"We should have done it differently" – SME internationalization in retrospect

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Abstract

SME internationalization literature has recently focused very much on rapid and extensive internationalization. This study questions the superiority of the rapid internationalization models as opposed to older more gradual models. In doing this, the study problematizes some of the assumptions behind the recent approaches to internationalization. Although the study acknowledges the contributions of the international new venture, born global and other discussion, it strives for reminding scholars of the viability of the more traditional internationalization process models also in the SME context. Based on the combination of primary empirical data and secondary data, the study shows that despite nearly ideal conditions (for instance the availability of material, human and financial resources), SME might not be ready for an intensive international market entry. In these situations, following a more traditional, and gradual internationalization model, such the Uppsala internationalization model, may be preferable. From managerial perspective, the prevailing push for rapid and intensive internationalization may contribute to hasty internationalization decisions. Therefore, it is important to highlight also the feasibility of more gradual internationalization in many situations.

Key words: business model, internationalization, SME

Introduction

Given the nature of today's marketplace, SMEs are increasingly facing international challenges similar to those of larger firms. For many SMEs, especially those operating in

high-technology and manufacturing sectors, it is no longer possible to act in the market without taking into account the risks and opportunities presented by foreign and/or global competition (Ruzzier et al. 2006). International new ventures and rapidly internationalizing small firms can be considered as a phenomenon of the time, and it is constantly growing in significance. (Jones 1999; McDougall et al. 1994) Explanations for this are such as shortening product life cycles, the drive for innovation, and the rapid development of information technology and global telecommunications (Jones 1999). The phenomenon has gained relatively lot of attention in the academic literature lately. The key message of the literature is that early, rapid and intensive entry to global market is crucial for SMEs (Madsen & Servais 1997; McDougall et al. 1994; Oviatt & McDougall 1994). This is because, the firms have ever shorter time to grasp opportunities, and especially to cover the product development costs. Additionally, customer preferences may be converging globally.

All in all, the number of concepts used to describe the phenomenon is vast. Nonetheless, all of them deal with the same core issues: speed and intensity of internationalization in the SME context (Blomqvist et al. 2008). This study focuses on the issue of rapid and intensive entry to international markets from the perspective of an SME that already has accumulated international experience in its past operations. The company had operated for several decades, but as it faced inevitable changes in the market, it had to develop something new to stay competitive. The managing director came up with the idea of mass customization, which led the company to operate a completely new kind of an international business model parallel to the old, established operations. In the light of empirical case evidence, it appears that expanding rapidly into multiple markets may not always be the most suitable option. Therefore, this study questions the suitability of the rapid internationalization models for smaller manufacturing firms, and the superiority of the models as opposed to older more gradual models. In doing this, the study problematizes (Alvesson & Sandberg 2011) some of the assumptions behind the recent approaches to internationalization. Thus, **the aim of the study is to analyze the realized internationalization of an SME and discuss different theoretical approaches to internationalization in retrospect.**

The topic for this study arose from the interview data. Managing director of the case company stated that "*In the beginning we were afraid that we have to please the customers and investors as quickly as possible…*" He explained further that they should not have hurried so much in the initial stages of the international launch. He firmly believes now that a gradual entry to foreign markets would have been more suitable for them than an attempt to reach all the markets at once. Although the company had gained international experience, it was not able to fully benefit from the accumulated internationalization know-how with its novel business model. The new business model posed many new requirements and hence they were not able to effectively utilize the past experiences as points of reference. This study focuses on the internationalization of this novel business model from its launch until 2010, when the business was incorporated into an independent firm.

This paper is structured as follows. First the research methods used in the study are explained and a short case description is provided. Thereafter, the empirical evidence is reflected against theoretical discussions on novel business models, and internationalization of SMEs in

particular. The paper ends with conclusions, limitations of the study and future research implications.

Methodology

This is a qualitative single-case study that retrospectively examines the internationalization of a manufacturing SME. The study focuses on the internationalization of the firm after it expanded its operations with a novel business model. The empirical data for the study stems from a research project that scrutinizes the highly international and networked organizational structure of SMEs. The idea for this study was initiated after the interview with case firm managing director as the researchers analyzed the data.

Single-case design was seen suitable for this study as the case is partially unique and partially rather typical SME (Yin 1994). Additionally, the case was an inspiration to the whole study, and hence it is natural to focus on that particular case. (Siggelkow 2007) The primary empirical data was collected in a semi-structured interview with the managing director of the firm in June 2011. The managing director was the key person behind the idea of the novel concept and also in the process of establishing the new business. He has been with the company throughout the whole process and continues to be the managing director of the initial parent company. Therefore, he was the key person to be interviewed. He was knowledgeable of all the issues the researchers enquired about, and told very openly about what was done and why. Because the company is a small one, there is only very limited number of decision makers. Thus, it was not seen necessary to conduct additional interviews. The interview was conducted in Finnish and both of the authors were present. With the consent of the interviewee, the discussion was recorded and transcribed verbatim.

The primary data is supplemented with secondary data to gain better understanding of the internationalization process and the novel business model. Triangulation of primary and secondary data also adds to the trustworthiness of the study (Yin 1994). The secondary data includes documents on company history received from the case company and numerous magazine articles. Additionally, a couple of previous case studies on the company, and particularly on its novel business model were utilized. All empirical data sources are listed in table 1 below. The qualitative data was analyzed using thematic analysis. The transcribed interview data and the secondary documents were coded for themes.

Table 1. The empirical data in the study

Material / Source	Date
Magazine interview with the managing director	2002
Magazine interview with the managing director	2002
Case study of the firm in the International Journal of Mass Customization	2006
Case study of the firm in a book	2006
Financial Times article on the company	2007
Interview with the CFO of the firm regarding exports to Russian and the Baltic states	2009
Short chronicle of the company (written by the company)	2009
Press release by the company	2010
Interview with managing director	June 2011

The case company is a Finnish SME operating in a manufacturing industry producing leather products for consumer markets. It was established already in the 1960's and for the first decades core business yielded sufficient growth. The company is a market leader in its home market, but it has also accumulated a lot of experience of international business, especially through trade with the Soviet Union. As the Soviet Union collapsed in the beginning of the 1990's, and low price imports from Asia started gaining momentum, the industry went through major changes.

While going through the hard times, the case company decided to start developing a novel business concept that was expected to safeguard the future of the company. The idea for the novel approach stemmed from weak signals from the market, and the fact that technologies had developed so that the technical realization would be possible. The traditional business was maintained as the primary source of current income, and the novel business model was developed parallel to it. In 1998, the company started to develop a unique mass customization solution to satisfy the increasing demand of high quality products. Three years later, in 2001, the new brand name and the new business model were introduced to the markets. During the past years, the company has had stores in Germany, Russia, Japan, Malaysia, China, United Kingdom and Denmark. The case company is very dependent on its partners, as it operates on franchising and licensing basis.

Novel business model as a way forward

As it is depicted in the case description, the traditional business model was seen to reach the end of the road relatively soon, and therefore the company needed to develop something new. The idea of mass customization seemed very promising, and simultaneously also very challenging. It would not only require a lot of technological development, but also new kind of an approach to doing business. In other words, the new kind of approach to making the products called for a business model novel to the industry.

Business model depicts how value is created and captured in the operations (Lepak et al. 2007; Teece 2010; Zott & Amit 2010). It is therefore, the backbone of the company. Business model design is about purposefully weaving together activities and actors that are needed to create and deliver value to customers and to appropriate part of the value to the firm (Zott & Amit 2010).

In terms of business model, the case company was facing a challenge in the 1990's. Due to the changes in the market and the industry, the company was forced to make some changes in case it wanted to grow or even remain in business. The new concept developed by the case company, was very different from the prevailing model of manufacturing, and therefore it could only work with a new kind of a business model. There were two crucial aspects in the design of the novel concept and hence to the design of the business model: the technological side and the business side. The technological execution was something that had not been done in the industry, and therefore developing it required a lot of resources. It was done in cooperation with the national funding agency for technology and innovation. The business side of the concept was designed to utilize the Internet, but its execution required also additional resources. Two venture capital investors got involved in the process when the technology had progressed so far that the launch was near.

The core idea of the new business model was very clear: to utilize information technology in ways that combine the benefits of customization and mass production. The managing director had a clear vision of the business model very early on in the development process. However, tuning the organization that has previously striven for maximal efficiency and minimal costs into producing mass customized products of premium quality was a challenge. Furthermore, the old operations were continued alongside the new business model, and hence the company was operating two different business models in parallel. Retrospectively, the managing director thinks that this was not an optimal solution. Instead, they should have separated the operations around the new concept into an organization of its own already in the beginning.

Business model design can be conceptualized through design elements and design themes. Design elements refer to the content, structure and governance of the business model, whereas the design themes define the primary value creation drivers of the business model (Zott & Amit 2010). The content of the business model (i.e. the activities needed for value creation (Zott & Amit 2010)) for the old business was insufficient for the novel concept. Therefore, the company needed to learn new things before they could begin with mass customization. As the managing director put it: *"if you are making a Volksvagen, and you buy a little bit better parts, it doesn't become a Mercedes immediately in the same factory... it takes time."* Additionally, activities that previously were not part of the business model, were crucial in the new model. Sending measurement information from the shops to the manufacturing site as an example.

Also the structure of the original business model, referring to the way the activities are linked (Zott & Amit 2010), was not suitable to the novel business. For the new business, the company had to design an electronic system for transferring data from shops to the factory so that the product could be manufactured according to the individual customers' orders.

Additionally, instead of storing the products in the shops, the products are sent directly from the factory to the customer. Thus, the whole manufacturing process needed to be redesigned for the novel business.

Finally, the governance of the activities that tells which activities are core and which are supporting or peripheral (Zott & Amit 2010), needed the least adjustment for the new business. Design and branding continued to be the very core of the operations. However, an outside designer was seen necessary after initial trials with the new concept. On the other hand, all of the products were and still are manufactured in Estonia in the factory the company owns.

In the traditional business model, efficiency is the primary value creation driver. The customer who knows the brand easily returns to buying the good quality product. As for the new business model, novelty is the primary value creating driver. The novelty of the new concept adds value to the customers that want to emphasize individualistic choices, have problems in finding product fitting for them, or appreciate premium quality. From the company perspective, the value of the old business is in efficiency, whereas the new concept relies on lock-in and novelty.

Thus it is apparent that there are numerous differences between the old business and the novel business. Although there was a lot to be learned, there was an immense time pressure on the whole project, as the managing director stated in 2002, one year after the first franchise shop was opened: *"Time is our most serious competitor"*. The speed with which competitors could develop similar solutions was seen to be a serious threat for the business. Therefore, the company hasted into the operations, and expanding the concept internationally.

Speed and intensity in SME internationalization

There are two major perspectives on the process of internationalization of small and medium-sized enterprises. (Armario et al. 2008) The traditional way of analyzing firm's internationalization is usually associated with the works of Johanson and Wiedesheim-Paul (1975) and Johanson and Vahlne (1977) (see also Luostarinen 1979). The other perspective is derived from the international entrepreneurship literature, and argues that SMEs can be international right from the birth (cf. McDougall et al. 1994; Oviatt & McDougall 1994). This "new" view will be discussed later in this chapter.

The original "stages model" (also known as the Uppala model) has been also supported with innovation-related internationalization models (cf. Bilkey & Tesar 1977; Cavusgil 1980). The basic assumption in these works is that the firm first develops in the domestic market and that internationalization is the consequence of a series of incremental decisions. (Johanson & Wiedersheim-Paul 1975) Like the Uppsala model presents, firms usually start with the entry mode that requires the least commitment of resources and gradually increase their commitment of resources (Bilkey & Tesar 1977; Reid 1981). In their 1975 paper Johanson

and Wiedersheim-Paul distinguished between four different stages of firm's international operations:

1. no regular export activities
2. export via independent representatives (agent)
3. sales subsidiary
4. own production / manufacturing

These stages differ in terms of degree of involvement of the firm in the market. (Johanson & Wiedersheim-Paul 1975) As, for example Coviello and McAuley (1999) have brought up, firms tend to increase their foreign market commitment over time and through experiences. Through the incremental decision-making and learning companies are able to reduce the major obstacles of internationalization: lack of knowledge and resources. (Johanson & Wiedersheim-Paul 1975)

The stages model has earlier been used as a platform when studying internationalization in small firms that belong to conventional manufacturing industries (Boter & Holmquist 1996). However, the model has been criticized a lot, for example, as being too "deterministic" (cf. Madsen & Servais 1997; Nummela et al. 2006; Reid 1983); static and seeing market as consisting of many independent suppliers and customers instead of networks (cf. Johanson & Vahlne 2009). Andersson and Floren (2008) claim that the Uppsala model fails to explain why some small firms start to internationalize, while others stay in domestic markets. Thus, alternative ways to describe the internationalization process have been sought after. One of the alternative ways is the use of concept "international new venture", which has been claimed to present a unique challenge to stage theory. (Oviatt & McDougall 1994) It has been argued that the usability of traditional step-by-step, stage-by-stage models is declining at the same time, as the number of international new ventures is increasing (Hurmerinta-Peltomäki 2003).

In the case firm, the internationalization of the new business concept was, however, carried out a bit differently than the traditional models suggest. Instead of proceeding from stage to stage, the company went for full speed right from the beginning. The managing director stated: "*Originally we started from Germany and United Kingdom. These were rated as best potential Northern European markets in the report funded by the European Union. However, more beneficial way for us would have been to start from Sweden and then enter Denmark and Norway. But, we decided to do it differently*." With this statement he refers to the fact that it would have been more beneficial for the company to start from the markets with short psychic distance and then to proceed to more distant ones. It has been argued that psychically close markets are more easily understood by the company than distant ones and they offer more familiar operating environment (O'Grady & Lane 1996). In addition to this, the demands of customers in psychically close markets may be more similar to those in domestic markets and thus, it is easier to meet these demands.

Internationalization process of firms, particularly smaller ones, has accelerated during the last few decades. Firms start their export operations earlier than before, and they reach a higher level of internationalization quicker than ever. (Hurmerinta-Peltomäki 2003) In general,

internationalization is regarded as an evolutionary process during which a company adapts to the international environment (cf. Calof & Beamish 1995). Lately, researchers have pointed out the increasing number of companies which internationalize early or even right from inception and skip various steps of the traditional stages approach. (Zucchella et al. 2007) In some studies, these companies are referred as *international new ventures* (INV) (e.g. McDougall et al. 1994; Oviatt & McDougall 1994), while others refer to them, for example, as *Born Globals* (e.g. Knight & Cavusgil 2004; Madsen & Servais 1997), *instant internationals* (e.g. Dana 2001) and *rapid internationalizers* (Hurmerinta-Peltomäki 2004).

Despite the number and variety of terms, all of the concepts focus on the same core idea: the rapid and intensive internationalization of SMEs (Blomqvist et al. 2008). This describes well also the case company of this study; the core operations of the company were in Scandinavia but when launching the new business concept the company aimed at rapid and intensive internationalization. When trying to define the case company in terms of internationalization of the new business concept, two main options arise, international new ventures and rapid internationalizer. Even though the case company attempted to internationalize the new concept right from the beginning, the other core features of INVs – new venture, limited resources, young age and small size - did not match to the case company at this point (cf. Oviatt & McDougall 1994). Thus, in terms of the new business concept, the firm can be described as a rapid internationalizer. In the interview the managing director of the case company stated: "*In the beginning we were afraid that we need to enter the international markets quickly, and of course, the venture capitalists brought in more pressure to grow. So we tried to enter new markets quickly without prior investigation*". This sense of rush was mainly created by the fear of competitors, and the case company knew, that other companies were developing something similar to their new concept. Thus, speed of entering international markets was the most important factor for the case company, and other factors were left for lesser attention.

There seems to be no established definition of rapid internationalizer, but the conceptualization can be said to discuss at least three different dimensions: the duration of time between firm's birth and its internationalization (including the extent of internationalization), the international outlook of the managers or the company, and the firm size (Hurmerinta-Peltomäki 2004). In this study, the most crucial ones are the time aspect, and the international outlook. Studies on rapid internationalizers have fixed the important points of time at the firm's birth and when it achieves a state of foreign extensiveness (Hurmerinta-Peltomäki 2004). However, for rapid internationalizers, this time frame is not as strict and emphasized as it is for INVs (cf. Oviatt & McDougall 1994). Date of firm's birth has been defined very differently by researchers. Oviatt and McDougall (1994) even suggested that there exists no exact time point for a firm's birth. Thus, if there is no exact point of birth of the firm, it is very difficult to calculate the age of the company, or the time before the first international operation. However, in this study, the birth of the company refers to the launch of the new business model in 2001. International outlook is a measure of the perceived difference between foreign markets and the home market (cf. Reid 1981). The key of the international outlook is that the managers and owners of the company do not bind their

business thinking just to one country or culture (Hurmerinta-Peltomäki 2004). Like the managing director of the case company pointed out, they have experience from various cultures, and they actively seek for partners in foreign countries. Due to this, they were also brave enough to create a new business concept, which was directly aimed at international markets.

Closely linked to international outlook, is the international experience of the company's management. Calof and Beamish (1995) claim, that if the company's management has extensive international experience, they most likely proceed more rapidly and skip stages. In cases like this, experience results in a better understanding of risks, costs and benefits of entry modes and target markets. Despite the previous international experience the company management had, the case company was not able to fully utilize these experiences in the rapid internationalization process they tried to go through. In the interview, the managing director of the company stated that the customization idea suffered from a false start as a result of trying to do too much too soon. This led, for example, to the cut down of the number of stores from twelve to seven stores. However, the managing director did not mean that the mass customization as such was a bad idea. Instead, he referred to the way they attempted to reach too many markets and respond too many calls at once. In addition to this, in the beginning the measurement technology that is the basis on mass customization did not work as well as it should have, so the company faced even more challenges when trying to please their customers.

At the early stages of the company life, the core business of the company was enough to create growth and profit in the company. However, when the industry faced difficulties in 1990s, it became evident that the case company had to come up with something new in order to remain viable in the future. The solution was the creation of a completely new business concept in the area of mass customization. This concept was aimed at international markets. The pressure from venture capitalist and interest from customers and partners drove the case company to internationalize the new concept with speed and intensity. Like discussed above, the case company met all prerequisites of internationalization; they had previous experience of international markets, some knowledge of the new markets derived from secondary sources, new concept and technology, international partners and adequate financial resources (venture capital). However, they were not able to make the most out of these, and like Calof and Beamish (1995) suggest, skip some stages. The case company tried to do this, but instead of succeeding to enter many markets rapidly and creating an established position, the company had to withdraw from some markets. Not even the international partners were enough to help the case company to achieve a proper market share. Like the managing director stated, it would have been better for the company to take a bit slower start instead of reacting to all interesting international invitations.

Conclusions

The SME internationalization literature has recently focused very much on rapid and extensive internationalization as noted above. Scholars have perhaps over-emphasized the

necessity of SMEs achieving global reach rapidly. This study, although it acknowledges the contributions of the international new venture, born global and other discussion, strives for reminding scholars of the viability of the more traditional internationalization process models also in the SME context.

Based on the combination of primary empirical data and secondary data, the study shows that despite ideal conditions in terms of human, physical and financial resources, SME might not be ready for an intensive international market entry. In these situations, a more gradual approach to internationalization, such as described by the Uppsala model for instance, may be preferable. This was also demonstrated by the case company of this study. After launching a new business model targeted for international markets from the outset, the case company tried to reach rapid internationalization. From the theoretical point of view, the gradual option was not a tempting one, as it takes a lot of time thorough which a firm gains experiences, accumulates resources and develops managerial capabilities required for international operations (Dana 2001). The case company had previous experience of operating in international markets, but under the pressure caused by stakeholders, the company was not able to utilize this knowledge effectively. One important reason for this may be the difference between the business model for the firm's main business and the business model of the new concept. Thus, it can be argued that the incremental decision making and learning suggested by Johanson and Vahlne (1977; 2009) would have been beneficiary for the company.

Furthermore, the managing director of the case company admitted that it was not enough just to have the international experience, but they would have needed better international marketing capabilities. With marketing capabilities, he refers also to capability to do market research and select the suitable entry modes. Instead of proper planning and internationalization strategy, the company was dazzled by numerous foreign firms contacting them and suggesting cooperation. Nevertheless, the company was able to learn from the mistakes it made. To benefit from learning, and to avoid making similar mistakes again, managers of the initial parent company continue to operate in the board of the new incorporated firm. Good example of the company's ability to react changing situations was their decision to withdraw from selected markets and letting the time pass until trying again.

Despite the "false start" the case company was able to "re-start" their international operations with lower speed and intensity, following more stage-wise model. This also supports the view of Johanson and Vahlne (1977) that companies will increase their commitment after they have gained more knowledge and learned from their experiences. Johanson and Vahlne (1977) as such do not refer to negative or bad experiences, but like the case company showed these are excellent learning opportunities.

From the managerial perspective, the prevailing push for rapid and intensive internationalization may contribute to hasty internationalization decisions. Therefore, it is important to highlight also the feasibility of more gradual internationalization in many situations. Also the pressure coming from the financiers might force the companies to do their foreign market entry decisions too quickly. In order to avoid too hasty decisions, it is recommendable to make proper planning before internationalization attempts.

Internationalization as such is a remarkable strategic decision, which requires careful consideration.

It is obvious, that this paper has certain limitations. The case example is from a traditional manufacturing industry which is not typically seen as a context for INVs or rapid internationalizers. Traditionally INVs and other instantly internationalizing companies are seen to exist in high tech industries (cf. Al-Laham & Souitaris 2008). Thus; these results may not apply in all industries. The selected case company is from a small and open economy, and this origin might have affected the decisions made by the company management. After all, many companies from SMOPECs are often pushed to internationalize due to the small size, openness and peripheral location of domestic markets (Gabrielsson & Gabrielsson 2004). As this paper takes the SME point of view, it is likely that not all the issues mentioned are valid and applicable for larger companies. However, the aim was not to provide any generalizations. Even though single-case research design has many limitations, the strategy was suitable for this particular study.

Like presented in the previous chapters, there are many different internationalization models, which can be utilized when describing the SME internationalization. Especially the older models should not be forgotten when the new ones emerge. Instead, they just need to be updated and they may be as usable as the newer ones. From the theoretical point of view, there is a need for theory, which would emphasize a failed internationalization process, or which would help to analyze the cases when a company has failed in their first attempts of internationalization.

This study is an attempt to shed light on the feasibility of the new internationalization models, through showing some gaps in our knowledge with regard to their basic assumptions. Additionally, this study has striven for reminding scholars of the viability of traditional approaches to internationalization, which seem to be forgotten after the emergence of the new models. More research is encouraged in the field of failed or re-started internationalization processes. Also research discussing the pressure caused by the country of origin would be encouraged. This study recognizes that pressure caused by the limited domestic markets and country of origin does have a role of internationalization decisions, but it would be interesting to see how this pressure influences the managerial behavior. Furthermore, this study highlights the need to understand better the usefulness and applicability of previous international experience. It would be important to know how to distinguish between generally relevant experience or knowledge and context-specific experience-based knowledge.

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