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Internationalization of Danish SMEs

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Abstract

This project tackles the issue of internationalization of Danish SMEs. In today's globalised world, the normality of internationalization is constantly increasing. SMEs has become a crucial part of the global economy. In the EU, SMEs account for about 99 percent of the total number of enterprises (Eurostat, 2018). Thus, the individual economies are becoming increasingly dependent on the growth of the SMEs. Denmark with a market size, a little over five million people, are dependent on that the SMEs venture outside of their borders to reach the desired growth. (Eurostat, 2018).

To stimulate the SMEs to internationalize, the Danish government has put multiple initiatives in place, to help the SMEs in their pursuit of internationalization. However, only a small share of the Danish SMEs, consider the export market to be a key factor to their growth potential (Statista, 2017c). On the other hand, the European Commission argues that the SMEs that internationalize, are way more competitive than their domestic counterparts (European Commission, 2017).

Since there is a need for more Danish internationalizing SMEs, this thesis surrounds how the Danish SMEs can successfully increase this activity. Secondary data is conducted in the thesis. Two reasons for using secondary data, as opposed to primary data are identified. First, by conducting the research with secondary data, I can stay objective and let the findings dictate the analysis and present a conclusion based on facts. This gives the study a higher level of validity. Second, by using secondary sources I can cover the internationalization experiences of a larger number of SMEs, than I would have by conducting my own interviews. Thus, my argumentation and recommendation receive a higher level of reliability.

Deductive methods were conducted in the thesis. A systematic literature review was conducted to give me, the researcher, an overview of the theoretical field, in the study of internationalization of Danish SMEs. A systematic literature review helps me as the researcher to stay objective by providing explicit descriptions of the research steps (Tranfield, Denyer, & Smart, 2003). The reliability and validity of the study is also increased as the steps are articulated in a review protocol. In the end of the synthesis of the literature review, a framework is presented with the main findings related to the research identified. Four blocks of important factors are identified for the Internationalization of Danish SMEs: Resources, Knowledge, Networks and Host Market Conditions.

To follow up the review, ten case studies are presented. The ten case studies represent ten Danish SMEs that has internationalized and/or are currently internationalizing. The data is extracted from a PhD thesis conducted by (Myhre, 2017). The findings are presented in three categories; Strategy, Challenges and Recommendations of the Case firms.

A discussion chapter follows, where the literature review findings and the case study findings are the topic of discussion. The discussion also includes data from the statistical site Statista, to further solidify the arguments. The discussion chapter ends with a discussion of the framework presented in the literature review.

In the final chapter, a table with the conclusion is presented. The findings suggest that the key challenges for the Danish SMEs surround their Resources and Knowledge constraints. Further on, it is found that the SME managers can overcome these constraints by collaboration through networks. Secondly, opting for closer, safer and more similar markets, has been correlated with easier internationalization. However, should the SME choose to venture to markets located further away, low commitment modes of internationalization are recommended. Finally, it is found that the networks of Danish consultancy systems and other governmental initiatives, are beneficial for the internationalizing SMEs, and consequently should be taken advantage of.

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1. Introduction

Internationalization is seen as an ongoing strategy process, where products, services or resources are transferred across national boundaries. In this process, the firm must select where or with whom the transactions should be performed. Following, the firm must select the international exchange transaction modality, i.e. the foreign market entry strategy (Andersen & Buvik, 2002).

In year 2018, our world is established as globalised society, where trade and contact with people of firms across the other side of the globe is a normality. McDonalds are established in 101 countries with more than 36.000 restaurants which makes it difficult to travel to a country without catching a glimpse of the famous M-logo (Rosenberg, 2018). As the world becomes more globalized, more firms are internationalizing, also the smaller ones.

Small and medium enterprises (SMEs) have been the backbone of economic growth in the industrial development. This is due to their massive numbers, size and nature of operations (Aris, 2007). For decades, internationalisation was dominated by the larger multinational corporation (Oecd, 2000). Today however, the SMEs play a crucial role in the economic growth (Eurostat, 2018).

SMEs are defined as non-subsidiary independent firms which employ fewer than a specific number of employees. The number varies across different national statistical systems; however, the most frequent used upper limit is 249 employees (OECD, 2017).

The European Commission considers SMEs as keys to ensuring economic growth, innovation, job creating, and social integration in the EU. This because the SMEs account for about 99 percent of the total enterprises in the EU (Eurostat, 2018). A reason for this statistic is that the larger corporations are downsizing and outsourcing more of their functions.

Consequently, the SMEs weight of importance to the economy is increasing. SMEs account for a high percentage of manufacturing firms in many OECD countries, employing at least half of the manufacturing employment (Oecd, 2000). Changes has also risen in the forms of the technological environment and the competitive reduction of trade barriers, with the EU as flagship for open trade (OECD, 2017). Combined with reduced transportation- and, communication costs, and financial deregulations around a large scope of the world, have mediated the SMEs into to becoming relevant actors on a global scale (OECD, 2017).

SMEs are traditionally home market focused and many of the smaller firms continues along with this approach. Although, some SMEs are becoming increasingly globalised, with about 25% of manufacturing SMEs are in the year 2000 internationally competitive. At that point in time, SMEs contributed 25%-35% of world exports of manufacturing and were also growing faster than their domestic equivalents. One-fifth of manufacturing SMEs draw between 10%-40% of their turnover from cross-border activities (Oecd, 2000). SMEs are also being mentioned as the driving force behind the kind of radical innovations that are important for economic growth. This because they work outside of the dominant paradigms, and they exploit technological and commercial opportunities that the larger established companies often neglect. The SMEs also contribute by serving locations that do not have a large enough scale to attract the larger firms (OECD, 2017).

However, the SMEs contributions also depend on their access to strategic resources, such as skills, knowledge networks and finance. They are also in need of public investments such as education and training, innovation and infrastructure, in order to blossom (OECD, 2017). Many SMEs are held back from internationalizing because of the technical complexities, burdens and costs of a potential international venture. Lack of knowledge, experience and awareness of opportunities. Furthermore, financial power, and technological equipment are also definitive obstacles for SMEs that are pursuing growth or even considering the idea of growth outside their comfort zone (OECD, 2017).

There are many internationalization theories that explains and revolves around the larger enterprises. With the study of internationalization of the larger firm being for a long time one of the most researched topics in the international business literature (Myhre, 2017). Classical theories like the Uppsala stage model, suggest that internationalization is an incremental process with several steps where the firm commit more resources as they learn and grow in to a new market (Jan Johanson & Wiedersheim-Paul, 1975). However, there have been proposed arguments that internationalization does not necessarily have to happen in a step by step process, and that the stages models does not fully illustrate how firms are internationalizing today (Andersen & Buvik, 2002). With the increasement of information and communication technology (ICT), there are also suggestions that internationalization does not necessarily have to happen with the firm physically entering a market either (Meyer, Skaggs, Nair, & Cohen, 2015).

Moreover, the earlier theories and studies has traditionally been on larger well established enterprises, whereas SME internationalization and behaviour has only become a topic for a

few decades (Myhre, 2017), (Lu & Beamish, 2001). Therefore, what might be applicable for the large MNE, may not be a sufficient strategy for a smaller SME.

The SMEs in Denmark performs well above the EU average when it comes to internationalization. The country are both importing and exporting above the EU average on both inside and outside of the EU (European Commission, 2017).

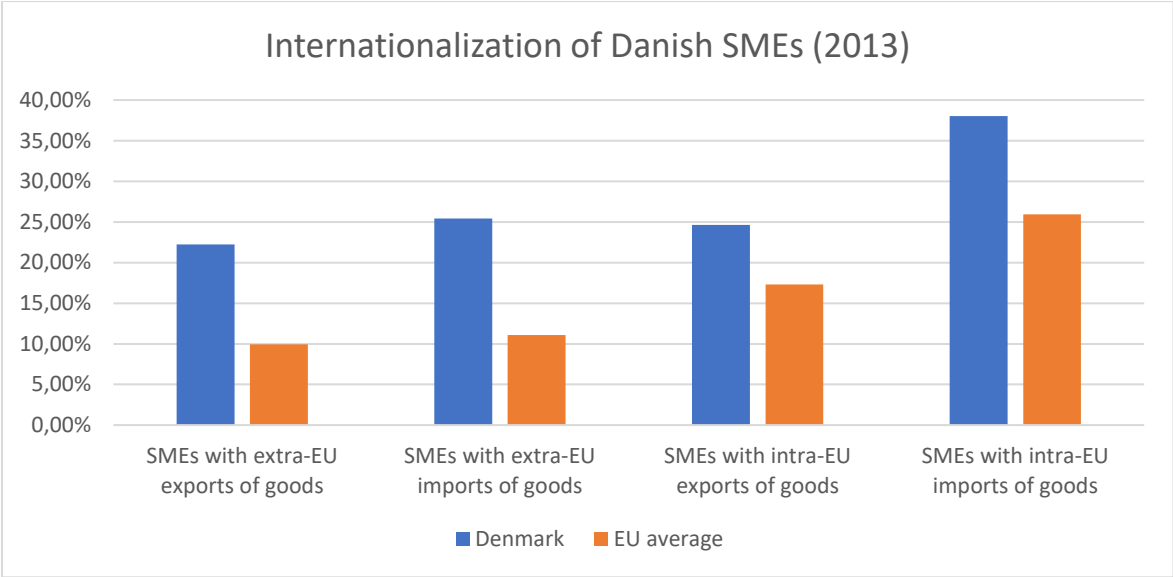


Figure 1: Internationalization of Danish SMEs (European Commission, 2017).

Over the past years, the country has developed a substantial number of policy measures to support internationalisation of enterprises (European Commission, 2017). In 2009, the Export Credit Agency (ECA/EKF) established new schemes as incentives (European Commission, 2017): Working capital guarantee: ECA assumes part of the bank’s risk, making it more attractive for the bank to hand out credit. Export Loans: The ECA can cover the operating credits and guarantees in relation to the firm’s exports. The ECA also offers certain types of Credit Insurance, managed by private credit insurance firms (European Commission, 2017), (EKF, 2018).

There has also be established a Vitus programme, run by the Trade Council, with an aim to help SMEs kick-start their exports through tailor-made strategies and counselling (European Commission, 2017). Danish innovation centres have been set up in seven different locations around the world, with the aim to help Danish researcher and businesses in building international networks and develop business cases with a global perspective (European Commission, 2017). In 2012, a cooperation program with Sweden, Norway, Finland and Iceland was founded, which founds cluster-to-cluster and business-to-business collaboration

(European Commission, 2017). Investment fund for Developing Countries and the Danish International Development Agency established an SME facility, with the aim of supporting SMEs in the preparation and implementation of projects in developing countries (European Commission, 2017). And finally, The Regional Key Account programmes allows SMEs to carry out, simultaneously, focused activities in several countries within one region were introduced in 2014 (European Commission, 2017).

Despite the encouragement from the Danish government to internationalize, the SMEs still depend largely on the domestic market for growth (European Commission, 2014). In a survey conducted by Stata, only eight percent of the 251 Danish SMEs expected their greatest growth potential to come from exports. In contrast, over 30 percent expected an increase in the domestic market (Statista, 2017c).

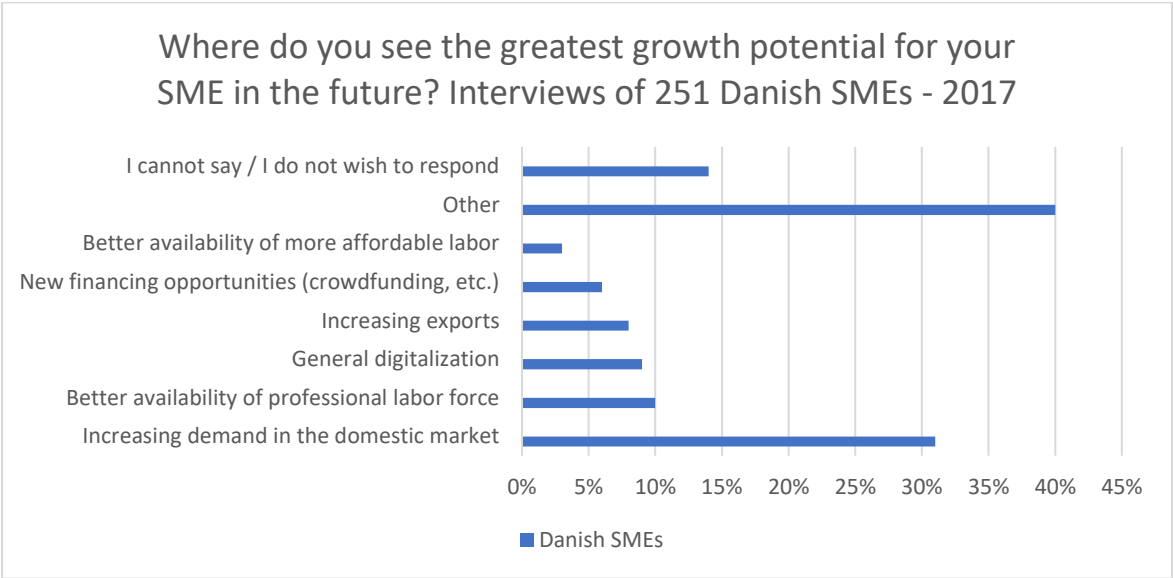


Figure 2: Greatest Growth potential for the Danish SMEs (Statista, 2017c)

With Denmark being such a small country of just over 5 million people, the need for international operations is arguably even larger than most of the established economies. And since there are both incentives grow abroad for Danish SMEs, and the economies are becoming more reliant on the activities of the SMEs (Eurostat, 2018). There is no doubt that there are many Danish SMEs that are internationalizing. However, being that many more SMEs could benefit from internationalization and the Danish economy rely on the SMEs to continued growth. There is need for additional research to obtain a deeper understanding of the internationalization process of SMEs.

1.1 The Problem Formulation

The aim of this project is to study the internationalization of Danish SMEs and the challenges the firm and its managers face in their internationalization process. The project should answer the subsequent problem:

“How can the Danish SMEs successfully increase their Internationalization?”

The problem formulation has been divided into three subsequent research questions:

- *What are the key challenges for Danish SMEs in the process of Internationalization?*
- *How can SMEs managers overcome their challenges surrounding their internationalization process?*
- *What are the managerial implications for Danish internationalizing SMEs?*

1.2 Rationale for the thesis

The (European Commission, 2014) post several arguments for why SMEs should internationalize:

- Internationalization open new markets for SMEs and has the potential to boost SME competitiveness and growth of the firm.
- Being internationally active correlates strongly with higher turnover growth: More than 50 % percent of SMEs that either invested abroad or were involved in international subcontracting reported increased turnover.
- SMEs that are internationally active generally report higher employment growth
- Internationalization strongly correlates to increased innovation

Internationally active SMEs are on the basis of these arguments more competitive than their domestic counterparts (European Commission, 2014). It is therefore reasonable to suggest that more SMEs should consider internationalizing their activities.

There are several reasons for choosing Denmark. The country is a good example of an advanced economy. The country is also part of the EU and has therefore the same rules and benefits as the large group of countries. Therefore, some findings **may** be relatable to the other developed countries in the EU, especially the smaller ones. Denmark also possess a very high percentage of SMEs with a total of 99,67 percent of the total Danish enterprises in 2016. This is also a good representation of the EU, which possess an SME average of 99,81 percent in 2016 (EC.Europa, 2017). The Danish government has also been heavily invested in SMEs, in that they create incentives to push more SMEs to internationalize. However, as many SMEs

still opt to stay put in their domestic market. There is applicable to research this subject closer and cast a light on the challenges and obstacles for SMEs internationalization.

The research will be based on findings from a systematic literature review, to get a transparent understanding of the topic at hand. The findings from the literature review will be presented in this project and used as background for the analysis of the data. The methodological choice and findings used in this project will be based on acquired secondary data. Findings from experiences of managers already operating in internationalizing SMEs, will be shared, analysed and discussed against the theoretical background.

1.3 Structure of the thesis

The project is structured as follows. The first chapter described the topic at hand, Problem formulation and the rationale for further research on the topic of Internationalization of SMEs. In the following chapter two, describes the methodological considerations adopted for the thesis. The research design and justifications for the secondary data is presented. A presentation of the review protocol with the search strategy is also presented. Further on in chapter three a systematic review was conducted to get a better overview over the studied topic at hand. First the table of the key considerations from the review is presented. This is followed by the synthesis of the review articles. The chapter ends with a presentation of a framework of the major findings in the review. Chapter four presents the ten case studies collected and synthesised from (Myhre, 2017). In chapter five, the findings from the literature review and case studies are analysed and discussed. In the discussion chapter, a presentation of the major considerations for the topic are presented through four major blocks. Finally, the problem formulation and research questions are answered in the conclusion chapter. Limitations and future research are also presented in the last chapter of the thesis.

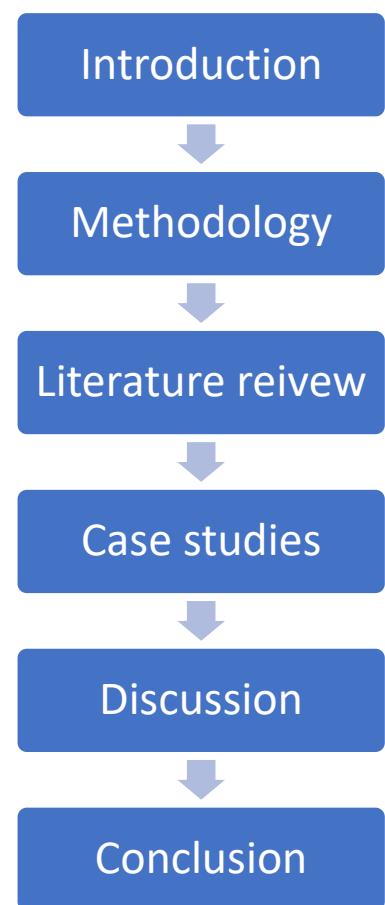


Figure 3: Structure of the thesis

2. Methodology

2.1 Definition of paradigm

Paradigm in the modern terms is presented by (Kuhn, 1970), who laid out a theory of the structure of scientific revolutions to describe waves of research in the given scientific field. (Kuhn, 1970) argued that within every research, a common set of understanding of what kind of phenomenon is subject of the research. Two relevant questions regarding this phenomenon establish a paradigm (Kuhn, 1970):

- How researchers should structure their approach to answering their research questions
- How the results should be interpreted

Scholars of philosophy of science generally defines paradigms in terms of four levels of understanding: *Ontological level*, *Epistemological level*, *Methodological level* and *Choice of Methods and Techniques* (Kuada, 2012). Here discussions in paradigms take place. Paradigms are generally divided between two approaches of research; the *objective* and *subjective* approach. These are labelled as *positivistic (objectivist)* and the *interpretative (Subjectivist)* paradigm (Kuada, 2012).

2.2 The Philosophical and Theoretical Level

Ontology is what philosophy of science scholars use as a term to describe *the nature of what the researcher seeks to know*. Ontology is the assumptions that you make about human beings and the environment which will define your perception of reality. The social world is usually seen from two different perspectives (*Objectivist & Subjectivist*), when social science investigates (Kuada, 2012).

- *Realism (Objectivist)*: The social world is real and external to individual cognition – the world is made up of hard, tangible, and relatively immutable structures. It is real and external to an individual human being and therefore imposes itself on his or her consciousness. Therefore, it is argued that the social environment is seen from outside the individual (Kuada, 2012).
- *Nominalism (Subjectivist)*: Reality is constructed by individuals in interaction with each other and is presented in the form of names, labels and concepts. Every individual creates his or her own social world – The social world is subjectively constructed and therefore a product of human cognition. Human beings and the social environment codetermine each other (Kuada, 2012).

2.3 Epistemological Level

Epistemology describes the nature of knowledge and the means of knowing (how we know what we know). The main concern is how knowledge is obtained or transmitted (Kuada, 2012). Epistemology is divided into two views:

- *Positivism (Objectivist)*: Reflects an epistemology that seeks to explain and predict what happens in the social world with an emphasis on regularities and causal relationships between its constituent elements – believes that any social science researcher can be objective and conduct his or her investigations as an external observer (Kuada, 2012).
- *Antipositivism (Subjectivist)*: The social world is essentially relativistic and can only be understood from the standpoint of individuals directly involved in the social activities under investigation. The social world can only be understood by occupying the frame of reference of the individual actor whom the researcher seeks to study (Kuada, 2012).

2.4 Methodological Approach

Methodology describes our reasons for our choice of specific methods in the research process (How you gain the knowledge you desire) - divided into two views:

- If you assume that the social world can be objectively observed from the outside, you will adopt a methodology that focuses on an examination of relationships. If a social environment is external to the researcher, then the researcher is defined as an “*objectivist*”.
- If you assume that the social world can only be understood by obtaining first-hand knowledge of the persons under investigation, you will choose a methodology that focuses on individuals’ interpretations of the world as they experience it. This view is defined as “*subjectivist*” (Kuada, 2012)

2.5 Methods and Techniques

The methods and techniques of data collection in the specific study is described at this stage. Also a link between the selected methods and the three levels of understanding described above (Kuada, 2012). The stages will be further addressed later in the chapter.

2.6 Deductive versus Inductive theory

Deductive theory represents the typical view of the nature of the relationship between theory and research. The researcher on the background of known theoretical considerations about the topic at hand, deduce a hypothesis that further on leads to observations and findings. This

method implies that the researcher does the necessary theoretical research, before the data collections assumes (Bryman & Bell, 2011).

Inductive theory refers to the fact that the researchers collect his/her data before the theory is constructed. Here the researcher goes out, collects and observes the data which then forms a basis for a theory. As a result, the theory formulation is constructed on the background of the observations and findings. The researcher tries to seek and argue if the existing literature can explain the issues under the investigation (Bryman & Bell, 2011).

2.7 Abnor & Bjerke three methodological approaches

According to (Abnor and Bjerke 2009) paradigms describe the relation between the ultimate presumptions of the researcher and the practical use of various methodological approaches. There is a distinction between paradigms and methodological approaches. The Methodological approach clarifies the ultimate presumptions as they relate to the specific study and at the same time sets up a framework for a more concrete approach to the study. (Abnor and Bjerke 2009) suggest six overlapping paradigms. And based on these six paradigms, they identify three methodological approaches that researchers use for creating knowledge. Table 1 shows how these six paradigms create the *Analytical*, *Systems* and *Actors* approach through Abnor and Bjerke's subjective-objective continuum.

Abnor and Bjerke's Paradigms and Methodology					
O1	O2	O3	SO1	S1	S2
Reality as a concrete phenomenon that conforms to law and is independent of the observer	Reality as a concrete determining process	Reality as mutually dependent fields of information	Reality as a world of symbolic discourse	Reality as a social construction	Reality as a manifestation of human intentionality
The Analytical Approach: O1, O2 & O3					
The System Approach: O2, O3 & SO1					
The Actors Approach: SO1, S1 & S2					

Table 1: Abnor and Bjerke's Paradigms and Methodology (Kuada 2012)

2.7.1 Analytical approach

The *Analytical Approach* is characterized by the belief that reality is objective and independent to the observer. This view stands for the most objective position. Researchers can decompose an objective phenomenon that they investigate into its constituent parts and analyse each part separately. From there the parts can be brought together to complete a full

picture. Epistemologically, the ultimate presumption underlying the analytical approach is that knowledge is based on facts. Consequently, the researcher can distance him- or herself from the respondents. This way, knowledge will be independent of the individual's subjective experience and can be generated by logic. Table 2. presents a summary of the three ontological perspectives (O1, O2, and O3) that underlie the Analytical Approach (Kuada, 2012).

Dimensions	Paradigm O1	Paradigm O2	Paradigm O3
Ontology	Reality as concrete phenomenon that is conformable to law and independent of the observer	Reality as a concrete determining process	Reality as mutually dependent fields of information
Research approach Human Nature Methodology	Analytical Approach		

Table 2: Ontological Considerations in the Analytical Approach (Kuada 2012)

2.7.2 Systems approach

In a *Systems Approach*, a social entity such as a group or community etc., is conceived as a system consisting of constituent elements. Between and within these systems, relations exist. These relations can reflect the synergistic properties within an existing system. Within a system, various subsystems may be distinguished. Each system has its specific characteristics, in terms of its constituent elements as well as its mutual relations. A researcher aims to seek and find out how changes in one constituent element may change the other elements in the system. In (Abnor & Bjerke, 2009)'s methodology it is assumed the existence of an objective reality that researchers consider to be their primary field of interest.

Under conditions of radical change, knowledge is only valid for a short period of time and consequently will need constant revision. In contrast to the Analytical Approach that considers the environment as stable and predictable, the systems approach draws attention to the possibility of an unpredictable environment that the social actors reside in. The systems approach is constructed by three paradigms; two that is objective (O2 and O3) and one that is subjective-objective (SO1) and are presented in table 3 (Kuada, 2012).

Dimensions	Paradigm O2	Paradigm O3	Paradigm SO1
Ontology	Reality as a concrete determining process	Reality as mutually dependent fields of information	Reality as a world of symbolic discourse
Research approach Human Nature Methodology	Systems Approach		

Table 3: Ontological Considerations in the Systems Approach (Kuada 2012)

2.7.3 Actors approach

The *Actors Approach* represents the most subjective views. It sees reality as emerging from interactions between everyone's own experiences and the experiences of others within his or her social community over a period. This meaning that the approach emphasises concepts like subjectivity, individuality, and interaction. When a social actor acts, their actions produces results over which they may reflect and in turn guides them towards subsequent actions. Actions, counteractions, reflection and thoughts combine to influence the ongoing process of the social development. Dialogue is represented as an important tool in the Actors Approach where the interplay between talking and listening is taken place on equal terms for the participants. The Actors Approach is made of the three subjective paradigms (SO1, S1 and S2). Table 4 present a summary of the ontological considerations in the actors approach (Kuada, 2012).

Dimensions	Paradigm SO1	Paradigm S1	Paradigm S2
Ontology	Reality as a world of symbolic discourse	Reality as social construction	Reality as a manifestation of human intentionality
Research approach Human Nature Methodology	Actors Approach		

Table 4: Ontological Considerations in the Actors Approach (Kuada, 2012)

2.8 Validity

In an investigation there is also a question about the validity. How can you be sure that you did not misunderstood what you observed, or have provided a misinterpretation of what you have been told by your respondents? In other words; is the investigations and findings valid to the problem at hand (Kuada, 2012)? The study of choice is usually validated on:

- *Trustworthiness*: is further divided and assessed up in to four dimensions:

1. *Credibility*: Examines the extent to which you have followed the accepted procedures in conducting qualitative investigations.
 2. *Transferability*: You are required to present detailed account of the context in question, that will enable future researchers to compare their study to yours and determine if your findings match up.
 3. *Dependability*: This regards the requirement that you need to keep a detailed record of all phases of your study. This will provide evidence that you have done the study in the correct manner and will reinforce the credibility of the work.
 4. *Confirmability*: Requires you to demonstrate that you have acted in good faith all along the research phase.
- *Authenticity*: This relates to the extent that the investigations has been fair(included all relevant people and their viewpoints), improve understanding of the social phenomenon that you seek to investigate, and provide opportunities for relevant people at hand to improve their insight into the situation, if they deem necessary to do so (Kuada, 2012).

2.9 Reliability

Reliability relates to the dependability or consistency of the study. If other researchers and students under identical or similar conditions can repeat the research process, it will be judged to be reliable. (Kuada, 2012) identifies three dimensions to evaluated reliability:

- *Measurement reliability*: Assessment of how consistent the variables are being measured.
- *Stability reliability*: Measures if the measurement of the variables produces consistent results at different points in time.
- *Representative reliability*: This measures how consistent the results are between various groups of respondents (Kuada, 2012).

2.10 Choice of methods and techniques

As the researcher of this project, I see the actors from the outside looking in. The social actors in the study are static and I am not affected by my own perceptions. The data collected in this project are of the secondary nature. An *Objective* view is conducted, on the *Ontological*, *Epistemological* and *Methodological* level. The *Analytical approach* is represented in my study. As the researcher I am standing on the outside looking in, and I base my arguments on static objective findings from different sources in the research. By using secondary data, I can

stay *objective* and let the arguments and statistics from other scholars and data collectors be the only deciding factors in my discussion. If I were to make my own interviews and observations, the findings would be open for *subjective* opinions based on my own observations. However, I believe that by staying on the outside, a holistic picture can be painted, and the different views from the pool of multiple actors will receive a fair and objective analysis. Therefore, I can conduct an *objective* discussion that is not a liability of my subjectivity. Since I am studying a field of internationalizing SMEs, instead of the process of one specific firm, I believe it is beneficial to stay on the outside, with an *objective* view.

However, if I were to research one specific firm`s internationalization process up against the findings of the literature or this project. A *subjective* view with observations from the inside of the firm would be beneficial. That way, the researcher can extract the nuances of the firm, and dig deeper in the firm as opposed to a researcher that is standing on the outside looking in. A *subjective* view would then be preferable since the researcher can paint a better picture of the specific firm`s situation. However, as I am researching the whole phenomenon of internationalization Danish SMEs, I believe an *objective* view is the preferred option of study.

A *deductive approach* was conducted in this project. A systematic literature review was conducted to get a full view of the topic at hand. In this way, the different views from several different scholars are included in my theoretical background, which also will be analysed up against each other in the discussion chapter. On the background of the literature review, a framework of the most important findings will be presented. Following the literature review, several sources of secondary data was collected. The main source of secondary data outside of the literature review, was a PhD thesis published in 2017 with ten case studies of Danish internationalizing SMEs were conducted, by (Myhre, 2017). Other secondary data has been collected from statistical sites Statista and Eurostat and information sites as OECD and European commission.

The ten case studies were conducted with a qualitative research methods based primarily on semi-structured in-depth interviews (Myhre, 2017). The objective of the study was somewhat different, but the findings in the case study were clearly relevant for my study as well. The objective for (Myhre, 2017)`s study was to understand the aims and considerations of internationalizing SMEs. Three following issues was the concern (Myhre, 2017) thesis:

1. What makes mature enterprises with domestic market orientation decide to internationalize?
2. How do they select foreign markets?

3. How do they conduct market research, and choose the appropriate market entry mode?

There are multiple arguments for both sides whether to choose primary or secondary data for the study. First, primary data are often difficult to acquire, especially for students, because collecting is both expensive and time consuming, if high-quality information is desired. As an alternative, secondary data may be collected for the purpose of a research (Sobal, 1982). This can be exemplified easily by the fact that the data collected from (Myhre, 2017), was collected for over a two-year period (January 2014 – May 2016). Given that it took the researcher over two years to collect the necessary data, it is hard to believe that I would succeed in getting more than one or two companies for my research. (Myhre, 2017), also argued that it is both challenging and time-consuming to identify and come in contact with suitable SMEs that are willing to take some time to share information about their firm.

Therefore, I argue that the ten case studies presented in the PhD gives me a much more solid basis for discussion, than the one or two I would be able to interview if I were to proceed with primary interviews. Also, given that most SMEs are structured in different ways and experience challenges and opportunities differently, a larger pool of SMEs gives stronger basis for argumentation. With ten different SMEs, trends can more easily be identified, and the findings will have a higher level of *reliability*. Given that ten different SMEs were included in the case study, chances for outlier firms are smaller, or at least more easily identified. In contrast, if I were to have one in depth interview myself with a SME, I would have a small foundation to base my arguments on and the study would have a much lower level of *reliability*.

There are however, some questions about *validity* when using secondary data collected from someone else`s in depth interviews. First, I am not able to identify whether the interviewer or the case objects were able to understand the dimensions properly, or if (Myhre, 2017) were able to translate the understandings clearly into the thesis. However, with that being said, the case study of (Myhre, 2017) included interviews with experts from scholars and business people, to get an understanding before the in-depth interviews with the SMEs. Furthermore, follow-up interviews were conducted by telephone and e-mail for clarification and further elaboration giving the study a perceived high *validity*. The expert interviews were carried out with professionals from the Federation of Small and Medium-sized enterprises, the Trade Council of Denmark, Business Development Centre Denmark, the Confederation of Danish Industry and researchers at the Department of Intercultural Communication and Management

at Copenhagen Business School (Myhre, 2017), which should have given the original author a good understanding of the topic at hand.

Another consideration for the in depth interviews is whether the researcher (Myhre, 2017), were able to stay unbiased or not. Given that in-depth interviews with SMEs were made on the background of theoretical considerations and interviews with experts alike. The original interviewer (Myhre, 2017) is a liability of subjectivity, in that she could be a subject of using her own perceptions and views in the case descriptions of the firms. However, in my thesis the findings from the case studies, are discussed up against several theoretical arguments from other researchers found in the literature review. In this way, all the findings from both the case studies and the review will be discussed with an objective view, with the aim of giving an unbiased conclusion.

An additional critique of using secondary data from in-depth interviews, is that I did not get the chance to ask my own questions. I will have to rely on what the other researcher thought was important, which may or may not be relevant to my own study. However, since the studies was presented like stories of the different firm in the thesis, I was able to select the relevant parts for my own study, which in the end gave me solid base for argumentation. To present some clarity, the interview guide of (Myhre, 2017) is presented in Appendix 1.

A last critique of using the secondary in-depth interviews, is that they were presented anonymously. This was done because some of the firms were reluctant to elaborate on their internationalization process, unless they had been guaranteed anonymity. Since they were presented anonymously, I could not do any potential follow-ups on the firms or conduct any analysis on how the firms are performing now. This could have given the thesis another dimension, and present a higher level of *reliability* and *validity* for both my thesis and the thesis presented by (Myhre, 2017)

Before the analysis of the in-depth interviews and the additional secondary data collection. A systematic literature review on the relevant topic was conducted, to gain a solid basis of understanding of Internationalization of Danish SMEs.

2.11 Systematic Literature Review

2.11.1 Background

In management research, the literature review process is a key tool, used to manage the diversity of knowledge for a specific academic inquiry. The aim of conducting a literature review is often to enable the researcher both to map and to assess the existing intellectual territory, and to specify a research question to develop the existing body of knowledge further. Systematic review is a specific *methodology* that locates existing studies, selects and evaluates contributions, analyses and synthesizes data, and reports the evidence in such a way that allows reasonably clear conclusions to be reached about what is and is not known (Tranfield et al., 2003).

Systematic reviews do not simply discuss the separate contributions of individual studies. Rather, they seek to combine the findings produced by the various studies reviewed. In this way, it is argued, more robust conclusions can be drawn, because there is support from more cases than were available to any of the individual studies included in the review (Hammersley & Hall, 2003).

In a systematic review the outcome of the research decisions is captured through a formal document called a review protocol. The protocol is a plan that helps to protect *objectivity* by providing explicit descriptions of the steps to be taken. The protocol contains information on the specific questions addressed by the study, the population (or sample) that is the focus of the study, the search strategy for identification of relevant studies, and the criteria for inclusion and exclusion of studies in the review. The purpose is to produce a protocol that does not compromise the researcher's ability to be creative in the literature review process, whilst still ensuring review to be less open to researcher bias than in the more traditional narrative reviews (Tranfield et al., 2003). To reduce human error and bias, systematic reviews employ data-extraction forms. These often contain general information (title, author, publication details), study features and specific information (details and methods) and notes on emerging themes coupled with details of synthesis (Tranfield et al., 2003).

By using a review protocol, both the *reliability* and the *validity* of the study is increased considerably, since the process of research is clearly presented for any future researcher. Another student or researcher can easily put in the same search criteria and find the same articles, giving the review a high *reliability*. A table of the search process, and a larger table of the relevant findings is presented to give the research a high *validity* score. However, a

research search is always under the scrutiny of *subjective* opinions. In other words, I may have included or excluded articles that the next researcher would not. Since it is my own perception of the articles, that decides whether the articles are included in the review, there will always be a question of *validity*. However, instructions are presented for the review with clear instructions for exclusions, resulting in that I can argue that the research has been done in good faith and included all the necessary articles.

This research aims to find the key factors that are surrounding SMEs when they are contemplating to internationalize. The term “international” usually refers to either an attitude of the firm towards foreign activities or that the firm is carrying out activities abroad (Jan Johanson & Wiedersheim-Paul, 1975). While internationalization is the product of series of incremental decisions that leads up to a firm opting to expand beyond its borders (Jan Johanson & Vahlne, 1977). There are many different factors that makes a firm contemplate internationalizing. There are also many obstacles and challenges that the firm must overcome to succeed in their plans internationalize.

To get an overview over the literature published on the subject. I decided that a background review on internationalization, would be beneficial. In the review process, articles with mainly a focus on Danish firms has been included in the review. However, also some other articles with a focus on the other Nordic countries has been included. This due to a lack of internationalization articles with a strictly concentrated view on Danish SMEs. However, I argue that many of the findings from the other Nordic countries, can also be related to the Danish countries as well. Given that the countries are very similar in terms of both culture and economic stability. Secondly, the SMEs within these countries must all internationalize to grow beyond a certain point, given the share size of the home countries.

2.11.2 Search Strategy

A systematic search begins with the identification of keywords and search terms, which are built from the scoping study, the literature and discussions within the review team. The reviewer should then decide on the search strings that are most appropriate for the study. It is important that the researcher reports the search strategy in detail to ensure that the search could be replicated. Only studies that meet all the inclusion criteria specified in the review protocol and which manifest none of the exclusion criteria need to be incorporated into the review (Tranfield et al., 2003).

Search string 1: ((Danish) AND (Internationaliz*))

Search string 2: ((Nordic) AND (Internationaliz*))

Search string 3: ((Scandinavi*) AND (Internationaliz*))

Search string 4: ((SME) AND (Danish))

I refrained for using the abbreviation of SME in three out the four search strings for a specific reason. Since most of the firms in Denmark are classified as SMEs (99,67%), I did not see the necessity of specifying SMEs in the search. My logic surrounding this is that most of the research on Danish firms would be of SMEs by default. The same argument can be made for the Nordic and Scanidna* strings as those countries also boost a significantly high SME percentage: Finland 99,7%, Sweden 99,8% and Norway 99.8% (Eurostat, 2018). However, to cover the basis of the literature search I also included a single search string with SME and Danish. Consequently, researches that clearly only focus on larger multinational firms are excluded from the review.

2.11.3 Selection Criteria

The process of selecting studies in systematic review involves several stages. The reviewer will initially conduct a review of all potentially relevant citations identified in the search. Relevant sources will be retrieved for a more detailed evaluation of the full text and from these some will be chosen for the systematic review. The number of sources included and excluded at each stage of the review is documented with the reasons for exclusions (Tranfield et al., 2003).

To get a good basis for the literature review I conducted my search through three different bibliographic databases: JSTOR, SAGE journals and Wiley Online Library. I received access to all of them through the Aalborg University Library. Right away, I limited the search to a category in each of the databases. JSTOR – business, SAGE – Management & Organization Studies, Wiley – Business & Management. This was done so that I would only receive results that was appropriate for the study. A second criterion was also made for the search: Every article had to be published in English to be included in the search. This was done to make sure that another researcher can redo the same steps and receive the same articles.

The results of the review and exclusions are shown in the review protocol. A strict review of the different the article titles, and if necessary the abstract, was done. Only articles that were about internationalization of Nordic SMEs or were deemed relevant for Internationalization of Danish SMEs were included. Then, after going through the articles on a deeper level, irrelevant articles and publications was removed. At the end 18 articles was revived, and 11

articles were deemed relevant/useful to the research. The following searches, criteria for exclusion and hits are presented in the Review Protocol below.

A critique of conducting a systematic literature review, is that it may refrain the researcher in terms of creativity. Since the aim of the review is to create *reliability*, so called “creative” search is hard to conduct. Even though the aim of the systematic review is not to compromise the creativity. I still believe that a systematic review does possess a possibility of somewhat slowing down the creative search process. With creative search, I mean browsing through multiple databases, with multiple different search strings until interesting/relevant articles appear. This is hard to conduct in a systematic literature review in that it is hard to articulate, making it difficult for a secondary researcher to conduct the same searches and find the same results. Therefore, by using a strict search method, interesting/relevant articles may have been excluded from the search if it was not in the scope of the key words and databases. However, I still believe I was able to cover a fair amount of ground with four search strings across three different data bases. Additionally, the main articles that are mentioned in the reviewed articles, are also brought to light in the synthesis. This way, a solid foundation for discussion is laid.

2.11.4 Review Protocol

Database search and Exclusion criteria	Hits in the search and after following exclusions
JSTOR	
Subject: Business	
Type: Articles	
Language: English	
Search String 1	232
Search String 2	274
Search String 3	532
Search String 4	67
Total hits from JSTOR	1105
Total downloads from JSTOR after headline and abstract review	10
SAGE journals:	
Subject: Management & Organization Studies	
Type: Articles	
Language: English	
Search String 1	7
Search String 2	9
Search String 3	19
Search String 4	4
Total hits from SAGE journals	39

Total downloads from SAGE journals after headline and abstract review	2
Wiley Online Library	
Subject: Business & Management	
Type: Article	
Language: English	
Search String 1	147
Search String 2	154
Search String 3	302
Search String 4	62
Total hits from Wiley Online Library	665
Total downloads from Wiley Online Library after headline and abstract review	6
Total number of downloads from the three different databases	18
Total number after full review of the articles, that is included in the review	11

Table 5: Review Protocol

2.11.5 Data extraction strategy

Each relevant paper that is included in the review, is extracted and tabulated with outline of the key issues and findings in the article. The data extracted from the review needs to contain all relevant information found in the papers, such as the key findings, methodological choices and limitations. The data-extraction table is fundamental to the literature review as it represents the summary of the collected evidence. As the readers reads the synthesis of the extracted review they are able to find the article easily and clearly in the table as well (Tranfield et al., 2003).

In the next chapter the summary of the main features of the review articles be presented.

3. Theoretical Background

In the following chapter the theoretical considerations are presented. First a table of the key elements of the different articles in the systematic review is presented. Afterwards, synthesis of the different articles is conducted, which lays the foundation for the arguments in the discussion chapter.

3.1 Table of key issues from the Review

Article & Author(s)	Key Issues	Theoretical Background	Methodology	Limitations
The Internationalization of the Firm – Four Swedish Cases (Jan Johanson & Wiedersheim-Paul, 1975)	<p>Internationalization is the consequence of a series of incremental decisions</p> <p>Four stages of internationalization are identified:</p> <ol style="list-style-type: none"> 1.No regular export activities 2.Export via independent representatives (agent) 3.Sale subsidiary 4.Production/manufacturing 	<p>Psychic Distance, risk and knowledge</p>	<p>Analysis of the internationalization process of four Swedish firms.</p>	<p>Small sample size of only 4 firms from only one sector in Sweden.</p> <p>Most criticisms of the model are based on the observation that company behaviour has changed since the model was created.</p>
Closing knowledge gaps in foreign markets (Petersen, Pedersen, & Lyles, 2008)	<p>This study explores whether knowledge gaps tend to increase or decrease with time when operating in the foreign market. It also discusses which learning components narrow – or widen – the perceived knowledge gap.</p>	<p>Internationalization process view (Cyert & March, 1963).</p> <p>Absorptive Capacity (Cohen & Levinthal, 1990).</p> <p>Organizational learning perspective (Rask, Strandskov, Håkonsson,</p>	<p>A theoretical model is developed based on the internationalization process view and the organization learning perspective.</p> <p>The model is tested on a set of primary data collected through mailed</p>	<p>The findings may only be relevant for Danish and Swedish firms.</p> <p>However, other smaller economies may have similar traits.</p>

		<p>& Rask, 2016).</p> <p>Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975), (Jan Johanson & Vahlne, 1977)</p>	<p>questionnaires, covering Danish and Swedish firms and their foreign market operations.</p>	
<p>The Uppsala internationalization process model revisited: From Liability of Foreignness to Liability of Outsidership (Jan Johanson & Vahlne, 2009)</p>	<p>The original process model is revisited in the light of changes in business practices and theoretical advances that have been made since 1977.</p> <p>Internationalization depends on a firm's relationships and network. It is expected that the focal firm to go abroad based on its relationships with important partners who are committed to developing the business through internationalization. The focal firm is also likely to follow a partner abroad if that partner firm has valuable network position in one or more foreign countries.</p>	<p>The revisited article is based on the papers posted in 1975 and 1977, coined as the Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975), (Jan Johanson & Vahlne, 1977).</p> <p>The network model of internationalization is also presented (Jan Johanson & Mattsson, 1987)</p>	<p>Revisited Uppsala model is presented based on a literature review.</p>	<p>The authors do not present primary data, but rather adjust their own model based on literature presented over the years following their original publishing of the Uppsala model.</p>
<p>Cooperation in Innovation Networks: The Case of Danish and German SMEs (Gretzinger, Hinz, & Matiaske, 2010)</p>	<p>SMEs are advised to draw on consulting in innovation processes, as they cannot ensure the necessary information flow internally due to the lesser resources they have compared to larger companies.</p>	<p>Based on network theory (Jan Johanson & Mattsson, 1987).</p>	<p>A comparative study between Danish and German SMEs related to innovation and networks.</p>	<p>The study does not clarify how the consulting system for SMEs should be improved to be able to</p>

	Findings lead to the argument that the consulting system has difficulties in reaching SMEs as opposed to the larger firms.		The data is collected from postal (Denmark) and a telephone (Germany) surveys on the innovation behaviour and on the utilization of the consulting system in both countries.	reach the SMEs.
Internationalization Revisited: The Big Step Hypothesis (Pedersen & Shaver, 2011)	The big step hypothesis argues that internationalization is not a gradual incremental process, rather a discontinuous process characterized by a big initial step. The difficulties that firms face when operating outside their home country make internationalization a journey into the unknown where the first step is the most difficult and demanding.	Re-evaluation of the internationalization theory (Cyert & March, 1963), the organizational learning theory (Rask et al., 2016) with a focus on the Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975), (Jan Johanson & Vahlne, 1977).	The international expansion of 176 Danish firms are analysed. The data were collected with the Federation of Danish industry. A questionnaire was sent out to 420 firms. After a follow up reminder, they received 176 usable replies.	The data collected is from companies that has internationalized from 1997 and backwards. As there has been an increased globalisation, speed is a subject to have picked up.
Stakeholders and Marketing Capabilities in International New Ventures: Evidence from Iceland, Sweden, and Denmark (Evers,	This study reveals that different stakeholders play a critical role in influencing how international new ventures (INVs) build their marketing capabilities to respond effectively to the dynamic nature of	The resource-based (RBV) view (Barney, 1991) Dynamic capabilities (Winter & Wiley, 2003)	Qualitative study with analysis of case firms from Ireland, Sweden and Denmark, to explore the influence of stakeholders	

<p>Andersson, & Hannibal, 2012)</p>	<p>international markets in which they operate.</p> <p>Since INVs typically possess limited resource capacity. The ability to rapidly acquire knowledge and resources from actors both inside and outside the firm is crucial for the firm.</p>	<p>Network theory (Jan Johanson & Mattsson, 1987)</p>	<p>on INV marketing processes and capture a more holistic understanding of how INVs develop and implement their marketing strategies.</p>	
<p>Determinants of foreign direct investment ownership mode choice: Evidence from Nordic investments in Central and Eastern Europe (Larimo & Arslan, 2013)</p>	<p>This paper addresses the determinants of foreign direct investment (FDI) ownership mode choice of Nordic firms in Central and Eastern Europe (CEE).</p> <p>High R&D intensity, high target country economic growth rate, and large target country market size increase the probability of WOSs formation. High target country risk increases the probability of IJVs formation by investing Nordic firms in CEE.</p> <p>Several determinants like international experience, area experience and target country experience of investing firms, parent firm product diversity, cultural distance and strength of market conforming values in the target country, are found to be non-significant in the</p>	<p>Transaction cost theory (Jan Johanson & Mattsson, 1987)</p> <p>The resource based view (Barney, 1991)</p> <p>Institutional theory (Brouthers, 2002)</p> <p>Relationship theory (Meyer et al., 2015)</p>	<p>Empirical analysis of 720 FDIs made by the firms from all four Nordic countries (Finland, Sweden, Denmark & Norway) in CEE region during 1990-2007.</p> <p>The empirical data for the study are based on an internal FDI databank encompassing the investment activities of the firms (both large and small) from the Nordic region in their</p>	<p>The study covers a time-period of 17 years. Certain important changes occurred during this time in CEE, as transition to market economy was successful in some countries more than others.</p>

	ownership mode choice analysis of the full sample.		international markets	
Does immigrant employment matter for export sales? Evidence from Denmark (Hiller, 2013)	Immigration has been found to lower diverse barriers to trade and thereby bolster engagement in international markets. Foreign immigrants have the potential to lower barriers to trade, as they carry relevant market-specific information may improve contract enforcement and help firms discover business opportunities abroad due to their superior knowledge about the home market. The immigrant's network can also factor in for the firm.	Network theory (Jan Johanson & Mattsson, 1987) Transaction cost theory (Jan Johanson & Mattsson, 1987) Tacit knowledge (Polanyi, 1967)	Quantitative secondary data collected from Danish manufacturing firms. The data is collected from 1995-2005.	Data is only collected up until 2005.
Entry Mode Strategies into the Brazil, Russia, India and China (BRIC) Markets (Ulrich, Hollensen, & Boyd, 2014)	The article explores the relevance of different entry modes for Danish exporting SMEs. Danish companies entering the BRIC markets mainly prefer low commitment modes. The more traditional internal factors (control, flexibility and risk) were evaluated less important than personnel and financial resources for the BRIC markets.	The resource based view (Barney, 1991) Market Based view (MBV) (Peteraf & Bergen, 2003)	Quantitative research. Survey conducted by the University of Southern Denmark based on a sample of 177 Danish SMEs.	The survey was regarding Danish firms that was internationalizing into the BRIC countries. However, a Limitation is that the BRIC countries are not similar, other than they are large emerging economies. Thus, findings found across

	<p>The most important external factor was market potential whereas the trade barriers, cultural distance as well as the political and economic risk are viewed as main obstacles when internationalizing into distant markets.</p>			<p>the different countries, may not be fully relatable.</p>
<p>Service innovation and internationalization SMEs: Implications for growth and performance(Ku nttu & Torkkeli, 2015)</p>	<p>The study`s focus is on the relationship between management of innovations and internationalization among SMEs.</p> <p>Service innovation (SI) has a positive relationship with international performance which is a sustainable way to build competitive advantage. However, SI does not factor in on the growth or degree of internationalization among the firms.</p>	<p>The resource based view (Barney, 1991)</p>	<p>Data collected from 104 Finnish SMEs in the ICT sector. The data were collected via an online quantitative survey in 2013.</p>	<p>A limitation is made clear that since the consumer only will gradually shift after a service innovation, the investigators should not have used a one-time questionnaire , but rather a longitudinal investigation. Another limitation is that the focus on the study only relies on one country(Finland) and one industry(ICT).</p>
<p>Internationalization of Smaller Firms: opportunity Development through Networks (Hånell & Ghauri, 2016)</p>	<p>Given that political organizations and interest groups have paid increased attention to the Internationalization of SMEs, this article aims to contribute on the gap in study on</p>	<p>A model is built on the revisited Uppsala model (Jan Johanson & Vahlne, 2009).</p>	<p>A longitudinal case study as an exploratory research method of a Swedish SME called Beta.</p>	<p>The findings are presented based on a in-depth analysis of one Swedish firm and some secondary sources.</p>

	<p>these types of organizations/groups.</p> <p>The study highlights that the firm broadens and develops its network over time. During the continued expansion, new challenges emerge, and collaborations with both social and political actors give the firm access to knowledge to overcome these challenges.</p>	<p>Network theory is therefore also a focus (Jan Johanson & Mattsson, 1987)</p>	<p>Both primary and secondary data were collected for a nine-year period from 2003 to late 2011.</p> <p>The main data collection method involved six in-depth interviews with founders and managers. Secondary data sources, such as business articles, annual reports and data from statistics Sweden.</p>	<p>More study could be done on different firms from different nationalities to solidify the findings.</p>
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Table 6: Table of Key issues from the Review

3.2 The synthesis of extracted evidence

The following chapter will present the synthesis of the literature review. The major arguments and findings from each article will be presented and subsequently included in the discussion later in chapter 5.

3.2.1 The Uppsala model

Internationalization is a series of incremental decisions, that a firm gradually take as they move into a new area market (Jan Johanson & Wiedersheim-Paul, 1975). As the firm takes a step towards a new market/country they will have to commit resources. An argument is made that the firm can only obtain necessary knowledge after they have made a resource commitment in to the new market (Jan Johanson & Wiedersheim-Paul, 1975). Knowledge and resources are the major obstacle for a firm who wants to internationalize. It is therefore proposed that the firm should internationalize in stages, which is known as the Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975). Four stages of internationalization are identified:

1. No regular export activities
2. Export via independent representatives (agent)
3. Sale subsidiary
4. Production/manufacturing

Each step means that the firm will have to commit more resources to the internationalization activity. However, as the firm commits more resources and moves further in to the new market, they will also gain more knowledge about the market (Jan Johanson & Wiedersheim-Paul, 1975).

Two years after this theory was published, (Jan Johanson & Vahlne, 1977) proposed a new model based on the four steps of the original Uppsala model. A model that is constantly cited in several of the following articles and presented in the next article in the review as well (Jan Johanson & Vahlne, 2009), making it necessary to be included. In this model, lack of knowledge boils down to psychic distance (language, culture etc.). Therefore, psychic distance is also an important obstacle connected with international operations (Jan Johanson & Vahlne, 1977).

3.2.2 The internationalization model

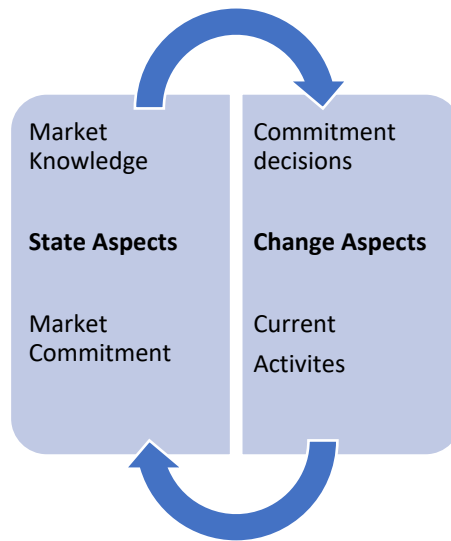


Figure 4: The internationalization model (Jan Johanson & Vahlne, 1977).

The internationalization model is set up as a cycle when an outcome of one decision grows to be an input of the next one. The **state aspects** are the resource commitment to the foreign market and the current knowledge about the market's state and situation. The **change aspects** are the decision to commit more resource and the performance regarding the current business activities. Market knowledge and market commitment are both assumed to affect commitment decisions and the way the current activities are performing. This in turn will change the knowledge and commitment to the internationalization process (Jan Johanson & Vahlne, 1977).

It is concluded from this model that a firm will increase its scale of existing operations on the market – in expectation of growing returns – until the maximum tolerable risk is met. The firm will then take uncertainty reducing steps to reduce risk, by increasing interaction or integration with the market environment. The final observations is that internationalization will be made in small steps unless the firm has very large amount of resources, or the market conditions are stable or similar to its home market, or the firm possess experience from similar markets (Jan Johanson & Vahlne, 1977).

3.2.3 The Network Approach

In 2009, Johanson & Vahlne revisited their original model, based on the literature that had been published over the years since the original Uppsala model and their model of change and state aspects. (Jan Johanson & Vahlne, 2009) argued that their view of internationalization had changed, along with the business environment. The environment is now viewed as a web

of relationships, a network, rather than a neoclassical market with borders of independent suppliers and customers. Outsidership, in relation to the relevant network, more than psychic distance, is the root of uncertainty (Jan Johanson & Vahlne, 2009).

The revisited Uppsala model use the Network theory/approach as a cornerstone. The network approach surrounds a system composed of firms engaged in production, distribution and the use of goods and services. The firms in the network are co-dependent on each other to function as a system, and therefore their activities need to be co-ordinated. Co-ordination occurs through interaction between firms in the network instead of an organizational hierarchy (J. Johanson & Mattsson, 1988).

The firms are free to choose counterparts and thus “market forces” are at play. To gain access to external resources and make it possible to sell products, however, exchange relationships must be established with others. Each firm in the network has relationships with customers, distributors, suppliers and sometimes directly with competitors etc. The firms also have indirect relations via those with suppliers’ suppliers, customers’ customers etc. (J. Johanson & Mattsson, 1988).

Internationalization of the firm means, according to the network approach that the firm establish and develops positions in relations to counterparts in foreign networks. (J. Johanson & Mattsson, 1988) suggest three alternatives:

1. *International Extension*: Establish positions in relation to counterparts in national networks that are new to the firm
2. *Penetration*: Develop positions and increase resource commitments in the networks abroad in which the firm already has positions
3. *International Integration*: Increase co-ordination between positions in different national networks

The firm`s degree of internationalisation informs about the extent to which the firm occupies certain positions in different national networks, and how important and integrated these positions are. International ventures demand resources for knowledge development and for quantitative and qualitative adjustments to counterparts in the foreign markets. Smaller firms may rely on hiring agents, and consequently make use of the agent`s already established network to gain knowledge make the necessary adjustments and create collaborations. If the supplier, customer and competitors of the firm are international, even a domestic firm has several indirect relations with foreign networks. There can be situations where the firm is

being “pulled out” out by customers or supplier making them driving forces to enter set market. This is especially likely if the firm is starting a collaboration with an even larger firm. As a result, collaboration through business networks allows SMEs to accelerate their internationalization process.(J. Johanson & Mattsson, 1988).

Since INVs/SMEs typically possess limited resource capacity, the ability to rapidly acquire and exploit knowledge and resources from both inside and outside the firm is crucial. Social and business networks are therefore crucial for SMEs to overcome tangible and intangible resource constraints, as well as exploiting opportunities in the international markets (Evers et al., 2012).

Also, public consultancies can be used as a network for internationalization. Especially, SMEs are advised to draw on consulting systems in innovation processes, as they cannot ensure the necessary information flow internally due to the lesser resources they have compared to larger companies (Gretzinger et al., 2010). As SMEs are of central significance in the Danish economy, public consulting and funding institutions, research parks and innovation clusters have been initiated in the country. Up to 16 % were found in 2010, to be using consultancies when it comes to innovation. However, findings have led to the assumption that the consulting systems has difficulties in reaching the smaller SMEs. However, a comparison between the Danish and German SMEs, show that the Danes utilize the consulting system, especially private consultancies, on a much higher rate than the Germans where only 7,5% where found to be using them (Gretzinger et al., 2010).

On the background of these arguments and the original internationalization model, (Jan Johanson & Vahlne, 2009) presented a new model. The changes mechanisms in the revisited model are essentially the same as those in the original versions, although trust-building and knowledge creating is added. The latter to recognize the fact that new knowledge is developed in relationships (Jan Johanson & Vahlne, 2009).

3.2.4 The Revisited Internationalization model

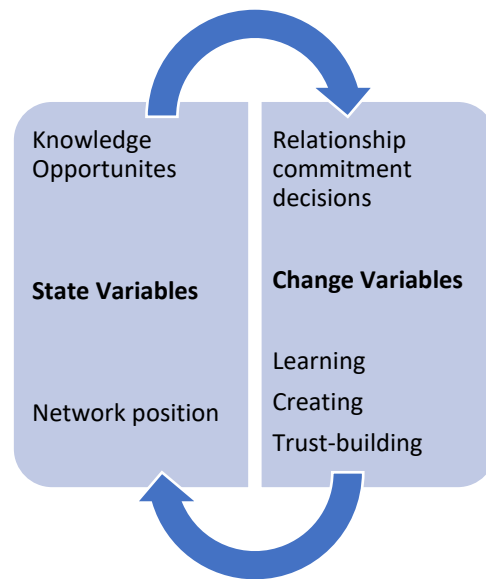


Figure 5: The Revisited Internationalization model (Jan Johanson & Vahlne, 2009)

The revisited 2009 business network model consists of two sets of variables: **state variables** and **change variables**. As in the original model, the variables affect each other, the current state having an impact on change and vice versa. Within the state variables there are two new terms; **Knowledge opportunities** and **Network position** (Jan Johanson & Vahlne, 2009).

Knowledge Opportunities constitute a subset of knowledge. Opportunities is the most important element of the body of knowledge that drives the process. Other important components of knowledge include needs, capabilities, strategies, and networks of directly or indirectly related firms in their institutional contexts (Jan Johanson & Vahlne, 2009).

Network position was the original market commitment. It is now assumed that the internationalization process is pursued within a network. Relationships are characterized by specific levels of knowledge, trust, and commitment that may be unevenly distributed among the parties involved, and hence they may differ in how they promote successful internationalization. If the process is seen as potentially rewarding, a desirable outcome of learning, trust and commitment building will be that the focal firm enjoys a partnership and a network position (Jan Johanson & Vahlne, 2009).

In the **change variables**, the original label of “current activates” is changed to “**learning, creating, and trust building**” to make the outcome of current activities more explicit. The speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment, and particularly on

the extent to which the partners find given opportunities appealing. High levels of knowledge, trust and commitment in a relationship result in a more efficient creative process (Jan Johanson & Vahlne, 2009).

The other **change variable** is **relationship commitment decisions**. This dimension has been adapted from the original model. Relationship is added to clarify that the commitment is to relationships or to networks of relationships. This variable implies that the firm decides either to increase or decrease the level of commitment to one or several relationships in its network (Jan Johanson & Vahlne, 2009).

A **change in commitment** will either strengthen or weaken the relationship. The commitment change may be to develop new relationship, or they may be about building bridges to new networks and filling structural holes. Alternatively, they may be to protect or support the firm's existing network of strategic relationships. Internationalization depends on the firm's already established relationships and networks. It is expected that the firm will venture abroad through partnerships who are committed to developing the business through internationalization (Jan Johanson & Vahlne, 2009).

There is an argument that the SME can benefit from immigration when it comes to the internationalization process (Hiller, 2013). Immigration has been found to lower trade barriers and improve the firm's activity in the international market. The firm may benefit from the **immigrant's network** in the host country, provided that the employee has one. The immigrant may also have an impact on cost-reducing in the aspect of **knowledge** gathering, while increasing sales to the immigrant's country (Hiller, 2013).

(Hånell & Ghauri, 2016) aimed to contribute to the revisited Uppsala model, and to improve the understanding of the opportunity development process that rapidly internationalizing SMEs undergoes. The authors also emphasize on the increased attention from political organizations and interest groups, and their support of SMEs. Networks and relationships are able to give the SMEs access to knowledge and support in their international operations (Hånell & Ghauri, 2016).

It is argued that different actors of the network are in play at different time. As even though foreign customers are often the actors that initiate the opportunity development process, it is the collaboration with social and political network actors that gives access to foreign-market knowledge, needed to exploit the opportunities. The opportunity appeared through the customer, but it was made possible through the cooperation of other network actors. Different

network actors are thus involved in and support different phases of the opportunity development process. The firm also broadens and develops its network over time, as an continued expansion (Hånell & Ghauri, 2016).

3.2.5 Perceived Versus actual Knowledge

The year before (Jan Johanson & Vahlne, 2009) presented their revisited model, (Petersen et al., 2008) presented a paper where they also discussed the **Uppsala model**, and the **organizational learning perspective** as a whole. Their study explores whether the knowledge gaps typically increases or decreases with time when operating abroad. In the **organizational learning perspective**, the firm is expected to internationalize in an incremental process, where they gradually commit more resources as their knowledge about the foreign market grows (Rask et al., 2016).

The findings from (Petersen et al., 2008) are that the managers perceive **increased knowledge gaps** after the initial entry. The interpretation is that initially entrant firms are not fully aware of that they do not know about conducting business in the foreign market. After the initial entrance into the foreign market, the firm suffers through a painful process of realizing how business experience from prior markets is of limited use in the new market. It is argued that it takes approximately 4.5 years for firms to learn what they do not know about the foreign market at the time of entry (Petersen et al., 2008). Absorptive capacity is defined as the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to their own business (Cohen & Levinthal, 1990). It is argued that absorptive capacity is a significant predictor of reduction in the perceived knowledge gap of entrant firms, and is therefore key competitive advantage for the internationalizing firm (Petersen et al., 2008).

3.2.6 The Big Step Hypothesis

Another critique to the organization learning perspective and Uppsala model came about in 2011. (Pedersen & Shaver, 2011) re-evaluates the arguments that internationalization is incremental in nature because of the emphasis on knowledge that can mainly be acquired from practical operations abroad. The authors challenge this view and argued that internationalization is better characterized as an initial **big step**, while the following steps coming in a much faster fashion. The firm must build an **infrastructure** (e.g. network, management systems, and mind-set) to support international operations from the very first time they venture abroad. The following international operations can leverage this infrastructure, and plug in additional foreign activities (Pedersen & Shaver, 2011).

Through an analysis of 176 internationalizing Danish firms, the average firm took almost 30 years to accommodate the first **big step**. However, it only took on average 7,5 years between the first **big step** to the second step. The argument is built on the fact that it is less costly and time consuming to expand internationally, once the **infrastructure** is in place (Pedersen & Shaver, 2011).

3.2.7 Transaction Cost Theory

A quantitative survey of internationalizing Danish SMEs into the BRIC markets explores the different entry modes, and the largest challenges for the firms (Ulrich et al., 2014).

Transaction cost theory is an important factor in their article. **Transaction cost** arise when there is need to devote efforts to organizing, carrying out, and controlling transactions among interdependent actors. The transaction cost approach tries to explain the institutional form of these transactions. Two behavioural characteristics are proposed under the transaction costs; *Bounded rationality* and *Opportunistic behaviour* (Jan Johanson & Mattsson, 1987). Under good certainty conditions, the firm can gather correct information and specify contracts between partners, that make sure that both parties fulfil their part of the agreed terms. However, when *uncertainty* occurs, contracts become complex and costly to both construct and to enforce (Jan Johanson & Mattsson, 1987).

3.2.8 The Resource-Based View

A paper surrounding the various factors of market selection was presented by (Ulrich et al., 2014). The article combines two theories that explains the internal and external capabilities of a firm. The Resource based view (Barney, 1991) with the focus on the internal resources and capabilities of the firm. The firm's resources include all assets, capabilities, organizational process, firm attributes, information, knowledge etc. that is possessed by the specific firm which can improve its efficiency and effectiveness, and thus give the firm a competitive advantage. (Barney, 1991) divides these resources into three categories;

- *Physical capital resources*: The firm's technology, plant and equipment, its location and its access to raw materials
- *Human capital resources*: training, experience, intelligence, judgement, relationships of the individual personnel in the firm
- *Organizational capital resources*: the firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, and the informal relations within the firm and in the firm's environment

(Ulrich et al., 2014), selected the internal resources of control, flexibility, risk, product complexity, international experience, and economic & personnel resources.

3.2.9 The Market-Based View

The other theory, the market-based view (Peteraf & Bergen, 2003),(Makhija, 2003) has its focus on the competitive advantages from the external structure of the market (Ulrich et al., 2014). The competitive advantage arise due to barriers for the competition, due to the structure of the market (Makhija, 2003). It is argued that the market and resource based view are complementary to each other, and provide the greatest utility when employed together (Peteraf & Bergen, 2003). In the market-based view, a firm`s sources of market power explain its relative performance. Three sources of market power are identified (Makhija, 2003):

- Monopoly: monopoly or a strong position in the market is correlated with expected strong market position
- Barriers to entry: An industry with high entry barriers for new competitors also implies an expected strong market position, this because of less competitors.
- Bargaining power: A higher bargaining power within the industry relative to suppliers and customers suggest that the firm will have expected higher performance.

Market based view factors in (Ulrich et al., 2014)‘s article are cultural distance, market potential, demand fluctuations, trade barriers, competition, networks, political and economic risk. These factors are argued as the factors that under certain conditions can lead to competitive advantages or disadvantages when enter a new market (Ulrich et al., 2014).

3.2.10 The Knowledge-Based View

Another extension of the Resource based view (Barney, 1991) is the Knowledge based view (Grant, 1996). The knowledge-based view considers knowledge as the most strategically significant resources that serves as a competitive advantage. The main reason for the uprising of the knowledge-based view, is that it is argued that the resource-based view does not go far enough in its valuation of knowledge as a competitive advantage. Especially tacit knowledge, draw competitive advantage in that it is hard to articulate, cannot be codified, and instead only be observed through application and acquired through practice (Grant, 1996).

3.2.11 Host Marked Conditions

The Danish firms entering the BRIC markets mainly prefer **low commitment modes**, such as exporting via agents and distributors. **Personnel** and **financial resources** are the key factors in entering new foreign markets. **Control, flexibility** and **risk** are valued less important by the Danish SMEs, when internationalizing. The most important external factor for the SMEs is

the **market potential**. However, also **trade barriers, cultural distance, political and economic risk** are viewed as important obstacles when internationalizing into distant markets (Ulrich et al., 2014).

A downside to choosing the low commitment modes, is that the firm possess less control over the operation. Building on the network approach, the SMEs can compensate for the loss of control by forming business networks and thereby gaining control. Setting up joint ventures or strategic alliances will give the firm more control but will require a higher level of resource commitment. A wholly owned subsidiary will gain the firm the most control but will require even a higher level of resource commitment (Ulrich et al., 2014).

However, if it is information asymmetry, transaction cost will arise and challenges of finding an ideal distributor in the collaboration relationship will occur. High cultural distance also creates difficulties in understanding local distributors “thinking” consequently limiting the accuracy of predicting their behaviour. Consequently, evaluating distributors potential opportunism becomes difficult. If the transaction cost circumstances are high, Danish SMEs will prefer fully to control their foreign operations, which would result in a wholly owned subsidiary (Ulrich et al., 2014).

(Larimo & Arslan, 2013) also presented a paper where the focus lays on the determinants of foreign direct investment ownership mode choices of Nordic firms that are internationalizing in the Central and Eastern Europe (CEE). Here it is found that the main determinants for ownership modes are the **R&D intensity**, the **target country`s economic growth rate**, the **target country`s market size** and the **target country`s perceived risk**. Firms with a high level of **R&D intensity** are likely to transfer a significant amount of knowledge to their subsidiaries. These firms are likely to face great transaction costs, in their difficulties in pricing the technology and enforcing the contracts with the joint venture partners.

Consequently, the firms spending more on R&D prefer to choose wholly owned subsidiary to have full control. Also, if the target country has a **large market** and a solid **economic growth**, the firm will opt for a wholly owned subsidiary. However, if the target country`s **perceived risk** is deemed high, the firm will choose a joint venture option or exporting from the home country (Larimo & Arslan, 2013).

3.2.12 Service Innovation

Finally, **service innovation** has been identified as a factor for international performance (Kunttu & Torkkeli, 2015). Small Nordic innovation-oriented firms are particularly on the forefront as internationalizing SMEs with a global focus. It is argued that the SMEs should

not forget innovating, as it can help them to overcome local disadvantages. However, even with innovative solutions, it may take time before the benefits from innovating are realized. This because, the consumers only gradually abandon an old service for a new one, thus creating a time lag between growth and service innovation. Nevertheless, results from their test shows that higher levels of service innovation have a positive impact on the SMEs international performance, which in turn, creates competitive advantages (Kunttu & Torkkeli, 2015).

3.2.13 Framework of findings from the literature review

To end the literature review, I propose my own framework with relevant findings for the Danish SMEs. These findings will be kept in mind during the case presentations and the discussion. Here the different blocks will be discussed on a deeper level, up against the findings from the case data.

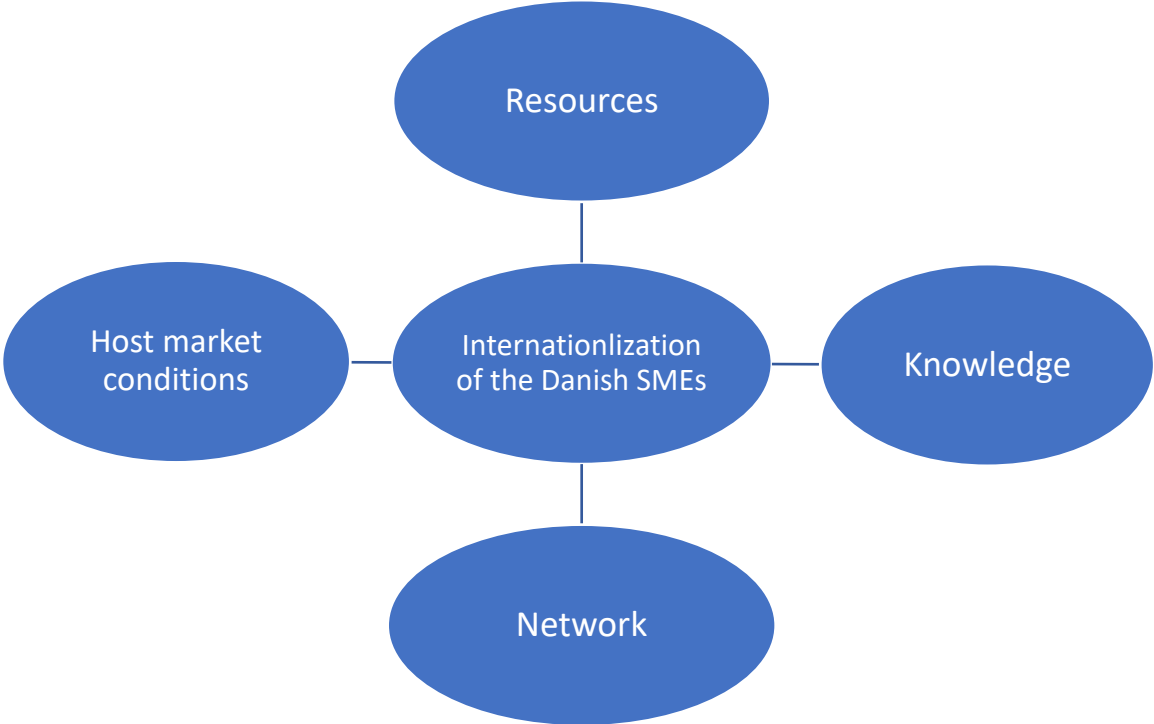


Figure 6: Framework of the major findings from the literature review

Through the literature review, four major blocks were identified.

Resources: Through the review it is found that an SME needs to possess multiple resources in the process of internationalization. It is also found that most SMEs by default possess less resources than the more established MNEs. Resources are best described through the Resource-based view (Barney, 1991), where the firm possess multiple Physical capital, Human capital and Organizational capital resources that can give the firm a competitive advantage. SMEs often possess less of these resources and therefore needs to be creative in

their internationalization attempts to overcome these resource constraints. Articles in the review with a strong emphasis on resources for internationalization are Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975), Stakeholders and Marketing Capabilities in International New Ventures (Evers et al., 2012) and Service innovation and internationalization SMEs (Kunttu & Torkkeli, 2015).

Knowledge: Knowledge is a resource that is highlighted in the knowledge-based view (Grant, 1996), Uppsala model (Jan Johanson & Wiedersheim-Paul, 1975) and the Big step hypothesis (Pedersen & Shaver, 2011) as a crucial factor for international success. The reasoning of all these theories are that the firm needs to possess all kinds of knowledge/experience to be able to succeed in their international adventures. A smaller firm will usually not have the financial resources to research this information or hire personnel with the desired information. As a result, the SME will need to overcome these knowledge constraints by either incremental steps, collaboration, or opting for similar markets where the knowledge is easier to obtain.

Network: Networks has been found to be more and more emphasised over the years of internationalization theories. After the Network approach (Jan Johanson & Mattsson, 1988) was introduced along with other network emphasised articles, (Jan Johanson & Vahlne, 2009) revisited their original Uppsala, and change and state model to shift the focus on the importance of Networks. Liability of Outsidership is highlighted as the most important hurdle for an internationalizing firm. With Networks the firm can enjoy Insidership, and consequently reap the benefits. The smaller SMEs can especially benefit from networks as a solution for their limitations regarding the usual resource and knowledge constraints. Several other articles in the review highlights the importance of networks; Cooperation in Innovation Networks (Gretzinger et al., 2010), (Evers et al., 2012) Stakeholders and Marketing Capabilities in International New Ventures, (Hiller, 2013) Does immigrant employment matter for export sales?, and Internationalization of Smaller Firms: opportunity Development through Networks (Hånell & Ghauri, 2016).

Host market conditions: Host market conditions is based on the Market-Based View (Peteraf & Bergen, 2003), (Makhija, 2003) and the articles included in the review from (Ulrich et al., 2014) and (Larimo & Arslan, 2013) emphasise the importance of host market conditions. Since the SMEs usually possess less resources and knowledge, they are likely to choose markets that are perceived as more “safe” and “similar” to the Danish culture. By opting for the closer markets, the knowledge gaps might be smaller, resulting to an easier

entrance. The Danish firms are also likely to prefer the closer markets as they are also represented with solid economies and low political instabilities. It is also found that if an SME should internationalize into markets further away, then they should opt for a low commitment entry mode, to minimize their risk.

4. Case data findings

In the following chapter, the data collected outside of the literature review will be presented. The secondary data is retrieved from in-depth interviews presented in PhD thesis produced by (Myhre, 2017). The following table presents ten Danish SMEs that has experienced an internationalization process. In-depth interviews were conducted, to get a better understanding of the challenges and solutions the various firms have encountered, and how they overcame them.

When analysing the collected data, the research questions of the thesis are kept in mind. The experiences of the SMEs should be able to present answers for these two questions:

- *What are the key challenges for Danish SMEs in the process of Internationalization?*
- *How can SMEs managers overcome their challenges surrounding their internationalization process?*

4.1 Presentations of the case firms

Firm	Industry	Employees	Structure	Type	Established	Gross profit tkr.
A	Health care	100-149	Owner-managed	Medium-sized	Mid 2000s	66.000
B	Machinery	10-19	Owner-managed	Small enterprise	Late 1990s	3.500
C	Machinery	10-19	Owner-managed	Small enterprise	Early 2000s	5.500
D	Machinery	50-99	Owner-managed	Medium-sized	Mid 1970s	21.000
E	Machinery	20-49	Owner-managed	Small enterprise	Late 1970s	35.000
F	Machinery	50-99	Owner-managed	Medium-sized	Late 2000s	19.500
G	Machinery	20-49	Owner-managed	Small enterprise	Early 2010s	17.000
H	Whole sale	20-49	Manager - led	Small enterprise	Early 1900s	43.000
I	Whole sale	200-499	Manager - led	Large enterprise	Late 1970s	350.000
J	Machinery	100-149	Manager - led	Medium-Sized	Late 1970s	27.000

Table 7: The ten case studies of (Myhre, 2017)

Firm A: The SME specialize in assisting local authorities and job centres in bringing citizens from public assistance to self-support through rehabilitation and skill development. The firm was first established in the early 2000s and performed its first internationalization a year after the establishment. A subsidiary opened in Norway, and in a year the firm made profit in the host country. At the time of interview, the Norwegian subsidiary is responsible for more than one-third of the revenue for the firm (Myhre, 2017).

Firm B: The SME was established in the late 1990s and specialize in manufacturing components and customized machine vices. The firm wanted to internationalize, on the background of the financial crisis in 2008-2010, to spread their risk (Myhre, 2017).

Firm C: The SME was established in the early 2000s when the CEO acquired the firm along with his father. The firm specializes in manufacturing customized hydraulic presses. The firm has had several attempts at internationalization, although only through exports. However, today the firm`s exports only account for 0-5% of total revenue (Myhre, 2017).

Firm D: The SME was established in the 1950s and acquired another machinery firm in the mid-200s. The firm possess over 50 years of experience; however, they have only recently attempted to internationalize. The firm highlights a reduction of industrial jobs in Denmark, a more internationalized world where more of their customers are becoming internationalized, and diversification for reasons to internationalize (Myhre, 2017).

Firm E: The SME specialize in producing metal objects and components for a wide range of industries. The firm possess more than 40 years of industry experience and was acquired in the mid200s by the CEO and production manager. The firm has opened a production facility in Poland and focus on the German market to increase revenue (Myhre, 2017).

Firm F: The SME is a sub-supplier that manufactures processed metal products. The firm was in the mid-2000s established by three owners with over 30 years of experience. The firm`s form of internationalization is though international export (Myhre, 2017).

Firm G: The SME is manufacturing, delivers and maintains lifting equipment and solutions to a global clientele. The product was developed and patented by the former firm, several decades earlier. In the early 2010s, the two owners carried out a management buy-out, resulting in firm G. The firm is heavy internationalized, and exports to Europe, Asia, North America and Australia (Myhre, 2017).

Firm H: The SME was established through a merger of two SMEs in the early 2010s. The firm`s segment is groceries which they sell to the Scandinavian retail industry. The firm

started gradually exporting out of Denmark, before setting up sales offices in Finland, Norway and Sweden (Myhre, 2017).

Firm I: The firm is a total supplier of food and non-food products to the Danish food service industry. The firm is a SME that was sold to a large foreign European firm in the early 2000s. Today they operate as a Danish subsidiary and has also overseen the opening of a Swedish subsidiary (Myhre, 2017).

Firm J: The SME develops and manufactures agricultural machinery and equipment for industrial use. The firm possess a long history of internationalization, beginning with their first subsidiary in the US more than 30 years ago. Today, the firm has sales offices in China, the US, Australia, Hungary, Germany and France, while also owning a legal unit in Ukraine (Myhre, 2017).

To systemize the data and present it in a systematic matter that is easily readable, I have divided the data collection up in to several sections:

4.2 Strategies of the Case firms

The ten different SMEs has had various of strategies of how they want to internationalize out of Denmark.

The CEO in **firm A** was eager to internationalize but did not have time or an idea of how to proceed with the process. However, an opportunity opened itself when a Norwegian employee suggested to internationalize in Norway and that he could lead the internationalization from there. **The Business Development Centre** presented them a grant of 35.000-40.000 DKK. And the Danish Embassy in Norway, helped the firm get in touch with key persons and the heads of different organizations in Norway. The firm wants to use the Norwegian venture as a “**blueprint**” for the German market, while also continue to use the **Danish embassy** (Myhre, 2017).

Firm B argues that the **market pulls the product**, thus they do not have a specific market or strategy for internationalization. The firm employed a retired worker from a Danish supplier as an **agent** to initiate an internationalization process into Germany. The agent had contacted **firm B**, after they had unsuccessfully approached a Danish supplier to sell their product for them. The reasons for attempting the German market, was the agent`s **knowledge**, but also similarity in **culture**. The firm did not conduct market research but relied on **knowledge** of

the Danish agent. The firm also use tradeshows and **networks** to establish relations (Myhre, 2017).

The CEO of **Firm C** identified three criteria`s in the choice of market:

1. **Physical distance:** A small firm cannot afford to have employees away for 4-5 days at the time
2. **Knowledge of foreign language**
3. **Spreading risk across markets:** The firm wants to target different markets, in that they can diversify, but also transfer their resources to the market who are in a positive market trend (Myhre, 2017).

Firm C has had several attempts of internationalization: The firm used the **Danish consulate** in Manchester to identify an export **agent**. In Norway they used the **Danish Embassy** to set up meetings with two firms themselves, while also visiting a trade show in 2006. A second attempt to internationalize in Norway in 2010 was done through a telemarketing agency. The agency was set up through the **CEOs networking group**, while the firm also sat up a display themselves at a tradeshow (Myhre, 2017).

Firm D targets multiple markets at the same time, arguing that they would rather just move out of a market if it does not work out. The firm also argues that it is important to be present in several locations because the markets move in waves and the firm get to spread its risk.

Firm D internationalized into Norway in 2012, on the basis that it was an **attractive market**. The **Danish Embassy** was used as a contact, and they organized four visits. The firm established contact with one Norwegian customer, which also worked as an **agent** for them. The firm also attended trade shows in Sweden in 2012 and 2014 with an aim to gain contacts. **Firm D** got an opportunity to enter the German market through the **confederation of Danish Industry** in 2013. The **Danish industry foundation** had a pilot project and searched for SMEs that was willing jointly enter the German market, thus helping the firm enter through a **collaboration** (Myhre, 2017).

Firm E opened a subsidiary in Poland on the background of pressure from customers to lower their prices. The firm bought a small Polish firm with a few workers and four years later, the firm had grown from seven to almost 140 employees in Poland. The firm decided on Poland because of the low prices and inexpensive labour. Poland is also **closely located** to both Germany and Denmark. **Firm E** is targeting the German market and are increasing efforts to improve it sales in the country. The CEO emphasise on the importance of **relations** with the

customers and calls the German customers once a month. The CEO also has meetings with buyers, engineers etc. whenever he's in Germany. **Firm E** has previously participated in joint exhibition stands organized by the **Danish embassy** (Myhre, 2017).

Firm F has emphasised on the importance of keeping their production in the country instead of outsourcing, citing logistics and flexibility as the major reasons. **Firm F** presents a make-to-order strategy, meaning that the firm only manufactures a product upon the order placement by the customer. This also allows the firm to make customized products, which is seen a **competitive advantage** for the firm. **Firm F** does not have an export strategy, but rather rely on their already established **network** of customers will provide them new customers. The firm believes in **building relationships through existing relationships**, and the firm **networks** with their suppliers, consumers consultants etc. Their export accounts for 25% of the total revenue. However, many of the customers are Danish firms that have outsourced themselves from Denmark (Myhre, 2017).

Firm G internationalization strategy is through exports. The firm's revenue from the international market are over 90 percent. Most of their customers approach them, as they carry a huge **network** of personnel that know them, has worked for them, agents and distributors. The SME do not believe in systematic planning with elaborate plans that reach far in to the future. **Firm G** emphasise a "learning by doing" approach. The firm has also collaborated with a **Danish University**. The University students have collaborated on solving the firm's internationalization challenges. Finally, the firm has contacted with the **Danish embassy** and attended tradeshows in attempts to increase their business (Myhre, 2017).

The internationalization process of **Firm H** has been gradual, starting with exports, before creating subsidiaries in Finland and Sweden. **Knowing the market** and having been present for a couple of years, increased their internationalization. The firm boasts **native contacts** in each of the countries they ventured in to. The SME argues that you must be present in the country, know the retail chains, know the market and have a presence that all justifies their presence for the customers. **Firm H** does not rely on networks, the embassy or business development centres. Instead the firm hired professional recruitment firms in the host country's to screen and find the right candidates. However, the firm emphasise that the candidate in the host country must have the right **network** of purchasing managers and senior management in the business (Myhre, 2017).

Firm I is owned by a large firm, but states that they have nothing to do with the parent. The SME is responsible for approaching the Swedish market. The firm use a systematic approach,

with a thorough analysis of the market. They emphasise the importance of revealing what the customer wants, as they argue that you cannot force a product upon a market. The firm use a **famous athlete`s network** to reach Swedish sub-suppliers and get access to decision-makers at the executive level (Myhre, 2017).

Firm J exports more than 90% of the machines they produce in Denmark. Firm J established a Joint venture in India in the 2000s. After the former CEO retired, the Joint venture partner acquired the joint venture firm. This was done on the background of the new Danish management implemented a new strategy, where they wanted to return to the firm`s competences and export their products (Myhre, 2017).

The CFO of **Firm J** developed a model to estimate total marked demand and improve the firm`s efficiency. Based on the different factors, the firm estimated a list of 15-20 markets were deemed suitable. In the markets they are not yet present, the strategy is to visit trade shows, open a legal unit or identify distributors. The firm has in the past been assisted by the **Federation of Danish Industry, private consulting agencies, the investment fund for developing countries, the Nordic project fund** and the **Danish international development agency**. The various organizations have helped **Firm J** with funding, market research, innovation and internationalization of the firm. Firm F also had a joint venture attempt in China, but it was later abandoned, in favour of exporting through their Chinese agent (Myhre, 2017).

4.3 Challenges for the case firms

Firm A experienced challenges in form of little to no international experience. The firm relied on the Danish embassy for contacts, but also had to gain **knowledge** through experience and hard work in the market (Myhre, 2017).

The agent of **firm B** did not possess the right **network** in Germany as he came from a different industry. Since the firm believed that they were too small themselves to be found by potential customers, many hours were spent to identify potential customers. The firm has not ventured other places outside of Denmark and Germany, mainly due to a lack of **language** skills (Myhre, 2017).

Firm B has previously attempted to enter the Swedish market with the help of the Danish Embassy. The firm bought an export start package with a list of potential customers but was not satisfied with the result (Myhre, 2017).

Firm C spent 18 months in Germany before abandoning the market after deeming it “too competitive”. A second problem for **firm C** was that the projects was on too large scales for the firm in that it would take 3-5 months and cost five-six million DKK which would account for 75% of the firm`s turnover. **Firm C** also had conflicts of interest regarding their agent, in that the agent did not serve the firms interests. The firm has tried to find a new agent, but without success (Myhre, 2017).

Firm D admitted that even with assistance in the foreign markets, the internationalization process went much slower than anticipated. In Sweden the firm struggled to find any good contacts. **Firm D** has been hesitant to move in the German market, because of its **size**. The firm argues that Germany has many large firms, and it can be challenging for a Danish SME to make themselves attractive for the much larger potential customers. The firm has also mentioned the UK as a potential market but are concerned about the currency and logistics of transports (Myhre, 2017).

Firm E has experienced challenges in Poland, in maintaining the Polish workforce. The CEO argues that as soon as the workers get certificates and more competence, they leave the firm. **Language, culture and communication** has also been a challenge for the firm (Myhre, 2017).

Firm F concludes that with costs in mind, Denmark is one of the most expensive places in the world to produce/manufacture products. However, they argue that they are **too small** at this point to move out of the country (Myhre, 2017).

Firm G has experienced difficulties in entering new markets. Their challenges have been boiled down to lack of **knowledge**. They are also afraid to miss or oversee an opportunity because of the shortage of knowledge. The CEO argues that obtaining the correct information and knowledge when it comes to B2B sales are challenging. Even through a well-established network, Firm G has a shortage of contacts with the necessary information (Myhre, 2017).

Firm H major challenge was to find the right candidate to lead their subsidiary in the host countries they were trying to enter (Myhre, 2017).

Firm I came across challenges when entering the Swedish market in terms of **bureaucracy**. There is very little cross-border cooperation, and the firm experienced resistance in bringing the markets together (Myhre, 2017).

Firm J experienced **communication problems** with the Chinese partner through e-mails where they struggled to have clear communication. The **political situations** in Ukraine and

Russia has also influenced the business for the firm. Many orders were cancelled and/or postponed resulting in a revenue drop (Myhre, 2017).

4.4 Solutions and Recommendations from the Case firms

Firm A emphasised the importance of establishing if there is a market for their product. The SME must understand the host country, the **market conditions** and have the right personnel in place to assist with the internationalization process. **Firm A** also emphasised on the importance of the **embassy**, as they were able to open many doors for the firm (Myhre, 2017).

Firm B use two approaches for finding potential customers in Germany:

1. The **agent** found customers via the internet, cold calling, appointments and visits with multiple firms in person.
2. The firm also visited **trade shows to establish new business relations** (Myhre, 2017).

After having identified the potential customers, **Firm B** devotes time to meet them through face to face encounters. **Firm B** also have plans of translating their website to English and German, to attract more potential customers. Finally, **firm B** emphasised on using the **Business Development Centre Denmark** to establish contacts and **networks** (Myhre, 2017).

Firm D acknowledged that the CEO spoke the **language**, when entering Germany was key. The CEO is also a member of different boards and **network** and exchanges experiences through his networks. The firm argues that Danish firms/SMEs are **too small** and should therefore **form alliances** (Myhre, 2017).

Firm E is focusing on establishing **partnerships** with other Danish firms, where they take over the machinery production for another firm (Myhre, 2017).

Firm F believes in **networks** and the CEO is also a member of a network group of CEOs from similar SMEs in the industry (Myhre, 2017).

Firm G strongly believes in **networks** and is constantly working on strengthening their cooperation with dealers, agents and distributors. The firm emphasise on a continuous focus on findings new customers and partners and nursing the existing ones. "Some people will retire, some will fall away, and some will leave industry. It is therefore a need for **constantly work on new relationships**" (Myhre, 2017).

Firm H emphasise the importance of having native workers, that knows the **culture** and has the correct **network** in the market the firm wants to internationalize in to (Myhre, 2017).

Firm I used the **Confederation of Danish Industry** to resolve minor legal matters. They have also used their **network** in Sweden to gain experience. The SME has had several conversations with small distributors who are not real competitors to their segment (Myhre, 2017).

Firm J has weekly **video conferences** to overcome the **communication difficulties** they experienced through e-mails. The firm also emphasised on becoming more personal in their communication with the Chinese partner. The CFO do believe in **relationships** and **networks** but are not a big believer in network groups. The CFO would rather be in contact with personnel that are different from himself, as opposed to a group of other CFOs (Myhre, 2017).

5. Discussion

The discussion chapter will include the relevant findings from the several different theoretical articles, and the findings from the ten case studies of the Danish SMEs. To finish the discussion the different relevant findings will be included in framework presented in the literature review.

Through the years from the first article in the review (Jan Johanson & Wiedersheim-Paul, 1975) to the latest article (Hånell & Ghauri, 2016), the internationalization landscape has evolved. (Jan Johanson & Vahlne, 1977) created a model that presented psychic distance as the most important obstacle for a firm that pursued internationalization. However, over the decades there has been several critiques and changes to the original model. **Networks** has risen as an increasingly important consideration in international business and **Outsidership** is now presented as the root of uncertainty (Jan Johanson & Vahlne, 2009). An SME who is approaching internationalization are increasingly dependent on **relations** and **networks** between a host of different actors.

Firm G used an approach that derives from both the original and revisited Uppsala model. They do not believe on a systematic approach with elaborate plans. The systematic approach is characterized through formalized decision process, including statistical methods, analysis of the different markets with the goal of selecting the optimal decision for the firm (Andersen & Buvik, 2002). Firm G will rather learn through experience, in a “learning by doing approach”. This is however considered normal for an SME, as the systematic approach is what the larger, experienced international firms are likely to use. This because the smaller SMEs do not usually possess the **resources, knowledge or experience** to conduct a systematic approach when internationalizing (Andersen & Buvik, 2002).

On the other hand, firm G carries a huge **network**, which helps them in their internationalization process, which is the focus of the revisited Uppsala model. Firm J is a firm with more experience, and the CFO himself developed a model to estimate the total market demand and improve the firm's efficiency. Firm J also has used several different organizations to help with funding, market research, innovation and internationalization of the firm. Firm I used a systematic approach with a thorough analysis of the Swedish market. This is however in line with the theory (Andersen & Buvik, 2002), given that they are owned by a large multinational firm, thus boosting a larger resource capacity. Firm I also relied on a famous athlete's **network** in the Swedish market.

A **network** can be established through a host of different sources. A smaller firm may rely on an **agent's** network of relationships and create collaboration through that way. The firm's **customers** may also pull the SME into a new market, thus creating opportunities through the current customer of the firm (Jan Johanson & Mattsson, 1988). This is the case for firm B, as they argue that the market pulls the product, which has led them into new markets. Firm B also benefited from a retired worker of a Danish supplier who had **knowledge** about the German market. Firm B did not conduct any market research but relied on the agent's **network** and **knowledge**. Firm F also rely on their already established **network** in Denmark to pull them out in to new markets and believes in building relationships through existing relationships.

Public consultancies can be employed as a network for internationalization. Although, findings from (Gretzinger et al., 2010), has led to the belief that the consulting systems has a difficulties in reaching the smaller SMEs. This is puzzling, considering that the SMEs typically possess a limited resource capacity. Thus, help from the different consultancies to establish networks and relations, and also acquire more knowledge about the foreign markets can be beneficial for the SMEs (Evers et al., 2012).

Nevertheless, it is found that the Danish SMEs utilize consultancy systems on a higher level, than for example Germans with a 16% to 7,5% difference (Gretzinger et al., 2010). Although, the Danish SMEs use the consultancies on a higher level, it is found that still 84% of the Danish SMEs that are forgoing the opportunity of help from consultancies (Gretzinger et al., 2010). Given that Denmark has developed several programs to promote growth for the country's SMEs, it is reasonable to argue that a larger percentage would take use of the different programs. Finally, the article do not clarify how the consulting systems should

improve in order to reach more SMEs (Gretzinger et al., 2010). This is therefore a question that still runs at large, regarding the subject of public consultancies and the Danish SMEs.

However, since the article stems from 2010, the number of Danish SMEs to take advantage of the consultancy systems, is a subject to have risen. Since the new initiatives to promote more internationalization for the SMEs also only started recently, with the **ECA** establishing the **Working capital scheme, Export loans and Credit insurance** in 2009 (European Commission, 2017). Subsequently, the **cooperation program** started in 2012, and the **Regional key account programmes** started in 2014. In the case studies collected from (Myhre, 2017), 60% of the firms contacted different organizations to help them with entering a new market. I admit, it may be a small sample size. Nevertheless, the findings still suggest a massive increase from the 16% found in 2010, of SMEs that takes advantage of the recent government initiatives. Firm A, C, D approached the **Danish Embassy** in Norway, to come in contact and create relations in Norway. Firm A also received help from the **Business Development Centre**. Firm E has taken part of a joint exhibition stand that was organized by the **Danish embassy**. Firm G collaborated with the **Danish embassy** in Germany to create relations in that market, while also receiving assistance from a **Danish University** and its students to solve the firm's internationalization challenges. Firm C has also attempted internationalization with the **Danish consulate** in Manchester, while firm D received an opportunity to enter the German market through the **confederation of Danish industry**. Finally, Firm J was assisted by several organizations in their process of internationalization. Firm J has been assisted by the **Federation of Danish Industry, private consulting agencies, the investment fund for developing countries, the Nordic Project fund** and the **Danish international development agency**. Based on these findings, it is reasonable to argue that the number of Danish SMEs to employ public consultancies has risen since the published article (Gretzinger et al., 2010) from 2010.

Immigrations were also found during the review as a source for establishing **networks**. If the firm pursues internationalization into the immigrants home country, the immigrant possess the possibility of a network (Hiller, 2013). An example of this is Firm A, which benefitted from having a Norwegian employee that wanted to move back home and lead the internationalization in to his home country. Even though the firm used other solutions as well to create relationships, having a local helped the firm initiate a process in to the new market.

Firm H did not use immigrants in their internationalization but emphasised the importance of having a local that knows the market they wanted to enter. Finding the correct local contact is

important, as the contact must have the right **network** of personnel in the desired market. A solution for this, is to engage an agent or distributor in the desired market.

Another factor within the network is that different actors are involved in different phase of the internationalization process (Hånell & Ghauri, 2016). This leads to the argument that an SME must constantly work to expand and improve its network, while simultaneously nurturing the existing one. This because, the firm may need several different network actors throughout their internationalization process.

However, not every firm has had a successful international venture with the procedure of networks. Firm B bought an export start package with a list of potential customers in Sweden. This however, became a disappointment as the firm was held without success, admitting that they could have done the job themselves instead for free. Firm G all together, struggled to gather the necessary knowledge despite the possession of an established network. Finally, firm C experienced agent principal issues proposed in transaction cost theory (Jan Johanson & Mattsson, 1987), where the agent pursued his interest over firms interests. However, despite these struggles, the case firms all specify the need for networks in some fashion, to succeed in their internationalization.

Even though the Uppsala model has been revisited with an increased focus on networks, **knowledge** is still seen as a major factor in the model and internationalization itself. The original Uppsala model still experiences some critiques regarding that knowledge is increased with increased internationalization. The first claim is that **perceived knowledge gaps** increases after the initial entry. This is because the SME are not aware of what they do not know, until the first internationalization step is conducted (Petersen et al., 2008). It is further on argued that it takes 4.5 years for the firm to learn what they do not know about the foreign market at the time of entry (Petersen et al., 2008).

Several of the case firms experienced challenges they not initially were aware of before the initial entrance. Firm A cites lack of international experience and had to work hard after the entrance to gain **knowledge** and **experience**. Firm B experienced problems with entering the Swedish market, in terms of enticing new customers. Firm C retracted their attempts from the German market after an 18-month period, after experiencing it too competitive but also too big in terms of project size and costs for the firm.

Firm D also experienced disappointment in a much slower process in their internationalization attempts into the Swedish markets. Firm E experienced **culture differences** in Poland with

language and communication differences a major problem for the firm. While Firm I was surprised by the bureaucracy issues they experienced in Sweden. Finally, Firm J had to experience communication problems with the Chinese partner first, before being able to resolve it.

A study of 251 Danish SMEs retrieved from (Statista, 2017a), shows that SMEs experiences host of different challenges in their attempts of exporting. And while a large percentage could not answer (41%) or filled in the category “other “(43%), many of the same challenges as the case firms faced were identified in the larger study. These challenges can be divided into **resources**, **knowledge**, and **host market conditions** which solidifies the findings in the literature review and case studies.



Figure 7: The main export challenges for Danish SMEs in 2017 (Statista, 2017a)

Further on, (Pedersen & Shaver, 2011) also discuss the limitations of the Uppsala model. Their finding is that internationalization is not an incremental step-wise process. However, the focus of (Pedersen & Shaver, 2011) revolves around their **big step** hypothesis instead of perceived knowledge gaps. The arguments revolve around that the firm must build what they call an infrastructure before an eventual internationalization. In the infrastructure, **network** is an important building stone. While also management systems and mind-set are mentioned as well. (Pedersen & Shaver, 2011) argues that an average Danish firm takes almost 30 years before conducting the first big step. While the second step takes place on average 7,5 years after the initial big step.

Now, it is reasonable that the firm will use longer time on the first step, as most firms do not think about internationalizing from day one. Most firms are satisfied with building a client

base in the home country and grow the firm in terms of size and increase their resources before thinking of internationalizing out to other markets. Consequently, I argue that the process of building set infrastructure starts later in the life span than what is presented in (Pedersen & Shaver, 2011)'s article. An example of this is firm F, who are open to internationalization in the future, if they can grow in their home country first. The firm wants to slowly increase their strength in Denmark, and once their position is strengthened, the internationalization will happen. Although, they do have some international business activities, it is however because of a network of customers who brings them additional customers. However, the conscious internationalization waits for firm F, until they have grown to a desirable size in Denmark.

Another factor is that the findings presented of the firms in the article (Pedersen & Shaver, 2011), are relatively old (1997). One should think that with the increased globalisation, the first big step may come quicker than the average of 30 years presented in the article. But at the same time the process of setting up the infrastructure occurs later in the life span, then the first day of the firm's existence. Nevertheless, the logic regarding that the SME will have to build up an international network before venturing to outside of their own borders, is in line with most scholars.

Transaction costs are also found to be an important factor for internationalizing SMEs. Factors as lack of **knowledge, network** and **culture** has been mentioned to increase transaction costs and thus challenge the internationalization prospects of the smaller SMEs from Denmark. Firm F considered outsourcing their production but opted against it due to logistics and flexibility as a major reason, but also to keep control over their value creation. By keeping the production, the firm can employ their make-to-order strategy, which gives them a competitive advantage, in line with the resource-based view. By producing their products on order placement, firm F can customize their product for the customer. This leads to a **sustainable advantage**, as they have superior capabilities in their production (Barney, 1991).

(Ulrich et al., 2014) argues that Danish SMEs prefer entering countries that has **high market potential, low trade barriers, cultural distance**, and **low political- and economic risk**.

(Larimo & Arslan, 2013) other the other hand, argue that **cultural distance** is a non-significant factor in the owner ship modes in the internationalization of SMEs.

If an SME opt to forgo the safer alternatives and ignore the market related factors and chose a market with more uncertainty. The firm will mainly prefer low commitment modes, such as

exporting via an agent or distributor (Ulrich et al., 2014). This is also represented in the case findings. The firms that went to closer and more similar markets (Germany, UK, Norway, Sweden and Finland) chose higher commitment modes in their entrance. Firm A emphasised on the importance that the SME understands the host country they are internationalizing into, and the country`s specific market conditions. Another solution is to form strategic alliances in the internationalization attempts as both Firm D and E highlighted to reduce risk and share resources and knowledge.

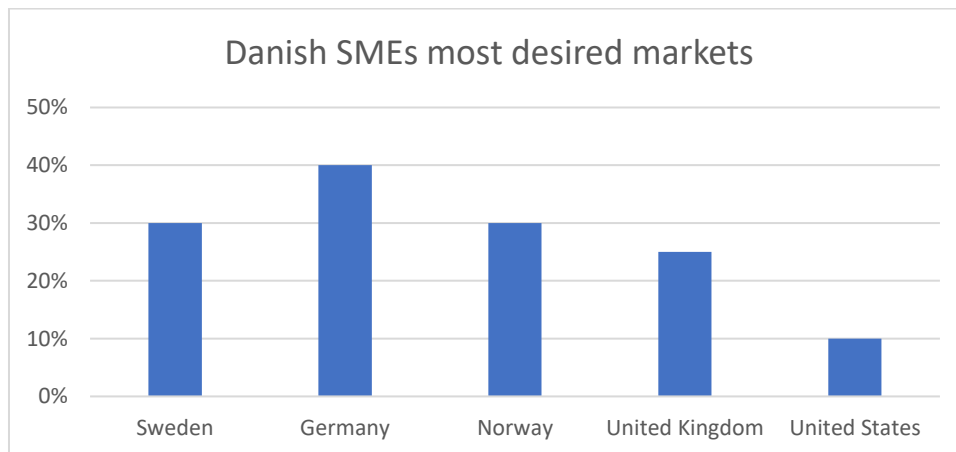


Figure 8: Danish SMEs most desired markets (Statista, 2017b)

Findings from (Statista, 2017b) of a study of 40 Danish SMEs reveal that the firms do in fact desire countries where they speak the language (UK, US), close markets (Germany, Norway, Sweden), or preferably both factors (Germany, Norway, Sweden). These countries also possess similar culture, while historically being profitable markets and stable economies. The six countries boost a credit rating from Standard & Poor of:

- Finland – AA+ (TradingEconomics, 2018a)
- Germany – AAA (TradingEconomics, 2018b)
- Norway – AAA (TradingEconomics, 2018c)
- Sweden – AAA (TradingEconomics, 2018d)
- UK – AA (TradingEconomics, 2018e)
- US – AA+ (TradingEconomics, 2018f)

The credit risk country ratings from Standard & Poor are rated from AAA – D. AAA is the highest possible rate a country can receive and the countries that receive this rate has an extremely strong capacity to meet financial commitments. AA is the second highest score with a strong capacity to meet financial commitments. While AA+ is the best of three different AA scores. The country ratings have multiple purposes. However for the purpose of

this thesis, the ratings first and foremost in relevant to increase the knowledge and enhance the investment decision-making process in a country (Standard&Poor, 2018). All the mentioned countries possess a high country-rating in terms of risk, which makes for the argument of choosing similar countries but also “safe” with a high market potential even stronger.

Employing native workers can reduce the cultural differences if they are able to work as mediators. Firm H emphasised the importance of this. However, the firms that are operating over larger distances are mostly using low commitment modes, like exporting through agents. The only firm that opted for a high commitment mode was Firm J with joint venture attempt into India and China. However, both attempts were later abandoned, and the firm went back to exporting exclusively in a low commitment mode.

(Larimo & Arslan, 2013) also presented factors for expected internationalization of Nordic SMEs into the CEE region. Their findings suggest that the firms **R&D intensity**, and the **target country`s economic growth rate, market size** and **perceived risk** are the main determinants for whether the SME will internationalize and how they will internationalize (Larimo & Arslan, 2013). Findings from the case study and Firm C presented three criteria for its choice of market. **Physical distance** and **knowledge of the foreign language** was important factors for entry. The last criteria are that they targeted different markets to spread their risk. This may not be a direct criterion but can be related to the **target country`s economic growth rate, market size** and **perceived risk**. If those perceived factors are positive, the firm will likely believe more in the market, and consequently enter it in the sake of diversification of their project portfolio.

Firm D targets multiple markets at same time, citing chance of failure and market swings, resulting in the firm wanting to diversify. Given diversification is important for the firm, the market factors will also be relevant for firm D. Both articles from (Ulrich et al., 2014) and (Larimo & Arslan, 2013) consider the **market`s factors** to be key for decision making to enter, but also for how the firm wants to enter. (Larimo & Arslan, 2013) also argue that determinants like international, area and target country experience are non-significant factors for entry modes for the SMEs. This however, is hard to back up both from the other articles and the findings from the case studies. Since almost every article and case firm cites that knowledge and experience are crucial factors for successful internationalization. Therefore, I argue that market experience is still relevant, especially for the smaller SMEs. Since the SMEs usually possess less financial strength, the necessary knowledge can be hard to acquire.

Consequently, the firms opt for low commitment modes, as the case firms did when internationalizing to markets that were further away and possessed less similarity with the Danish culture. This argument is also in line with the host market condition article produced by (Ulrich et al., 2014).

Lastly, service innovation and innovation itself has been identified with international performance. The SME can overcome disadvantages by innovating themselves to the market they wish to enter. However, innovation is argued to not lead to success overnight, but rather a gradual growth in the international performance (Kunttu & Torkkeli, 2015). Most of the firms from the cases are not conducting service innovation. This finding will therefore potentially be more relevant for a specific service firm. However, firm F`s make-to-order strategy are a service in that they can tailor-make their products for the firm. Which leads to competitive advantage and likely an increase in sales and growth of the firm.

5.1 The four blocks of internationalization of Danish SMEs

During the literature review and case studies, several conditions were identified as important for the internationalization of the Danish SMEs. Further on I presented a framework of Four blocks of the findings from literature review. The framework of Internationalization of Danish SMEs is presented now again, with the findings of the case studies in mind. This time, every block is presented individually as well with relevant sub factor findings from the case firms. I argue that these four blocks intertwine, and are both challenges that a SME must overcome, but also include solutions for the SME to overcome the challenges.

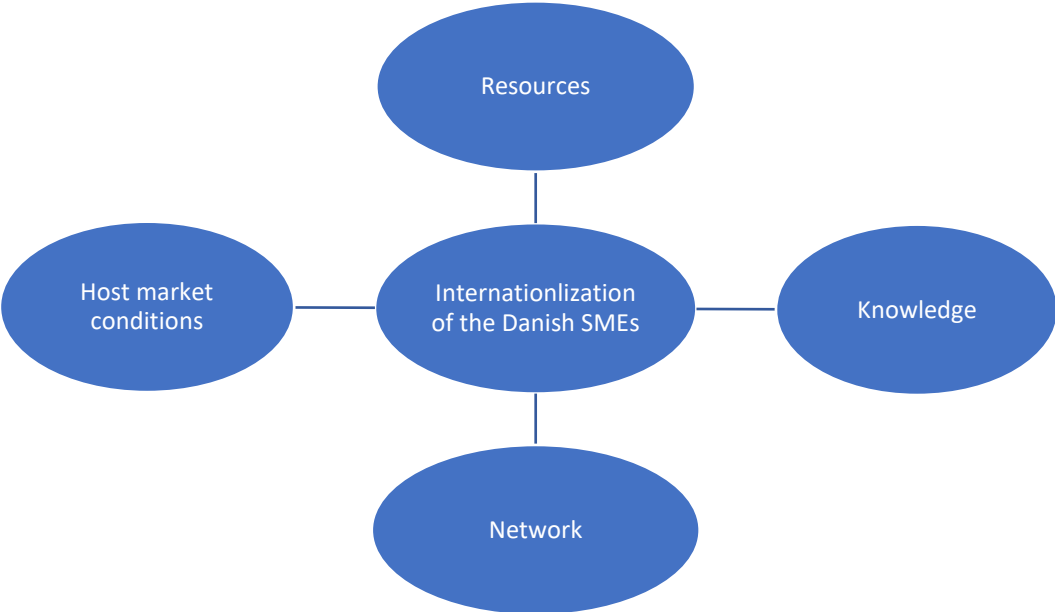


Figure 9: Four blocks of Internationalization - Framework of the major findings from the literature review

5.1.1 Resources

It is argued that most SMEs face resource constraints in multiple areas that face obstacles for the firm in its process of internationalization. The disadvantages many SMEs are experiencing has led to multiple obstacles that needs to be hurdled. **Financial resource constraints** are found in several of the case firms obstacles in the process of internationalization. Firm F argues that they are too small to internationalize for now, pointing to a lack of financial strength. A market like Germany, which are flooded with large clients, is argued as a problem for SMEs in that they are not able to carry out projects from many of the potential customers because it would be on a **too large** of a scale for them. The SMEs also face resource constraints in lack of **experience, knowledge** and **network** in the desired markets they wish to enter. This is further backed up the survey from (Statista, 2017a), where all their issues in terms of internationalizing, relates to resource problems. By lacking the various resources, the firms face huge battles in their wish of internationalization, which can lead to missed opportunities and subsequently missed commercial success.

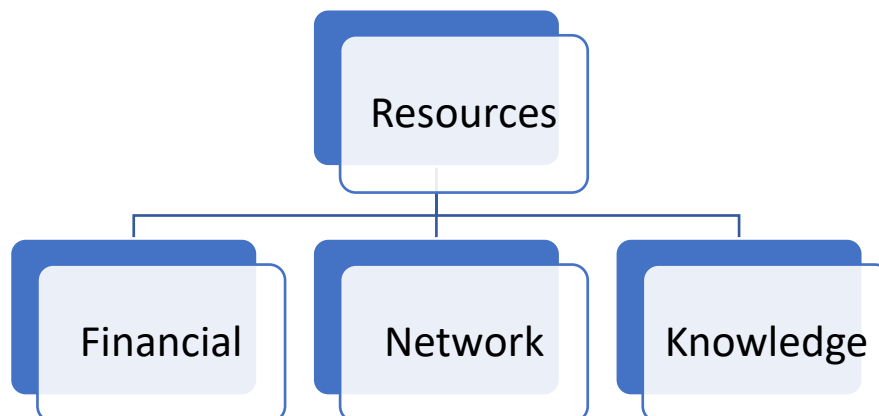


Figure 10: The Block of Resources

5.1.2 Knowledge

Knowledge is still a crucial factor for every firm that are pursuing growth. Knowledge related to foreign **culture** and **language** can reduce uncertainty. Foreign market- and actor knowledge can be crucial, leading to **acknowledged** and **seized opportunities** for the SME. The firm also need to acquire knowledge about the **economic conditions** and **political instabilities** in the pursued market. However, as discussed, knowledge is not increasingly gathered through **incremental internationalization** in the same line as original discussed in the Uppsala model. The firm still acquire knowledge as they internationalize, but maybe not as fast as initially anticipated. The findings lead to suggest that there is **perceived knowledge gap** when internationalizing. The firm first must learn what they do not know, leading to a

knowledge gap, that is likely to demand more time to fill than originally anticipated, which was found as a challenge for several of the case firms.

All though many firms had to experience what they do not know, some firms also cited lack of knowledge as reasons for their reluctance to enter into specific new market. Firm B argues that their lack of foreign language knowledge prevents them from venturing into other countries than Germany and Denmark. Firm G argued that their difficulties in entering new markets all together, boils down to **lack of knowledge**. The firm is afraid to oversee or miss an opportunity because of shortage of knowledge. However, firm G has a hard time collecting the necessary knowledge, thus leading to the missed opportunities. Firm H struggle to find the right candidate to lead their subsidiary in the host countries they are trying to enter, which comes down to both lack of correct network and consequently a lack of knowledge. Finally, findings suggest that knowledge gaps can be filled in or decreased through **networks**.

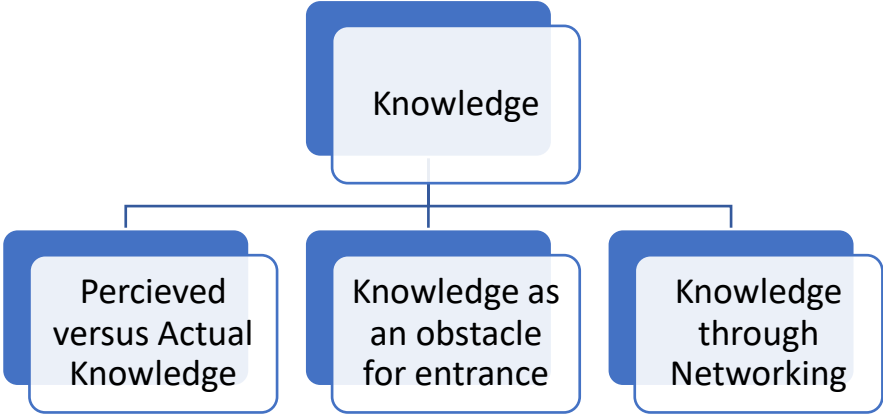


Figure 11: The block of Knowledge

5.1.3 Networks

Networks has become extremely important as the evidence from both the literature and case studies suggest. Through networks the firm receive **opportunities, share experiences, reduce uncertainty** and **increase market knowledge**. The liability of Outsidership is an increasingly important factor, and networks decrease Outsidership while simultaneously increase the chances of success in the international market. As the revisited Uppsala model (Jan Johanson & Vahlne, 2009) argues, resources and knowledge gaps can be decreased with an increased larger network. The firms from the case studies has relied heavily on their networks in the pursuit of internationalization. Despite the notion that only a small number of SMEs use **public consultancies** in their pursuit of internationalization, 60% of the case firms has seized those opportunities of governmental help. The governmental initiatives are also providing SMEs with **financial aid** in the pursuit of internationalization. Given that Denmark

has multiple initiatives to help the SME with networks and finance, the SMEs would be smart to consider public collaboration. Especially the **Danish embassy** has been heavily involved to create relations with potential customers. Several of the other governmental initiatives in Denmark has also been employed by the case firms in the sake of internationalization.

Some of the other firms has employed **agents** or **distributors** and their network. Several of the case firms were found to be part of a network of either similar SMEs or the CEO was a part of a network of CEOs. Through the **network groups**, the SMEs can share experiences, and collaborate in attempts to enter or improve their presence in new markets. While some SMEs can benefit from a collaboration with a shared objective of moving into a new market, as a **strategic alliance**. Finally, some firms have solely relied on the **customer networks** and **word of mouth/bush telegraph** to bring in new potential clients.

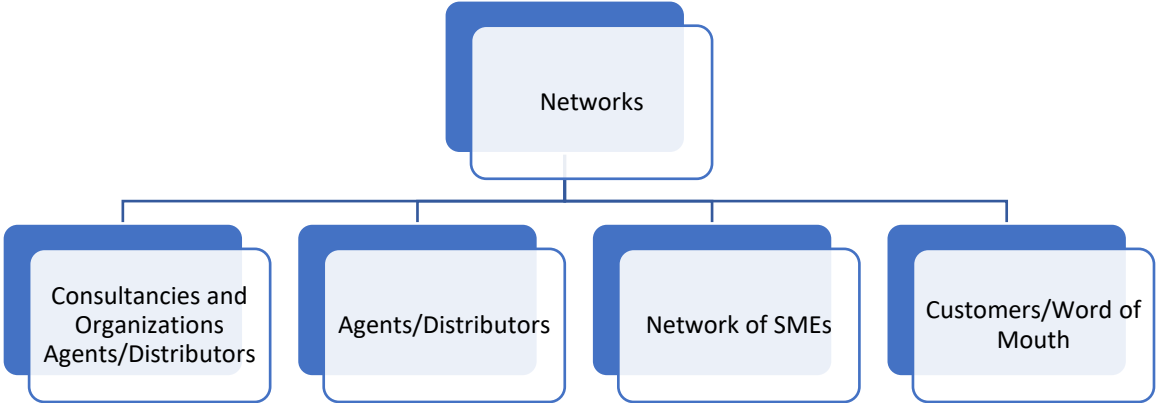


Figure 12: The Block of Networks

5.1.4 Host Market Conditions

Host Market conditions are the fourth and final major finding of importance for the internationalization of Danish SMEs. The two articles (Ulrich et al., 2014), (Larimo & Arslan, 2013) from the literature review, are proposing different characteristics that may or may not affect the Danish SMEs to internationalize and how they internationalize. The findings from the review are that the target country`s **economic conditions**, **perceived risk** and **cultural differences** are the most important factors, for whether the Danish SMEs chose to enter the market or not. This coincide with the findings from the case studies of (Myhre, 2017) where the firms opted for similar countries like Norway and Sweden which are also both economically stable. However also, a larger market like Germany is a preferred target of several of the firms. The case firms reason for choosing those countries mainly boiled down

to that they were **economically stable**, similar in **culture** and **language** and that they were **geographically close**. Thus, the theoretical findings correlate with the findings from the case studies. Also, the entrance mode theory is correlating with the case firms. The firms that were dealing with countries over longer distances to more unfamiliar countries, opted to export their products. Firm A emphasised on the importance that the SME understands the host country they are internationalizing into, and the country`s specific market conditions. However, employing native workers can reduce the cultural differences if they are able to work as mediators which was emphasised by Firm H.

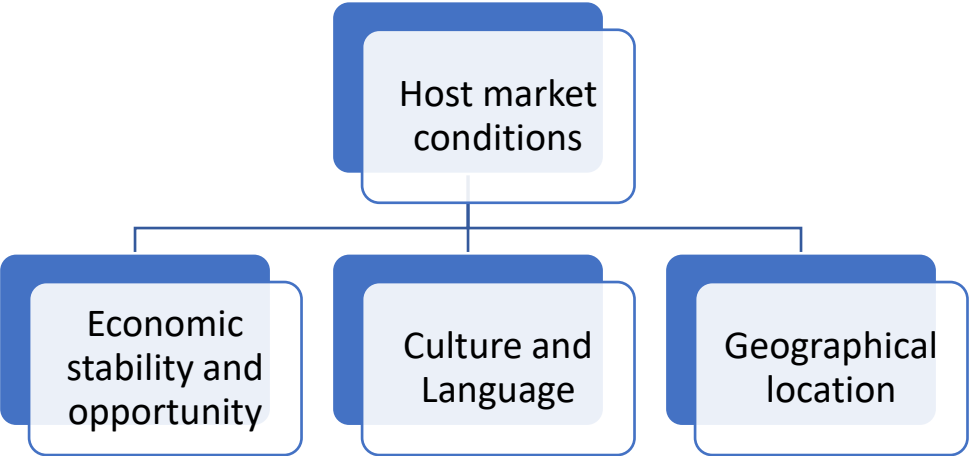


Figure 13: The Block of Host Market Conditions

6. Conclusion

In this project, the aim of the was the topic of internationalization of the Danish SMEs, and the challenges and the firms and its managers face in their internationalization process. The rationale for conducting this research were three parted. First, the SMEs account for 99 percent of the total enterprises in the EU (Eurostat, 2018), thus the importance of their growth is considerable for the EU countries. Second, the Danish government has put several initiatives in place to promote SME internationalization(European Commission, 2017). Third, Despite the need for SME growth and the initiative to promote international growth, the Danish SMEs still expect the greatest growth potential to come from the domestic market. And only small percentage of the Danish SMEs emphasise the international market to promote the greatest growth for the firm (Statista, 2017c).

The study was conducted with secondary data. By doing so, I was able to stay objective and only let facts and findings affects my discussion. A systematic literature review was conducted, to get a great overview over the various articles and theories presented on the field. Subsequently ten case studies presented by (Myhre, 2017) were analysed and discussed against the theoretical background found in the literature review. The findings and recommendations are now presented in the conclusion table.

The conclusion table is set up as follows: First the three research questions will be answered in a conclusion table. The answers have been divided up in two columns; Results and Answers. Following the three research questions and answers, the Problem formulation will be answered in the bottom of the conclusion table. To complete the conclusion chapter, limitations and future research will be subsequently addressed.

<i>Research Questions & Problem Formulation</i>	<i>Results</i>	<i>Research Questions & Problem Formulation Answers</i>
<i>What are the key challenges for Danish SMEs in the process of Internationalization?</i>	Resource constraints: <ul style="list-style-type: none"> • Financial • Experience • Network • Knowledge 	Most SMEs possess less resources and experience compared to the larger MNEs. Consequences for resource constraints are likely to occur. Outside of lack financial strength, the SMEs face challenges of Outsidership and Smallness. The case firms that

	<p>Knowledge constraints:</p> <ul style="list-style-type: none"> • Language • Culture • Customer • Market <p>Perceived knowledge versus actual knowledge</p>	<p>approached the larger German market, experienced challenges in how to approach and convince the larger German customers to take use of their service/product as opposed to a German firm, while also experiencing to be too small for the larger German firms in terms of their size of projects.</p> <p>A second key challenge for the Danish SME surrounds knowledge constraints. An SME who wish to enter a new market face the challenge of acquire the necessary knowledge. Differences in language and culture, identification of potential customers, and host market conditions are knowledge obstacles that needs to be hurdled for the SMEs to be able to conduct a successful international venture. Lack of knowledge can lead to failed internationalization attempts, with loss of money and missed opportunities as the result. Lack of knowledge can also lead to higher transaction costs, and the firm may experience opportunism, and misunderstandings.</p> <p>Perceived knowledge is also a challenge for the SMEs, in that the firm spend longer time to acquire the necessary knowledge to succeed, which may lead to longer period with negative results than</p>
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		expected, or even failure of the international venture.
<p><i>How can SMEs managers overcome their challenges surrounding their internationalization process?</i></p>	<p>Networks:</p> <ul style="list-style-type: none"> • Consultancies • Agents • Distributors • SME networks • Customers 	<p>As discussed, SMEs face several resource constraints which can hinder their international performance. The findings suggest that SMEs should pursue collaborations before and during their internationalizing. Since the SME usually do not possess the necessary resources required for internationalization, they can reduce their disadvantages by collaborating and taking use of different network opportunities. It is found that 60% of the case firms employs help from different organizational initiatives to help them with networking and the internationalization itself. Each of the case firms were found to take use of networks to either collaborate with, penetrate a new market, and/or reach new customers.</p> <p>The Danish Embassy can be approached when pursuing a market to reach new customers and collecting market information. It was found that many firms succeeded with this approach to internationalization. But also, several of the other governmental initiatives were found to help the SMEs growth.</p> <p>Strategic Alliances with another SME can also help the firm overcome their resource and knowledge constraints. Here</p>

	<p>Market selection:</p> <ul style="list-style-type: none"> • Close markets • Similar culture & language • Economic stability and possibilities 	<p>the firms can share knowledge, and put their resources together to reach success, while simultaneously reducing their risk.</p> <p>Agents/distributors that possess a network in the market can be employed to open doors and reach the right personnel in the desired market. Some firms may also benefit from networking with other managers from SMEs in similar situations. This can help the firm both in terms of collaboration and information, and knowledge sharing.</p> <p>The multiple governmental initiatives can also provide the SMEs with financial backing, which may help the SME proceed with their next desired international step.</p> <p>However, when it comes to the international steps, it is found that most SMEs benefit from choosing closer markets. The closer markets of Germany, Finland, Sweden and Norway possess a similar culture and language, making the learning process shorter and gentler than a move to a market further away. The markets are also usually more stable, making the financial risks of entrance smaller than many other markets.</p>
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	<p>Distant markets:</p> <ul style="list-style-type: none"> • Low commitment modes 	<p>Should the SME consider more distant markets, low commitment entrance mode is preferred. This way the SME can limit the risk in their internationalization process.</p>
<p><i>What are the managerial implications for Danish internationalizing SMEs?</i></p>	<p>Four major blocks:</p> <ul style="list-style-type: none"> • Resource • Knowledge • Networks • Host market conditions 	<p>Four major blocks are identified in the literature review and discussed through the experiences of the case studies: Resource, Knowledge, Networks and Host market conditions. An SME manager is pursuit of internationalization, would arguably benefit from careful considerations of the four identified blocks.</p> <p>Resource constraints is found in most SMEs. Not just financial, but lack of experience, knowledge, networks etc. has a major impact on how the SMEs are able to perform.</p> <p>Knowledge is a resource obstacle for any SME that wants to grow. Culture, language, economic conditions, competing actors & political instabilities are all conditions the internationalizing SME and manager should possess knowledge about, to succeed in the new market.</p> <p>Since SMEs usually possess less resources than the larger firms, the SMEs are in often in extra need for help and</p>

		<p>collaboration to acquire the necessary knowledge for set internationalization. A good solid network can however limit the resource constraints, since the firm can receive the necessary/desired knowledge/backing through networks of Consultancies/Organizations, Agents/Distributors, SME networks and already existing customers.</p> <p>The last identified block is the host market conditions. The SME can limit the risk and need for knowledge by choosing closer, similar and “safer” markets. Some knowledge still need to be acquired, but in a smaller degree than with the more distant and different markets. Economic opportunity and stability, culture and language and geographical location has been identified as important factors for the SME that is pursuing internationalization. Since the Danish neighbours possess all these qualities, the SMEs will benefit in internationalizing to those markets, and maybe increase the internationalization process to more distant markets in the future.</p>
<p><i>How can the Danish SMEs successfully increase their Internationalization?</i></p>		<p>A Danish SME that wants to successfully increase its internationalization, can benefit from considering the four identified blocks of resource, knowledge, networks and host marker conditions. Especially networks have been found to be synonymous with increased international activity. Through networks the SME can increase its knowledge, seize opportunities,</p>

	<p>reduce uncertainty and increase overall performance and reduce the overall need for possession of inhouse resources.</p> <p>Findings from the study reveals that the public consultancies and governmental initiatives in Denmark has helped multiple of SMEs in their pursuit of internationalization. Reception of grants, market knowledge and increased number of contacts are benefits of collaboration with the governmental initiatives.</p> <p>Additionally, agents, distributors, customers and SME networks are all identified as important networks in the pursuit of internationalization. The most important factor is that the SME needs to overcome its usual resource constraints, lack of knowledge and experience. And by collaborating through networks, the Danish SMEs can overcome those challenges and subsequently increase their internationalization.</p> <p>Denmark is surrounded by well-established markets of Finland Germany, Sweden and Norway. The countries are all well rated in terms of country rating. The countries also possess similar culture and language. The Danish SMEs is found to benefit from internationalizing to these close markets, before eventual internationalization into markets further away. If the SME were to pursue internationalization over longer distances, the firm should consider low commitment modes of entry. By exporting through agents, the SME can pursue more risky markets, while still minimizing the risk for the firm.</p>
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Table 8: The Conclusion table

6.1 Limitations of the Thesis

The thesis is not without its limitations. First, the findings from the case studies are extracted from (Myhre, 2017). Me as the researcher, did therefore not have a chance to conduct the questions myself. By using secondary data, I was able to collect data from a wider range of sources, than I would have if I were to conduct interviews myself. However, I also had to rely on what was extracted from her interviews and trust the researcher's interpretation of the

findings. The case study findings may therefore contain subjective opinions or misunderstandings.

A second limitation is regarding the literature review. Even though I used four search strings, covering three different data bases. There is a high possibility that there are more relevant theoretical considerations on the topic. Nevertheless, as a researcher with given time limits, must set a stop point somewhere, thus resulting in possible uncovered angles in the theoretical background of internationalizing Danish SMEs.

A third limitation of the study is that it does not differentiate of types of SMEs. For example, the structure of a Manufacturing firm is most likely different from a service firm. Therefore, their internationalization methods and needs may differentiate. A service firm that sells for example translation services, may not even need to leave the office to sell their products around the world. This because their product of a document translation can be transferred over e-mail. On the other hand, a manufacturing firm that sell products, are often in a much larger need of constant presence in the desired market.

Final limitation; the findings do not reveal how the firm should approach the different networks. The SME itself will have to do some research themselves to find the right contacts, either of public consultancies, agents and distributors. However, a firm should have no problem in contacting the different mentioned public initiatives, given that they are set up for the specific reason of helping SMEs in their pursuit of growth.

6.2 Future research

Future research may cover specific industries and their internationalization process. (Meyer et al., 2015) propose an article, where the main argument is that the original internationalization theories, do not apply to the nature of service firms. An angle in following several service SMEs and their internationalization process could be a possible agenda. Many of the challenges will probably appear to be similar as the findings in this project. However, I believe there are a set of multiple challenges that differentiate for a service SME, compared to the more studied field of manufacturing firms. Future research could also dive deeper into the depths of how the governmental initiatives in Denmark, helps to promote SME growth. Since this is a specific initiative in Denmark put in place to grow the economy, a research could reveal an interesting new angle to the internationalization theory landscape. Here, the authors can also deep dive into the process of internationalizing in collaboration with the Danish government and the public initiatives.

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Appendix 1

Interview guide extracted from (Myhre, 2017):

Interview guide:

“Tell me about your internationalization experience as you recall I”

Research and choice of market

1. Background for market choice
 - Knowledge of foreign market
 - i. Why did the company they could be successful?
 - ii. Was the choice based on extensive research?
 - iii. Was the choice based on other factors?
 - A. Human, financial, social resources?
 - Did the company use formal channels or network relations?
 - i. Did the company use their board?
 - ii. The importance of both in this initial phase
 - Strategic goals and expectations
2. International experience
 - Prior attempts at internationalization
 - i. If yes – specifies
 - ii. If no – which deliberations?
 - a. Why this time?
 - iii. The role of uncertainty

Market mode and entry

3. Preparation and discussion with whom?
 - A. Choice of market mode
 - B. Did the company use formal organizations?
 - C. Did the company use network relations? If so who? How?
4. Use of formal channels and organizations such as the embassies, etc.
 - A. How did the company learn of the different options?
 - B. Why did the company choose the different organizations?
 - C. What were their expectations?
 - D. How did the company use the organizations in the process?
 - E. What was the outcome?
5. The process

- A. What were the biggest challenges up until the actual internationalization?
- B. What were the biggest challenges throughout the process?

Network

- 6. Network relations
 - A. Were there other companies' experiences of use?
 - i. Evaluation of relevance
 - B. Did they use network relations?
 - i. Which (weak/strong) and why?
 - ii. Which were more beneficial?
 - a. What did the company use them for?
 - b. Evaluation of relevant network ties?
 - c. Old or new network ties?
 - d. How were ties established and developed?
 - iii. Passing along own experiences to others?

Communication and marketing

- 7. The role of communication with customers
 - A. Cultural difficulties?
 - B. Communicative difficulties?
- 8. How important was the marketing material?
- 9. How did new(foreign) customers learn of the company?

Organization

- 10. Numbers, employees, background
 - A. History of the organization
 - B. Background of the CEO
 - i. International experience?
 - ii. Use of network ties?
 - C. Where any new employees hired at the time of Internationalization?
 - i. Have there since been employed employees with "specific intercultural" or international experience?
 - ii. Considerations about future employment of employees with such experience?
- 11. Closing remarks
 - A. Anything they would have done differently?
 - B. Thoughts on future internationalization
 - C. Current export share
 - D. Have they reached their goals and expectations on the foreign market?
 - i. Further questions

