as they evolve over time.

Insidership in a business network is the ultimate aim of a network entry process (Johanson and Vahlne, 2009). In this state, the firm has managed to develop one or a set of customer relationships in the business network (Blankenburg, 1995). Thus, an insider firm has well-developed activity links, actor bonds and resource ties with actors in the business network. As a consequence, the insider has achieved legitimacy in the network and can tap the network on local resources (Salmi, 2000). Insider firms are therefore assumed to perceive low uncertainty and are considered to be well equipped for recognising opportunities for further expansion in the business network (Hohenthal, Johanson and Johanson 2003). Inversely, firms that have not
reached an insidership position suffer from a liability of network outsidership. An outsider firm deals with high levels of uncertainty with regard to developments in the business network and has therefore limited abilities to recognise opportunities in the business network. Ultimately, the main challenge for an outsider firm is to work its way into the business network. In this thesis address two concerns with the network perspective on firm internationalisation, both introduced in the section below.

1.3 Two concerns with the network perspective on firm internationalisation

A first concern with the extant literature on the network perspective on internationalisation related to the problem of this thesis is that it has mainly examined the firm within its business network. However, less is known about the position of the firm from its horizon and about the processes through which the individual firm manages to create an insidership position in a network that is new to the firm. In the extant literature, there is consensus that to understand the behaviour of the firm, its business network needs to be incorporated in the analysis (e.g., Gebert-Persson, 2006; Salmi, 2000; Ghauri and Holstius, 1996; Blankenburg, 1995; Johanson and Vahlne, 2009; 2006; 2003; Björkman and Forsgren, 2000; Axellsson and Johanson, 1992; Johanson and Mattsson, 1988). For example, it has been shown that the firm’s business network influences the modes of entry in foreign markets (Coviello and Munro, 1997; 1995). Martin, Swaminathan and Mitchell (1998) revealed that the business network influences the pattern of internationalisation. Chen and Chen (1998) underlined that the location of foreign investment is strongly influenced by the firm’s business network, and Ellis (2000) found that the business network influences the first step abroad. Agndal and Chetty (2007)
disclosed that business relationships influence strategic change in the internationalisation process. Thus, we have a number of studies underlining that the internationalisation process of the firm is influenced by its position within the network, less however is known from the firm horizon and about the processes through which its position is changed.

A second concern with the network perspective on firm internationalisation, related to the problem of this thesis, is that the international dimension is underdeveloped. According to extant literature, the problems faced by internationalising firms concern the relation to its business network. In their review of research following the network perspective of firm internationalisation, Johanson and Vahlne (2009) stressed that the main problem faced by internationalising firms is a liability of network outsidership rather than a liability of foreignness. This might hold true in the extreme network world where no country borders would exist. In this situation internationalisation would be no more than a general expansion of the firm’s activities. Therefore, aspects such as national cultures or institutional environments would not be assumed to influence the behaviour of firms. Instead, barriers and problems are associated with every unique business relationship. As a consequence, the network perspective as developed to this point says nothing about the country that the firm enters. This is a problematic assumption as it is a generally accepted fact that business practices vary between countries. For example, researchers have examined the institutional entrenchment of business networks in different countries. Jansson (2007a,b) and Jansson, Johanson and Ramström (2008) found that the institutions in different countries have an impact on how the network is structured and the role of relationships in a network. Thus, we can assume that differences between institutions have a major influence when firms originating from different national environments initiate a relationship. Therefore we can expect that, problems involved in entering new networks in
new countries are related to both the network and the institutional environment. As a consequence, there is reason to believe that there are different country-based business networks governed by different institutions. Thus, we can assume that foreign entering firms will suffer from both a liability of network outsidership and a liability of foreignness. As a matter of fact, Eriksson, Johanson, Majkgård and Sharma (1997) found that when firms enter a foreign network, the entering firm not only needs to develop knowledge about the local network but also about the host country’s institutional environment. It has also been shown that foreign entrant firms need to adapt their behaviour to the institutional rules in order to succeed in the host country (Estrin, Baghdasarayn and Meyer, 2009; Jansson 2007a; Wright, Filatotchev, Hoskisson and Peng, 2005; Peng, 2000). According to North (1990), institutions are the humanly created constraints that shape interaction among humans. These constraints are therefore assumed to set the rules of the games in a network. Thus, the network perspective as developed to this point has not concerned the institutional environment and its impact on the entry process of firms into new markets. And along the suggestions from Johanson and Vahlne (2009) I claim that more research is needed on when the main liability of a foreign entering firm comes from its network outsidership and when it is the result of its foreignness.

1.4 Research questions and purpose

In this thesis, I acknowledge that internationalisation takes place as the firm enters new business networks. Different networks are entrenched in different institutional environments that the firm needs to adapt to. This adaptation takes place when the firm seeks to orientate and position itself in the new network (Axelsson and Johanson, 1992; Easton, 1992). Thus, focus is directed to the foreign network entry process, which has been described as the steps
taken at the global, macro and micro levels to facilitate the development of business relationships between companies from different countries (Ghauri and Holstius, 1996, p. 78). However, our knowledge on how this process evolves when firms enter networks that are distant from their home base is underdeveloped. We know that the institutional rules of the game are predictable, stable and powerful in mature markets. Thus, firms can rely on the institutional environment as a support for their business. In immature or newly opened markets, however, such stabilities have not been reached. Instead, these markets are characterised by change rather than stability, and are therefore described as turbulent (Johanson and Johanson, 2006) or distant (Jansson, 2007a,b; Kostova, 1997) compared to mature market economies. Markets characterised by institutional complexity or opacity are assumed to cause uncertainties with regard to behaviour and developments in the market environment (Whitley, 2001) thereby intensifying the liability of foreignness as well as outsidership of entering firms. In order to contribute to the extant literature by addressing the two aforementioned main concerns, the entry process into institutionally distant business networks will be examined from the individual firm’s perspective. The first overarching research question posted in this thesis cover is formulated as: \textit{How do MMEs establish insidership positions in institutionally distant business networks?}

To examine how entering MMEs manage to reduce their liability of network outsidership and foreignness and establish an insidership position in institutionally distant business networks, the thesis also sets out to examine the types of abilities that the firm needs to develop in this process. Therefore, the study looks to identify the abilities necessary for the firm to orient and position itself in the institutionally distant business network. The second overarching research question in this thesis cover is formulated as: \textit{What critical abilities are developed by MMEs in the process of entering an institutionally distant business network?}
The overarching purpose of the thesis is formulated as to *conceptualise the entry process into institutionally distant business networks, and to identify the critical abilities developed in this process.*

To answer the two research questions and fulfil the purpose, five essays will be presented in summary form in this cover and will be provided as full versions in the appendices (C-G). These essays are designed to reflect various aspects of the institutionally distant network entry process, thus contributing in answering the more general research questions raised in this cover. The first two essays report from a case study of eight firms in the Baltic Sea Region. These essays open up two central aspects of the institutionally distant network entry process. First, the main stages involved in the organisational learning process are examined in the first essay. Second, how the firm takes different network positions in the entry process is studied in the second essay. The three remaining essays report from a quantitative survey with on-site interviews with 203 MMEs with recent experiences of entries into the newly opened economies of Estonia, Latvia, Lithuania, Poland, Russia, and/or China. In the third essay, experiential knowledge types and profiles among emerging market entering firms are explored. In the fourth essay, the uncertainty reducing effect by knowledge of varying specificity in the entry process is examined. In the fifth essay, the perceptions of institutional distance between home and host business networks are examined.

### 1.5 Outline of the thesis cover

Except for this introductory chapter, this thesis consists of five chapters plus the five appended individual essays. The cover of the thesis is designed to have an additional value beyond the findings of the individual essays. Thus, in the thesis cover, focus shifts from the individual papers to the more general problem posted in this thesis cover.
In Chapter 2, an inroad to the main theoretical perspectives in international business is taken. In this chapter, I provide my main arguments for the chosen perspective after a description of the four main perspectives.

In Chapter 3, the theoretical model of the research is presented, wherein I account for my view on business markets, their institutional embeddedness, and the concept of institutional distance between business markets and the entry process.

Chapter 4 consists of two major sections and accounts for the methodology followed to answer the research questions. The chapter starts with a short description of my view on knowledge and knowledge creation, as well as an overview of the research process involving two stages. Following this, the case study methodology followed in the first stage is outlined. Thereafter, a detailed description of the quantitative on-site survey of 203 firms in the second stage is provided.

Chapter 5 presents the findings of the individual essays of this thesis, as well as their contributions to the main research questions. The discussion is summarised and the central parts of the individual essays are condensed into a table providing an overview.

Chapter 6 presents the main conclusions and contributions of the thesis. This chapter answers the two research questions posted in this cover. To fulfil the purpose of the thesis, the entry process into institutionally distant business networks is conceptualised. The chapter ends with some reflections, the limitations of the findings, some suggestions for future research, and the managerial implications emerging from this study.
2 MAIN PERSPECTIVES ON FIRM INTERNATIONALISATION

This thesis takes a network perspective on firm internationalisation. To compensate for some of the weaknesses of this perspective, findings from internationalisation process theory are integrated. This chapter provides a deeper background and motivation for this choice. The chapter takes an inroad to the main streams of research having paid its interest to the internationalisation of firms. Four dominant perspectives are accounted for, namely: the theory of the MNE, internationalisation process theory, network theories of internationalisation, and international entrepreneurship research. After the description of and the introduction to each of the field’s main ideas, they are discussed and evaluated based on their potential in contributing to this research.

2.1 The theory of the MNE

Traditional research in the field of International Business has attempted to explain the existence of the MNE. The theory of the MNE is a theory explaining foreign direct investments by MNEs. This research started with the ideas presented by Hymer in the 1960s. Hymer’s (1960; 1976) argument was that internationalisation of the firm, namely the existence of MNEs, is the
result of monopolistic advantages. He argued that MNEs exist because they possess certain firm specific advantages related to the home country market, which are assumed to compensate for the liability of being a foreign firm in the host country. Thus, Hymer (1960) explained the existence of MNEs as the result of market imperfections. The role of home-market characteristics was also central to Vernon (1966), who argued that the explanation of the existence of the MNE is found in the Product Life Cycle. In his attempt to explain why the majority of MNEs (in the 60s) originated from the U.S., Vernon turned to the firm’s home market characteristics. If the home market is advanced, products are expected to be introduced in this market, and having reached maturity they will later be exploited in less advanced markets. Thus, the existence of the MNE is because of differences in market characteristics where the life cycle of products varies between markets. Vernon’s ideas became known as the first dynamic interpretation of the internationalisation of firms.

In the 1970s, scholars (e.g., Buckley and Casson, 1976) primarily followed the ideas of Hymer and sought a deeper explanation for the existence of MNEs. Their point of departure was that the fundamental feature of the MNE is its cross-border replacement of markets by hierarchies. The researchers were intrigued by the fact that market activities were internalized within the MNE. Thus, internalization theory was introduced and this market failure explanation of the existence of MNEs builds on the idea that firms will internalize international value chain activities if the market solution (costs of transaction) is less efficient than the hierarchical solution (cost of control) of the cross-border transaction of products. Research in this field verified that the MNE exists, as it can minimise the cost of transactions by internalising value chain activities (e.g., Rugman, 1981; Hennart, 1980; Buckley and Casson, 1976).

Perhaps the most seminal contribution in this line of research is the eclectic paradigm presented by Dunning (1980; 1988; 2008). The eclectic
paradigm is abbreviated as OLI and pulls together partial explanations of the MNE into one theory. Thus, the ideas of Hymer (1960) are integrated to explain the ownership advantages and explains why MNEs exists, the internalization theory of Rugman (1981), Hennart (1980) and Buckley and Casson (1976) is integrated to explain how the MNE activities will be organized and the location aspect refers to where certain activities will be performed which draws on economic geography and trade theories. Dunning’s argument is therefore that international production is determined by three sets of firm advantages: ownership, location and internalization (OLI). By examining these factors, he explained why and where MNEs exist, as well as how they are organised. The firm specific ownership advantages are assumed to explain why MNEs exist, as they possess advantages in relation to foreign firms in the form of a certain technology, skills or even natural resources in the home market. These advantages are assumed to explain why an MNE can overcome or reduce its liability of being a foreign firm. The second determinant is the location-based advantages, which concern where international production should be located. These advantages deal with, for example, the cost of raw material or labour costs, which determine where it is most cost efficient to locate production. This is an idea that has its roots in international trade theory of economics. The third determinant refers to the internalization advantages, which have their roots in transaction cost theory. This dimension of the eclectic paradigm therefore concerns how a MNE should organise its international activities—internalized or externalized. Thus, the I in OLI stand for internalization and refer to the market failure argument, and concern an internal replacement of market solutions. Research within the perspective referred to as the theory of the MNE, primarily views internationalisation and market entry from a strategic decision-making perspective. Thus, the OLI paradigm has been developed as a theory describing the pattern of international investments by MNEs. It has its roots
in a neoclassical assumption of markets in equilibrium and assumes firms to behave with an efficiency maximising logic.

2.2 Internationalisation process theory

In contrast to the theory of the MNE, an alternative view of firm internationalisation was presented in the mid-1970s by researchers at the University of Uppsala (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Along the lines suggested by Cyert and March (1963), these researchers argued that decision-making is hampered by managers’ ability to process information. Therefore, internationalisation of the firm was described as an incremental growth process dependent on the generation of experiential knowledge, as suggested by Penrose (1959). Subsequent research has therefore been described as a behavioural school on the internationalisation process of firms.

This approach to studies of firm internationalisation focused on internal aspects of the firm instead of factors external to the firm. In the early stages of this research, the Uppsala scholars primarily aimed to answer two questions: how do firms organise international business activities and which markets do firms enter (Johanson, Blomstermo and Pahlberg, 2002)? By acknowledging the ideas of Penrose (1959), the growth of the firm was described as dependent on its experience-based knowledge. Considering a generation of experiences takes time, these scholars argued that internationalisation takes time. The fundamental argument was found in the interplay between experiences, uncertainties and commitment. As the Uppsala scholars acknowledged Cyert and March’s (1963) notion of bounded rationality, they argued that the generation of experience is key in reducing uncertainties related to international commitments. Thus, this line of research assumes that as experiences are generated, uncertainties are reduced allowing risk avoiding
managers to commit more resources to the international environment. As a consequence, the internationalisation of the firm was described as an incremental process.

Thus, this stream of research assumes that firms commit themselves to foreign markets through a gradual learning process—learning is incremental and takes place by doing business abroad. Companies first tend to establish themselves in geographically and culturally proximate markets, increasing their commitment more and more. The empirical pattern revealed in this research indicated that firms began with agents, and passing through sales companies to manufacturing companies (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Based on Eriksson, Majkgård and Sharma (2000), the development of the model can be summarised as internationalisation is an experience-based, sequential process that is reliant on feedback. Firms have imperfect knowledge of foreign markets, which means that decisions are taken under bounded rationality. To reduce the uncertainty for such decisions, experiences need to be generated. In turn, these international experiences are expected to influence the entry mode selection, country-market selection and market expansion of firms. At this point, similar ideas were reported on exporting firms of North American origin (e.g., Bilkey, 1978; Cavusgil, 1980; Reid, 1981; Czinkota, 1982).

2.3 The network perspective on firm internationalisation

Whereas the aforementioned two schools of thought focused on the focal firm when understanding internationalisation, an alternative view was presented by industrial marketing and purchasing researchers in the 1980s (Håkansson and Johanson, 1993; Axellsson and Johanson, 1992; Johanson and Mattsson, 1988; Håkansson, 1982). With the idea that no business is an island, this group of
researchers argued that to reach an understanding of the internationalisation of the business firm, it cannot be studied as an isolated entity. Instead, the business firm's business partners, or even business network, needs to be included in the analysis (e.g., Axelsson and Johanson, 1992; Hammarkvist, Håkansson and Mattsson, 1982). This line of thought first became known as the interaction approach to markets, which later developed into the market-as-network approach to industrial markets. Due to this network perspective, relationships constitute the core of the internationalisation process (Axelsson and Johanson, 1992; Hammarkvist, Håkansson and Mattsson, 1982; Johanson and Vahlne, 2003).

The network perspective goes beyond the models of incremental internationalisation by suggesting that a firm's strategy is influenced by a variety of network relationships. The network perspective draws attention to the often long-term business relationships that exist between firms in industrial markets. The internationalisation of a firm means that it develops business relationships in networks in other countries, which can be achieved through the establishment of relationships in country networks that are new to the firm, the development of relationships in those networks by penetration, and connecting to existing networks in different countries (Björkman and Forsgren, 2000). As a consequence, the business network is assumed to drive, facilitate or inhibit a firm's international market development, and it might also influence entry mode and market selection (Coviello and Munro, 1997). While the traditional foreign market entry literature tries to explain how firms decide on markets, entry modes and planning the entry, network theory focuses on how existing actors influence the entry of new firms into foreign networks (Björkman and Forsgren, 2000). A central aspect of the network view of internationalisation relates to the interplay between the degree of internationalisation of the market and the degree of internationalisation of the firm.
2.4 International entrepreneurship

The most recent stream of research in internationalisation theory was introduced in the early 1990s. The observations of firms starting up on an international basis from inception required alternative explanations of this phenomenon. These firms were labelled International new ventures (Oviatt and McDougall, 1994), High technology start-ups (Jolly, Alahuhta and Jeannet, 2002) or Born globals (McKinsey, 1993). In recent research, they are most often referred to as international new ventures (henceforth INVs). Oviatt and McDougall (1994, p. 49) defined an INV as a firm that “… from inception seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple countries”. This is in line with the agreed criterion used for international new ventures, namely a group of firms with extensive international activities within three years from inception.

INVs are seen as a result of more global market conditions, for example because of homogenisation of markets (Oviatt and McDougall, 1994), the increasing role of global niche markets (Knight, 1997), and advances in technology and communication (Cavusgil, 1994). Apart from these enabling changes in the international market environment, researchers studying INVs have sought to explain this new behaviour of firms by turning to the field of entrepreneurship. McDougall and Oviatt (2000, p. 903) stated that this development towards a new research field of international entrepreneurship was characterised by a “ … combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organizations”. The majority of the research in this field has therefore sought to examine the personality, skills and capabilities of the entrepreneur and their impact on the birth, development and internationalisation of the INV (e.g., Andersson and Wictor, 2004; Andersson and Evangelista, 2006). This new pattern of internationalisation was explained by researchers who
turned to the field of entrepreneurship by drawing on the ideas of Kirzner (1973) and Schumpeter (1934). A majority of these studies have severely criticised the incremental internationalisation process models, as firms were identified to leapfrog stages in the traditional models. Researchers following these ideas (e.g., Cavusgil, 1994; Bell, 1995) agreed that for newly started firms, the incremental stage models of internationalisation are no longer valid. However, other researches in this field (e.g., Madsen and Servais, 1997; Bloodgood, Sapienza and Almeida, 1996) argued that the classical incremental models are valid for INVs if the founder’s experience is taken into account.

Nonetheless, research on INVs has strongly anchored the entrepreneur and their activities as a major aspect of the internationalisation of the firm. In particular, it has had its merits in explaining why certain firms are international from inception. In addition, this perspective has revealed the importance of the entrepreneur in the early stages of the internationalisation of the firm.

2.5 Evaluation of the main theoretical approaches

The major perspectives on firm internationalisation outlined above have contributed to advancing knowledge on various aspects of the internationalisation of firms. They have evolved from different research traditions and sought to answer diverse research questions. Therefore, they vary in terms of levels of analysis, as well as the assumptions of firm behaviour. Some of the perspectives are dynamic whereas others are more static in their nature, and the explanation of firms’ international behaviour is therefore different in research undertaken in accordance with each perspective.

While searching for a framework suitable for the particular problem of this research, I found inspiration in the network perspective on firm internationalisation mainly for four reasons. First, the network perspective on
firm internationalisation provides a solid ground for analysing the internationalisation from a sales perspective, as it was first developed as a marketing perspective. Second, interest is paid to industrial firms, which suits this perspective developed for analysing the business relationships and networks of industrial firms. Third, a network perspective was motivated by the argument that the markets of my interest are described as network societies. Fourth, the network approach is inspiring, as it focuses on the interactions and processes between actors in a network as they evolve over time. However, along the lines suggested by, for example, Johanson and Vahlne (2009), Fontes and Coombs (1997), Coviello and Munro (1997), and Björkman and Kock (1997), internationalisation process theory integrated with the network perspective of firm internationalisation. This approach followed the arguments of Björkman and Forsgren (2000), who stated that the internationalisation process theory focuses on the characteristics of the internationalising firm as a main driving force for the internationalisation, and the network perspective highlights the business context in which the internationalisation process takes place. Thus, although I study markets as business networks, focus is directed to the individual firm’s behaviour in this environment. In the subsequent section, I will discuss the main arguments as to why the alternative two perspectives were seen as incompatible with my interest.

First, the theory of the MNE was excluded primarily for two reasons: its static nature and inappropriateness for studying the international behaviour of relatively small firms. The theory of the MNE was originally developed as a framework to explain the pattern of international (production) investments by firms. Pattern in this sense refers the choice of location of the investment and the type of investment. The theory of the MNE assumes that the international firm has access to perfect information and can optimise the internationalisation rationally. It is therefore assumed that decision-makers are
rational and well informed about market environments from the start. As a consequence, there is no need for or use of knowledge based on experience. Thus, it is a static framework that does not account for how developments take place over time. One exception is the ideas presented by Vernon (1966), who argued that the product life cycle drives the international investments of MNEs. Vernon’s idea, however, falls short in an alternative respect. Along with other ideas presented in the stream of research here labelled as the theory of the MNE, Vernon’s product life cycle explanation of the internationalisation of firms was disqualified, as it is seen as inappropriate for explaining the international behaviour of relatively small firms. It is a well-known fact that resource constrained firms prefer low investment modes such as a direct export or signing contract with external organisations while entering foreign markets (e.g., Erramili and D’ Souza, 1993; Zacharakis, 1997; Nakos and Brouthers, 2002). In support of this, Pedersen and Petersen (1998) argued that setting up a foreign subsidiary often requires an investment beyond the ability of smaller firms. One reason for this is explained by Meyer and Skak (2002), who suggest that smaller firms cannot spread their costs in the same way as a larger firm.

Second, international entrepreneurship literature was excluded from this research primarily for two reasons: the phase of the internationalization process focused on and the level of analysis. The stream of research subsumed under the label international entrepreneurship was rocketed as a new type of SME entering the international scene. Once the Born globals, International ventures and High technology start-ups occurred, an explanation of this behaviour was sought by analysing the founder or entrepreneur of the firm. This stream of research has enlightened us about the role of the founder in the early stages of the internationalisation process. In this stage, the entrepreneur very well might be the most vital resource for international success. However, empirical reports reveal that this type of firm is still relatively scarce in the
Swedish economy. In fact, the vast majority of internationalised small firms in Sweden are only selling to our neighbouring countries (SOU: 2008:90) and very few of them qualify as INVs. As a matter of fact, Jansson and Sandberg (2008) found no INV companies active in the Baltic Sea trade, as did Meyer and Skak (2002) in their study of Danish and Austrian entries into Eastern Europe. Nonetheless, firms that started up on a global basis might be included in this research. It has been argued that although some firms are international from inception, they may follow an incremental international expansion process after inception (e.g., Madsen and Servais, 1997). Thus, the international entrepreneurship literature has focused on relatively small firms in their early stage of internationalization.
3 THEORETICAL FRAMEWORK

This chapter presents the theoretical framework developed to analyze how entering firms manages to establish insidership positions in institutionally distant business network. First, my view on business markets is outlined. For this purpose I provide my view on the market as constituted of a business network. To further develop my view on business networks, the network perspective is integrated into institutional theory. Having laid this foundation, the chapter continues to develop my view on internationalization as an extension of the firms’ business network. In this situation, relationships between actors from different networks and institutional environments are developed. To understand this interface the concept of institutional distance between business networks is discussed. The chapter ends with my view on the network entry process which concerns the entry mode or node of the firm, the entry process as well as the position established in the network. Hence, the chapter integrates findings from research on business networks, institutional theory and internationalization process theory.

3.1 A network view on business markets

This research takes a network view on business markets. The network metaphor has been used to describe the structure of connections between individuals, firms and institutions in a broad spectrum of research areas
involving anthropology, sociology and psychology (Scott, 2001). This approach shifts the focus from the individual (person, organisation or institution) to the connection between such entities (Parkhe, Wasserman and Ralston, 2006). As a consequence, no entities are seen as independent islands. Instead, the antecedents to change and development are expected to be found in the relationship between entities or even at the network level (Burt, 1993).

In business research, the network metaphor has spread to such wide areas as marketing, management and entrepreneurship research. In general, the metaphor is used to reveal the role of different actors involved in the economic process of converting resources into goods and services for consumption. This approach reveals that actors are linked through relationships that constitute the foundation of a network. As these relationships are often long-lasting, stability in the network builds a solid ground for studying the interactions between its members. To this point, the network approach has been used differently by different researchers. Ramirez-Pasillas (2007) groups the network approach into four main categories: networks as metaphors, networks as relational dynamics, networks as research approaches, and networks as analytical tools. A similar grouping was provided by Easton (1992), who classified the network approach into the categories: networks as relationships, networks as structures, networks as position, and networks as processes.

In this research, the market is viewed as a network structure where the main issue of the firm is to establish, develop and maintain a position. The thesis takes its departure from the network perspective presented by the Industrial Marketing and Purchasing Group (IMP). Starting in the 1970s, the IMP scholars observed that the behaviour of industrial firms in comparison to firms supplying consumer goods was different. First, one of the major observations was that in industrial markets both buyers and sellers play active roles (Håkansson, 1982), which contradicted established theories and assumptions at that time. From their research, it was revealed that the
initiation of a business relationship could be established by either the selling or the buying part, the seller with the motive to spread their risks, increase their sales volumes or to get access to more sophisticated demands. The buyer on the other hand may be interested in identifying new sources of supply to decrease their purchasing costs, secure sufficient quantities of supply or to get access to certain technologies. Thus, in the business network view on markets, the buying actor is not assumed to be passive (Ford, 2002).

Second, research in this perspective verified that once a business relationship was established, it tended to be long-lived, which contradicted the transaction-based view in markets at that time. It was argued that actors seem to develop a relationship with each other and do not settle with pure market transactions. These relationships are often intimate, where reduction of uncertainties and development of trust are central ingredients. As the relationship regularly stretches over time, the actors develop norms and expectations of how to behave. These norms and expectations are institutionalised and serve as routines guiding the behaviour of persons and organisations involved in the relationship. As firms perform repetitive exchanges of resources, activity links are developed (Mattsson, 1985). These long-term business relationships are the consequence of resource heterogeneity among firms (Håkansson and Johanson, 1993; Penrose, 1959). Later research on industrial markets extended from the focus of individual actors to the business network by studying both direct and indirect relationships.

Third, it was revealed that to properly understand business markets, it was not enough to explain the market as constituted by units that interact in dyads. Instead, the indirect relationships of the firm have a major impact on its behaviour. This extended view of the firm’s business relationships laid the foundation for the description of the market as a network. The network view acknowledges that how interacting units (buyer-seller) interact strongly depends on how any of the two parties is connected to other units in the
network. For example, the way in which the supplier acts is strongly influenced by its own suppliers described in other dyads of interaction.

Fourth, to properly understand this complex pattern of interaction and its core components, Johanson and Håkansson (1992) developed the ARA model. The ARA model recognises that markets are constituted by Actors (primarily buyers and sellers), which interact by performing Activities in order to get access to Resources (tangible and intangible). The main assumption of the model is that actors perform and control activities, and they determine alone, or jointly, which activities to get involved in and which resources to utilise for performing these activities. Through exchange processes, relationships between actors are developed. This exchange embeds the actor in a business network, which gives them access to resources external to the individual firm. The activities are therefore constrained by the actors that actually control the resources. As a consequence, the level of control in the network is unevenly distributed, as the resources are assumed to be heterogeneously controlled. Activities in the network take place when different actors combine, develop or exchange resources. Such activities are of two main types: transformational and transfer. The resources are assumed to be heterogeneously distributed and controlled by individuals or groups of actors. These resources are also assumed to be necessary in order to perform the activities. For example, in order to perform a transfer activity, there is a need for some transfer-resources. Thus, the use and value of a specific resource is dependent on how it is combined with other resources. These elements of the networks define its structure, and therefore a business network is seen as constituted by three sub-networks: the resource network, the activity network and the actor network, which are all closely related. The above description of the business network view can be condensed into the following central aspects:
- Business markets are seen as a network structure.
- A business network is constituted by a web of interconnected business relationships.
- The behaviour of individual firms cannot be understood without taking the firm’s business network into account.
- Business networks can be understood through analysing the actors, resources and activities.

3.2 The institutional embeddedness of business networks

In the network perspective, the environment of the firm is its network. In the extreme network view, no country borders exist as networks are transnational. Along the lines suggested by Jansson (2007a,b), I argue that the network both is affected by and affects factors in their surrounding environment. Apart from actors such as suppliers, customers and competitors in the network structure, less explicit factors have a major impact on the behaviour in business networks. A business network cannot be isolated from its surrounding societal environment. Instead, it should be seen as part of a wider social system. With this approach, a socio-economic perspective is taken on business markets (e.g., Jansson, 2007a,b) where the network is seen as an arena for both economic and social exchange. This approach integrates an industrial marketing view on the internationalisation of firms with institutional theory, ultimately taking on a socio-economic perspective. Markets are viewed as networks and business practices take place through relationships. The network is then a social arena, where economic activities are embedded in social networks and where the network is a specific market form of its own.

In order for the market network to function and for economic exchange to take place, such an exchange needs to be supported by either formal or informal institutions (Scott, 2001). For example, a legal system is required, a public support system needs to be in place, and there needs to be a rather
stable belief system and values in order for the market to function. To explain how business exchange is facilitated by the surrounding society, scholars have turned to institutional theory (e.g., North, 1995; Scott, 2001). The rationale is that practices among individuals and organisations are assumed to be affected by the prevailing institutions in the market (Kogut, 1991; Kostova and Roth, 2002; Whitley, 1991). These institutions are seen as the underlying principles for business practices, and are the main sources of legitimacy and trust between actors in a business network. An institution is a social unit characterised by habitual and routine practice, which are governed by specific rules or programmes facilitating the behaviour of individuals and organisations.

Based on Scott (2001), institutions can be grouped into three main categories or pillars: normative, regulative and cognitive. The normative institutions are assumed to guide actors in understanding what behaviour that is acceptable within society or not (Scott, 2001), for example what type of behaviour is seen as immoral or reliable. As this research focuses on a firms’ interaction in business networks, a major normative institutional substance is expected to be trust or trustworthiness. This is seen as a mutual interest in business relationships and is expected to influence the interaction between business network actors (e.g., Ford 2002).

The regulative institutions concern the incentives, surveillance and sanction systems that are turned to if the normative institutions are not followed or if they are interfered with. These regulative institutions take different shapes: both formal, for example laws and regulations; and informal, for example sanctions. Thus, the regulative dimension of institutions refers to the consequences of a violation with the normative or cognitive dimension, namely what happens if an actor interferes with the stability and meaning, providing structure for the society (Scott, 2001). Thus, surveillance, control and enforcements are central aspects of the society representing the regulative
dimension of institutions. Moreover, the regulative dimension is manifested both formally (e.g., the police and court system) and informally (e.g., shaming and shunning activities) (Ioanescu, Meyer and Estrin, 2004). Enforcement mechanisms involve the sanction system or the capacity to establish rules, inspect others’ conformity to them, and manipulate sanctions such as rewards or punishments in order to influence behaviour. One major aspect refers to the mechanisms themselves, such as laws or customs, set to reward and punish. Another vital aspect concerns the authority system, which concerns the right to control or enforce activities in the network (Jansson, Johanson and Ramström, 2007).

Cognitive institutions refer to how people think and the outcomes of their thoughts (Scott, 2001). Thus, it reflects shared understandings, schemata and stereotypes within societies (Ioanescu, Meyer and Estrin, 2004) and can be described as the belief systems of a society (Scott, 2001). Hence, according to Scott’s (2001) definition of institutions, the cognitive dimension is expected to represent the meaning providing aspect within societies.

Thus, from the discussion outlined above, networks are seen as entrenched by a wider social system. The institutions of this social system are assumed to govern the behaviour in the business network. For example, as underlined by Jansson, Johanson and Ramström (2007), the institutions are assumed to have an impact on how the network is structured, network dynamics, strategy and planning in the network, the role of social relationships, as well as the role and function of relationships in the network. Thus, from the aforementioned description of the institutional embeddedness of business networks, we can say that:

- Business networks are ingrained in a wider social system where the market is seen as a socio-economic arena.
- Behaviour in this arena is constrained and facilitated by the institutional environment.
• Institutions can be analysed in three main dimensions: normative, regulative and cognitive.

3.3 International network extension

With the view outlined to this point, internationalisation becomes a question of international network extension (Axelsson and Johanson, 1992; Johanson and Mattsson, 1988). This is a process wherein the firm seeks to establish a position in a foreign business network, and internationalisation is then the outcome of a firm’s activity to strengthen its network position (Johanson and Vahlne, 2009). This process takes place as the firm develops, penetrates or integrates international business networks. As clarified by Johansson and Mattson (1988), this international network extension takes place as the firm establishes positions in a network that is new to the firm, when the firm strengthens its position in its current international networks, or when the firm increases its coordination between different international business networks.

The international network extension process is expected to be driven, facilitated or impeded by the firm’s current business network (Axelsson and Easton, 1992). As a consequence, the internationalisation of the firm is assumed to be highly influenced by the industry or network in which the firm operates. In an attempt to categorise the situations under which this occurs, Johansson and Mattsson (1988) turned to the interplay between the firm and its network. Depending on the degree of internationalisation of the firm and the degree of internationalisation of the network, four general categories of firms were presented: early starter or pioneer (low international experience and operating in a domestic industry); lonely international (international experience and operating in a non-international industry; late starters (operating in international industries without possessing any of their own international experience; and international among others (internationally
experienced and operating in international industries). Thus, we can extract the following central aspects from international network extensions:

- **Internationalisation** is a process of network extension wherein the firm establishes positions in a network that is new to the firm, when the firm strengthens its position in its current international networks, or when the firm increases its coordination between different international business networks.
- The international network extension process is influenced by the firm’s current network position.

### 3.4 Institutional distance

When firms enter business networks that are entrenched in another institutional environment, the entering firm needs to overcome the obstacles of being a foreign firm, thus it may suffer from a liability of foreignness (Hymer, 1960). Such differences have been conceptualised as psychic- (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) or cultural distances (Kogut and Singh, 1988; Hofstede, 2001; 1980). These two concepts, however, suffer from some major limitations and are not properly anchored in a firm theoretical base (Shenkar, 2001). As a consequence, researchers have lately turned to institutional theory to better understand the impact of market differences on business behaviour, which serves as the point of departure for this research.

The concept of institutional distance is anchored in institutional theory (Kostova, 1997; Xu and Shenkar, 2002). It refers to the extent of similarity or dissimilarity between the institutions of different countries. The rationale is that when defining international markets as socio-economic institutions, a yardstick is provided to compare how they vary between countries and regions, and how they lead to different business practices (Kostova, 1997). Institutional theory, however, is a very broad conceptualisation that spans a broad spectrum
of research areas, for example economics and sociology (for a detailed account see for example Scott, 2001).

As a consequence, institutional differences between societies have been studied at different levels. First, institutions are studied at the micro level (e.g., Scott, 2001), which in business research refers to the firm. Second, institutions are researched at the meso level, which refers to the firm’s organisational field (e.g., Whitley, 1992). Third, institutions are studied at the macro level of societies (e.g., North, 2005). Although these levels are studied separately, they are interrelated and the meso and macro institutions link to each other in a certain way, constituting an institutional framework that influences business practice in networks. The macro institutions are divided into societal sectors, for example the legal system, political system, business morale, and country culture, while meso institutions are divided into various organisational fields. As a consequence, we need a more detailed specification of the concept. Such an institutional approach is especially relevant for studying business strategy issues in emerging markets and where networks are organised in different ways depending on stage of institutional development of the market economy (Jansson, 2007a,b; Peng, 2003). Market change is intertwined with the evolvement of society, and as markets do not develop by themselves, a basic support systems need to be in place, for example a legal system, a public support system, and suitable values and belief systems. This means that business practices are embedded in social relationships, which in turn are embedded in the wider social structure. We can thereby outline that:

- Differences between international business environments are seen as an institutional distance.
- Institutional distances are constituted in the normative, cognitive and regulative dimensions.
- The differences in institutional environment influence the characteristics of the business networks.
3.5 The entry process into foreign networks

The entry process into foreign business networks is defined as the steps taken at the global, macro and micro level to facilitate the development of business relationships between companies from different countries (Ghauri and Holstius, 1996, p. 78). This process concerns how the firm positions itself in the foreign business network (Gebert-Persson, 2006) in order to access resources possessed by actors in the local business network (Salmi, 2000). In this research, three main aspects of the foreign business network entry process
are pinned down and further developed: the entry node, the interplay between organisational learning and commitment, and the network positioning process.

3.5.1 Entry mode and node

In international business research, a central theme is related to the foreign entry mode choice by the entering firm. The entry mode relates to the structural form of an organisation chosen by the firm in the foreign market. These modes are traditionally grouped into three types (e.g., Cavusgil, Ghauri and Agarwal, 2002): investment modes, contractual modes and export modes of entry. Thus, the entry mode choice relates to the type of investment by the firm in the foreign market and is also a central feature in strategy research (e.g., Devine, 2010; Pehrsson, 2008; 2001). Entry mode theory however, can be criticised for being a static account of a structural situation, namely the way in which the firm organises its international operations. It does not account for or concern the evolutionary aspect of firm internationalisation. That is, entry mode theories can be criticised for their inability to explain processes. Research has shown that international business activities evolve over time. Therefore, internationalisation of firms is often explained as an internationalisation process. Static theories on entry modes may therefore be seen as incompatible with the process approach to internationalisation.

Jansson (2007b) introduced the concept of entry node as a more fruitful approach to market entry when a network perspective is taken on business markets. As argued by Jansson (2007b), entry nodes are seen as entry points into business networks. In the internationalisation process, firms are in this sense entering networks rather than countries. The focus is therefore on how those networks are entered rather than on how the firm chooses to organise its activities in a focal country. Thus, networks are assumed to be entered by establishing new business relationships. This concept was developed by
Jansson and Sandberg (2008) who showed that indirect entry nodes (or triads) involve some outside party or other type of entry node, usually an intermediary, for example an agent, dealer or distributor. Dyads can also be established through the entry mode FDI, which is a subsidiary in the exporting/importing country. Examples of factors influencing the entry node are the structure of the local market network (e.g., loose or tight coupling), strategic position, role or identity sought. Related research have examined triadic business relationships where it has been shown that indirect relationships through intermediaries or subsidiaries are more problematic than a direct relationships (or dyads) between the buyer and seller in the respective countries (Havila, Johanson and Thilenius, 2004). The notion of entry nodes in contrast to entry mode suits the statement of Forsgren, Holm and Johansson (2005), explaining that in the network perspective of internationalisation, the focus is on the development of the focal firm’s specific relationships before and after the entry rather than on the entry as such. As a consequence, entry modes are seen as subordinated entry nodes in foreign markets. It is assumed that the way firms organise their foreign activities is highly dependent on their business relationships. The entry mode may therefore be adapted in order to support business relationships. Thus, from this description we can condense that:

- From a network perspective, entry nodes are more relevant than entry modes.
- Entry nodes are connection points into business networks.
- Entry nodes are direct or indirect—dyadic or triadic.
3.5.2 The interplay between learning, knowledge and commitment in the entry process

The internationalisation of the firm is driven by the interplay between learning about the foreign market and commitment to operating in this market (Johanson and Vahlne, 2009; Sharma and Blomstermo, 2003; Johanson and Vahlne, 1977). When facing an unknown business environment, the entering firm suffers from uncertainties that will reduce the likeliness to commitment of resources to the entry. In addition, if the entering firm is inexperienced in the environment, it has been showed to possess limited abilities of recognising growth opportunities in the network. Thus, it may miss opportunities to strengthen its position (Hohenthal, Johanson and Johanson, 2003). As a consequence, research on the internationalisation process (e.g., Johanson and Vahlne, 2009; Sharma and Blomstermo, 2003; Delios and Beamish, 1999; Luo and Peng, 1999; Johanson and Vahlne, 1977) has underlined the importance of generating experience in the international expansion process. It is only by doing business in a certain business network that it is possible to learn and understand the way the actors act and react under different situations in a specific context. The rationale is that when the international network extension process is initiated, the firm will face an institutional environment that is different from the one they are used to. Such differences are expected to cause uncertainties, which in turn hamper the firm from committing resources to the market (Johanson and Vahlne, 1977) or to individual relationships in the market network (Johanson and Vahlne, 2009). Through a gradual learning process, these uncertainties are assumed to be reduced and commitments enabled.

As outlined above, knowledge is generated incrementally, as the firm gets more experienced operating in the local market environment. A similar pattern is expected on the commitment side. As a consequence of incrementally reduced uncertainties, the firm is assumed to incrementally
commit more resources to its local market activities. These commitments are either in the form of investing in agreements with foreign partners, sales offices or even local manufacturing units, or they are directed at specific business relationships in the foreign market. The latter might be in the form of a commitment to customise a product or service for a certain customer, or to decide in signing exclusivity agreements with a certain dealer. Thus, it is in the interplay between the generation of experience and commitment that the firm strengthens its position in the local business network. This process involves state and change aspects as presented by Johanson and Vahlne (2009). In their updated version of their view of the internationalisation process, Johanson and Vahlne (2009) make explicit that commitment is directed to certain relationships rather than to countries. They also argue that learning takes place in relationships and not by merely being present in the country. The essence of their argument is that the firm’s business network position is dependent on its commitment of resources to its business relationships. This in turn is the outcome of generated experiences enabling such commitment decisions. Therefore, the internationalisation of the firm is still seen as the outcome of the interplay between international experience and international (relationship) commitments.

From the discussion above, knowledge about the foreign business environment is central to the international expansion of firms. In internationalisation studies, different types of knowledge have been identified that play different roles for the firm’s future actions. Through operating in foreign markets, firms are assumed to build a knowledge base that is unique for each firm. Learning takes place as experiences from a market are transformed into useful knowledge (Eriksson, Johanson, Majkgård and Sharma, 1997). Such knowledge is experience-based and mostly tacit (Blomstermo, Eriksson, Lindstrand and Sharma, 2004; Johanson and Vahlne, 1977; 2006). Thus we can condense that:
• The most important knowledge in the entry process is experiential.
• Knowledge reduces uncertainties with regard to commitment decisions.

3.5.3 Network positions in the entry process

A firm that does not have an established position in the foreign business network suffers from a liability of network outsidership (Johanson and Vahlne, 2009). This position is characterised by high levels of uncertainty and limited abilities of recognising opportunities for expansion. As the international network extension is initiated in the foreign market entry process, the firm seeks to develop a position in the foreign business network. The more integrated the firm becomes in the business network, the more of an insidership position it has achieved. Thus, the more actors that the firm interacts with, the more resources that are exchanged, and the stronger the activity links with local market actors, the more of an insider the entering firm becomes in the network. Thus, once the firm has reached an insidership position, the entry process has been realised (Blankenburg, 1995). In this position, the firm has managed to develop one or a set of business relationships, it has reached ‘break even’ in the entry, and it is an actor that can benefit from tapping resources from other actors in the network (Salmi, 2001).

The degree of insidership is related to the competitive position of the firm in the business network. The network position can also be defined as functional (Andersson, Havila, Andersen and Halinen, 1998). This position is described in terms of what other actors in the network expect the firm to do. A third aspect of the firm’s network position relates to its identity, thus being described in terms of how other actors view the entering firm in the network. In this research, focus is directed to the firm’s competitive position and its relative importance to other business network actors. The latter is seen as a
combination of the firm’s function and identity in the business network. Thus, we can outline that:

- The entry process concerns position building in business networks.
- In the entry process, the firm increases its degree of insidership.
- The entry process has been realised when the firm has reached an insidership position.
4 METHODOLOGY

This chapter accounts for the methodological choices for solving the research problem. My methodological assumptions are made explicit and an overview of the research process in the introduction of the chapter. Thereafter, the two individual research stages are presented in detail—first the qualitative research which is followed by the quantitative. The chapter is designed to provide a background and introduction to the empirical fieldwork conducted. The methodological description in this chapter stops where the presentation of the individual essays begins. Therefore, more detailed information is found in the appended essays.

4.1 Background

This research addresses a phenomenon in the social world, hence, focus is turned to behaviour in a world constructed by humans. This reality of the social world is inherited, learned and shared among individuals (Berger and Luckmann, 1966), thus it changes over time and it changes with location. Therefore, I do not assume that explanations of this social reality are conclusive, or lawful, which might be the case in the physical world. Although, I assume that research should seek the current best explanation of the social reality researched which is reached if research successively closes the
gap between reality and theory as conceptual models are continuously refined. Therefore my view on the social reality is inspired by a pragmatist standpoint (Tashakorri and Teddlie, 2004; 1998; Sobh and Perry, 2006). I acknowledge that, while seeking for the current best explanations of the social reality, the nature of behaviour in the social world must be kept in mind. We must not forget that this behaviour is influenced by the intentions of humans and organisations. Therefore explanations of the social world are intentional rather than causal and conclusive (Elster, 1984). Intentional explanations are dependent on the perceptions and wants of individuals and their role in organizations. As a consequence, the lenses of the social context must be considered when variables and constructs in the social world are studied and treated as isolated variables. Accordingly, I assume that the central aim of research is to reach a correspondence between theory and the reality rather than to come with any statements regarding conclusive ideas such as the Truth. My scientific perspective is therefore inspired by the scientific realism idea (Mir and Watson, 2001; Hunt, 1991; 1990; Kwan and Tsang, 2001, Tashakorri and Teddlie, 2004; Sobh and Perry, 2006).

In my attempt to reach a match between reality and the theory developed in this thesis, I have sought to capture the benefits of sequentially mixing research methods to compensate for single method weaknesses (Hohenthal, 2006; Tashakorri and Teddlie, 2002; 1998). Initially, qualitative case studies were undertaken. Thereafter an on-site survey was performed. The qualitative research was performed with the aim to develop propositions. The quantitative research was designed to enable a generalisation of the findings to a broader group of firms. Thus, in the first stage the theoretical framework was refined and developed. In the second stage, the main intention was to test and verify the findings from stage one on a broader sample of firms. In this stage a quantitative survey was performed. This strategy of sequentially mixing methods provided me with many benefits. First, and perhaps of greatest
importance for this thesis, the qualitative stage provided an in-depth understanding of the empirical reality under investigation. It allowed me to over time develop my understanding of both the empirical problems faced by my interviewees as well as the match or in cases mismatch between theory and the reality. These experiences have served as invaluable input for me: first for refining and developing the theoretical framework, second when developing the research model for the quantitative study including the operationalization of the constructs and third while analyzing the quantitative data collected. In turn, the quantitative stage of this research, has given me opportunities to generalize my findings to a broader sample even beyond the firms under investigation in this study. Thus, in sum - the qualitative stage provided me with an in-depth understanding of the empirics beyond the possibilities allowed for in a quantitative and face-less study, and the quantitative stage allowed me to test, verify and generalize some of the findings on a broader population of firms. In the subsequent section, the individual stages are described separately in detail.

4.2 Stage 1: Qualitative research

4.2.1 Introduction

The qualitative data reported in this thesis was collected within the framework of the EU financed project Baltic Business Development Network (BBDN). This project served to enhance knowledge about international trade in the Baltic Sea Region. More specifically, a group of researchers under the leadership of Professor Hans Jansson was assigned to contribute knowledge on how small and medium-sized firms successfully internationalise between the old and new member states in the northern parts of the EU. The group was composed of researchers from the Baltic Business School at the University of
Kalmar (lead partner), the International Business School at Vilnius University in Lithuania, the Faculty of Economics and Business Administration at the University of Tartu, Estonia, and the Centre for Regional and Tourism Research at Bornholm, Denmark. For the collection of data, we also had access to researchers from Wismar University in Germany, the Turiba School of Business Administration in Latvia, the University of Szczecin Poland, and the School of SME Business Administration at Seinäjoki University of Applied Sciences in Finland. All together, the network consisted of 20 people from the eight university partners. Out of those 20, six actively participated in the research group, and the additional 14 assisted in performing interviews and so on. The project spanned three years from 2004 until 2007, and six meetings were held in total.

As for my role in the project, except for active participation in all of the meetings and seminars, I was responsible for developing the semi-structured questionnaire used for the case studies by all of the researchers involved, and I performed the interviews for the Swedish cases. I also wrote the first case narratives (on the Swedish cases), which served as a guide for the other researchers responsible for interviews in their respective country. After this, I also reviewed all of the cases in order to ensure that they had reached a standard enabling cross-case analysis, as it was of utmost importance to have a solid composition of cases in the case study database. I have also been an author, or co-author, of all essays written on the data to this point. In the subsequent section, a more detailed description of the case study research strategy is accounted for.

4.2.2 The case study research strategy

The qualitative research reported in this research follows a case study research strategy (Yin, 2003). Because of the potential in dealing with a variety of evidence such as interviews, documents and observations, case study research
has its merits in answering “how” or “why” questions in the social world. These potentials benefitted from the early stages of this research, as the intention was to develop and refine a theoretical model for the entry process into institutionally distant business networks. Thus, along the lines suggested by Yin (2003) the case studies were performed in order to develop and refine the theoretical model.

The main purpose with the case study methodology was to develop theoretically and empirically based conclusions or propositions. For this purpose deep and detail rich information is required. Thus, a few firms are studied in detail, still the number of firms cannot be too few which would jeopardize the purpose to develop propositions. Therefore, the case studies follow an abductive logic where the theoretical framework evolves in parallel to the empirical fieldwork and the analysis (Alvesson and Sköldberg, 2008; Dubois and Gadde, 2002). In these parallel processes, a theory based on previous research was successively expanded and confronted with the empirical data. In parallel the empirical support of the theory was assessed. The external validity of a case study should be evaluated through analytical rather than statistical generalizations which mean that the findings are related to a broader theory rather than to make inference along the lines suggested by Yin (2003). Thus, the findings are not generalised from a selected sample to a defined population. Instead the findings are seen as transferable to other cases within this specific domain. In this sense, the findings are seen to be valid also beyond the individual cases under examination. Thus, through analytical generalisation, theory can be expanded as propositions are generated.

For this purpose an acceptable internal validity is necessary. An initial theory was developed based on previous research on networks and internationalisation. To safeguard the construct validity the design of the case study is retrospective but designed to follow the cases longitudinally along the lines suggested by Tripsas and Gavetti (2000). To ensure the reliability of the
retrospective processes and to make them more manageable, our case study aimed to capture critical incidents in different stages of the entry processes in the foreign market.

Although the case study is an acknowledged research strategy, it has experienced some severe critiques. First, a common critique against case study research addresses its reliability. For example, Yin (2003) explains that there is a risk that the case study investigator might be careless, allowing unclear evidence to influence the interpretations of the findings and the conclusions. This critique is hard to control for. In this study, however, the large group of researchers involved in the research process has been beneficial. The cases, analysis and main conclusions have evolved over time and been subject to discussions by researchers with heterogeneous experiences, backgrounds and nationalities. In the research group, alternative explanations have been sought and the data have been triangulated. To ensure that no single researcher influenced the direction of our conclusions, all of the cases compiled were followed by an interview manuscript revealing the raw data. A second frequent critique is that case studies provide a limited basis for scientific generalisation. This critique is important and relevant, but as outlined in the section covering the research process, this was not the intention in this stage of the research which aimed for analytical rather than statistical generalization. A third common critique is that the research takes too long and it results in massive and unreadable documents. This is also a relevant type of critique. This research sought to overcome these hurdles through a retrospective design of the case studies. Thus, the most critical events of the firm’s entry processes were investigated with retrospective questions, and it was therefore important to identify firms with relatively recent entries. It was also the main reason behind our strategy for compiling the cases as narratives complemented by the interview manuscripts.
4.2.3 Selection of cases

A multiple case study requires a careful selection of cases (Yin, 2003; Merriam, 1998). The cases should be selected so that they either give similar or contrasting results. To ensure a composition of heterogeneous but still comparable cases, purposeful case selection logic was followed, it was based on some major selection criteria. As interest was turned to cases that successfully had crossed the Baltic Sea, it was decided to study best practice cases (BPs). To facilitate the selection process, a two-step procedure was followed. In the first step, five potential BPs from each country were identified. These potential cases were described on 16 factors and resulted in 20 potential BPs.

To secure a solid composition from this pool, the group met to discuss which BPs to select. All firms of interest were SMEs according to the EU headcount classification and were selected according to four criteria. The first criterion was profitability. Related to this first criterion it was agreed that the foreign entry should positively have contributed to the growth of the firm, as well as it should have increased the firm’s international experience. In addition, an industry criterion was also included, as it was decided to study firms operating in the business-to-business market. The selection procedure took place according to these criteria and resulted in eight cases, which all had agreed to reveal and mediate contact information to their customers or partners in the market entered. Thus, the study encompasses eight exporting firms and eight importing firms, all being customers or intermediaries such as distributors or agents. Four cases covered the expansion from Sweden and Denmark to the newer member states Latvia, Poland and Estonia, and four from the newer member states of Estonia and Lithuania to the more traditional EU country markets of Sweden, Germany and Finland. An initial overview of the cases is provided in Table 1.
Table 1. The cases

<table>
<thead>
<tr>
<th>Firm</th>
<th>Nexö Vodbinderi</th>
<th>Norfo</th>
<th>Norba</th>
<th>Naxoflex</th>
<th>Viljandi metall</th>
<th>Terg</th>
<th>Auridos</th>
<th>Splitas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origin</td>
<td>Denmark</td>
<td>Denmark</td>
<td>Sweden</td>
<td>Sweden</td>
<td>Estonia</td>
<td>Estonia</td>
<td>Lithuania</td>
<td>Lithuania</td>
</tr>
<tr>
<td>Entry in</td>
<td>Poland</td>
<td>Poland</td>
<td>Latvia</td>
<td>Estonia</td>
<td>Finland</td>
<td>Finland</td>
<td>Germany</td>
<td>Sweden</td>
</tr>
<tr>
<td>Turnover, (mEur)</td>
<td>1.6</td>
<td>10.6</td>
<td>30</td>
<td>10</td>
<td>22</td>
<td>n/a</td>
<td>2</td>
<td>5.2</td>
</tr>
<tr>
<td>Employees (2006)</td>
<td>9</td>
<td>70</td>
<td>130</td>
<td>70</td>
<td>270</td>
<td>70</td>
<td>45</td>
<td>150</td>
</tr>
<tr>
<td>Export/turnover</td>
<td>40%</td>
<td>90%</td>
<td>75%</td>
<td>85%</td>
<td>65%</td>
<td>90%</td>
<td>88%</td>
<td>95%</td>
</tr>
<tr>
<td>Main export market*</td>
<td>Sweden</td>
<td>Germany</td>
<td>U.K., Scandinavia</td>
<td>U.S., Scandinavia</td>
<td>none</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Product:</td>
<td>Trawls and nets for fishery</td>
<td>Portioning machines for meat/fish</td>
<td>Waste collectors</td>
<td>Grinding material</td>
<td>Semi constructions</td>
<td>Construction-details</td>
<td>Metal components</td>
<td>Metal components</td>
</tr>
<tr>
<td>Interviews:</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
4.2.4 Data collection

The data collected in this project are mainly based on interviews; however, the interviews were complemented with on-site visits, observations and documents in the form of annual reports and marketing material, as well as each firm’s website. To ensure comparability of the cases, a semi-structured questionnaire (Merriam, 1998) was used to collect data in interviews. This semi-structured questionnaire was derived from a review of literature on foreign market entries. The aim was to formulate an interview guide covering the most critical aspect/theme of the foreign market entry process. Each theme consisted of three to four constructs to be discussed during the interviews. In turn, each construct was broken down into questions. Before a final version of the questionnaire was agreed upon, it was subject to two rounds of reviews among all researchers involved. The final version was translated into the language of the researcher who performed the interviews. As the project aimed to cover the selling/exporting of the firm’s situation and the importing/intermediating counterpart on foreign soil, two semi-structured questionnaires were developed covering both sides of the business relationship. The constructs to discuss were the same; however, the formulation of the questions was adapted to the role of the informant. The semi-structured questionnaire is available in Appendix A.

The informants were export managers, market managers, CEOs and/or business development managers for the exporting firms, and purchasing managers and/or CEOs representing the importers. Prior to the interviews, the interviewer ensured that the interviewee was the person(s) with the greatest experience of business activities in the focal market and had the most experience in dealing with the focal partner. During the interviews, an intra-firm snowball technique was used to identify additional interviewees possessing experiences of the entry or the customer/partner/agent/subsidiary.
Each interview lasted between 90 and 180 minutes. In total, 20 tape-recorded on-site interviews were conducted. They were all complemented with notes consisting of interesting information, annual reports and marketing material from the firm. After the first draft of the case narratives, 13 follow-up contacts and discussion with the interviewees were made in order to complement the material and ensure a solid composition of data.

4.2.5 The case database

All interviews were translated into English and transcribed into interview manuscripts. The research group conferred to identify missing or unclear information that was needed to ensure comparability of the cases. Having ensured a certain level of comparability, the research group met to discuss how to structure the case stories. It was decided to structure the cases chronologically, illustrating the process from first contact with the foreign market until the date of interviews (autumn 2006). With the benefits of having performed the interviews and visited the firms on-site, the researcher(s) that performed the interviews was responsible for writing their own case story because they have a more intimate knowledge of the cases studied. Assigning the interviewer to do the transcription ensured acceptable transcript reliability (Kvale, 1997). However, the validity of transcripts is harder to control (Kvale, 1997). In the project, we had two translation steps. The first being transcribing oral language to written language, those two languages are expected to have their own set of rules. The second translation step occurred as the interviewer translated the interview manuscript into English. To enable a control of the transcript validity, all responsible researchers were asked to use their original manuscripts complemented with their notes as reference points for any use of or work with the cases.
On three occasions the research group arranged seminars to refine and discuss the cases, all in order to enhance the richness of information and to secure internal validity of the cases. In order to enhance the reliability of the cases, the group used multiple sources of evidence. Two major means were employed: data triangulation and researcher triangulation (Yin, 2003). First, the data generated from interviews with different interviewees representing both the same and different organisations was compared. Second, the researchers discussed their interpretations of the interview manuscripts and the evolving cases in seminars and meetings. Once the individual case reports had reached a comparable level, they were compiled into the case database. The cases in the database were structured as narratives (Yin, 2003) describing the establishment, development and maintenance of business relationships in the market entered. I started the write up process by finalising the two Swedish cases. Thereafter, those cases were used as standards for the structure of the remaining cases. The eight narratives were then complemented with the interview transcripts.

4.3 Stage 2: Quantitative research

4.3.1 Introduction

The quantitative data reported in this thesis was collected within the framework of the project Internationalisation of Small and Medium-Sized Enterprises in Emerging country markets (henceforth ISME). The main focus of the project was to contribute knowledge on how internationalisation processes of firms to emerging markets are influenced by the ongoing liberalisation of markets in Eastern Europe and China.

The ISME project did span over two years. The research group consisted of me and two other researchers at the Baltic Business Research Centre under
In the project, 203 firms with experience from entries in the newly opened markets of Poland, the Baltic States, Russia, and China were visited on-site. On these occasions, semi-structured interviews were performed followed by a questionnaire.

As for my contribution in the ISME project, I had an active role throughout the project. This meant that I had an active role in discussions with regard to the sampling procedure, the development of the questionnaire, as well as in the design of the project. Apart from being active in designing the project, I visited 52 sample firms on-site and performed interviews. After the data collection, I was responsible for structuring and importing the data into a database, to this point I have also been responsible for the analyses reported from the database which mean that I am fully responsible for the quantitative analyses reported in the essays included in this thesis.

4.3.2 The on-site survey method

In this second stage of the research, the intention was to test and verify the relationship between critical constructs of the theory developed in stage 1. This stage began with a deductive logic building on previous theories and the results of the case studies performed in stage 1. In this stage of the research, Fowler (2002) was used as main source. An overview of the main steps of the project is provided in Figure 2. As illustrated, this stage involves three main processes. The first is the measurement instrument development process and describes the development of the questionnaire. Parallel to this process was the sampling process wherein the responding units and the respondents were identified. The data collection process succeeded those two processes. All three processes are described in more detail in the subsequent section.
4.3.3 Development of a measurement instrument

The measurement instrument was derived from a literature review where the case studies served as filters in order to condense the most central aspects to include in the questionnaire. The questionnaire was developed between spring 2006 and autumn 2007 by the research group and presented to researchers from the Stockholm School of Economics and the University of Uppsala with experience in similar studies.

In the questionnaire, most of the constructs were derived from the case studies and a literature review. The constructs are latent since they are not measured directly but indirectly at the indicator level. Following the argument by Hair, Anderson, Tatham and Black (2005), single measures for the constructs were avoided. Instead, a multifaceted representation of the underlying constructs was sought. This step from constructs to items is a
matter of validity and concerns the operationalisation procedure. It was critical in this stage to actually measure (item) what is believed to be measured (construct) (Fowler, 2002; Hair, Anderson, Tatham and Black 2005). In order to operationalise a latent construct, a number of indicators are needed to reflect its different aspects. Hair, Anderson, Tatham and Black (2005) recommend that the researcher should operationalise constructs into seven indicators (at least), which served as a rule of thumb in this project. In the questionnaire, all items were transcribed into questions or statements. For this purpose, the case studies were useful to ensure that the respondent did interpret the question as intended. Moreover, test interviews were conducted to ascertain the validity of the questionnaire. As recommended by Fowler (2002), a seven-point Likert scale was used to collect reflexive data. The formulation of the questions followed along the lines suggested in Fowler (1995). For a more detailed account of the operationalisation of the constructs, the reader is directed to the methodology sections of the individual essays in Appendix E-G. The full questionnaire is available in Appendix B.

4.3.4 The sampling process

The sampling procedure took its point of departure from the population defined for the project: manufacturing exporting SMEs from mature markets with experience of entries into emerging country markets. As in most research in social sciences and behavioural research, this population missed clear borders (Fowler, 1998; Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau, 2004). There was no adequate list or register to use for sampling. With the nonexistence of a sampling source, there was no direct way of specifying the size of the population. As a consequence, the population and sample had to be identified in parallel to the data collection process. In the
subsequent section, this process will be described in more detail. First, the criteria specified for the population is introduced:

**Firm size**

As this study focuses on the less researched SMEs, the first population criterion was based on the EU definition of SMEs. Thus, the population consists of firms with less than 250 employees. In addition, previous research in the group (e.g., reported in Jansson and Sandberg, 2008) had revealed that there are hardly any micro firms involved in the trade with emerging country markets, therefore these were excluded.

**International experience**

As interest was directed to studying firms with international experience, only firms with an annual export above SEK 10 million were included in the study. In addition, focus was directed to the entries into emerging country markets in the Eastern parts of Europe and beyond. Therefore, it was decided only to include firms with an annual sale to any of our three regions exceeding SEK one million. The countries of interest were Estonia, Latvia and Lithuania (representing the new EU member states), Russia (representing a major emerging market in Europe but outside the EU), and China (representing the most important emerging market outside of Europe).

**International activity**

As the theoretical base has been developed in international industrial marketing and international business focusing on manufacturing firms, it was decided only to focus on business-to-business firms. This was seen as an important delimitation, as the inclusion of service- and/or consumer-oriented firms may very well have required an alternative theoretical frame of reference.
Based on these population criteria, data was ordered in December 2005 from Statistics Sweden. As an on-site survey method had been planned, a geographic delimitation (the counties of Kalmar, Jönköping, Kronoberg, Blekinge, Halland, and Scania) was necessary for cost and time reasons. The data received (2006-01-17) covered 692 firms roughly matching the criteria. These firms had been listed based on information from Swedish Customs and Intrastat of Statistics Sweden from 2004. This was seen as the best data source for the study, and it is often used in similar research. However, it was discovered that the list was still not fully representative of the population. As a consequence, the sample identification followed two distinct steps.

In the first step, each firm on the list was compared to the criteria. In this procedure, 199 firms were excluded because they did not match the size or industry criteria. Either they had more than 250 employees or they were not in manufacturing industries. In the second step, the remaining 493 firms were contacted and evaluated over the phone.

As introduced above, the second step of the sample identification involved contacting all of the firms via telephone in order to establish: if the firm matched the population criteria, that the potential respondent was interested in participating in our study, and if so, a meeting was booked at the responding firms’ facilities. Of the 277 firms in the sample, 203 firms were ready to participate in the study. The remaining 74 firms did not want to participate due to policies of not participating in surveys, no interest in this research, had no time of participating or were still unreachable after four attempts. In total, the response rate of the study is 73 per cent, which noticeably exceeds the general response rate accomplished in mail or e-mail surveys of internationalising Swedish firms (e.g., Hohenthal, 2001; Melén, 2009).
An overview of the sample and the response rate of the survey are provided in Table 2. It is clear that the dominant two industries are manufacturing of machinery and equipment and manufacturing of fabricated metal, accounting for 25 and 14 per cent of the sample respectively. Judging from the response rates achieved from the different industries, it is also understood that there is no problematic biases related to different industries. As a matter of fact, there is a relatively evenly distributed rate of response between the industries of the sample.
<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>SNI</th>
<th>N</th>
<th>Share</th>
<th>N</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture of food products and beverages</td>
<td>15</td>
<td>7</td>
<td>2,5</td>
<td>5</td>
<td>71,4</td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>17</td>
<td>1</td>
<td>0,4</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Manufacture of wearing apparel</td>
<td>18</td>
<td>1</td>
<td>0,4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacture of wood and products of wood and cork except furniture</td>
<td>20</td>
<td>11</td>
<td>4</td>
<td>9</td>
<td>81</td>
</tr>
<tr>
<td>Manufacture of pulp, paper and paper products</td>
<td>21</td>
<td>10</td>
<td>3,6</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Publishing, printing and reproduction of recorded media</td>
<td>22</td>
<td>4</td>
<td>1,4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacture of coke, refined petroleum and nuclear fuel</td>
<td>23</td>
<td>3</td>
<td>1,1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Manufacture of chemical and chemical products</td>
<td>24</td>
<td>15</td>
<td>5,4</td>
<td>10</td>
<td>66,7</td>
</tr>
<tr>
<td>Manufacture of rubber and plastic products</td>
<td>25</td>
<td>22</td>
<td>8</td>
<td>13</td>
<td>59,1</td>
</tr>
<tr>
<td>Manufacture of other non-metallic mineral products</td>
<td>26</td>
<td>10</td>
<td>3,6</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Manufacture of basic metals</td>
<td>27</td>
<td>9</td>
<td>3,3</td>
<td>7</td>
<td>77,8</td>
</tr>
<tr>
<td>Manufacture of fabricated metal products, except machinery and equipment</td>
<td>28</td>
<td>40</td>
<td>14,5</td>
<td>32</td>
<td>80</td>
</tr>
<tr>
<td>Manufacture of machinery and equipment</td>
<td>29</td>
<td>70</td>
<td>25,4</td>
<td>54</td>
<td>71,1</td>
</tr>
<tr>
<td>Manufacture of office machinery and computers</td>
<td>30</td>
<td>4</td>
<td>1,4</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>Manufacture of electrical machinery and apparatus</td>
<td>31</td>
<td>15</td>
<td>5,4</td>
<td>10</td>
<td>66,7</td>
</tr>
<tr>
<td>Manufacture of radio, television and communication equipment and apparatus</td>
<td>32</td>
<td>5</td>
<td>1,8</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Manufacture of medical precision and optical instruments, watches and clocks</td>
<td>33</td>
<td>15</td>
<td>5,4</td>
<td>11</td>
<td>73,3</td>
</tr>
<tr>
<td>Manufacture of motor vehicles</td>
<td>34</td>
<td>6</td>
<td>2,2</td>
<td>5</td>
<td>83,3</td>
</tr>
<tr>
<td>Manufacture of other transport equipment</td>
<td>35</td>
<td>2</td>
<td>0,7</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Manufacture of furniture</td>
<td>36</td>
<td>14</td>
<td>5,1</td>
<td>11</td>
<td>78,6</td>
</tr>
<tr>
<td>Construction</td>
<td>45</td>
<td>3</td>
<td>1,1</td>
<td>2</td>
<td>66,7</td>
</tr>
<tr>
<td>Wholesale trade, except of motor vehicles and motorcycles</td>
<td>46</td>
<td>2</td>
<td>0,7</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Maintenance and repair of motor vehicles</td>
<td>50</td>
<td>1</td>
<td>0,4</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Wholesale trade and commission trade, except of motor vehicles and motorcycles</td>
<td>51</td>
<td>6</td>
<td>2,2</td>
<td>5</td>
<td>83,3</td>
</tr>
</tbody>
</table>
4.3.5 The data collection process

When deciding on how data shall be collected in a quantitative survey, a number of parameters need to be taken into account. According to Fowler (2002), the most central ones are the type of population to be studied, the form of the questions, and the time required by the respondent to fill in the questionnaire. These three aspects were central in this project. First, with a non-existing list of the population, it was required that all firms were contacted directly, which was done over the telephone. Through this contact the sample could be purified and the firms that did not belong to the population could be excluded. Second, the type of questions and statements in the questionnaire are detailed and requires that the most experienced person at each firm answer them. Anything else would have jeopardised the reliability of the claims based on this research. In parallel, some of the questions and statements in the questionnaire address sensitive strategic information about the firms. Therefore, the establishment of a face-to-face relationship was important to access detailed data. This also minimised the number of missing values in the questionnaires. Third, and perhaps of greatest importance, the time required to fill in the questionnaire is relatively demanding. As it took between 45 and 90 minutes to complete, we realised that there was a risk that our respondents would not finish the questionnaire if it was sent via mail or completed online. As a consequence, we believed that it would be valuable to perform on-site interviews to ensure a greater response rate and minimise the number of missing values.

Prior to the main survey, the questionnaire was tested on eight of the sample firms. During this round of test interviews, the research group visited the responding firms in pairs. This was deliberate since we wanted to agree on a standard procedure for conducting the interviews to minimise the errors related to any interaction effect. Each test interview lasted for about two
hours. The respondents were asked to evaluate the questionnaire, the interview situation and to provide the researchers with related comments. Two meetings were arranged with the research group covering the experiences generated from the round of test interviews. The first meeting resulted in an improved questionnaire—primarily a number of questions were reformulated as the test respondents perceived them as unclear or had misinterpreted them. Additionally, the structure and layout of the questionnaire was modified to prevent biases in relation to the order of the questions. The second meeting was arranged to standardise the survey’s interview situation because of the relatively high degree of interaction (Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau, 2004) between the researcher and the respondent. To strengthen the reliability of the study and to minimise the interaction effect, an interviewer guide was developed. This guide was used to standardise all contacts with the respondents prior to, during and after the interviews.

In the main survey, every meeting with the respondents began with an informal discussion about the firm, its products and general international experiences. The interviewer then led the discussion towards the interview guide (Kvale, 1997) with semi-structured questions (Merriam, 1998). The open-ended question interview lasted between 30 and 90 minutes. What was important was that the researcher felt that they had sufficient information to clarify any aspects of the firm from the subsequent questionnaire. Once a satisfactory understanding of the firm’s international activities was reached, the respondent was asked to fill in the closed-end questionnaire. Once the questionnaire had been introduced, the respondent was sequentially asked to answer groups of questions. Each group of questions in the questionnaire was introduced and clarified for the respondent before they were asked to record their answers. This followed the ideas of Podsakoff, Scott, MacKenzie, Podsakoff and Lee (2003) to prevent method biases related to single respondents. Before handing over the next group of questions, clarifications
and comments were given and taken if necessary. While the respondent provided the answers, the interviewer was available for any type of clarification.

### 4.3.6 Descriptive statistics of the sample

As revealed in Table 2, we reached a response rate of 73 per cent resulting in a sample of 203 firms. 92 of these firms answered for entries in the Baltic States, 61 for Russia and 50 for China. Table 3 below provides more details of this sample, the turnover, number of employees, number of markets, share of the turnover that is exported, share of employees employed abroad, and share of the firm’s total assets located outside Sweden.

**Table 3. Descriptive statistics**

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover E (000)</td>
<td>842</td>
<td>166200</td>
<td>27578</td>
<td>26744037</td>
</tr>
<tr>
<td>Employees</td>
<td>3</td>
<td>510</td>
<td>107.7</td>
<td>94.46</td>
</tr>
<tr>
<td>No export markets</td>
<td>3</td>
<td>160</td>
<td>32.5</td>
<td>27.61</td>
</tr>
<tr>
<td>Export/turnover (%)</td>
<td>10</td>
<td>100</td>
<td>70</td>
<td>.23</td>
</tr>
<tr>
<td>Intl. employees (%)</td>
<td>0</td>
<td>90</td>
<td>16</td>
<td>.25</td>
</tr>
<tr>
<td>Intl. assets (%)</td>
<td>0</td>
<td>90</td>
<td>9</td>
<td>.18</td>
</tr>
</tbody>
</table>

The sample can be further broken down into the classes of firms specified by the EU. According to this definition, firms are categorised into three main categories based on the headcount: micro firms (<10), small firms (10-49), and medium-sized firms (50-249). This breakdown of the sample is presented in
Figure 3. Here it is revealed that the vast majority (57 per cent) of the firms belong to the category of medium-sized firms. The second largest group is the group of small firms, which accounts for a third (33 per cent) of the sample. In the sample, only one per cent belongs to the group classified as micro firms. The last five per cent of the sample is represented by a group of firms employing more than 249 employees. This figure is above the upper limit of the EU definition. A more detailed analysis of this group of firms was performed, revealing that these firms all had less than 250 employees in 2005 (the year from which the statistics were ordered from Statistics Sweden). After that, however, some of the firms had merged with other firms, and others had been taken over by larger firms or experienced intensive growth. As a consequence, the number of employees had drastically changed. None of these cases revealed any noteworthy outlying values, neither when their values on the other items were visually examined or when their values were compared to the mean values of the rest of the sample. And as they had provided answers to retrospective questions, it was decided to keep these cases in the sample.

Figure 3. Sample firm size

One of the main benefits of the on-site survey methodology was that we could meet the respondents face-to-face. Throughout the study, we searched for the most knowledgeable or experienced person to respond to our market specific questions. The positions of these persons should be of interest to researchers interested in doing mail or Internet-based surveys with related types of
questions. These positions, which are represented in Figure 4, are also of interest for evaluation and understanding of the results of this study. Figure 4 discloses that in this group of firms, those holding the position of market/sales manager possess the majority of experience. This position is followed by the CEO and area managers. Eighteen of our respondents had other positions, for example business development managers, key account managers and after sales managers.

Figure 4. Respondents
5 INDIVIDUAL ESSAYS OF THE THESIS

This chapter summarises and describes the focus and findings of the five individual essays (see Appendices C-G). Specific attention is given to discussions on the contribution of each individual essay in answering the main research questions of the thesis: (I) how do MMEs establish insidership positions in institutionally distant business networks, and (II) what critical abilities are developed by MMEs in the process of entering institutionally distant business networks. The first two essays are based on the qualitative case studies of the research process and are mainly designed to contribute to providing an answer to the first research question. The remaining three essays, which report on the data collected through the quantitative research phase, are mainly designed to answer the second research question. The chapter ends with an overview of the titles, research questions, theoretical constructs, analytical method, and the main findings from the individual essays.
5.1 Essay 1

The first essay, entitled *Balancing intermediated relationships in emerging country markets*, is co-authored with Joachim Timlon¹. In the essay, we analyse the organisational learning process of firms in the institutionally distant network entry process. This essay, which was the first in this thesis project, builds on the idea that differences in institutions between the home and host country cause uncertainties for the entering firm. When entering institutionally distant networks, these differences are large and cause high degrees of uncertainty. To establish an insidership position in the institutionally distant business network, the firm therefore needs to generate experiential knowledge to reduce uncertainty. Along the arguments of Forsgren (2002), we argue that the organisational learning aspect of the internationalisation theory is underdeveloped and has not integrated recent research in organisational learning theory.

To analyse the entry process into institutionally distant business networks from an organisational learning perspective, we develop a theoretical framework for understanding its main stages. We integrate the organisational learning framework of Crossan, Lane and White (1999) and Crossan and Berdrow (2003) into internationalisation process theory, and manage to open the experiential learning process along the lines requested by Forsgren (2002). According to the framework, organisational learning takes place in four distinct stages: intuition, interpretation, integration, and institutionalisation. These stages are assumed to follow two loops—the feed-forward loop and the feed-backward loop—which explains how experiences from the market are institutionalised in the behaviour of firms, as well as how institutionalised experiences of the firm are fed forward to the representatives in the market.

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¹ Joachim Timlon is the first as well as corresponding author of this essay.
The developed framework is used to analyse the organisational learning process taking place with two Swedish MMEs who have entered the Baltic states. By drawing on the data collected in the qualitative stage of this thesis project, a retrospective longitudinal analysis of the most critical incidents through the entry process was enabled. The results of our analysis revealed that the uncertainties of an entering firm are reduced as experiential knowledge is generated. According to our study, knowledge development takes place in accordance with the four main stages. Thus, initially, the representatives of the entering firm intuit and interpret the business environment. Thereafter, it is matched with the firm’s previous experiences and evaluated. As these stages pass, knowledge is integrated into the activities of the firm. Having reached a state of insidership in the network, the new experience is institutionalised in the routines and processes of the entering firm. Our analysis also reveals that these stages take place in the iteration of feed-forward and feed-backward loops between the organisation and the representative in the market.

In the essay, we conclude that in order to fully understand the entry process into institutionally distant business networks, we need to understand the stages in which uncertainties about the business environment are reduced. It should be noted that at the time of the essay’s publication, the concept of insidership had not been introduced. Yet, in this essay, we could reveal that when market knowledge was institutionalised, the uncertainty of the entering firm was reduced, as it experienced a position where it could tap resources from its business network and experienced a legitimate position. In addition, it was revealed that once this position had been reached, both of the cases in our study sought opportunities to strengthen their network positions by entering new country-based business networks. In retrospect, this is seen as an interesting aspect of a network insidership.
The essay contributes to the main research questions posted in the cover of this thesis by opening the organisational learning process. Along the lines suggested by, for example, Forsgren (2002), this is an underdeveloped aspect of internationalisation process theory. By breaking down the experiential learning process into its main phases, we can better understand how an insidership position is reached in country-based business networks. Along the lines suggested by Johanson and Vahlne (1977; 2009), experience-based knowledge is of the utmost importance in understanding how uncertainties related to commitment are reduced. By analysing how uncertainties are incrementally reduced, knowledge related to how the firm commits resources to its network position is an important implicit contribution of this essay to the overall research questions of the thesis.

5.2 Essay 2

The second essay, entitled *International network extension processes to institutionally different markets – entry nodes and processes of exporting SMEs*, is co-authored with Hans Jansson. The essay sets out to analyse the entry process into institutionally distant business networks from a network perspective. First, we examine how the process is initiated. Second, we assess how the firm plugs into the new business network. Third, we address the network evolvement process in the local foreign market by studying how the entrant firm’s network position develops over time towards an insidership position.

In the essay, we advance the understanding of how an insidership position is reached by integrating social network theory (Blau, 1964; Granovetter, 1985; Coleman, 1988; Burt, 1993) into the analytical model. The developed

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2 Mikael Hilmersson is the first and corresponding author of this essay.
framework is used to analyse the institutionally distant network entry process of the eight cases of the qualitative stage in this thesis project. Thus, the empirical data accounts for eight case studies of network entry processes in the Baltic Sea Region.

We conclude that in the institutionally distant network entry process, the firm passes through three distinct stages where different positions are taken. The three stages are the exposure, the formation and the sustenance network. In the exposure network, the entering firm develops many general, loosely coupled and weak ties with actors in the local business network. The main reason is to access information and evaluate prospects in the business network. In the subsequent stage, the formation network is entered, wherein the entering firm strengthens its position in the local business network by developing stronger ties with a few actors exposed to in the exposure network. Now the firm is slowly moving towards an insidership position, as the network steadily closes and business starts to develop. Once the firm has formed its position in the local business network, the sustenance network is entered. This network structure is closed and tightly coupled, and characterised by a limited number of strong ties dominated by social exchange. In our conclusion, we emphasise that this is where an insidership position is reached. Thus, the essay contributes to the main research questions of the thesis by deciphering the strategic networking process of the institutionally distant network entering firm.

5.3 Essay 3

The third essay, entitled *Experiential knowledge types and profiles among emerging market entering firms*, sets out to discriminate experiential knowledge types in the entry process and identify experiential knowledge profiles among entering firms. Experiential knowledge is assumed to be the main driver of the
growth of the firm. However, few studies have discriminated such knowledge into different types and explored the heterogeneity of the experiential knowledge profiles of entering firms.

From a literature review, four main types of experiential knowledge are identified: internationalisation knowledge, which concerns the firm’s knowledge about international procedures; societal knowledge, which concerns the firm’s knowledge about societal institutions in the host country; business network knowledge, which pertains to the firm’s knowledge about the host country business network; and social capital, which is seen as an important indicator of the firm’s knowledge about the customer’s personal situation. These four knowledge types range from low to high specificity, as they are in a series of steps in a firm’s ongoing business in the host country.

The empirical analysis is performed on the dataset collected on-site at 203 SMEs with recent experience of entries into the Baltic states, Poland, Russia, and China. To answer the research questions, the analysis follows two sequential steps. First, an exploratory factor analysis is performed to discriminate the theoretically derived constructs. The results from the factor analysis are then imported to a cluster analysis in order to group the sample based on their knowledge profile.

The result of the analysis verifies that experiential knowledge is a multidimensional construct involving four basic knowledge types, namely internationalisation knowledge, societal knowledge, business network knowledge, and social capital. More interestingly, the result from the cluster analysis reveals that entering firms develop heterogeneous experiential knowledge profiles. In the essay, experiential knowledge profiles among entering firms are interpreted, validated and exemplified, and the profiles identified are the Inexperienced exporters, the Societal oriented exporters, the Customer oriented exporters, and the Experienced exporters. The analysis also reveals that the knowledge profile seems to be related to the firm’s perceived
degree of uncertainty, as well as on the performance of the firm in the host network. Thus, it is concluded that depending on the composition of a firm's experiential knowledge, a better explanation of its entry process into institutionally distant business networks can be reached.

The essay contributes to the main research question of the thesis by advancing knowledge on the multidimensionality of the experiential knowledge construct, and by developing experiential knowledge profiles among entering firms. The results reveal that certain experiential knowledge resources, or abilities, are more critical than others in reducing the perceived degrees of uncertainty. Furthermore, they seem to have a performance effect in the institutionally distant network entry process.

5.4 Essay 4

The fourth essay, entitled *The effect of specificity of experiential knowledge on the degree of perceived uncertainty in the market entry process*, sets out to test the uncertainty reducing effects in the institutionally distant entry process by experiential knowledge of different specificity. Uncertainty in specific business networks is seen as a central feature of a network outsidership position, as it indicates that few of the firm's business relationships are in a developed stage. This is a situation wherein the firm is assumed to be unable to recognise opportunities for expansion in the network, and it has limited abilities to tap the network for resources.

The essay builds on the idea that experience-based knowledge has an uncertainty reducing effect, which is a central aspect of internationalisation process theory. Prior to this study, however, few studies have actually verified this common assumption, and no studies identified have examined the relationship between different types of experiential knowledge and the perceived uncertainty in the business network entry process.
Based on the case studies in stage one of the research process (mainly reported in Essay 1) and a review of the literature, a model is developed to test the relationship between the levels of knowledge of different specificity and the degree of perceived uncertainty in the institutionally distant network entry process. From internationalisation process theory, three types of knowledge (all of different specificity) are derived, which were all substantiated in the case studies. Thus, the independent variables internationalisation knowledge, societal knowledge and business network knowledge are tested on the degree of perceived uncertainty in the institutionally distant entry process. It is hypothesised that the greater the experiential knowledge level of the firm, the lower the perceived uncertainty. Further, the more specific the experiential knowledge, the stronger the uncertainty reducing effect.

To test the hypothesised model, the data collected in the quantitative research phase is imported in SmartPLS, where a structural equation model is tested in two sequential stages. First, the outer measurement model is tested, followed by the inner structural model.

The results of the analysis confirm that experiential knowledge has an uncertainty reducing effect. Support is found for three out of the four hypotheses. The first hypothesis—the relationship between internationalisation knowledge and uncertainty—was insignificant, which contradicts previous research, including Essay 1. The other two types of knowledge have an uncertainty reducing effect as hypothesised. Moreover, the more specific the knowledge is, the stronger the uncertainty reducing effect. The essay therefore concludes with the confirmation of the uncertainty reducing effect of experience-based knowledge. It states that the more specific the knowledge is, the greater the effect. As a consequence, entering firms are assumed to be dependent on their generation of network specific experience while entering institutionally distant business networks. Judging from the results of the study, it seems as if knowledge generated from experience in
more mature country-based business networks is hard to make use of in these distant business networks. In addition, they are also seen as less relevant for predicting the firm’s abilities of recognising expansion opportunities in these business networks than the more specific experiential knowledge generated in these networks.

The essay contributes to the main research questions of this thesis by identifying what kind of experiential knowledge needs to be developed in the entry process into institutionally distant business networks. It verifies that it is of the utmost importance to generate business network specific experiences in the institutionally distant network entry process.

5.5 Essay 5

The fifth essay, which is co-authored with Susanne Sandberg, is entitled *Perceived institutional distance in the emerging market entry process*. The essay sets out to develop knowledge on how institutional differences between the home country business environment and the institutionally distant country environment are perceived by managers of entering firms. Building on the ideas specifically developed in Essay 4, it is important for the entering firm to develop knowledge that is specific and related to the business network in order to reach a network insidership.

The essay builds on the idea that the most essential obstacle to reaching a network insidership is found in the institutional environment surrounding the business network. We assume that this institutional profile permeates the behaviour in business networks. For example, the institutional environment has an impact on how networks are structured, on the role of social

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3 Mikael Hilmersson is the first and corresponding author of this essay.
relationships in networks, and on expected behaviour among actors in the network.

The essay draws on the quantitative data collected in the second stage of the research. The theoretical framework developed in this essay is first tested in an exploratory factor analysis in SPSS 18. Subsequently, a confirmatory analysis of the factors extracted is performed in SmartPLS.

The result of our study reveals that differences between the home and host country-based business networks are manifested in five major dimensions. First, there seems to be a difference in the degree to which the entering firm is distrusted by the customer. Second, there is a difference in the degree to which the customer needs to be a reliable supplier. These two first dimensions are anchored in the normative dimension of the institutional environment. Third, there is a difference in the degree to which managers of the entering firm perceive a need for patience while developing business relationships. Fourth, the difference between the home and host country-based business networks manifests itself in the degree to which actors are acting rationally. The third and fourth dimensions of our framework have their roots in the cognitive dimensions of the institutional environment, more specifically in the thought style of the actors. Fifth, there is a manifested difference in the degree to which sanctions play a central role in the home and host country-based business networks. This fifth dimension comes from the regulative institutional side, or more specifically from the informal enforcement mechanisms.

The essay contributes to the main research question as it continues the ideas of Essay 4, namely that specific knowledge about the business network is an essential aspect of reaching an insidership position. In this essay, we develop knowledge on some of the potentially main sources of a liability of network outsidership. Thus, along the lines suggested by previous research, we argue that to succeed in the foreign market entry process, the firm needs to
learn about the institutional environment and how it is manifested in the business network in order to establish a legitimate position as an insider in this network.
## 5.6 Overview of the essays

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6 MAIN CONCLUSIONS OF THE THESIS

In contributing to the extant literature, two research questions were posted in this cover of the thesis: (I) how do MMEs establish insiderness positions in institutionally distant business networks?; and (II) what critical abilities are developed by MMEs in the process of entering institutionally distant business networks? These two questions aimed to provide a solid ground for fulfilling the purpose to conceptualise the entry process into institutionally distant business networks, and to identify the critical abilities developed in this process. In answering these questions and fulfilling the purpose of the thesis, five individual essays have been presented. The main findings and conclusions of the individual essays were summarised and pinpointed in chapter 5. In this chapter, the focus shifts from the individual essays to the overall research questions and the posted purpose of the thesis.

In the introduction two main concerns with the extant literature were introduced. First, it was stressed that the network perspective of firm internationalisation has mainly focused on how the network influences the international behaviour of firms. Less research had been presented that focused on the behaviour of the individual firm within its business network. This study has sought to address these issues throughout the five papers by studying how the firm influences its position in an institutionally distant business network. The findings from this research have shown that although
the network has an influence on the international behaviour of the firm, much knowledge remains to be developed on how the individual firm builds its position in the network. In this study, it has been revealed that a firm influences its position in a network by taking different positions in the network in parallel to the knowledge that the firm has developed about the network and the institutional environment.

Second, it was outlined that the international dimension of the network perspective on firm internationalisation is underdeveloped. This thesis contributes to the elaboration of the network perspective by acknowledging that business networks are governed by the institutional environment in which they are embedded. Thus, the institutional network approach introduced by Jansson (2007a,b) has been developed throughout this research, which has clearly shown that as firms enter new business markets, they suffer from both a liability of foreignness and a liability of network outsidership. The individual studies show that the institutional environment entrenching the network constitutes an institutional distance between firms originating from different network. Thus, in general, it can be concluded that although many of the problems faced by an entering firm relate to its outsidership in the business network, still we must not forget that we are not living in an extreme network world. Countries are different, institutions are different, and because of that business networks differ. This causes problems when firms originating from different environment develop relationships which is how the liability of foreignness is interrelated with the liability of network outsidership. Therefore, the network entry process is not only affected by forces in the business network, but also by the surrounding institutional environment. These two aspects are further developed in the subsequent section, which is designed to address the two research questions presented in the cover of the thesis.
6.1 The establishment of network insidernesship positions in institutionally distant business networks

Insidernesship is characterised by the managers of the firm feeling confident concerning developments in the local market network. Uncertainties are thereby low and the firm has a good ability of recognising opportunities for further expansion. In this situation, the firm has reached a position where the majority of its business relationships have reached a long-term stage, and the firm has legitimised its position in the business network. Thus, the entry has been accomplished.

From this study, a distinct pattern of the entry process was revealed. First, the main stages in the organisational learning process were examined in Essay 1, showing that the experiential knowledge development process follows four distinct stages as the entering firm reduces its perceived levels of uncertainty throughout the entry process. In other words, once the entry is initiated, representatives of the entering firm intuit and interpret the institutionally embedded network in the host country. Thereafter, these new experiences are integrated in the strategic behaviour of the firm. Once such experience-based knowledge has been integrated and evaluated by the entering firm, it is institutionalised in the behaviour of the firm. In parallel to these major stages of the experiential knowledge development process, the entering firm incrementally commits resources to the host country business network. This is a process of strategic networking where the firm incrementally commit resources to the entry as uncertainties are reduced.

Second, in Essay 2 it was revealed that the incremental pattern of resource commitment to the host country business network takes place in three main stages, as evidenced from the horizon of the entering firm. In the initial stage, the firm enters the exposure network. Here the firm exposes its products and services to as many local business network actors as possible, the degree of
insidership is low as well as the firms commitment to the focal network. In the second stage, the firm enters the formation network, where it starts to commit resources to specific relationships. At this point it is the other way around, namely that the firm chooses to limit its exposure to a few chosen prospects to form a position in the network. In the third stage, the sustenance network is entered, where the entering firm commits more resources to the relationships with the greatest potential, and other relationships are re-evaluated in order to cultivate the network position.

The pattern revealed in this thesis is that these processes of uncertainty reduction through organisational learning and the strategic networking process are highly interrelated and can be presented through the main three phases of how an entering firm reduces its liabilities of network outsidership as well as foreignness and establishes an insidership position in institutionally distant business networks. The three phases that will be presented in the section below are the Scouting phase, the Qualifying phase and the Shielding phase. This process from outsidership to insidership, is represented in Figure 5 and elaborated on below. The reasoning is that, in the entry process, the entering firm increases, or decreases its level of commitment to one, or several, relationships in the local market network. These commitment decisions in turn are driven by the experiential knowledge developed by the firm. Thus, the core of the model concerns the interplay between the organizational learning process and its strategic networking process.
6.1.1 The Scouting phase

As the entry process into new business networks is initiated, the entering firm suffers from a liability of network outsidership as well as foreignness. As substantiated in this thesis, this is a situation wherein the firm has no experience of the institutional environment in which the network is embedded. The inexperience means that the entering firm perceives a high degree of uncertainty and is hampered from recognising opportunities for expansion.

To cope with this problematic situation, the entering firm initiates the strategic networking process and a position in the exposure network is taken. Here, the firm develops general and weak ties with as many actors as possible.
in the business network. This is a situation in which the firm’s network is loosely coupled as the actor bonds are weak, the resource ties are non-existent, and no activity links have been developed. Thus, no business exchange takes place in the exposure network. Instead, this it is dominated by an exchange of information between the actors involved, which leads us to the parallel and interrelated knowledge development process.

In this phase, representatives of the entering firm intuit and interpret information exchanged in the exposure network. Thus the representatives of the firm compare the information to their previous international experiences and try to establish a pattern of recognition. Hence, the learning process is initiated, as the representatives seek to explore information and experience about the institutionally embedded business network. Therefore, the main issue concerns the establishment of a pattern of recognition.

The main problems of the entering firm, in this phase, relates to its weak position in the local business network. As a consequence, the uncertainties are high and the abilities to recognise opportunities in the network are low. The key challenge is therefore to expose the firm and its competences to as many actors as possible in order to catalyse the information exchange so that uncertainties can be reduced and opportunities identified.

I chose to label this phase in the entry process as the Scouting phase, as it involves the firm’s first contact with the new business network. In this stage, representatives of the firm set out to scout the business network and identify potential actors in order to establish relationships with.

This phase of the business network entry process is represented in Figure 5. The horizontal axis represents the strategic networking by the entering firm, and the vertical axis represents the organisational learning process. Taken together, these two parallels indicate how far in the entry process the firm has reached while striving for a network insidership, a development indicated by the diagonal axis.
6.1.2 The Qualifying phase

Once the entering firm has evaluated the many general weak ties with actors in the Scouting phase, a new phase in the entry process is reached. Through the many general and weak ties developed in the Scouting phase, the entering firm now begins to develop its position in the network, and the degree of outsidership and liability of foreignness is slowly reduced.

In this phase, the network formation stage is entered. This means that the entering firm has chosen one, or a few, promising prospects from the Scouting phase to move forward with. A few network ties with local network actors begin to grow stronger. The degree of coupling increases, as the entering firm starts to develop activity links with local business actors when both social and information resources are exchanged. Thus, the position in the local business network is being formed.

In this phase, the organisational learning process concerns integration of experiences intuited and interpreted in the Scouting phase. Experiences are now integrated into the routines of the entering firm. Thus, a shared understanding is developed in the relationship between the actors and mutual adjustments take place.

In this phase, the main problem of the entering firm is to form its position in the business network. Through social and information exchanges, uncertainties are reduced. However, it is critical for the entering firm to evaluate which actors to commit to. Therefore, the challenge in this stage relates to reaching an understanding of the business actors so that the actors can be evaluated, enabling relationship specific investments. For this it is necessary to evaluate the long-term potential of the relationship.

I chose to label this phase in the entry process the Qualifying phase since it concerns the phase wherein the firm has identified potential customers and
succeeded in supplying its new customers, thereby qualified as an actor in the network.

The Qualifying phase of the business network entry process is represented in Figure 5. The degree of insidership increases, which indicates that the network position of the entering firm is strengthened and its liabilities of outsidership and foreignness are reduced. The uncertainties of the firm in relation to the network entered are reduced, as the institutional environment is better understood. At the same time, the abilities of the entering firm to recognise opportunities increase in the Qualifying phase.

6.1.3 The Shielding phase

Having formed a position in the business network and integrated the experiences of institutionally embedded networks in the routines in the Qualifying phase, the firm now enters a new phase. Through the formation network, initial relationships have been developed with local market actors. The firm has now experience of operating with actors in the local business network, which has reduced the levels of uncertainty. These experiences also indicate that the firm is in a favourable position for recognising further opportunities for expansion in the local network. Thus, the degree of insidership is high, and a firm that has reached this phase can be described as a business network insider. As substantiated in this thesis, this is a state in which the firm can benefit from tapping its network for information, has a position with one or a set of developed business relationships, and experiences a legitimate position. In this phase, the entry process has been realised, and as indicated in, for example, Essay 1 of this thesis, this is a phase wherein the entering firm can direct its interest to alternative foreign markets where further growth opportunities are waiting.
In this phase, the strategic network sustenance network is entered. This phase is characterised by the entering firm having developed a few strong ties with selected actors. This is a tightly coupled network consisting of strong activity links with a few local network actors. In this situation, the actors have developed interdependency as the resource ties are strong. Therefore, there is an intensive exchange of information between the actors and social activities apart from the ongoing business.

The organisational learning process has now reached the stage of institutionalisation. Thus, knowledge about the local business network is institutionalised into the routines of the business relationship(s). There are now practices and procedures guiding the behaviour of the actors involved and the relationships are characterised by mutuality.

As the entering firm has reached this insidership in the business network, the entry has been completed and the firm is an established actor in the local business network. Now the entering firm has overcome its liability of network outsidership as well as foreignness, as a consequence, the firm is expected to experience low levels of uncertainty and be in a favourable position for recognising further opportunities for expansion. A major challenge, however, relates to the re-evaluation of the relationships developed and a key is to revitalise and cultivate the business relationships by continuously re-evaluating their future potential.

I chose to label this phase in the entry process the Shielding phase, as the firm now must shield its insidership position in the business network from any threats of competitors. In addition, the insider firm also needs to shield itself from becoming inflexible, for example to be reluctant to re-evaluate and cultivate its established business relationships. The shielding metaphor is also useful because reaching this phase means that the entry process has been completed; therefore, the entering firm is awarded with a shield symbolising its successful entry.
The Shielding phase of the business network entry process is represented in Figure 5. From the model we can see that the degree of insidership is high. Therefore, we can assume that the entering firm perceives low levels of uncertainty and is well equipped to recognise opportunities for further expansion.

The firm's entry process involving these three main phases is outlined in more detail in Figure 6. In the Scouting phase, the entering firm develops many general and weak ties in order to obtain information about the business network that will be interpreted. In the Qualifying phase, the firm begins to form its position in the business network and develop a few strong ties with actors in the foreign network, as experiential knowledge has been integrated in the routines and procedures of the firm. In the Shielding phase, an insidership position in the network has been reached, experiential knowledge has been institutionalised, and the firm now needs to shield its position in the business network.

Figure 6. The three main phases of the entry process
6.2 Critical abilities developed in the institutionally distant network entry process

Throughout the thesis, the internationalisation process of the firm is seen as an international growth strategy anchored in the growth theory of Penrose (1959). Thus, it has been assumed that the growth of the firm is driven by its generation and utilisation of experience-based knowledge resources. To identify the critical abilities developed in the process of entering institutionally distant business networks, we therefore turn to the resources and abilities of the firm identified as critical for orientation and positioning in the business network. As outlined in chapter 5 and evidenced in the appended essays, research on the internationalisation process has mainly established three different types of knowledge: internationalisation knowledge, referring to the firm’s ability of performing international operations; societal knowledge, which concerns the entering firm’s knowledge about host market societal institutions; and business network knowledge, which deals with the firm’s knowledge about the host market business network. In the different stages of this research, these knowledge types have been empirically verified and confirmed in the institutionally distant network entry process.

In Essay 3, it was suggested that experiential knowledge is a multidimensional construct involving four basic types: internationalisation knowledge, societal knowledge, business network knowledge, and social capital, which range from low to high degrees of specificity. It was also suggested that firms entering institutionally distant business networks develop heterogeneous experiential knowledge profiles. The profile developed by the entering firm also seems to have an effect on the uncertainty that the firm perceives in the network entry process, as well as on the firm’s performance in the host market. As expected from previous research, it was revealed that the firms with the greatest experiential knowledge base perceived the lowest
degree of uncertainty and had the strongest performance in the host market. In contrast, the firms with the lowest degree of experiential knowledge had the weakest performance and the highest degrees of uncertainty. Thus, it was indicated that the experiential knowledge base of the entering firm is a critical resource in the institutionally distant network entry process. As a consequence, Essay 4 was designed to more specifically test the role of experiential knowledge of varying specificity in the institutionally distant network entry process.

In testing the uncertainty reducing effect of knowledge ranging from low to high degrees of specificity, the results from Essay 4 showed that the more specific the experiential knowledge is, the greater its uncertainty reducing effect in the institutionally distant network entry process. Thus, it can be concluded that experiential knowledge of high specificity is a critical resource in the institutionally distant network entry process. It was even shown that the firm’s previous international experiences generated from alternative markets had no uncertainty reducing effect in the institutionally distant network entry process. Thus, when entering institutionally distant business networks, the entrant firm needs to generate local experiential knowledge. These findings are intriguing, as previous research has stated that international experiences or internationalisation knowledge is market non-specific, translatable and useful in alternative settings. Thus, this study challenges the arguments of Blomstermo, Eriksson, Lindstrand and Sharma. (2004, p. 368.), who found that experiential knowledge “can be transferred to and applied in different markets”, and Eriksson, Johanson, Majkgård and Sharma (1997, p. 352), who found that internationalisation experience “is not related to specific country markets. It is a firm-specific experience relevant for all markets”. This study also conflicts with findings on knowledge translation defined as a learning process by which knowledge in one international context is accumulated and modified to be used in another (Choi and Eriksson, 2001; Blomstermo and
Choi, 2003). Choi, Eriksson and Lee (2003a) found that as firms go through a learning process, some properties of knowledge can be translated from one international context to a similar one. In contrast, the findings from this study point to the fact that when firms enter institutionally distant business networks, such knowledge is not useful. Instead, the firm needs to generate new local and specific knowledge in the institutionally distant network entry process. The main reason for this is that these markets are highly different from traditional and mature business markets, which leads to the departure for the fifth essay. In Essay 5, the network perspective on business markets was integrated with institutional theory in order to further advance knowledge on how business networks differ because of differences in institutional environments.

In Essay 5, a further examination of the differences between business networks was presented. Here it was found that, when firms originating from different business networks, and embedded in different institutional contexts, establish business relationships, the entering firm needs to learn about the host market’s institutional environment in order to adapt its behaviour to the local business network. This has been shown as a critical ability developed in the process of entering an institutionally distant business network. It is through developing such abilities that the entering firm can become an insider and establish a legitimate position in the business network. In the essay, it was concluded that such differences between home and host market networks are manifested in five main dimensions: the extent to which entering firms are distrusted by local market actors; the extent to which the entering firm needs to act reliably; the importance of acting patiently; whether rational decisions by host country actors can be expected; and whether informal sanctions are important in the network or not. Thus, a lack of knowledge concerning the expectations and perceptions in a business network may very well be some of the main sources of a liability of network outsidership. Therefore, the entering
firm needs to generate experiential knowledge resources in order to develop abilities for adapting its behaviour to the host network institutions.

Because of the difference between networks, it seems as if the experiential knowledge and abilities developed by the firm from its previous international assignments have a limited value when entering institutionally distant business networks. Judging from this study, we need to further examine whether abilities developed in one type of network are actually useful in other types of networks embedded in different institutional environments. In contrast to previous studies, this thesis has shown that once a firm enters institutionally distant business networks, previous international experience is not a critical resource. Instead, it seems as if local experience needs to be generated, and firms with experience in other international business networks need to develop abilities to unlearn or replace knowledge that is obsolete or misleading in the new context. This is how established routines and practices can be changed and adapted to the local business network.

This also leads to a central contribution of this research. The thesis took its departure in the terminology introduced by Johanson and Vahlne (2009, p. 1426). In their study they stated that ‘… a firm’s problem and opportunities in international business are becoming less a matter of country-specificity and more one of relationship-specificity and network-specificity’. Thus they claimed that a firm mainly suffers from a liability of network outsidership and less so from being a foreign firm. Still they also argued that ‘There is a need for more research that explain when the liability of foreignness is the main problem in foreign market entry and when the liability of outsidership is the primary difficulty.’ In this thesis I have shown that these two liabilities cannot be treated as separate and independent constructs. Instead the findings of this research show that the differences among institutions in different countries (which are central to the liability of foreignness) strongly influence the structure and behaviour in different business networks (which are central to
the liability of outsidership). Therefore I claim that the liability of outsidership is a problem experienced by entering firms that will grow as the institutional distance between the firm’s home and host base increases. In this research it has been shown that, differences among institutions actually manifest themselves in business relationships between firms originating from different institutional environments. And we know that for a relationship to be developed, the intentions, interpretations and expectations of the interacting actors are central, however in this research these aspects have been shown to be highly dependent on the institutional environment. Thus, this section ends with the statement that institutions and networks cannot be separated, and instead we need to take a socio-economic perspective to fully understand behaviour in international business markets.

6.3 The medium-sized multinational exporter

A general contribution of a more empirical character of this thesis project concerns the type of firm studied. In the current literature, there is a tendency to make a large distinction between SMEs and MNEs. In this study I have claimed that the rising division between SMEs and MNEs in the literature is paradoxical. As scholars, we are led to believe that internationalisation either concern the investment driven internationalisation of MNEs or the entrepreneurial early stages of internationalisation by the smaller firms. This would mean that we on the one hand have the experienced and resource rich type of firm with multinational investments abroad. On the other hand, we would have a firm with constrained resources and limited international experience, which is forced to be highly entrepreneurial in its early stages abroad. This polarised situation does not properly account for the reality faced by the majority of internationalising firms as shown in this thesis. To sort this
discussion out, we can develop a typology of firms based on the most frequently argued criteria for comparing the situation under which a MNE and a SME internationalise (for examples see McAuley (2010) and Coviello and Munro (1997; 1995), namely the degree of internationalisation of the firm, the internationalisation behaviour of the firm, and the firm size indicating its general resource base.

First, the degree of internationalisation concerns how far in the internationalisation process the firm has reached. It is an indication of the international spread, as well as international depth of the internationalising firm. The MNE in the current debate is by its title, and its definition, a type of firm that has a high degree of internationalisation. This type is spread in most markets of the global business environments, and it has deeply rooted operations in most countries as indicated by its international investments. The SME in the current debate, on the other hand, is a type of firm that has a very low degree of internationalisation, and as indicated by most research developing the international entrepreneurship literature, this is a type of firm that is taking its first steps abroad. Thus, it is in its early stages of internationalisation.

Second, the international behaviour of the firm concerns its international activities. Judging from most research on MNEs, this is a type of firm that invests heavily in foreign markets. Thus, its internationalisation is primarily driven by foreign direct investments. Further, as a consequence of the high degree of internationalisation of this firm, most investments are made in distant countries where new growth opportunities have recently arisen. In current research, the SME is described as a highly entrepreneurial firm that despite its limited experiences manages to sell its products to multiple countries within a limited period of time. This internationalisation is not driven by international investments but rather by exports. Research has
focused on the entrepreneurial and quick international expansion of this type of firm.

Third, the firm size gives an indication of its general resource base, which is useful in understanding the prerequisites under which internationalisation takes place. MNEs are large-sized firms with operations in multiple countries, and as a consequence have notable employment figures. The SME, on the other hand, is most often defined in accordance with the EU definition (2003/361/EC)—a headcount of less than 250 employees, a turnover of maximum €50 million and a total balance sheet of maximum €43 million. Within this group of firms, we first find the micro firms, which have a headcount of a maximum of nine employees, a turnover of maximum €2 million and a total balance sheet of maximum €2 million. Second, small firms are defined as an enterprise with a headcount of 10-49 employees, a turnover of maximum €10 million and a balance sheet of maximum €10 million. Third, medium-sized firms are those with a headcount of 50-249 employees, a turnover of maximum €50 million and a total balance sheet of maximum €43 million.

I claim that the current situation is paradoxical, and argue that an important type of firm falls between two chairs in research on the internationalisation of firms. As shown in the discussion above, research on MNEs concerns the latest stages of the internationalisation of a firm. SME research is directed to the early stages of this process, and directs its interest to a firm’s very first steps abroad. These perspectives do not account for the continued internationalisation of already international firms, which do not qualify as MNEs. In the Swedish economy, 90 per cent of the medium-sized firms are already internationally active exporters. On average, these firms export 40 per cent of their turnover, and the products are on average sold to 15 countries (SOU 2008:90). Thus, among the medium-sized firms, we find an important type of firm with already developed export. These firms are
disregarded in current research, which is problematic, as they do not have the strengths and flexibility of the smaller firm, nor do they have the experience and resources of a large MNE (Johannisson, 1992). In accordance with the developed typology, this type of firm has relatively great international experiences generated from the mature Western markets (SOU 2008:90). Hence, along the arguments of Dimitratos, Johnson, Slow and Young (2003), I state that the term multinational should not be reserved only for larger firms. The international behaviour of this type of firm is different from the MNC, as it has relatively limited international investments and the internationalisation of this firm is export (trade) driven. Therefore, it is more likely to involve itself in international networking activities than in international FDI. When it comes to size, this firm would fall into the group of medium-sized firms, as they on average employ between 50 and 250 people. In accordance with the developed typology, to sort out the firm paradox in internationalisation research the concept of the MME is introduced. Along the lines suggested by McAuley (2010), I argue that this conceptualisation is important for future research, wherein we more properly should make explicit what types of firms are studied. This is important because it reveals our assumptions on the prerequisites under which different types of firms internationalise.

6.4 Managerial Implications

The results of this research have managerial implications for firms that seek to extend their activities into emerging country markets. First, the thesis shows that when entering foreign markets, managers of internationalising firms should emphasise aspects beyond strategic decision-making related to the choice of market or mode of operation. Instead, managers of internationalising firms need to recognise that the entry into foreign markets is a process that evolves over time. This process in turn includes several phases through which
the entry is completed. This research has identified three such phases through which different strategic behaviour is required. In the Scouting phase, it is hard for the entering firm to plan the entry, instead this phase requires a trial and error process. Thus entering firms should expose its products and services to as many actors as possible in the foreign market. For this purpose, international trade fairs and similar settings seem to be a fruitful arena. Once having exposed their products and services to a great variety of actors, however, managers should seek to evaluate the prospects in order to identify a manageable number of actors to form relationships with. Thus, in the second phase, it is the other way around, and the entering firm should focus on a few prospects to form a relationship with. If the entrant seeks to develop too many relationships in parallel, it will be difficult to meet the requirements of potential customers in the Qualifying phase. However, the entry has not been completed before the Shielding phase has been reached. In this phase, which takes time to reach, the entering firm has become an insider in the business network and has reduced its liability of outsidership and foreignness. The key challenge in this phase, however, is to avoid being interlocked in non-profitable relationships with local customers thus in this phase the key challenge involves the need of being flexible at the same time as protecting an established position in the market. Thus, managers of the entering firm should continuously re-evaluate and re-cultivate relationships in order to shield the position in the network.

Second, the thesis shows that when firms enter newly opened, immature and turbulent countries, it is questionable whether the firm actually enters a country or whether the entry is in a business network. This research has outlined that the entry into the newly liberalised new EU member states, Russia and China can very well be described as entries into business networks. It seems that most of the uncertainties and problems faced by entering firms derive from a lack of knowledge and understanding about the local business
network and how it is influenced by the institutional environment. Thus, for managers of entering firms it is important to understand that when entering such markets, experiential knowledge about the network and the institutions embedding the network is of the utmost importance for reaching a successful position. In this research, it was shown that the more specific the experiential knowledge is, the more useful it is perceived to be. Thus, the findings indicate that when entering these markets, new challenges will be faced for which a firm’s previous experiences from more stable, less turbulent and closer markets seem hard to make use of. Therefore, it seems as if managers of entering firms should emphasise developing unlearning abilities so that obsolete or misleading knowledge can be replaced as a new market context is entered.

6.5 Limitations and future research

The limitations and suggestions for future research of the individual papers are presented separately in the focal papers, in this section however, some of the more general limitations of this study are discussed. At this general level, the thesis has opened a number of avenues for future research. First, before inference can be drawn from the results presented in this cover of the thesis, future research should address two of the limitations of this thesis project. First, there is an obvious home-market bias in this research that has (except for parts of Essay 2) studied the entry of Swedish SMEs into institutionally distant business networks. Therefore, future research would benefit from testing out the results from this research on firms originating from alternative geographical locations and different institutional context. Second, the conceptualisation of the institutionally distant network entry process presented in chapter 6.1-6.2 is the general result of this thesis presented in this cover. It departs from the case studies presented in Essays 1 and 2. Thereafter, some of the most critical relationships were identified in Essays 3, 4 and 5. However, inference from the results cannot be made until the conceptualisation has been
tested on a broader sample of firms. This, however, opens an interesting avenue for future research on the entry process. Future research should seek to operationalise the different entry process phases presented in this research. Such an approach could contribute to increasing our knowledge on critical relationships on a firm’s route to insidership in foreign business networks.

Concerning the quantitative research reported in the thesis, some may say that the perceptual data, mainly collected from a single respondent, is a weakness or limitation of the research. I recognise that this poses a risk related to the common method variance; however, I believe that the research design employed in this project has ensured the quality of the data. First, I have been on-site at more than 50 of the 203 sample firms (and my colleagues in the project at the remaining ones). We have clarified the questions, ensured that the most knowledgeable persons have responded, and performed a parallel interview covering the firms’ international operations. This means that I have reached an in-depth understanding of the data and the reality of the firms far beyond what would have been possible in a mail, e-mail or on-line survey. Second, through the on-site design, we managed to reach a response rate of 73 per cent, which is far above studies using faceless designs. Taken together, I argue that these facts cannot be neglected when evaluating the quality of the dataset. Therefore, I claim that the risks of common method variance are marginal in relation to the quality of the data collection procedure. Furthermore, I insist that future studies on similar topics could learn from the data collection procedure followed in this project. Theoretically, future studies would also benefit from integrating entrepreneurship theory into the institutional network perspective developed in this thesis, of special interest would be to integrate effectuation theory (Sarasvathy, 2001) to examine alternative ways of dealing with uncertain situations. It would also be interesting to study the phases involved in the entry process from an
entrepreneurship perspective where the steps taken by the firm could be analyzed as entrepreneurial actions.
References


Choi, S-G. and Eriksson, K. (2001), “The internationalization process as knowledge translation in international business relationships”, in


Semi-structured questionnaire

General Questions

What are the most important cornerstones of your company’s history? Why?
What does your business model look like?
What is your core business?
Who are your target customers?
Which are your primary competitors?
Which are your most important suppliers?
What is your role and position in the value chain in your industry?
What kind of strengths and weaknesses does your company have?
What would you consider to be your competitive advantage?
How much do you export in relation to your total sales volume?
How internationalized is the industry in which you are operating?
On which export markets are you present and active?
What do you export?
When did you start exporting to these markets?
How is your export share (in percent) between the different export markets?
Which were the primary driving forces for your decision to start exporting?

Establishing new business relationships on export markets

How did you become aware of the opportunities to export to these markets?
Where and how did you learn about these opportunities? What were the sources of information?
What kind of preparations did you make?
How did you get information about the export markets?
What kind of contacts did you establish to learn about the export markets?
Did you get any kind of help or assistance in establishing those contacts?
Did you get any kind of help in finding out about the export markets?
What kind of risks/uncertainties did you experience? How did you solve them?
What kind of insights reduced your risks/uncertainties?
How did you make these insights?
With whom did you establish contact on the export market?
What did you talk about? How frequently did you have contacts? What were the conclusions thereof?
What was your counterparts’ major interest in terms of your products/services? Why did they want to do business with you?
What did you offer to them? What could you do for them?
What do you think was the major benefit/usefulness for the counterpart?
Developing the new business relationship

Did you have to make any adaptation? If yes, to what extent?
Organizational
Logistic
Financial
Product
Production
Processes
Did you have to make any new investments? How much?
What have you learnt about the counterpart? How?
What have they learnt about you? How?
What have you learnt together? How?
Did you get any kind of help or assistance in developing new business relationships?

Maintaining the new business relationship

How often are you in contact with the counterpart? How? Where?
What is the content of your discussions? Has the content changed over time? If yes: How?
How often do you deliver to the counterpart? Has this changed over time? If yes: how and why?
How do you make sure that the advantage/usefulness of what you are delivering to the counterpart is further developed?
Do you get any kind of help or assistance in maintaining and developing established business relationships?
INFORMATION ABOUT RESPONDING FIRM

Background information

1101 Name of the firm: ____________________________
1102 Respondent, position: ________________________
1103 Are we allowed to save your contact info? yes  no

1104 Turnover (SEK) 2006? ________________________
1105 Number of employees 2006? __________________
1106 Number of export markets? __________________
1107 Share of turnover exported in 2006? __________
1108 Share of employees employed abroad in 2006? __
1109 Share of total assets abroad in 2006? __________

INTERNATIONAL BUSINESS OPERATIONS

International outlook

With regard to your international business operations, please consider the following statements. Indicate your answer on the scale 1-7 that corresponds best with your company’s international outlook.

1= Strongly disagree, 7= Strongly agree

Within our firm …

1201 … we consider the Swedish market rather than the European, as our home market
1202 … we see a great potential for further international expansion
1203 … we continuously search for information about international markets
1204 … we see it as a strategic necessity to be internationally active
1205 … we actively search for foreign customers
1206 … we perceive ourselves as a Swedish rather than as a global firm
1207 … we perceive each (country) market as equally important
1208 … we prioritize the Swedish market ahead of foreign markets

**International experience**

We have well-developed experience of …

| 1209 | … supplying foreign customers                           | 1  2  3  4  5  6  7 |
| 1210 | … adapting our products and services to meet the needs and wants of foreign customers | 1  2  3  4  5  6  7 |
| 1211 | … adapting our organization to meet the needs and wants of foreign customers | 1  2  3  4  5  6  7 |
| 1212 | … marketing and sales of our products and services abroad | 1  2  3  4  5  6  7 |
| 1213 | … handling international competitors                    | 1  2  3  4  5  6  7 |
| 1214 | … managing contacts with foreign authorities            | 1  2  3  4  5  6  7 |
| 1215 | … co-operating with foreign intermediaries              | 1  2  3  4  5  6  7 |

**International knowledge acquisition**

In our organization, we acquire knowledge about doing international business and how to organize our international activities by…

| 1216 | … generating our own experience                          | 1  2  3  4  5  6  7 |
| 1217 | … studying other successful firms                       | 1  2  3  4  5  6  7 |
| 1218 | … co-operating with other firms such as agents or distributors | 1  2  3  4  5  6  7 |
| 1219 | … reading and searching for new information on the internet/in newspapers/books etc. | 1  2  3  4  5  6  7 |
| 1220 | … acquiring other firms and/or employing experienced personnel | 1  2  3  4  5  6  7 |
THE OPERATIONS OF THE FIRM IN X

With regard to your business operations in X please provide your answer in the following tables.

_X represents the country (Estonia, Latvia, Lithuania, Poland, Russia or China) responded for by the firm representative._

### 21- Export development

How large share of your total sales (%) took place in…

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

### 21- What type of representatives do you have in X (state start year and final year (if any) for each type of representation)

<table>
<thead>
<tr>
<th>Country</th>
<th>No own representation (sales via other swedish org.)</th>
<th>No own representation (direct export to customer)</th>
<th>Agent</th>
<th>Distributor</th>
<th>Own sales office</th>
<th>Own local production or joint venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 21- Estimated number of customers in 2006 in…

| 2111 | X |

### 21- Estimated size of your customers (% of sales) in 2006

<table>
<thead>
<tr>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>
21- Relationship stages in X

Please state the approximate distribution of your share of customer relationships in X in the following two main stages:

- Customer relations are currently expanding – thus being in a start-up stage
- Ongoing business is done with customers – thus being in a developed stage

<table>
<thead>
<tr>
<th></th>
<th>Start-up stage</th>
<th>Developed stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-16 X %</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

THE EXPERIENCE AND KNOWLEDGE OF THE FIRM

Usefulness of previous experience at the time of entry into X

With regard to your entry in X, please consider the following statements. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1= Strongly disagree, 7= Strongly agree

When entering X, the following experiences were perceived as useful…

<table>
<thead>
<tr>
<th>Statement</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2201 … supplying foreign customers</td>
<td>1</td>
</tr>
<tr>
<td>2202 … adapting our products and services to meet the needs and wants of foreign customers</td>
<td>1</td>
</tr>
<tr>
<td>2203 … adapting our organization to meet the needs and wants of foreign customers</td>
<td>1</td>
</tr>
<tr>
<td>2204 … marketing and sales of our products and services abroad</td>
<td>1</td>
</tr>
<tr>
<td>2205 … handling international competitors</td>
<td>1</td>
</tr>
<tr>
<td>2206 … managing contacts with foreign authorities</td>
<td>1</td>
</tr>
<tr>
<td>2207 … co-operating with foreign intermediaries</td>
<td>1</td>
</tr>
</tbody>
</table>
Experience and knowledge

With regard to your current situation in X, please consider the following statements. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1 = Strongly disagree, 7 = Strongly agree

We have well-developed knowledge about…

<p>| | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>2208</td>
<td>… the legal environment in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2209</td>
<td>… the business moral in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2210</td>
<td>… the political system in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2211</td>
<td>… the culture in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2212</td>
<td>… the government in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2213</td>
<td>… the world view in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2214</td>
<td>… the role of religion in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2215</td>
<td>… the local language in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
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</table>

We have well-developed knowledge about…

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2216</td>
<td>… our customers’ needs and wants in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2217</td>
<td>… the customers of our customers in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2218</td>
<td>… our customers in X additional suppliers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2219</td>
<td>… potential customers in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2220</td>
<td>… the assortment of our customers in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2221</td>
<td>… our competitors in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2222</td>
<td>… contracts and negotiations in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2223</td>
<td>… intermediaries in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>
### Market specific knowledge acquisition

In our organization, we acquire knowledge about customers / competitors / intermediaries in X by ...

<p>| | | | | | | |</p>
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</tr>
</thead>
<tbody>
<tr>
<td>2224</td>
<td>… generating our own experience</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2225</td>
<td>… studying other successful firms</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2226</td>
<td>… co-operating with other firms such as agents or distributors</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2227</td>
<td>… reading and searching for new information on the internet/in newspapers/books etc.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2228</td>
<td>… acquiring other firms and/or employing experienced personnel</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In our organization, we acquire knowledge about business cultures / laws / authorities in X by ...

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<table>
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<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2229</td>
<td>… generating our own experience</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2230</td>
<td>… studying other successful firms</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2231</td>
<td>… co-operating with other firms such as agents or distributors</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2232</td>
<td>… reading and searching for new information on the internet/in newspapers/books etc.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2233</td>
<td>… acquiring other firms and/or employing experienced personnel</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### KNOWLEDGE TRANSFER AND KNOWLEDGE EXCHANGE

Transfer and exchange of knowledge from the firm to the market representative

With regard to your experience from operations in X, please consider the following statements regarding the market representative. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1= Strongly disagree, 7= Strongly agree
| 2301 | Our organization is good at conveying existing international experience to our market representative | 1 2 3 4 5 6 7 |
| 2302 | Our market representative is good at absorbing our organization's previous international experience | 1 2 3 4 5 6 7 |
| 2303 | In our organization we frequently organize training courses, conferences etc. to transfer previous international experience | 1 2 3 4 5 6 7 |
| 2304 | There is an expressed desire by management to learn from previous international experience | 1 2 3 4 5 6 7 |
| 2305 | We have a well-functioning business system for transfer of information regarding previous international experience | 1 2 3 4 5 6 7 |
| 2306 | Our organization has well-functioning routines for making previous experience accessible | 1 2 3 4 5 6 7 |

**Transfer and exchange of knowledge from the market representative to the firm**

Our market representative is good at absorbing new experiences of…

| 2307 | … business culture / laws / authorities in X | 1 2 3 4 5 6 7 |
| 2308 | … customers / competitors in X | 1 2 3 4 5 6 7 |

Our organization is good at absorbing new experiences about the

| 2309 | … business culture / laws / authorities in X | 1 2 3 4 5 6 7 |
| 2310 | … customers / competitors in X | 1 2 3 4 5 6 7 |

In order to obtain and use new insights about market developments in X…

| 2311 | … there is in our organization a work environment where employees see it as natural to exchange such experience | 1 2 3 4 5 6 7 |
| 2312 | … we organize training courses, conferences etc. to exchange such experience | 1 2 3 4 5 6 7 |
| 2313 | … we have a well-functioning business system to exchange such information | 1 2 3 4 5 6 7 |
| 2314 | … there is an expressed desire by management to facilitate exchange of such experience | 1 2 3 4 5 6 7 |
| 2315 | … Our organization has well-functioning routines for adapting our products and services to such experience | 1 2 3 4 5 6 7 |
**RELATIONSHIPS WITH CUSTOMERS AND INTERMEDIARIES IN X**

With regard to your operations in X, please consider the following statements concerning your relationships with local customers and intermediaries. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1= Strongly disagree, 7= Strongly agree

<table>
<thead>
<tr>
<th>Customers</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what degree do you have direct contacts with your end customers in X... (1= Low, 7 = High)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Relationships with customers**

<table>
<thead>
<tr>
<th>2401 Business in X is to a higher extent performed with individuals than with corporations</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>2402 We have well-developed knowledge about our customers’ private situation in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2403 We often have private meetings with customers in X</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2404 We consider our customers in X as close friends</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2405 Customers in X are frank about any problems they cause</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2406 Friendship with customers in X is more personally than professionally oriented</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2407 Customers in X are keen about gifts and dinners</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2408 Transfer of important information to customers in X is more likely to take place in personal meetings than via e-mail or letters</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

**Communication with customers**

<table>
<thead>
<tr>
<th>2409 The majority of communication with the customers in X takes place outside &quot;official channels&quot;</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>2410 Communication with the customers in X takes place mainly on the customer’s initiative</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2411 In X, we can communicate with the employee at the customers that have the information we require</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
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<td>Question</td>
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<tr>
<td>2412 The opportunities to communicate with employees at all levels at the customers in X are limited</td>
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<tr>
<td>2413 The customers in X have good ability to communicate with us in English</td>
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<td>2414 We have good ability to communicate with customers in X in their language</td>
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<td>2415 At meetings in X, communication often takes place through third parties (such as an interpreter)</td>
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<td>2416 We get enough feedback about our products from the customers in X</td>
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</table>

**Intermediaries**

If the firm does not have an intermediary in X (agent/distributor), please mark it here: ______

**Relationships with intermediaries**

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
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<tbody>
<tr>
<td>2417 Business in X is to a higher extent performed with individuals than with corporations</td>
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<tr>
<td>2418 We have well-developed knowledge about our intermediaries’ private situation in X</td>
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<td>2419 We often have private meetings with intermediaries in X</td>
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<td>2420 We consider our intermediaries in X as close friends</td>
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<td>2421 Intermediaries in X are frank about any problems they cause</td>
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<td>2422 Friendship with intermediaries in X is more personally than professionally oriented</td>
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<tr>
<td>2423 Intermediaries in X are keen about gifts and dinners</td>
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<td>2424 Transfer of important information to intermediaries in X is more likely to take place in personal meetings than via e-mail or letters</td>
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</table>

**Communication with intermediaries**

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<tr>
<th>Question</th>
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</thead>
<tbody>
<tr>
<td>2425 The majority of communication with the customers in X takes place outside &quot;official channels&quot;</td>
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<tr>
<td>2426 Communication with the customers in X takes place mainly on the customer’s initiative</td>
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<tr>
<td>2427 In X, we can communicate with the employee at the customers that have the information we require</td>
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<tr>
<td>2428 The opportunities to communicate with employees at all levels at the customers in X are limited</td>
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<tr>
<td>2429</td>
<td>The customers in X have good ability to communicate with us in English</td>
<td>1 2 3 4 5 6 7</td>
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<tr>
<td>2430</td>
<td>We have good ability to communicate with customers in X in their language</td>
<td>1 2 3 4 5 6 7</td>
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<tr>
<td>2431</td>
<td>At meetings in X, communication often takes place through third parties (such as an interpreter)</td>
<td>1 2 3 4 5 6 7</td>
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<tr>
<td>2432</td>
<td>We get enough feedback about our products from the customers in X</td>
<td>1 2 3 4 5 6 7</td>
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</table>

**PERCEPTIONS OF BUSINESS IN X**

With regard to your experience in X, please consider the following statements about the company's business in X compared to Sweden. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1= Strongly disagree, 7= Strongly agree

**Norms: trustworthiness**

| 2501 | In X you need to be a more reliable supplier than in Sweden | 1 2 3 4 5 6 7 |
| 2502 | The customers more often distrust our promises in X than in Sweden | 1 2 3 4 5 6 7 |
| 2503 | In the early stage of a business relationship, the customers are more suspicious in X than in Sweden | 1 2 3 4 5 6 7 |
| 2504 | To a greater extent in X we trust that our customers keep their promises compared to in Sweden | 1 2 3 4 5 6 7 |
| 2505 | We need to engage more in a customer in X than in Sweden before they trust us | 1 2 3 4 5 6 7 |
| 2506 | It is more common that customers cheat us in Sweden than in X | 1 2 3 4 5 6 7 |
| 2507 | Business in X is less corrupt than in Sweden | 1 2 3 4 5 6 7 |

**Enforcement mechanisms and authority system**

| 2508 | The decision procedure is shorter in Sweden than in X | 1 2 3 4 5 6 7 |
| 2509 | Final decisions are more often taken by top managers in X compared to in Sweden | 1 2 3 4 5 6 7 |
| 2510 | Purchasers in X are more likely to avoid responsibility in X than in Sweden | 1 2 3 4 5 6 7 |
| 2511 | Swedish firms control business relationships to a greater extent than X firms | 1 2 3 4 5 6 7 |
| 2512 | In Sweden it is more common to punish customers by making them loose face than in X | 1 2 3 4 5 6 7 |
| 2513 | It is more important to avoid public conflicts in X than in Sweden | 1 2 3 4 5 6 7 |
| 2514 | It is easier to be sincere in Sweden than in X | 1 2 3 4 5 6 7 |
| 2515 | In X it is more common to punish customers than it is to reward them | 1 2 3 4 5 6 7 |
| 2516 | Fees for delayed supplies are strategically more important in X than in Sweden | 1 2 3 4 5 6 7 |
| 2517 | It makes more sense going to court in X than in Sweden | 1 2 3 4 5 6 7 |

**Thought styles: causality, performance and time**

| 2518 | Customers in X are more result oriented than customers in Sweden | 1 2 3 4 5 6 7 |
| 2519 | The turnover of customers is greater in X than in Sweden | 1 2 3 4 5 6 7 |
| 2520 | Customers want shorter relationships in X than in Sweden | 1 2 3 4 5 6 7 |
| 2521 | Requirements of fulfilling terms is greater in X than in Sweden | 1 2 3 4 5 6 7 |
| 2522 | In comparison to our Swedish customers our X customers budget and plan less | 1 2 3 4 5 6 7 |
| 2523 | It takes longer time to establish business relationships in X than in Sweden | 1 2 3 4 5 6 7 |
| 2524 | Business in X requires more patience than in Sweden | 1 2 3 4 5 6 7 |
| 2525 | The customers in X less likely expect immediate results than in Sweden | 1 2 3 4 5 6 7 |
| 2526 | The customers investigate things in detail more often in X than in Sweden | 1 2 3 4 5 6 7 |
| 2527 | In comparison to Swedish customers decisions are more often based on a feeling than rationality in X | 1 2 3 4 5 6 7 |

**UNCERTAINTY AND OUTCOMES IN X**

With regard to your experience in X, please consider the following statements. Indicate your answer on the scale 1-7 that corresponds best with your company's experience.

1= Strongly disagree, 7= Strongly agree
### Uncertainty

<table>
<thead>
<tr>
<th>No.</th>
<th>Statement</th>
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<tbody>
<tr>
<td>2528</td>
<td>The business environment in X is complex</td>
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<td>2529</td>
<td>Despite several years of experience in X we perceive the business environment as risky</td>
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<tr>
<td>2530</td>
<td>We perceive great uncertainty regarding our customers’ in X future behavior</td>
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<tr>
<td>2531</td>
<td>In X, the authorities act in a way that cause us great uncertainty</td>
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<tr>
<td>2532</td>
<td>The competitive situation in X changes continuously</td>
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<tr>
<td>2533</td>
<td>In X it is hard to predict market changes</td>
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<td>2534</td>
<td>We usually have limited information about developments in X when making decisions</td>
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<tr>
<td>2535</td>
<td>It is hard to predict the impact of the political system on the market situation in X</td>
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### Outcomes of operations in X

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<th>No.</th>
<th>Statement</th>
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<tbody>
<tr>
<td>2536</td>
<td>We are pleased with how the profitability of our business in X has developed over the last three years</td>
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<td>2537</td>
<td>We are not satisfied with the return on the resources and time invested in X</td>
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<tr>
<td>2538</td>
<td>Our profitability in X over the last three years is lower than for our closest competitors</td>
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<tr>
<td>2539</td>
<td>We are pleased with our market-share in X</td>
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<td>2540</td>
<td>We have managed to build a leading position in our industry in X</td>
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<td>2541</td>
<td>The growth of the number of customers over the last three years in X has been low</td>
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<td>2542</td>
<td>A very marginal share of our firms’ growth over the last three years comes from X</td>
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<tr>
<td>2543</td>
<td>Our operations in X have increased our stock of knowledge about international business operations</td>
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<td>2544</td>
<td>Through our operations in X, we have generated experience which will be useful for future entries into new markets</td>
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