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The Influence of Psychic Distance on Internationalization

A Multiple Case Study of Swedish SMEs
Within the Service Industry

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Bachelor Project in Business Administration

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Abstract

Background: SMEs represent 97% of Swedish companies that have an increase in the Swedish export by 16% in 2017. Furthermore, Sweden is eager to support its companies to lead the service revolution abroad. This expansion creates the need for overcoming international risks of inconstant psychic distance in terms of culture, economy and geography.

Purpose: The purpose of this study is to examine the psychic distance and its influence on internationalization.

Method: The current study was based on qualitative research to fulfill the purpose, to answer its three research questions and to fit its time frame using semi-structured interviews of a multiple case study with Swedish SMEs within the service industry. The interviews took place with top managers who have broad knowledge and experiences related to this study.

Conclusion: Psychic distance is changing in terms of culture, economy and geography as all SMEs have been exposed to its distances differently. A further outcome shows the relevance of business practices, theoretical methods, and models, although none of the interviewed SMEs have used any of these models. This result might show how those models could have solved various issues the interviewees faced. Cultural distance is a permanent distance that exists in all markets. However, economic distance constitutes a challenging factor to face economic costs and institutional differences but simultaneously gaining profits abroad could certify to meet this challenge. Geographic distance is mostly not considered an issue in the service industry.
The psychic distance may decrease within the service industry due to international managerial skills and technology.

Managerial Contribution: It is hoped that this study will assist SMEs to gain a clear idea about overcoming the psychic distance during internationalization, for instance, by learning from outcomes of the study from meta-analysis or by using relevant theories and models.

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List of Most Used Abbreviations

- CAGE (Cultural, Administrative, Geographic and Economic)

- FDI (Foreign Direct Investment)

- LoF (Liability of Foreignness)

- LoO (Liability of Outsidership)

- OLI (Ownership, Location and Internationalization)

- SMEs (Small and Medium-sized Enterprises)

1. Introduction

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This chapter introduces to the reader the background, problem, purpose, research questions, perspective statement and delimitation of the study.

1.1 Background

Small and medium-sized enterprises (SMEs) may have significant impacts on businesses although they have limited resources and capabilities with an annual turnover not exceeding €50 million and less than 250 full-time employees (European Commission[1], 2018). The SMEs represent 97% of about 1.2 million Swedish companies in total which make them dominating businesses in Sweden with an international export increasing by 16% in 2017 (Ekonomifakta[2], 2018; Tillväxtverket[3], 2018a; Tillväxtverket, 2018b). Furthermore, according to the Swedish governmental policy, there is a need to adapt the process and create a special insight for firms to internationalize and contribute to leading the service revolution (Business Sweden, 2018). The service industry could include business, legal and professional services (World Trade Organization, 2018). Adam Smith created the first theory of trade to internationalize to foreign markets (Schumacher, 2015); new market opportunities show up abroad while local markets face the lack of opportunities (George, Wiklund, & Zahra, 2005).

The internationalization process has been studied by many researchers to have today several internationalization models; the authors of the current study decided to focus only on the Uppsala Model (Johanson & Wiedersheim-Paul, 1975). The Uppsala model was created forty-four years ago, it has been investigated, criticized, and developed to serve companies including Swedish SMEs to internationalize successfully. Swedish SMEs, according to the Uppsala model, may start their businesses in domestic markets in Sweden to gain a competitive advantage in products or services; they need to build and develop loyal customers' bases and reputation, generate profit and build necessary resources and capabilities of growth in home market. In addition, it is necessary for companies to learn

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[1] **European Commission** is a European Union institution that is responsible for proposing legislation, upholding the EU treaties, implementing decisions and managing the daily businesses of the EU.

[2] **Ekonomifakta** is a Swedish website that gives figures and facts about the Swedish economy.

[3] **Tillväxtverket** is the Swedish governmental Agency for Economic and Regional Growth under the Ministry of Enterprise and Innovation.

and gain knowledge through experiential learning as a main factor of internationalization in order to reduce risks in foreign markets and start internationalization gradually (Johanson & Vahlne, 2009). Gathering information and knowledge are required prior to any internationalization process to any market (Costa, Soares, & Sousa, 2016).

There are two key dimensions of the classical Uppsala Model; one dimension is asset commitment (Johanson & Vahlne, 1977). In this dimension, gaining knowledge may be easier and less risky when companies including Swedish SMEs export their products or services to foreign markets through indirect exports by an agent. On the other hand, in direct exporting, Swedish SMEs have their own subsidiaries abroad to sell directly to their foreign customers (Johanson & Vahlne, 1977).

Another dimension, the focus of this study, is psychic distance that includes three distances that face SMEs during internationalization, including cultural, economic and to some extent geographic distances (Johanson & Vahlne, 1990). Those distances show the differences between home and foreign markets, which may have an enormous impact on companies' expansions. Such expansions could exist through operating offices internationally because of the increased knowledge and experience in international markets to overcome the three distances (Vahlne & Jonsson, 2017). The cultural distance for example could lead to missed opportunities if the company lacks knowledge of how to deal with another culture in an international context (Hofstede, 2011). Furthermore, the economic distance may include labor, taxation, and foreign countries' policies to increase or decrease trade. Moreover, the geographic distance may make it difficult to expand to countries that are far away from the home country. Thus, failing to tackle such distances would affect the internationalization of SMEs negatively.

1.2 Problem Discussion

It is claimed that firms within the service industry may experience negative performances during internationalization (Capar & Kotabe, 2003). Therefore, there is a growing need to broaden the SMEs' learning of psychic distance between the home and foreign countries (Yamin & Kurt, 2018). This increased learning will lower the cross-border risks and improve the firms' performance and productivity during internationalization (Bodlaj, Povse, & Vida, 2017). Knowledge about the foreign market has been considered as a key

aspect in influencing the internationalization of firms and consequently, an interruption in the flow of information will cause a learning gap and psychic distance paradox in terms of culture, economy, and geography (Mandrinos & Nik Mahdi, 2016).

In addition, psychic distance is inconstant since it changes during internationalization (Ibbotson & Fahy, 2004; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). There are many studies investigating the factors that disrupt the internationalization of SMEs, their outcomes show some of the factors: knowledge uncertainty, insufficient institutional conditions, and geographic scope (Golikova & Kuznetsov, 2017; Jernström, Karvonen, Kässi, Kraslawski, & Hallikas, 2017). Most studies emphasize on aspects that influence entering a new market. However, more studies are needed to investigate psychic distances that prevent firms such as SMEs from internationalizing. Therefore, the psychic distance should be studied to give a clear insight into its influences on the internationalization process.

1.3 Purpose Statement

The purpose of this study is to examine the psychic distance and its influence on internationalization.

1.4 Research Questions (RQs)

RQ1: How does cultural distance influence the internationalization of SMEs?

RQ2: How does economic distance influence the internationalization of SMEs?

RQ3: How does geographic distance influence the internationalization of SMEs?

The research questions have been connected to the exploratory purpose of this study to contribute with deeper understanding of possible outcomes covering psychic distance. This could be achieved by examining the cultural, economic, and geographic differences facing Swedish SMEs in the service industry during the internationalization process.

1.5 Perspective Statement

The authors rely primarily on the management perspective as internationalization within SMEs is a strategy that is taken usually by top management. For this reason, the management perspective is the most relevant perspective to focus in terms of *psychic distance* influence on internationalization including *culture*, *economy*, and *geography*. The managers are more involved and primarily informed for decades about strategic decisions regarding expansion to new markets.

1.6 Delimitation

Since there are broad aspects within internationalization, the authors preferred to narrow the research down to examine it from the *psychic distance* with regards to the *cultural*, *economic*, and *geographic* differences. Furthermore, this study is directing the current research mainly to the Swedish SMEs within the service industry. Another factor which needs to be considered is the fact that this study is using only the Uppsala model of gradual internationalization. However, using another model may result in different outcomes since companies following a specific model which might be different to another company using another model in aspects of challenges, resources, and capabilities.

Conducting the research within a short time was faced by difficulties of meeting experts of internationalization at international SMEs. Furthermore, this study uses the qualitative method due to the need of face-to-face or online communication with five multiple case study using semi-structured interviews. Therefore, the outcomes of research may give deeper insights on the study for researchers, policy-makers, and Swedish SMEs, in addition, satisfying the authors' curiosity and interest in this study.

2. Frame of Reference

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This chapter provides the theoretical background of internationalization, psychic distance, and its influence on internationalization by focusing on cultural, economic and geographic distances.

2.1 Internationalization

Schumacher (2015) claims that internationalization is improving ever since Adam Smith created the theory of international trade by exporting between countries. Firms export products and services through the involvement increasing of operations in international markets which is known as internationalization (Welch & Luostarinen, 1993). Capar and Kotabe (2003) claim that firms within the service industry may experience negative performances during internationalization. The internationalization of service firms is increasing gradually due to the modern technological innovations and decreasing of trade barriers (Javalgi, Griffith, & Steven, 2003); according to Vandermerwe and Chadwick (1989) internationalizing services would be the focus of managers in the future. Moreover, SMEs that fail to have international operations may lose their competitiveness particularly when their home markets are small with less opportunities while customers internationalize (George et al., 2005). However, market knowledge has an influence of internationalization (Johanson & Vahlne, 1990).

According to an early study (Agndal, 2004) it is argued that internationalization is changeable process with time. The authors of this study have identified two types of internationalization: immediate internationalization of International New Ventures (INVs) and gradual internationalization of the Uppsala Model. Companies in INVs start their businesses internationally from the very begin to create a competitive advantage through using resources in foreign markets (Oviatt & McDougall, 2005). Since this model has been investigated extensively by academics (Kontinen & Ojala, 2010), the authors of this study focused on another model to give a new knowledge contribution within internationalization aspects. In contrast to, older companies may start their business domestically to gain knowledge about foreign markets or in other words to internationalize gradually following four stages of the classical *Uppsala Model of gradual internationalization* (Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

Figure i Showing the Process of Internationalization of the Uppsala Model. Source: (Johanson & Wiedersheim-Paul, 1975, p. 307).

This model considers the most common type of internationalization (Conconi, Sapir, & Zanardi, 2014). Furthermore, the Uppsala Model proves the success of many Swedish companies (Vahlne & Ivarsson, 2014) because of learning and building advantages to overcome the distances of internationalization (Vahlne & Jonsson, 2017). The Uppsala model has developed during the last forty years since 1977 from internationalization to evolution (Vahlne & Johanson, 2017). All these factors make the Uppsala Model the main model of internationalization in this study.

According to Johanson and Vahlne (2009), there are two key dimensions of the classical Uppsala Model. One dimension is *market commitment* which defines the equity mode of the company that expand by opening a subsidiary to deal directly with customers. On the other side, companies should gain knowledge through non-equity mode by exporting through an agent in the beginning to commit financial assists in other markets after gaining knowledge about foreign markets (Johanson & Vahlne, 2009). Another dimension is *psychic distance* reflecting *cultural*, *economic*, and to some extent *geographic* distances. Since *psychic distance* itself is inconstant (Ibbotson & Fahy, 2004; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), it is changing due to many reasons which create a need for continuous research on its changes and that is why the dimension of *psychic distance* is the focus of this study.

2.2 Psychic Distance

Horner, D. Baack and D. Baack (2016) examine many views of *psychic distance* to show its application to the strategic choice process and managerial arrangements in internationalization aspects. *Psychic distance* considers a valid and useful concept in international business activities (Puthusserry, Child, & Rodrigues, 2014). David and Denis (2014) claim that the concept of distance is central within internationalization research. Hutzschenreuter, Kleindienst and Lange (2016) identify main outcomes that are affected by distances including market selection, entry mode and performance.

When SMEs internationalize through the gradual internationalization process, they should consider the *psychic distance* that explains the idea of firms expanding primarily to countries that are psychologically similar to the home country (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). *Psychic distance* has been defined from the beginning as a set of factors that hinders the information flow in-between the local company and the foreign market (Johanson & Wiedersheim-Paul, 1975); as the factors of understanding foreign environments in a difficult way using information flows (Johanson & Vahlne, 2009). The *psychic distance* is additionally defined at the firm or managerial level as the perception of similarities or differences of the conditions between home and foreign markets (Yamin & Sinkovics, 2006). Furthermore, capturing the concept into practical terms, a firm perceives its prior experience as a predictor for new markets' expectations. All mentioned factors show how important the *psychic distance* is for success or failure of the firm's internationalization. Example of the *psychic distance* could be the differences in terms of business practices, education, languages, *culture* and industrial development (Johanson & Vahlne, 1977). It is found that dramatic improvements in information communication has resulted in declining the psychic distance during internationalization (Håkanson, 2014).

Moreover, the *psychic distance* in Uppsala model claims that companies may internationalize to low *psychic distance* within closer countries first in terms of *culture* and institutions in order to avoid *cultural* and institutional differences that could be big challenges (Johanson & Vahlne, 2009; Johanson & Wiedersheim-Paul, 1975). Singh (2015) claims that firms may export to psychologically proximate foreign markets first and then gaining experience to start exporting to psychologically distant foreign markets. A psychologically close country considers having similar *culture* and a similar economic development as the home country of the company (Singh, 2015). On the contrary, internationalizing to countries with high *psychic distance* may result in *cultural* clashes due to high differences leading to a higher risk (Johanson & Vahlne, 2009).

Caputo, Pellegrini, Dabic and Dana (2016) argue that firms using the Uppsala model due to the lack of knowledge about foreign markets, perceived uncertainty or risk aversion. However, companies could not reduce risk to zero as decisions require quick action or otherwise opportunities would be missed. Those decisions may be based on general rules across the board to reduce the risk. Successful companies adjust to a changing

environment and then react to such an environment (Vahlne & Johanson, 2017). Furthermore, exporting and internationalization are riskier than focusing on local businesses in a transition economy in addition to expanding to similar countries with a low *psychic distance* using the concept of proximity. Proximity may be a physical proximity of *geography*, language proximity or *cultural* proximity (Caputo et al., 2016).

During gradual internationalization, companies may face many liabilities (Johanson & Vahlne, 1977). Zaheer (1995) identifies a liability of foreignness (LoF) that reflects the lack of experience, knowledge of *culture* and rules in host countries; lack of networks and being exposed to discriminated hazards facing administrative distance. In addition, not having brand loyalty due to the lack of customer bases in host country, could be another LoF. Reducing LoF is an important strategy to increase the acquaintance with the local market (Javernick-Will, 2009) by using strategic abilities or competitive advantage to overcome such challenges (Johanson & Vahlne, 2009). Therefore, the Uppsala model was revised to focus on emotions and relationships; consider social network theory as the basis or means of internationalization; and switch the LoF to the liability of outsidership (LoO) (Johanson & Vahlne, 2009). Networks may assist in reducing the LoO that refers the network that facilitate the business operations in both, home and foreign markets, by reducing liabilities and the *psychic distance* (Vahlne & Johanson, 2013).

Outsidership may occur due to the lack of links with suppliers, competitors, distributors; suffering from the relational hazards increasingly and the shortage of networks in the new market (Vahlne & Johanson, 2013; Johanson & Vahlne, 2009). Such challenges may be approached by developing networks in the new market by building trust, knowledge and commitment to become an insider instead of outsider in cooperation with local networks (Vahlne & Johanson, 2013; Johanson & Vahlne, 2009). Ojala (2015) claims that there is a strong relationship between the *psychic distance* and networks. Kim, Pan and Park (1998) claim the need for understanding both, high and low context *culture*, within cross-cultural communication. For instance, businesses in high context *cultures* depend on relationships and connections due to the strong social ties. On the contrary, a low context *culture*, including the United States, shows a fragile bond that tie people together. Ojala (2008) suggests that the way for SMEs to overcome a psychically distant market is to hire local employees with home country managers that have working experience in the new market.

The *psychic distance* dimension reflects three types of distances including *cultural*, *economic* and to some extent *geographic* (Johanson & Vahlne, 2009). Vahlne and Ivarsson (2014) claim that firms have managed successfully to globalize and that this success occurs because of learning and building strong advantages to overcome differences of *culture*, *institutions,* and *geography* (Vahlne & Jonsson, 2017). The authors would examine the three distances as the means of analyzing the influence of the *psychic distance* on internationalization.

2.2.1 Cultural Distance Influence on Internationalization

Cultural distance defines as the difference of the cultural norms between countries where the norms and routines vary for management (Kogut & Singh, 1988). It is claimed that the *psychic distance* is determined by the *cultural distance*; where cultures may change (Sousa & Bradley, 2006). Culture could be defined as the mind programming to distinguish a group from another (Hofstede & McCrae, 2004). Culture is a fuzzy set of beliefs, attitudes, behavioral norms, assumptions and values that could be shared by a group of people who are influenced of culture differently with interpreting others' behaviors of others (Spencer-Oatey, 2008). However, the basic cultural beliefs and values continue to distinguish one culture from another creating a *cultural distance* (Sousa & Bradley, 2006). It if found that the *cultural distance* is a prominent factor since it is commonly used in international business with applications to foreign investment expansion (Shenkar, 2012; Barkema, Bell, & Pennings, 1996). Furthermore, it is claimed that the cultural distance is a permanent distance since it affects overt time in terms of cultural values and distances (Barkema & Vermeulen, 1997).

Hutzschenreuter, Voll and Verbeke (2011) argue that *cultural distance* has an impact on expansion into new markets. Barkema and Drogendijk (2007) suggest addressing the *cultures* of foreign countries as a necessary condition to operate successfully abroad; a *culture* has a link between *culture* and international business models. This link may include attitudes, beliefs, and values which may have their impact on business practices and business model as well, according to Hofstede (2011). Moon and Woolliams (2000) state the failure of international operations may be caused by *cultural* differences and behaviors. Ghemawat (2007) provides a CAGE framework of showing the differences across countries as distances that companies face when starting a business abroad with a big *cultural* distance. Such *cultural* distances could reflect social norms, values, language

with respect to *cultures* and what works in a *culture* may not work in another *culture* (Ghemawat, 2007).

Taras, Kirkman and Steel (2010) affirm that almost all *cultural* studies incorporate Hofstede's *cultural* value scales. Using the Hofstede's model over the last three decades due to its use of primary data using *cultural* values which is stronger for researchers (Helfrich, 1999). Moreover, *culture* values were highly related to emotions, attitudes, behaviors and job performances which makes Hofstede's model linked to companies; comparing *cultures* using etic perspective (Helfrich, 1999). The original Hofstede model includes four main dimensions (power distance, individualism, uncertainty avoidance, and masculinity), in addition, adding two dimensions including (long-term orientation and indulgence) (Zhaobin, Shujuan, & W. Robert, 2017; Taras et al., 2010).

The power distance dimension (hierarchy-egalitarianism) shows the inequality of power distribution in high power distance countries among managers and their employees while other countries that have low power distance have managers and employees at the same level (Hofstede, 2007; Gelfand, Lim, & Raver, 2004). Another dimension is individualism, a loosely knit social framework, versus collectivism, a tight social framework with a feeling of absolute loyalty to the relationship (Taras et al., 2010). For example, the Chinese culture is a culture with high collectivism that evaluates relationship highly within the concept of "Guanxi", meaning relationship, where relationships are more important than general rules as a relationship considers a commitment with a significant impact on businesses (Zhao, Huo, Selen, & Yeung, 2011). Although Hofstede scales dominates empirical studies, it has been criticized in several studies (e.g. Zhaobin et al., 2017; Dow & Karunaratna, 2006; McSweeney, 2002) that the measurability of *culture* and the existence of national cultures are questionable; it contributes only with a minor component of the broader set of the *psychic distance* stimuli; it does not understand particularities; has difficulties in explaining how people think and lacking an explanation of richness and diversity of national institutions.

Therefore, Moon and Woolliams (2000) identify another model to study *cultures*, the Trompenaars and Hampden-Turner's model, that has been used to assist managers to develop competence for international operations across the world in terms of *culture*. French, Zeiss, and Scherer (2001) believe that this model has a basic assumption at the core level, in addition, giving an example of human equality. The model includes seven

dimensions, universalism versus particularism, individualism versus collectivism, sequential versus synchronic, achievement versus ascription, inner-directed versus outer-directed, affective versus neutral and specific versus diffuse (Darlington, 1994). The universalism versus particularism dimension focuses on the importance of rules versus the importance of relationships between cultures (Zajenkowska & Zimmerman, 2014). Another dimension is individualism versus collectivism which is similar to individualism and collectivism within Hofstede's model (Hofstede, 2007; Gelfand et al., 2004; French et al., 2001). A third dimension is neutral versus affective, in a neutral culture such as Japan, public displays of emotions, feelings or thinking may be considered harmful, childish or even rude in contrast to an affective culture, where emotions' display is acceptable (Zajenkowska & Zimmerman, 2014; Hampden-Turner & Trompenaars, 2006; Moon & Woolliams, 2000).

Due to Barkema and Drogendijk (2007), culture is divided into *cultural* blocs or regions including Latin America; South-East Asia; the Nordic countries; the Anglo-Saxon countries; and the Germanic countries. Therefore, companies for example, exploit their knowledge base and increasing performance for the short-term; enter new cultural blocs with lower short-term performance to learn for the long-term; or do both sequentially. In addition, companies think more into cultural blocs rather than thinking in countries (Barkema & Drogendijk, 2007). Inglehart *cultural* maps clusters providing a general idea about cultures, so managers could use this general idea about the culture's big picture of what to think and how to act in foreign cultures to work internationally (Inglehart & Baker, 2000).

Stahl and Tung (2015) claim that culture diversity has positive effects under certain conditions. One from the top changes its cultures' diversity in which *managerialism* leads to enrich its significance when it comes to the different values and therefore operation system in organizations (Sinclair, 1989). However, the basic *cultural* beliefs and values may include management style (Hofstede, 2007). Therefore, adapting to distinct cultures, the *managerial* skills would be a useful tool for that implementation (Delbridge & Keenoy, 2010). International *managerialism* refers to managers that combine managerial knowledge and the superior ideology in order to create *space* in companies and communities as well as contributing in training and learning to facilitate constant business changes (Klikauer, 2013; Glover & Tracey, 2000). Furthermore, managerialism defines

as a concept that emerges knowledge and practices connected with management of organizations (Roberts, Jones, & Fröhling, 2005). Moreover, *managers* that gain knowledge about foreign markets including managers' pre-existing knowledge, may overcome the *psychic distance* which is based on information flows (Brewer, 2007; Johanson & Wiedersheim-Paul, 1975).

Furthermore, Johanson and Vahlne (2009) argue that significant *managerial* effort has an impact on overcoming the liability of internationalization which turns the company abroad to be an insider instead of outsider which makes it easier to create a profit, to grow, and even to survive (Almodóvar & Rugman, 2015). Cahen, Lahiri and Borini, (2016) suggest hiring managers with international experience to promote internationalization. As managerial characteristics is considered as a factor to determine the firm's internationalization (Omri, & Becuwe, 2014). Furthermore, the successful firms adjust to a changing environment and then react to such an environment by taking decisions based on general rules across the board (Vahlne & Johanson, 2017). Oesterle, Elosge and Elosge (2016) argued that *managerial* decision-making in analyzing international business activities is important. Thus, according to Graves and Thomas (2006), the *managerial* capabilities are necessary in the international market to have a successful international expansion. It is claimed further that *managerial* experience and market characteristics are the drivers of the international or global mindset which has a role in a successful antecedent of the internationalization process within SMEs (Skudiene, Auruskeviciene, & Sukeviciute, 2015; Nummela, Saarenketo, & Puumalainen, 2004; Harrison-Walker, 2002). Neves and Tomei (2016) conclude that the *global mindset* shows the responsibility of 39.1% of variability of the leadership behavior as the higher global mindsets, the more likely to understand differences in cross-cultures and foreign countries. Furthermore, Sucheta and Pedro (2007) explain that the success of internationalization speed relies on the domestic mindset which refers to the prior knowledge structures of the top management about the new market.

According to Yamin and Sinkovics (2006) *active online internationalization* (*AOI*) may consider a means to invest significantly in a particular market. However, many significant differences could vary between both, traditional internationalization and *AOI*. For instance, there are studies that state *online websites* could be created to serve cultures in a more sensitive way to target a specific market (e.g. Lim, Kwok, Choon, & Matthew,

2004; Lynch & Beck, 2001; Singh, Zhao, & Hu, 2003). Yamin and Sinkovics (2006) state that entering new markets through online context is more informed by cultural characteristics in what is appropriate and what is not, comparing to traditional market entry. It is argued that *e-commerce websites* could contribute to reaching foreign customers while using *AOI* could include cultural traits in online websites as well (Yamin & Sinkovics, 2006).

2.2.2 Economic Distance Influence on Internationalization

Economic Distance is set of factors such as cost, salaries, and demands that differ from the home and foreign country, which affects the level of foreign direct investment in home market (Ghemawat, 2001). According to Fisher, Gilbert, Marshall and Oladi (2015), as the *economic* distance is becoming larger between two different countries, companies would have less comparative advantage and they are more likely to shut down. In addition, when firms do not have a loyalty for their services by foreign customers, companies could integrate more and then the LoF would decrease by using all abilities of firms' strategies, therefore, the LoF may switch to the LoO (Johanson & Vahlne, 2009).

The impact of *economic* distance has whether positive or negative reflection on the home country's foreign direct investment (FDI) inflows as well as the joint trade (Le & Elliott, 2017). Therefore, it is important to determine the strengths and weaknesses of an economic industry, which lead Porter to present five forces: threat of new entrants, bargaining power of buyers, and threat of substitute service, bargaining power of suppliers, and rivalry between existing competitors to identify the competitive intensity to make good profit (Porter, 2008). Dobbs (2014) found in his study, that the empirical application of Porter's framework gives a strategic analysis of the economic industry, in addition, it is considered an effective tool for professional managers and analysts. The five forces help to classify the barriers in entering foreign country by scale economies in valuing the data technology as well as logistical process and the government policies that limit the organization resources (Porter, 2008).

Another study conducted by Ghemawat in 2001 discusses the *economic* distance within the CAGE framework which contributes to bridging such a distance (Ghemawat, 2001). The *economic* distance with a focus on business models, where replicating a business model may not work in a different environment, could differ in a business model of a developing country compared to a developed country and vice versa (Ghemawat, 2007).

The other finding showed that the *economic* distance could exist by differences in internal features which reduce the economic size (Ghemawat & Altman, 2016). Dunning (2000) has developed its analytical framework OLI tripod or the eclectic paradigm that highlights three keys: the ownership of investing firms when they have more competitive advantages; the location which helps to find the attractive spots; and the internationalization advantages. The practical implication of OLI tripod is that the ownership factor is impacting the FDI and trade, where the government contributes to boost the inflows and capital creation and additionally the population of the home country would influence the location decision making and therefore help with the internationalization (Pathan, 2017).

The *economic* distance may cause costs such as the information, ownership, location, legal and regulatory costs which impact the FDI outflows and the level of competition in-between the bilateral *economic* distance (Fisher et al., 2015). This distance contains differences in income levels, infrastructure, human capital and other resources (Ghemawat, 2001). In addition, it includes differences in political systems, the common currency, trade arrangements, government policies and institutions. Governments could use taxation, direct ownership or regulations when markets do not allocate products or resources efficiently which result in negative welfare (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). According to Phillips, Tracey and Karra (2009), institutions are related to international management when institutions are different in home and host countries facing a model of two institutional distances including host country institutional difference and host country institutional uncertainty. Institutional differences that could be real challenges (Johanson & Vahlne, 2009; Johanson & Wiedersheim-Paul, 1975). Another dimension from Ghemawat (2007) within the CAGE framework is administrative distance which is related to institutions.

Cantwell, Dunning and Lundan (2009) define institutions as the game's rules. Deligonul, Elg, Cavusgil and Ghauri (2013) and Butler (1997) use the definition of Scott (2014, 1995) that defines institution as regulative, cognitive and normative which highlights the culture and norms playing roles in creating obstacles which need to be tackled by companies. Cantwell et al. (2009) argue that international companies may co-evolve with the institutional environment to handle uncertainty through institutional co-evolution. Companies may consider four strategies to face those institutional distance; using one

strategy or more than one approach to deal with different institutions in home and in host countries (Phillips et al., 2009). Mäkinen and Kasanen (2016) explain how companies could be extremely influential and powerful in the global economy where clear boundaries among politics and businesses are crucial.

According to Ghemawat (2001), *managers* have the crucial influence whether to succeed in the international business, where they will make the final decision based on their analysis of such as government procedures and differences in financial and human resources. In addition, the *technology* contributes highly in facilitating the agreements such as licensing and helps to exchange services such as in management consultancy (Dunning, 2000). Further, by using the new *technology*, the boundaries would disappear between bilateral economies and it economizes the transaction and hazards costs (Picot, Ripperger, & Wolff, 1996).

2.2.3 Geographic Distance Influence on Internationalization

Geographic distance is defined by the area that is located between the local seller and the foreign consumers (Ojala, 2015). The *Geographic Distance* is the different size of two countries and the approximate distance between their borders, which cause costs of transportation and difficulties in the communication and exchanging products or services (Ghemawat, 2001). Ghemawat (2007) additionally highlights on the *geographic* distance within the CAGE framework which relates to the differences of time zone, climate, and scopes in addition to the cost of transports and communication (Ghemawat, 2001). As the *geographic* distance decreases as it reduces time, capitals, and costs, this decrease will therefore increase the relationship between different markets, as well as improving the gain of learning about foreign industries (Ganesan, Malter, & Rindfleisch, 2012). Furthermore, the increase of *geographic* distance may affect intangible goods and service besides the products and therefore leads to decline the flow of equity between two countries (Ghemawat, 2001). In that sense, Scott-Kennel and Von Batenburg (2012) discuss that the firms may avoid such a distance by offering alternatives to adapt the legal, financial and any other business differentiations.

The foreign country decreases the *economic* and administrative costs with being information transparent and having mutual geography, so it will bridge any *geographic* distance issue and attract firms to do business with (Ojala, 2015). In sense of

internationalization for initial time, gaining knowledge of *geographic* locations is crucial before making decision and in addition, the social knowledge of the host market would avoid any competition in a specific region (Vedula & Matusik, 2017). Similarly, the incomplete information of foreign markets would cause geographic barriers in terms of trade and foreign direct investment and therefore, the internationalization would be risky (Kraus, Ambos, Eggers, & Cesinger, 2015). However, in the case of service products, there is no issue regarding the geographic sites which could create logistic problems between two different countries (Ojala, 2015).

According to Kraus et al. (2015), a practical example that covered top managers and 126 CEOs of firms located in different countries, the findings show that *managers* play a role in evaluating the risks and then make the right decisions of whether entering a new environment. In addition, raising the *geographic* risks toward the host markets, will be present, when the exchanged information is not coherent (Kraus et al., 2015). Therefore, Håkanson (2014) argued that the *psychic distance* has been decreasing due to the recent improvements of *technologies* related to communication and information. Such *technologies* make international markets more transparent which facilitate the matching of geographically proximate to minimize transportation costs (Håkanson, 2014).

2.3 Literature Review Summary

Internationalization has been improved ever since Adam Smith's theory of international trade which explains exporting between countries (Schumacher, 2015). Firms export services through the involvement increasing of operations in international markets which is known as internationalization as firms may experience negative performances (Capar & Kotabe, 2003; Welch & Luostarinen, 1993). Furthermore, failing to have international operations may lose SMEs' competitiveness particularly when home markets are small and have less opportunities while customers internationalize (George et al., 2005). SMEs may internationalize gradually by starting their business domestically to gain knowledge of foreign markets to internationalize gradually following the classical Uppsala Model of internationalization (Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Such a model has proved the success of many Swedish companies (Vahlne & Ivarsson, 2014) because of their learning and advantages occurring to overcome the distances of internationalization (Vahlne & Jonsson, 2017). A dimension

with the Uppsala model is the *psychic distance* which is described as inconstant (Ibbotson & Fahy, 2004). Horner et al. (2016) claim that the *psychic distance* has a relationship to the strategic choice process and *managerial* arrangements in internationalization aspects.

The *psychic distance* dimension reflects three types of distances including *cultural*, *economic* and to some extent *geographic* distance (Johanson & Vahlne, 2009). It is claimed that the *psychic distance* is determined by the *cultural* distance in which cultures may change (Sousa & Bradley, 2006). It is argued that *cultural* distance may have an impact on expansion into new markets which creates a need to understand and analyze cultures in foreign markets to operate better overseas (Hutzschenreuter et al., 2011; Barkema & Drogendijk, 2007). Therefore, adapting to distinct cultures, the *managerial skills* could be a useful tool for overcoming the liability of internationalization (Delbridge & Keenoy, 2010; Johanson & Vahlne, 2009). According to Yamin and Sinkovics (2006) *active online internationalization* (*AOI*) could be used as a means to decrease *cultural* barriers to new markets using *e-commerce* that integrates *cultural* traits.

Le and Elliott (2017) mention another significant distance which is related to *economy* and discuss that this differentiation of bilateral *economic* regulations would affect the FDI. Whereas Cantwell et al. (2009) argue that companies have to adapt the institutional differences to avoid uncertainties. Ghemawat (2001) states that *managerial skills* could prevent any foreign financial procedures that could create a loss for businesses. Picot et al. (1996) add that *technology* contributes toward less border issues. A final dimension within the *psychic distance* has been presented by Ghemawat (2007) that reveals that companies could suffer from *geographic* distance in terms of time differences, environment and transportation costs. Kraus et al. (2015) illustrate that the *managers' decisions* help to make a blueprint of risk evaluation and then take the right option of entering a new country. In addition, Håkanson (2014) debates that *technology* helps decreasing costs and making the business world more transparent.

Finally, it could be summarized that various literatures give important insights and should be considered and analyzed critically against each other when used as a base for improvements of internationalization for SMEs within the service industry.

3. Methodology and Method

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This chapter will outline the methodology of this research as the research philosophy, study process design and scientific approach are described. Furthermore, the chosen qualitative method is presented by describing how the data was selected, collected, and analyzed in addition to covering the quality, validity, and credibility.

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3.1 Research Philosophy

Scientific philosophy should deal with the source, the nature, and the development of knowledge by balancing between the researches and reality through using positivism and interpretivism (Saunders, Lewis, & Thornhill, 2009). This research includes a social complex issue that could not be understood by gathering and analyzing objective data and therefore the authors were motivated to use interpretivism rather than positivism.

1 • Interpretivism, explaining the study philosophy.

2 • Abductive, planning the research approach.

3 • Qualitative Method, planning the research strategy.

4 • Semi-structured Interviews, explaining data collection and analysis.
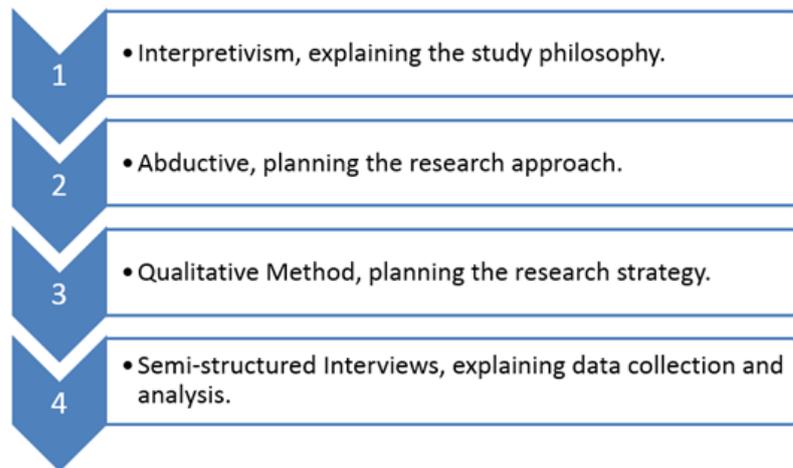
Figure ii Showing the Methodology of this Study.

3.1.1 Interpretivism

Interpretivism approach helps the researchers to recognize the factors of their study using interviews, focus groups, questionnaires and investigations, in addition, it combines the human concerns into the research and make the differences between human actions clear to be understood and interpreted (Saunders et al., 2009). Interpretivism is also recommended and used within the research fields of organization and human resource management due to the fact it often involves unique and complex situations which makes it more useful for a qualitative method (Saunders et al., 2009). Interpretivism contributes

better for this study to understand how and why businesses make strategic decisions to operate locally, internationally, or both. This study aims to understand the psychic distance from others' perspectives and experience and that is why interpretivist paradigm is used.

3.2 Research Approach

According to Anderson (2005), abductive reasoning may begin with a set of observations that are incomplete with providing explanation to decisions made.

3.2.1 Abductive Research

Abductive research method facilitates the understanding between the chosen literature review and the interviews, so that it could be possible to identify the gap in-between. Afterwards, the paper will be able to avoid any misleading during the research process and assure to conclude good outcomes to eliminate the gap. The abductive research begins with reflection of facts to frame the scientific theories to be considered during the research process in order to avoid any obscurities. In this approach, the authors would be able to face outcomes that are resulted by practical effects and phenomena which have no clear explanation in the current theories. This will lead to the valuable answers of problem as well as the effects of phenomena (Stoopendaal, Grit, & Wehrens, 2017). Therefore, the starting point is the effects of the psychic distance that has three distances such as cultural, economic, and geographic distance according to Uppsala model, and then the two phenomena the managerialism and the technology, where it could be possible to end with reasonable understandings of the data. Accordingly, the authors aim to use the abductive method in this study which constitutes regarding to Stoopendaal et al. (2017) to be as the way that assists to analyze the most essential concepts related to the strategic thinking and creative capabilities of the interviewed companies in light of some literatures.

3.3 Research Method and Design

According to Babbie (2013) there are three approaches to use to conduct social studies using exploratory, descriptive and explanatory studies. The exploration study is used when a researcher is interested in a topic while the description study is used to focus on observed situations and events. Finally, the explanation study focuses on understanding reasons for occurring phenomenon with causes (Ritchie, Lewis, McNaughton Nicholls &

Ormston, 2014). This study would use the exploratory research in addition to putting high considerations during conducting the research on the relevance of using the exploratory research, qualitative research method, semi-structured interviews, and interview design.

3.3.1 Exploratory Research Design

Exploratory research design implies primarily to find out the research questions without aiming to provide a final resolution to the problem of the research (Saunders et al., 2009). Exploratory research design is a valuable way to realize what is happening and to get new insights to ask questions and evaluate phenomena in light of the research problem (Blackstone, 2012).

3.3.2 Qualitative Research Method

The recent research strives to study the role of psychic distance and its impacts on SMEs when they internationalize. Therefore, the authors chose to use the qualitative approach in order to fill their curiosity and give a clear description of the required data. The qualitative study focuses on the description of phenomena which gives a comprehensive understanding, analysis, and interpretation. It differs from the quantitative research that focuses usually on the experimentation and the detection of the cause or outcomes based on numerical data. The question in qualitative research is more concerned on the process and the meaning than the causes and the effects (Blackstone, 2012). The qualitative research aims to explore the attitudes, behaviors and experiences using several methods by conducting in-depth interviews. The advantages of such research are the great flexibility that gives to the researchers during the interviews, and the possibility to modify any question to be in line with the purpose of study (Wilhelmy, Kleinmann, König, Melchers, & Truxillo, 2016). Further, since the authors aim to get more indirect data, the mindsets of management board, and the rational intelligence of SMEs, then, the qualitative research is better to be used.

3.3.3 Data Collection and Analysis

The recent research aims to collect primary data in order to investigate specifically the purpose of this study. This kind of data could be considered as raw materials that are full of essential information to elicit the required data that is in line with the purpose (Blackstone, 2012). In contrast, the secondary data which is beneficial to the current study by considering mainly academic journals as a main source to examine practical facts and

credible sources (Blackstone, 2012). The academic journals were directed toward most cited journals. Following this way, the authors would be able to deliver deeper insights about both positive and negative sides of internationalization through the psychic distance. However, the relevant literatures are used to examine theories, models, and management backgrounds. All these sources have proved core points particularly.

The authors have contacted more than sixty SMEs between February and May 2018. The response rate was about 25% of refusing participation while four interviews were agreed to be conducted. The authors used also online search engine which was "Great place to work"[4]. By using that website and contacting all the list of SMEs, the authors got a positive response from one SME. The communication conducted individually through phone, work email, Linkedin[5]'s accounts. Communication achieves by using two languages including English and Swedish. Since the interviewed SMEs are located inside and outside Jönköping, and in light of the current development of digital interviews, the authors conducted two face-to-face interviews in both Jönköping and Lund, and three interviews online by using video calls on Skype[6] to overcome the busy schedules of interviewees that may not be reachable easily in Sweden or abroad. Further, the interviews were recorded, and screen shot with approval of each interviewee to do so. After finishing each interview, the authors transcribed it.

When it comes to analyze the collected data, the thematic analysis was used which the authors organize the data in specific parts and then explain and interpret them analytically to transcribe the answers in the empirical data section. The thematic analysis may be conducted by focusing on the commonalities between the data from different interviewees (Gelo, Braakmann, & Benetka, 2008).
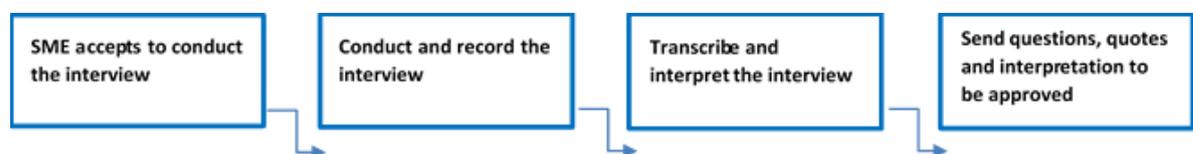
Figure iii Showing the Process of the Empirical Data.

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[4] **Great place to work** is an online website that has a list of SMEs. The advantage was that the companies got the certification of best workplace that related to cultural, developing process, and level of employment aspects.
[5] **Linkedin** is the world's largest professional network platform that has hundreds of millions of members.
[6] **Skype** is a software that enables millions of individuals and businesses to use free video and voice calls.

3.3.4 Semi-structured Interview

Interviews could be unstructured, semi-structured or fully structured (Robson, 2011). This research focuses on semi-structured interviews. Having semi-structured interview could allow the authors to use both descriptive and exploratory research process. The semi-structured interviews were conducted with an acceptable open framework that led to the focused bilateral dialogue. Furthermore, it combines the structured and unstructured interviews in which it follows both a constant list of questions with few open broad and follow-up questions to gain relevant data. Therefore, the interviewers followed objective path of dialogue that were outside the question list to collect more data. Most questions were asked during the interview giving both the interviewers and interviewees the flexibility to go into details when needed. Semi-structured interviews also gave the interviewees the freedom to express their opinions where they gave reliable data that could be linked to other points to flow the data. This helped to generate in-depth interviews that reached the aim of interviews and educed valuable information to fill many points of study purpose (Blackstone, 2012).

3.3.5 Interview Design

The interviews structured by imposing different questions which have a primary focus on the research topic. Formulating the questions according to each aspect, thus, that would improve the quality of interviewees' answers to cover most required aspects (Wilhelmy et al., 2016). The interviewers intended to split the questions into four aspects, which are, general questions, cultural distance, economic distance, and geographic distance. In addition, examining how two phenomena the technology and the managerialism affect the distances when internationalizing. The questions were based first of all on the frame of references in this paper. Further, the questions were modified after the first interview to give in-depth awareness for the next interview to get valuable answers (see *Interviews Guide in Appendix 1*). Additionally, when the authors faced a challenge to get a clear answer about the personal attitudes, thoughts and norms toward cultural distance, the authors turned to follow the behavioral and situational approach in the interviews. This was a good strategy that facilitated for interviewees to describe their previous actions toward different situations (Kluemper, McLarty, Bishop, & Sen, 2015).

The authors took into consideration the service type of SMEs, where the authors took more advantages from the SMEs that are specializing in consultancy service; since they

are more experienced in international markets and contribute with the internationalization of other companies.

3.4 Research Strategy

Johannesson and Perjons (2014) claim that research strategies could be the path that is implemented to carry a study. Conducting the research study could be achieved by conducting case studies that could contribute to gaining outcomes of this study.

3.4.1 Case Study

The case study in qualitative research aims to deliver an empirical information and proofs about the phenomena within the field of research (Baxter & Jack, 2008). Namely, it helps the authors to begin studying a specific organization in detail to obtain knowledge for the purpose from various aspects such as cultures, traditions, values, thoughts, mindsets, and ideas. Following this way, the researchers could deepen the knowledge about the internal process, the interest, and the motives of individuals as well as the organization. Using case study strategy will ensure and give in-depth understanding of each aspect per se to show the importance when questioning how and why since it is beneficial and helps to derive more information (Harrison, Birks, Franklin, & Mills, 2017).

3.4.2 Case Selection

The authors of current research aimed to choose only to contact service SMEs that are in international markets. This would assist to be consistent in investigating the purpose to end with compatible outcomes that fit into one industry. Service industry is depending less on physical presence in other markets as SMEs working in such an industry usually provide their services online.

3.4.3 Case Design

Since the current research aims to analyze several cases by contacting with many service SMEs, therefore, according to Gustafsson (2017) the recent case design would be multiple structured. Gustafsson (2017) defines the multiple case study as the research that has more than a case to be investigated, in addition, the multiple empirical sources that help the authors to illustrate the similar and different information of all cases. This method would enrich the recent study by presenting more in-depth interpretation.

3.4.4 List of Interviews

Table 1 Showing the List of Interviewed SMEs

Case No.	Name of SME	Founded *	Service Industry	Employees **	Interview date, length, channel
1	Nilaho AB, interviewing CEO	2017	Consultancy	250 worldwide including 5 in Sweden	2018-03-28 129 minutes video via Skype
					2018-05-16 45 minutes follow-up interview video via Skype
2	Teleopti AB, interviewing CEO	1995	Software	203 worldwide including 100 in Sweden	2018-04-05 40 minutes video via Skype
					was not reachable for a follow-up interview
3	Result Nordics AB, interviewing co-founder	2007	Consultancy	14 worldwide including 10 in Sweden	2018-04-09 77 minutes video via Skype
					2018-05-04 14 minutes follow-up interview via a phone call
4	Innovation Villa AB, interviewing co-founder	2015	Consultancy	3 in Sweden	2018-04-20 41 minutes face-to-face in Lund, Sweden.
					was not reachable for a follow-up interview.
5	Insatt AB, interviewing co-founder	2015	Legal	20 in Sweden	2018-05-14 30 minutes face-to-face in Jönköping, Sweden.
					No need for a follow-up interview.

* Founders of mentioned SMEs in case 1, 3 and 4 have founded previously other SMEs with different names so the co-founders have wide experience within international businesses.
* *Number of employees has been displayed according to the interviewees.

Allabolag[7] is not updated as it usually shows year 2016 which means employees in 2017 and 2018 are not registered yet. Also, the mentioned SMEs have also international

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[7] **Allabolag** is a Swedish website, (www.allabolag.se), that provides public information about registered companies in Sweden.

employees that are not registered in Sweden in addition to working intensively with professional freelancers that work only with business missions for projects' periods without being legally registered as employees in Sweden.

The profiles of five SMEs which are included in the previous table and the appendix (*see Profiles of SMEs in Appendix 2*). However, it is important to mention that an exception was made within the current study of Case 1, due to a foundation in Estonia since 2001 and in 2017 started a business in Sweden, Nilaho AB. The SME is registered in Sweden but has no financial data or employees' registration in Sweden, but its interview has contributed exceptionally well to the current study during two interviews in more than three hours as CEO, Lars Olofsson, seems to be knowledgeable in all aspects of the current study since he has been working in many countries for more than 30 years, for more information about case 1, *see profiles of SMEs in Appendix 2.*

3.5 Quality Criteria

The authors have taken all four quality measurements' tests (Yin, 2009). Furthermore, to achieve a better quality, focusing more on reliability and confidentiality with highlighting on ethical and financial considerations; and validating all data used in this research as mentioned below.

3.5.1 Validity

Yin (2009) claims that there are four quality measurements' tests within case studies including construct validity, internal and external validity in addition to reliability. Firstly, construct validity deals with questioning if previous researches are the same as what is claimed to be investigated which could be achieved by collecting data, in addition, reviewing outcomes by interviewees of the study. Secondly, internal validity that works with rationality of causal relationship which enhances by using logic models to explain the relationship. Thirdly, external validity which is related to the conclusion and how the conclusion could be applied or not to other research outside specific context; by using analytical generalization where the results could go beyond the context (Yin, 2009). The authors have taken all four quality measurements' tests by using varied sources, reviewing outcomes with interviewees, the construct validity.

Validity indicates to the credibility of research collected data and the conducted process. Therefore, the research would be valid when the research questions are consistent with the ultimate outcomes (Leung, 2015). To end up with accurate findings and good conclusion of the recent research, the authors casted light on the importance of validity since the findings should be valid to the field of study to deliver a transparent and applicable research. Furthermore, the authors checked legal registration of all involved SMEs in Allabolag website, in addition, adding all relevant facts and data about SMEs used in the current research to show each SME separately as some of them have been run previously with different legal names or registrations abroad.

A final quality measurements' test within case studies is reliability that could deal with replicability of the results, in addition, documenting the process which makes it easier for others to repeat the methods (Yin, 2009). Interviews are conducted using a hermeneutic approach which means that having a pre-understanding of the company's current situation and exchanging information without any ethical questionings toward the firms (Laverty, 2003). Interviewees are informed and approved publishing the outcomes in public and tapping the interviews. In addition, the five involved SMEs received the last version of their interview to approve. Case 1, Case 3 and Case 4 approved the outcomes of last version, while Case 2 edited the text to some extent. Furthermore, Case 5 organized the text for a better layout and edited slightly to the explanation of the quotes, the content, however, stayed untouched. English was used only to avoid translating.

3.5.2 Confidentiality and Ethics

The interviewees had been given oral and written information about the study, authors and introduction about the authors' school as well. This study has no external financial support while the authors have no conflict of interest. Furthermore, the authors informed the interviewees that the outcomes would be published to public. Therefore, the authors showed the companies that they were able to hide their identity and the company name, if they preferred. Anonymous participating companies and individuals would be provided a confidentiality agreement signed by authors of the current research to be legally and ethically responsible for not directly or indirectly referring the person name, company, or any sensitive data. However, all interviewees have accepted to publish the research outcomes to public without hiding their identities and SMEs' names.

3.5.3 Data Searching Difficulties

The authors of the current research have confronted many difficulties during searching data to include. All difficulties, keywords, research outcomes are mentioned in (*see Data Searching Difficulties in Appendix 3*).

4. Result

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In this chapter, the authors present the outcomes of the empirical findings conducted using the semi-structured interviews in the case SMEs. This chapter is divided in three sections in corresponds to the analysis section in chapter 5.

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All presented questions in this chapter are available with the same order and numbers below (*see Interviews Guide in Appendix 1*). Moreover, the extra answered questions are mentioned below (*see Extra Answered Questions in Appendix 4*).

4.1 Cultural Distance Influence on Internationalization

Question 1

"It could be facing differences in everything, dress code, management style, cultural relationship, interaction, and communication." (CEO, Lars Olofsson, Case 1)

The CEO argues that cultural differences are how people wear in business context is different. Furthermore, management styles are different in terms of joint decision or exclusive decision to one manager. Interacting with people could be different as some cultures has a more social relationship than others where relationship matters more than businesses. According to the CEO, one language, English, is enough worldwide to communication for business.

"You face a new situation where you are in unknown place, no one knows about you."
(CEO, Olle Düring, Case 2).

The CEO states that through entering a new foreign market, the company would face some difficulties since it is not that much familiar there.

"Different markets are different because of culture. It is completely a different mindset." (Co-founder, Jens Ahlvarsson, Case 3)

Cultures have been the reasons of why the markets are different. This reality requires cultural understanding by companies to succeed in foreign markets. Ahlvarsson argued that some cultures are more open, friendly, overexaggerating or even humble.

"Maxing businesses and relationships. Many negotiations. Working with the face

rather than contracts. Lack of efficiency, trust and commitment. How other cultures respect time or calling all time even outside working hours." (Co-founder, Ahmad Ghazawneh, Case 4)

According to Ghazawneh business has difference practices in different countries. People would not differentiate between conducting a business and building a relationship. Building cooperation on words rather than contracts and when having contracts then negotiations would be done again as first agreement is not enough in some cultures. Employees or partners could be less committed, contribute less and therefore as an employee there is no place for trust. Finally, time management on being punctual with deadlines and respecting working hours.

"Different cultures is one main reason for being a bit conservative in internationalizing the business. How you deal with employees and leadership is quite different. You need to learn how to work with for example Indian people, Chinese people or Japanese people. And um, it takes time, you will never become fully learned. During the negotiation with a Japanese company, they start to talk with each other for 15 minutes about how the launch plan can be affected of different scenarios. They wanted to have all risks on the table, they should be 100% sure that they could deliver on time. Thinking of earthquakes and theoretical quality problems, for us that is goes without saying that something can happened, of course, the launch maybe delayed if we are running on a huge quality problem but for them they need to have it on the table. If the sun does not go up tomorrow, they need to raise that in the discussion." (Co-founder, Anna-Lena Isaksson, Case 5)

According to Isaksson, cultures are barriers to international markets which makes it difficult to operate. Two examples of those challenges are employees' empowerment with having values, in addition, having different leadership styles including the power distribution in all management levels rather than the top level within the company. Operating abroad creates the need of learning about new cultures that takes time.

Question 2

"Traveling is the best way to learn about cultures; I have done many mistakes; the best way is to find a local partner that is familiar with local customs and culture as they could not be learned by Google. Build networks and get references on people that you would work with." (CEO, Lars Olofsson, Case 1)

A solution to overcome cultural differences is traveling and living in a specific foreign market without doing any business, to learn before conducting business. Cooperating with a local partner that is knowledgeable in local customers, and traditions. Internet searching sites including Google is not enough to learn about those cultures. Another way is building networks through Linkedin and Facebook.

"It is better to have a local in most cases. By being within, by serving them well. For example, in Middle East you need to respect the religious people, you do not schedule a meeting during prayer time in Saudi Arabia, do not be humble in US, be proud, show that you have self-confidence, in other countries you need to show more empathy. We have networks and references." (CEO, Olle Düring, Case 2)

The CEO claims that by hiring local nationals for their subsidiaries is better than hiring Swedes. By this way could avoid any differences. In addition, building a strong relationship and network by being present in foreign markets. A religion has an influence on businesses as in some countries, you are not allowed to book a business meeting during prayers' times. Attitude behaviors are important in unhumble culture that SMEs need to mention all their success in addition showing empathy in cultures that have obstacles. Networks could contribute in a significant way in any international operations.

"Being international and having international networks. And be aware and think about a strategy of communication. It is important to have a local person that knows what works and does not work and help to find partnership and clients." (Co-founder, Jens Ahlvarsson, Case 3).

There are complex of ways that should be used to tackle cultural differences. For instance, having an international experience and connections that assist in foreign markets. Releasing and understanding the need of communication strategy as sending a message does not mean having the same content due to the cultural differences. Having a local

partner that is familiar with local culture, market and networks is highly recommended.

"You could not change the culture. Visit studies, have connections, and do our analysis and studies. Be straight forward and just say no. Making it clear within the offer is not negotiable." (Co-founder, Ahmad Ghazawneh, Case 4)

Changing cultures is impossible as an idea. Traveling to new markets with occurring local networks. Investigating differences and threats would decrease the risks. For example, avoiding mixing relationship with business then refusing to offer a friendship free deal is refused.

"Two ways depending on what kind of company group you would like to create, either you place a Swede abroad to implement the Swedish leadership style in those countries or you go the other way around, to keep the national culture in that country and employ a local person you trust that knows that country by heart and live there. Networking quite a lot." (Co-founder, Anna-Lena Isaksson, Case 5)

For Insatt AB, there are two approaches to take, either to transfer the Swedish leadership cultural aspects to the foreign subsidiaries through hiring a Swedish manager abroad or to keep the local culture with hiring a credible person that knows the local culture with an experience of living there. Having networks could assist to overcome cultural aspects.

Question 3

"More managers have an international experience and education that decrease cultural distances abroad with building bigger international networks. Technology is definitely decreasing cultural distance, as technology is used as a mean of communication that facilitate communication using English, so people understand each other. Personally, I am an international person as the managers have to listen and release that the Swedes are the odd ones. Managers need to focus a lot and be patient, treat people with respect and put into plans failures and mistakes." (CEO, Lars Olofsson, Case 1).

Olofsson states that managers today are more used to cultures through being experiencing international education and experience which decrease the cultural differences and facilitates having networks to operate better in international markets. Technology has an

impact since it is used as a means for connecting people using English which spreads cultural understanding. Swedish managers should think in an international context rather than on the strange and small Swedish context. For example, Swedish managers expect foreign managers and employees to join in decision-making while this is only in Sweden and some other countries, but the majority is not following this way. There is a need to be patient and accept mistakes, in addition, treat people with respect.

"On average, Swedish culture is relatively open minded and willing to listen to local customers. Each reign is different you need to be very open minded and adapt to the local culture." (CEO, Olle Düring, Case 2).

Managers with the open mindset could assist to draw foreign customers' attention. He adds that Swedish managers have quite open minds, where the CEO sees that open minds assist to adapt to the other culture, in addition, listening to local customers.

"Managers at least to understand that there are differences in cultures and local differences. Also, managers should be knowledgeable that information could be acknowledge differently in different markets depending on markets, so managers should have different mindsets. Technology does not change or affect cultural differences at all." (Co-founder, Jens Ahlvarsson, Case 3).

Managers should have an idea about cultural differences in different markets comparing to home culture, in addition, being aware of how to increase knowledge using diverse ways of thinking. Additionally, technology has no effect to decrease cultural distances.

"A manager has to lead the business and have knowledge." (Co-founder, Ahmad Ghazawneh, Case 4).

Leading abroad businesses requires a knowledgeable leader to succeed.

"I would not never place a person being responsible for a new subsidiary abroad if that person was not used to working in an international environment. Technology plays no role in culture aspects." (Co-founder, Anna-Lena Isaksson, Case 5)

Managers should be aware enough of cultural differences in addition to being able to work with diverse groups. While technology has no effect on cultural distances.

4.2 Economic Distance Influence on Internationalization

Question 4

"Resources and investment; legal aspects; fees and taxation; price setting and opportunities. For bigger companies, I often make a joke, everyone who is an official officer who has a red stamp to put in some kind of document, approval, license, everyone wants to have money under the table. Companies close their international offices due to economic reasons." (CEO, Lars Olofsson, Case 1).

Olofsson refers that economic distance may affect in terms of resources and investment in a specific location. For example, gaining a home financer from Sweden or foreign financer in the local market to finance the business would be problematic due to the different practicalities in the new market. The legal aspects could include having a local partner as a law as foreigners are not allowed to own a company completely. Another struggle is learning about different governmental systems that have no taxation but expensive legal procedures to obtain any legal approval. Corruption is another issue that arise in some foreign markets as bigger companies may struggle more than SMEs in terms of being asked to pay bribes to legal or illegal identities.

"Some countries do not allow foreign company to own a local company 100%, it depends which country. Brazil and China is not easy. You face maybe new competition if there are local competitors. Some countries are not attractive to do business, more taxes, difficult to get work permits for people or business licenses or time consuming to do everything and every year. Some countries are more bureaucratic that make it more hard, you need to understand bureaucracy. We closed offices South Africa, France, Spain, and Netherlands. Financial crisis in Spain in 2011 no one was buying anything in Spain so why we should be there." (CEO, Olle Düring, Case 2).

Düring states that it is difficult sometimes to own a subsidiary in a host country because there are some regulations that hinder them from starting-up there, except when cooperating with a local partner. For example, India, Brazil and China have many complications to start a business there. The current competitors that are operating in foreign market would influence company during internationalization. Some markets may not be potential due to the complexity of high taxations. The bureaucracy level of a

foreign country plays a role when it comes to economic perspective such as imports or taxes and regulations of business license that is supposed to be done every year. The company de-internationalize due to the lack of profit in some countries which generate less profits and high costs, in addition, countries passing through financial crisis as the demand decreases.

"Closing down subsidiaries and laying off 150 employees and now
switching to working with assignments. Some markets are tricky and competitive.
Companies look at the world rather than Sweden." (Co-founder, Jens Ahlvarsson, Case 3).

Result AB closed some international subsidiaries and fired about 150 employees due to the economic crisis. The company has few employees now and cooperate with professional freelancers that work with individual assignments rather than being hired with permanent contracts. Some countries are tricky with high competition. Expanding to foreign markets is a need of growth as the Swedish market is small comparing to other markets.

"Income affecting customers' behaviors. Unexpected low sales. Invoicing and taxation.
Having a local partner that owns 51% with tax free while we pay taxes." (Co-founder, Ahmad Ghazawneh, Case 4).

According to Innovation AB, an issue that affect the company plans to internationalize is to operate in markets where local customers could afford to buy the product or the service as having low income may cause less sales. Invoicing payment could be in cash to avoid paying taxes in some markets which makes it illegal. Finally, having a mandatory local partner with 51% shares as a requirement to operate in the market which makes this partner the decider of the business.

"Always in all projects I worked in, the cost for traveling and the time spend is
underestimated. Institutional regulations differ from a country to another, different
reporting, tax regulations, cross border transaction and so on. I would be very
restrictive before we are establishing business in another country. It is easy to register
the company abroad; the problem starts when you start running the business especially
the labor law legislation in France is different as it is really really hard to terminate

employments. Losing control in home market." (Co-founder, Anna-Lena Isaksson, Case 5).

For Isaksson, underestimating cost of business trips and time required for missions abroad are affecting negatively on the economic factors. Furthermore, regulations and structures are different in each country in terms of how to report, to declare taxes, pay border transactions and more. Isaksson claims that she is accurate when it comes to internationalize the business since registering the business abroad is an easy stage. However, issues start with controlling the business abroad. For example, she focuses strongly on labors' regulations where in some countries as France, employer could not fire employees easily which makes a challenge if the employee is not doing a respectable job. In addition, operating in foreign markets could result in losing the business in home market due to the lack of time or resources.

Question 5

"Cooperating with a local lawyer to overcome legal difficulties and find a local financier and a local partner. Understand the difference between legal procedures cost and taxation fees. Swedish foreign office, Scandinavian embassies, Business Sweden, and local embassies are very helpful. Read local newspapers." (CEO, Lars Olofsson, Case 1).

Olofsson illustrates that the first way is to hire a legal lawyer that assists in all legal struggles. The principle of taxation and cost of legal procedures consider as basic knowledge to adapt to new markets. Collaborating with local financier and partner may understand how processes function better in foreign market. In addition, their role in validating the business idea within the local market. Swedish and Scandinavian embassies and Business Sweden may help to obtain information and get connections to business people which open doors for opportunities.

"We can never survive in Sweden only. That market is too small. Opportunity to serve a customer, customer focused. Sales is the function that is mostly required to be as local as possible. The majority of our subsidiaries are wholly-owned subsidiaries sometimes that is not possible. You need someone with quite a lot of entrepreneurial skills, can sell

to customers in the new market, understands the legal frameworks and how is it to establish a new company in that company." (CEO, Olle Düring, Case 2).

Düring refers that operating internationally is a way to growth and survival. Gaining profit from demanded customers could solve any economic or any legal obstacles. Hiring a local employee that works with sales in the local market is another key. Teleopti AB always attempts to keep everything they face under control during their internationalization by, for instance owning wholly-owned subsidiaries in the foreign market otherwise having a local partner is the solution if the regulations require that. The local employee plays a role in establishing, running and growing the business in new market.

"Intelligence on the market, the opportunity, realization and not underestimation. Doing a local budget. Learning by doing and scaling up the business. Having the right local person. And being in stable markets and having a realistic expectation." (Co-founder, Jens Ahlvarsson, Case 3).

Ahlvarsson states that by conducting many workshops is the key to internationalize better as over or underestimation of opportunities or challenges may have an impact on the company. Being realistic on how much efforts it takes and how much resources and time to operate in foreign markets. Using local partners that understand the business and have relevant networks are more useful than cooperating with experts in foreign markets. Company may learn by doing with international experiences and ensure that their business idea is replicable or require changes to fit into the new markets. Expanding to stable markets to avoid any risks.

"Visit studies, have connections, and do our analysis and studies. Looking for a stable country. Having a local partner. Reducing the cost to sell and using technology to reduce cost. Exporting through an agent. Using a third party to provide invoices. Free payments in advance. Giving a partnership deal to keep our shares in a legal way and avoid paying taxes." (Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh says that visiting the country with acquiring contacts are keys to gain knowledge about international markets. International operations may be easier by either offering cheaper costs or by using technology. Using a third party to sell for your company to skip physical existence or to invoice to your company to avoid illegal

payment. Requiring advanced payment to make reduce financial risks. Allowing local partners to own the business 100% to avoid paying taxation with offering them business deal to generate more profits.

"Maybe it is a learning curve to start with the easiest countries before you go in to the tough ones, France for example. We need to check this with a local lawyer. Networking quite a lot." (Co-founder, Anna-Lena Isaksson, Case 5).

Insatt AB sees learning as the best option to overcome economic and institutional distances. For example, following international publications that show new legitimations. Another approach is to internationalize first to countries that are similar to Sweden in terms of regulations and economic aspects. In some cases, cooperating with a local lawyer could assist to overcome such challenges in addition to having contacts that could assist as well.

Question 6

"Managers are feeling not fully control what things affecting their decisions and the business overseas. Politics changes could affect the business abroad within a couple of days today. You need to have much more knowledge, experience, education, technology, communication and internet in addition to holding a master degree about economy and experience to adapt to new situations. Technology, it is, well, if you see the cost of international market, definitely it increases the cost to have much more systems within high technology that is required by new regulations including preparing surveys which cost. E-commerce definitely reduces cost, but the bigger problem is standardization like the tax regulations that may change and required managers to adapt." (CEO, Lars Olofsson, Case 1).

According to Olofsson, the world is changing rapidly where managers should learn more and adapt to tackle economic and institutional differences in international markets. Political changes are an example that was strongly highlighted including changing taxation systems, technology and reporting systems enforced by new law. Knowledge is valuable for managers today comparing to 20 years ago. Technology have a positive and a negative influence as well. A positive impact that using e-commerce could reduce cost of operating overseas since many missions are achieved online, while the negative side is

upgrading to modern expensive technologies to follow the new regulations or to gain a competitive advantage.

> *"It is a joint management decision, but in the end, I would decide if we open a new office."* (CEO, Olle Düring, Case 2).

Düring refers that the role he plays in terms of internationalization is not just depending on him, instead, the decision would be discussed by all management staff and then the CEO would ultimately make the proper decision.

> *"Managers have to release the right conditions. Internationalization costs a lot of money that could be avoided if managers are prepared better, it will take more time, you need to have the right conditions. Managers should have the good people and focus on the opportunities. Managers should know that it is not only opening an office abroad but what are the key parameters that really drive the business. Have to go through a checklist in a high level. With help of technology you are able to test different assumptions in a much cheaper way nowadays without being investing too much into the market. Technology overall would equalize the market."* (Co-founder, Jens Ahlvarsson, Case 3).

For Ahlvarsson, managers should understand how conditions affect the success of the business as situations could be make it easier or more difficult in some markets. Therefore, managers should be knowledgeable as a preparation plan is recommended to tackle all those situations by focusing on opportunities and hiring the right people for the right missions. Managers with such skills would decrease costs during internationalization. Technology could assist in testing all scenarios and situations in foreign markets in a cheaper price which contributes to creating a market that fits all market with more available data.

> *"Managers should understand how transactions and taxation system in other countries."* (Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh refers that international managers should learn about financial aspects in terms of payment and taxation internationally.

"Managers should have some sort of knowledge on law on other countries as well. Technology decreases the cost." (Co-founder, Anna-Lena Isaksson, Case 5).

According to Isaksson, managers should be knowledgeable about regulations in other countries which means understanding the actual costs of international operations as well. On the other hands, using technology could reduce the costs of operating in other markets.

4.3 Geographic Distance Influence on Internationalization

Question 7

"Time, travel, production and shipping." (CEO, Lars Olofsson, Case 1).

Major differences are time differences in home and foreign markets where communication should have a time schedule that fits both communicators. Traveling on business trips would be a bit problematic if the business requires many trips to far away countries as it takes time and efforts. SMEs working within services would not face such an issue.

"To have many subsidiaries is adding complexity for any company. But it depends if there is a potential market." (CEO, Olle Düring, Case 2).

For Düring, companies could face some difficulties when owning several subsidiaries in different countries. If companies avoid launching a local subsidiary in a foreign country that would be better. However, some countries have a better opportunity to run a profitable business which requires having a local subsidiary.

"It usually takes more time than you think for reporting back and meetings." (Co-founder, Jens Ahlvarsson, Case 3).

Ahlvarsson claims a problem with time differences. For instance, he cooperates with people in Brazil which has about 4 hours difference. This time difference affects the efficiency of work during meeting, reporting, and communicating.

"To govern the business process from Sweden. Customers who are living in Turkey and the Middle East do not know so much about Sweden, Swedish services and products."
(Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh states that leading a business in a foreign country from home is not easy as process requires physical existence. Customers may not be aware of home markets' products and services which made them unattractive.

"In all projects I worked in, you have underestimated the time spend. Time zones differences. The more you are far away, the more the cultural differ to a certain extent."
(Co-founder, Anna-Lena Isaksson, Case 5).

Traveling to the subsidiaries abroad may require more time to finish the work. Furthermore, controlling the business from home market, Sweden, may create a communication difficulty among home and foreign markets. Also, operating far away from home may increase the cultural differences.

Question 8

"Traveling is the best way to learn about geographic distance. Find a local partner that has wide networks and know-how daily life practices." (CEO, Lars Olofsson, Case 1).

Olofsson states that by visiting the new markets would be as a way to understand how to overcome the challenges. Cooperating or hiring a local partner in the new market is also a way to know how to tackle the issues using local partnerships.

"We have customers from Yemen and Syria, MTN Yemen and Syriatel, so we do not have any local staff in Yemen, in Syria or in Saudi Arabia, we can manage it from Dubai. We can send the CDs with the software, we can send a consultant that spends three weeks on sites and do the project." (CEO, Olle Düring, Case 2).

Düring claims that Teleopti AB has managed to serve customers in some risky countries by operating from an office that is closer to those risky countries. Providing services could occur by distance according to Teleopti AB as they rarely do field visits to those countries with higher distances while they send all software solutions to locals that use them.

"Realization of time differences." (Co-founder, Jens Ahlvarsson, Case 3).

Ahlvarsson states that company is just required to understand how the time differences should be addressed to achieve the goal of internationalization without distrusting local business.

"Having standards process and a lawyer. Having two different managers at once which cost, a Swedish and a local manager." (Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh says that reporting system or working structure to follow employees and control the remote business in an easier way in addition to having a lawyer in case of selling shares. Also, having a Swedish manager abroad and a local manager that have access and networks.

"Work early morning and late at night to be honest that the way to overcome." (Co-founder, Anna-Lena Isaksson, Case 5).

To overcome time differences in home and foreign markets, you need to wake up earlier in the morning or stay awake late at night to contact them in a suitable time for both of you.

Question 9

"There is a generation gap when it comes to management style, in Sweden we are not social in personal face-to-face meetings that have more value in Asian and Arab cultures comparing to Swedes that are more like just say hello and have meetings on Skype and could communicate via email and so on. Technology is much easier to be connect to people, it is a very small world. I start my day having meeting with people in the Philippines and in the end of the day, I have Skype meetings with people in the west coast of Settle in the US. Technology is used much much more in service companies today to do work with international clients much easier." (CEO, Lars Olofsson, Case 1)

It is claimed that managers follow two management styles, in one style managers prefer to have face-to-face meetings, in addition, building personal relationship and socializing with the families of their business partners which is more common in Asian and Arab cultures. On the other hands, a Swedish style prefers online communication and less social commitment which is not appreciated when cooperating with Asians or Arabs who value social communication highly. Technology could decrease geographic distance by offering distance online communication with international partners easily as a manager could arrange online meetings with people around the world within the same day.

"Sweden is the front of technology and we are a company is part of that. How was life before Skype. E-business increase the reach, so you can offer the same solution to customers in a far away, that is good, before a new technology the support was very much depending on the local people, now you can have a strong supporting form many places in the world." (CEO, Olle Düring, Case 2).

Düring claims that Sweden is professionally advance in the technological solutions as Teleopti AB contributes in these advances. He adds that the technology including digitalization has played a role in their success. Further, the CEO thinks that by e-business, the company could reduce the cost between different distances and serve customers all over the world from distance without presenting physically in each country.

"Communication is easier as we do it online. You can do more without being physical present, but it depends on the business. Managers in different time zones should be aware of time differences. Swedes go to other Scandinavian countries as a first step because they are aware of geographic distance. Maybe this is not where you have the best condition to drive your business but if you have made the right decision if you pick the right market to go to, I do not think geographic distance matters much." (Co-founder, Jens Ahlvarsson, Case 3).

According to Ahlvarsson technology is playing a huge role in decreasing the number of physical presence in other locations particularly within the service industry. Internet communication requires balance to organize communication, reporting, meeting, and following up. Managers should be aware of how time differences in many locations abroad could affect leading, following, tracking operations and employees in other countries using online platforms. An example to avoid this was to operate in closer countries to the home country. Managers should follow business opportunities, no matter in closer to home markets or not.

"Having a virtual line with a local number that is directed to your office in Sweden using technology." (Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh refers that using online service make it easier to offer local communication from a geographical distance. For example, the electronic service may use a local Japanese number that is connect to a Japanese employee that works in Sweden so

customers in Japan thinks that they communicate with a local company while they call Sweden in a cheap cost.

"Young people born with smart phones in their hands, more or less, the old school guys are more traveling and sitting face to face while new school guys use online communication more. Technology could make life easier, just talk about Skype as one technological solution, is easy nowadays. Technology helps as a communication tool."
(Co-founder, Anna-Lena Isaksson, Case 5).

Insatt's co-founder claims that managers vary relying to which generations they belong to. For example, older managers may travel usually to keep an eye on how the business function abroad while young managers are more connect to online technology and prefers more to communicate online. Technology serves as a tool to communicate people in international subsidiaries.

5. Analysis

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The result will be analyzed in this chapter using the theoretical aspects in the frame of references. This happens through discussing the findings that are corresponding to the context related to cultural, economic and geographic distances within the psychic distance as well as the roles of managers and technology in term of the psychic distance.

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5.1 Context of Cultural Distances

The need for cultural understanding is an essential aspect in terms of internationalization. As SMEs should be aware of cultural differences including management styles to succeed in communication, gaining agreements and making sure that the business ideas would be perceived well in other cultural contexts.

Cultural Influences on Internationalization

It is claimed that psychic distance is determined by the cultural distance in which cultures may change (Sousa & Bradley, 2006). Example of psychic distance within cultural distance could be the differences in terms of business practices, education, languages, and culture (Johanson & Vahlne, 1977). Case 1, 2, 3, 4 and 5 have focused mainly on the cultural differences between countries and what impact they have during the SMEs internationalization. Based on the cases 1, 3 and 5, they focus in many aspects on cultural differences and behaviors including dress codes, management styles, communication, interaction, and cultural relations within to businesses.

In addition, it features the differences of mindset and how markets are different because of cultural differences. Whereas, case 2 highlights more on religious practices as well as the attitudes, the emotions with empathy and the idea of adaptation to other cultures with an open mindset, what case 1 refers to. In cases 4 and 5, the focus is on the truthfulness in business conducting, the level of hierarchical management and committing between the bilateral cultures. Furthermore, the co-founder of case 4 states that the social factors such as respecting timing besides the oral agreements are more essential than contracts. Whereas case 5 illustrates that the differences in-between the leadership levels and how to treat employees in distinct cultural contexts which are important to be considered during doing a business and building social networks abroad.

More cultural distances are presented in the CAGE framework including social norms, values, language with respect to cultures because what works in one culture may not work in another culture (Ghemawat, 2007). It is argued that *cultural* distance may have an impact on expansion into new markets which creates a need to understand and analyze cultures in foreign markets to operate better overseas (Hutzschenreuter et al., 2011; Barkema & Drogendijk, 2007). Furthermore, culture is linked to the international business models in terms of attitudes, beliefs and values which may have their impact on business practices and the business model according to Hofstede (2011). For that reason, the failure of international operations may be caused by cultural differences and behaviors (Barkema & Drogendijk, 2007; Moon & Woolliams, 2000). For example, analyzing a culture like China that evaluates relationship highly within the concept of "Guanxi", meaning relationship, where relationship is more important than general rules (Zhao et al., 2011). On the contrary, in an individualistic culture, having rules is always more important than relationships (Hofstede, 2007). It is significant to be aware of the Hofstede's power distance dimension (hierarchy-egalitarianism) which shows the inequality of power distribution in high power distance countries among managers and their employees while other countries that have low power distance have managers and employees at the same level (Hofstede, 2007; Gelfand et al., 2004).

Overcoming Cultural Distances

It is found that companies may internationalize to low psychic distance within closer countries first in terms of culture in order to avoid cultural differences that could be highly challenging (Johanson & Vahlne, 2009; Johanson & Wiedersheim-Paul, 1975). Moreover, companies may expand first to similar countries with low psychic distance using the concept of proximity in terms of language proximity and cultural proximity (Caputo et al., 2016). Singh (2015) claims that firms may export to psychologically proximate foreign markets, thus they may operate in a similar culture. The success in international markets relies on learning and building strong advantages to overcome distances of culture (Vahlne & Jonsson, 2017). On contrary, internationalizing to countries with high psychic distance could result in cultural clashes due to high differences which are leading to risks (Johanson & Vahlne, 2009). Caputo et al. (2016) argue that firms use the Uppsala model due to the lack of knowledge about foreign markets, perceived uncertainty or risk aversion. However, companies could not reduce

risk to zero as decisions require quick action, otherwise, opportunities would be missed. Those decisions may be based on general rules across the board to reduce the risk. Furthermore, successful companies adjust to a changing environment and then react to this environment (Vahlne & Johanson, 2017).

Based on cases 1 and 5, there are some common points that assist to tackle cultural distances, for case 1, the CEO sees that by traveling as an international citizen, rather than a Swedish citizen, to potential markets and living there for a period of time before doing any business, brings a gain. By doing so, it could be possible to have a cultural sense about the country, people, daily life, and communication. Moreover, accepting the idea of doing mistakes in learning is essential. Case 5 referred to the idea that by sending a Swedish person to implement a Swedish management style overseas or recruit a local person to implement the local business environment. Whereas case 1 stated that by cooperating with a local partner, mistakes will be reduced as a local partner would be knowledgeable about local norms and what is acceptable and what is not. Furthermore, the CEO of case 1 recommended to build worldwide networks and having references on potential partners to avoid being scammed.

In case 2, the CEO adapted similar approaches by cooperating with locals and building networks in order to succeed in their SME's growth that focuses mainly on customers with a business opportunity. In case 3, the co-founder highlighted the idea of case 1 that referred to an international personality with having a significant focus on international networks including local partners in foreign markets in addition to releasing the communication differences among cultures in order to avoid misunderstanding and loss due to different mindsets. Whereas, in case 4, the co-founder referred to the fact that the foreign cultures could not be changed. Therefore, the SME's staff should manage the cultural differences by visiting the potential host country, scrutinizing the actual environments and having the transparency in doing business there.

Internationalizing through the gradual process within the Uppsala Model relies on knowledge and commitment (Johanson & Vahlne, 2009; Johanson & Vahlne, 2006) and results in many liabilities (Johanson & Vahlne, 1977). For instance, it results in the liability of foreignness, LOF (Zaheer, 1995). Reducing the LOF is an important strategy to increase the acquaintance with the local market (Javernick-Will, 2009). The LOF could

be the lack of knowledge or experience of the culture. The more the company is integrated, the more LOF goes down through using strategic abilities or competitive advantage to overcome the challenges of being an outsider or a foreigner (Johanson & Vahlne, 2009).

Ojala (2015) claims that the relationship between psychic distance and network are increasingly gaining the attention and therefore, Johanson and Vahlne (2009) develop the view of relationship focusing on emotions and relationship in their revised model. This model focuses on building trust, knowledge and commitment to become an insider instead of outsider in foreign markets in cooperation with local networks (Vahlne & Johanson, 2013; Johanson & Vahlne, 2009). The revised Uppsala model switched the liability of foreignness to the liability of outsidership due to the lack of networks in new markets; networks may assist in reducing the liability of outsidership that refers to the network that facilitate the business operations in both, home and foreign markets (Johanson & Vahlne, 2009).

Management Roles and Technology

Management as a part of culture differs among societies (Hofstede, 2007; Gelfand et al., 2004). Therefore, Inglehart cultural mapping clusters provides a general idea about cultures, so managers could use this general idea about the cultures' big picture of what to think and how to act in foreign cultures to succeed internationally (Inglehart & Baker, 2000). Moreover, Trompenaars and Hampden-Turner's model of seven dimensions has been used to assist managers to develop competence for international operations across the world. For example, unconscious behavior conducted by managers toward their employees may result in a business failure due to the affective culture of hidden emotions (Moon & Woolliams, 2000). Additionally, using the six dimensions of Hofstede's model assist to understand cultural differences (Zhaobin et al., 2017; Taras et al., 2010).

Based on the cases, there are mutual themes where cases 1 and 2 stated that managers have to adapt themselves to be a part of foreign communities. Case 1 referred to the idea that managers are more well-informed currently toward unfamiliar cultural characteristics which facilitates attaining good international networks. In addition, the CEO personally has an international mindset and like traveling and exploring international cultures. Furthermore, he added that situations are changing rapidly and that is why managers

should be flexible to adapt to changes in the environment. In addition, the CEO believed that managers should treat others with respect, expect failures and mistakes and be patient. Likewise, the CEO of case 2 believed that the Swedish culture has an international attitude, therefore, managers have to be adjusted in new regions. In addition, cases 3, 4 and 5 stressed that managers have an essential role to be aware toward foreign cultures. The co-founder of case 3 referred that managers are solutions to situations, cultural differences and cooperate with good people. The co-founder in case 4 illustrated that the foreign market has a need for experienced and skilled managers as they would have the efficient abilities to face any changes during the managing process. Whereas, the co-founder of case 5 emphasized that a manager has to be knowledgeable of foreign cultures before doing a business there.

Furthermore, the basic cultural beliefs and values may include management style (Hofstede, 2007). Therefore, in order to adapt to diverse cultures, the managerial skills would be a valuable tool (Delbridge & Keenoy, 2010). International managerialism refers to managers who combines managerial knowledge and the superior ideology in order to create space in companies and communities as well as contributing in training and learning to facilitate the constant business changes (Klikauer, 2013; Glover & Tracey, 2000). Furthermore, Johanson and Vahlne (2009) argue that a significant managerial effort during several years has an impact on overcoming the liability of internationalization which turn the company to be an insider instead of outsider. As insiders may perform better than outsiders in a significant way (Almodóvar & Rugman, 2015). Moreover, managerial characteristics is considered as a factor to determine the firm's internationalization (Omri & Becuwe, 2014).

According to Graves and Thomas (2006), the managerial capabilities are necessary in the international market to have a successful international expansion. For example, having an international or global mindset is considered a successful antecedent of the internationalization process (Skudiene et al., 2015). Nummela et al. (2004) claimed that a global mindset has a role in the success of internationalization in SMEs as managerial experience and market characteristics are the drivers of the global mindset. Neves and Tomei (2016) conclude that a global mindset shows a responsibility of 39.1% of variability of the leadership behavior. This identifies leaders with high global mindsets as more likely to understand differences in cross-cultures and countries.

Regarding to Yamin and Sinkovics (2006), the online is a factor that enriches the knowledge of cultural aspects to be able to observe what is suitable or not to the host countries. In addition, cultures could be assisted by online web pages to smooth the entering mode in a specific market (e.g. Lim et al., 2004; Lynch & Beck, 2001; Singh et al., 2003). It is argued that *e-commerce websites* could contribute to reaching foreign customers while using *AOI* could include cultural traits in online websites as well (Yamin & Sinkovics, 2006).

Regarding to the cases 1, 3 and 5, there are different thoughts toward the role of technology with the cultural distance. The co-founder of case 3 stated that technology has not any influence on decreasing the cultural distance. Similarly, the co-founder of case 5 illustrated the technology has not any key role to reduce the cultural differences. On the contrary, the CEO of case 1 declared that technology contributes in lowering the cultural distance since technology considers as a tool facilitating the communication between distinct cultures.

5.2 Context of Economic Distances

Swedish SMEs have tremendous potentials to take the first step toward internationalization in order to create an important pillar of their development internationally rather than operating in a small market, Sweden. This leads to maximize the mechanisms and the benefits gained from their integration into the international economy. For that reason, SMEs need to be fully aware of the economic changes, risks and challenges of foreign markets to avoid any failure and reduce costs.

Economic Influences on Internationalization

Fisher et al. (2015) express that economic distance should be decreased as much as possible in order to attain the stability between the bilateral economic distances. Nevertheless, this stability could be fragile since foreign markets might experience some trends such as raising prices, changing interest rate, fluctuating exchange rates or a high inflation. All of that contribute extremely to higher risks that lead to radical changes in most economic indicators and thus SMEs that desire to enter new markets. Taking this into considerations, the authors observe that case 1, 2, 3, 4 and 5 have shed light on those risks. All cases 1, 2, 3, 4 and 5 keep attempting to avoid the economic risks. For instance,

the size of company would play a role in increasing the economic risks such as costs of legal procedures, corruption and exchanging service issues. Those risks will still affect SMEs from investing in foreign countries until they are shutting down in some cases. Case 2 and 3 have declared that they challenged issues during their internationalization in many countries because of some economic complexities. Similarly, the risks would be existing when the foreign country has a low income, which affect sales volume or the rate of SMEs' services. In addition, the complexity of cash payments that may create a gap in following the law when it comes to declare the actual taxes of it, may be considered. Therefore, all cases have experienced rough conditions which weakened their competitive advantage and strengthened the local competitors so that in both cases it closed some subsidiaries overseas.

Another effect that hinders the internationalization are foreign institutions which draw the influence of governmental regulations, rules and policies on international businesses (Cuervo-Cazurra et al., 2014). By observing all cases 1, 2, 3, 4 and 5, it is obvious that they have challenged different obstacles because of the differentiation of foreign laws and regulations that are opposed to some or all their goals and missions. For that reason, host countries have the power to enact special laws and required procedures for any firm which desires to expand to their market. For instance, it may be compulsory to have a local partner in some foreign markets. With this, the bureaucracy of the host government aims to enforce the law and collect taxes from foreign SMEs. This, however, affects the SMEs' ownership in which they may be obliged to waiver of all or part of their rights. In addition, influencing the services and international operations consequently disturb the FDI (Pathan, 2017).

Overcoming Economic Distances

According to Ghemawat (2007), the positive and in advance adaption of a business model would assist to make an accurate blueprint of the situational foreign economies. Regarding to case 2 and 3, they faced this matter but the effective awareness toward some foreign economic changes sent a signal to them, so that they closed before losing more. That could be described as the actual intelligence toward any economic disparities. Whereas, Case 1 and 4 stated that by paying a visit to the foreign countries and building networks and relationships there, this would expand their insights toward the actual

economic conditions in that market. Similarly, case 5 declared that choosing the country that has less regulations is safer in the beginning before moving to the countries that have other regulations than the regulations we have in Sweden. In addition, it is good to have a perception about the situation of a foreign country by contacting a local lawyer.

It is worth noting that the severity of the risks' impacts varies regarding the level of internationalization; where the gradual entering through the indirect investment faces lower risks than the direct investment which makes it possible to discover the variety of strengths and weaknesses of foreign economic markets (Porter, 2008). Correspondingly, it was obvious that in all cases, they first follow the indirect investment in order to analyze the local customers of foreign markets and then estimate the need for their services and finally establish their own subsidiaries. This way prevents any potential interruption toward the flow of the increased knowledge about the actual status of the foreign economic country.

Management Roles and Technology

The uncertainty of regulatory rules could be decreased by increasing the productivity of management roles, where managers adapt their process to fit the international societies in order to performing well (Klikauer, 2013; Ghemawat, 2001; Glover & Tracey, 2000). Cahen et al. (2016) found that hiring managers with international experience to promote internationalization. Moreover, managers that gain knowledge about foreign markets including managers' pre-existing knowledge, may overcome psychic distance which is based on information flows (Brewer, 2007; Johanson & Wiedersheim-Paul, 1975). The interviewees of all five cases have presented their own experience in terms of internationalization. The CEO of case 1 specified that by communicating with the legal lawyer, local financer, local partner, or even the Swedish embassy, so that he was able to broaden his knowledge about the foreign market. This helped him to avoid the unpredictable economic risks, he also stated that managers need highly to have good knowledge including a master on economics to prevent any economic obstacles.

The CEO of case 2 showed by joint decision making that he is able to take the right and ultimate decision besides the estimation of local customers in the host markets that he used to handle before internationalizing. The co-founder of case 3 stressed that by being realistic and well-informed toward the actual economic conditions of host markets and

with good networks, he managed to have useful information. Likewise, case 5 illustrated that managers have to be knowledgeable of different economic regulations. The co-founder of case 4 assured that managers play a crucial role when having good knowledge about foreign taxations and transaction costs. Therefore, the mindset of managers as well as the methods of performing would overcome the changes and the challenges of economic and institutional diversities.

When it comes to the technology roles, the boundaries would be reduced between the bilateral economies and exchanging services would be facilitated which thus reduce the transaction and risks costs (Dunning, 2000; Picot et al., 1996). Based on the cases 1, 3 and 5, there are one common thought which is that technology lowers the economic distance. Case 1 referred to the fact that technology lowers the cost, but the grey side of this tool is upgrading to the expensive technologies to follow new legal procedures. Case 3 declared that technology is a cheaper method which helps to underestimate the foreign market conditions and competition without investing a large amount by testing business ideas. Case 5 also stated that the cost would be declined by utilizing the technology during operating the business internationally focusing on digitalized businesses.

5.3 Context of Geographic Distances

The geographic distance as well as the location in particular remain essential factors to understand the dynamic interactions between the headquarters, overseas subsidiaries and foreign consumers. Therefore, it becomes crucial to analyze this distance in order for SMEs to be good established during internationalization.

Geographic Influences on Internationalization

Ghemawat (2007) highlights on the *geographic* distance within the CAGE framework which relates to the differences of time zone, climate, and scopes in addition to the cost of transports and communication (Ghemawat, 2001). According to Ghemawat (2007), *geographic distance* could be described as networks of various locations that are consisted productive chains which are connected through the flow of exchanging information between one another. Case 1, 3 and 5 highlighted on time aspects including communication during earlier or later times of the day with persons in distance locations in the world which is exhausting in addition to reporting and conducting online meetings

that consume a lot of time than expectations. Considering the situation of cases 1, 2, 3, 4 and 5, the geographic distance makes the international business difficult to be processed from the home country as this would impede reaching subsidiaries abroad and foreign customers. Therefore, it is possible to observe that this distance is a reality that all cases face in terms of transportation costs besides cost of rents and other additional costs for serving customers in foreign markets. However, geographic distance would help to enrich the diversity of customers which highly contribute to increasing the chance for all cases to expand their services internationally.

Overcoming Geographic Distances

Vedula and Matusik (2017) claim that it is very significant to scrutinize the actual geographic environments of foreign markets and to obtain good knowledge of those markets before making any entry decision. In that sense, cases 1 and 4 have always attempted to find local partners to guarantee the success of choosing the right place. However, by following up the process in foreign market would ease controlling the business. In addition, cooperating with a local lawyer would assist to overwhelm this distance. Whereas cases 3 and 5 stressed that it is important to have good knowledge of time differences and being aware toward this, also, being responsible to attain the work efficiency. As the *geographic* distance decreases as it reduces time, capitals, and costs, this decrease will therefore increase the relationship between different markets, as well as improving the gain of learning about foreign industries (Ganesan et al., 2012). This was adapted by all cases since they started their internationalization to closer countries geographically.

Management Roles and Technology

Kraus et al. (2015) show in their practical study that CEOs and top managers play an effective role of lowering the geographic distance by evolving their intelligence and skills. Likewise, cases 1, 2, 3, 4 and 5 have agreed that the productivity of managers is very important for the success of internationalization in which the pre-experience has been exploited before making any decisions. In addition to enhance the managerial capabilities over time, it is important to find ways to minimize the geographic distance and be capable to travel overseas. In addition, managers should be willing to adapt their times to their subsidiaries and customers abroad since they need to contact them with adaptation to time

differences between countries which means staying awake till late night or waking up early in the morning.

According to Håkanson (2014), the technology plays a crucial role in lowering the geographic distance and thus the transportation costs. Regarding to cases 1, 2, 3, 4 and 5, the authors find that the five cases have the same idea. Case 1 shed light on the importance of technology particularly for service industry, where this method makes the business world smaller from one to another. Case 2 declared that by using technologies, it will be easier and ease the reach to any country. Case 3 stated that the online platforms facilitate the communications even from long distance. Case 4 referred that the technology offers valuable services that smooth doing the business and the communication between SME and foreign customers. Case 5 illustrated that the technology makes the communication between different countries more reachable and easier. Therefore, digital business lowers the geographic distance for all cases where they are specializing in the service industry and that enables their process to serve customers from other international places. Namely, this technique will reduce the physical locations of five SMEs and thus the costs. Efficient capabilities with using technology could smooth connections between the local and foreign markets and thus the deals in-between them.

6. Conclusion and Discussion

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This chapter will show the findings of this study on a broader aspect in addition to elaborating the study's contribution, limitations and further studies.

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6.1 Conclusion and Discussion

SMEs in the service industry have a significant impact on dominating business in Sweden since they represent 97% of all the Swedish companies, in addition to increasing international exports in 2017. Furthermore, the Swedish government assists Swedish companies, including SMEs, in leading the service revolution in the international markets. Companies, including SMEs, could expand their operations gradually to foreign markets, using the Uppsala Model. This expansion has occurred due to a lack of opportunities in the local market and due to the growth strategies of SMEs. The present study has examined five cases, all of which were Swedish SMEs within the service industry with international operations, that show how two CEOs and three co-founders have attempted to solve challenges of the *psychic distance* between the local and foreign markets.

To conclude, this study has several outcomes. The first result shows the high relevance of business practices, theoretical methods, and models, although none of the interviewed SMEs have used any of the theoretical methods and models to analyze and overcome the three distances. This outcome shows even how those models could have solved various issues the interviewees faced rather than just learning by doing, which creates high costs, takes a long time and therefore could affect their businesses negatively in their home market, Sweden.

A further outcome of the recent study is that Swedish SMEs with international operations in the service industry should overcome the inconstant *psychic distance* in terms of *culture*, *economy* and *geography* according to the Uppsala Model. Moreover, SMEs have been exposed to such distances differently and failing to tackle the challenges may have caused a significantly negative impact in the home and the foreign markets, since SMEs have invested money, efforts, and time abroad for their operations in the local market in Sweden. SMEs internationalize first to countries that are similar in institutional regulations and cultural norms compared to their home country to reduce the psychic

distance. This reduces risks and uncertainty first and then increasingly increases knowledge to internationalize toward higher psychic distance countries. However, the psychic distance decreases within the service industry due to two phenomena, managerialism and technology. The international managerial skills contribute to tackling the psychic distance by providing wide international experience and cultural understanding, in addition, building worldwide networks that facilitate the internationalization of SMEs. Furthermore, the technological revolution presented by electronic businesses and communication through online platforms, including Skype, contribute to reducing costs and expanding businesses abroad easily.

Based on the three research questions that were introduced earlier. The first one involves the influence of the *cultural distance* on the internationalization of SMEs. This distance is a permanent one that exists in all markets as it should be addressed properly. For instance, differences in management styles, perceptions of communications, social interaction, commitment and trust, dress codes, reaction behaviors and religious attitudes could result in cultural clashes that could result in business failures. Managers play a significant role in decreasing cultural distances under the condition of having a global mindset with international experiences and networks. Technology does not have an essential impact on decreasing cultural distance, except for when it provides communication platforms that people can use to communicate and learn about other cultures.

The second research question deals with the aspect of the *economic distance* when the SMEs internationalize. This constitutes a challenging factor to economic costs and institutional differences, but simultaneously gaining profits abroad could meet the challenge. Furthermore, operating in unstable markets and dealing with ownership regulations, different forms of taxations, legal procedures' fees, transaction regulations and security make for a difficult operation. SMEs should make sure that they have the needed resources, people, time and efforts to balance between the home and the host market and to consider agendas and budgets failures as well as mistakes. Managers should have education related to economy and they should be knowledgeable about regulation changes in their operations or potential markets. Technology has a major influence on reducing the cost for SMEs when operating in foreign markets. For instance, SMEs within the service industry could use several technological solutions and innovations to grow

toward different markets. Additionally, they could rely on online businesses including e-commerce rather than physical subsidiaries using online communications' platforms.

The third and last research question casts light on the *geographic distance* regarding the influence toward SMEs' internationalization. This distance is mostly not considered an issue in the service industry due to the increasing use of modern technology such as online businesses. However, SMEs approach customers in their local markets or in regional subsidiaries to serve several countries within the region. Furthermore, internationalizing to any new market should depend on opportunities regardless of their geographic locations. Geographic distance is presented mainly on time differences between countries that affect SMEs more. Managers should be capable of overcoming this distance by adapting to communicating with customers and subsidiaries earlier or later during the day. This reduces the time difference between Sweden and other countries and possibly develop a follow-up reporting system to keep track of operations overseas. Furthermore, managers supposed to travel from time to time to their subsidiaries abroad and meet customers in face-to-face manners, especially in cultures that value relationships highly. Technology contributes highly by providing communications' platforms, which makes it easier for SMEs to manage international operations and communicate with employees and clients overseas.

It is further found that the five SMEs involved in the present study internationalized to a lower psychic distance to reduce risks and uncertainty. However, searching for opportunities is a significant factor regardless of where the potential market is located, since profits could cover all expenses in a distant market geographically rather than operating in a closer market that provides no opportunities. For that reason, the authors have concluded that overcoming the psychic distance in foreign markets relies on increasing knowledge and realizing the challenges of the new market. However, this is without over- or underestimating the three distances, obtaining managerial international experiences and education, building networks, having local partners, operating in stable markets, using technology, and adapting to changing regulations and environments. SMEs should also gain advantages from Swedish governmental presence in other markets, including embassies and "Business Sweden". In addition, subscribing to international publications to keep updated about changes in regulations or risks and potential opportunities.

The findings of the present study contribute to decreasing the psychic distance and facilitating the internationalization of Swedish SMEs within the service industry. Moreover, it decreases the overall cost of the internationalization process if considered by the acting SMEs.

6.2 Contributions

We are convinced that the results of this study have many significant contributions including:

Theory contribution: allowing future researchers to use this theoretical perspective in any related research regarding the psychic distance or any of its three distances within gradual internationalization of the Uppsala Model.

Research contribution: contributing primarily by examining the psychics distance on internationalization since other studies giving less focus on the theoretical and practicalities of distances of internationalization. Moreover, focusing mainly on Swedish SMEs within the service industry may enrich similar studies since 97% of Swedish companies are SMEs that require more studies. Furthermore, this research has contributed further studies suggestions that would contribute to giving more insights that serve academics. In addition, focusing on two phenomena of managerialism and technology that need more investigations on how they affect the psychic distance.

Managerial Contribution: conducting the research interviews with experts in the topic contributed with giving a deeper updated insight into business practicalities in international markets. This contribution may assist Swedish SMEs to learn carefully on gaining the required knowledge about foreign markets to reduce risks and costs as well. In addition, gaining knowledge through using the Swedish governmental support through its representatives abroad, including embassies, consulates, and the offices of "Business Sweden". Moreover, it is useful to subscribe to international publications that keep track on updated business news to be aware of how economic distance and legal difficulties which could affect international operations. Furthermore, this study assists policy-makers to create policies or build institutions to facilitate the work of SMEs overseas. In addition, managers should build worldwide networks to facilitate the internationalization process. Finally, there is a need for recruitment of managers and employees with international

knowledge and experience, speaking local languages in targeted markets and living in foreign countries.

6.3 Limitations

This study has several limitations, for example the interviewees may have biases toward their understanding and interpretation of the psychic distance and its influences on internationalization in terms of culture, economy, and geography. Furthermore, using mainly the Uppsala Model of internationalization is considered a limitation. Another potential limitation is the sole focus on the service industry. The outcomes of this study were never intended to generalize the results for all SMEs within the service industry (Evers & Knight, 2008). The study targets Swedish SMEs present in a few Swedish cities and in other countries, since there are differences between different regions and different countries (Amory & Adams, 2003).

Another limitation is the limited study time frame of four months which creates many restrictions. A longer time frame might have different results in the choice of primary data, involving more SMEs and contributing to broader results. However, in fact, the authors could not conduct many interviews for each case, because, first, the authors had received most of the required data from the five interviewees. Second, it was really difficult to have short follow-up interviews with four out of the five SMEs since they were very busy, but despite that, the authors succeeded to conduct two follow-up interviews with two SMEs of the four needed SMEs to conduct follow-up interviews.

A further limitation is interviewing primarily top managers that may vary in their perceptions compared to middle and low management levels. Middle and low management may have a possibility of different outcomes (Reiner, Demeter, Poiger, & Jenei, 2008). However, the top management levels are responsible for internationalization aspects (Kraus et al., 2015). Moreover, this study includes four interviewees were men, and one interviewee was a woman, which may be considered a limitation as the balance between men's and women's experiences are not represented equally in this research, this may result in biased outcomes.

6.4 Further Studies

There is a need to further investigate the three distances within the psychic distance separately to create a deeper understanding for each distance particularly. For instance, conducting a study that focuses on how cultural, economic, or geographic distance influences internationalization. Moreover, conducting research for Swedish SMEs within the service industry that start from the beginning as international new ventures (INVs) which may show different impacts and outcomes than using the gradual internationalization within the Uppsala model that is the main model for this study. Furthermore, future studies may focus on the two phenomena mentioned in this study. The first one is the influence between technology and psychic distance, as this study has shown how technology affects the psychic distance. The second one is international managerialism, namely, the degree to which an internationally skillful manager contributes to the internationalization of SMEs in term of the psychic distance.

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Appendices

1 Interviews Guide

General:

- Could you tell us about yourself and your role at the company?
- What are your company's internationalization plans? And why internationalizing?
- Who does decide to internationalize and what is the first move in general?
- What are the company learning means to gain knowledge about new countries?
- Have you ever closed a subsidiary/office abroad? If yes, why?
- What are the disadvantages or liabilities of internationalization?
- How many employees does your SME have?

Culture:

1. How do cultural differences affect your company abroad?
2. How does your company overcome culture differences in foreign markets?
3. In which sense the skills of managers and technology do affect the cultural distance?

Economy:

4. How do economic differences affect your company abroad?
5. How does your company overcome economic differences in foreign markets?
6. In which sense the skills of managers and technology do affect the economic distance?

Geography:

7. How do geographic differences affect your company abroad?
8. How does your company overcome geographic differences in foreign markets?
9. In which sense the skills of managers and technology do affect the geographic distance?

Extra Answered Questions in (Appendix 4):

- What are the common mistakes SMEs usually do within international cultural context?
- What are the common mistakes SMEs usually do within international economic context?
- What are the common mistakes SMEs usually do within international geographic context?

2 Profiles of SMEs

2.1 Case 1

It is a special case that conducted with the CEO Lars Olofsson who is the owner of two SMEs. Olofsson is hired recently as Member of the Board of Directors at Smäföretagarnas Riksförbund, Small Business National Association in Sweden. As Olofsson declared that he started his work journey with the SME that was registered previously in Estonia since 2001 under the name (Estonian International Management) and now it is a holding company that exists today. In addition, Olofsson stated that he started with his partner doing business in Sweden in 2017 under the name of Nilaho AB. Nilaho AB operates since 2017 in Sweden and aims to serve consultancy services in combination with digitalized services and training as a new change into the business. Olofsson claims that they have 5 employees in Sweden and in total 250 worldwide management consultants including university professors that work only in short-term missions without being legally registered as employees. Whereas according to allabolag website the board members are 3 in 2017 as there is no employees registered in 2017 or 2018. The SME has no financial data or employees' registration in Sweden. Furthermore, Olofsson claims to have offices in almost 30 countries working mainly in the Nordic countries, Asia, Africa, Middle East, and Europe. The previous business in Estonia and Nilaho in Sweden with its CEO have been developing new business concepts, tools, strategies, management systems and scaling up internationally businesses have been his specialty through developing more than 700 existing and start-ups companies all over the world. Such as IKEA as an earliest client in the 1990s and current biggest client is Groupe PSA, the second largest car manufacturer in Europe. According to what Olofsson claimed. Nilaho AB is using two different websites including www.iso-easy.com and www.3woords.com.

2.2 Case 2

Teleopti AB is an SME within software industry in Sweden. Teleopti has operated since 1995 and it considers as a world class software provider. Teleopti offers many solutions of workforce management software where it puts a high focus in delivering good quality service to assist for instance: contact centers, branches and retail stores, and back offices to enhance the customer services, and employment environment and productivity. Teleopti has 18 offices around the world and reached 34 countries. The interview was conducted with Olle Düring, Teleopti's CEO since 1998, namely, he is not the founder of

Teleopti. According to allabolag website the number of employees is 166 in 2016, whereas regarding to career.teleopti.com number of its employees is 203 in total who work worldwide.

2.3 Case 3

It is an SME, Result Nordics AB that is founded in 2007 and specializing in consultancy service for growth as well as innovation within digitalization system since 1999. Result has contributed in building more than 30 companies in addition to assist more than 300 companies to grow locally and internationally. It has local entrepreneurial people as an international network to assist Swedish companies to internationalize in a right way depending on the type of company. For instance, Result has many professional customers including Google, SEB, Telenor, and P&G. The interview was conducted with the co-founder Jens Ahlvarsson and he declared that Result has 14 employees worldwide, besides to the networks of 40 people, whereas according to allabolag, Result has 2 registered employees in 2016.

2.4 Case 4

Conducting the interview with Ahmad Ghazawneh that is a co-founder at Innovation Villa AB and an associate professor at Halmstad University. Innovation contributes widely in developing many local and international Swedish SMEs. Working within core services in the Nordic region using knowledge and experience in emerging technologies within businesses in international markets. Innovation registered 1 employee in 2016 while the co-founder claims that they have 3 employees in 2018.

2.5 Case 5

The interview was hold with co-founder of Insatt AB, Anna-Lena Isaksson. Insatt AB is an SME that specialized with legal services, corporate counsel, risk management, corporate governance, and legal training. The company was established in 2015 by two lawyers that are experts in legal aspects with a solid experience working directly in the line. Insatt AB assists other companies with providing useful tools. Moreover, Insatt AB provides services for bigger companies including Nordic Water Products, a pioneer in water treatment for over than five decades. The SME has been grown recently with 20 employees in Jönköping, Sweden, according to the interviewee although allabolag stated old data with 6 employees in 2017. Insatt provides also services in international markets without having physical offices abroad but provides consultancies to their customers that

have international operations. Insatt AB approaches international markets by traveling to field markets and meet customers directly to offer services, runs a subsidiary that focuses on digitalizing the legal business and services in addition to planning to have physical subsidiaries in Lithuania and Poland where they have a lot of customers.

3 Data Searching Difficulties

The authors have checked all used sources and data used within this research to make sure of the credibility. An example is including an essential definition of culture within the literature review that is not stated in any journal as all frame of references include most cited and relevant journals. However, the authors emailed professor Helen Spencer-Oatey at University of Warwick that replayed, *"I'm afraid I haven't published that definition in a journal article, only in my books or book chapters."* Therefore, the authors referenced only a recent book (Spencer-Oatey, 2008).

Another issue is searching in JU library recommendations in addition to Google Scholar but having only some books, books' reviews and few old limited journal researches regarding the Trompenaars and Hampden-Turner's seven dimensions of culture. The authors used keywords without gaining useful outcomes. Keywords used are (Trompenaars; Trompenaars and Hampden-Turner's seven dimensions; seven dimensions; seven cultural dimensions; culture and Trompenaars and Hampden-Turner; Hofstede and Trompenaars; culture models). There was only one book review that includes all seven dimensions at once and is approved by JU Primo database which is (Darlington, 1994). Other outcomes discuss only few of the seven dimensions not all of them at once including (Zajenkowska & Zimmerman, 2014; Hampden-Turner & Trompenaars, 2006; French et al, 2001; Moon & Woolliams, 2000; Collier, 1996). A more recent journal in 2013 found in Google Scholar that includes all seven dimensions was not approved by JU Primo, the journal was "The Trompenaars' seven-dimension cultural model and cultural orientations of Romanian students in management". The only book review that included all seven dimensions is (Darlington, 1994).

Furthermore, searching for journals that discuss in detail the Inglehart cultural mapping clusters without having outcomes focusing on negative sides of such a model. Keywords are (downside of culture mapping; negative of culture mapping; negative of Inglehart;

downside of Inglehart). Positive sides of the Inglehart were found on both (Inglehart & Baker, 2000).

Another issue is a used journal was written by three authors, two of them have the same last name and same initials. This case is not included in the JIBS referencing website since it includes only if the authors have the same last names. According to JIBS referencing link, we should use the initials as well but in this case the initials are the same presents with (D), so we wrote (Horner, D. Baack, & D. Baack, 2016) since we did not get any help from the website or Academic Resource Center (Studieverkstaden) at JU. The journal is: Horner, S., Baack, D., & Baack, D. (2016). The role of psychic distance in internationalization strategy evaluations and strategic choices. *Journal of Business Strategies, 33*(1), 15-46.

4 Extra Answered Questions

Cultural Distance Influence on Internationalization
What are the common mistakes SMEs usually do within international cultural context?

"Hiring a Swedish employee in an international office and my recommendation is ALWAYS to have a local partner that have the local knowledge. Companies should have very standardized systems with 90%, but they need to adapt and adjust to local culture with 10%." (CEO, Lars Olofsson, Case 1)

For the CEO foreign cultures is more understandable to their local people rather than foreigner that are Swedes in this case. For Olofsson, the culture aspect should be integrated within the business model of the company that could have a standardized business model of 90% with 10% adjustment to a local culture.

"That is a personal with so much to do with the country you come from." (CEO, Olle Düring, Case 2)

When it comes to the cultural mistakes that the SMEs may make, the CEO claims that this depends on the character and the culture that the individual grew up. For example, if a manager is not open-minded enough and does not listen to customers without respecting their attitudes and daily life practices then this is an issue.

"They have not really done their homework. Not understanding the culture differences

and expecting the same answers from all different markets." (Co-founder, Jens Ahlvarsson, Case 3).

A mistake could be internationalizing without gathering the required knowledge about the new market as miscommunication and misunderstanding could occur easily which result in failure. Another mistake is not releasing the cultural differences among countries or even within a country as Germany that has many regions that should be addressed differently.

"Treating other markets as the Swedish customer as customer behaviors' are different in term of technology and payment system." (Co-founder, Ahmad Ghazawneh, Case 4).
A negative approach that SMEs use in foreign markets is assuming that they are similar to the Swedish market which is not true. For example, using advance technology and services is not commonly used in other countries comparing to Sweden which reflect a different need by customers.

"Not even seeing the culture aspect of it if you have not lived abroad or not used to work in international environment so you do not see that as a challenge." (Co-founder, Anna-Lena Isaksson, Case 5)
Swedish SMEs may not consider cultural aspects as a risk to think of, particularly with those managers that have no international experience in other cultures.

Economic Distance Influence on Internationalization
What are the common mistakes SMEs usually do within international economic context?
"Not understanding politics, economic, and security risks in of foreign markets. You have to be patient and put into your plans, failures and mistakes. You could be scammed not only in China but in the US and UK." (CEO, Lars Olofsson, Case 1).
Olofsson states that there are legal risks and economic risk as well where SMEs should be aware of how to overcome those difficulties in different markets. A mistake is that SMEs should learn that profits does not come within a short time in foreign markets as each manager should accept doing mistakes and failures. SMEs could be scammed in many countries not only China but the US and UK as the lack of security could occur.
"It is easy to underestimate the administrative overhead starting from establishing a local subsidiary, you need to do the payroll, the tax, follow local law." (CEO, Olle

Düring states that other SMEs may take the small picture rather than the big picture with under estimation of all procedures that they should do and follow in new markets which is difficult.

"No realization and underestimation. Not making sure that their models scalable or replicable as they are in too unstable market without having the good people. Evaluate things in the wrong purpose and not creating the right conditions." (Co-founder, Jens Ahlvarsson, Case 3).

Ahlvarsson refers that SMEs may suffer and fail internationally because of their lack of preparation that contribute to understanding the reality of the new markets, budget, time, resources, networks, cooperation and unstable market at once. Also, copying the business model from home and trying to implement it as it is does not work in some markets, so adaptation should be implemented with cooperation with the local knowledgeable people. A big picture understanding, and details realization are significant to SMEs to avoid both over- and underestimation. For example, if SMEs are not having this big and detailed picture then this would result in closing few months after starting due to the frustration in the new market and the negative effect on home market due to the focus only the new market.

"Not concentrating in the Swedish market." (Co-founder, Ahmad Ghazawneh, Case 4). Ghazawneh says that SMEs may operate internationally and put an effort for a year or two in other markets without gaining any success but if they use the same effort in Sweden this could be a success.

"To not have really long term strategic view on your establishment abroad. Maybe also too naïve and too optimistic in their economic profit." (Co-founder, Anna-Lena Isaksson, Case 5)

Other SMEs may think so much in short-term rather than long-term, as it is easy to start a business in other markets, but the success rely on running, leading and controlling the business in the long run as a strategic plan. Also, having bad calculations of costs of running the business and legal procedures abroad which gives unrealistic profit expectations.

Geographic Distance Influence on Internationalization

What are the common mistakes SMEs usually do within international geographic

context?

"Operating in countries that are far from Sweden with bad logistics." (CEO, Lars Olofsson, Case 1).

Olofsson states that the geographic risk may be high in South Africa which is far away from Sweden and has many logistics issues, in addition, its huge size, criminal risks and even having issues with other countries in Africa.

"There are not specific common mistakes." (CEO, Olle Düring, Case 2).

Düring refers that there are not specific common mistakes that company could make during internationalization in terms of geographic distance.

"Taking the proximity without taking so much thoughts." (Co-founder, Jens Ahlvarsson, Case 3).

According to Ahlvarsson some SMEs may plan their international expansion without making enough investigation of opportunities and risks. Such a lack of strategic planning may occur when the Swedish SME may think that Spain is far away from Sweden and ignoring the Spanish language. This would result in existing in the wrong market and losing opportunities.

"They expect something, and the team abroad do something else without updates and not having a manager of home country to stay in foreign market." (Co-founder, Ahmad Ghazawneh, Case 4).

Ghazawneh refers that operating in foreign markets by using only local employees that may misunderstand the orders and work in a different manner comparing to home company. This could create a serious issue that result in a loss for SMEs.

"Underestimate the value of traveling there personally instead of having Skype meeting or conference calls or send emails." (Co-founder, Anna-Lena Isaksson, Case 5)

Some SMEs may consider running and controlling the foreign subsidiary only by using an online communication platform rather than traveling to have a track on day-to-day business activities which is a mistake according to Isaksson.