Henrik Agndal

Internationalisation as a Process of Strategy and Change

A Study of 16 Swedish Industrial SMEs
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Jönköping, September 2004
Henrik Agndal
Abstract

Research focusing on the process through which firms internationalise often indicates that not all firms internationalise in the same way, commonly distinguishing between firms depending on their size and offerings. Previously, small and medium-sized industrial firms have received some scholarly interest. The knowledge of how their international strategies change over time is partial and fragmented, though. Therefore, the purpose of this thesis is to describe and explain changes in strategy in the internationalisation process of industrial SMEs.

Internationalisation is a concept that covers many different activities, here seen as consisting of upstream (foreign purchasing and operations) and downstream (foreign marketing and sales) international activities. These, in turn, involve market selection (countries where the firm buys, sells or manufactures), mode selection (organisational structures used in international exchange) and partner selection (how relations with foreign business partners are initiated and terminated), forming six sub processes of internationalisation.

In the exploration of international strategy and change, a definition of strategy that focuses not on what managers say that their firms do, did or will do, but which focuses on patterns in firm behaviour is employed. Based on this understanding of strategy, three research questions are asked in regard to each internationalisation sub process. The research questions focus on (1) what changes can be identified, (2) what perceptions influence these changes and (3) how these changes can be understood when placed in the context of the internationalisation process. A survey of empirical studies indicates that these issues have received some attention in the past, although not typically from a change perspective. It was therefore decided that the phenomenon should be studied empirically. Based on 52 interviews, the internationalisation processes of 16 Swedish industrial SMEs were mapped retrospectively with a focus on identifying international business relationships. Through a multi-level process of data analysis, findings regarding relationships allowed for a great many observations in regard to changes in strategy and process formation.

The findings indicate that changes are more common in downstream than in upstream strategy, but that both aspects are impacted mainly by perceptions regarding the environment and external actors rather than organisation-related perceptions. While most firms greatly expand their downstream markets over time, this is rarely the case in upstream internationalisation, partly due to negative perceptions concerning foreign sourcing. Mode selection is commonly guided by perceptions regarding industry logic and managerial preferences for low complexity, resulting in a dominance of low commitment modes. Changes in partner selection strategy are impacted by perceptions regarding external opportunities, partners’ performance, pressures for growth and changing needs. The findings also indicate that there is little direct influence of downstream internationalisation changes on upstream internationalisation and vice-versa.
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CHAPTER 1

The Internationalisation of SMEs

This is a thesis about the internationalisation of small and medium-sized enterprises (SMEs). More specifically, the thesis proposes that change in international strategy is an important component of the internationalisation processes of SMEs. There is a lack of research about this phenomenon, however, and further exploration is warranted. The first chapter of the thesis addresses some of the concepts employed in this exploration as well as motivates the relevance of its scope. Firstly, it introduces the area of internationalisation and presents the way in which internationalisation is regarded here (see 1.1). Secondly, the chapter addresses the internationalisation process and what changes in international strategy entail (see 1.2). Thirdly, the focus on industrial SMEs is introduced. In doing so, differences in the internationalisation of SMEs and large-scale enterprises (LSEs) are identified, the international activities of SMEs are addressed and the focus on industrial SMEs is motivated (see 1.3). Fourth, based on these discussions, the overall purpose of the thesis is formulated and expected contributions are outlined (see 1.4). Fifth, the chapter is concluded with an overview of the thesis (see 1.5).

1.1 Internationalisation

This thesis focuses on the internationalisation of industrial SMEs. Internationalisation, however, is a concept that scholars define and operationalise differently.

1.1.1 International Activities and Internationalisation

Internationalisation is one of the key concepts of this thesis. This implies that international activities should be regarded as something distinct from other activities in a firm. Common to most of the research in this field, however, is a lack of concern for defining what internationalisation and international activities actually entail, most scholars apparently taking these concepts more or less for granted. Carlson (1966:14), however, argues that “international transactions have two basic characteristics. They involve the transcendence of a political and cultural frontier, and they make the firm dependent on more than one set of environmental factors”. Generally, the distinction between domestic
Commonly, this is expressed as physical distance and psychic distance. The influence of physical distance on international business activities has been subjected to some study, although it has often been taken for granted in internationalisation research. Physical distance concerns a variety of factors that impact exchange of products, services and money between countries (see e.g. Hörnell, Vahle & Wiedersheim-Paul, 1973), however, such as transportation times and costs, time differences, climate and infrastructure. Psychic distance, on the other hand, has been subjected to extensive study and a great many different definitions, approaches and theories can be found in this area. Typically, the concept is focused around business customs, language, religion, the way society is structured, politics, legislation and values and attitudes regarding work, achievement, wealth and science. If two countries (or cultures) exhibit great similarities in regard to these factors, psychic distance is considered as being low, psychic distance increasing with increasing differences.

The carrying out of international activities is typically referred to as internationalisation. More specifically, Beamish (1990:77) proposes that internationalisation should be defined as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other firms”. Coviello and McAuley (1999) identify several reasons why this is both a comprehensive and useful definition. Firstly, it stresses not only economic components, but also behavioural components, i.e. the definition is not only concerned with e.g. outcomes of international transactions but is concerned also with how they come about. Secondly, it implies that internationalisation is dynamic, stressing a process perspective, indicating that individual international transactions form part of a greater whole. Thirdly, inward internationalisation patterns (e.g. importing) are also covered indicating that internationalisation is something that concerns many functions in a firm. Fourth, the idea that relationships developed during past transactions might influence future growth and expansion are taken into consideration. In a project focusing on change in internationalisation process formation, these all appear to be very relevant aspects to consider.

1.1.2 Three Manifest Components of Internationalisation: The Market, the Mode and the Partner

Based on the discussion above, it can be concluded that international activities are different from domestic activities because they entail exchange between firms located in different countries. There is thus a spatial dimension to consider. These exchange activities include buying and selling, but e.g. also distribution, production, research and development. They can be structured so that they are carried out in direct contact with a foreign counterpart or
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indirectly through an intermediary. There is thus an organisational dimension to consider. Exchange activities are also carried out in interaction between specific firms, e.g. in interaction between manufacturers, between manufacturers and intermediaries, or between parent firms and foreign subsidiaries. There is thus a relational dimension to consider.

Concerning the spatial dimension, markets are typically equated with countries, research commonly differentiating between countries depending their relative psychic and physical distance from the home country of the focal firm. The presumption in internationalisation literature has traditionally been that the greater the psychic and physical distance between two countries, the more difficult it is for firms to carry out international activities.

The organisational dimension, or mode, is more complex. A variety of modes have been identified in internationalisation literature. These can be described based on (1) which activities are carried out within the frame of the relationship, (2) which partner carries out which activities and (3) which activities are carried out in which country. The more activities carried out by the focal firm in the foreign country, the higher the degree of internalisation of international activities and integration with the foreign market. The term commitment (cf. Johanson & Vahlne, 1977) has commonly been employed to describe this, referring primarily to the commitment of resources to international activities. The lowest commitment modes are those where the focal firm has no contact at all with parties located abroad, where international activities are externalised, as in the case of indirect exporting and indirect importing. The level of commitment increases when there is direct contact between the focal firm and the foreign partner, as in direct exporting or direct importing, either through a foreign intermediary or in direct contact with the foreign end-customer. The highest commitment modes are those where many or most of the activities involved in internationalisation have been internalised, e.g. in the case of foreign sales or foreign production subsidiaries. There is also a variety of modes implying an intermediate level of commitment, with deeper levels of collaboration between the focal firm and the partner firm than implied by direct exporting or direct importing, while simultaneously there is still a great deal of externalisation of activities. These include mainly licensing, contract manufacturing, franchising and joint venturing (see also 2.5.1.2 and Hollensen (2004) for further definitions of modes).

Traditionally, internationalisation research has been concerned with the relational dimension to a lesser extent than the spatial and organisational dimensions. Nonetheless, the relational dimension is clearly a relevant one to consider, as e.g. implied by Beamish (1990, see above). With increasing focus on e.g. international joint ventures, alliances and networks, focal firms’ foreign partners and interconnected international relationships have received more attention by scholars. Indeed, it has even been suggested that the internationalisation of a firm can be seen as equating the totality of international relationships of that firm (Jones, 1999). With increasing focus on
international relations has also followed interest in how such relations are formed.

### 1.1.3 Upstream and Downstream Internationalisation

Coviello and McAuley's (1999) discussion of Beamish's (1990) definition implies that one way of defining international activities is to categorise them as either **inward** or **outward** activities (see also Jones, 1999; Jones 2001; Keogh, Jack, Bower & Crabtree, 1999; Julien, 1996; Korhonen, Luostarinen & Welch, 1996; Karlsen, Silseth, Benito & Welch, 2003). Inward activities concern primarily procurement of materials and machinery, while outward activities concern primarily those activities relating to sales but also to production abroad. In an internationalisation context, one might refer to inward activities as importing, while outward activities entail exporting and foreign direct investments. In internationalisation literature, outward international activities have consistently been studied at the expense of inward international activities (Katsikeas, Skarmeas & Katsikea, 2000; cf. Liang & Parkhe, 1997; Hertz & Mattsson, 1998), although a number of studies have uncovered connections between inward and outward activities (see e.g. Keogh, Jack, Bower & Crabtree 1999; Coviello & Munro, 1997; Julien, 1996; Korohonen, Luostarinen & Welch 1996; Jones, 1999; 2001; Hyväirinen, 1994; Karlsen, Silseth, Benito & Welch, 2003).

A related way of regarding international activities is from a value chain perspective, where activities may be referred to as **upstream** or **downstream** international activities (cf. Almeida & Bloodgood, 1996; Kuada & Sørensen, 1999). According to the value chain framework (Porter, 1985), upstream activities include inbound logistics and operations, while downstream activities include marketing, sales and service. Outbound logistics may belong to either category, as may procurement depending on what aspect of the value chain for which products and services are procured. In some ways the upstream-downstream vernacular is more useful than the inward-outward terminology, since the former categorisation places most activities relating to marketing and sales in one category and most activities preceding marketing and sales in another category. It also allows two distinct and logically coherent discussions of paths of increasing international commitment to be identified. A path of increasing upstream commitment starts with a low commitment upstream mode, such as direct importing, increasing commitment entailing greater integration between the firm and its foreign supplier, e.g. in the form of contract manufacturing abroad. Yet higher commitment modes entail jointly-owned foreign manufacturing and subsequently wholly-owned foreign manufacturing. Similarly, on the marketing and sales side increasing commitment can be noted when firms move from direct exporting to

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1 Henceforth procurement (or sourcing) is considered an upstream activity (see 2.5.3).
establishing foreign sales joint ventures and foreign sales subsidiaries. Thus, the upstream-downstream distinction also indicates that decisions whether to buy products abroad, manufacture them abroad or manufacture them domestically, are more closely related than are decisions concerning foreign production and foreign sales, although of course this does not have to be the case.

Further, the inward-outward categorisation generates some confusion whether the specific inward or outward activity should be regarded from a firm or from a country perspective. I.e. do products enter and exit a firm or enter and exit a country? While products may be manufactured by the focal firm abroad – and thus be considered an outward activity – they may be brought back to the home-country by the focal firm, an inward activity, for sales on some other foreign market, an outward activity. The upstream-downstream distinction, on the other hand, largely avoids the complexities of this discussion and partly also avoids the potentially complex definition of when the externalisation of operations actually becomes procurement, e.g. within the frame of a foreign operations joint venture.

It is important to note, however, that the internationalisation of an upstream or downstream activity does not necessarily mean that the activity in question is carried out in another country. For a purchase to be international in nature, it can still be carried out according to the same routines and by the same people that would be involved in a domestic purchase. The activity as such is directly international as long as the buyer and seller reside in different countries.

1.1.4 International Strategy

So, international activities are those upstream and downstream activities which are carried out within a relationship between two or more organisational partners within the frame of an organisational structure or mode, where the partners are located in different countries or markets.

If we employ a definition of strategy that equates strategy to those activities that firms carry out rather than to those activities managers say their firms should carry out (cf. Mintzberg, 1978), the international strategy of a firm is, in effect, those cross-border upstream and downstream activities performed by the firm. These can be seen as made manifest in the markets the firm sells and produces on as well as buys from, the modes that are employed and the partners that the firm works together with.

More specifically, in regard to international market selection, the international strategy of the firm can be equated to the geographic spread of the firm's activities, but, of course, also how the firm selects its foreign markets. Further, in regard to international mode selection, the international strategy of the firm can be equated to the scope of modes employed and how decisions concerning these are reached. Finally, in regard to international partner selection, the international strategy of the firm can be equated to the totality of relations with foreign business partners and how such relationships come about.
Naturally, these strategies are interrelated. Which partners a firm works together with to a large extent dictates which markets the firm is present on, and vice-versa. Certain modes are required for certain markets and certain partners prefer certain modes. Due to a preference for certain modes in the firm, certain markets and certain partners are selected, etc. Therefore, it is possible to reduce international strategy to three main sub-strategies: (1) which foreign markets the firm is present on; (2) which modes are employed; and (3) how foreign partners are selected. When looking at how foreign partners are selected, one also finds indications of how foreign markets and how foreign modes are selected. When looking at which foreign modes and which foreign markets are selected, one also finds indications of which types of partners are selected.

1.2 The Internationalisation Process and Change

The previous sections defined international strategy as the concept is employed in this thesis, concluding that it equates the firm’s selection of markets, its selection of modes and how the firm selects partners for upstream and downstream cross-border activities. So far, however, internationalisation and international strategy have largely been treated as if they were static concepts, their dynamic components not yet addressed. Typically, dynamism is added to international activities by treating internationalisation as a process unfolding over time.

1.2.1 Process Theories of Internationalisation

The notion that internationalisation should be regarded as a process was established early on in the development of the internationalisation field. Different theoretical approaches to the idea of the internationalisation process have evolved, however.

Vernon (1966) introduced the notion that internationalisation could be seen as a process of sequential modes, where exporting preceded foreign direct investments. FDI’s were seen as firstly undertaken in order to access new markets. When foreign markets had been established and production increased in scale, greater focus was placed on costs, which, in turn, led firms to establish operations in lower cost countries.

There are other process models that focus on firm behaviour of over longer periods of time, most prominently the stage model of internationalisation, also

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Footnote 1: Even if conceptual advances in the internationalisation process area were not met with equal in enthusiasm in empirical research. Li & Cavusgil (1995) conclude that less than one in every twenty of 757 articles published in 26 international marketing and management journals between 1982 and 1990 employ a process perspective.
known as the *Uppsala* model (Johanson & Wiedersheim-Paul, 1975). It argues that international expansion can be described as a number of sequential increments of increasing commitment. These increments concern the organisational structures within which international activities take place as well as the foreign markets where the firm is active. The applicability of this approach to internationalisation has frequently been put into question (Andersen, 1993). Although it focuses on processes occurring over long periods of time, the components of the process appear more or less disjointed and the stage model largely fails to explain how firms move between stages. Several authors (e.g. Melin, 1992; Hadjikhani, 1997) criticise the automatic connection of the establishment chain or *stage* model with the development of commitment and knowledge over time, which is the primary focus of Johanson and Vahlne’s (1977, 1990) internationalisation *process* model. In the latter model, as knowledge increases inside firms they become more committed to foreign markets. With increasing commitment, knowledge inside the firm is also expanded. This is also by many referred to as the *Uppsala* model of internationalisation. Regardless of which aspects of the *Uppsala* model of internationalisation one finds relevant, the processual development of activities over time is in focus, experiential learning being the main explanatory factor of process formation.

Another way of regarding internationalisation processes is provided by what is referred to as innovation-related approaches to internationalisation. These are typically concerned with export-related activities, disregarding other forms of foreign market entry (Neergaard, 1999). They typically also regard internationalisation as a process of steps through which firms pass, but unlike the *Uppsala* model(s), innovation-related models are more focused around internal and external influences on internationalisation. They thus also open up for the idea that internationalisation is driven partly by actors outside the firm. Unsolicited contacts and environmental pressures, but also decision-maker characteristics are in focus. Empirical studies have largely focused on SMEs (see also Crick (2004) for an overview of export development models).

Additionally, there is a contingency perspective on internationalisation processes, which to some extent is related to innovation-focused approaches to internationalisation. The contingency perspective recognises that environmental as well as firm and individual factors influence internationalisation and that these are varied in nature and consequently exert a variety of influences on internationalisation. Due to the nature of these influences, it is argued that it is difficult to create general models that predict firm behaviour (O’Farrel & Wood, 1994). Several studies have employed this and similar types of open frameworks to understand internationalisation process formation.

In the last decade, the embeddedness of firms in contexts of interorganisational relationships, or networks, has been at the focus of significant research efforts, which has also impacted the internationalisation field (see e.g. Axelsson & Johanson, 1992; Blankenburg, 1995; Blankenburg &
Johanson, 1992; Blankenburg Holm, 1996; Johanson & Mattsson, 1988; Neergaard, 1999). While some of these studies look at how the network – and, consequently, the firm’s relations to other firms in the network – evolves over time, often empirical studies with this perspective focus on a specific project or a certain set of relationships. Rarely do these studies look at a firm’s entire international history, even if this approach enables researchers not only to identify elements of international strategy such as the activities and actors involved, but also to explain how they came about and how and why they changed over time.

In conclusion, past internationalisation research generates a varied but somewhat incoherent picture of what happens during the internationalisation process, providing evidence regarding a variety of influences on process formation. Most internationalisation process research fails to track internationalisation processes in their entirety, though (Melin, 1992).

1.2.2 Change in Strategy in the Internationalisation Process

Above (see 1.1.4) the notion that the content of international strategy of a firm can be expressed in which foreign markets the firm is present on, which modes are employed and how foreign partners are selected has been adopted. By employing a process perspective on internationalisation (see 1.2.1), it is possible not only to focus on the content of international strategy, but also on how international strategy changes. I.e., the internationalisation process is the process through which firms change which markets they are present on, change which modes they make use of and change how they become involved in relationships with their business partners. In fact, the process of internationalisation can be seen as consisting of internationalisation sub processes, six of which can be noted with an upstream-downstream perspective on change in international strategy. These include a sub process of change in downstream market selection, a sub process of change in downstream mode selection, a sub process of change in downstream partner selection, a sub process of change in upstream market selection, a sub process of change in upstream mode selection and a sub process of change in upstream partner selection.

When looking at change in regard to the sub processes of market selection several relevant aspects can be identified, the expansion into new markets perhaps being the most obvious one. Arguably, each new market entry may be seen as a change in the focal firm’s strategy regarding which markets to be present on. The notions of psychic and physical distance, however, add complexity to the issue. Entries into markets physically and mentally remote from those previously established by the firm may be seen as a different type of change in strategy compared to entries into markets similar to those where the firm is already present.

Of course, any study that employs a dynamic perspective in attempting to understand a specific phenomenon will be concerned with how that
phenomenon changes (or, possibly, does not change). While many internationalisation scholars stress the dynamic component of time, the general presumption is that there is a positive correlation between time and international expansion. With a truly dynamic way of looking at internationalisation, however, it is arguably important also to recognise the fact that international activities may decrease in scope. International divestment or de-internationalisation must be taken into account (Fletcher 2001; Welch & Luostarinen, 1988; Benito & Welch, 1997). In regard to market selection strategy, market withdrawal is thus a very relevant dimension to consider. E.g., Pauwels and Matthysens (1999) use the terms forced and strategic withdrawal when discussing export withdrawal, stating that a reduction in scope and/or scale of international activities can be voluntary or involuntary, while Crick (2004) discusses discontinuing of exporting as a short-term measure or long-term decision.

There are also several aspects of the mode selection sub processes that are relevant to consider. Previously, modes have been defined along an axis of increasing commitment (see 1.1.2). A change in strategy will thus occur when firms go from using a mode implying one level of commitment to a mode implying a different level of commitment. In much of the literature there is a presumption that lower commitment modes are supplanted by higher commitment modes over time (see e.g. Johanson & Wiedersheim-Paul, 1975), although of course this does not have to be the case. Like in the case of market withdrawal, a reduction in the scale of international activities may also occur and high commitment modes may be replaced by low commitment modes. Similarly, firms may switch between modes implying similar levels of commitment. Indeed, firms and managers may also go from preferring a single type of mode to employing multiple types of modes (Petersen & Welch, 2002) and vice-versa. Here it can also be noted that the adoption of a new strategy (i.e. a new mode) entails the abandonment of an old strategy (i.e. an old mode), which is not an approach commonly adopted in internationalisation research.

Typically, internationalisation research has also ignored the initiation of international business relationships, often treating relationships (and the economic activities associated with these) as outcomes of internationalisation processes rather than as manifest components of a process. While studies of foreign business partner selection are scarce in number (Geringer, 1991; Andersen & Buvik, 2002; Ellis 2000; Ellis & Pecotich, 2001), there can be no doubting the importance of the partner selection sub processes in internationalisation, as well as for the outcome of international ventures. Ellis and Pecotich (2001) argue that international business opportunities (i.e. potential relations with foreign partners) may be discovered in different ways. These include social ties, formalised search behaviour, and serendipitous meetings, e.g. at trade fairs. What they imply is that different actors may be the

\[L i k e \ m o s t \ w r i t e r s, \ h o w e v e r, \ t h e y \ f o c u s \ o n \ o p p o r t u n i t i e s \ f o r \ i n t e r n a t i o n a l \ s e l l i n g. \ E m p i r i c a l \ e v i d e n c e \ a t t e s t i n g \ t o \ t h e \ i m p o r t a n c e \ o f \ p a r t n e r \ s e l e c t i o n \ i n \ f o r e i g n \ s o u r c i n g \ s t r a t e g y \ f o r m a t i o n \ i s\]
 initiators of the relationship. I.e., the (focal) firm, the partner firm in the relationship or a third party not specifically involved in the transactional relationship may be the initiator. The strategy of the firm in regard to relationship initiation can thus be to be the active initiator or to passively wait for potential partners or third parties to be the initiators. At different times, different strategies may be more or less utilised. E.g., Bilkey (1987) notes that early on in firms’ internationalisation processes, partner initiation dominates. Again, however, it is not sufficient to consider only an expansion in the scope of activities. In addition to relationship initiation, also relationship termination (see e.g. Halinen & Tähtinen, 2002; Hohenthal, 2001), or partner deselection, is part of partner selection strategy.

In summary, the view on strategy formation presented by extant internationalisation research is certainly a varied one, having dealt with a great many issues. It can only be described as fragmented and partial, though.

Having defined the overarching setting of the thesis, it is now time to address the field of SME internationalisation and introduce the thesis’ focus on industrial SMEs.

1.3 The Internationalisation of Industrial SMEs

As evidenced by a steady stream of research since the 1960s, internationalisation of the firm has remained an important topic for a long time. In the 1980s, following the publication of important works on internationalisation processes (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Cavusgil, 1980) and the introduction of other theoretical perspectives such as a transaction cost approach (Williamson, 1975; Anderson & Gatignon, 1986) and the eclectic paradigm of foreign direct investment (Dunning, 1980), the international activities of firms have been subjected to detailed scrutiny by an expanding cadre of academics.

1.3.1 Differences in SME and LSE Internationalisation

Since early on in the development of the internationalisation field it has been well established that all firms do not act in the same way in regard to internationalisation. Commonly, distinctions between firms are made based on the nature of the firm’s offerings (e.g. whether the firm manufactures goods or produces services, whether the firm focuses on high or low-tech products etc.), where the firm is located (e.g. the US, Scotland or Europe) and the size of the firm (large, medium-sized or small). Frequently, researchers employ a scant, although logic would dictate that many of the same considerations and influences that impact sales are relevant to consider also from a sourcing perspective. After all, for every purchase there is a sale and vice-versa.
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combination of distinguishing characteristics when selecting empirical contexts for their studies, such as small, entrepreneurial exporters in the Scottish arts and crafts sector (McAuley, 1999), small New Zealand manufacturing firms (Caughey & Chetty, 1994), small and medium-sized firms in the Italian clothing industry (Berra, Piatti & Vitali, 1995), female- and male-owned small and medium-sized enterprises (Grondin & Norbert, 1995) or small software firms (Coviello & Munro, 1997).

An often-recurring theme in the internationalisation literature is thus firm size. When discussing firm size and internationalisation, one must distinguish between the differences in internationalisation between SMEs and LSEs and the reasons why these differences occur, a point in regard to which the SME internationalisation literature is not always clear. Roughly, observed differences relate either to outcome of internationalisation or to the process of internationalisation, with the former category dominating. There is an especially large body of research attempting to relate scope and intensity of international activities to firm size (see e.g. Ali and Swiercs, 1991; Bagchi-Sen, 1999; Baird, Lyles & Oriis, 1994; Berra, Piatti & Vitali, 1995; Calof, 1993, 1994; Katsikeas, Deng & Wortzel, 1997; Walters & Samiee, 1990; McDougall, Shane & Oviatt, 1994; Preece, Miles & Baetz, 1998; Moen & Servais, 2002; Wagner, 2001). Although far from all researchers agree fully on this point (cf. Brush, 1995; Moini, 1995; see e.g. Bonaccorsi, 1992; Calof, 1994), the majority of studies conclude that large firms are more heavily engaged in exporting than are small firms, both as far as the propensity to engage in exporting and the extent of involvement are concerned. It has also been observed that firm size is an important influence on pace of internationalisation or pace of international resource commitment, larger firms internationalising more quickly than small firms (Petersen & Pedersen, 1999). Outcome-related differences are manifest also in which organisational structures are employed. SMEs are argued to display preferences for simpler structures, such as exporting or importing (Jones, 2001) that allow for a greater level of externalisation of activities. Differences in internationalisation process formation have also been

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4 By an SME is here primarily understood a firm with at least ten but less than 250 employees, although a variety of different definitions exist, some also taking into consideration turnover and value of assets (see e.g. European Commission, 1996). Occasionally, these limits are ignored in this thesis, e.g. when referring to studies where scholars have employed other definitions (see e.g. chapter 3).

5 When attempting to categorise reasons why there are differences between SME and LSE internationalisation, one quickly comes across a problem. The factors explaining the differences in one study can in another study be seen as the ways in which the differences are manifest. E.g., a lower degree of reliance on formal planning in SMEs may be seen as a reason why there are differences in internationalisation. However, planning for international activities may also be considered part of internationalisation, difference in degrees of planning in themselves entailing differences. Thus, the reason for the difference may be the manifestation of the difference and vice-versa! The same observation can be made in regard to the role of chance. I.e., is it an explanation for process formation or a manifestation of process formation?
identified. Commonly, SMEs internationalisation processes are argued to be emergent rather than deliberate in nature (Brush, 1995).

If we look at the reasons frequently cited why there are differences, these largely break down into three main categories, including (1) the role of planning, (2) liabilities of size and newness and (3) the role of the manager. Concerning planning, among SMEs, internationalisation strategies have been found typically not to be a result of long-term strategic planning (Brush, 1995; Kaynak, Ghauri & Olofsson-Bredenlöw, 1987), decisions often being taken as a result of outside pressure.

Liabilities of size and newness concern limitations in regard to financial, managerial, informational and network resources, but arguably also e.g. reliance on powerful partners, lack of experience and lack of established customer base. Coviello and McAuley (1999) question access to resources as a useful rationale, however, since several studies have shown that SMEs can overcome these limitations in various ways. Still, there can be no arguing against the fact that in general, the larger the firm the greater the easy access to resources and the lower the likelihood of resource scarcity limiting the choice of entry mode, partner or market.

Another reason for the size distinction can be found in the higher degree of dependence on and influence by single individuals, where internationalisation patterns reflect individuals’ experiences, expectations, knowledge and interests (Miesenböck, 1988). In a sense, the limitations of the manager’s capacity limits the international endeavours of the firm, as do attitudes, values and personal goals. E.g., in a survey of US manufacturing firms Dosoglu-Guner (2001) found that externally owned firms were more likely to intend embarking upon exporting than firms where the manager(s) had greater power over decision-making. The least likely exporters were firms managed by the owner.

Of course, there are also trends contradicting the relevance of making a distinction between firms solely based on their size. More specifically, some of these reasons include the recent surge of information technology and other improvements in communication, maturity of and specialisation in certain lines of industry, the emergence of service industries with their specific characteristics and the emergence of highly internationalised industries like e.g. the computer industry. Generally, though, there appears to be consensus among scholars that a distinction between firms based on size is a relevant one to make, especially in the study of strategy formation and internationalisation processes. Below, extant research on SME internationalisation is further explored.

1.3.2 The International Activities of SMEs

When studying works on SME internationalisation, it can be noted that authors list a variety of rationales for their selection of research context, other than simply noting that there are differences between the international activities of SMEs and LSEs. These reasons include primarily the increasing importance
of SMEs in international trade as a consequence of market liberalisation, the importance of SMEs for generating employment and wealth in general and through their international activities in particular, and the importance of SMEs in diffusing knowledge and technology. At the same time it is often argued that SMEs are vulnerable when entering the international arena. This is partly due to limited knowledge of foreign markets and business customs, strong reliance on one or a few large foreign business partners, the risks inherent in investing in uncertain foreign ventures and lack of control over foreign distribution chains. Such observations are usually coupled with a statement to the effect that not enough is known about how and why SMEs internationalise. Spending a few hours perusing international business, marketing and strategy literature, however, one cannot help but be overwhelmed by the number of SME internationalisation studies already undertaken. Largely, this plethora of research has been concerned with trying to explain how firms structure their international activities and the performance that these activities yield as a result of various characteristics related to the decision-maker, the firm, and the environment.

Factors related to the decision-maker typically encompass international orientation as expressed in international experience (Roth, 1995; Bloodgood, Sapienza & Almeida, 1996; Madsen, 1998), interest in internationalisation-related issues, level of education, age (Caughey & Chetty, 1994), task-oriented relationships (cf. Hallén, 1992; Brush, 1995; Westhead, Wright & Ucbasaran, 1998; 2001) and human capital (Manolova, Brush, Edelman & Greene, 2002). Also personality traits (Andersson, 1996; 1999; 2002), ethnicity of firm owners (Crick & Chaudhry, 1998) and their gender (Grondin & Norbert, 1995) have been subjected to inquiry. Individuals’ expectations of outcomes in international ventures (Moini, 1995) and their perceptions about barriers (Dean, Gan & Myers, 1998) are apparently also important factors.

Factors on the firm level can be sub-divided into a number of categories, depending on whether they concern more or less easily quantifiable characteristics of the firm, the firm’s offerings and the activities performed by the firm, the behaviour of the firm in regard to internal and external pressures, ownership of the firm, the firm’s access to resources or the firm’s past experience from internationalisation. Quantifiable characteristics concern firm age (Brush, 1995; Autio, Sapienza & Almeida, 2000) and size, the latter primarily in terms of turnover and number of employees. Firm location – e.g. the U.S. vs. Europe, developed vs. developing countries, or a focus on a specific foreign country – also belongs to this category (see e.g. Calof & Viviers, 1995; Pleitner, Brunner

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6 See Leonidou, Katsikeas and Piercy (1998) for a review of the literature on managerial influences on exporting.

7 A great many studies point out the importance of previous international experience for the decision to initiate internationalisation or to internationalise further (see e.g. Bloodgood, Sapienza & Almeida, 1996; Almeida & Bloodgood, 1996; Ali & Swiercs, 1991; Morgan, 1997; Reuber & Fischer, 1997; Roth, 1995; Westhead, Wright & Ucbasaran, 1998).
As noted previously, particularly firm size has been subjected to intense scrutiny in connection to extent of international activities (see e.g. McDougall, Shane & Oviatt, 1994; Preece, Miles & Baetz, 1998; Moen & Servais, 2002; Wagner, 2001). Factors related to the firm’s offerings and activities concern whether the firm manufactures goods or performs services (see e.g. Coviello & Martin, 1999; Masurel, 2001; Erramilli & D’Souza, 1993; O’Farrell, Wood & Zheng, 1998; Satchel & Marriott, 1996), has high-tech or low-tech offerings (see e.g. Burgel & Murray, 1998; Crick & Jones, 2000; Fontes & Coombs, 1997) and how production is organised (Boter & Holmquist, 1996). The firm’s position in the value added chain and value-chain related activities (Wyer, Boocock & Abdul-Hamid, 1998), e.g. whether the firm has its own product line, is a sub contactor, a distribution firm or is involved in research and development (Bagchi-Sen, 1999; Braunerhjelm, 1996; Burgel & Murray, 1998), have in the past also been identified as relevant factors to study. The behavioural patterns of the firm concern the firm’s strategy orientation (see e.g. Shoham, 1999; Knight, 2000; Francis & Collins-Dodd, 2000; Bagchi-Sen, 1999), e.g. proactivity and reactivity in internationalisation (Campbell, 1996), use of information (Cafferata & Mensi, 1995; Liesch & Knight, 1999; Knight & Liesch, 2002; Williams, 2003; Wood & Robertson, 2000), use of formalised or structured systems for planning (Bijmolt & Zwart, 1994, Walters & Samiee, 1990; Yip, Gomez Biscarri & Monti, 2000; Wyer, Boocock & Abdul-Hamid, 1998; Baird, Lyles & Orris, 1994), internal organisation in regard to export activities (Dalli, 1995), the role of market research (Hart & Tzokas, 1999; Hart, Webb & Jones, 1994) and use of support services (De Chiara & Minguzzi, 2002; Howard & Herremans, 1988; Fischer & Reuber, 2003). SMEs have further been characterised as being more or less entrepreneurial in regard to internationalisation (see e.g. Knight, 2000; Ibeh & Young, 2001; Ibeh, 2003; Fröhlich & Pichler, 1998), management style also impacting international activities (Boter & Holmquist, 1996). Factors related to the firm’s access to resources concern not only financial resources, but arguably also production capacity, human capital and relationships with other firms (Coviello & Munro, 1992; Echeverri-Carroll, Hunnicutt, Hansen, 1998; Holmlund & Kock, 1998; Meyer & Skak, 2002). Often, the scarcity of resources is the focus in these studies (see e.g. Christensen, 1991; Campbell, 1996). Past firm experience concerns the extent of international activities and the level of success that the firm has achieved in its internationalisation efforts (see e.g. Ali & Swiercs, 1991; Morgan, 1997; Westhead, Wright & Ucbasaran, 1998). There are also factors related to ownership structure (Chetty & Hamilton, 1994; Dosoglu-Guner, 2001; Donckels & Aerts, 1998), the number of business partners (Westhead, Wright & Ucbasaran, 1998) and effects of changes in ownership structures (Bell, McNaughton & Young, 2001).

Factors relating to the environment can also be sub-divided into a number of categories, including the trading environment (Campbell, 1996) and home-
country factors concerning e.g. competition and cooperation (Christensen & Lindmark, 1993), market size (Fontes & Coombs, 1997), government policies (Acs, Morck & Yeung, 2001) and industry logic or industrial wisdom (Boter & Holmquist, 1996). Host country factors, on the other hand, concern e.g. uncertainty in regard to exchange rates and the need to adapt to local demands (Samuels, Greenfield & Mpuku, 1992). Some studies also compare firms from different countries and their respective success on foreign markets (see e.g. Beamish, Craig & McLellan, 1993). Change agents, i.e. those organisations and individuals in the firm’s environment who initiate and aid in internationalisation, such as government agencies (see e.g. Kaynak, Ghauri & Olofsson-Bredenlöw, 1987; Welch, Welch, Young & Wilkinson, 1998), consultants and the firm’s customers and suppliers (cf. Caughey & Chetty, 1994) have been studied.

Using a variety of frameworks, researchers have primarily tried to explain the influence of the factors listed above on internationalisation outcomes, which may by defined in terms of behavioural patterns (incl. e.g. the likelihood of internationalisation initiation, perceptions of barriers, degree of reactivity and proactivity, pre-export behaviour and motives), structure of international activities (mode, foreign markets, business partner selection, adaptation of a firm’s offerings and the control and coordination of international activities) and international performance (international profitability, turnover, number of people employed, foreign market shares and export growth, but also non-financial measures such as knowledge and other aspects of human capital generation).

Several conclusions can be drawn from the brief review above. There is no denying that a great deal is known about how and why SME managers make certain decisions in regard to internationalisation. Even if the picture presented by past research is not a coherent one, at least it provides a rich description of the phenomenon. The process perspective on SME internationalisation clearly remains underdeveloped, though, scholars in the field apparently exhibiting preferences for cross-sectional research (Coviello & McAuley, 1999). It is also worth noting that there is almost no literature on SMEs’ upstream internationalisation (cf. Katsikeas, Skarmeas & Katsikea, 2000). Consequently, in relation to the amount of research conducted, little is known about changes in SMEs’ internationalisation strategies over time.

1.3.3 Change in the Internationalisation Process of SMEs

Based on the perspective on internationalisation developed in subchapter 1.1, a number of questions can be asked in regard to strategy formation and change: How and why are decisions taken to expand into new types of markets? How and why are decisions taken to withdraw from certain markets? How and why

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8 See Dean, Mengüc and Myers (2000) for a review of the literature on perceived export barriers.
are decisions taken to replace certain modes with other modes? How and why are decisions taken to change the approach to relationship initiation? How and why are decisions taken to terminate relationships with foreign partners? Do decisions taken early on in the internationalisation process differ from later ones? Are these even decisions actively made by managers?

In truth, not a great deal is known regarding these issues in spite of the fact that SME internationalisation has been at the focus of a lot of research for three decades. One answer to why this is the case can be found in the fact that studies tracking SMEs’ internationalisation processes over time are scant. In a review of SME internationalisation process research published between 1989 and 1998, Coviello and McAuley (1999) were able to locate no more than 16 studies in academic journals and edited books, only two of which actually analysed longitudinal patterns. These (Berra, Piatti & Vitali, 1995; Gankema, Snuif & Zwart, 1997) did not follow the processes of individual firms in detail, however, but relied on statistical analysis of data concerning large numbers of firms.

Another answer to the question why there is limited knowledge of change in SMEs’ international strategy formation can be found in the failure of past research to take into account a variety of idiosyncratic influences on SMEs’ internationalisation processes, researchers typically preferring to focus on a specific framework. In doing so, they fail to capture influences on process formation outside those specified by the framework (see 1.2.1 above). E.g., influences that do not necessarily find their origin in rational decision making, network contacts, market characteristics or organisational learning are difficult to capture with established frameworks. In regard to this, Hohenthal, Johanson and Johanson (2003:660) note […] “little attention is paid to [such] unexpected events and developments during the entry process. These unexpected situations appear frequently in anecdotal narratives of internationalization, but as far as we know, no systematic research has been conducted on the occurrence and nature of such situations”.

A third possible reason is an overall lack of focus on change in strategy in internationalisation research in general. E.g., in regard to mode selection both Chang and Rosenzweig (2001) and Pedersen, Petersen and Benito (2002) note that while a great deal is known about the initial selection of mode, events surrounding changes between modes remain largely unexplored. Clearly, this is an under-researched area where there is potential to make important contributions.

1.3.4 A Focus on Industrial SMEs

Above it is noted that the literature on SME internationalisation distinguishes between different types of SMEs, e.g. categorising firms as service SMEs, high tech SMEs, manufacturing SMEs, small and medium-sized distribution firms, etc. Important aspects to consider when selecting firms to study are thus the nature of the firm’s offerings in terms of levels of service and technology
content, as well as the role of the firm in the value added chain. Another important aspect apparent when browsing through recent SME internationalisation studies is the pace of internationalisation and the firm’s stage in the internationalisation process. There are, e.g., many studies of firms that are international more or less from inception, often with a focus on high tech firms. Various terms have been employed by scholars in this line of research, including e.g. infant multinationals (Lindqvist, 1991; 1997), international new ventures (McDougall, Shane & Oviatt, 1994; McDougall & Oviatt, 1996), instant internationals (Preece, Miles & Baetz, 1998), instant exporters (McAuley, 1999), new venture firms (Zahra, Ireland & Hitt, 2000) and born globals (Madsen & Servais, 1997). This approach primarily focuses on firms that reach a certain extent of international sales or are present on a certain number of markets within a certain time after inception. Since many the firms under scrutiny in this sizeable body of research have not been international very long, research in this vein takes a process perspective naturally focusing on shorter periods.

To make a contribution to the knowledge of SME internationalisation, one of two approaches can be adopted. Either a variety of contexts are studied, allowing comparisons to be made of findings across contexts generating insights into differences and similarities between different types of SMEs, or one selects one specific context made up of a combination of the characteristics discussed above, such as e.g. born global high tech service providers or slowly internationalising low tech manufacturing firms. The research reported in this thesis focuses on (1) SMEs where internationalisation processes have unfolded over a longer period of time, (2) SMEs that have offerings with a high product rather than service content, (3) SMEs with varying levels of technology content, (4) SMEs that sell and market their own products rather than being distribution firms and (5) SMEs where these marketing and sales activities are primarily directed towards business customers rather than towards consumers. Here these firms are termed industrial SMEs.

This focus is not selected because the particular context has not been studied before. Indeed, in Coviello and McAuley’s (1999) review of internationalisation process research published between 1989 and 1998, it was found that 10 of 16 studies focused primarily on manufacturing firms, while two focused on service firms and four on software and information technology firms. It can be noted, though, that in spite of the partial and contradicting findings concerning the formation of what may be termed industrial SMEs’ internationalisation processes over extended periods of time, there is currently a trend among scholars to focus increasing efforts towards high tech firms, service firms and “born global” firms (see above).

When selecting to study change in international strategy – a phenomenon that is under researched in regard to all categories of SMEs – arguably it makes sense to select a general empirical context, i.e. industrial SMEs, that has been relatively well studied in the past. This means that extant studies can be drawn
on to some extent, avoiding the introduction of both a novel context and a novel phenomenon within that context.

Since change in international strategy is in focus, it is also necessary to study firms where such changes have actually occurred. The longer the time period under study, logically the greater the chances of encountering changes in strategy. Hence, firms with extensive international experience might be more appropriate to select than more recently internationalised firms.

1.4 Purpose and Expected Contributions

A number of conclusions can be drawn from the discussions above, all of which have implications for the design of SME internationalisation research projects.

Firstly, in spite of very significant research efforts undertaken by internationalisation scholars for several decades, only a portion of which research is noted above (see 1.3.2), no one has been able to present a coherent picture of SME internationalisation. Theoretical, empirical and methodological diversity accounts for conflicting and incoherent research results. Miesenböck’s (1988:42) observation that “[t]he (extensive) literature based on empirical studies is full of inconsistencies and a conclusive theory of small business internationalisation is far from being available”, is equally valid fifteen years and numerous additional SME internationalisation studies later. For some time now, researchers have been calling for novel, integrative approaches to the study of internationalisation, often arguing that the extant body of literature is too focused around specific frameworks or methods to forward field (Coviello & McAuley, 1999). In particular, research approaches that allow for the study of internationalisation over time and which also allow for the identification of a variety of factors on strategy formation are called for (cf. Melin, 1992).

Secondly, focusing on strategy formation and in particular the role of change in strategy formation is thus a key to understanding internationalisation process formation. In doing so, both descriptive and explanatory aspects of change must be in focus. I.e., it is not sufficient only to identify what changes in strategy occur, but also to consider why they occur. Change has not been the focus of mainstream internationalisation research, though.

Thirdly, it would appear motivated to focus research on industrial SMEs (as defined above).

1.4.1 Purpose

Based on the three main conclusions above, the following purpose is formulated:

*The purpose of this thesis is to describe and explain changes in strategy in the internationalisation process of industrial SMEs.*
1.4.2 Expected Contributions

What specifically will pursuing this purpose achieve that past research has not? In short, four main expected contributions can be identified.

Firstly, a theoretical understanding of change in international strategy will be developed. I.e., the thesis aims to make a conceptual contribution in the form of combining theories of internationalisation and theories of strategic change.

Secondly, a method for studying change in internationalisation process formation will be developed. The thesis thus also aims to make a methodological contribution.

Thirdly, the empirical focus on industrial SMEs will generate descriptions of internationalisation processes and changes in strategy previously not well covered in the literature. The thesis will thus also make a descriptive, empirical contribution, both to the SME internationalisation field and to the strategic change field. Even if there is no outspoken normative contribution implied in the purpose, the hope is that the process descriptions will be of interest not only to academics but also to managers of internationalising SMEs.

Fourth, the thesis aims to make a contribution through the presentation of comprehensive and systematic conclusions regarding change in industrial SME internationalisation, with a focus on market, mode and partner selection. While no claims are made to present generally applicable conclusions, the ambition is nonetheless to make a theoretical contribution representing an advance towards a more exhaustive understanding of the phenomenon under study⁹.

1.5 Overview of the Thesis

The thesis comprises nine chapters, taking its starting point in the internationalisation field.

1.5.1 Theoretical Framework and Research Questions

In the first of nine chapters, it is argued that internationalisation can be broken down into six sub processes, including upstream and downstream market, mode and partner selection (see 1.1). Since this is a thesis about change in strategy, various potential changes in these sub processes are identified (see 1.2). Based on the observations that existing research has largely failed to present a coherent

⁹ If the aim is to make a theoretical contribution it is of course well motivated to ask oneself, what is theory? By theory should here be understood “a set of systematically constructed theses” (Arbnor & Bjerke, 1997:84), the function of which is to “state the nature of the studied phenomenon, how it should be perceived, what are its most important features, how different factors are interrelated and how they are explained” (Wallén, 1996:52, transl.).
picture of SME internationalisation, that employing a change perspective might offer a fruitful avenue to do so and that industrial SMEs merit further study (see 1.3), the thesis sets out to describe and explain changes in strategy in the internationalisation process of industrial SMEs (see 1.4).

The understanding of change generated in the thesis’ first chapter is superficial, however. When studying change in processes formation over time, the fields of organisational and strategic change offer useful insights. In the second chapter, the idea of strategy as being a pattern in firm action is further developed. The chapter also stresses how strategies form during a process consisting of periods of lesser and greater pressure for change, periods of change and periods of stability in strategy. It also highlights that changes vary in magnitude, some changes concerning a variety of activities, other changes being lesser in scope (see 2.1). The chapter then addresses how change comes about, concluding that changes in firm strategy are effected by individuals, individuals’ actions being impacted by their perceptions regarding organisational and environmental conditions and changes, as well as by perceptions regarding realised strategies (see 2.2).

Based on these notions of change, a model is developed (see 2.3) which forms the basis for the formulation of three research questions (see 2.4). The first research question is concerned with identifying what types of changes actually occur in industrial SMEs’ international strategy, while the second focuses on identifying influences on change. The final research question centres on placing change in the context of overall internationalisation process formation, stressing deliberation and emergence, reaction and proaction, and the role of planning. Each research question is asked in relation to each of the six sub processes of internationalisation. Before an empirical study is conducted, though, the theoretical concepts discussed throughout chapter two are operationalised (see 2.5).

1.5.2 Clues from Past Research

Of course, even if change in international strategy has not been the focus of much research, the issues of market, mode and partners selection have certainly interested researchers in the past. Therefore, a review of extant empirical studies is conducted in the thesis’ third chapter, with a focus on environmental and organisational (sub divided into firm and individual) influences on market, mode and partner selection in downstream (see 3.1) and upstream (see 3.2) internationalisation. The review reveals that while there is a certain amount of research available focusing on specific international strategies and behaviours, it also strengthens the arguments made previously that a process perspective is rarely employed in SME internationalisation and that there is little focus on change in regard to international strategy. While some aspects of downstream international strategy are found to be relatively well explored, though, upstream international strategy has been more or less ignored, especially that part of
upstream strategy focusing on international sourcing. Overall, partner selection strategy has received less interest than mode selection and market selection.

1.5.3 Method of Empirical Study

The fourth chapter of the thesis presents and motivates the methods employed in conducting the empirical study. Since the aim of the study is to describe and explain changes in international strategy, while at the same time the definition of strategy as a behavioural pattern of action makes it impossible to identify changes before they take place, a retrospectively longitudinal approach is employed. Further, since the definition of strategy makes it difficult to rely on self-reported answers, the role of researcher in data collection becomes a prominent one, interviews with key informants being the main method of data collection. Basically, a multiple case-study approach is selected, the case equating the internationalisation process (see 4.1).

Since it is unknown beforehand to what extent changes in international strategy can be identified in individual industrial SMEs, though, a pragmatic approach to selecting cases is adopted, the actual number included in the study being determined by the marginal contribution of the nth case in relation to the efforts involved in identifying and researching it. Using this approach, during a year’s time 16 case studies were conducted.

During interviews, respondents were asked to account for the activities their firms were and had been involved in on different markets. Between two and six respondents were interviewed in each firm, accounts collected in this way being substantiated by secondary data whenever such was available. To achieve a great measure of structure for the interviews, they were focused around the different relationships that the firms had been involved in on their different markets (see 4.2).

1.5.4 Multiple Units and Levels of Analysis

In the analysis of the empirical data, three units of analysis are employed. The first and lowest unit of analysis is the individual international relationships. A second and higher unit of analysis concerns strategy and change in strategy. A third and highest unit of analysis is the internationalisation process itself, or rather six parallel internationalisation sub processes, since market, mode and partner selection in upstream and downstream internationalisation are studied.

In focusing on the three units of analysis, analyses are carried out on different levels. On the lowest level of analysis, the individual relationships of each firm are in focus, i.e. a within-relationship analysis is conducted. In a process of data coding and sorting, the geographically organised accounts of relationships based on interview data are transformed into chronological accounts, where for each relationship, the market(s) involved, the mode(s) involved, the partner(s) involved and its duration are noted, as are reasons for
termination and relationship terminator when applicable (see Appendix 1 and 2).

Secondly, there is a focus on the upstream and downstream internationalisation of each firm, i.e. within-case analyses are conducted. Since each relationship says something about the market, mode and partner involved and how these came to be selected, when plotted them on a time axis the relationships allow for the identification of the international strategy of the firm at any given time. If strategies differ at two points in time, a change in strategy must have occurred. These within-case analyses are presented in the form of summaries of internationalisation sub processes and the identification of changes in strategy in chapter five (see 5.2-5.17).

Then, an analysis across cases is conducted to answer the research questions. The cross-case analysis breaks down into three parts, each being concerned with a specific research question. In chapter six the first research question is in focus, the chapter dealing with the types of changes that are identified. An overview of the empirical material is provided through the frequent use of tables, permitting for the identification of 721 distinct relationships with foreign business partners, 547 on the downstream side (see 6.1) and 174 on the upstream side of activities (see 6.2).

Chapter seven addresses the second research question, with a focus on perceived influences on change. At this level of analysis, to reduce the extensive amount of data collected, influences are characterised into main groups per type of change. A comparison with existing research is also made, the chapter again breaking down into downstream (see 7.1) and upstream (see 7.2) internationalisation. Chapter eight addresses the third research question, focusing on change in internationalisation process formation, discussing reaction and proaction, deliberation and emergence, and planning. Firstly, these concepts are addressed in regard to the downstream (see 8.1) and upstream sub processes (see 8.2), then a discussion is carried out across sub processes with reference to the conceptual mode of change previously developed (see 8.3).

1.5.5 Conclusions

Both the within-case and cross-case analyses generate a great many observations. In the thesis' ninth and final chapter these are summarised into seven statements concerning change in the international strategy of industrial SMEs, each statement consisting of three components (see 9.1). In an attempt to ensure the relevance and accuracy of these statements, they are contrasted to the individual within-case analyses (see 9.2). At the end of the chapter, some limitations are discussed (see 9.3) and implications for future research and managerial practice are addressed (see 9.4).
CHAPTER 2
Strategy and Change

The first chapter identifies strategy and change as important concepts for this thesis. Greater understanding regarding these concepts needs to be generated before a study of change in international strategy can be conducted, however. This is the first aim of the second chapter, which explores the concept of change (see 2.1) and influences on change in strategy process formation (see 2.2), taking its starting point in the fields of strategic and organisational change. The second aim of this chapter it to develop a conceptual model of change (see 2.3). This model, in turn, generates three research questions, aimed at making the overall purpose of the thesis more tangible (see 2.4). The research questions are then operationalised (see 2.5).

2.1  Strategy and the Process of Change

Much of internationalisation research has been dominated by a marketing focus or an organisational focus. The strategy field as such has apparently not inspired internationalisation researchers to the same extent. This notwithstanding, the fields of strategic management and strategic change would appear to offer insights to further the understanding of international activities, especially if the aim is to understand change in international strategy formation rather than just study what shapes strategies take and what outcomes they generate. The aim of this subchapter is therefore to introduce a way of regarding strategy formation as a process of change.

2.1.1  Strategy and Change, Content and Process

Early teachings and writings on strategic management chiefly focused on developing terminology and tools intended to aid managers in formulating and implementing strategies. At this time, strategy was primarily an issue of planning, academics typically being concerned with performance outcomes of various types of strategies (Rajagopalan & Spreitzer, 1997). Management – often in the form of the CEO – was seen as the formulator of strategy. Skilful management led to the successful implementation of strategy. While the normative tools and theories became more sophisticated over time, until the 1980s limited attention was paid to how strategies came about in real life.
Increasingly, the rational planning approach to strategy was put into question at that time, observations of actual strategy formation indicating that the influence of the firm’s environment was underestimated and that the abilities of managers both to plan and to manage change were similarly overestimated (Mintzberg, Ahlstrand & Lampel, 1998). Other factors not included in early models of strategy formation concerned e.g. the internal climate of the firm – its culture – and the importance of power relations among key actors. Some scholars also began regarding strategy as a result of how managers interpreted their tasks and environmental constraints (Mintzberg, Ahlstrand & Lampel, 1998). With the criticism of the “planning” school of strategic management, several parallel descriptive approaches to understanding strategy formation thus emerged.

While much previous strategy research had focused on the content of strategy relating various strategies to performance, since the 1980s, increasing focus has been placed on its process aspect, i.e. how strategies form over time. A simple distinction between content and process, however, is somewhat problematic. How can change be described without referring to the states between which change occurs? Similarly, what is the meaningfulness of describing momentary (or short-lived) states, ignoring how they change over time? It would appear that neither the concept of strategy nor that of change is very meaningful without the other. Arguably, both the content of strategy and the process of strategy formation are needed to understand strategic change and the nature of the strategy and change process (Rajagopalan & Spreitzer, 1997).

The nature of the process of strategy formation has been discussed from many perspectives by a host of researchers, though. Quinn (1978) refers to the strategy process as being characterised by logical incrementalism, or as a process that emerges over time as managers make small, but conscious and purposeful adjustments in strategy. Among others, Jess Hansen (2002) considers strategy as a state existing between periods of intense reorientation or strategizing, concluding that the former – i.e. periods of relative stability – are typically brief indeed. The idea of change processes as consisting of periods of stability interspersed by periods of reorientation or transformation is not new, however. Drawing on the “punctuated equilibrium paradigm” (Gould & Eldredge, 1977; Gould, 1989) which describes how new species evolve, Gersick (1991) argues that also in the development of individual human beings throughout their lives, in the development of groups, in the development of scientific fields and in the development of organisations, a pattern of equilibrium periods punctuated by periods of transformation can be observed. While the principles of the punctuated equilibrium paradigm may not necessarily be analogically applicable to the evolution of organisations (Lichtenstein, 1995), some of the ideas behind evolutionary theory have proven useful in describing organisational and strategic change, and has inspired scholars to do so (Tushman & Romanelli, 1985; Gersick, 1991; Romanelli & Tushman, 1994).1

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1 For a further overview of different approaches to strategy and strategic management see e.g. Mintzberg, Ahlstrand and Lampel (1998), Jess Hansen (2002) and Whittington (2001).
2.1.2 Definition of Strategy

One of the most pertinent questions raised by strategic management scholars in the last decades is thus that of strategy formation. Indeed, the very term strategy, previously often treated as if it were synonymous with plan, was partly given a new meaning by some of the scholars subscribing to novel views of strategic management. For example, Mintzberg and Waters (1983; 1985) and Mintzberg (1991) refer to strategy as a pattern in a stream of decisions, as a pattern in a stream of behaviour or as pattern in a stream of action. Strategy is thus not seen as what firms’ managers say they plan for their firms to do – or even what they say they currently do – but how the firms actually behave.

There is a pertinent logic behind applying such a definition. If people are asked to define the concept of strategy, most will likely equate it to a plan (Mintzberg & Waters, 1983). If the same people are asked to identify a strategy based on the behaviour of an individual or an organisation, though, they will attempt to identify patterns in the behaviour of that individual or organisation. If such a pattern can be identified, the conclusion might be that there is an underlying plan, regardless whether this is actually the case. It is by the pattern in behaviour that strategy is understood, not by the underlying plan, which may not even exist. With such a definition of strategy, clearly the process of strategy formation and the content of strategy become inextricably intertwined. A pattern in firm behaviour is that firm’s strategy. Such a pattern forms over time.

2.1.3 Magnitude of Change

While the strategic change field suffers from a great deal of vagueness concerning what change actually is, empirical studies have identified a variety of different changes, some of apparently greater and some of apparently lesser importance to firms. A salient question is, thus, how these can be fruitfully characterised. Melin and Hellgren (1994) argue that one dimension of change that must be considered is its magnitude. They contend that strategic change can be revolutionary in nature or take the form of continuous adaptation. Magnitude thus concerns the comprehensiveness of change, possibly in relation to the time period during which it is undertaken.

One issue that becomes more salient with this distinction is the formation of new strategies or new behavioural patterns. In the case of revolutionary change, a change in strategy has, by definition, occurred. In the case of continuous adaptation, however, increments of change may be small enough that it is not apparent that a change in a behavioural pattern has occurred until much later. Similarly, the adaptation in question may be limited in scope and a reversal to previous behavioural patterns may occur. In this sense, over time no change may have taken place. This is one of the reasons why, in the study of strategy, the process aspect and consequently some form of methodological longitudinality are crucial if deeper understanding is to be generated. How do
we know what is a strategic change, e.g. a change in behavioural pattern, and what is not unless behavioural patterns are studied over longer periods of time? How can an exception from an otherwise pervasive strategic pattern be distinguished from a small adaptation in strategy? – Only in hindsight.

The idea of periods of stability in strategy and periods of change in strategy is thus complex. In a critique of organisational theory applications of evolutionary theory, Lichtenstein (1995:291) argues that “Incremental shifts can seem transformational [cf. revolutionary] when they occur rapidly”. How to characterise the nature of the change process thus depends on one’s vantage point, i.e. what aspect of the process is studied, for how long it is studied and from what theoretical perspective it is studied. What is seen as incremental, continuous adaptation from one point of view may actually be regarded as revolutionary from another point of view. What differs is how closely we look at the change process. Further, what may be a revolutionary change in a small component of a system or process may be a very small change in a greater totality of systems.

Mintzberg and Westley (1992) make another distinction between changes in a system based on their comprehensiveness. They talk about revolutionary change as being all-encompassing, while there is piecemeal change which is independent change in different, but several elements. They also use the term focused change to describe change that might encompass different levels of a system (organisation), but only one part of that system (organisation), and they talk about isolated change as being change in one component of a system.

Clearly, different types of change have different implications and are more or less significant to the firm. The idea of magnitude of change is thus a complex one.

2.1.4 Periods in the Strategy and Change Process

To summarise so far, on a conceptual level strategy is here considered to be a behavioural pattern, i.e. some form of discernible consistency in action over time. Strategic change is a change in that behavioural pattern. During periods of relative stability or equilibrium, the strategy remains fairly constant. These periods are interspersed by periods of change or transformation, the result of which is new strategy. Changes may also be of greater or lesser magnitude, depending on the extent to which they impact the system under study.

Taking into account these notions of strategy and change, a conceptual model of the strategy process can be created (see Exhibit 2.1). Of course, the model presents a simplified view of how change comes about. Activities relating to change are not restricted to periods of change. During periods of stability, i.e. periods where the focal firm exhibits a certain pattern in action in regard to the specific aspect of strategy under study, there may be present pressures for change, various activities may be undertaken in preparation for change, etc. In a sense, activities relating to change go on most or all of the time. Indeed, when
studying strategic management processes Jess Hansen (2002) draws the conclusion that periods of stability in strategy are very brief and periods of change (or “movements”) are very long.

Exhibit 2.1: Periods in the Strategy Process and Magnitude of Change

Nonetheless, the model (Exhibit 2.1) serves to highlight important aspects of the strategic change process and its multifaceted and multidimensional nature.

2.2 The Context of Strategy and Change

The previous section addressed the process of strategy formation as being sequentially constructed of periods of stability and change, the latter being characterised by different levels of magnitude. Change, however, does not come about by itself. Strategy is formed in and by a context. This section discusses how strategy forms and what influences strategy formation. It begins by addressing the notion of deliberate and emergent strategies, thereafter looking at organisational, environmental and perceptual influences on strategy formation and change.

2.2.1 Two Typologies: Deliberate-Emergent and Reactive-Proactive Change

If strategy is considered as being a pattern in behaviour as defined in 2.1.2, how does such a pattern form? Do such patterns come about in different ways? How can they be studied? Mintzberg and Waters (1985) argue that with a “pattern in decision” (1985:57) approach to strategy formulation it is possible to investigate how strategies arise. For practical reasons, though, strategy is not studied as decisions, but as “a pattern in a stream of action” (Mintzberg, 1991:13).
These patterns in streams of action take different forms and come about in different ways. According to Mintzberg (1978:945), there are “[i]ntended strategies that get realised, intended strategies that never get realised and strategies that were never intended”. An intended strategy that gets realised may be termed deliberate and a strategy that was never intended but which nonetheless is realised may be termed emergent. Intent among those actors who take part in forming strategy is thus not a prerequisite for strategy formation.

When those strategies that are realised, whether intended or not, generate future intended strategies, a form of strategic learning can also be observed (see Exhibit 2.2).


The issue is somewhat more complicated than the deliberate–emergent typology may imply, though. A purely deliberate strategy would mean that no adaptation to environmental conditions would be necessary and that no strategic learning takes place. A purely emergent strategy, on the other hand, would indicate that the firm exercises no control over its activities, simply responding to changes in internal and external conditions.

A continuum with purely deliberate and purely emergent change as theoretical end points, though, provides a useful way of characterising strategy formation, especially when combined with a typology that also allows strategy formation to be characterised as more or less reactive or proactive in nature. Melin and Hellgren (1994:254) define proaction as “[…] an active search for new strategic options and strategic steps taken in new directions, although neither the internal nor the external situation obviously requires new strategic actions”. A reactive strategy is consequently one that forms in response to conditions and changes in the internal and external environment of the firm.

A largely proactive and deliberate change thus represents a consciously implemented change undertaken without there being present a pressure for the firm to do so. If something unpredictable happens in the firm’s environment to which the firm must respond, management devising and implementing a plan with this aim, change might still be seen as largely deliberate, but also reactive.
in nature. Further, it is conceivable that as a response to a pressing external situation, firm behaviour adapts continuously in small increments without any specific direction dictated by management, representing a change which is more emergent and reactive that deliberate and proactive in nature. A fourth type represents a largely emergent change which is still characterised by a great deal of proactivity, observable e.g. when management seeks out opportunities without there being much in the way of conscious thought to which opportunities should be exploited (see Exhibit 2.3).

Exhibit 2.3: A Matrix Typology of Strategic Change

To the two-dimensional typology above (see Exhibit 2.3) can also be added a third dimension, namely that of degree or comprehensiveness or magnitude of change, this e.g. being expressed in the form of a continuum with revolutionary change and continuous adaptation as end points (Melin & Hellgren, 1994; see also 2.1.3 above).

Mintzberg and Waters (1985) further develop some of these notions into eight generic types of strategy formation: (1) The planned strategy, where leaders articulate intentions, which are translated into action, the implementation process and its outcomes being checked through formal control systems. This is a deliberate strategy, relying on a stable environment; (2) The entrepreneurial strategy, dictated by the visions and interests of a strong leader, is a largely deliberate strategy, which permits adaptations to environmental changes and thus contains emergent aspects; (3) The ideological strategy is in place when visions are shared by organisational members and is also largely deliberate in nature; (4) The umbrella strategy entails that there is a broadly defined strategy in place, in regard to which individuals respond as far as constraints allow them to. This form of strategy clearly contains both emergent and deliberate elements and may even be described as deliberately emergent; (5) The process strategy is in place when leadership controls the process of strategy making rather than the content of strategy. Like the umbrella strategy, the process strategy contains both emergent and deliberate elements and may also
be described as deliberately emergent; (6) The unconnected strategy means that an organisational actor is free to devise its own strategy. On an organisational level, strategy is clearly emergent, although it may be deliberate on an organisational sub-unit level; (7) The consensus strategy is emergent since it entails mutual adjustments between organisational actors as a consequence of absence of a centrally directed strategy; (8) The imposed strategy is dictated by environmental conditions over which the firm and its actors have little control. This form of strategy is thus largely emergent in nature.

2.2.2 Planning in Strategy Formation and Change

In Mintzberg and Waters' (1985) identification of generic types of strategy formation, planning is clearly an important dimension. By planning may, however, be understood a variety of different activities. While Mintzberg and Waters (1985:259) use the term to entail “clear and articulated intentions, backed up by formal controls to ensure their pursuit, in an environment that is acquiescent”, Bracker and Pearson (1986) argue that there are four levels of strategic planning and that these are especially relevant to consider in an SME context. The highest level entails structured strategic plans, i.e. long-range plans that are formalised, written down and, moreover, concern performance, environmental analysis and internal analysis. Structured operational plans, on the other hand, are primarily concerned with short-range, operational aspects of a firm’s activities and contain e.g. production quotas, budgets and personnel requirements. On a yet lower level there are intuitive plans which are informal and largely based on the experience of managers. Typically, these focus on short-range aspects of operations. The lowest level of strategic planning, unstructured plans, entails no structured planning at all. By the latter may e.g. be understood intuition-based handling of isolated situations.

A distinction between formal planning and the deliberate-emergent typology must be made at this stage. A high degree of formal planning before and during change is undertaken is not necessarily the same as deliberate strategy formation, nor does a low degree of planning mean that strategy formation by definition is emergent in nature. If structured plans are made and followed, the realised change corresponding to intended change, strategic change may be described as deliberate. If, however, plans are made but not followed and the realised strategic change differs from the intended change, it may be described as emergent. Also in emergent change can planning hold a prominent role if plans are continuously revised during the change process, e.g. in reaction to unforeseen events, the firm ending up with a strategy very different from what was initially intended. Change can also be deliberate without any particular formal plans being devised. However, for change to be characterised as deliberate in nature, if not directed by formal plans it is at least guided by managerial intuition or preferences.
2.2.3 Influences on Strategy Formation and Change

Clearly, if one accepts the notion that there are more or less deliberate and more or less proactive changes in strategy, one must also be willing to entertain the idea that there is a variety of influences on strategy formation and change. There is no comprehensive “meta theory” of change in strategy, though. Rather, different researchers focus on different aspects of change and operationalise the concept in different ways, stressing different influences on strategy formation. In an extensive review of change literature, Rajagopalan and Spreitzer (1997) identified three main perspectives on strategic and organisational change. They refer to these as the rational lens, the learning lens and the cognitive lens. The rational lens perspective holds that strategic change is based on a search for optimal solutions to problems hindering organisations reaching their pre-defined objectives. The environment is assumed to be a given constant, which manifests itself to the organisation in terms of opportunities and threats. Simply put, conditions and changes in the environment and in the organisation lead to changes in the content of strategy, which then generate organisational outcomes.

The learning lens perspective, on the other hand, holds that strategic change is an iterative learning process where change is implemented in small steps, in between which the environment and the organisation are probed. This perspective stresses the central role of the manager in strategic change. Here, change requires agency, i.e. it does not come about automatically due to changes in the firm and its environment. The environment and the firm are assumed to be dynamic, to which managers strive to adapt strategy.


In the third and last perspective, the cognitive lens, also managerial cognitions or interpretative processes (alternatively defined as knowledge structures, core
beliefs, cause maps or schemas) are entered into the equation. The environment is impossible to evaluate objectively. It is instead argued to be interpreted by managers whose actions are based on their unique understanding of their environment. Similarly, an individual’s understanding of the organisation, concerning e.g. its needs or aims, dictates actions taken concerning the organisation. Change is thus seen as a consequence of managerial action as in the learning lens perspective, although the underlying rationales – managerial cognitions – for such actions are placed in focus. The “distinction [between cognition and action] is important because cognitions provide the underlying logic for managerial actions” (Rajagopalan and Spreitzer 1997:66). If one accepts the notion that change is effected through action, action, in turn, being affected by cognition, cognition being impacted by conditions and changes in the environment, the organisation, strategy and its outcomes, the authors’ model of the cognitive perspective on strategic change offers a useful starting point for exploring influences on change (see Exhibit 2.4).

A closer look at the framework reveals that there are several aspects of change relevant to take into consideration in regard to this thesis. Below are discussed environmental and organisational conditions and changes, perceptions about these and the actor effecting change.

2.2.4 Organisational and Environmental Conditions and Changes

The organisation, its products and services, its production facilities, its human resources, its competitive position in the market place, its needs, its strengths, its weaknesses and its opportunities all impact strategy formation. That much was relatively clear to the earliest strategy scholars. In their review of strategic change literature, Rajagopalan and Spreitzer (1997) concluded that those studies that regarded strategy making as a rational process focused on the impact of organisational variables such as size, age, prior performance, prior strategy, top management characteristics and governance structures on financial performance. Those studies that focused on strategic change as a learning process focused on performance problems and changes in leadership and the subsequent impact on a variety of managerial activities. Those studies defined as belonging to the “cognitive lens” focused on the impact of perceived performance (problems), management characteristics and changes in perceptions about the organisation. A variety of organisation-related triggers and drivers of change have thus been identified in past research.

From hereon perceptions are in focus rather than cognitions. Of course, knowledge structures, core beliefs, cause maps and schemas constituting the cognitions concept (Rajagopalan & Spreitzer, 1997) are not necessarily covered by the perceptions concept, the latter focusing on “the mental action of knowing external things through the medium of sense presentations” (Cassel Concise English Dictionary, 1995:981). In this thesis, the focus is on what is perceived rather than why things are perceived the way they are, though.
Chapter 2 – Strategy and Change

Sometimes organisational influences on strategy fail to lead to changes in strategy, however. Long periods of time may pass without any changes in strategy happening. This occurs partly because there are also forces preventing change. Gersick (1991:14) uses the concept deep structure to describe “the set of fundamental ‘choices’ a system has made of (1) the basic parts into which its units will be organized and (2) the basic activity patterns that will maintain its existence”. She argues that deep structures are resistant to change because past decisions rule out many options while simultaneously making other options more likely. Simply put, organisational and other systems tend towards stability because of their inherent inertia and their history. In organisational systems, obligations to stakeholders could be one example, previously made investments and resource scarcity being others.

Organisational factors and perceptions about these are not the only factors influencing strategy formation, though, as indicated by Rajagopalan and Spreitzer (1997). The idea that strategy formation may be a reaction to events more or less outside the firm’s control was perhaps not a very popular one in the early days of management science. With the introduction of theoretical frameworks such as contingency theory, population ecology and institutional theory (Mintzberg, Ahlstrand & Lampel, 1998), however, this notion took firmer hold. For example, contingency theorists argue that there is no a priori determinable single best strategy for a firm. Rather, what is an appropriate strategy depends on environmental conditions and changes in these. Strategy formation entails adaptation to the environment – strategy is contingent on the environment. The population ecology approach to strategy employs thinking from biological evolutionary theory to explain firm survival and growth as a function of fit with the environment. Some organisations are “selected” for survival (Hannan & Freeman, 1977). Institutional theory looks at strategy as something that forms through a process of adaptation to regulatory frameworks, imitation of successful competitors and adoption of permeating professional norms (Mintzberg, Ahlstrand & Lampel, 1998). Within each of these theoretical perspectives, a variety of studies have been conducted to identify and explain the impact of external change agents, environmental conditions, environmental changes and perceptions about these that may potentially be influential in triggering and directing change in strategy. Like in the case of the organisational context, there are also of course also environmental factors preventing change, such as e.g. industry structure and regulative frameworks.

Some scholars argue that in order to understand change, it is insufficient to focus only on environmental factors or on organisational factors, though. Melin (1989:162-163) argues that “[i]n isolation, neither the strategic choice model (Child, 1972) nor the environmental selection model (Aldrich, 1979) provide a good understanding of the development of [industrial] organizations over time. We must develop a synthesis of these two views, that is, we must combine the deterministic power that environmental forces often have with the voluntaristic actions of strategic decision makers within the organizations”.

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2.2.5 Perceptions and Action

Rajagopalan and Spreitzer’s (1997) framework of change implies that changes in strategy emerge from managerial action influenced by managerial understanding of the environment and the organisation, as well as from managerial understanding of past actions. A pertinent issue is thus the connection of individuals’ decisions and actions to overall strategy formation. Already in 1937, in his seminal work, Barnard recognised the importance of the individual’s role in the formation of the organisation, and how influences on the individual are indirectly influential in forming the organisation. More specifically, he (Barnard, 1968:17-18) says "[…] persons choose whether or not they will enter into a specific cooperative system. This choice will be made on the basis of (1) purposes, desires, impulses of the moment, and (2) the alternatives external to the individual recognized by him as available. Organization results from the modification of the action of the individual through control of or influence upon one of these categories. [...] We shall call desires, impulses, wants, by the name “motives”. They are chiefly resultant of forces in the physical, biological and social environments present and past”. Barnard thus indicates that for changes in an organisation (or strategy) to occur, they must be effected by individuals. For individuals to effect changes, they must have purpose, which, in turn, is motivated by individuals’ understanding of their surroundings. Whether individuals are willing to act in the best interest of their organisations or in their own best interests, their ability to do so is thus limited by their understanding of their surroundings. This is commonly referred to as the bounded nature of rationality (Simon, 1972; March 1978).

The organisational agent in strategy formation has often been in focus in strategic management literature. "In the rational model, the strategic management process is a linear and sequential process based on the formulation of a strategy (performed by the upper echelons), the diffusion of the strategy to the organization and its environment and, finally, implementation by the organizational actors" (Jess Hansen, 2002:22-23). Recently, the strategizing perspective has emerged as a reaction against traditional models of strategy formation. On a general level, Achtenhagen, Melin, Müllern and Ericson (2003:50) use the term to signify "the continuous formation and transformation of strategic patterns", implying that strategy formation should not be seen as a process with a natural starting and ending point. Adopting a "strategy formation in practice approach", the strategizing perspective focuses primarily on the role of individuals in the development of strategy and recognises that strategic patterns are formed and transformed in processes where individuals interact with each other. The activities of individuals, in turn, are seen as directed by their understanding of the context in which the process of strategy formation takes place. One can this talk of simultaneous, continuous and intertwined processes of acting and thinking in regard to strategy (Melin, Ericson & Müllern, 1999).
Others have also put forward this term as an umbrella concept to facilitate greater understanding of strategy process formation and focus on the impact of the individual’s understanding of her and the firm’s situation. Nygaard and Hull Kristensen (2002) consider strategizing as meaning the way in which the organisation interacts with its environment and also stress the role of individuals in this process. More specifically, they say that “strategizing describes the actions that arise in the interplay between actors when the organisation fulfils its functions” (2002:14, translated). Far from regarding only the CEO or the top management team as the formers of strategy, this perspective thus recognises that all individuals inside a firm may be involved in strategy formation, or strategizing. Nygaard and Hull Kristensen also stress the influence of external actors on strategy formation, stating that “strategizing thus describes the continuous, contextually embedded interplay occurring in organisations, outside organisations and between organisations” (2002:14, translated).

Strategizing is thus a useful concept to describe how strategy processes – which may contain elements of emergence and deliberation, and which may be more or less revolutionary or incremental in nature – develop over time. In order to understand strategy processes, arguably the actor who brings about changes must also be recognised. Traditional strategic management literature talks about the strategist – the master planner, the creator of strategies – typically the senior management team or the CEO of a firm. In the strategizing perspective, though, the focus is not only on those involved in formulating the firm’s outspoken strategy but also on those that implement strategy. This is coherent with an understanding of strategy as a firm’s behavioural pattern, since that pattern forms through all individuals’ actions, not only those undertaken by management. Indeed, more and more scholars are beginning to consider strategy formation and implementation as intertwined processes, boundaries between creation and execution of strategy blurring into inseparability (Mintzberg, Ahlstrand & Lampel, 1998).

### 2.3 Conceptualisation of the Change Process

Drawing on the discussion above, the model of the strategy and change process (see Exhibit 2.1), the matrix typology of strategic change (see Exhibit 2.3) and Rajagopalan and Spreitzer’s cognitive perspective on change (see Exhibit 2.4), a conceptual model of change appropriate for the research undertaken here can be constructed (see Exhibit 2.5). The model takes into consideration the nature of the strategy process in terms of periods of pressure for change (1), periods of pressure for change (2), and periods of pressure for change (3).

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1 Since this thesis is not concerned with outcomes of internationalisation in financial terms, and since markets, modes and partners are seen as part of the process of internationalisation rather than its outcome, the outcome component of Rajagopalan and Spreitzer’s (1997) model has been excluded from the conceptual model.
change (2) and periods of stability (3). It recognises that changes in perceptions of environmental conditions (4), changes in perceptions of organisational conditions (5) and perceptions of realised strategy (6) impact change activities (7), activities that, in turn, generate new, realised strategy (8). Change activities may be more or less planned (9), more or less deliberate or emergent in nature (10) and may be undertaken as a proactive or reactive measure (11). New, realised strategy may be more or less different from earlier strategy, indicating that change varies in magnitude (12). Realised strategy also impact perceptions of strategy (13).

Exhibit 2.5: Conceptualisation of the Change Process

This way of regarding change recognises the inseparability of context and action, a crucial element in the understanding of change (cf. Pettigrew, Woodman & Cameron, 2001). Change action is seen both as being pressured, triggered and resisted by individuals’ understanding of the context (in terms of organisational and environmental conditions and changes) in which it takes place.

The model as such primarily concerns change as an episodical event, focusing on the process of any individual change. Throughout the process of strategy formation, multiple changes in strategy may of course occur. Thus, when considering the strategy process from an epoch or biographical history point of view (Melin, 1992), one must consider that the change process expressed in Exhibit 2.5 may be repeated, possibly a great many times.

The conceptual model focuses on the change process in general terms, however. This research project is concerned specifically with changes in international strategy. Consequently, the model must be complemented with a reference to that specific empirical context. The subsequent sections aim at doing so, firstly through the formulation of three research questions, secondly through the operationalisation of these research questions.
2.4 Three Research Questions

The purpose of this thesis is to describe and explain changes in strategy in the internationalisation process of industrial SMEs. Having discussed internationalisation from a process perspective in chapter one and having presented a view of strategy formation as a process of change in the current chapter, it is now possible to integrate the two fields and identify specific areas that will be subjected to further study. The integrative discussions result in the formulation of three research questions, dealing with three different aspects of change in the internationalisation process.

2.4.1 Types of Change in Internationalisation

A logical first step in studying change in international strategy is to identify such changes. When simultaneously considering internationalisation as process (see chapter 1) and the conceptualisation of the change process presented previously (see Exhibit 2.5), some clues concerning how to go about this can be found. While the internationalisation process perspective outlines the context where changes occur, the change process perspective provides an understanding of what change actually is. Here, the contexts within which changes occur are argued to include the market, mode and partner selection sub processes of upstream and downstream internationalisation (see 1.2.2). The conceptualisation of the change process (Exhibit 2.5) considers change as occurring between two periods of stability in strategy, where the two periods of stability are characterised by differences in realised strategies. Consequently, a change in international strategy has occurred if at two periods in time the firm is present on different foreign markets, if the firm employs different modes on foreign markets or goes about finding its foreign partners in different ways.

How does this understanding of international strategy and change relate to past SME internationalisation research? To at least some extent, most of the literature on SME internationalisation is concerned with strategy. Arguably, all situations involving market expansion and mode selection contain an element of strategic choice, for example. Thus, whenever a new choice is made, this can be seen as a change in strategy. Very few scholars explicitly look at how strategies change, though, and the internationalisation literature addressing strategic choice does not present a very coherent, exhaustive or balanced picture when the three internationalisation sub processes are concerned. Clearly, the two sub processes of market and mode selection dominate at the expense of partner selection. Within the two former sub processes, however, certain aspects also dominate over others.

In past SME internationalisation research, downstream market expansion has been at the attention of many scholars. There is typically present a presumption in much of the literature that expansion is the natural progression over time (Welch & Luostarinen, 1988; Fletcher, 2001; Pauwels and
Matthyssens, 1999). Little is known about market contraction or market divestment (Crick, 2004; Benito & Welch, 1997), which are arguably changes in strategy that must be taken into account with a truly dynamic view on international market selection. Further, while the literature on changes in downstream market selection is scant, SMEs’ upstream market selection appears to have been almost completely ignored, both regarding operations and sourcing.

Mode selection has certainly received substantial attention by scholars in the past, but changes in mode selection strategy have rarely been in focus (Fletcher, 2001; Pedersen, Petersen & Benito, 2002; Calof & Beamish, 1995), especially in the SME internationalisation literature. For example, the extant literature on mode selection commonly assumes that changes in mode selection entail the replacement of lower commitment modes with higher commitment modes and little is known the opposite type of change (cf. Benito & Welch, 1997), not to mention the lack of research on uses of multiple modes or mode combinations (Petersen & Welch, 2002). Further, the observation that downstream internationalisation dominates over upstream internationalisation in regard to research on the market selection sub process is apparent also in the mode selection sub process, both in regard to operations and sourcing.

Paucity in the literature can be observed even more clearly in regard to the partner selection sub process. While there are certainly studies that attempt to characterise downstream relationship initiation as either proactive or reactive (Campbell, 1996), there is very little focus on upstream relations (cf. Liang & Parkhe, 1997) and certainly not much research conducted regarding changes between reactive and proactive approaches to relationship initiation. Additionally, relationship termination remains almost entirely unresearched, both relationship termination in general (see e.g. Halinen & Tähtinen, 2002) and relationship termination in an SME internationalisation context in particular.

Past research has also failed to address the issue of magnitude of change in international strategy. Logically, some changes would have to be of greater magnitude, while others are of lesser importance for the internationalisation process as a whole.

Since the SME internationalisation literature does not focus greatly on changes in upstream and downstream market, mode and partner selection strategy, the following research question may be posed:

What changes in industrial SMEs’ international strategy can be identified?

Referring to the conceptual model of change (see Exhibit 2.5), this research question is thus concerned with new realised strategies as compared to previous realised strategies, implicitly assuming that a change in strategy has occurred in between. The research question thus primarily considers change as an episode. Arguably, this is a necessary first step in understanding change in the context of
industrial SME internationalisation, paving the way for identifying influences on change.

2.4.2 Perceived Influences on Change

Change does not come about by itself, as indicated by the conceptual model of the change process (see Exhibit 2.5). Important in the study of strategy formation is the realisation that change is embedded in a context, a context that exerts influences on change. A central argument in this thesis is that individuals enact changes in strategy. Strategies are not seen as being formed by the environment or the organisation as such. Environmental and organisational conditions and changes, e.g. in the form of threats and opportunities, impact individuals’ perceptions. Individuals’ perceptions, in turn, influence individuals’ actions, actions which lead to changes in strategy. Consequently, understanding individuals’ perceptions of the environment and the organisation is crucial to the understanding of change in strategy.

What does this mean in an SME internationalisation context? Chapter one (see 1.3.2) identifies a number of characteristics of the environment, the firm and the decision-maker that past studies have found to impact internationalisation. Primarily, the research focus has been on the impact of one or a few specific components on international strategy, such as the impact of firm size on export behaviour (Ali & Swircs, 1991), the entrepreneur on the firm’s international strategy (Andersson, 1996; 1999), internal factors on export success (Bijmolt & Zwart, 1994), firm age on motives for internationalisation (Brush, 1995) or the impact of relationships on foreign market entry (Ellis, 2000). In these studies, changes in strategy are typically not in focus, nor are researchers commonly open to the fact that environmental, firm-related and decision-maker related factors may simultaneously impact international strategy formation, not to mention the sometimes simplistic approach adopted in this research when ignoring the role of managerial perceptions.

In 2.4.1 it is observed that the knowledge about what changes in strategy occur in SMEs’ internationalisation is partial and inconclusive. Consequently, knowledge about the various perceptual influences on action leading to change in international strategy remains partial and inconclusive. The following research question may, thus, be posed:

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4 This should not be confused with the very rational approach to strategy formation pervading in the early history of the strategy and management fields, an approach that assumed a great deal of rationality and freedom of action on behalf of managers. Rather, here individuals are seen as being constricted by their understanding of the environment and there are no presumptions made concerning optimising behaviour or possibilities of managers being able to forcibly implement strategy. Already early in the development of the internationalisation field this realisation took hold among scholars. E.g., Aharoni (1966) questioned the rational approach to international investment decisions, arguing that FDIs are undertaken because they are individuals’ pet projects rather than being based on economic reasoning.
What perceptions influence changes in industrial SMEs’ international strategy?

Again referring to the conceptual model of change (see Exhibit 2.5), the second research question is concerned with identifying perceptual influences on action, in turn generating realised strategies. It is thus again largely concerned with change as an episodical occurrence, a necessary step towards understanding change as an integral component of the internationalisation process.

2.4.3 Change and the Internationalisation Process

The previous two research questions largely address changes in international strategy as if these are disjointed episodes, i.e. change from one strategy to another. In the internationalisation process of any given firm, however, change may occur on many occasions. These changes may also be more or less strongly connected to each other. Possibly, at different times different patterns in international strategy formation and change may be observed. Again, the discussion on change (see 2.1 and 2.2) generates some insights.

The review of strategic change literature implies that there are a number of concepts useful to help understand change in the context of strategy process formation. As discussed previously, there is a fundamental difference between deliberate and emergent strategy (Mintzberg, 1978; Mintzberg & Waters, 1985), which must be considered if any understanding of change is to be generated. The degree of planning (Mintzberg & Waters, 1985; Bracker & Pearson, 1986) is also a central aspect of change, not to be confused with emergence and deliberation. Further, one can not assume that changes come about because managers consciously set out to implement change and it certainly cannot be assumed that initiatives for change find their origin inside the organisation or in managerial urge for change. Clearly, sometimes changes are reactions to events over which managers perceive that they have little or no influence. Reactivity and proactivity in change is thus also an important dimension (Melin & Hellgren, 1994).

What do these concepts mean in an SME internationalisation context and how have they been treated in that literature in the past? Although the distinction between the typologies presented above is not commonly present in internationalisation research, also internationalisation researchers recognise the importance of distinguishing between a priori planned processes and processes evolving as a result of ad hoc decisions taken as opportunities present themselves (McAuley, 1999). In an internationalisation context the planning approach is prolific, the body of normative literature being very considerable (see e.g. Hollensen, 2004; Keegan & Schlegelmilch, 2001; Bradley, 2002; de Búrca, Fletcher & Brown, 2004; Daniels & Radebaugh, 1998; Mühlbacher, Dahringer & Leih, 1999; Keegan & Green, 2000; Dole & Lowe, 2000; Paliwoda & Thomas, 1998; Terpstra & Sarathy, 2000). In empirical studies, conflicting
results have been reached concerning the role of planned strategy, though. E.g., in a study of US firms’ foreign investments, Aharoni (1966) found that an ad hoc approach to decision making dominated. Other authors argue that with greater experience more planning activities are undertaken. E.g., Brush (1995) studied young and old small firms, finding that a greater degree of planning in regard to internationalisation was present in the latter. Yet others question this notion, concluding that often internationalisation processes in SMEs continue to be highly emergent in nature with little in the way of planning being undertaken also after more experience has been accumulated (Wyer, Boocock & Abdul-Hamid, 1998).

Another approach to the issue of planning is taken by those who relate it to firm performance. E.g., in a survey of 68 mid-sized US firms Yip, Gomez Biscarri and Monti (2000) found that a more systematic approach to market search and mode selection yielded better performance, while Hart and Tzokas (1999) found that UK SMEs’ use of export information was positively correlated to export performance. Julien, Joyal, Deshaies and Ramangalahy (1997) studied 20 firms in Quebec and noted that planning was positively associated with extent of foreign sales. Overall, though, the evidence concerning planning and performance remains inconclusive (Fletcher & Harris, 2002).

Regardless of the conflicting findings concerning planning, proactivity and deliberation in strategy formation, studies that actually track internationalisation decisions and actions over long periods of time, thus enabling the drawing of conclusions concerning changes in the roles of e.g. deliberation and emergence, are clearly scarce (cf. Coviello & McAuley, 1999).

Mode selection can be seen as an example of this. When researching this issue, Chang and Rosenzweig (2001:747) note “while some studies discussed the role of experience in choosing a foreign entry mode, they […] have not explored how each entry may be part of a sequence. As a result, they have been unable to show how the mode choices in earlier entries may systematically differ from the later ones”. This is echoed by Benito, Pedersen and Petersen (1999) and Pedersen, Petersen and Benito (2002), the latter stating that “the economics literature on foreign operations methods is basically static and tells little about changes of the initial entry mode. How often do companies change mode of entry? What induces changes? What impedes changes? So far, international business scholars have paid only modest attention to these crucial questions” (p. 326). When reviewing literature on the market and partner selection sub processes, one cannot help but draw similar conclusions.

Past research has thus largely failed to capture the dynamics of change over time in regard to changes in market selection strategy, mode selection strategy and partner selection strategy (cf. Calof & Beamish, 1995). The knowledge of how these three aspects of strategy are interrelated is also limited (cf. Andersen & Buvik, 2000). Consequently, the following research question can be formulated:
How can changes in strategy be understood when placed in the context of the internationalisation process of industrial SMEs?

Referring again to the conceptual model of change (see Exhibit 2.5), this research question is aimed at placing individual changes in their context, no longer primarily focusing on change as an episodical event, but on how changes form the internationalisation sub processes. In addressing this research question, the characterisation of change by degrees of deliberation-emergence, reactivity-proactivity and planning are in focus. In discussing these aspects of the internationalisation sub processes, the findings made in regard to research questions one and two are used as a foundation.

2.4.4 Three Research Questions, Six Sub Processes

Above are formulated three research questions, focusing on different aspects of change. The empirical focus of this thesis is internationalisation, in regard to which six main dimensions have been identified, namely downstream and upstream market, mode and partner selection sub processes. Consequently, each of the three research questions is posed in regard to each of the six sub processes, as indicated by Exhibit 2.6. Implicit in the research questions is also that the different sub processes may be interrelated.

Exhibit 2.6: Three Research Questions and Six Internationalisation Sub Processes

Understanding this illustration is important for the understanding of the rest of the thesis, since the structure of chapters five through nine are largely based on this matrix. The three research questions are also based on a number of assumptions concerning the nature or strategy development. In order to further clarify what research is to be undertaken, the next subchapter therefore addresses the operationalisation of the research questions and further elaborates on the practical use of various strategy and internationalisation-related terms.
2.5 Operationalisation of Central Concepts

So far, it has been argued that international strategy is a multidimensional concept that encompasses both upstream and downstream market, mode and partner selection. It has also been argued that to fruitfully explore changes in such strategies, firstly changes must be identified, secondly perceived influences on changes must be addressed and thirdly change in the context of internationalisation process formation must be explored. A variety of concepts, constructs etc. have been proposed for this exploration. These are discussed and further defined below.

2.5.1 Operationalisation of Change

Change is a central concept in this thesis, which focuses on change in the six sub processes of internationalisation. A clearer definition of what change entails is therefore appropriate.

2.5.1.1 Market Selection Strategy and Change

A change in market selection strategy is seen as having occurred if, at two points in time, there is a difference in the range of markets where the focal firm is present, i.e. when new markets have been selected or old markets have been deselected. New market entry, market re-entry and market withdrawal are thus in focus in market selection strategy formation.

Following the basic assumption underlying most internationalisation research that mental and physical distance are important aspects of foreign market expansion, the cultural and geographical type of market selected is of crucial importance in understanding new market entry. While of course all market entries represent a change in strategy, here only those changes that represent entry into markets that differ in terms of geographical location and psychic distance compared to those markets where the firm is already present, will be considered as changes in strategy. I.e., when employing this definition entry into Denmark will not be considered a change in strategy if the focal firm’s range of foreign markets comprises Norway and Finland, while entry into the Brazilian market would. In order to identify such changes, world markets must thus be divided into clusters of countries. In doing so, a largely intuitive approach is functional. The following clusters are employed in the identification of market entry patterns: Scandinavia, Western Europe (which may be subdivided into Northern Europe and Southern Europe if appropriate given the empirical context), Eastern Europe (which may be subdivided into the Baltic States and other parts of Eastern Europe if appropriate given the empirical context), North America, Latin America, Middle East, East Asia, Africa and the Australian continent and surrounding islands.
Market withdrawal is another relevant change in market selection strategy to consider. Withdrawals may occur after initiative taken by the focal firm or by an external actor. In the latter case withdrawal may even be labelled involuntary. This may also be the case if market withdrawal occurs after relations with a single foreign partner firm are terminated by the partner firm and no new partner firm is found. It could of course be argued that involuntary market withdrawal should not be considered at all when discussing changes in strategy. How can an action over which the firm has no control be considered part of its strategy? The logic behind considering involuntary market withdrawal as part of strategy, however, is that the focal firm in question chose not to undertake further attempts to remain on the market. Obviously, a specific time perspective must be employed here. The firm may lose all sales for a few months, but then find new partners. In such instances market withdrawal is not considered as being effected. Simultaneously, to find new partners and establish new relationships may take a while. Therefore, the somewhat arbitrary measure of two years is set as a limit of how long a focal firm may be absent from a foreign market before market withdrawal is considered as having been effected.

Changes in market entry strategy and market withdrawal may also differ in magnitude. Although not the case in every single entry or withdrawal, generally several entries into a new type of market may be assumed to signify a greater magnitude change than entry into a single new market. Similarly, several withdrawals from foreign markets will generally signify a change of greater magnitude than single withdrawals. Again, multiple withdrawals are considered as having taken place if they are separated in time by no more than two years or if they can otherwise be determined to be related.

Combining the entry and withdrawal discussions with the magnitude discussion, four types of changes in strategy may be identified. These include multiple entries into new type of market, single entry into new type of market, withdrawal from multiple markets and withdrawal from single market (see Exhibit 2.7).

### 2.5.1.2 Mode Selection Strategy and Change

A change in mode selection strategy is seen as having occurred if, at two points in time, there is a difference in the modes that the focal firm employs. Basically, changes entail a switch from a low to a high commitment mode, a switch from a high to a low commitment mode or the use of an atypical mode in new market entry. Additionally, the use of multiple modes is considered a change if the focal firm has not used that strategy in the past.

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1. Thus using an established mode in connection with new market entry is not considered a change in strategy.
2. Not all the changes in focus in downstream internationalisation will be in focus in upstream internationalisation. In the latter case, the use of multiple modes will not be considered a change in strategy in itself. There are two rationales behind this. Firstly, modes are not considered as
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Downstream modes include (1) direct exporting (direct sales to foreign manufacturer or similar who does not buy the products for unprocessed resale), (2) direct exporting through foreign agent (who does not take ownership of products, but manages relations with foreign manufacturers or distributors), (3) direct exporting to foreign distributor (who assumes ownership of products before unprocessed resale), (4) sales joint venture (i.e. joint ownership of foreign sales venture) and (5) sales subsidiary (i.e. wholly-owned foreign sales venture).

Upstream modes include (1) direct importing from manufacturer or similar, (2) direct importing through foreign agent (who does not take ownership of products, but manages relations with foreign manufacturer or distributor), (3) direct importing from foreign distributor (who assumes ownership of products before unprocessed resale), (4) contract manufacturing (i.e. the purchase of non-standardised components that are made specifically for the focal firm according to its specifications or with its tools, or when the focal firm acts in a similar capacity for a foreign customer), (5) licensing as licensee or licensor, (6) franchising as franchisee or franchisor, (7) operations joint venture (i.e. joint ownership of foreign operations venture) and (8) operations subsidiary (i.e. wholly owned foreign operations venture).

Like in the case of changes in market selection strategy, a change is considered to be of greater magnitude if it concerns activities on several markets compared to a lower magnitude change which affects the focal firm’s activities on a single market. Again, the time limit of two years introduced in regard to market withdrawal is employed to define whether changes are related or not and thus form a higher magnitude change. Exceptions may be made if changes can otherwise be identified as being connected.

Combining the magnitude discussion with the mode discussion, six types of changes in mode selection strategy may be identified. These include new high commitment mode on multiple markets, new high commitment mode on single market, new low commitment mode on multiple markets, new low commitment mode on single market, multiple modes on multiple markets and multiple modes on single market (see Exhibit 2.7).

Potentially mutually exclusive as they may be in downstream internationalisation (where managers may want to avoid selling both directly to end customers and using a distributor on the same market). Secondly, upstream internationalisation entails both foreign operations and foreign sourcing. Upstream-downstream mode combinations (as suggested by Petersen & Welch, 2002) are not taken into account here, only multiple downstream modes.

According to the value chain framework, sourcing may be considered a downstream activity if products are sourced for unprocessed resale. This is ignored here, though. See 2.5.3.

The logic for considering licensing as licensor and franchising as franchisor as upstream modes rather than as downstream modes when argueable they entail an international sale by the focal firm, is that they can also be seen as a form of externalisation of operations. The literature on this in an SME internationalisation context is scarce, although overall would seem to indicate that these are not very commonly employed modes.

In ways that are difficult to predict. Thus, an intuitive approach may occasionally be useful in categorising changes according to magnitude.
2.5.1.3 Partner Selection Strategy and Change

A change in partner selection strategy is seen as having occurred if, at two periods in time, there is a difference in the way in which the focal firm becomes involved in and exits from relationships (see also 1.1.4). Basically, relationships can be initiated by the focal firm, by the partner firm or by a third party (see 2.5.2 for definitions). A change in initiation strategy occurs when the focal firm initiates relations if in the past there has been a reliance on other firms (i.e. partner firms and/or third parties) to initiate relations and vice-versa. The rationale for considering partner-firm initiation of relations as a change in strategy is that it indicates less activity on the side of the focal firm. I.e., it focuses not only on the adoption of new behaviour, but abandonment of old behaviour (i.e. higher levels of activity in relationship initiation being replaced by a lower level of activity).

A change in termination strategy occurs when the focal firm terminates relations when such behaviour has not been recorded in the past two or more years. Arguably, relationships terminated by the partner firms are no particular indication of strategy on the side of the focal firm (as strategy is considered in this thesis). Consequently, the latter category of events will not be specifically studied from the point of view of partner strategy, although may be in focus in the study of market withdrawal (see 2.5.1.1).

While market and mode changes differ in magnitude depending on how many markets are concerned, magnitude in regard to changes in partner selection strategy is here defined according to how many relationships are concerned. A higher magnitude change is thus defined as a change in strategy concerning two or more relationships, while a lower magnitude change concerns a single relationship. In the case of other-firm initiation of relations, though, only if multiple relations are concerned will this be seen as constituting a change in strategy. Arguably, the odd relationship initiated by a partner firm does not entail a relevant or significant change in strategy from the side of the focal firm since it says little about changes in focal firm-activity. This may, of course, also be the case when two or three relations are initiated by other firms. In the latter case, however, a clearer pattern is established. Again, the two year limit is employed to identify higher magnitude changes in strategy, unless the changes can otherwise be observed as being related.

Combining the partnering strategy discussion with the magnitude discussion, five types of change can be identified. These include focal-firm initiation of multiple relationships, focal-firm initiation of single relationship, other-firm initiation of multiple relationships, focal-firm termination of multiple relationships and focal-firm termination of single relationship (see Exhibit 2.7).

2.5.1.4 Summary of Changes

In the operationalisation of change in market selection strategy, four types were identified, while the operationalisation of change in mode selection strategy
## Exhibit 2.7: Fifteen Types of Change in International Strategy

<table>
<thead>
<tr>
<th>Sub Process</th>
<th>Change in sub process strategy</th>
<th>Examples of changes in sub process strategy</th>
</tr>
</thead>
</table>
| Market selection | Multiple entries into new type of market | • Having sold only on Nordic markets, the focal firm expands into several new Western European markets.  
• Having sourced only from Norway, the focal firm begins sourcing from the Baltic States. |
| Single entry into new type of market | | • Having sold only on Western European markets, the focal firm begins selling in the US.  
• Having sources primarily from East Asia and other remote markets, the focal firm begins sourcing from Germany. |
| Withdrawal from multiple markets | | • Previously the focal firm has not withdrawn from any markets, but stops selling on several markets in a few years time.  
• Previously the focal firm has been involved in operations abroad, but the decision is taken not to do so any more. |
| Withdrawal from single market | | • Previously the focal firm has not withdrawn from any of its sales markets, but leaves the US.  
• Previously the focal firm has not withdrawn from its sourcing markets, but the decision is taken to no longer by products from Italy. |
| Mode selection | New high commitment mode on multiple markets | • Having relied on direct exporting, the focal firm establishes several foreign sales subsidiaries.  
• Having previously relied on domestic manufacturing, the focal firm establishes several foreign operations subsidiaries. |
| | New high commitment mode on single market | • Having relied on direct exporting, the focal firm establishes a foreign sales subsidiary.  
• Having previously relied on domestic manufacturing, the focal firm starts working with a foreign contract manufacturer. |
| | New low commitment mode on multiple markets | • Having previously sold only to foreign distributors, the focal firm begins selling directly to manufacturers on several foreign markets.  
• Having previously imported products directly from manufacturers, the focal firm begins employing foreign purchasing agents. |
| | New low commitment mode on single market | • While typically selling directly to manufacturers, the focal firm enters a new market using a distributor.  
• The focal firm begins buying from a distributor on a new market, while the focal firm has previously only bought directly from manufacturers. |
| | Multiple modes on multiple markets | • Having sold only directly to foreign customers, the focal firm begins also to sell through foreign intermediaries on several markets. |
| | Multiple modes on single market | • Having sold both directly to foreign customers and through foreign intermediaries, the focal firm begins also to sell directly on a single market. |
| Partner selection | Focal-firm initiation of multiple relationships | • Having relied on partner firms to initiate relationships, the focal firm begins to initiating multiple relationships. |
| | Focal-firm initiation of single relationship | • Having relied on partner firms to initiate relationships, the focal firm initiates a single relationship. |
| | Other-firm initiation of multiple relationships | • Having been the active party in relationship initiation, the focal firm begins to rely on its partner firms or third parties. |
| | Focal-firm termination of multiple relationships | • Previously the focal firm has not terminated any relationships, but terminates several relationships, each not separated by more than two years from another. |
| | Focal-firm termination of single relationship | • Previously the focal firm has not terminated any relationships for several years, but now terminates one. |
generated six types of change. The discussions on partner selection, in turn, yielded five such types of change. Consequently, a total of 15 specific types of change have been identified and will be in focus in the rest of the thesis (see Exhibit 2.7). Employing the above definitions of change in strategy naturally means that change in strategy may occur even if management in the focal firm does not perceive this to be the case. Similarly, changes in strategy as perceived by management may not necessarily be regarded as such here.

2.5.2 Actors and Relationships

This thesis is concerned with actors on two levels, individuals and firms. This is necessary given the understanding of change adopted here, central to which is that changes are effected by individuals who act according to their perceptions of the environment, the organisation and past strategy. Through their actions, individuals change the strategies of firms. For example, when initiating business relationships, actions of individuals are obviously required. Individuals do, however, act as representatives of their firms when doing so. I.e., it is in their representational role (cf. Halinen & Törnroos, 1998) that individuals initiate business relationships for their firms. The strategy of the focal firm in relationship initiation, e.g. in terms of proactivity or reactivity, thus depends on the activities of individuals when in their representational role. Changes in strategy are consequently always considered on the firm level, regardless of the fact that the changes are brought on by individuals.

For reasons of simplicity, firm-level actors are divided into three main categories. These include focal firms (i.e. those firms under study), partner firms (i.e. those firms with which the focal firms are engaged in transactional exchange within the frame of the specific activity under study) and third parties (i.e. those firms that have bearing on the activities of the focal firms and partner firms, but who are not involved in transactional exchange in regard to the specific activity under study). These include e.g. customers, suppliers and owner firms. Third parties are also referred to as external stakeholders when appropriate.

Additionally, focal firms may employ agents to act on their behalf, as may the partner firms. Action undertaken by focal firm’s agents is from a strategy point of view considered as if it were action undertaken by the focal firm, while partner firms’ agents’ actions are considered as being the same as actions taken by the actual partner firms.

Relationship is another important concept in this thesis, and one by which different things are understood by different researchers. Here, transactional relationships between firm-level actors are in focus. I.e., a relationship is seen as existing between two firms when these two firms are involved in transactional exchange or are preparing to become so. Transactional exchange, in turn, entails that two parties exchange goods or services for financial compensation.
For a relationship to be considered as such, it must also be intended to outlast a single transactional exchange or concern a transactional exchange intended to be carried out over a period of time. A single spot sale or purchase does thus not signify that a relationship has been created.

When transactional exchange ceases – either because one of the parties specifically decides not to do business with the other party, because further business is prevented by circumstances outside the control of either party or because neither party actively pursues further exchange – the relationship is considered as terminated.

### 2.5.3 Upstream and Downstream Activities

In chapter one (see 1.1.3) a distinction between upstream and downstream internationalisation is made. Drawing on Porter’s (1985) framework outlining the value chain, upstream activities are those that concern inbound logistics and operations, while downstream activities concern marketing, sales and service. Operations, in turn, consist of component fabrication, assembly, fine tuning, testing and maintenance. As defined previously, procurement or sourcing is considered an upstream activity.

Based on these ideas, a very simple model of the firm is adopted here where inputs are procured, transformed through the firm’s operations and then marketed and sold. Upstream international activities therefore break down into two major categories, including (1) sourcing (procurement or purchasing, used interchangeably) of services, materials and machinery from abroad and (2) operations (including servicing when part of operations). Downstream international activities consist of those aimed at marketing and selling the firm’s products abroad as well as after-sales service.

This definition does not address downstream procurement. Since the focal firms of this thesis are not trading and distribution firms, but firms that develop and market their own product ranges, it may be assumed that not a great deal of products are purchased for unprocessed resale. Should such activities be encountered, for reasons of expedience they will be defined as upstream activities, along with other sourcing activities. Further, while there is little or no literature on SMEs’ purchasing of e.g. foreign consultancy services, there is no reason to assume that this is of great importance to smaller firms. The model of the firm adopted here also delimits the thesis from dealing with logistics.

### 2.5.4 Perceived Influences on Change

Perceptions regarding organisational conditions and changes break down into two main categories, those relating to the firm and those relating to individuals.
working in the firm. Organisational influences on the firm level include e.g. product ranges, production capacity and innovations, access to resources, focal-firm profitability and focal-firm networks. Organisational influences on the individual level relate to the individuals working in the firm, such as managerial experience and interest, the introduction of new management into the firm, social networks of employees and managerial urge for growth.

Perceptions regarding environmental conditions and changes include e.g. political, economic, socio-cultural, legal and technological factors that impact internationalisation. Examples are foreign market conditions, industry structure and industry logic (“how business is done”). Perceptual influences relating to the environment include also perceptions regarding activities of those actors outside the firm triggering change, i.e. pressure from external stakeholders exerted on the focal firm to undertake certain changes (e.g. from a parent firm, possibly in connection with acquisition) and unsolicited orders and contacts.

Perceptions about the behaviours of partner firms, e.g. concerning how they perform and whether they act in the interest of the focal firm, is another important category of influences and relates to existing strategy.

The following chapter will delve more deeply into the SME internationalisation literature and explore factors impacting internationalisation-related decisions. While perceptual influences have not been the main focus of past research, which also has not typically employed a change focus, nonetheless the very significant body of SME internationalisation research already undertaken will provide important insights into market, mode and partner selection.
CHAPTER 3
Empirical Studies of SME Internationalisation

While changes in SMEs’ international strategies have not received a great deal of attention from scholars in the past, nonetheless, the SME internationalisation literature provides indications of influences on internationalisation decisions. The aim of this chapter is to review the literature on SMEs’ foreign market, mode and partner selection. The chapter breaks down into two main sections, the former dealing with downstream internationalisation (see 3.1) while the latter addresses upstream internationalisation (see 3.2). Both organisational factors (subdivided into those focusing on the firm and those focusing on the individuals in the firm) and environmental factors are addressed. This review thus differs in scope from the general review of SMEs’ international activities presented in 1.3.2.

3.1 SMEs’ Downstream Internationalisation

Spending a few hours perusing international business, small business, marketing and strategy journals, one cannot help but be somewhat overwhelmed by the multitude of SME downstream internationalisation studies already conducted. Providing a meaningful picture of what previous researchers have done in this field is a daunting task. Several such overviews have already been conducted, though. E.g., Miesenböck (1988) reviewed small business exporting literature published between the early 1960’s and 1987, while Coviello and McAuley (1999) focused specifically on SME internationalisation process studies published between 1989 and 1998. Others have made attempts to integrate various parts of the body of literature in the field, for example the literature specifically dealing with SME exporting (see Korhonen, Luostarinen & Welch, 1996). The conclusions of Miesenböck’s (1988) comprehensive study were that exporting should be seen as a sequential process of gradually increasing export commitment and that decision-maker characteristics was the most important variable. Not very surprisingly, he also found that variables such as home country of the exporter and product-related factors were connected to export behaviour. The main conclusion, however, was that it was not possible to isolate the specific influences of these variables on SME internationalisation.
Scholars in the field have nonetheless attempted to do so, and a great many studies focusing on specific influences on internationalisation can be found. In the following sections, studies that focus on foreign market, mode and partner selection are addressed. Within each of these sections, the impact of organisational (relating to the individual and the firm) and environmental conditions and changes are discussed.

3.1.1 Foreign Market Selection

There are several studies that focus on issues such as what foreign markets firms enter and on how many markets firms are active (Calof, 1993). Most of these studies, however, do not specifically address the issue of how these markets came to be selected. In the words of Ellis (2000:443): “[d]espite the significance of the initial entry decision, little is known about the actual process by which firms come to identify both foreign markets and specific buyers within those markets”. Ellis and Pecotich (2001), however, identify different ways in which international business opportunities may be discovered. They (2001:123) say that “[…] foreign opportunities may be identified in one or a combination of three possible ways: (1) through interpersonal ties, (2) through formal marketing research, and (3) through attendance at trade fairs or by chance”.

There are thus two relevant issues: how the geographic spread develops, which has been subjected to significant research, and more important for the understanding of internationalisation as a strategy process but largely ignored by scholars, why it develops along the observed path. Below, these issues are discussed from the point of view of organisational and environmental influences (see Exhibit 3.1 for an overview).

3.1.1.1 Organisational Conditions and Changes: Individual Level

There appear to be one area within the decision-maker characteristics category that is of special relevance for market selection, namely decision-makers’ contacts. Consequently, theories of social networks and social capital have been found useful for understanding this aspect of SME internationalisation.

By focusing on the social context in which exporting takes place, Ellis and Pecotich (2001:125) note in a study of 31 export market entries undertaken by 11 Australian firms (with 200 or less employees): “[t]he exporters in this study rarely selected foreign markets on the basis of formal scanning and market research: When faced with the uncertainty involved in entering new markets, these cosmopolitan decision makers typically minimized their risks by drawing on their known contacts and connections with others. […] Four-fifths of the export stories reported revealed that prior personal contacts strongly influenced the perception of the entrepreneurial opportunity abroad and therefore the

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1 Service firms are not the focus of this thesis, and studies dealing specifically with this type of firm are not included in the review.
export initiation itself”. Coviello and Munro (1995), using a general network framework, also note that 64 per cent of market entries undertaken by 25 New Zealand software exporters were triggered by contacts in formal and informal networks.

Considering the vast literature specifically devoted to studying the influence of managerial characteristics in general, it is interesting to note that so few studies specifically relate this to market selection but prefer to focus on performance measures, sometimes in terms of number of markets, but more often in financial terms.

3.1.1.2 Organisational Conditions and Changes: Firm Level

When identifying variables in SME internationalisation research (see 1.3.2), it is noted that those on the firm level have received the most attention. It is also noted that the influence of firm-level characteristics on the geographic spread of firms is a fairly well-studied phenomenon. E.g., one can find studies that focus on how the size of firms influences geographic diversity. Calof (1993, 1994), however, notes that few studies have looked at the relation between firm size and the specific markets served and that little is known in regard to the number of markets served by SMEs except for the fact that LSEs generally seem to serve more markets than SMEs. Based on these assumptions, two studies of firms in Canada were undertaken, leading to the conclusion that although size and export intensity were positively correlated, a firm’s size did not affect which markets were served, but rather the number of markets served. Again, correlating size to which markets a firm serves says little about how these markets came to be selected, however.

When looking at resource issues, Preece, Miles and Baetz (1998) found in a study of technology intensive small firms that instant internationalisation was a common characteristic. Although high international intensity (portion of total sales) was found to be common in young firms, international diversity (e.g. number of foreign markets) was another matter all together. This suggests that it is indeed possible for small and/or new firms to intensely engage in international activities on a few foreign markets, but to become internationally diverse (in organisational forms and variety of markets) may require more resources and time.

There is also evidence that hints at differences in the international activities of SMEs depending on which is their home country. E.g., U.S. SMEs are often claimed to be less likely to engage in international activities than European and Asian SMEs (Ali & Swiercs, 1991).

Tyebjee (1990) contends that in studies of the internationalisation of SMEs there must be made a distinction between the first entries and subsequent entries once the initial threshold or resistance has been passed. One can thus argue that market selection in earlier stages in the process differ from market selection in later stages. Still, the process of market selection is not addressed per se.
In a study of four small New Zealand software firms, Coviello and Munro (1997) found that while the firms began internationalising in physically and psychically close countries, soon after internationalisation initiation the firms began to exploit more remote markets. They (Coviello & Munro, 1997:372) say “[t]his activity appears to be largely driven by existing network relationships […] with major partners often guiding foreign market selection […]”, but also argue that this is not surprising when considering the need for these types of small firms to develop capabilities complementary to those of other organisations. In a survey of New Zealand software exporters, Coviello and Munro (1995) reached similar conclusions. While they found that social contacts (see also 3.1.1.1) were very relevant in foreign entries, also business (“formal”) contacts were important. Indeed, they note that “[g]eneral business contacts were viewed as being most helpful in identifying potential linkages, followed by customers in the targeted foreign market, their own salesforce and existing linkage partners” (1995:55). Bell (1995) discusses client followership as an important reason why markets are selected.

When studying the entry of small Danish manufacturing and trading firms into Eastern Europe, Meyer and Skak (2002) raise the issue of serendipitous meetings. They (p. 185) note “[s]everal firms had a pro-active approach to establishing business in CEE [Central and Eastern Europe]. The actual selection of a partner-firm, or even the partner-country was still subject to chance”.

While studies of market withdrawal are clearly scarce, Crick (2004) offers an exception. Based on interviews with managers in 24 U.K. SMEs, he divided firms undertaking export withdrawal into two categories, “disinterested firms” and “disappointed firms”. Those that where characterised as disinterested, commonly undertaking exporting as a result of unsolicited orders, were found not to have prepared very well for the export venture. When critical incidents were encountered or when issues requiring greater knowledge about internationalisation (such as finding foreign representatives) arose, exporting ceased.

### 3.1.1.3 Environmental Conditions and Changes

Intuitively, one could assume that environmental influences would greatly impact the geographic spread of firms. Indeed, the basic assumption concerning market selection in what is one of the most influential theoretical perspectives on internationalisation, i.e. the *Uppsala* stage mode of internationalisation (Johanson & Wiedersheim-Paul, 1975), there is an assumption that psychic distance between countries is an important influence on market selection. I.e., there is a strong focus on elements that distinguish the home-market from the host-market. In a study of Finnish, Norwegian and Irish small software firms, Bell (1995) found that export activities to a large extent were conducted in countries with little psychic distance. However, the fact that the firms ventured into nearby markets was not a result of little psychic distance *per se*. When the rationales for these decisions were looked at more closely, Bell...
### Exhibit 3.1: Studies of SMEs’ Foreign Downstream Market Selection

<table>
<thead>
<tr>
<th>Study</th>
<th>Method and empirical context</th>
<th>Framework(s)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apfelthaler (2000)</td>
<td>4 cases of Austrian firms investing in the US</td>
<td>Stage models, FDI theory (motives)</td>
<td>Individual motives of decision makers most important influence, although in one case customer demand dictated selection.</td>
</tr>
<tr>
<td>Bell (1995)</td>
<td>Survey of 88 software firms and interviews with managers in 24 of these firms, located in Finland, Ireland and Norway</td>
<td>Internationalisation process model (stage theory)</td>
<td>Client followship, market niche growth and industry trends dominated in market selection.</td>
</tr>
<tr>
<td>Coviello &amp; Munro (1995)</td>
<td>Survey of 25 young New Zealand software exporters in the early phase of internationalisation</td>
<td>Business network theory</td>
<td>64% of market entries were triggered by contacts in formal and informal networks.</td>
</tr>
<tr>
<td>Coviello &amp; Munro (1997)</td>
<td>In-depth, longitudinal case studies of four New Zealand-based software developers</td>
<td>Internationalisation process and business network theory</td>
<td>Firms started out in psychically and physically close markets but rapidly moved into more remote markets. Market entries were driven by network relationships.</td>
</tr>
<tr>
<td>Crick (2004)</td>
<td>Interviews with managers in 24 UK SMEs</td>
<td>Exporting and entrepreneurship, export problems, stages theories of internationalisation</td>
<td>Critical incidents often underlie decision to cease exporting (i.e. withdraw from foreign market), although commonly a combination of factors prompted such decisions, e.g. preferences for domestic sales, disinclination to spend efforts finding foreign markets, lack of knowledge, perceptions regarding risk and difficulties in finding local representation.</td>
</tr>
<tr>
<td>Ellis (2000)</td>
<td>Interviews with managers of 42 Hong Kong toy manufacturers (ranging in size between 4 and 400 employees) concerning 133 direct foreign market entries</td>
<td>Internationalisation process, network theory, relationship marketing</td>
<td>Market entries were a result of the seller being contacted by buyers or third parties, or a result of meetings at trade fairs.</td>
</tr>
<tr>
<td>Ellis &amp; Pecotich (2001)</td>
<td>In-depth study of 31 export market entries in 11 Australian firms</td>
<td>Social exchange theory</td>
<td>Antecedent relations dominate market selection while formalised search behaviour is rare.</td>
</tr>
<tr>
<td>Lindqvist (1997)</td>
<td>Survey of 85 Swedish technology-based firms</td>
<td>Influence of technology on internationalisation process</td>
<td>Geographically close and large, industrial markets selected due to potential, access to advanced customers, existing contacts, limited geographic distance, limited competition and unsolicited orders.</td>
</tr>
<tr>
<td>Meyer &amp; Skak (2002)</td>
<td>Interviews with managers in 20 Danish manufacturing and trading firms entering Eastern Europe</td>
<td>Business network theory</td>
<td>Serendipity was the most important factor in finding foreign business opportunities reported by 75% of the firms in the study, active search behaviour reported by 50% of the firms.</td>
</tr>
</tbody>
</table>
(1995) found that client followership was an important reason for international expansion. Growth for the firm’s niche products and general trends in the industry were other important explanatory factors. Other studies (e.g. Crick & Jones, 2000) also point to the importance of industry trends in market selection, as well as market potential (Lindqvist, 1997). This would thus indicate that even if firms in their market selection seemingly follow the path suggested by the *Uppsala* internationalisation model, psychic distance as such has limited power as an explanatory variable.

Referring again to Crick’s (2004) study of discontinued exporting (see also 3.1.1.2), those firms that where characterised as “disappointed” export discontinuers were actively seeking out new opportunities on foreign markets. They commonly reported that the U.K. currency affected competitiveness to such an extent that they had to cease their exporting activities, though.

Some studies thus focus on the influence of home-host country differences, most prominently psychic distance. Studies concerning high-tech firms or fast growing firms tend to downplay the importance of this factor, while in industrial firms there seems to be a preference for entering psychically close markets early on in the internationalisation process.

A number of studies focusing on environmental factors generally as well as their relative importance in market selection as reported by managers also exist. These studies rarely look at market entry from the point of view of a single entry decision and events surrounding this decision, but rather focus on influences on entries in general.

### 3.1.2 Foreign Mode Selection

The literature on entry modes employed by SMEs when internationalising is sizeable, particularly the stream that focuses on exporting. Roughly, three main areas of interest can be distinguished in SME export studies, including the correlation between size and extent to which firms are engaged in export activities, performance characteristics of exporting SMEs and internal factors, mainly focusing on the international experience and perceptions of SME managers. In particular, many studies attempt to relate scope and intensity of international activities to firm size (see e.g. Ali and Swiercs, 1991; Bagchi-Sen, 1999; Baird, Lyles & Orris, 1994; Berra, Piatti & Vitali, 1995; Calof, 1993, 1994; Katsikeas, Deng & Wortzel, 1997; Walters & Samiee, 1990). However, SMEs engage in different modes of internationalisation. Studies can be found on transnational SMEs (see e.g. Fujita, 1995), alliances (see e.g. Gomes-Casseres, 1997; Kohn, 1997), joint ventures (see e.g. Ming Au & Enderwick, 1994; Donckels & Lambrecht, 1995) and FDIs in general (see e.g. Vachani, 1998). Some scholars have also found evidence that the international activities of SMEs are becoming more diversified (see e.g. Julien, 1996). There are also studies that focus on motives for exporting. These do not focus on the reason why exporting was selected as foreign market entry mode rather than any other
mode, however. Commonly, these studies treat exporting as being the same as internationalisation and consequently research motives why firms begin internationalising rather than why exporting was selected as mode.

Chang and Rosenzweig (2001) argue that there are two streams of research that have looked “[…] into the patterns and determinants of entry modes. Some researchers have focused on the ownership and control issues implied by various modes of entry […] others have examined the effect of cultural distance, country risk, and level of economic development on the mode of entry […]” (2002:747). Why and how changes in entry modes occur over time, is thus not well explored (Pedersen, Petersen & Benito, 2002).

Below are discussed the influences of organisational and environment factors on SMEs’ choice of modes (see Exhibit 3.2 for an overview).

### 3.1.2.1 Organisational Conditions and Changes: Individual Level

In market selection, experience and existing relationships are important factors. Similarly, these appear to be relevant in mode selection. For example, Burgel and Murray (2000) found that internationally experienced managers were less likely to employ intermediaries in international sales. They (2000:52) say “[a] possible interpretation of this finding is that internationally experienced managers do not need to rely on the superior market knowledge or commercial network of a local distributor to commercialise their products abroad. Their tenure abroad means that they already have their own personal networks and can evaluate them in comparison with the services offered by a distributor”.

Studies undertaken by Coviello and Munro (1995; 1997) and Keogh, Jack, Bower and Crabtree also (1999) indicate that existing relationships were important factors in determining entry modes. Further, Donckels and Lambrecht (1995) found that that entrepreneurs involved in setting up joint ventures were significantly older and better educated than entrepreneurs involved in other entry modes.

Calof and Beamish (1995) undertook a study of mode change in Canadian SMEs. Based an open framework, 76 executives were interviewed regarding 139 mode changes. While the authors were able to identify a great variety of different reasons why modes were changed, their overall conclusion was that individual perceptions regarding the costs, risks and potential of specific modes on specific markets determined responses to environmental and organisational stimuli for change. They, thus, go beyond the assumption that strategy is directly impacted by changes in the organisation and environment and note that also “a change in perceptions can [then] trigger mode change” (1995:127).

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1 The authors do not discuss if the joint ventures focus on upstream or downstream activities, though.
3.1.2.2 Organisational Conditions and Changes: Firm Level

Again, firm-level characteristics have been the main focus of past research. Leonidou and Katsikeas (1996) reviewed export development models, concluding that “all empirical work on export development has used the firm as the level of analysis” (1996:531). They also note that “almost all models viewed the firm’s involvement in export operations as an evolutionary and sequential process, based on the fundamental assumption that export activity develops from a series of incremental decisions” (1996:525). Within the SME area, access to resources, experience, product and service characteristics and customer needs appear to be the most important mode determinants.

When resources are concerned, in a study of technology-based start-ups in the U.K. Burgel and Murray (2000:53-54) argue that “[t]he choice of foreign entry modes may [therefore] represent a compromise between the limited resources of start-ups and the support requirements demanded by the customers of its products. […] Products that require a high level of client-specific adaptation are more likely to be sold directly by the manufacturer. […] Our strongest predictor of the chosen foreign entry mode was the existing, domestic sales mode of the firm. […] the explanatory effect of this variable is arguably due to the presence of embedded routines and experiences with the domestic sales mode”. Experience from the home market will thus affect foreign entry mode selection. Further, Peng and Ilinitch (1998) argue that lack of knowledge about the foreign market and geographic distance will induce manufacturing firms to select intermediaries and that the likelihood of firms doing so will increase with the level of commodity content of the product.

The connection between a firm’s network relationships and mode selection might not be as obvious as the connection between relationships and market selection. However, in a study of four small New Zealand software firms, Coviello and Munro (1997) found that the firms were engaged in a variety of entry modes soon after internationalisation had been initiated. Like in the case of market selection, they argue that this is largely a result of network relations. They (1997: 372) say “[t]he rapid and successful growth of the case firms appears to be a result of their involvement in international networks, with major partners often guiding foreign market selection and providing the mechanisms [i.e. entry mode] for market entry”.

If we look at specific modes and prerequisites for employing them, joint ventures have been the focus of some research efforts. In a study of co-operative internationalisation modes Kaufmann (1995) concludes that international joint ventures formed by SMEs are usually realised only if they entail little perceived risk. Further, the building of trust between partners – through the mediation of information and contacts – reduces ambiguity and transaction costs, leading to the feasibility of joint ventures. In a study of joint ventures formed in developing countries by Belgian SMEs, Donckels and Lambrecht (1995) hypothesised and found support for the fact that network formation was of greater importance than when engaging in lower commitment entry modes.
In a comparison of family-owned and non-family owned SMEs, Donckels and Aerts (1998) found that the former were less likely to be involved in any form of internationalisation, but that the differences were greatest in regard to higher commitment modes.

There also exist studies that focus on changes of entry modes. E.g, in a study of the internationalisation of ten technologically oriented U.K. firms, Crick and Jones (2000) found that there were a wide variety of different influences on the mode decision, although the firms tended to begin with low commitment modes.

### 3.1.2.3 Environmental Conditions and Changes

Logically one might assume that environmental influences such as market structure, political situation, psychic distance etc. would have a great impact on how small and medium-sized firms select their foreign market entry modes. Studies can also be found on this, even if they tend not to be concerned with particular entry modes as components in a process, but rather with asking managers to account for problems with and reasons for employing specific modes.

Lindqvist (1997) found that market characteristics were important determinants of selection of mode when studying technology-based firms. She also found that when entering industrialised markets, firms were more likely to create subsidiaries than when entering developing countries, where to a higher extent direct export modes were preferred. Overall, though, market intermediaries was the most common mode. Similarly, Peng and Ilinitch (1998) argue that lack of familiarity and geographic distance will induce manufacturing firms to select intermediaries.

#### Exhibit 3.2: Studies of SMEs' Foreign Downstream Mode Selection

<table>
<thead>
<tr>
<th>Study</th>
<th>Method and empirical context</th>
<th>Framework(s)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bell (1995)</td>
<td>Survey of 88 software firms and interviews with managers in 24 of these firms, located in Finland, Ireland and Norway</td>
<td>Internationalisation process model (stage theory)</td>
<td>Exporting dominated due to reluctance to disseminate knowledge and short life cycle of products. Agents and distributors were more likely to be employed by firms with standardised products. (Scarce) higher commitment entry modes were determined by client’s need for support.</td>
</tr>
<tr>
<td>Burgel &amp; Murray (2000)</td>
<td>Survey of 246 UK technology-based start-ups</td>
<td>International entrepreneurship</td>
<td>The entry mode decision is a compromise between resources limitations and customer support requirements.</td>
</tr>
<tr>
<td>Calof &amp; Beamish (1995)</td>
<td>Interviews with 75 executives from 38 Canadian SMEs regarding 139 mode changes</td>
<td>Open framework focusing on impact of managerial attitudes, performance, external and internal environment on mode change</td>
<td>Attitude is the major determinant generally, although mode change is determined by an interplay of a variety of stimuli for change and perceptions regarding modes and market. The study partially supports the stages approach.</td>
</tr>
</tbody>
</table>
### Foreign Partner Selection

There is plenty of literature attesting to the importance of selecting the right business partner for success in internationalisation, while firms often find this to be a challenge (Kaynak, Ghauri & Olofsson-Bredenlöw, 1987; Lindqvist, 1997). Considering this, the very limited attention that the process of actually selecting foreign business partners has received is worthy of note. For example, Hitt, Dacin, Levitas, Argegele Ednec and Borza (2000:449) claim “(s)ome research exists on partner selection […] but more research is required to explain...
the basis on which firms select partners”. This is echoed by Ellis (2000) and Andersen and Buvik (2002:347), the latter stating that “[w]hile we have, during the last two decades, witnessed a stream of studies on the international entry mode, the question of where and with whom the transaction should be performed has attracted less attention by researchers”. Consequently, the number of studies to draw on is limited. Below follows a discussion on how organisational and environmental factors impact partner selection in SME internationalisation (see Exhibit 3.3 for an overview).

3.1.3.1 Organisational Conditions and Changes: Individual Level
Logically, decision-maker related influence on firms’ business partner selection process largely concern the ability of decision makers to initiate relationships and the existence of antecedent social relationships. In an SME internationalisation context, though, social relations remain underexplored, reflecting findings that can be made also when larger firms are considered (Agndal & Axelsson, 2002).

Lindqvist’s (1997) study offers one exception, though. In her research it was found that in 45 per cent of all firms, “managers’ previous contacts with local representatives or general knowledge about foreign markets” had been used to find foreign business partners (p. 316).

3.1.3.2 Organisational Conditions and Changes: Firm Level
Like in the case of market and mode selection, it seems that firm-level variables have received relatively the most attention in past research, with a strong focus on firm relationships.

While specific partner selection is not the focus of Coviello and Munro’s (1997) study of New Zealand software firms, they conclude that network relationships are the most important influence on the internationalisation processes of these firms. A previous study undertaken by Coviello and Munro (1995) where 25 New Zealand software firms in the early stage of internationalisation were researched indicated that “existing major partners exhibited very little influence on subsequent partner formation, although general network contacts appeared to have moderate involvement in this regard. This may reflect the relatively early stages of internationalization for the survey firms […]” (1995:56). Firm age and experience with internationalisation are thus factors that are influential in determining the extent to which network contacts impact international partner selection.

In a study of 85 technology-oriented Swedish firms, Lindqvist (1997) found that the most important influence on business partner selection was personal contacts and requests from interested firms, reported by 79 and 73 per cent of the firms in the study. Fifty-nine per cent of the firms reported that contacts had been made at trade fairs. The Swedish Trade Council had been used by 26 per cent of the firms, while other export consultants had been utilised by nearly one-third.
Another perspective on partner selection is provided by Hara and Kanai (1994). In a case study of a U.S.-Japanese joint venture, they found that the existence of a “networker of networks” (1994:505) or gatekeeper, i.e., an individual charged with the responsibility to create “a global network of local networks” (1994:489), was a key success factor in partner search. The use of such a gatekeeper or representative of a specific business community vastly reduced the number of contacts that needed to be taken and ensured that more informal relationships developed.

When discussing motives why specific partners are selected over others, Hitt Dacin, Levitas, Arregele Edhec and Borza (2000:461) say “our results provide a unique contribution to the understanding of partner selection in particular because they suggest that alliance partners may be selected largely for access to resources and organizational learning opportunities that may enhance a focal firm’s capabilities”. In this study, managers in firms from developed countries tended to stress access to local markets and local knowledge, while managers in firms from developing countries focused on financial assets and technical capabilities as well as willingness to share expertise. This study focused mainly on larger firms, however, and it is unclear to what extent these results would have been reflected in a sample consisting only of smaller firms.

In a study of the initiation of ten international business relationships involving Swedish SMEs, Hohenthal (2001) found that those three that ended up being successful were based on antecedent relations, the seven unsuccessful relationships being characterised by little or no prior contacts between the firms. Structured search behaviour was reported in only two cases, though, in the other instances the initiating firms having some form of knowledge about the other party without there being an actual relation. Hohenthal (2001) thus diverges from most research on international business relations in that he also addresses relationship termination, arguing that lack of potential was the main factor underlying this type of action.

3.1.3.3 Environmental Conditions and Changes

The studies that do focus on SME partner selection appear to conclude that change agents in the form of customers, suppliers and third parties exert the greatest influence. That is, SMEs often do not engage in search behaviour when partner selection is concerned. Instead, they are approached by would-be business partners, often firms with which they have had no prior relations. Serendipity thus appears to be a major factor in partner selection.

Important is also the study of venues where such relationships are created, some studies noting that participation in trade fairs is important in relationship creation. For example, in a survey of 303 successful small U.S. exporters, Howard and Herremans (1988) found that foreign distributors, trade fairs, the U.S. Department of Commerce and U.S. banks were the most helpful sources of information. Although not explicitly focusing on partner selection, it hints at environmental variables that are relevant to consider.
### Exhibit 3.3: Studies of SMEs’ Foreign Downstream Business Partner Selection

<table>
<thead>
<tr>
<th>Study</th>
<th>Method and empirical context</th>
<th>Framework(s)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodur &amp; Koed Madsen (1993)</td>
<td>Interviews with managers in seven Danish-Turkish joint ventures</td>
<td>Network approach to internationalisation, general network theory, overall varied framework</td>
<td>Danish firms selected partners based mainly on the prospective partners’ networks.</td>
</tr>
<tr>
<td>Coviello &amp; Munro (1995)</td>
<td>Survey of 25 young New Zealand software exporters in the early phase of internationalisation</td>
<td>Business network theory</td>
<td>While the majority of initial foreign market entries were influenced by contacts, major partners had limited influence on future relationship formation.</td>
</tr>
<tr>
<td>Coviello &amp; Munro (1997)</td>
<td>In-depth, longitudinal case studies of four New Zealand-based software developers</td>
<td>Internationalisation process and business network theory</td>
<td>Since market entries are driven by network relationships, specific partner selection is also a result of network relationships.</td>
</tr>
<tr>
<td>Ellis &amp; Pecotich (2001)</td>
<td>In-depth study of 31 export market entries in 11 Australian firms</td>
<td>Social exchange theory</td>
<td>Antecedent relations dominate in the identification of foreign business opportunities and consequently in specific partner selection.</td>
</tr>
<tr>
<td>Ellis (2000)</td>
<td>Interviews with managers of 42 Hong Kong toy manufacturers (ranging in size between 4 and 400 employees) concerning 133 direct foreign market entries</td>
<td>Internationalisation process, network theory, relationship marketing</td>
<td>Sellers rarely initiated relationships, which were initiated by partner firms, third parties or at trade fairs. Antecedent social relations were crucial in more than 40% of foreign market entries, although the importance was greatest for the largest firms.</td>
</tr>
<tr>
<td>Hohenthal (2001)</td>
<td>Interviews with managers in 10 Swedish SMEs</td>
<td>Internationalisation process model, learning theory</td>
<td>Most relations were seller-initiated, although only two relations were preceded by focused search behaviour. In those relations that were successful (3 of 10) there were antecedent relations between the firms. Lack of potential underlay relationship termination.</td>
</tr>
<tr>
<td>Lindqvist (1997)</td>
<td>Survey of 85 Swedish technology-based firms</td>
<td>Influence of technology on internationalisation process</td>
<td>Personal contacts and unsolicited orders were the most important influences in finding foreign business partners.</td>
</tr>
<tr>
<td>Meyer &amp; Skak (2002)</td>
<td>Interviews with managers in 20 Danish manufacturing and trading firms entering Eastern Europe</td>
<td>Business network theory</td>
<td>Serendipity was the most important factor in finding business partners, the more remote the market the more apparent this was. Active search for partners was more important in large and nearby countries than in small and remote countries. In the case of first entries active search was more frequent than in subsequent entries.</td>
</tr>
</tbody>
</table>

In a study of 20 Danish manufacturing and trading firms’ entry into Eastern Europe, Meyer and Skak (2002:185) found that “[o]nly half the case firms engaged in systematic search activities before engaging in business in a country of the region. On the other hand, 15 of the 20 firms engaged in business following up an opportunity arising by chance, for instance via a contact established at a trade fair, or being contacted directly by the future business partner”. They (p. 186) also note that “[a]ctive search appears more common in large and – as predicted by the internationalization model – nearby countries,
while “chance” appears more important in peripheral (other) markets […]. Active search has been reported more frequently for first entries than for subsequent entries”. Lindqvist (1997) reached similar conclusions.

3.1.4 Conclusion

The above review of studies allows for a discussion concerning what factors are more or less frequently cited as impacting the decisions involved in internationalisation.

3.1.4.1 Factors Influencing Market, Mode and Partner Selection

Naturally, no far-reaching conclusions concerning the overall relative importance of various variables in explaining SME downstream internationalisation decisions can be drawn from this review. Since the reviewed studies have focused on different aspects of internationalisation and have employed different frameworks, they reach different conclusions concerning which variables explain international behaviour. Nonetheless, such an overview might indicate which types of variables have been more or less frequently used to explain certain aspects of internationalisation (see Exhibit 3.4).

Exhibit 3.4: Some Explanatory Variables Identified in SME Internationalisation Studies

<table>
<thead>
<tr>
<th>Level</th>
<th>Market selection</th>
<th>Mode selection</th>
<th>Partner selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational conditions and changes: Individual level</td>
<td>-International experience</td>
<td>-International contacts</td>
<td>-International experience</td>
</tr>
<tr>
<td></td>
<td>-International contacts</td>
<td></td>
<td>-International contacts</td>
</tr>
<tr>
<td></td>
<td>-Personal motives</td>
<td></td>
<td>-Personal motives</td>
</tr>
<tr>
<td></td>
<td>-Managerial attitudes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisational conditions and changes: Firm level</td>
<td>-Network relationships</td>
<td>-Network relationships</td>
<td>-Network relationships</td>
</tr>
<tr>
<td></td>
<td>-Knowledge</td>
<td>-Knowledge/learning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Resource availability</td>
<td>-Sales value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Sales value</td>
<td>-Firm size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Firm size</td>
<td>-Product life cycle</td>
<td>-Search behaviour</td>
</tr>
<tr>
<td></td>
<td>-Product standardisation</td>
<td>-Product standardisation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Ownership structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental conditions &amp; changes</td>
<td>-Unsolicited orders</td>
<td>-Customer needs</td>
<td>-Unsolicited orders</td>
</tr>
<tr>
<td></td>
<td>-Customer demands</td>
<td>-Physical distance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Global trends</td>
<td>-Psychic distance</td>
<td>-Venue (trade fairs)</td>
</tr>
<tr>
<td></td>
<td>-Access to customers</td>
<td>-Competition</td>
<td>-Serendipity</td>
</tr>
<tr>
<td></td>
<td>-Physical distance</td>
<td>-Uncertainty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Psychic distance</td>
<td>-Industry characteristics</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Venue (trade fairs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Serendipity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Buckley (1989:94) says “[t]he horizons of small firms are limited by managerial capacity and there is little “global scanning” for opportunities. Therefore, when an opportunity appears, it is often taken without proper evaluation”. When looking into the variables identified here, it would indeed seem that scholars have focused on just such issues, market selection and partner selection.
commonly being regarded as results of serendipitous contacts. In regard to mode selection, however, researchers tend to focus to a greater extent on firm-internal variables and economic or “rational” bases for decision making.

As far as decision-makers' contacts and motives are concerned these seem to be in greater focus in market and partner selection. It can also be discussed whether in the case of small and medium-sized firms experience-related variables should be considered on the level of the individual or the level of the firm. Organisational learning is perhaps less of a useful concept to use in SME studies since mostly only very few individuals are directly involved in activities related to internationalisation. Even fewer individuals are directly involved in taking internationalisation-related decisions.

Generally, resource constraints and product-related variables are addressed in regard to mode selection but not in the case of market and partner selection. Customer needs and demands are considered primarily in regard to market and mode selection, but not in regard to partner selection. This is logical since these variables imply that a partner already exists.

Factors on the environmental level appear to influence all three aspects of internationalisation if the focus of extant research reflects actual events. However, factors such as global trends and industry characteristics as well as psychic and physical distance seemingly influence primarily market and mode selection, while unsolicited orders and serendipitous events influence market and partner selection.

Overall, both social and business network relationships are mentioned in regard to all three decisions. Since many of the studies employ frameworks stressing these factors, this is not a surprising finding.

Having made some observations concerning explanatory variables, it is appropriate to discuss what impact the review has for the study of change internationalisation process formation.

3.1.4.2 A Change Perspective

Mostly, the studies reviewed in this chapter do not address the issue of how change occurs in regard to the sub processes of internationalisation and thus do not considered SME internationalisation as a strategy process. It is also noteworthy that hardly any research focuses on de-internationalisation, i.e. market withdrawal, change into lower commitment modes and relationship termination.

In regard to the dynamics of market selection, decision-maker characteristics are clearly influential. Changing these characteristics, e.g. through individual learning or through the expansion of personal networks, would thus logically lead to changes in market selection. Expanding the knowledge base of the firm, e.g. through hiring new management or through professionalising existing management, will influence market selection, and, arguably, also market deselection. This dynamic is to some extent captured by the Uppsala internationalisation process model. The business network approach regards
network expansion as a natural process. Logically, expanding firms’ networks
will enable firms to be more proactive in market selection, and will also lead to
greater chances that a firm is exposed to business opportunities. From the point
of resource-based thinking, changing the firm’s resource base might change
what markets are perceived as attractive. Environmental influences are also
important in market selection. Changes in demand, industry trends, decreasing
importance of physical distance due to improved communication technology,
increasing competitions etc. will arguably lead firms to select markets differently
over time.

In regard to changes in mode selection, it can also be argued that with
increasing experience, individual managers will be more willing to commit their
firms to other forms of market entry than exporting. Otherwise, changes in sales
value and product characteristics appear to be important factors leading to
changes in entry mode, as are changes in the customer base, changes in the
needs of customers and changes in industry characteristics. Changes in the
firm’s resource base may also lead to changes in mode choice. Modes that
appear unrealistic when the firm has very limited financial resources may seem
more appropriate with greater financial strength.

Changes in which business partner the firm works with and changes in the
ways firms go about finding business partners also appear to be linked to
changes in the knowledge of managers, their relationships and the relationships
of firms. Often firms do not actively pursue foreign partners, as evidenced by
the studies reviewed in this chapter. However, the fact that no specific market
entry decision is taken does not mean that market entry or partner selection are
not relevant aspects to study from a strategy process perspective. Quite to the
contrary, when following the events surrounding market entries over time, one
might see how the firm’s approach to market entry changes, e.g. how the firm
goes from being proactive to being reactive and vice-versa.

3.2 SMEs’ Upstream Internationalisation

Compared to the large body of literature on SME downstream
internationalisation, the literature on SME upstream internationalisation is
meagre indeed, both the stream focusing on sourcing, i.e. primarily importing
and contract manufacturing (see Liang & Parhke, 1997; Deng & Wortzel,
1995; Liang, 1995), and that focusing on operations, i.e. primarily foreign
wholly or jointly owned manufacturing. Carrying out the same type of search
for previous studies as in the sections on downstream internationalisation is
therefore not possible. Nevertheless, many of the same issues would appear
relevant and a search for materials in the fields of “global and foreign sourcing”
reveals a handful of studies focusing on SMEs (see Exhibit 3.5 for an overview
of empirical studies). One problem for this thesis, however, is that those who
approach the area of upstream internationalisation tend not to do so from the
internationalisation field, but rather from the purchasing and supply management field. Thus, the types of studies of foreign sourcing that can be identified differ in nature from studies of downstream internationalisation, often focusing on issues such as the effectiveness of certain strategies, benefits of foreign sourcing (cf. Cho & Kang, 2001), competitive advantages to be gained from global sourcing etc. In the study of downstream internationalisation, such issues attract less attention – especially in an SME context – more or less assuming that foreign sales by definition are not only beneficial but also necessary to the firm. Further, since this thesis is not concerned with issues of performance, such research provides little in the way of useful clues. Nonetheless, a few studies of SMEs’ international sourcing and foreign operations have been encountered.

3.2.1 International Sourcing

One set of studies compares the sourcing activities of large and small firms. Scully and Fawcett (1994) undertook such a study among U.S. firms. Their overall findings indicate that smaller firms (500 employees or less) actually source more from abroad than large firms, although they argue that this surprising finding was skewed by the fact that their sample contained several small high-tech firms, which were argued to purchase more from abroad. More importantly, they found that small firms’ foreign sourcing activities were more likely to be reactive in nature. The decision to source internationally was also found to largely be a response to a specific opportunity that presented itself or was undertaken as a specific need arose inside the firm. Overall, however, managers in small firms did not perceive foreign sourcing activities to be more difficult than did managers in larger firms. Contrary to the findings of Scully and Fawcett (1994), Julien (1996) notes that in a study of SMEs in Quebec, small firms import less than large firms.

So, what does the body of SME international sourcing literature say about market, mode and partner selection? One problem with what little studies on the subject of foreign markets one can actually find is that they tend to deal with buyers from a particular country and what factors managers consider important in supplier selection. Such a study was undertaken by Deng and Wortzel (1995), who focus on U.S. importers (although that study does not focus specifically on SMEs). Their conclusion was that the geographic location of suppliers did not matter. Rather, criteria such as price, quality and promptness of delivery were the most highly rated reasons by the importers. This study, however, does not show which mechanisms are involved in choosing supplier. Generally it would appear that in supplier selection less emphasis is placed on the country where that supplier is located than is the case regarding customers in downstream internationalisation, though.

One reason behind the lack of upstream internationalisation studies may be the difficulties involved in finding information on this issue. Julien (1996:62)
notes that “[i]n most countries, very little data is available on importing for or by small businesses”.

3.2.2 International Operations

Clearly, there is not a great deal of published studies dealing with SMEs’ foreign operations. Those that have been found primarily focus on advantages and disadvantages of joint ventures (Ming Au & Enderwick, 1994; Donckels & Lambrecht, 1995) and markets selected for foreign operations (Vachani, 1998; Apfelthaler, 2000).

Logically, there must be a strong connection between the market and the mode selected for that market. Studies focusing on this have not been unearthed, though. Concerning mode selection in general, however, Donckels and Lambrecht (1995) studied why Belgian SME managers were willing to form joint ventures in developing countries. Market access, limited financial capacity and potential for growth were important reasons. They also found that SME managers involved in joint ventures had greater experience and higher education that those not involved in joint ventures. Networks were also found to be more important for joint venture formation that for the employment of lower commitment modes, although the authors do not further explore the issue of partner selection.

Vachani (1998) studied ten Japanese firms’ foreign ventures (wholly and jointly owned) with a focus on why the firms undertook foreign operations and why specific markets were selected. Stagnant home market, high costs and domestic regulations were reasons why managers decided to invest abroad, while specific host countries were selected after unsolicited offers were made or because managers had personal interests in the specific foreign markets. Other important factors in foreign market selection included political stability, educational level of inhabitants, technology level and factors relating to the host country government. In a study of four Austrian firms involved in FDIs in the U.S., Apfelthaler (2000) found that individual preferences of decision makers were the most important motives for selecting markets, although in one case customer following dominated. In a survey of European SMEs, Donckels and Aerts (1998) found that non-family owned firms were more likely to engage in foreign production and licensing than family-owned SMEs, arguing that in the case of the latter firms, ownership structure presents an obstacle to international growth. In the study of international operations, both economic rationales and individual preferences and interests thus appear relevant to consider.

3.2.3 Summary

The table below (see Exhibit 3.5) lists those studies that have been noted as dealing with SMEs’ international upstream activities. Clearly, there is some variety in the empirical contexts studied and frameworks employed.
## Chapter 3 – Empirical Studies of SME Internationalisation

### Exhibit 3.5: Studies of SMEs’ Upstream Internationalisation

<table>
<thead>
<tr>
<th>Study</th>
<th>Method and empirical context</th>
<th>Framework(s)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apfelthaler (2000)</td>
<td>4 interviews with managers of Austrian SMEs’ subsidiaries in the US</td>
<td>Open, although some reference to FDI theory</td>
<td>Individual preferences most important motives for selecting markets, although in once case customer following dominated.</td>
</tr>
<tr>
<td>Donckels &amp; Aerts (1998)</td>
<td>Survey of 4979 European SMEs (maximum 499 employees)</td>
<td>None, although focus on family and non-family businesses</td>
<td>Family owned businesses were less likely to be involved in foreign production or licensing than non-family owned businesses.</td>
</tr>
<tr>
<td>Donckels &amp; Lambrecht (1995)</td>
<td>Survey of 480 Belgian SMEs (less than 100 employees) setting up joint ventures in developing countries, supplemented by 27 personal interviews</td>
<td>Variety of factors that might impact joint venture formation</td>
<td>Entrepreneurs involved in setting up joint ventures were better educated and had more experience than those not involved in joint ventures. Network formation was of greater importance in joint venture formation than in lower commitment modes. Market access, limited financial capacity and potential for growth were important reasons.</td>
</tr>
<tr>
<td>Jones (2001)</td>
<td>Survey of 195 UK high-tech SMEs</td>
<td>Perspectives on internationalisation process and small firm development processes</td>
<td>Direct importing most common form of inward internationalisation (70%), followed by contract manufacturing (40%).</td>
</tr>
<tr>
<td>Julien (1996)</td>
<td>Survey of 234 SMEs in Quebec</td>
<td>General discussion concerning globalisation</td>
<td>Small firms import less than large firms.</td>
</tr>
<tr>
<td>Korhonen, Luostarinen &amp; Welch (1996)</td>
<td>Survey of 480 Finnish manufacturing SMEs (500 employees or less)</td>
<td>Inward-outward internationalisation in light of stage models</td>
<td>Price, quality and promptness of delivery were the most highly rated criteria by the importers.</td>
</tr>
<tr>
<td>Ming Au &amp; Enderwick (1994)</td>
<td>2 mailed questionnaires and 2 follow-up phone interviews with 2 small New Zealand firms that have joint ventures in China</td>
<td>Perceptions regarding Chinese joint ventures</td>
<td>A variety of advantages and disadvantages to investing in joint ventures in China were identified.</td>
</tr>
<tr>
<td>Scully &amp; Fawcett (1994)</td>
<td>72 responses (15% response rate) to survey sent to purchasing and materials managers in large and small US firms</td>
<td>General discussion of benefits and challenges of global sourcing</td>
<td>Small firms source more from abroad than large firms, such activities often being based on specific problems or being a result of specific opportunities. Foreign sourcing is thus typically reactive.</td>
</tr>
<tr>
<td>Vachani (1998)</td>
<td>Interviews with senior managers in 10 Japanese SMEs (maximum 300 employees) with foreign operations</td>
<td>Open framework</td>
<td>Foreign markets selected after unsolicited offers, personal interests, political stability, educational level of inhabitants, technology level and host country government-related factors.</td>
</tr>
</tbody>
</table>

Although Julien (1996) and Apfelthaler (2000) cite evidence from various government bodies and international agencies indicating that SMEs’ international activities are becoming more diversified, higher commitment modes such as licensing and franchising have not raised much research interest. Also the international sourcing activities of SMEs is a largely unresearched area.
Drawing on the perspective on internationalisation developed in the first chapter, the understanding of change and the three research questions presented in chapter two, and the findings regarding aspects of importance in SME internationalisation research, the following chapter will develop a method to empirically study change in industrial SMEs’ internationalisation processes.
Chapter 4
Research Approach and Study Design

Chapter one argues that in order to fulfil the purpose of this thesis, it is necessary to study industrial SME internationalisation empirically. This chapter presents how the empirical study was undertaken. In doing so, the chapter breaks down into three main sections. The first section introduces and motivates the overall research approach (see 4.1). The second section presents the design of the empirical study, focusing on selection of research objects, data collection and data analysis (see 4.2). The third section discusses some of the problems associated with the selected research approach and design (see 4.3).

4.1 Research Approach

Chapter one argues that in the formation of six sub processes of internationalisation, change in strategy is an integral component. The chapter concludes that a study with the purpose to describe and explain changes in strategy in the internationalisation process of industrial SMEs is well motivated. Chapter two argues that strategy should be seen as a pattern in firm behaviour, and that change in strategy is the same as a change in the behavioural pattern of the firm. These changes are further argued to be influenced by perceptions of environmental and organisational conditions, perceptions regarding changes in these conditions and perceptions of past strategy. Bearing this in mind, chapter two concludes that the overall purpose can be broken down into three research questions, focusing on what changes can be identified, what perceptions influence them and how change can be characterised when placed in the context of the internationalisation process. In a review of influences on market, mode and partner selection in an SME internationalisation context, chapter three notes that although change in international strategy remains largely unexplored, existing research provides a number of clues regarding potentially important influences on change.

Given these conclusions, how can an empirical research project focusing on change in the internationalisation processes of industrial SMEs most fruitfully be designed? The choice of method must logically be guided by the nature of
the phenomenon under study, the research questions posed in regard to the phenomenon and the theoretical understanding of the phenomenon. Here, this implies that a method must be selected that allows the capturing of processes over extended periods of time, that allows the capturing of change in strategy as change in behaviour, that allows the identification of influences on change in strategy and that allows a theoretical contribution to be made in regard to these issues (see 1.4.2).

In short, to do this a longitudinal, multiple-case approach characterised by highly structured data collection and analysis was employed. Below, each of the dimensions of this approach are discussed and motivated.

4.1.1 A Case Approach

A case approach entails an empirical enquiry that places a contemporary phenomenon within its real-life context, where the boundaries between phenomenon and the context are rarely clearly evident and where multiple sources of evidence may be utilized (Yin, 1989). This approach has been widely used in the social sciences, not only for exploratory purposes, but also for descriptive reasons as well as to test theory (Chetty, 1997). In this project the case is considered to be the internationalisation process of the firm, which exists in an organisational and environmental context as perceived by actors inside the firm.

The case study method, however, is rarely employed in studies of SME internationalisation (Chetty, 1997) even if many researchers argue that a variety of aspects of internationalisation can only be studied with this and similar methods (Andersen, 1993). There are several reasons why such an approach is appropriate in this study. Firstly, the definitions of internationalisation, strategy, change and perceived influences on change are too broad and simultaneously too complex for reliance on self-reported data collected using structured questionnaires. It is the researcher’s understanding of these concepts that must be in focus. Since communicating this understanding to others is difficult and time consuming, the researcher must be involved, “hands on”, both in data collection and in data analysis. The case approach as employed here certainly permits for this.

Secondly, in order to acquire the sort of data needed to answer the research questions and to ensure that these data are adequately comprehensive, several types of data sources may have to be utilised in regard to each firm, especially considering the extended periods of time involved.

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1 What constitutes a case has been discussed in literature and a variety of opinions on the matter exist. This debate will not be addressed here. For definitional reasons the opinions held by Yin (1989) are argued to be a useful starting point.

2 See Chetty (1997) for a review of some of these issues.
Thirdly, this research project is concerned with various perceived influences on change. Perceptions regarding both the internal and the external context in which change occurs must be taken into consideration for any real understanding of change to be generated (see e.g. Melin & Hellgren, 1994). In case study research, this type of contextualist approach is in focus.

Fourth, since little is known about change in industrial SME internationalisation, an approach that allows for the identification of a priori unknown or unforeseen phenomena, causal links, etc. is needed.

Fifth, the aim of this project is theory building rather than theory testing. While the aim is not to create case-specific theory, there is nonetheless a need to focus on both individual changes in strategy and change as part of internationalisation process formation of individual firms, in order to answer the research questions. A case approach where the overall internationalisation process constitutes the case allows for both since, within the frame of the process, a varying number of individual changes may be encountered.

4.1.2 A Retrospectively Longitudinal Approach

A longitudinal approach entails the study of a phenomenon over time. Clearly such an approach is relevant here since the study focuses on internationalisation processes forming over extended periods of time. Melin (1992) identifies four approaches to process research, including time-series consisting of disjointed events, short episodes, epochs and biographical histories, neither of which are well explored in an SME internationalisation context (Coviello & McAuley, 1999). There are several difficulties involved in actually applying a longitudinal approach, though. For obvious reasons it is rarely possible to follow lengthy processes in real time, especially if these processes span across decades. Few researchers are able to commit the time and other resources required for such research, especially given that it cannot typically be known beforehand how rich a material the specific case will generate and if access to the case will be allowed throughout the intended period of study. Instead, for practical reasons a form of retrospective longitudinality must often be employed. The use of historical data, though, does not equate longitudinal research. For research to be longitudinal in nature it must be concerned with what happened over time, not simply with what once happened in time. This may be referred to as a historical-retrospective approach and implies that the process must be recreated after its constituent events and sub processes have taken place. Although commonly accepted as a substitute for real times studies, of course this approach opens up for problems in assuring both reliability of and access to empirical data.

There are several reasons why a retrospectively longitudinal approach is appropriate in this study, though. In the study of change in strategy it is more or less implicit that time matters since strategies change over time. Further, in order to answer the first two research questions – concerning which changes can
be identified and what perceptions influence these changes – it would appear that a “time series” or “short episode” longitudinal approach would suffice. Considering the third question, though, the aim of which is to explore change as a component of the internationalisation process, clearly an “epoch” or “biographical history” is necessary. Since, when applying the latter approaches, time series and episodes are also covered, a longitudinal approach covering extended periods of time appears well motivated.

Additionally, it is not realistic to follow events in real time in this study, no matter whether such a method would benefit the research results, since only limited time is available for fieldwork. Another important reason for utilising a retrospective method is the definition of strategy. Since strategy is seen as a behavioural pattern, a change in that pattern can only be established retrospectively.

4.1.3 A Multiple Case Approach

A multiple-case approach entails that two or more case studies are conducted. Multiple research objects may be selected because they allow for greater variety or because this allows the researchers to contrast the findings generated from one research object to those generated from another (Yin, 1989). An additional reason may be that the researcher wants to replicate the findings, i.e. to use the different research objects as supportive rather than contrasting. Cases can also be selected so that they, individually or in pairs, illustrate different aspects or perspectives of a phenomenon under study. E.g., one could decide to study small and large or young and old firms, the point being that the dimensions should be relevant for the research objective at hand.

There are two main reasons why a multiple-case approach is appropriate in this study, one of which being its aim to make a theoretical contribution to the understanding of change in industrial SMEs’ internationalisation processes. I.e., a multiple-case approach is employed to achieve analytical generalisation (Yin, 1989) or generalisation to theory that goes beyond the findings of a single case. In doing so, a multiple-case focus is purposeful since it allows the researcher to contrast, substantiate and supplement the findings from individual cases.

Further, a multiple-case approach is appropriate when considering that the project is concerned with a variety of different changes, primarily concerning the market, mode and partner selection sub processes. More specifically, 15 different types of downstream change and 13 types of upstream change are in focus (see Exhibit 2.7). Until the empirical study of a firm has been conducted and the data analysed, it is not possible to know to what extent any of these changes have occurred there. In order to generate data concerning the various changes that will be searched for, it is thus not only beneficial to conduct multiple case studies, it is also necessary. As a consequence, prior to the actual field work it makes little sense to decide on a limit of how many cases to select.
4.1.4 A Highly Structured Approach

A highly structured approach to data collection and analysis is employed. There are several reasons why doing so is appropriate in this study. Firstly, a wide variety of theoretical concepts and constructs are in focus, while multiple cases are subjected to research. Consequently, clear operationalisations are required. Secondly, data collection taking a great number of pre-defined aspects into consideration as well as being open to making findings not defined a priori is undertaken. This yields significant amounts of data, requiring complex methods of data analysis, employing several levels and units of analysis. Thirdly, this structured approach will also benefit the quality of research findings.

4.1.5 Conclusion

The discussions above hint at a research approach that not fully conforms to traditional ideas of what a case study entails. In a sense this project employs a hybrid method, where multiple cases are used to generate a theoretical contribution based on cross-case analyses, rather than making a case specific theoretical contribution. Given the aims of this research, however, such an approach is not only well motivated, it is also necessary. The following section addresses which and how many cases are selected for study, how data are collected and how data are analysed and presented.

4.2 Study Design

To practically design an empirical study entails making a number of decisions, primarily concerning how many and which research objects to include in the study, methods for collecting the empirical material and methods of analysis and evaluation. These decisions are, in turn, guided by the research problem at hand.

4.2.1 Three Units of Analysis

The unit of analysis may be the same as the case in a study that employs such a method (Yin, 1989). This study actually employs three units of analysis, though. These are referred to as the primary, secondary and tertiary units of analysis. Each higher unit of analysis is based on findings in regard to the lower. This approach is made necessary by the definitions of theoretical constructs (such as internationalisation, strategy, change and process) that are employed and the research questions posed in regard to these constructs.

The tertiary unit of analysis is the international business relationship. Data collected in regard to each individual relationship concern its duration in time, the market(s) involved, the initiating party, circumstances surrounding its
initiation, the type of transaction(s) involved in the relationship and the terminating party (if applicable).

The secondary unit of analysis is change in strategy. When plotting relationships – i.e. the tertiary unit of analysis – along a time axis, patterns of strategy become apparent since each relationship indicates something about the strategic orientation of the focal firm concerning market, mode and partner selection. Indeed, Jones (1999:15) argues that “the nature of a firm’s international expansion may be tracked through the identification and examination of cross-border links formed over time”. Consequently, when plotting relationships over time, strategies prevailing at different points in time can be identified. Thus, changes in strategy can be inferred if strategies differ. Further, when such changes are isolated, perceived influences on these changes can be identified, both influences as directly expressed by respondents and influences as inferred by the researcher from collected material.

Exhibit 4.1: The Relation between the Three Units of Analysis

The primary unit of analysis (cf. Yin, 1989) equals the internationalisation sub process. In analysing the primary unit of analysis, the study draws on the secondary unit of analysis. I.e., the internationalisation sub process is seen as being composed of a series of strategies and changes in strategy over time.

Exhibit 4.1 attempts to clarify the relationship between the three units of analysis, the subdivision into which is necessary given the complexity of the phenomenon and the operationalisation of concepts in chapter two. In order to analyse the different units, data need to be collected regarding business relationships and different influences on these. Before data can be collected, however, cases need to be selected.
4.2.2 Selection of Cases

This is a study about the internationalisation of firms. The firm may thus be seen as the research object, the case equalling the internationalisation process of the firm. There are two main issues in selection of cases, namely which to choose and how many to choose.

4.2.2.1 Selection Criteria

Prior to selection, a number of selection criteria were developed to ensure that appropriate research objects were found. Firstly, it was determined that to be included in the study, a firm should have substantial international experience. Secondly, to be included in the study respondents with experience of internationalisation issues had to be willing to participate in the study. Thirdly, it was determined that only firms operating with a great level of autonomy in relation to e.g. parent firms should be selected, since otherwise focal-firms would likely not be in much control of internationalisation patterns. Fourth, for practical reasons such as travelling time and limitations on financial resources, only firms located in the county of Jönköping should be included in the study. This would also achieve a certain measure of constancy in case selection.

The practical selection was carried out in several steps to ensure adherence to the selection criteria. A data set from SCB that listed all exporting firms in Sweden in 1994 was used as a sampling frame and yielded a list of 82 firms with 20-250 employees. The web sites of these firms were then searched. Those firms that did not have any web sites were automatically removed from the sampling frame, based on the assumption that on average the international orientation, e.g. interest in issues relating to internationalisation, of these firms would be lower than for the remaining firms. After the website search, 60 firms remained. These firms were then sorted into three categories depending how potentially useful they were deemed to be for the study. Sorting criteria included impressions from websites, international turnover, products and industry.

In practical terms, to fulfil the international experience criterion it was determined that a minimum of one-third of turnover should be generated from foreign markets, firms should also have experience with upstream internationalisation (although no minimum percentage of purchased volume from abroad was set, since this was believed to be impractical for several
reasons, chiefly including the difficulty in obtaining such information) and firms should have experience with a variety of different markets. Again, an arbitrary measure was set, this time at a minimum of ten foreign markets. The extent to which firms conformed to these criteria and the availability of respondents could generally only be determined after firms had been contacted.

4.2.2.2 Number of Cases Selected

Having identified a group of potential research objects or cases, the number to be selected remained to be decided. There are different logics behind selecting multiple cases, as discussed in 4.1.3. The actual number of cases or research objects appropriate in this type of research has also been discussed in literature. One basic notion is that when each new case appears to bring little new, the researcher should stop increasing the number of cases. Yin (1989) also discusses the issue of replication in case study designs. He holds that the number of cases chosen should correspond to the number of case replications that the researcher has found to be needed to illustrate or describe the phenomenon under scrutiny. When selecting the amount of cases one must also bear in mind that while the number of cases should be sufficient for theory generation, the volume of data must not be so large that is becomes difficult or impossible to cope with (Eisenhart, 1989). Consequently, how many cases to select may also be impacted by the amount of data collected regarding each case, in turn influenced by the degree of depth of each case study. There is thus no ideal number of cases that should be employed in research, even if some scholars give general advice on the matter. E.g., Eisenhart (1989) indicates that her experience has shown that between four and ten cases usually suffice, even if careful generalisation to theory is the aim. While there is some advice available on how to choose cases and how many to select for study, it appears quite clear that the final number of cases to choose is up to the researcher’s judgement. There are no general rules to follow, like when designing a study where the aim is statistical generalisation.

Since it was not possible beforehand to know the contributions of each case, the actual number of cases was determined during the research process rather than during the preparatory stage, i.e. more and more cases were added during the year’s time set aside for fieldwork. At the beginning of the selection process each new case provided many new types of observations. By the time 40 firms had been contacted and 16 of those had been selected for inclusion in the study, the marginal contribution in terms of new findings was more limited. Since the researcher’s ability to manage the material was also reaching its limit while simultaneously finding firms fitting the criteria outlined above was becoming increasingly difficult, no further efforts to add cases were undertaken.
4.2.3 Data Collection

There are also several decisions that must be taken in regard to data collection. These include what types of data to collect, who should collect the data, the methods used in collecting data, when and where collection will take place, from who the data should be collected and how much data should be collected.

The main method of data collection in this project was interviews with key informants, this more or less being the only purposeful way to find information about internationalisation processes. Initially, in each firm an introductory interview was carried out with the person who could provide the best overview of internationalisation over time. The purpose of the introductory interview was also to find out which other individuals should be interviewed.

Interviews were carried out in such a way that the activities of the firm on its different markets were covered. In doing so an interview guide (see Appendix 4) was used, allowing the interviewer to extract information the nature of which was determined beforehand. While not consisting of actual questions but rather general topics to address as well as specific information needed in regard to each international relationship, the interview guide may be described as semi-structured (see e.g. Fontana & Frey, 1994). The interviews were partly standardised since different firms and different respondents within different firms were able to contribute varying types and amounts of data.

During the actual interviews, firstly an overview of the current international activities of the firm was created. In most cases, the firms’ websites proved very helpful in compiling such an overview since they typically listed the firms’ agents, distributors, sales subsidiaries etc. In several instances, respondents were able to produce records of current and terminated relationships and occasionally even contracts, all of which helped to create as exhaustive and correct overviews as possible. Secondly, questions concerning each single business relationship, such as its time of creation, duration, circumstances of initiation, initiator, reasons for termination if applicable etc., were posed to the respondents. Typically, respondents would soon identify a pattern in the interviews and provide information without too much questioning on behalf of the researcher. In addition to questions about relationships, the development of the firm in terms of changes in product categories, staff and growth was charted during the interviews.

In a review of export development process studies, Leonidou and Katsikeas (1996:534) note that “[a]lmost all studies assume that the firm’s export decision making process is dominated by one individual”. It was found that this varied somewhat between firms. The respondents were mostly in managerial positions, often one respondent providing the bulk of information concerning the international activities of the firm in question (see Exhibit 4.1).

For reasons of reliability it was determined that second hand accounts of past events should be avoided. Thus, efforts were made to interview all individuals in each firm who might be able to meaningfully contribute to the study. Respondents thus included general managers, marketing managers,
export managers and purchasing managers, but also former, retired general managers, purchasers, construction managers, administrative managers etc. In total, 52 individuals were interviewed, meaning that on average three individuals were interviewed per firm (see Exhibit 4.2). In several instances, the same individual was interviewed more than once. On average, four to five interviews were carried out per firm.

Exhibit 4.2: Firms and Respondents

<table>
<thead>
<tr>
<th>Firm</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>General Manager, Former General Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>General Manager, Export Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>General Manager, Production Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>Marketing Manager, Purchasing Manager, Materials Manager</td>
</tr>
<tr>
<td>Enviable Environments</td>
<td>General Manager, Former General Manager, Marketing Manager, Area Sales Manager, Purchasing Manager, Construction Manager</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>General Manager, Former General Manager, Marketing Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>General Manager, Former General Manager, Marketing Manager, Purchaser</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>General Manager, Marketing Manager, Construction Manager, Administrative Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>Marketing Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>General Manager, Former General Manager, Marketing Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>General Manager, Marketing Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>General Manager, Project Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>Export Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>General Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>Former General Manager, Marketing Manager, Purchasing Manager</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>General Manager, Purchaser</td>
</tr>
</tbody>
</table>

All interviews were conducted by the same interviewer, most of which in person. All personal interviews took place on site at the various firms included in the study. Follow-up interviews and interviews with respondents who provided information about specific aspects were typically conducted via telephone. All interviews were tape-recorded and verbatim transcriptions were made of all tapes.

A central issue is how much data to collect regarding each case. Pettigrew (1990:272) notes “[p]ragmatically judgements will be made in the light of the themes and research questions being pursued, the empirical setting of the research, the nature and quality of researcher-subject relationship in any site […].” These were found to very valid points. In some instances respondents were very forthcoming, while other respondents required more prodding. This
led to more data being collected about some firms. The amount of data collected, naturally, also varied significantly with the extent of international activities of the firms in the study. In some instances five or six individuals were interviewed in firms that had been involved in international purchasing and selling for decades, while in other firms only two respondents were interviewed concerning events covering only a decade.

A critical issue in this research project is the extent to which a longitudinal study can be conducted without the possibility of following a firm in real time. There is an obvious problem with post hoc rationalisation as well as with interviewees simply forgetting about matters that may have occurred years previously. One strategy to deal with this is to use multiple sources of information, both as far as using several respondents as well as using different types of sources, this being one of the advantages of the case study approach (Yin, 1989). Finding information to substantiate the material collected through interviews, however, turned out to be highly problematic. Archival records within firms were scant. Respondents either claimed not to have any historical records that could be of interest, admitting to having such but not wanting to share them (either for reasons of secrecy or due to the amount of work required in finding them) or were able only to produce very patchy material. In several instances, respondents actually made efforts to find contracts with agents and distributors since these would provide clues as to when relationships were initiated. Interestingly, the conclusion of such searches was commonly that apparently no contracts existed. Other respondents noted that contracts often provided little valuable information concerning relationship initiation since contracts were regularly renewed, old ones rarely being saved. There was thus no consistent collection of written material across firms, each firm contributing different types of material ranging from sales brochures to historical records.

Another key issue is the time period covered by the study. The biographic history approach as discussed by Melin (1992) appeared to be the most appropriate approach. Since the ambition was to chart internationalisation processes over long periods of time, there was no natural starting point other than the commencement of the internationalisation process as such. In doing the actual research, in some instances this was found not to be practical when access to data was restricted to shorter periods or the data that could be accessed was not deemed reliable. In these cases, the epoch approach (Melin, 1992) had to be employed as a substitute, meaning that not the entire internationalisation processes were charted.

### 4.2.4 Levels of Analysis

When looking at strategy in the way implied in this thesis, several issues of research methodology can be raised. Mintzberg and Waters (1983:60) argue that the researcher should “(1) isolate streams of organizational decisions or actions in various critical areas, (2) infer strategies as consistencies in these
streams, (3) infer periods in the history of the organization by considering stabilities and changes in the various strategies, (4) investigate the critical turning points from one period to another, and (5) then brainstorm with the findings around some key theoretical issues. Chief among these issues are the pattern of strategic change; the interplay of environment, leadership, and organization; and the relationship between deliberate and emergent strategies. Clearly, if these recommendations were to be followed, several levels of data analysis had to be carried out, each level focusing on isolating relevant aspects to use on the next level. Broadly speaking, six levels of analysis were carried out in this thesis, each higher level building on a lower level (see Exhibit 4.3).

All interviews were recorded and transcribed verbatim. The interviews, however, were organised geographically since this was the natural way for respondents to think about internationalisation. To be turned into accounts of internationalisation processes, the geographical accounts had to be chronologically organised. This was achieved through a lengthy process of data coding and sorting. Simply put, for each firm a table of exchange relationships was created, where each relationship equated a row. Each relationship was given an identification number to ensure that it could be easily found in the interview transcripts. Its duration and the country of the counterpart were then noted. Further, initiation venue (if applicable), initiator [focal firm, partner firm or third party (in which case the relation of third party to focal firm or partner firm was noted)], what type of business was conducted within the relationship (e.g. direct export to distributor, through agent, to manufacturer, joint venture, importing from manufacturer etc.) and reasons for termination (if applicable) were also noted, generating five columns. Having done so, it was mainly a question of reorganising the rows so that they were listed chronologically rather than geographically (see Appendix 1 and 2 for summarised versions of the chronological lists). At the first level of analysis, the tertiary unit of analysis – i.e. the actual relationship – was thus in focus.

On a second level of analysis, for each firm a case history was produced based on the chronological lists of relationships and transcripts of interviews. Each case history was divided into two main sections, upstream and downstream internationalisation, within which the chronological development of internationalisation was described. In order to maintain closeness to the data, quotes were frequently used. The original 16 case histories varied greatly in length, although their total length was deemed much too excessive for publication in the actual thesis. Consequently, they were shortened (see introductory sections in regard to each upstream and downstream internationalisation process for each firm in chapter 5).

On a third level of analysis, a graphic overview of the upstream and downstream internationalisation processes of each firm was created. In this

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*Just over 100,000 words or 240 pages in the format of this thesis, not including within-case analyses which added 25,000 words and 60 pages.*
overview important external and internal events as well as trends in market mode and partner selection were noted. The secondary unit of analysis – i.e. changes in strategy – was thus in focus, although still at a within-case level of analysis. Based on this overview, a written within-case analysis was also produced, largely following the pattern of the case histories, but being condensed and more focused around different aspects of change throughout the firm’s history. Here, the primary unit of analysis – i.e. the process as such – was thus in focus. These within-case analyses are presented in chapter five of the thesis.

Exhibit 4.3: Levels of Data Analysis and How They Are Reflected in the Thesis

On a fourth level, cross-case analyses were carried out in order to answer the three research questions. As such, the cross-case analyses focused on identifying patterns and trends across firms with regard to the six sub processes and the three research questions. Chapter six of the thesis focuses on the tertiary and secondary units of analysis (i.e. the relation and change levels), being largely concerned with identifying changes across cases. Chapter seven focuses on identifying perceived influences on changes, thus being largely concerned with the secondary unit of analysis. In doing so, change situations were characterised according to perceived influences per type of change (see Exhibit 2.7), a necessary step in achieving an overview of data and in data reduction. Both the
analyses of chapter six and seven to a large extent relied on the quantification of data, or what Miles and Huberman (1994) very appropriately refer to as “counting”, helping both in “seeing what you have” and “keeping yourself analytically honest” (p. 253). At this level, empirical findings were also contrasted to the review of SME internationalisation studies presented in chapter three.

Chapter eight places change in the context of the process, thus focusing on the secondary and primary units of analysis. At this stage, the case material (both lists of relationships, case histories and within-case analyses) was searched for evidence regarding reactivity-proactivity, emergence-deliberation and planning, with a specific focus on identifying trends over time. The findings of the cross-case analysis were also contrasted to the theoretical perspective developed in chapter two.

On a fifth level of analysis the purpose of the thesis was fulfilled through the generation of a number of statements concerning industrial SME internationalisation (see chapter 9).

On the sixth level of analysis, to ensure that the previous levels of analysis and subsequent needs for data reduction did not mean that the conclusions lost relevance and applicability to the empirical material, the statements were contrasted to the within-case analyses (see chapter 9).

4.3 Ensuring Quality in the Research Process and Its Results

The aim of this thesis is to capture changes in strategy patterns. This is done through fieldwork, which is then subjected to analysis. Interviews make up the main form of fieldwork, and the analysis – while making use of tables to structure cross-case data – is conducted in the form of time series analysis and also in the form of categorisations, tabulations and recombinations of empirical evidence gleaned from the time series analysis. Does this approach raise questions concerning how to ensure quality throughout the research process, not least in the results? Of course! Just like internationalisation is a process partly outside the control of managers in internationalising firms, the research process is partly outside the control of the researcher. Being aware of some of the potential sources of error is the first step in managing them, though.

Clearly, different writers on methodology provide different guidelines for the evaluation of qualitative research. Some authors, like e.g. Silverman (1993) and Yin (1989), argue that the concepts of validity and reliability, typically associated with quantitatively oriented research, are applicable also in the context of qualitative research. In any research setting, by reliability might be understood the extent to which a study is free of errors and biases. A key question is, if the research was repeated would the same findings emerge?
Chapter 4 – Research Approach and Study Design

Validity, on the other hand, is often broken down into three main categories, construct validity, internal validity and external validity. By construct validity is commonly understood the extent to which “objective” constructs (vs. “subjective” judgements) are used in data collection. I.e., construct validity is concerned with the operationalisation of theoretical concepts and their application. Internal validity refers to whether causal relationships are accurately captured, while external validity refers to the applicability of findings of a study outside that study (see Yin, 1989, for further discussions).

Another set of terms is proposed by Lincoln and Guba (1985), focusing on the credibility, transferability, dependability and confirmability of a study. The terms are largely self-explanatory, the first referring whether the study is carried out and presented in such a way that its findings are believable to the reader. Miles and Huberman (1994) link this to the concept of internal validity. Transferability refers to the wider applicability of findings, or their external validity. The term dependability can partly be equated to reliability, as can confirmability, which focuses on the extent to which the study is free of researcher bias.

Associated with all these terms are tools aimed at aiding and inspiring confidence in the research process, writers on research methods typically also providing lists of measure to take to improve quality and avoid various pitfalls. To a great extent this advice is intuitive in nature, although the possibilities and meaningfulness of actually applying the advice depends on the nature of the research and its philosophical basis. Whenever a unique method of data collection and analysis is applied, though, the researcher must also develop a unique method for ensuring quality in the research process.

In essence, in regard to qualitative empirical research, the terms listed above deal with two important issues preventing the achievement of a study’s purpose. There are problems in collecting data (or clues, evidence, information, material etc.) and there are problems in the ways these data (etc.) are processed and presented by the researcher. A study may thus be evaluated at different levels. While the theoretical groundwork may be excellent, data collection procedures may leave much to be desired. Data analysis may be anything but rigorous, even if data collection fulfils all reasonable requirements. Even if data analysis is well executed, the results of the study may be meaningless. Below follows a discussion of some of the concerns that can be raised in regard to the quality of the research presented in this thesis, as well as how these issues are dealt with. These quality issues concern (1) ensuring participation of appropriate firms and respondents, (2) reliance on interview data for charting historical events, (3) misunderstandings during the interviews, (4) the provision of incomplete or incorrect information by respondents, (5) misinterpretations on the side of the researcher, (6) lack of stringency in data collection and analysis due to subjective interpretations on the side of the researcher, and (7) findings not being robust enough to generate external validity.
Concerning issue (1), access to firms and respondents, several problems arose. The general managers of a number of firms declined participation in the study, meaning that some firms that fit the desired profile could not be studied. In several other instances firms had to be deselected since access to respondents could not be attained. Did this pose a major problem? Would the findings have been very different if different firms could have been selected? This is an issue that can only be speculated about, of course. Since the aim of the empirical study was to generate variety (within the defined parameters) rather than literal replication, however, the loss of some firms from the study is arguably not that important.

Even in those firms that were selected for study, occasionally access could not be attained to some respondents that should ideally have been interviewed. To compensate for some of this “loss” of potential data, two strategies were employed. Either secondary accounts were collected from other individuals (although there is very limited reliance on the details of these accounts in the analysis) or the time periods that should have been covered by these interviews were simply ignored in the study. In one instance, a firm was even dropped entirely from the study for this reason (after four other interviews had in fact been carried out with respondents in that firm).

In regard to (2) the reliance on interview data for the mapping of past events an important decision had to be taken. Since it was early on discovered that substantiating interviews with secondary data was only occasionally possible, there was an apparent dilemma. Either the study was conduct the way it had begun and the stories told by the respondents were accepted as adequate approximations of actual events, or the study could not be carried out at all. The decision was taken to choose the former option. Naturally, measures were also taken to ensure as high quality as possible given the chosen method, including interviews with multiple respondents when possible and careful checking of data for inconsistencies.

The potential for respondent error could logically be assumed to relatively great in regard to the identification of points in time when relations were initiated and terminated. Fears concerning this were to a great extent allayed, however, by the fact that respondents were often able to connect relations to important events in the firms’ histories which, in turn, could be substantiated by other respondents, by secondary material or through the creation of chronologies of events. Further, throughout the interviews, respondents continued to impress with their grasp of events generally predating the interview by many years or even decades. Clearly, these were events and specific points in time that were considered very important by respondents and which may even be considered cornerstones of their professional lives. Many respondents noted how they maintained relations for decades. Arguably, an important part of maintaining a relation is repeating the story of how it originated. Memories of respondents can thus in many cases assumed to have
been reinforced over the years, although naturally incorrect beliefs may also have been reinforced. Of course, in many instances approximate time points had to be accepted. Whenever this was the case, a greater measure of caution was applied in the analysis. Therefore, in a couple of instances only parts of the focal firms’ histories were charted in detail.

As far as issue number (3) is concerned, the interviews were tape recorded and transcribed. In the writing of the case histories and in conducting the within-case analyses, the material was also systematically searched for inconsistencies. In cases where inconsistencies and issues that need further clarification were encountered, respondents were re-interviewed.

In regard to issue (4), the incomplete or incorrect provision of information by respondents, as mentioned above a semi-structured interview guide was used to ensure that the same type of information was collected in regard to each of the relationships studied. When, during initial processing of the recorded data, paucities were discovered, respondents were contacted and re-interviewed, commonly via telephone. Whenever respondents were unable to provide data, they were not pressed to do so, and paucities in the empirical material have been noted throughout the thesis whenever necessary. One example of this can be seen in the overview tables of relationships presented in the analysis chapter. Occasionally incomplete data, although detracting from the detailed description of certain events, have not, however, typically had the effect of preventing the identification and description of changes in strategy.

The issue of post-hoc rationalisations has also been touched on above. This is of course always a risk in this type of study. However, through a systematic process of crosschecking of data, the risk has partly been eliminated. Had the respondents been asked to describe how their international strategies developed over the years rather than being asked about the components of strategy development (the researcher drawing conclusions concerning the former issue), arguably the risk of after-the-fact rationalisations would have been much greater. The fact that the interviews were based on a geographical survey of activities rather than a chronological one, certainly greatly improved the quality of the replies, the logic behind this approach being that people (who work with issues of internationalisation) would be more likely to focus on markets and relationships than the chronology of more or less disjointed events\(^7\). Additionally, whenever possible, multiple respondents were interviewed about the same events which allowed for the matching of stories against each other. Typically, this could not be done however, since mostly only one respondent had been involved in separate international activities.

At no time during any interview did any respondent give the impression of consciously withholding information. To the contrary, throughout the research

\(^7\) I.e., to achieve meaningful and accurate answers it is arguably more logical to ask a respondents to tell about the most recent relationships with firms on a certain market and then about the second most recent relationships and so on, rather than to ask them to tell what happened in 1993, then 1994 etc.
process the great openness that respondents showed in telling stories both of their failures and their successes continued to impress. Naturally, in those instances where multiple respondents were interviewed about the same events, different views on the same issues or events were occasionally recorded. On those very few occasions when respondents provided discrepant information and inconsistencies could not be cleared up after respondents were re-interviewed, either the researcher’s judgement concerning credibility of information was relied on or the information was excluded from the analysis. Further, whenever records could be examined, these were used to provide structure for the case histories and were consequently also used to search for inconsistencies.

Concerning (5), misinterpretations on the side of the researcher, this is naturally always a risk in this type of study. One way in which attempts were made to reduce that risk was sending the case histories to the respondents for further checking. For practical reasons, the respondent who possessed the best overview of the internationalisation process of the firm was asked to comment on the case history. The results of doing so were both discouraging and encouraging; discouraging in the sense that comments were received in regard to only six case histories, encouraging in the sense that in regard to these six case histories only very minor details were commented on by respondents, none of which were details that affected the within-case analyses.

In regard to (6), subjectivity in data collection and analysis, this could of course not be entirely eliminated. The operationalisation of constructs (see 2.5) was an important step in attempting this, though, as was the structured approach to data collection.

The final issue (7) concerns whether the findings are robust enough to allow theoretical generalisation. While the study lays no claims to generalisation in a statistical sense, a failure to achieve analytical generalisation (Yin, 1989) is of course tantamount to failing to fulfil the purpose. Even if the analytical generalisation is specific to the firms under study, the ambition is nonetheless to present a theoretical contribution of wider applicability. To aid in this, findings were subjected to comparisons with extant research and interpreted using a theoretical perspective. Naturally, conclusions concerning the external validity of the theoretical contribution cannot be drawn until tested on other firms. The fact that it builds on and supports rather than contradicts most existing theory, though, might motivate some cautious optimism concerning this issue.
CHAPTER 5
The Internationalisation of Sixteen Industrial SMEs

This chapter introduces the firms included in the empirical study. Firstly, an overview of the firms is provided (see 5.1), after which each case is presented (see 5.2-5.17). The descriptions of individual cases are focused around brief summaries of the upstream and downstream internationalisation processes of each firm. They also present within-case analyses focused on identifying changes and influences on changes in downstream and upstream international strategy.

5.1 Introduction

For this research project the internationalisation processes of 16 firms have been studied (see Exhibit 5.1 for an overview). Seven of these firms are family firms, while five are owned by domestic investment firms or industrial groups. Four have foreign owners. These are all firms that currently market their own product ranges or did so until very recently. While some firms rely mainly on subcontractors for manufacturing, all firms are involved in product development. Products range from complex systems to fairly simple, standardised components.

The 16 firms are highly international on the downstream side of activities with an average of 70 per cent of sales coming directly from foreign markets in 2001. The least downstream international firm achieved 37 per cent of its sales from abroad that year while the two most international firms made practically all their sales to foreign firms. The average number of foreign markets was 24, with a range from eight to 57.

As far as purchasing activities are concerned, the firms are decidedly less international. On average around 24 per cent of purchased volume came directly from foreign sources in 2001, this number varying from ninety per cent to less than five per cent, though. The number of foreign supply markets ranged from two to eight with an average of five.

All firms are small to medium-sized, the largest firm employing 164 people while the smallest firm only had 24 employees in 2002. The oldest firms were established around the turn of the century, although the majority were founded in the 1940s or later. Considering this variety in firm characteristics, it is hardly
surprising that many different changes in international strategy as well as different influences on changes can be observed.

**Exhibit 5.1: Overview of the Firms in the Empirical Study**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>1969</td>
<td>Domestic</td>
<td>77</td>
<td>156</td>
<td>72%</td>
<td>20</td>
<td>70-75%</td>
<td>7</td>
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<tr>
<td>Blissful Backs</td>
<td>1904</td>
<td>Domestic</td>
<td>80</td>
<td>76</td>
<td>40%</td>
<td>14</td>
<td>30%</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Clever Containers</td>
<td>1967</td>
<td>Foreign</td>
<td>105</td>
<td>212</td>
<td>75%</td>
<td>11</td>
<td>90%</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>1955</td>
<td>Domestic</td>
<td>24</td>
<td>27</td>
<td>60%</td>
<td>12</td>
<td>5%</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Envious Environments</td>
<td>1939</td>
<td>Family</td>
<td>120</td>
<td>139</td>
<td>65%</td>
<td>31&lt;sup&gt;1&lt;/sup&gt;</td>
<td>10%</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>1982</td>
<td>Family</td>
<td>98</td>
<td>160</td>
<td>85%</td>
<td>14</td>
<td>5%</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>1898</td>
<td>Family</td>
<td>51</td>
<td>130</td>
<td>98%</td>
<td>23</td>
<td>20-30%</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>1955</td>
<td>Domestic</td>
<td>75</td>
<td>116</td>
<td>85%</td>
<td>8</td>
<td>10%</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>1991&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Foreign</td>
<td>70</td>
<td>292</td>
<td>99%</td>
<td>22</td>
<td>10-20%</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>1971</td>
<td>Domestic</td>
<td>91</td>
<td>145</td>
<td>87%</td>
<td>36</td>
<td>&lt;10%</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>1981</td>
<td>Family</td>
<td>94</td>
<td>100</td>
<td>67%</td>
<td>26</td>
<td>50%</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>1958</td>
<td>Foreign</td>
<td>109</td>
<td>301</td>
<td>90%</td>
<td>57&lt;sup&gt;3&lt;/sup&gt;</td>
<td>&lt;5%</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>1942</td>
<td>Family</td>
<td>101</td>
<td>129</td>
<td>45%</td>
<td>24</td>
<td>10%</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>1945</td>
<td>Family</td>
<td>46</td>
<td>51</td>
<td>37%</td>
<td>25</td>
<td>5%</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>1975</td>
<td>Family</td>
<td>113</td>
<td>232</td>
<td>50%</td>
<td>11</td>
<td>35%</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>1948</td>
<td>Foreign</td>
<td>164</td>
<td>353</td>
<td>63%</td>
<td>45</td>
<td>&lt;5%</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>1955</td>
<td>n/a</td>
<td>93</td>
<td>142</td>
<td>70%</td>
<td>23</td>
<td>10%</td>
<td>5</td>
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</tr>
</tbody>
</table>

Notes: <sup>1</sup>Based on estimates by purchasing managers and does not include purchasing of production equipment. <sup>2</sup>In current form. <sup>3</sup>In addition to these markets, the firm may at times make occasional sales to other markets. <sup>4</sup>In addition to these countries, the firm may have indirect purchasing from other countries. <sup>5</sup>Includes only markets where the firm has some form or representation. Occasional sales are made to other markets. <sup>6</sup>Those markets where the firm’s website lists representatives. In the case of many markets no sales have ever been made. Not including Eastern European markets managed by German representative.

These differences notwithstanding, each case is presented according to the same structure, which consists of five main components: (1) An introduction where the firm’s history is briefly outlined and its products are introduced. Additionally, numbers concerning turnover and employees are presented; (2) Subsequently, downstream internationalisation is discussed. Firstly an overview of the downstream internationalisation processes is presented, after which changes in strategy in regard to market selection, mode selection and partner selection are identified and discussed with a focus on perceived influences and
magnitude of change. The three sub processes are addressed in different subchapters which means that a chronological account of events is repeated three times, although from three different perspectives. Quotes are used throughout the text to illustrate certain points, even if the quotes as such are not the basis for the analysis, which is founded on relationships (see 4.2.1); (3) Upstream internationalisation is discussed according to the same structure as downstream internationalisation; (4) A brief summary of which types of changes that have been identified, how many types of changes have been identified and the number of times each type of change has been identified, is made; (5) A table is presented outlining changes in strategy and influences on these changes. While the changes in the table are identified through a multi-level process of analysis focusing on individual relationships, influences on changes are reported as they have been described by respondents. Consequently, respondents’ perceptions regarding influences are reported rather “objectively” identified influences (see chapter 4). Sometimes, these perceived influences have been directly commented on by respondents, sometimes they have been inferred from the case material without respondents directly connecting them to each individual change. While the sections in the text dealing with the downstream and upstream sub processes primarily cover overall trends and major changes, the tables outline in greater detail all those changes that have been observed. Hence, not all individual changes are necessarily mentioned in the text, especially if these are of lower magnitude. The case presentations and within-case analysis focus on evens occurring until mid- to late 2002.

Each firm has been given a made-up name in order to some extent protect the anonymity of firms and respondents. This name consists of a two-word alliteration made up of an adjective and a noun, which together say something about the firm’s products. For each firm, that name begins with a different letter. Since there are 16 case firms, the letters A through P are used. The firm’s names and main products are Agreeable Armchairs (reclining chairs), Blissful Backs (ergonomic workstations), Clever Containers (plastic packaging for the food industry), Dynamic Designs (furniture), Enviable Environments (valves regulating heat), Funky Furniture (wire furniture), Glossy Grains (pulverised aluminium), Harmless Heating (brackets for radiators), Intelligent Infrastructure (automated road toll systems), Juggled Junk (garbage compactors), Kingly Keyholes (latching and hinging systems), Literary Logistics (mail room equipment), Maximum Mobility (wheels, primarily for furniture), Nifty Nursing (products related to patient hygiene and rehabilitation), Optimal Offices (office chairs) and Popular Playgrounds (outdoor play equipment and street furniture).
5.2 Agreeable Armchairs

In 1969, Agreeable Armchairs was founded by three business partners as a manufacturer of padded furniture. Soon after, two of the founding partners left. In the late 1970s, Agreeable Armchairs was acquired by a Swedish industrial group and in 1982 an external general manager replaced the founder. In the mid-1980s, a decision was taken to focus production on swivelling reclining chairs, primarily upholstered with leather. This decision would have great impact on internationalisation, sparking a rapid increase in export sales as well as increased focus on international purchasing. In 1999, the individual who had managed the firm for nearly two decades retired and a new general manager was hired, again heralding a period of downstream international expansion and upstream international reorientation.

Over the last few years, growth has been very rapid, turnover increasing by nearly 60 per cent from SEK 103 million to SEK 156 million between 1999 and 2002. In year 2002, the firm employed 77 people. Agreeable Armchairs is highly international with 72 per cent of sales achieved on export markets (2001). A similar share of purchasing comes from foreign suppliers.

5.2.1 Overview of the Downstream Internationalisation Process

Sales during the firm’s early years were dominated by a large domestic customer. When the new general manager entered the firm in 1982, foreign sales corresponded to less than ten per cent of turnover and were focused on the neighbouring markets with an importer in Norway and agents in Denmark and the Netherlands. On this topic, the general manager at the time says,

The company was more or less started as a supplier to [large domestic customer], to begin with. There was an awful lot of [large domestic customer] back then, and, well nowadays this furniture store chain is called [new name of furniture store], but then it was called [old name of furniture store]. [...] and when I took over they had a turnover of, I think, 16 or 17 million. And maybe there was a million on Norway – no not quite that much – and maybe half a million on Denmark. That was pretty much it.

In the early 1980s, Agreeable Armchairs began expanding its export markets geographically, with a focus on building a distribution network in Western Europe. The firm also began selling furniture directly to a large European furniture chain, which was to become one of the firm’s largest foreign customers for a decade. In the early and mid-1980s, the firm was still so small that the general manager took care of a variety of activities himself, e.g. being the only salesman at the firm. During the 1980s, Agreeable Armchairs relied on two main ways of attracting customers. The general manager found use for his personal contacts from his previous place of employment, although the firm was
largely passive in establishing new relationships, some of which were initiated at trade fairs.

The late 1980s and early 1990s meant that Agreeable Armchairs began exporting semi-assembled reclining chairs, an activity that would increase in importance over time. New markets were entered, such as Australia, Germany, the U.S. and Malaysia. None of these markets was responsible for much sales. Agreeable Armchairs was expanding strongly enough on established markets, however, to offset the recent loss of the European retail chain as customer.

Until the mid-1990s, Agreeable Armchairs’ sales were thus largely focused on Northern Europe, even though the firm had a few customers on more remote markets. From the mid-1990s and onwards, however, Agreeable Armchairs began selling more regularly on markets outside Europe. A period of consolidation and replacement of agents soon also ensued.

In 1999, the individual who had managed the firm for nearly two decades retired and a new general manager was hired. Like the former general manager, the new general manager was put in charge of expanding the firm’s international sales. Among other markets that were put into focus was Germany, where, in the last five years, the firm had achieved only very minor sales, generally as a result of attending trade fairs. This renewed interest resulted in the firm taking on two agents there after search and evaluation undertaken by the new manager, i.e. a new way of entering foreign markets for the firm.

While Agreeable Armchairs has had sporadic direct sales on several European markets in addition to those markets where the firm has agents or distributors, the firm is currently in the process of establishing a more committed presence throughout Europe. Sales of semi-assembled chairs to manufacturers on faraway markets have also increased in the last, few years. Among non-European markets that have recently been entered or re-entered are Brazil, the U.S. and New Zealand. European markets include Austria and Italy. A sales subsidiary has also been started to serve the North American market.

The three largest export markets in 2002 were the U.K., the Netherlands and Germany. Sales on the U.S. market have grown rapidly, however, and in 2002 correspond to more than ten per cent of export sales, making it the fourth largest export market. Today, sales to the large Swedish customer are no longer the backbone of the company’s activities and are expected to decrease even further.

5.2.1.1 Changes in Market Selection

The first market entries were in Norway, Denmark and the Netherlands in the mid to late 1970s. There was apparently little perceived pressure or desire for foreign expansion at this time, since the firm relied chiefly on sales to a large Swedish customer. With the acquisition of the firm in the late 1970s and the consequent hiring of a new manager in the early 1980s, several new markets were entered, beginning a process of shifting geographic focus for the firm. The new manager describes a situation where, based on his prior experience in the
industry, he had ideas concerning which markets the firm should enter. When opportunities presented themselves on these markets – typically arising from the new manager’s social network – these opportunities were grasped. Quite rapidly the firm expanded into new markets and around 1983 the firm had sales in most Western European countries.

Few new markets were added throughout the 1980s. Several barriers to further expansion can be identified. Since the firm was busy serving existing markets there was little production-related pressure for further expansion experienced by the manager. The firm’s products at the time were not believed to be well suitable for exporting to more remote markets and the social network of the manager, who himself was largely responsible for sales, did not extend beyond Europe. While the firm shifted its focus towards a single product category in the late 1980s, the only important market entered at this time was Germany. In this case, however, a single manufacturer bought semi-assembled furniture, the relationship being initiated by the partner firm.

The introduction of new products that could be sold to more remote markets in semi-assembled form apparently eliminated an important barrier to international expansion. However, also in the early 1990s few new markets were entered. Except for sales of semi-assembled furniture to a manufacturer in Thailand, no important successful entries were made at this time. The foreign markets established in the early 1980s remained as key markets. Any new market entries were the result of manufacturers and distributors contacting Agreeable Armchairs, rather than the other way around. Limited production capacity and the continued importance of sales to a large Swedish customer are explanations for the behaviour at this time. Withdrawal from the U.S. was also a reaction to an event outside Agreeable Armchairs’ control, although management undertook no efforts to remain on that market. Around the mid-1990s, a number of new markets were entered, such as Finland and Spain. Still, these were market entries undertaken without search efforts.

In 1999, a new manager was hired. He describes a situation of increasing pressure for growth from the parent firm. In the subsequent three years several new markets were entered. Key market entries and re-entries such as Germany and the U.S. were the result of strategic planning and search efforts on the side of the firm. The new general manager says,

\[\text{Germany is new. We did a market survey. We got into the car, in early '99, and went down [to Germany] and we looked at maybe 20 stores of different sizes. We looked at what they had and what they could help us with. What they had in our segment and how we could fit in. What the price levels were.}\]

Entries into less important markets such as Brazil and New Zealand, though, were responses to unsolicited requests. In these cases the firm only sells partly assembled furniture, the expansion of which is perceived by management as secondary to the expansion of sales of assembled chairs. Except for the firm’s
absence from the U.S. market in the mid to late 1990s, no instances where markets have been deselected have been observed.

5.2.1.2 Changes in Mode Selection

While Agreeable Armchairs has achieved some indirect exporting due to its relationship with the large Swedish customer, downstream internationalisation has been conducted through contacts with foreign distributors (some of which retailers), agents, as well as through direct sales to manufacturers. More recently, a sales subsidiary has been established in the U.S. Except in the case of the subsidiary, little in the way of active choice of entry mode on the side of Agreeable Armchairs’ managers can be identified in the case material. Throughout the firm’s history, most sales have been triggered by Agreeable Armchairs being contacted by firms wanting to become their customers, rather than the other way around. Consequently, the mode of entry as such is primarily as consequence of the decision regarding which partner firm to work with. It can be noted, however, that in those cases where Agreeable Armchairs has been the initiator, direct exporting to agents has been the sole entry mode. A number of the partner firms responsible for initiating relationships, though, are distributors. In two instances it can also be noted how Agreeable Armchairs made use of the parent firm’s foreign subsidiaries as distributors. Who initiated these arrangements remains unclear, however.

The use of intermediaries has thus been the dominant downstream strategy. The new general manager says,

*The philosophy in working abroad is that you have to have people who are stationed locally.*

The only change in regard to this behavioural pattern that can be identified is the sale of semi-assembled furniture directly to manufacturers. In regard to sales of this nature to a firm in Germany, the general manager at the time says,

* [...] they became customers of semi-assembled furniture. Due to the long distance you can’t ship [whole chairs] because volume-wise it costs too much. So they bought the frames and everything that went with the frames and then made the padding and upholstery details themselves.*

While this change was brought on by a combination of new product categories and exposure of the firm at trade venues, actual sales were triggered by the partner firms. Thus, no specific actions on the side of the firm or its management to expand this form of sales appear to have been undertaken.

Sales to retail chains and the establishment of a subsidiary are clearly occasional exceptions from established behavioural patterns and were in the case of retail chains initiated by the partner firms. In the case of the U.S. subsidiary, interest in that market was sparked by a contact made at a trade fair. The U.S. quickly emerged as a market of great potential while at the same time being
difficult to manage from Sweden since the distribution network consists of a
number of agents. A decision was therefore taken that a subsidiary be set up as a
way of coordinating the distribution network. The new general manager says,

[... when I started at the firm here I met in [...] at the Copenhagen trade fair in
September ’99 [...]. I met this Danish guy who lives in the U.S. and he said “I'd love
to start marketing Agreeable Armchairs' products over there” and then I told him
that “I only have ten fingers, and we’ve already decided that we’re going to enter the
German market and we’ve decided that we’re going to set up a manufacturing plant
in Poland, so I just don’t have the time”. But anyway, he kept at it, he even came
er here to visit me in the winter of ’99, and told me that there were great opportunities,
the dollar was strong and the purchasing power unlimited [...] and then, and at the
end of 2000, I said that “now we feel a bit more ready”. [...] So, we decided that
we’d attend the High Point fair, in April 2001, and that was the first time we
exhibited furniture on High Point last year, in April. [...] And at the end of last
year we set up our subsidiary there [...] and today we have our own warehouse that
we supply, and an employee, and this person is both salesman and coordinator for the
other agents that we have in the U.S.

5.2.1.3 Changes in Partner Selection
It has already been noted that a high degree of reactivity characterises the
establishment of downstream international relationships. While it is in several
cases uncertain who took the initiative for some of the earlier relationships,
those established after the hiring of an external manager in the early 1980s were
in several instances based on his existing personal relationships. The general
manager at the time says,

They pretty much fell into our lap, in a manner of speaking. They did. And when we
became better known – we attended the fairs abroad then – it was like circles on
water. [...] And, well, the furniture industry is pretty small and I had been in the
industry since ’58, so I knew most about Scandinavia, actually.

The greatest degree of reactivity can be observed in the establishment of
relationships with manufacturers buying partly assembled furniture. In none of
these cases did Agreeable Armchairs take the initiative to the relationship, this
apparently not being a growth strategy envisioned by the firm’s management.

For the first time in the late 1990s, Agreeable Armchairs more generally
took the initiative in establishing downstream relationships. I.e., the first clear
change in behavioural patterns can be observed at this time. The perceived
desire by the parent firm that Agreeable Armchairs expand its business acted as
an important pressure for this change, together with decreasing sales to the large
Swedish customer.

Nearly half the firm’s downstream international relationships have been
terminated. Most terminations have been brought about either by the partner
firms or have been the result of bankruptcy of the partner firms. Relationship
termination by Agreeable Armchairs has been the answer to poor performance
and has occurred occasionally throughout the firm’s history. If any trends can be observed in regard to this, a more critical approach to the firm’s intermediaries can be noted since the late 1990s, along with perceived pressure from growth from the parent firm. E.g., sales in Norway had not been developing satisfactorily. The new general manager says,

*We’ve tried three constellations [in the past], and they’ve all worked out badly, somehow. […] there were these two guys who were gonna be our agents for a period, but that did not work out […]. There was some sort of controversy – that was just before my time – but there was a controversy and we had to get rid of them, and this was in ’98 […]. In ’99 we took on this blabbermouth, a lot of talk but little shop. He had these “marvellous contacts all over”, and there was this and that, but nothing came to it, so I fired him at the end of the year [i.e. the end of 2000]. If we look to the future, there are these five people who have decided to form a team and cover all of Norway and they […] have agreed to take on three or four products, and they were here yesterday and it’s 99 per cent certain that they’ll work for us.*

5.2.2 Overview of the Upstream Internationalisation Process

The 72 per cent export share that the firm enjoyed in 2001 is matched on the sourcing side, where between 70 and 75 per cent is purchased from foreign manufacturers. While Agreeable Armchairs’ downstream internationalisation reflects an urge among its management to expand sales, upstream internationalisation events reflect changes in product lines and a decision to focus on the firm’s core competence, i.e. the development and distribution of reclining chairs rather than actual manufacturing.

Attempts at upstream internationalisation began already in the 1970s, although no lasting relationships were formed at this time. Most of the firm’s materials were sourced locally. More determined efforts at upstream internationalisation began when a decision was taken to focus manufacturing on leather-upholstered reclining chairs. This, in combination with the increasing cost of manual labour in Sweden, led Agreeable Armchairs’ manager to search for alternative solutions to in-house manufacturing. The foreign suppliers from which Agreeable Armchairs bought in the 1980s delivered either leather or ready-made chair covers. A Thai contract manufacturer that Agreeable Armchairs came across at a trade fair would become the firm’s major foreign supplier for a long time and still supplies Agreeable Armchairs. The new general manager says,

*But we know about the increasing costs of manual labour in Sweden, and we know that the development has been the same in other parts of the world, as I mentioned. So, piece by piece, sewing of leather covers for our furniture has ended up outside the plant. Today we pretty much don’t sew anything.*
As more and more of the sewing work was contracted to outside manufacturers, there was no longer much reason for Agreeable Armchairs to maintain relationships with suppliers of processed leather. The relationship with an Australian manufacturer of processed leather illustrates the development going on at Agreeable Armchairs in the mid to late 1990s; Agreeable Armchairs’ Thai contract manufacturer bought leather from a supplier in Australia, which also led Agreeable Armchairs to buy some processed leather from that supplier. In the late 1990s, however, as Agreeable Armchairs no longer needed to buy leather, the relationship was no longer maintained, while the Thai manufacturer still bought leather from the Australian manufacturer for a few more years. Overall, during the 1990s few attempts were made to expand the international sourcing base, Agreeable Armchairs instead increasing the firm’s business with existing suppliers.

The late 1990s witnessed a period of increasing efforts at international sourcing, though. Mainly, new manufacturers of chair covers were found, although Agreeable Armchairs also expand foreign sourcing into other areas of its supply base, such as wooden and wickerwork details. In year 2000, Agreeable Armchairs also started its first foreign manufacturing subsidiary, located in Poland. This was a lead in expanding sales and largely a result from perceived pressure exerted by the parent firm.

In summary, it can be observed that upstream elements of the value chain that can be performed more cheaply abroad are managed by contract manufacturers and a foreign subsidiary, while Agreeable Armchairs has been turned into a development and assembly plant. Frames and mechanisms for chairs are sourced locally, some of which are then exported by Agreeable Armchairs, while others are assembled into whole products and then sold, predominantly on export markets.

5.2.2.1 Changes in Market Selection

The geographic expansion of foreign sourcing largely follows the opposite pattern of downstream internationalisation with a dominance of remote market early on. Two categories of purchased material have dominated foreign sourcing, including partly or fully assembled furniture and leather hides. In the case of the former category, production costs dictate where sourcing activities are undertaken, while in the case of leather a combination of price levels and availability of raw materials determined where sourcing takes place. It should also be stressed that except for the contract manufacturing of chairs covers in Thailand and the indirect purchasing of foreign leather hides through agents in Sweden, very little in the way of direct foreign sourcing activities were undertaken until the late 1990s. Local sourcing remained important, limiting the perceived need for such activities to be undertaken. Most recent upstream market entries are the result of Agreeable Armchairs being contacted by suppliers or being told to use certain suppliers, rather than active search for foreign suppliers.
5.2.2.2 Changes in Mode Selection

In the case of upstream internationalisation, quite naturally Agreeable Armchairs has had direct contact with manufacturers of chair covers, this activity taking place in the form of contract manufacturing. Other early foreign sourcing activities were mostly conducted indirectly through foreign manufacturers’ Swedish agents. Since the number of relationships is low, few changes in strategy have been noted, although the number of direct relationships with foreign suppliers has increased since the mid-1990s.

Typically there has been a preference among management for purchasing directly from manufacturers throughout the firm’s history. The occasional use of foreign intermediaries was brought on by the preference of the manufacturers for such arrangements in combination with perceived importance of using certain suppliers.

The establishment of a production subsidiary in Poland was undertaken as a way of expanding production capacity, but was largely initiated by the firm’s owner as an important part in the overall new growth strategy. The new general manager says,

> When I started here our owners wanted us to go from being a medium-sized firm to a larger medium-sized firm, and the only way to expand volume is to expand capacity. And our owner had heard of this German factory that moved to Poland and they had factories in Poland in other business areas. They thought that the increase in capacity should take place in Poland, in the very place where the others were established. We had a network that worked in this place; we had reserved some land, and so on. When I came here [i.e. to Agreeable Armchairs], the order books were, “pfuit”, pretty much empty and I did not have a good feeling about this at all but there was pressure from the owners and sometime during the Fall, it was like someone – whomever [respondent raises his eyes to the ceiling] – turned a switch, anyway, and orders just came pouring in and we had trouble managing. And at that time we thought that it felt right. Things were happening. So in the winter of ’99 this was planned and when the ground thawed out in 2000, they started building. On the last day of August, it was finished. We hired a plant manager and general manager down there, well the same guy, in the summer of 2000 and he started in October. He recruited staff, we sent people from here to train them and the first products were shipped here in December 2000. It’s developed really well and on September first [2002] we move into our new plant.

The parent firm’s contacts in Poland were thus made use of in the establishment process.

5.2.2.3 Changes in Partner Selection

Also many upstream relationships have been initiated by the partner firms, while there is also occasional reliance on third parties as relationship initiators. In those cases relationships were initiated either by Agreeable Armchairs’ customers or the firm’s parent firm.
Those instances of upstream relationship termination that can be observed have been initiated by Agreeable Armchairs, except in one case where the large Swedish customer specified that the firm stop using an Indian manufacturer as supplier. Interestingly, this was the same manufacturer that Agreeable Armchairs a few years earlier has been specified to use as supplier. The purchasing manager says,

*Yes, the thing is that the factory over there was not approved by [large domestic customer], from an environmental standpoint, while … and it was they [large domestic customer] who got us there in the first place, but then it wasn’t approved [respondent laughs]. Sure, they were building a new factory, but at [large domestic customer] they thought that too much time had passed by. And as we were only making covers for [large domestic customer] over there it was natural to stop working with them.*

Since the firm has had so few foreign suppliers prior to the late 1990’s, it is only possible to identify one change in behaviour relating to more than one market, namely that of actively terminating relationships with some suppliers as a consequence of more and more of production being subcontracted to other suppliers. i.e., relations with suppliers that were no longer needed were either terminated or they were given to the subcontractors to manage.

Except for the establishment of a relationship with a Philippine manufacturer, the reactive pattern apparently persists. In this instance, changing fashion trends necessitated the finding of a supplier of a specific type of materials.

5.2.3 Case Summary

On the downstream side, eight types of changes in strategy can be identified. These include multiple entries into new type of market (1), single entry into new type of market (6), withdrawal from single market (1), new high commitment mode on single market (1), new low commitment mode on multiple markets (1), focal-firm initiation of multiple relationships (1), focal-firm termination of multiple relationships (1), and focal-firm termination of single relationship (3).

On the upstream side, seven types of changes in strategy can be identified. These include multiple entries into new type of market (1), single entry into new type of market (4), withdrawal from single market (2), new high commitment mode on single market (1), new low commitment mode on single market (1), focal-firm initiation of single relationship (1), and focal-firm termination of multiple relationships (1).
Exhibit 5.2: Changes in International Strategy in Agreeable Armchairs

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: From Nordic focus to entry into Western Europe.</td>
<td>Acquisition of firm and subsequent hiring of new manager, whose social network was instrumental in this expansion, although relationships were typically initiated by the partner firms.</td>
</tr>
<tr>
<td>Single entry into new type of market: US.</td>
<td>Unsolicited contact at trade fair. Coincides with introduction of new products.</td>
</tr>
<tr>
<td>Single entry into new type of market: Australia.</td>
<td>Unsolicited contact at trade fair. Coincides with introduction of new products.</td>
</tr>
<tr>
<td>Single entry into new type of market: Malaysia.</td>
<td>AA started selling to subsidiary of supplier in Malaysia. Initiated by partner firm.</td>
</tr>
<tr>
<td>Single entry into new type of market: Israel.</td>
<td>Initiated by partner with whom antecedent relation existed.</td>
</tr>
<tr>
<td>Single entry into new type of market: Brazil.</td>
<td>Grasping of unsolicited contact at trade fair.</td>
</tr>
<tr>
<td>Single entry into new type of market: US.</td>
<td>Grasping of unsolicited contact at trade fair.</td>
</tr>
<tr>
<td>Withdrawal from single market: US.</td>
<td>After contacts with distributor were terminated no further efforts were taken to remain in the US for about five years, since the market was not perceived as suitable for AA.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in the US.</td>
<td>Need for presence on potentially large market experienced by management. Originally result of unsolicited contact at trade fair.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Sales to manufacturers.</td>
<td>The introduction of furniture that could be sold knock-down attracted unsolicited orders.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: On some key markets.</td>
<td>Perceived pressure for growth from parent firm led to a period of new relationship initiation.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Norway and US.</td>
<td>Perceived pressure for growth from parent firm led to a period of evaluation of relationship profitability and subsequent termination of unprofitable relationships.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Baltic States.</td>
<td>Entries triggered by supplier firms. Low cost of sourcing used as motivation by management when grasping unsolicited opportunities.</td>
</tr>
<tr>
<td>Single entry into new type of market: Australia.</td>
<td>Antecedent relation existed in the sense that AA’s Thai supplier previously also used the Australian supplier, thus 3rd party initiated relation.</td>
</tr>
<tr>
<td>Single entry into new type of market: India.</td>
<td>Large domestic customer instructed AA to use certain supplier.</td>
</tr>
<tr>
<td>Single entry into new type of market: Poland.</td>
<td>Establishment of manufacturing subsidiary in Poland largely due to the fact that AA’s parent firm had presence there. Overarching reason to make use of low cost of production, which is part of growth strategy, again initiated by parent firm.</td>
</tr>
<tr>
<td>Single entry into new type of market: Belgium.</td>
<td>Customer instructed AA to use certain supplier.</td>
</tr>
<tr>
<td>Withdrawal from single market: Australia.</td>
<td>A decision to outsource most of production meant that direct sourcing activities decreased and AA withdrew from one of its sourcing markets.</td>
</tr>
<tr>
<td>Withdrawal from single market: India.</td>
<td>Large domestic customer instructed AA not to use a certain supplier any more.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Manufacturing subsidiary.</td>
<td>Manufacturing at foreign subsidiary in Poland, which is part of general effort to grow. The selection of Poland was largely due to the parent firm being established there, actual location decision taken by parent firm.</td>
</tr>
<tr>
<td>New low commitment mode on single market: agent.</td>
<td>Purchasing through agent rather than directly from manufacturer since this is the preferred mode of the manufacturer while simultaneously supplier is perceived as being important for AA.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: India, Australia and other in Asia.</td>
<td>Relationships with suppliers are handed over to contract manufactures with increasing outsourcing.</td>
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5.3 Blissful Backs

Blissful Backs was founded in 1904 as a manufacturer of tin and steel farm equipment such as milk cans and strainers. In the 1930s, the firm turned to manufacturing tin plates and steel wire and in the 1950s Blissful Backs began manufacturing petrol cans. In the 1970s, focus again shifted, this time towards components for the aluminium and electrical industries. In 1976, the firm was taken over by a new general manager who is also a descendant of the founder. Since 1977, Blissful Backs has had product lines of its own, beginning with the manufacturing of storage systems for firearms and ammunition and later ergonomically-oriented workstations for the manufacturing industry.

Currently (2002), Blissful Backs employs 80 people and has an annual turnover of SEK 76 million. International sales contribute to 40 per cent of the firm’s turnover (2001), while international purchasing corresponds to around 30 per cent of total purchasing. Current product lines include a range of ergonomic workstations with or without suspension systems, various forms of tables with variable heights, trolleys and lockers, all of which are products primarily used in the manufacturing industry.

5.3.1 Overview of the Downstream Internationalisation Process

Prior to the 1970s, the firm was chiefly a subcontractor to larger, Swedish firms. With a new manager taking over the firm, in 1977 focus in production shifted and Blissful Backs created its own product lines, which, in turn, led to the firm finding distributors of its products abroad as well as the occasional end customer. Denmark was the first country outside Sweden where the general manager started looking for customers, primarily distributors, through attendance at trade fairs and active search. Sales to Norway were achieved mainly through large chains based in Sweden, although end customers were found there as well. Occasional spot deliveries were made also to Finland, but local competition prevented sales from expanding, even though an agent was appointed there. Until the mid-1980s, foreign sales were thus focused on the Scandinavian countries, largely due to the bulky nature of the products manufactured at that time. The first distributor outside Scandinavia was found in 1986 at the Hanover trade fair, a firm that worked as representative in Germany. At this time a few other relationships were established and Blissful Backs also began selling to a Dutch mail order firm.

In the late 1980s, largely due to the introduction of new, less bulky product lines, the general manager decided that the time was ripe to further expand the firm’s markets outside Scandinavia, the U.K. and the U.S. being primary targets. The U.K. market soon crystallised as one of great potential which eventually led to the establishment of a sales subsidiary there after a few years of selling through a sister firm’s subsidiary. The U.S. market proved more troublesome, although a subsidiary was created there too.
In the early 1990s, for the first time Blissful Backs ventured into France. Throughout the mid and late 1990s, however, focus was on expanding sales on established markets, although failed attempts to enter Italy were undertaken. To enhance sales, in Germany the poorly performing distributor was replaced, and a subsidiary was established in the U.K. in 1998. The firm also managed to expand sales directly to foreign manufacturers, who use Blissful Backs’ products as complementary products in their own ranges. These firms are, again, primarily located in Northern Europe. The sales subsidiary established in the U.S. in 1991 continued to perform poorly and was closed down in 2001, when unsuccessful attempts were made to find a local distributor.

The industry is organised so that typically products are sold to distributors with their own travelling sales staff, retail chains or to mail order firms. A few new customers have been found since year 1999, both mail order firms servicing wider areas and regional distributors. In several cases, however, relationships have been initiated by the partner firms. New countries that have been entered since 1999 include Spain, the Czech Republic and Mexico, all partner-firm triggered entries. Trade fairs and the firm’s website offer venues for such contacts to be taken. By early 2002, Blissful Backs is exporting to around 15 countries, foreign sales corresponding to about 40 per cent of turnover, half of which comes from the U.K. market.

5.3.1.1 Changes in Market Selection

The earliest export market was Denmark, where customers were found by the new general manager after he had decided to penetrate that market. A basic prerequisite for any further international expansion was the introduction of new products in the late 1970s. At that time the manager was actively searching for customers also on other markets and made sporadic sales to customers in nearby countries. In the early 1980s, a distributor was also found in Norway. Finland was deemed as not offering very great potential due to strong local competition. Expanding sales beyond these markets proved difficult since the product line at that time was bulky and not suited for lengthy transportation.

In the mid-1980s, however, a few additional distributors were added on Western European markets. In these cases, relationships were not initiated by Blissful Backs and foreign sales remained limited. The general manager describes a commonly occurring situation of expanding into a new country. He says,

[He came already] in ’86. It was [name] who’s retired now, he was the first export guy [i.e. distributor] we hired. We exhibited at a trade fair, the first trade fair, the first time, that was the first time we attended the Hanover trade fair, a teeny tiny stall, but still we got [some attention]. Then this guy [name] as he’s called, came up to us and asked if he could be our representative in Germany. That was definitely at the first Hanover trade fair.
In the late 1980s, with the sale of blissful Backs to an industrial group and the introduction of new products, a decision was taken to expand into new markets, primarily the U.S. and the U.K. In regard to the U.K. market, the general manager says,

Back then I managed most everything myself when it came to sales, so partly I asked this [parent firm’s other subsidiary] guy that I knew who’d been at [parent firm’s other subsidiary] since ’85 I think, I asked him when we met here in the Group that “can’t you help a bit with some contacts” and I got some brochures and I made some phone calls and I went to some trade fairs in Birmingham, these interior design trade fairs. Well, I sniffed around a bit myself, and made some contacts. I wasn’t too professional back then, but I made some contacts and things got started.

A couple of years later, a decision was taken also to expand into France. Except for some attempts to enter the Italian market, subsequent new market entries in the mid and late 1990s were largely a result of Blissful Backs being approached by customers and customer following. On this topic the general manager says,

Well, now you can say that in the last two years an awful lot of the world’s electronics industries have established themselves in Czechoslovakia and Poland. And some of these companies are old customers, not least to our company in England, right. So, often automatically they’ve said that when they build a new plant over there they want the same interior design as in the other assembly plants, and maybe that comes from us, and so we deliver [there too].

The introduction of new product lines is thus strongly connected to the downstream internationalisation of Blissful Backs. This can be seen on three different occasions. Downstream internationalisation began with the introduction of new products in the late 1970s and was largely halted when those markets where these products could be sold were entered. Subsequently, the introduction of new products in the late 1980s generated a similar pattern. The introduction of special products for the electronics industry in the 1990s again spurred a process of new market entry, although currently there are plans to focus on fewer markets. The marketing manager says,

We’re really going to focus on the European market, we’ve had some feelers in the U.S. but we’ve let those go. The U.S. is not a country, it’s a continent. […] but since three months we do have an importer [there].

5.3.1.2 Changes in Mode Selection

During the earliest phase of internationalisation, mode selection appears not to have been much of an issue. To rapidly expand sales took precedence over any such considerations, although direct exporting to distributor was the main mode of foreign selling. The relatively pragmatic approach to mode selection continues throughout the 1980s and 1990s, Blissful Backs selling both to end users, through agents and to various forms of distributors. Some of the firm’s
customers also buy Blissful Backs products to complement their own ranges. Sales to a manufacturer in Finland is an example of this. The general manager says,

*There are always some customers who take bits and pieces, well maybe a hook, that’s a typical product. We make a couple of million hooks up here, right, and maybe they buy for a couple of million. It hardly pays to make the tools and buy a machine for five or six million [SEK] to make a couple of million’s worth of hooks a year, right. But we started doing that, we supply lots, we even supply a large competitor in Finland. [Name of firm] they buy their hooks from us even if they consider us one of their fiercest competitors. But they say the same “what the hell, it doesn’t matter”.*

A sales subsidiary in the U.S. was started as a way of keeping some of the staff of the former distributor when that firm ended up in financial trouble. In the U.K. a decision was taken to make use of a sister firm’s local distributor which led to the starting of a second sales subsidiary in 1998. This was largely a formalisation of the relationship with the sister firm’s U.K. distributor, on whose premises the sales subsidiary is still located. The general manager says,

*Then, we had help in establishing ourselves over there, that is, we have our own subsidiary there. But from the beginning we had a sister company, [parent firm’s other subsidiary] in [name of city], they were also part of the [parent firm] Group from ’92. They had a place, they were established in England, so in the beginning we had some help. We rented part of their place, they took care of our administration and we began having a couple of sales people that we managed from here, they took care of warehousing and they took care of administration, and in that way it was possible for a small firm like us. We had good help from them. […] Since a couple of years back we’ve formed our own company. We actually still rent the premises, we rent an office, we rent a warehouse, and we rent their financial manager, even though we’re no longer part of the same group.*

Due to continued difficulties on the U.S. market, a decision was taken to again find a distributor there when the subsidiary was closed in 2001.

Overall, there appears to be little connection between changes in ownership and downstream mode selection, nor is there a strong connection between the introduction of new products and choice of entry mode.

### 5.3.1.3 Changes in Partner Selection

The earliest relationships were initiated by the general manager when actively searching for customers through attendance at trade fairs and through the use of export directories and similar sources of information. He says,

*What I did was quite simply that I enjoyed going to trade fairs and often there I’d spot those who worked with this kind of stuff, and pretty early on I started working … I know that I subscribed to “the compass” and “trade magazines” and … being*
Since the potential for the firm’s products seemed limited to markets where lengthy transportation was not necessary, few attempts were undertaken to expand the firm’s market outside the Nordic countries. Relationships established with firms on more distant markets such as Germany, Belgium and Holland were thus not initiated by Blissful Backs but by the partner firms.

In the late 1980s, with the sale of blissful Backs to an industrial group and the introduction of new products, a decision was taken to expand into new markets, primarily the U.K. and the U.S. In the U.K., the general manager himself searched for customers, soon deciding to make use of a sister company’s U.K. distributor to better penetrate that market. To enter the U.S. market, Blissful Backs’ manager used the Chamber of Commerce to find a distributor. This was also the case in finding prospective partners in France a couple of years later. This period also witnessed more efforts at evaluating the performance of partners and the subsequent termination of some relationships. E.g., around 1995 a decision was taken to terminate relations with the German distributor and to let one of his local distributors take over as distributor for Germany. Around this time, attempts were also made to find customers in Italy.

Between the mid and late 1990s can again be noted a period of greater reactivity in establishing relations. Since the acquisition of Blissful Backs in 2001 by an industrial group, however, the firm has initiated two new relationships.

Typically, in finding partners on key markets, Blissful Backs has been the initiator, while in the establishment of relationships on less important markets a reliance on partner firms to initiate relations is apparent. Overall, only few downstream relationships have been terminated. In all cases this has been done by Blissful Backs.

5.3.2 Overview of the Upstream Internationalisation Process

While foreign sourcing corresponds to 30 per cent of the total purchase volume, most comes from a single Norwegian supplier of steel. Remaining foreign suppliers correspond to less than ten per cent of purchasing. It is quite clear that Blissful Backs’ downstream international expansion is closely connected to the types of products that the firm manufactures. The same observation can be made in regard to upstream internationalisation. The total number of relationships with foreign suppliers is very small, however, so it is not possible to identify periods in the same sense as in the case of international sales.

International sourcing began in the early 1980s with the purchasing of locks from a firm in France. As prices increased in France, the general manager of Blissful Backs turned his attention to manufacturers in the U.K. When Blissful Backs was acquired from the owner family in 1986, it was decided that the firm
should focus its attention on other products, which led to the termination of these relationships. Having previously bought steel from Swedish manufacturers, in the early 1990s Blissful Backs was approached by a Norwegian manufacturer which today is Blissful Backs’ largest supplier.

Since the 1990s, Blissful Backs sells antistatic workstations to the electronics industry. As the industry grew demand increased, which meant that in the mid-1990s Blissful Backs needed to find a supplier of antistatic desktops. Such a supplier was found in Germany. Blissful Backs also has a number of smaller suppliers in the U.K.

5.3.2.1 Changes in Market Selection
The decision on which market to focus on in foreign sourcing has apparently consistently been secondary to the need to find certain products. Throughout the firm’s history, however, the general manager of Blissful Backs has apparently been willing to source internationally. The strong local supply base mostly made this unnecessary, though. Perceived barriers to entering foreign have apparently not been very great, nor has the pressure to do so.

5.3.2.2 Changes in Mode Selection
While an unknown ratio of purchasing is done in the form of indirect importing, direct importing activities have generally been conducted without intermediaries.

5.3.2.3 Changes in Partner Selection
Most foreign supplies have been found by Blissful Backs’ management through some form of active search. In the case of the first major foreign suppliers, the general manager used his social network. The only important supplier relationship not initiated by Blissful Backs is that with a Norwegian steel supplier, which arose as a result of activities on the partner’s side. Termination of upstream international relationships has been initiated by Blissful Backs. In the case of the first supplier, while volumes decreased as prices increased, the relationship was finally terminated as a result of shifts in production, the same being the case with the other early supplier of locks.

5.3.3 Case Summary
On the downstream side, eight types of changes in strategy can be identified. These include multiple entries into new type of market (3), single entry into new type of market (2), new high commitment mode on single market (2), new low commitment mode on single market (1), focal-firm initiation of multiple relationships (2), focal-firm initiation of single relationship (1), other-firm initiation of multiple relationships (2), and focal-firm termination of single relationship (3).
On the upstream side, two types of changes in strategy can be identified. These include withdrawal from single market (1) and focal-firm termination of multiple relationships (1).

### Exhibit 5.3: Changes in International Strategy in Blissful Backs

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
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</tr>
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<tbody>
<tr>
<td>Multiple entries into new type of market: From Nordic focus to entry into other North European markets Europe in mid-1980s.</td>
<td>Introduction of new product line more suitable for transportation enabled expansion. Trade fair attendance was an important way of coming into contacts with customers. Expansion was largely a result of grasping of unsolicited orders and contacts, though.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: From focus on Northern Europe to entry into US &amp; Canada in late 1980s.</td>
<td>Active search for customers as part of expansion strategy after acquisition of the firm. At this time product suitable for transportation were also introduced.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Southern European markets in mid to late 1990s.</td>
<td>Coincides with introduction of new products and industry expansion. Expansion was a result of grasping of unsolicited orders and contacts, though.</td>
</tr>
<tr>
<td>Single entry into new type of market: Czech Republic.</td>
<td>Expansion was a result of grasping an unsolicited contact.</td>
</tr>
<tr>
<td>Single entry into new type of market: Mexico.</td>
<td>Expansion was a result of grasping an unsolicited contact.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in US in 1991.</td>
<td>After the former distributor went bankrupt, the manager of BB still wanted to remain on what was perceived as a potentially very large market by making use of the distributor’s staff. The only way to do this was felt to be to start a sales subsidiary.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Sales subsidiary in UK in 1998.</td>
<td>For some time BB had been using a sister company’s subsidiary as distributor in the UK. The starting of a sales subsidiary of its own was a way for BB to formalise the relationship. Limited new investment was thus required.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Late 1980s.</td>
<td>Grasping of unsolicited order from a competitor in Finland that wanted to complement its own product lines.</td>
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<tr>
<td>Focal-firm initiation of multiple relationships: Early 2000s.</td>
<td>After a period of ten years characterised by reactivity in relationship initiation, BB now searched for new customers. This was partly a result of the hiring of new staff and the acquisition of the firm in 2001.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Italy, late 1990s.</td>
<td>In a period otherwise characterised by reactivity in relationship initiation, BB contacted an Italian manufacturer at a trade fair.</td>
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<td>Other-firm initiation of multiple relationships: early to mid 1980s.</td>
<td>When perceived suitable markets (given product categories at the time) had been entered in the late 1970s, a period of no further efforts at finding new foreign customers ensued. The firm continued to attract unsolicited contacts, though.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: early 1990s to early 2000s.</td>
<td>When perceived suitable market had been entered (given product categories at the time) in the late 1980s, a period of no further efforts at finding new foreign customers ensued. The firm continued to attract unsolicited contacts, though.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Distributor in North America c. 1991.</td>
<td>Terminated due to distributor’s financial problems and dissatisfaction with distributor’s performance, while simultaneously the idea arose to make use of distributor’s staff to start own sales subsidiary.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Distributor in Germany c. 1995.</td>
<td>Terminated due to dissatisfaction with sales volumes, while simultaneously the possibility to make use of one of distributor’s customers as distributor arose.</td>
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<tr>
<td>Focal-firm termination of single relationship: Distributor in France and Italy in 2001.</td>
<td>Terminated due to dissatisfaction with sales volumes, while at the same time BB had other channels into these markets.</td>
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<th>Change in upstream strategy</th>
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<tr>
<td>Withdrawal from single market: France.</td>
<td>Relationship terminated when the type of product sourced was no longer needed.</td>
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<td>Focal-firm termination of multiple relationships: Suppliers in France and UK.</td>
<td>When products where no longer needed, relations with suppliers were terminated.</td>
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5.4 Clever Containers

Clever Containers was founded in 1967 as a manufacturer of plastic products, primarily various brush handles and different types of protective casings for wires. The founder ran the firm until 1985 when it was sold to two individuals who decided to shift focus in production towards the firm becoming a subcontractor of injection-moulding to the car industry. Soon after, however, a decision was taken to start manufacturing containers for food packaging and the introduction of new products sparked rapid growth. In 1994, Clever Containers had reached a turnover of SEK 90 million. The same year, 50.2 per cent of the shares were acquired by a Danish investment firm and a new general manager was hired. In 1997, the investment firm was acquired by a Danish industrial group, which also acquired the remaining shares in Clever Containers in 1999. In March 2002, Clever Containers was again sold, this time to a Danish firm in the same industry as Clever Containers.

In year 2002, the firm employed 105 people and had a turnover of SEK 212 million. Export sales dominate with a 75 per cent share of turnover (in 2001). International transactions also dominate in sourcing, imported raw materials corresponding to more than 90 per cent of all raw materials purchased.

5.4.1 Overview of the Downstream Internationalisation Process

While sales to Norway began early on in the firm’s history, the focus on the Swedish market remained strong during Clever Containers’ first three decades of operation. One of the first major customers outside Scandinavia was a Dutch ice-cream manufacturer, a relationship that would lead to further contacts on that market and the hiring of an agent there. In the early 1990s, Clever Containers also established contact with an agent in Norway. At that time, Clever Containers had a number of smaller customers, but relied heavily on a few, large customers concentrated to Sweden, Norway and the Netherlands. The firm also had minor sales to a few smaller firms in Denmark and one in Poland, the Polish customer being a subsidiary of one of Clever Containers’ Danish customers. Clever Containers further sold packaging to a large dairy producer in Finland, although sales were limited. Little in the way of active search for customers was undertaken. In Norway and the Netherlands the agents managed and initiated new relationships, while other relationships were typically partner-firm initiated.

Sales nearly quadrupled and the number of foreign markets doubled between 1993 and 2001. In most cases, relationships established during this period were still not initiated by Clever Containers; most relationships were initiated by the partner firms’ purchasing departments after having come into contact with Clever Containers’ products. The introduction of new products is noted by the general manager as being the primary reason behind this interest among customers and the ensuing rapid expansion in sales. Belgium and the
Netherlands quickly became two of the firm’s most important export markets. Restructuring in the Nordic confectionary industry in the 1990s also led to Clever Containers increasing export sales. For example, the merger between one of Clever Containers’ Norwegian customers and a large Finnish confectionery manufacturer led to Clever Containers beginning to supply also the Finnish firm. In other cases, other mergers had similar results for Clever Containers.

Additional countries in southern Europe and the Baltic States were also entered in the mid and late 1990s. A very promising entry into the U.K. was undertaken shortly prior to the acquisition in 2002, by which time Clever Containers had reached an export share of turnover of 75 per cent with sales in 17 countries. Main markets included Scandinavia (i.e. Norway, Denmark and Finland, corresponding to 30 % of sales), the Benelux countries (28%), Germany (10%) and Great Britain (6%). The 2002 acquisition had a profound impact on the firm’s downstream internationalisation process, however. To optimise logistics, within the industrial group it was decided that the different plants should produce mainly for their local markets. This meant that Clever Containers would no longer supply many of the firm’s customers, henceforth focusing primarily on Scandinavia.

5.4.1.1 Changes in Market Selection
The firm began expanding sales on a very modest scale to Scandinavia already early in its history. Even 20 years after it was founded, the firm remained small and there was apparently little perceived pressure or desire for expansion abroad, though it was only with the sale of the firm and the subsequent introduction of a new product category that geographic expansion of note began to take place in the late 1980s. The Netherlands and Norway were quickly established as the main foreign markets and in the early 1990s partner-initiated forays were made into markets such as Poland and Finland. A stronger foothold was at the time established in Denmark. Also a stronger hold on the Norwegian and Dutch markets was established when Clever Containers took on two local agents. The somewhat bulky nature of the firm’s products prevented efficient transportation and still largely acted as a barrier to further geographic expansion, though, and the firm’s management did not undertake any action to enter more remote markets. Growth during the following years was nonetheless strong. Rather than expanding into new markets, the focus was on exploiting untapped potential on already existing main markets, largely through the use of the firm’s two agents.

The sale of the firm in 1994 to an investment firm and the hiring of a new general manager heralded a period of greater focus on innovative in-mould labelling and continued strong growth. Belgium was the most important new market entered at this time, but entries were made also into Germany, Spain and Portugal. These entries, however, were the result of the firm grasping unsolicited orders. The general manager describes a situation where very limited marketing activities were undertaken by the firm. Foreign customers found
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Clever Containers anyway. Geographic expansion of sales was thus largely customer driven and growth apparently strong enough to ensure satisfactory production levels. Management did not perceive a need to actively search for new markets.

Due to sales to a Belgian bakery with exports to the U.S., Clever Containers also began exporting products directly to the U.S. The general manager says,

_The biggest customer in that segment is in Belgium, right. There we actually ship quite a bit to the U.S., really. But the biggest customer of this in Belgium, he started his own production unit in the U.S. Before he shipped it, filled with products, but now we ship empty boxes._

In 2001, Clever Containers also entered the U.K. market, again without much initiative inside the firm. The sale of Clever Containers in 2002 stopped the process of geographic expansion, though, and led to a focus on Scandinavia, other subsidiaries to Clever Containers’ parent firm now serving more remote markets. The general manager says,

_But now I’ve let go of that production [i.e. for the U.K.], it’s being transferred to our plant in Belgium, because it’s closer. […] Because we want to be as close as possible to the ice cream manufacturing plant. The best thing would be to be in England. You don’t want to keep driving these trucks … a truck costs almost 20,000 in transportation to England. From Belgium it’s 4,000. […] England is a short and sweet story. You might say that we went from zero to ten million in turnover, over night._

Clever Containers will, however, occasionally continue to serve more distant markets with some specialised products. The general manager says,

_[…] our philosophy is of course to produce as close to the customer as possible because transportation costs are a major part. But of course, it also depends, if there’s a unique tool and you have most of the sales there, you might sell over greater distances too, right._

### 5.4.1.2 Changes in Mode Selection

Direct exporting has been the main mode of internationalisation for Clever Containers throughout the firm’s history, when the number of foreign relationships is considered. On the two most important markets, i.e. Norway and the Netherlands, agents were hired around 1991, though. Management apparently did not perceive that the firm possessed the resources to adequately explore these markets and the general manager describes a situation where the firm’s customers showed strong preferences for working with local representatives. The two agents were thus not only responsible for finding new customers on their respective markets, but also for maintaining relationships.
with existing customers. In regard to the Dutch agent, the general manager says,

"Then the person who was the purchasing manager [name of first customer in the Netherlands] left and started his own firm as agent, and he then became our agent in Holland, and that way we got a strong position in Holland because he was one heck of an enterprising guy, this agent, who was our agent until about a year ago [i.e. early 2001] when we fired him too. So, as it is now, we have our own salesmen."

In 2001 to 2002, the Dutch and Norwegian agents were fired since Clever Containers decided that there was no longer a need for agents. No other forms of downstream internationalisation modes appear to have been considered.

5.4.1.3 Changes in Partner Selection
Throughout Clever Container’s history, most relationships with foreign customers have been established as a result of initiatives taken by the partner firms rather than by Clever Containers. The general manager says,

"[They’ve] seen some package that we’ve had there and they walk around looking, the purchasers, and then they call and say “Hey, I’ve seen it in a store, it says Clever Containers on it” and then there’s a phone number, or it was in those days, so they’ll call you or find the phone number some other way. It’s often like that, that purchasers go around looking at packaging, “who produces that one?”, and then they call you.

In the first stage of strong international sales expansion in the early 1990s, the firm’s agents also initiated relationships. In regard to the Norwegian agent, the general manager says,

"This agent he was […] one of those relationship builders, not one for administrative work, but it was he who grabbed hold of the purchasing managers and went out to dinner with them in the evenings and started building relations and all that. […] he established contacts with more [manufacturers apart from the one that already existed], so both [name], [name] as they were called back then, it was [name] and [name] in those days […] ."

Most subsequent relationships were initiated by the customers after Clever Containers’ products achieved greater exposure and attracted unsolicited orders. There are also several examples of how existing relations between Clever Containers and the firm’s business partners have impacted new relationship initiation. Again, however, most initiations have been undertaken by the partner firms. Mergers in industries served by Clever Containers have also led to the establishment of new relationships. Overall, there appears to have been very little internal pressure or perceived need to actively establish new relationships.
The acquisition of Clever Containers in 2002 has led to the termination of a number of relationships. Additionally, since the marketing function is centralised to corporate headquarters in Denmark and since in the future the parent firm’s subsidiaries will serve primarily nearby markets, relations with customers outside Scandinavia already have been or will be transferred to other plants within the industrial group. In particular, the recently established and very successful relationship with a U.K. customer has been affected in this way, the machinery previously acquired to produce containers for that customer being transferred to another plant.

5.4.2 Overview of the Upstream Internationalisation Process

Since at least the early 1980s, Clever Containers has been involved in upstream internationalisation-related activities, currently almost all purchasing being done internationally. The former logistics manager estimates that more than 90 per cent of the firm’s raw materials (including labels) comes from foreign suppliers and the technical manager notes that a very large portion of the tools and almost all of the machinery the firm purchases comes from manufacturers abroad. Typically, the firm’s management has always strived to have direct contact with manufacturers, avoiding going through agents in Sweden.

While it is not meaningful to try to distinguish any specific phases in downstream internationalisation, international purchasing still reflects the overall development of the firm. The technology of in-mould labelling is one of the reasons behind the firm’s rapid growth since the mid-1990s. In this sense, the successful collaboration with one of the firm’s largest suppliers, a label manufacturer in Belgium, has actually been a driver of downstream internationalisation. Similarly, increasing foreign sales have meant increased exposure of Clever Containers’ products, which in turn has generated new customers. As many products are developed specifically for individual customers, this in turn has led Clever Containers to acquire new tools and machinery, often from foreign suppliers. Most of the firm’s plastic raw materials are still purchased from the same large firms that have supplied Clever Containers for the past two decades, located in the Netherlands, Denmark and Belgium.

For a short while in the mid 1980s, Clever Containers also produced labels under licence from a French firm. This production was soon discontinued, however. From 1987 to the mid-1990s, a number of label manufacturers were tried out, located in various European countries. Clever Containers’ management not being satisfied with any of them, around 1994 the firm’s sales agent in the Netherlands – who also sells labels – initiated contacts with a manufacturer in Belgium. Today, practically all the firm’s labels are purchased from this manufacturer and relations with other label suppliers have been terminated.
Most of Clever Containers’ machinery also comes from a few foreign manufacturers that have been supplying Clever Containers since the 1980s. These firms are located in Germany and Switzerland. The rapid sales expansion from the mid-1990s and onwards also meant that new tools had to be acquired more frequently than before and new tool manufacturers located in Switzerland were contacted.

In spite of the changes that the new organisation implemented in 2002 has meant for international sales, international purchasing has not been greatly effected.

5.4.2.1 Changes in Market Selection
While a partner-initiated pattern of incremental expansion and then rapid contraction can be observed in regard to downstream markets served, the same pattern cannot be observed in the case of upstream internationalisation. Early on during the firm’s history, relationships with suppliers of plastic raw materials were established with firms in the Netherlands, Belgium and Denmark while machinery was bought from Germany. In this case, geographic expansion was obviously a question of necessity since local suppliers did not exist. Already having long-established relationships with suppliers of raw materials, the introduction of new product categories in the mid-1980s created a need primarily for finding new suppliers of machinery and tools, which were typically found in Germany and Switzerland, trade fairs being venues where such contacts were made.

The focus on food packaging also meant that manufactures of labels had to be found. A variety of suppliers on different markets were tried out in the late 1980s and early 1990s, including Denmark, Norway, Switzerland, the Netherlands and Germany. A focus on in-mould labelling meant that other suppliers were dropped when around 1994 a new supplier was found in Belgium. Since, few new upstream international relations have been established, except for a number of tool manufacturers in Switzerland met at trade fairs.

The acquisition of Clever Containers in 2002 has had little impact on market selection in purchasing, main supply markets for raw material still being the Netherlands, Belgium and Denmark, while labels are bought in Belgium and machinery and tools in Germany and Switzerland. Changes in production categories have thus had little impact on which markets the firm finds its foreign suppliers.

5.4.2.2 Changes in Mode Selection
Clever Containers has mostly had direct contact with foreign suppliers. Since their suppliers generally do not have agents in Sweden, it is natural that the reliance on indirect importing has been limited. The general manager says,

\[\text{We buy everything directly from manufacturers. All forms of plastic raw materials come from a number of European producers, and we're a major consumer of this}\]
elegant label, it’s moulded into the design [respondent indicates plastic container]. So, what we do is we put it into the tool and then we spray the back so that the plastic and the label melt together, and that comes from a large printer in Belgium, that alone is a turnover of 20 million.

Except for one instance of licensing from a French firm in the mid-1980s, the case material provides no indication that other modes of upstream internationalisation have been used or even considered. It is interesting to note that the firm’s sales agents in Norway and the Netherlands have occasionally also been used to find suppliers, in effect acting as purchasing agents even if that was not the role they were initially intended to have.

The portion of indirect importing may increase in the future, since currently purchasing collaboration between subsidiaries in the industrial group to which Clever Containers belongs since 2002 is being considered.

5.4.2.3 Changes in Partner Selection
A reorientation towards focusing on food packaging as well as strong sales expansion meant that label manufactures had to be found and a number of such suppliers were tried out in the late 1980s and early 1990s. Typically, these were found by Clever Containers’ agents or through the use of network contacts. These relations were terminated when a new label manufacturer was found by Clever Containers’ Dutch agent in 1994. The former logistics manager says,

We’ve had [suppliers of labels] in Norway, we’ve had in Holland, […] Germany, we bought there, and Switzerland. […] Until we found this Belgian we had a few different ones. But these in Belgium were a bit better, so we stopped buying from the others. […] this thing with in-moulding of labels hasn’t been around for that many years. There’s been quite a lot of development and we’ve been part of that development, so there we found in the end this Belgian, he was the one who was constantly developing a lot more than what all the others do.

Apart from these relationships, the case material implies that Clever Containers has not actively been involved in terminating any relationships with foreign suppliers.

Since the mid-1990s, Clever Containers has initiated relationships with several tool manufacturers in Switzerland, typically met at trade fairs, as a result of increased need for high precision tools. Often these tools are bought as a direct consequence of Clever Containers finding a new customer with specific requirements.

5.4.3 Case Summary
On the downstream side, seven types of changes in strategy can be identified. These include multiple entries into new type of market (1), single entry into new type of market (3), withdrawal from multiple markets (1), new low commitment mode on multiple markets (2), focal-firm initiation of multiple
relationships (1), focal-firm initiation of single relationship (2), and focal-firm termination of multiple relationships (1).

On the upstream side, two types of changes in strategy can be identified. These include new high commitment mode on single market (1) and focal-firm termination of multiple relationships (1).

Exhibit 5.4: Changes in International Strategy in Clever Containers

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<th>Perceived influences on change</th>
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<td>Multiple entries into new type of market: From Nordic focus to entry into Western Europe.</td>
<td>Introduction of new products that attracted unsolicited orders led expansion into European markets.</td>
</tr>
<tr>
<td>Single entry into new type of market: Bahrain.</td>
<td>Bahraini licensee to Nordic manufacturer was instructed to use CC’s products by licensor.</td>
</tr>
<tr>
<td>Single entry into new type of market: Poland.</td>
<td>Polish subsidiary to existing Danish customer started buying CC’s products.</td>
</tr>
<tr>
<td>Single entry into new type of market: US.</td>
<td>When Belgian customer started subsidiary in the US, CC began supplying that subsidiary directly.</td>
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<td>Withdrawal from multiple markets: From Western European presence to withdrawal to nearby markets.</td>
<td>After acquisition in 2002 it was decided that CC should focus on serving nearby markets.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Agents in Norway and the Netherlands.</td>
<td>Use of agents to identify customers and to manage relations with customers on two key markets. Relations with the agents were, however, initiated by the agents rather than by CC. In the case of the Dutch agent, this was an individual who had previously worked for a Dutch customer to CC. The rationale for making use of agents was that the firm did not possess the resources to otherwise adequately explore these markets.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Relations initiated by focal firm’s agents.</td>
<td>Agents were used to initiate relations with customers in the Netherlands and Norway.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Through public tendering.</td>
<td>The opportunity to serve a German manufacturer was identified and a contract landed after public tendering.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: After suggestion by external party.</td>
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</tr>
<tr>
<td>Focal-firm termination of multiple relationships: After acquisition in 2002.</td>
<td>After acquisition in 2002 it was decided that CC should focus on serving nearby markets. Consequently, direct relations between CC and many of the firm’s previous customers have been terminated. I.e. the relations have been taken over by the parent firm or by other of the parent firm’s subsidiaries.</td>
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<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
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<tr>
<td>New high commitment mode on single market: Licensing from French firm.</td>
<td>Licensing of production from French firm in mid-1980s, when new types of products where needed and in-house production of key components was seen as preferable to purchasing from foreign manufacturer.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Late 1980s.</td>
<td>A process of trying out a number of suppliers of labels was initiated after the introduction of a new product category. This process was ended when a key supplier was found and relations with other label suppliers were terminated.</td>
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5.5 Dynamic Designs

Dynamic Designs was founded in 1955 as a subcontractor to a large Swedish furniture manufacturer. Today production is focused on seating furniture with a strong emphasis on design, this both evolving as a result of and being a contributor to export success. In the year 2000, Dynamic Designs was acquired by a Swedish furniture group and a new general manager was hired. In year 2002, the firm had a turnover of SEK 27 million and 24 employees. Nearly two-thirds of turnover came from export sales in 2001, while international purchasing corresponded to around five per cent of total purchasing.

5.5.1 Overview of the Downstream Internationalisation Process

Downstream internationalisation began around 1986, after thirty years of focus on the Swedish market. The strong financial situation of the firm and the economic development in general at the time were important influences on this decision. The current marketing manager says,

 [...] why we started exporting was that we had decent turnover in Sweden, the company was making a lot of money, and then the idea was born that if we're ever going to start exporting and go outside the Swedish borders, we have to do it now, while we have money and not in a recession, [...] the roaring 80s, when we sold furniture like there was no tomorrow. That's about when it got started.

Soon, a strategy of international expansion through the use of locally based agents formed. The first foreign markets to be entered were Denmark, the U.K. and Switzerland. Sales were also achieved in the U.S. and Japan through an agent based in Denmark. Rapidly, the export share of the firm’s turnover surpassed domestic sales. The strong focus on export sales and the firm’s early success on export markets influenced the types of products offered and a focus on design evolved. The marketing manager says,

 [the focus on design] has evolved over time. It’s one step in exporting, you might say. It came as a result of export thinking. If we'd stayed in Sweden we’d probably still be pushing simple, straight sofas today.

Traditionally, trade fairs and expos were the most important venues for coming into contact with customers and in finding agents. Among those agents found in the 1980s, only the Danish one still acts as such for Dynamic Designs, all other relationships formed at this time having been terminated. In addition to sales achieved through agents, Dynamic Designs also sold some products directly to e.g. retail chains in the late 1980s. While this continued in the early 1990s, the focus on using agents increased. The importance of trade fairs for coming into contact with intermediaries did not diminish and new intermediaries were found in Germany and the Netherlands. The acquisition of
another firm in the region by Dynamic Designs around 1992 also meant that Dynamic Designs began using the recently acquired firm’s agent in France.

In the mid and late 1990s, few new markets were entered except for Finland and the focus on using agents as intermediaries continued. Several of the firms’ agents were replaced at this time, however, since management was increasingly concerned with agents’ performance. Agents on several key markets continue to perform unsatisfactory, though, and the replacement of several agents was being considered by mid-2002. Occasional sales directly to retailers were still achieved on markets outside the Dynamic Designs’ key markets.

Currently, the firm’s management is primarily focusing on domestic sales expansion, partly as a result of the acquisition of the firm in year 2000. The marketing manager says,

*There’s a plan, of course, as I said before we had an export share of 75 per cent a couple of years ago and we were moving towards even more exporting. We were losing our home market, and then the strategy and the thinking was born, and that was mainly from my side, that preferably we should have 50 per cent on the home market and 50 per cent on the export market. Because, after all, when one market drops, another may grow.*

### 5.5.1.1 Changes in Market Selection

In the late 1980s, as a way to expand the firms’ sales, Dynamic Designs began participating in international trade fairs and sales promotion activities organised by the Swedish Trade Council. This led to Dynamic Designs rapidly entering several foreign markets, including Denmark, Norway, Switzerland, the U.K., the U.S. and Japan. The international expansion continued in the early 1990s, when agents were found also in Germany and France and a distributor was found in the Netherlands. A greater degree of initiative on the side of Dynamic Designs’ management in expanding into new markets can be observed during this period. The firm also made occasional spot sales to firms in other countries. Since the mid-1990s, no new markets have been added, other than occasional spot deliveries. The marketing manager says,

*[…] then of course we sell to other countries, we sell to Spain, we sell to…well, but it’s almost like a spot market if you want to call it that, and then you can sell to different countries. You get an order from Spain for “X” number of products or something like that and those contacts are taken via trade fairs or via the Internet today. We actually get quite a lot of contacts via the Internet, and inquiries. Somehow these contacts over the Internet are based on that you’ve talked to someone or met someone who’s seen us at a trade fair or know someone who has a store in that country, it’s network connections all the time, right. But at the end of this network connection, it’s always someone who knows Dynamic Designs personally anyway.*

Overall, management appears to perceive that those the markets established ten years ago provide the firm with plenty of potential outlet. Rather than considering expansion into new markets, there is a focus on better penetrating
existing markets but primarily the domestic market. Largely, this decision to focus activities has been taken as a consequence of the acquisition in year 2000, as indicated by the marketing manager.

5.5.1.2 Changes in Mode Selection

Although the firm has made some sales directly to retail chains and individual stores abroad, throughout Dynamic Designs’ history, most foreign sales have been achieved through foreign agents. This has also been the outspoken strategy of the firm’s management. One agent per export country has been the aim, according to the marketing manager, who motivates the choice of type of intermediary as a decision based on cost considerations and the need for local representation. He says,

*We prefer working with agents, of course we do that, because it minimises our costs. Then, if you work with an importer costs increase. If you work with an importer he takes care of payments and so on. We have one customer in each country. Of course it’s a lot more convenient managing that with the aid of computers, so there’s no problem working with single stores. But then you have to have some form of agent in all these countries you’re in, the countries you’re working to penetrate because if you can’t visit the customers regularly, pretty soon you’re out of the running. You can’t sit in Sweden and sell furniture in Denmark without having someone going around, making visits. And you can’t have someone employed here who travels around, because that’s much too expensive, the agents do that.*

No changes that involve several markets in regard to this outspoken strategy have been undertaken, there apparently being no pressure for change perceived by management. The portion of sales achieved directly to retailers without the use of agents as intermediaries has also been decreasing. In these sales, apparently Dynamic Designs has not been active in initiating relationships. The marketing manager says,

*Let’s say, ten, 15 years ago, 15 years when we started then there was much more demand, and that controls how you think, too. Then some [guy] could come up to you, and sit down for an hour thinking and then he’d come back the next day and place an order for eight forty-foot containers for a specific model. That doesn’t happen today.*

5.5.1.3 Changes in Partner Selection

Due to a strong desire inside the firm to achieve international sales, in the late 1980s Dynamic Designs attended trade fairs and similar venues to find agents abroad, although some retail customers were also found this way. Trade fairs continued to be the primary venue for finding foreign business partners throughout the 1990s. In the early to mid-1990s, the firm was mainly reactive in initiating new relationships, both with agents and foreign customers, although there were a few exceptions. A few relationships with poorly
performing agents were also terminated by Dynamic Designs. A subsidiary acquired in 1992 had contacts with a Dutch distributor and a French agent that also started doing business with Dynamic Designs.

In the late 1990s, greater activity in establishing new relationships can be noted, although the largely reactive pattern apparently persisted. Occasional focal-firm initiations were a consequence some of key relationships being terminated at this time, some of which by Dynamic Designs, others by the partner firms. In establishing new relationships, relations with other firms proved important. E.g., the marketing manager describes the situation on the Norwegian market and says,

> Actually we had an agent for Norway who was working for us in Norway, but who never got anywhere, nothing happened, basically. And when you talk to colleagues – and the furniture industry is like all industries, it’s a small family in this country and everybody knows everybody, you have good connections with most and you sit around talking to your colleagues, then you discuss these things and you might get a good angle and then you contact the person in question and move on. [So], it was via other Swedish suppliers that we made that connection.

In another instance, two new agents were found by an existing agent who decided to retired. The firm remained reactive in establishing relationships with direct customers at this time, sales to which were not part of management’s outspoken strategy for expansion. Since the acquisition in 2000, no new relationships have been established, although several are considered for termination as part of a more focused plan for growth.

### 5.5.2 Overview of the Upstream Internationalisation Process

Since the 1980s, Dynamic Designs has been in contact with a fairly large number of foreign suppliers. The value of international purchasing, however, has always been low compared to the total value of purchasing. The purchasing manager, who describes a situation of a well developed local supply base, estimates that around five per cent of purchasing is done abroad. Foreign sourcing activities are undertaken for economic reasons, but are generally perceived as problematic.

The first foreign manufacturers with which contacts were established in the 1980s were located in Norway and Poland. In the early to mid-1990s Dynamic Designs also found suppliers in Denmark, Thailand, Germany and Finland. There has always been a strong focus on direct contacts with a preference for avoiding intermediaries, although circumstances have occasionally forced Dynamic Designs’ management to forego this policy.

Dynamic Designs has also been involved in contract manufacturing. In the early to late 1990s, the sewing of upholstery was contracted out to a firm in Thailand. Firms in Poland and Estonia have also acted as contact manufacturers. With new ownership since year 2000, however, the
manufacturing of prefabricated upholstery is no longer contracted out to foreign suppliers.

Typically, upstream relationships have been initiated by Dynamic Designs rather than by the partner firms. Few relationships have been terminated by Dynamic Designs, except those with contract manufacturers.

Today the firm has three suppliers in Norway, five suppliers in Denmark, one supplier in Germany, one supplier in Poland and one supplier in Estonia with which the firm has direct contact. Additionally, Dynamic Designs has a small number of foreign suppliers where contacts are managed by agents stationed in Sweden. In some instances, these are agents for firms with which Dynamic Designs previously had direct contact, but were then instructed to go through the firms’ agents.

5.5.2.1 Changes in Market Selection

Upstream internationalisation has been dominated by nearby markets, no new supply markets having been established since the early 1990s. Since most of the firm’s materials can be sourced locally, there has typically been little pressure to find foreign suppliers. The purchasing manager says,

[…] most [of the purchasing] in the 60s, 70s, 80s, if you take a pair of compasses and draw a circle, maybe fifty, sixty, eighty, a hundred kilometres, because you can get there fairly quickly by car if there’s a problem, so we’ve decided that this is where we’ll look for suppliers, primarily, and it’s worked fine. But since, certain regimes have fallen, it’s become easier to work with other countries, so we’ve gone there for economic reasons. But there are practical problems buying across the border, well, delivery times, personal visits to the supplier, and so on, right.

Throughout the 1990s, a contract manufacturer in Thailand was used frequently, representing an exception to the type of supply market usually pursued by the firm. Obviously, cost reasons were paramount in selecting this supplier, as was the case with two contract manufacturers in Poland and one in Estonia. Since the acquisition of Dynamic Designs in 2000, the relationships with two of the firm’s foreign contract manufactures have been terminated due to a shift in production focus, in effect withdrawing Dynamic Designs from Thailand as a supply markets. Currently, foreign sourcing is concentrated to the Nordic countries, Germany, Poland and Estonia.

5.5.2.2 Changes in Mode Selection

In upstream internationalisation direct importing from manufacturers was the main mode of foreign purchasing in the 1980s, while international sourcing overall was still very limited. During the 1990s, the share of international sourcing increased with the use of contract manufacturers of covers, since local labour costs in Sweden were seen as too high to permit domestic production. With an increasing number of foreign suppliers, Dynamic Designs also began dealing with a few suppliers’ agents, often located abroad, even if the
purchasing manager explains that the firm’s strategy is to bypass intermediaries as often as possible. In regard to an agent in Germany he says,

[…] then there is someone in Germany too, that we also have direct contact with, but they also have an agent, but sometimes we skip the agent if you see what I mean, to speed things up a bit, it doesn’t matter, we still have today his commission whether we contact him or not, so sometimes we contact him just because we think he should early his wages.

After the acquisition in year 2000, fewer products are bought from foreign suppliers and relationships with all but two contract manufacturers have been terminated since a shift in focus in product ranges has also occurred. The production manager says,

Then, our product range has changed in the past two years, there are new owners and the focus has shifted, so, it’s no longer on the agenda [to use contract manufacturers for certain products].

Today, Dynamic Designs’ main foreign supplier is a contract manufacturer in Estonia. The production manager says,

They manufacture the whole piece of furniture, you might say […] we cut the fabrics here and once a week they’re sent to Estonia. Then, the same day that they leave, a shipment of assembled furniture arrives; it’s basically the same truck […]

5.5.2.3 Changes in Partner Selection

Throughout the firm’s history, most upstream relationships have been initiated by Dynamic Designs. In some instances, Dynamic Designs has been forced to buy through agents, rather than directly from manufacturers. Few relationships have been terminated, though, other than those with contract manufacturers, this being a result of Dynamic Designs no longer needing their products as a consequence of a shift in production. No new upstream relationships have been initiated since the acquisition.

5.5.3 Case Summary

On the downstream side, seven types of changes in strategy can be identified. These include single entry into new type of market (2), new low commitment mode on multiple markets (1), new low commitment mode on single market (1), focal-firm initiation of multiple relationships (1), other-firm initiation of multiple relationships (1), focal-firm termination of multiple relationships (2), and focal-firm termination of single relationship (1).

On the upstream side, five types of changes in strategy can be identified. These include single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on multiple markets (1), new low
commitment mode on single market (1), and focal-firm termination of multiple relationships (1).

Exhibit 5.5: Changes in International Strategy in Dynamic Designs

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single entry into new type of market: US.</td>
<td>DD accepted an unsolicited offer from an individual who wanted to act as agent in the US (the agent was located in Denmark). The urge to expand into new markets was strong at the time.</td>
</tr>
<tr>
<td>Single entry into new type of market: Japan.</td>
<td>DD accepted an unsolicited offer from an individual who wanted to act as agent on the Japanese market (the agent was located in Denmark). The urge to expand into new markets was strong at the time.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Agents.</td>
<td>While the first foreign sales were achieved directly to foreign retailers, the firm’s management soon realised that employing foreign agents was the only way to significantly expand foreign sales. Considering the firm’s products and industry practices, this also appeared a logical choice. The firm rarely actively sought out agents, though, even if most of these were encountered at trade fairs.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Direct sales to retail chain.</td>
<td>Although the firm primarily relied on exclusive agents on most markets, in the case of Norway DD did not have an agent and sold directly to a retail chain for a few years. Before direct sales were achieved to the Norwegian retail chain, DD sold also to the Swedish part of the same chain.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Mid to late 1990s.</td>
<td>Between 1996 and 1998, DD undertook activities to improve sales on some nearby markets (UK, Finland and Norway) by locating agents there, either because the firm did not have any agents (Norway &amp; Finland) or to replace one with which relations had been terminated (UK, terminated by the agent).</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: Mid 1980s to mid 1990s.</td>
<td>After a few attempts at finding foreign customers and agents in the earliest phase of internationalisation, a period of ten years ensued when few attempts were made to find new foreign business partners. The firm continued to attract foreign partners, though, and a few agents were also tied to DD due to contacts with another firm in the region, which was acquired by DD.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Late 1990s.</td>
<td>Displeasure with performance led to the termination of relations with agents in Norway and Germany in 1998.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Early 2000s.</td>
<td>After the firm was acquired, again a period of evaluating the performance of foreign intermediaries ensued, and several relationships with agents were decided to be terminated.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Late 1990s.</td>
<td>Termination of relationship with first agent in Denmark who did not perform satisfactorily. The trigger for terminating the relationship was when DD was approached by another, would-be agent for Denmark.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single entry into new type of market: Thailand.</td>
<td>Introduction of partly new products necessitated using contract manufacturer in low-cost country. When DD encountered a Thai manufacturer’s agent a deal was struck.</td>
</tr>
<tr>
<td>Single entry into new type of market: Estonia.</td>
<td>Antecedent relation led DD to start using Estonian contract manufacturer for assembly of furniture. Cost reasons were important in this decision.</td>
</tr>
<tr>
<td>Withdrawal from single market: Thailand.</td>
<td>After the firm was acquired in year 2000, it was decided that DD would undergo a shift in product lines. This mean that contract manufacturers in Poland and Thailand were no longer needed and relations were terminated. This firm still has another supplier in Poland, though.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Contract manufacturing.</td>
<td>Starting in the early 1990s, DD began using contract manufacturers in low-cost countries (Thailand, Poland and Estonia), for sewing of upholstery and furniture assembly. Cost reasons were important in this.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Finland.</td>
<td>When a supplier no longer sold directly, DD had to buy products through manufacturer’s agent. Supplier was seen as important enough that preferences for direct purchasing were outweighed.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Year 2000.</td>
<td>When products where no longer needed due to a shift in focus in production after the firm was acquired in year 2000, relations with some suppliers were terminated.</td>
</tr>
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</table>
5.6 Enviable Environments

Enviable Environments was founded in 1939 and has been owned by the same family since. The firm’s production is chiefly focused on the manufacturing of shunt valves, used to regulate heating. In year 2002, Enviable Environments employed 130 people and had a turnover of SEK 139 million. Throughout most of the firm’s history, international sales have contributed more to turnover than have domestic sales, with a share of 65 per cent in 2001. International sourcing has always been very limited.

5.6.1 Overview of the Downstream Internationalisation Process

Downstream internationalisation was thus an important part of firm activities from very early on in the firm’s history and can be divided into four phases.

The first phase covers the 1950s and 1960s when the basis of Enviable Environments’ international distribution network was created and when the firm established its presence on the markets that were to be responsible for the lion share of foreign sales. At this time, export sales were achieved without much conscious effort on the side of the firm and its employees. Indirect exporting led to the establishment of direct contacts with distributors, primarily in Norway, Denmark, Germany, France, the Netherlands, Belgium and Austria. By the end of the 1960s, exports corresponded to well over half of the firm’s turnover. The former general manager says,

“We were passive as export sellers. We didn’t have stalls at any trade fairs and we did not conduct marketing activities on any foreign markets. It was thanks to the fact that our products were visible, when for example [name of burner manufacturer] or [name of burner manufacturer] exhibited a burner in Germany – actually it was enough that one was shown by a wholesaler, then others could read who had made the shunt.”

In the 1970s and 1980s, here referred to as the second phase, the firm grew steadily in domestic and foreign turnover. The former general manager says,

“You can’t really say that we have had a master plan, it’s more like we’ve been given suggestions or ideas or inquiries that made us realise that there was potential. So we’ve been more focused since around ’70 and started showing ourselves. There’s a big trade fair in Frankfurt which is international for this industry, and we attended a few times and that also gave us a lot because visitors from all over the world come to a trade fair like this, and, well, it leads to contacts. […] No, we didn’t have any strategy in those days, but now, in more modern times, our activities are of course much more focused.”

Few new markets were added in the 1970s, Finland, Greece, the U.S. and the U.K. being exceptions. Internationalisation activities during this period were
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aimed chiefly at maintaining positions on established markets and international trade fair attendance became more important. In the case of some markets, parallel distribution channels were established. During the early to mid-1980s, few new foreign distributors were added to Enviable Environments’ distribution network, though, and new markets reached during this period were primarily a result of very limited direct sales to manufacturers, although countries such as Argentina and Spain were entered. Contacts were still initiated by the partner firms, though.

The third phase covers the 1990s, when Enviable Environments ventured into a great many new markets, chiefly in Eastern Europe and Southeast Asia. In the case of new markets, entries were still largely reactive, especially in the case of the emerging markets in Eastern Europe. In the early 1990s, several new distributors were thus found, while some old relationships were terminated. The early to mid-1990s also meant that Enviable Environments for the first time took on outside help in establishing relationships with foreign distributors. Due to illness in the family, the general manager at that time could no longer devote as much time to the running of the company as had been the case before and a consultant from the Swedish Trade Council was put in charge of international sales. Additionally, during this period four foreign joint ventures were established, located in Estonia, Germany, the U.K. and France. Overall, the firm was more active in initiating relationships during this phase than what had been the case in the past, although when looking at the specific reasons behind the establishment of the joint ventures, e.g., largely reactive reasons such as financial difficulties and perceived lack of control over important markets emerge as most prominent. In 1995, Enviable Environments’ management decided to employ a permanent export manager and later also employed a consultant who would be particularly involved in finding buyers and distributors in Southeast Asia, a region where Enviable Environments hitherto had only had sporadic sales.

The fourth phase was initiated in 1999. Until then growth had been achieved with little though to overall strategy and some concerns were being raised among members of the firm’s board of directors and newly hired staff. The current general manager notes,

It was mainly the new ones on the management team, our technical manager and our marketing manager. They came to us almost at the same time and questioned how in Heaven’s name we were going to be able to fulfil all our commitments. And the company had been run very – well, maybe it’s not a nice way to put it, but still – unprofessionally. To some extent we had been very production oriented and things sort of had not been very professionally managed, or scientifically […] and when they came here with ambitions that were this high [respondent raises hand above head] they questioned how the Hell we would ever manage.

The perception emerged that the rapid expansion of the 1980s and 1990s needed to be consolidated if the firm were to maintain its position on its
markets. Consequently, a decision was taken that a focused, long-term strategy be developed and a clearer distinction be made between markets of greater and lesser importance. Since 1999, several new distributors have been added to Enviable Environments’ distribution network, however, located mainly in Asia, but also in Russia, Egypt, Spain and Argentina. In all these cases, the distributors themselves have been the initiators of the relationships. A new distributor has also been found in Poland, in which case this was part of an effort on Enviable Environments’ side to improve sales on what is seen as a market offering great potential.

5.6.1.1 Changes in Market Selection

In downstream internationalisation, Enviable Environments began selling on nearby markets, slowly expanding geographically. The first markets that the firm entered were those where Enviable Environments’ products had previously become known through indirect exporting, a handful of key distributors being responsible for expansion into Western Europe until the late 1970s. Forays into distant markets such as Latin America were undertaken indirectly, through Enviable Environments’ distributors. The markets that had been established in the 1950s and 1960s continued to dominate and few new markets were added until the 1990s. The general manager describes a situation of production at capacity during much of this period, largely precluding a need for further geographical expansion.

On the side of Enviable Environments’ management little in the way of search activities were conducted until the mid-1990s, when the role of the marketing function changed through the use of external consultants and the hiring of marketing professionals. In a few years, the number of markets where the firm was present doubled. Quite clearly, societal trends on a macro level also influenced the rapid market expansion of Enviable Environments. With the opening of Eastern Europe, these markets were penetrated in the mid-1990s, while a number of Southeast Asian markets were penetrated in the mid to late 1990s. The expansion in number of markets is also reflected in the rapid growth that the firm experienced throughout the 1990s, the export volume in 2001 being nearly five times that of 1991. The export share of turnover also increased during this period, from around 40% in 1991 to 70% in 2001. After the second market expansion stage, however, the marketing manager refers to a situation where the firm had entered more markets than could be adequately managed and a decision was taken to focus on the firm’s key markets. No specific activities would thus be undertaken to enter new markets. Efforts at expanding sales were instead directed towards activities on the firm’s more important or potentially more important existing markets. In regard to changing the structure of Enviable Environments’ international distribution network and increasing the number of markets, the marketing manager makes notes,
What we are trying to do now is to consolidate. Perhaps before it was more about quickly increasing turnover and running on many markets to grab easy sales, because on any given market there are always some who are willing to change suppliers tomorrow, and those you get quite easily. Then, if you want to penetrate the market you need much, much more resources and that’s what we’re doing right now, identifying which are our main markets [...] and putting up rules for how we want to work on these markets, to see how we can get there. Mapping the markets, finding out how big they are for one thing.

5.6.1.2 Changes in Mode Selection

Although the firm initially began internationalising downstream indirectly through sales to Swedish manufacturers, there is one mode of internationalisation that has dominated in Enviable Environments over time, that of exporting directly to foreign distributors. The firm has also achieved some sales directly to foreign manufacturers, but most foreign sales have been achieved through local representation. Generally, little appears to have been done to increase direct sales to manufacturers. In the early to mid-1990s, Enviable Environments also started four joint ventures, located in the U.K., Estonia, Germany and France.

Looking at influences on mode selection, a number of factors can be identified. Throughout most of Enviable Environments’ downstream internationalisation most relationships have been initiated by the partner firms, primarily firms that already act as distributors for other firms. In those instances when Enviable Environments’ management did actively search for foreign outlets, distributors were favoured though, direct exporting to manufacturers typically being a result of an inability to find local representation.

Only in the early 1990s did the firm’s management begin to seriously consider alternative modes, then as a way of getting access to a new market through helping to finance new firms as in the case of Estonia. In Germany and France this was largely done because fears were raised concerning lack of control over important markets. In regard to the French joint venture, the former general manager says,

[...] in the early 1990s, also [name of distributor] in Switzerland ended up in trouble, you would not think so, but they ended up going bankrupt, and their French sales subsidiary also went bust, although it took a bit of time, but by then we had already planned to start a sales subsidiary in France because our situation down there was no good [...] but it was a big market, important to us, but it was pretty much out of our control. So I had been scouting around for people down there and finally found someone. So this was a salesman for [name of Swiss distributor] together with, let’s call him a businessman without any ties to [name of distributor] but with connections in the industry, who together with this guy from [name of distributor] formed a team and we started Enviable Environments France, where this businessman owned half and Enviable Environments owned half. This was around ’95 – it took some time before all the pieces fell into place.
In the case of the U.K. this mode was a way to better penetrate a problematic but potentially important market. The joint ventures were thus primarily created as a way of solving finance and control problems. Having been inactive since around year 2000, the U.K. joint venture is currently being dissolved, while the French joint venture has been taken over by Enviable Environments. The German joint venture, though, is currently still operating in its original form, while Enviable Environments sold its share in the Estonian joint venture already in 1998 when it was no longer perceived to be necessary to financially back up the partner. In the U.K. and Estonia, the former joint-venture partners have now assumed the role of local distributors.

Concerning a possible reduction in the number of distributors on low-priority markets as a lead in the current strategy of focusing on key markets, though, the marketing manager says,

Well, I don’t mind, they might as well remain [as distributors], they don't cost anything to manage. I mean, if they call here and want to buy something, OK. But we don’t go there, we don’t really support them, so if there’s a sale there’s a sale. What we are doing is that we need to clean up a bit on both A and B markets where we have several channels into one market.

5.6.1.3 Changes in Partner Selection

Since so many of the relationships with foreign buyers have been initiated by the partner firms rather than by Enviable Environments, it is difficult to identify trends in partner selection. Overall, though, the strategy in finding foreign business partners appears to have gone through three stages. During most of the firm’s history very limited efforts were undertaken or apparently even perceived as necessary to find foreign customers, i.e. the firm’s manager largely relied on potential partners to contact Enviable Environments. In the mid-1990s, with the hiring of marketing professionals greater active efforts in finding foreign partners were undertaken. Since 1999, however, most new relationships are again established by the partner firms, this new approach being a result of greater focus in marketing activities and the realisation among management that new foreign partners are not needed since the firm already has difficulties in servicing existing customers. There is one exception from the current approach, however. A new Polish distributor has been sought out to better penetrate that market.

All in all, one third of the downstream internationalisation relationships that Enviable Environments has been involved in have been terminated or have significantly changed form, such as when a distributor becomes a joint venture partner. Relationships have also been terminated by Enviable Environments, although reasons for termination primarily include perceived poor finances of distributors and poor sales. Among downstream relationships terminated during earlier parts of the firm’s history, bankruptcy on the side of the partner firm dominates as reason for termination. These were thus not relationships terminated by Enviable Environments. More recently, however, downstream
relationship termination is a result of action taken by Enviable Environments’ management, the reason being perceived poor performance.

5.6.2 Overview of the Upstream Internationalisation Process

Basically, three phases in upstream internationalisation can be distinguished. The first efforts at international purchasing were undertaken in the early and mid-1980s, after which followed a period of around a decade when few new international buying relationships were initiated. The third phase, starting in the late 1990s, entailed renewed interest in finding international suppliers.

During the first four decades of the firm’s history, purchasing from foreign manufacturers – to the extent that such existed at all, as the products Enviable Environments needed could mostly be sourced locally – was done mainly through agents in Sweden. According to the current general manager,

This is a part of the country that is amazing when it comes to the network of suppliers, being able to find suppliers nearby. It doesn’t have to be a negative thing [to find suppliers elsewhere] but here you find pretty much everything and they all face competition, internally in this region, sort of, so they have to shape up. Yes, the internal competition has made sure that you measure up pretty well to the outside, I think.

Direct international purchasing began in the early 1980s, as a result of industrial restructuring in the region as well as price increases which required Enviable Environments to buy some cast valve details from Denmark and Switzerland. Most of the relationships established at that time are still active. During the 1990s, few new foreign suppliers were found. This was a very hectic period for the firm and its management. There was little time to devote to foreign sourcing activities. Any changes in the foreign supply base at this time were not triggered on by Enviable Environments, but by external actors. The current general manager – then in charge of purchasing – explains,

[…] I had quite a lot of different things to do back then. I build up our MPS system and planning and everything else, so … the purchasing part was more that … you never really had time to do anything other than make sure that deliveries turned up and hunt down the stuff you needed. But you never had any time to do the kind of work you should have to find new suppliers, at best you could knock the ones you already had over the head and try to get better prices and things, right? [Name of current purchasing manager] has spent a lot more time on this than I did, finding new suppliers and so on. […] Then it was just a matter of making sure that things worked, right?

The late 1990s and onwards, however, meant that several new foreign suppliers were added to the supply base. The relationships begun at this time were initiated in different ways. Several were started after prompting or directly by
third parties, e.g. customers requiring that specific suppliers be used. Other relations were initiated by Enviable Environments as a result of changes in the firm’s marketing strategy. In the late 1990s, the firm’s own product lines needed to be supplement with products from foreign suppliers. Finding these suppliers was not the responsibility of the purchasing function, though, but was organised by the marketing function.

While in the 1990s buying through Swedish agents was considered a preferable mode, this attitude has also changed. Even if the purchasing function has not been affected by the recent attention to the firm’s future development, today the purchasing manager describes a more structured way in the firm’s dealings with its suppliers, subjecting both new and existing suppliers to greater scrutiny before purchases are made. Currently, attempts are also made to reduce the number of suppliers.

5.6.2.1 Changes in Market Selection
The first foreign supplier was found in Denmark in the early 1980s, the reason being that the particular type of product needed by Enviable Environments could easily be found there. The purchasing manager during the 1990s explains that a pattern of foreign sourcing avoidance formed in the mid 1980s to mid 1990s, this being as a result of two factors. Firstly, the purchasing manager at the time notes that he did not have any time to devote to searching for foreign suppliers and, secondly, that local suppliers could relatively easily be found. Only in the late 1990s were contacts established with suppliers in a wider range of countries, which were still concentrated to Western Europe, however. In the case of suppliers in Germany and Italy, relations were formed as a result of outside pressure. In the case of a U.K. supplier, the need to supplement Enviable Environments’ product range with a specific product led to the establishment of a relationship. All in all, upstream market selection has apparently not been an active choice on the side of Enviable Environments’ management.

5.6.2.2 Changes in Mode Selection
In direct upstream internationalisation, Enviable Environments has consistently bought directly from manufacturers, although a significant portion of purchasing is done indirectly. The case material provides no indications that other modes of foreign sourcing have been considered.

5.6.2.3 Changes in Partner Selection
In upstream internationalisation, the reverse trend can be observed compared to downstream internationalisation. The earliest foreign sourcing relationships were a result of active search on the side of Enviable Environments’ management, largely due to a need to find substitutes for discontinued local products. The general manager says,
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Before, we used to cast them here at [name of foundry] right next door, then we started looking for [foreign foundries] because one by one they closed down the foundries in Sweden so [...] we went abroad and Denmark is very strong on that side. So, we started [working with a Danish foundry] sometime in the early 1980s.

Most of the later relationships have been established without active search on the side of Enviabile Environments, being initiated by third parties, e.g. the firm’s customers or by existing suppliers. While Enviabile Environments has been more active in establishing international buying relationships than in the establishment of international selling relationships, the reasons for finding foreign suppliers have apparently been largely reactive.

5.6.3 Case Summary

On the downstream side, eight types of changes in strategy can be identified. These include multiple entries into new type of market (3), single entry into new type of market (3), new high commitment mode on multiple markets (1), new low commitment mode on multiple markets (2), new low commitment mode on single market (1), focal-firm initiation of multiple relationships (1), focal-firm termination of multiple relationships (1), and focal-firm termination of single relationship (1).

On the upstream side, four types of changes in strategy can be identified. These include multiple entries into new type of market (1), focal-firm initiation of multiple relationships (1), other-firm initiation of multiple relationships (1), and focal-firm termination of single relationship (3).


<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Latin America.</td>
<td>Hiring of staff with antecedent relations there prompted expansion into this region.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe.</td>
<td>Coincides with political changes and the hiring of new staff. Most entries were initiated by the partner firms, although after a number of markets had been entered, EE’s management decided to actively enter Hungary and Poland.</td>
</tr>
<tr>
<td>Single entry into new type of market: Argentina.</td>
<td>Grasping of unsolicited contact.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Joint ventures.</td>
<td>In the early to mid-1990s, four joint ventures were started (in Estonia, UK, France and Germany). The outspoken strategy of the manager was 50-50 ownership. The reasons why these joint ventures were started include primarily the need to help finance a foreign venture (Estonia), fears regarding lack of control over important markets (France and Germany) and what was seen as a better way of penetrating a problematic but potentially important market (UK). The marketing manager also describes the firm’s strategy as being to have committed presence where there is great O&amp;M potential.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Distributors in UK and Estonia.</td>
<td>Considering the efforts involved in running these joint ventures, their purposefulness was put into question and a decision was taken that they be closed down. In the case of Estonia the initial aim of helping the partners get a business up and running was also fulfilled. Withdrawal from the two remaining joint ventures (France and Germany) is also considered. Withdrawal from the UK and Estonian joint ventures are also part in a general restructuring effort. The former joint venture partners act as distributors.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Exporting to foreign distributors.</td>
<td>From first having relied on indirect exporting through large domestic customers, the firm also achieved unsolicited direct export sales in the early phase of internationalisation. Already in the 1950s began a process of employing foreign distributors, though, which soon became the dominant sales mode. Few of these distributors were actively sought out by EE, though, this largely continuing to be the case until the mid to late 1990s.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Sales without intermediary in UK.</td>
<td>Sales directly to manufacturers in the UK after failed attempts to find local distributor.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Early to mid-1990s.</td>
<td>Initiation of relations with distributors in Latin America after hiring of staff with antecedent relations there. Also active search for replacement of bankrupt distributor (Finland) and poorly performing distributor (Spain).</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Early 1990s.</td>
<td>Distributor in Spain (poor performance); distributor in US (EE already had other distributor in US since more than ten years and recently found distributor did not perform well enough that having two distributors was purposeful); UK (poor performance, by this time EE’s management also believed that they had sufficient market knowledge to work without distributor in the UK).</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: 1998-1999, Norway.</td>
<td>As part in a new approach to internationalisation, poorly performing distributors in Norway have been replaced.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Germany, c.1989.</td>
<td>Belief that new would-be distributor (relative of old distributor) could perform better than old distributor led EE to accept unsolicited proposal.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Norway, c.1995.</td>
<td>Disatisfaction with performance led to termination of relationships with Norwegian distributor after new distributor had been found.</td>
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<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
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<tr>
<td>Multiple entries into new type of market: Western European Markets.</td>
<td>Since the late 1990s, the need to supplement existing products ranges as well as perceived pressure to use certain suppliers account for entries into several Western European markets. This is part of more conscious strategy in supplier selection and coincides with the hiring of more sourcing staff. Previously the firm had sourced almost exclusively from Sweden and Denmark.</td>
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<tr>
<td>Focal-firm initiation of multiple relationships: early to mid-1990s.</td>
<td>See above.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: Danish supplier c. 1995.</td>
<td>While most early sourcing relationships were initiated by EE, this changed during a period when management was busy focusing on keeping production running and had no time to devote to searching for foreign suppliers.</td>
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<tr>
<td>Focal-firm termination of single relationship:</td>
<td>Disatisfaction with delivery times.</td>
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5.7 Funky Furniture

Funky Furniture was founded in 1982 and is still owned by the founder and his family. In 1993, an external general manager was hired. From the mid-1990s the founder did not work in the firm but returned in 2001 and again took over as general manager. When the firm was founded, it was working primarily with retail store interiors. Today, however, the firm focuses on storage furniture for private consumers. In the year 2002, Funky Furniture had 98 employees in Sweden, a turnover of SEK 160 million and an export share of 99 per cent. No more than five per cent of purchasing came directly from foreign suppliers.

5.7.1 Overview of the Downstream Internationalisation Process

Funky Furniture is highly downstream international, with practically all sales made on export markets. When the firm was founded, direct internationalisation was not considered important, though, and the firm focused primarily on a few, large Swedish customers. Internationalisation began in the mid to late 1980s with the introduction of a new product range aimed at consumers. The firm’s focus on this range increased further with the finding of an agent in Germany in 1988. Sales expanded rapidly, primarily in the German-speaking parts of Europe. Especially the German market developed well, soon contributing more to turnover than domestic sales. Funky Furniture’s dependence on the German agent reached what management perceived to be a dangerous level, though. Little attention had been paid to the planning of activities inside the firm as the organisation grew and the rapid, but unstructured, growth also gave rise to some concerns. To ensure that the firm was more professionally run, in 1993 an external general manager was hired. One of his most important tasks was to find a solution for the German market, where a single agent handled Funky Furniture’s business. The newly employed general manager at that time says,

*I came here primarily to sort out an organisation that had run wild, because it was created very much in an entrepreneurial spirit, then, right. It was incredibly creative, incredibly dynamic, and then you need someone to clean things up a bit. That was my first job, to try to unite the management team around a structured way of working with one person working with purchasing, one person working in sales, production management and so on. And then this was a task that was pretty heavy, to try to move the [German] agency into a firm of its own. That is, it wasn’t really an internationalisation thing in the sense of starting something new somewhere… […] It was a huge reconstruction effort. There was a risk having an agent in Germany responsible for maybe 65 per cent of the firm’s turnover and perhaps it was daring to try and find a structure to work with ourselves. But it worked out really well. It worked out above expectations, because no customers disappeared.*
A decision was thus taken that Funky Furniture should handle all German customers through a wholly-owned sales organisation and the agent was fired. The transition went fairly smoothly because Funky Furniture already had some form of direct contact with most customers in Germany. Between 1993 and 1995, no new markets were entered. By the mid-1990s, Funky Furniture had reached an annual turnover over SEK 200 million, 80 per cent of which coming from export markets. Having gotten rid of the German agent, the expansion into new markets took off in 1996 and continued throughout the late 1990s. Sales expansion, however, did not follow as a result of market expansion.

In 1996, new agents were found in Norway and for most of Eastern Europe, although not due to any initiative taken by Funky Furniture. In 1997, Funky Furniture came into contact with an agent for a Japanese retail chain. That year, Funky Furniture’s management also decided to enter the North American market through a wholly owned sales subsidiary, encouraged by a customer that the firm had come across at a trade fair in Germany. Southern Europe and China were also placed in focus at this time.

Sales did not expand satisfactorily and a process of again restructuring international activities began in 2000. Poorly performing agents were fired and the U.S. subsidiary which had failed to yield a profit was closed down. Instead, a project was started together with a distributor in Canada, aimed at marketing Funky Furniture’s products in North America. In 2002, also the German sales subsidiary was closed down and a decision was taken to manage relations with German customers from the Swedish headquarters, although Funky Furniture still employed seven travelling salesmen in Germany, Austria and Switzerland. By mid-2002, Funky Furniture had distributors in Greece, Spain, and Eastern Europe. The firm also had agents in Italy, France, the Benelux countries and Norway.

5.7.1.1 Changes in Market Selection

Early on, the German-speaking parts of Europe, i.e. Germany, Austria and Switzerland, were established as Funky Furniture’s main markets. Contacts, experience and interest of the firm’s founder were important reasons for this. Rapid expansion of sales on these markets made further expansion unnecessary for growth to take place. Except for Belgium, the Netherlands and Norway, no new markets were entered until the late 1990s, with the exception of occasional direct sales. In the mid-1990s, much of the focus was placed on internal reorganisation and the restructuring of activities on the German market.

After efforts aimed at reorganising activities began to take effect, between 1997 and 2000, a number of new markets were entered. These include North America, Southern Europe, U.K., Ireland and Japan. In all these instances entries were initiated by the partner firms, except for the entry into North America which took place in the form of a sales subsidiary. The decision to enter this market, however, appears to have been largely inspired by a specific customer.
In 1999, Funky Furniture withdrew from the Japanese market due to poor profitability and perceived problems with transporting products over long distances. Since 2000, no new markets have been entered and by 2002, no new market entries were planned.

In spite of new market entries, international sales expansion has been limited since the late 1990s, the most important foreign market still being Germany. Currently, the focus lies largely around better penetrating existing markets rather than entering new ones. The marketing manager says,

_We prioritise markets and today we’re established in Germany, Austria and Switzerland, these are our strongest markets. And then we prioritise new, coming markets and that I’ve focused to the areas surrounding Central Europe, France, Italy, England, and Benelux, and there we concentrate our marketing efforts._

### 5.7.1.2 Changes in Mode Selection

Direct exporting via foreign agents began to dominate soon after Funky Furniture started internationalising, a German agent found in 1988 being Funky Furniture’s main business partner until 1996, when a sales subsidiary was established in Germany as a response to management’s fears concerning too great reliance on a single agent. The former general manager says,

_You might say that what happened was that I built a, or we, built a parallel organisation under cover, you might say, and sort of solved all problems with hiring people, recruitment and so on. And then, on the same day that we cancelled the contract [with the existing agent] we went over into our own organisation._

In 1997, a sales subsidiary was started also in the U.S. The problems involved in venturing alone were underestimated by management, though, and it soon became apparent that this undertaking would not become profitable.

In the late 1990s, several new markets were entered, typically through the use of agents on key markets and through distributors on less important markets, such as China, Greece and Spain. Another period of restructuring important markets began in 2000, when the U.S. sales subsidiary was closed down after a few years of poor performance, being replaced by a sales joint venture together with a Canadian partner. In 2002, the German sales subsidiary was also closed due to cost reasons, relations with German customers now being managed directly from Funky Furniture’s Swedish headquarters, although travelling salesmen are still employed in Germany. As Germany is seen as such an important sales market for the firm, Funky Furniture also makes use of a warehouse service in Germany to stock products locally.

### 5.7.1.3 Changes in Partner Selection

Most international downstream relationships that Funky Furniture has been involved in during its 15 years of international sales have been initiated by the
partner firms, typically at trade fairs. The former general manager of Funky Furniture says,

*Always at first contact, trade fairs are important. That’s the way it is. Especially the international trade fairs are important because we rarely or never make any business deals at the trade fairs like maybe ten years ago when you came home with filled order books from a trade fair. It doesn’t work like that anymore. Contacts are made and followed up in the sense that you present you concept, you make visits and […] this process [of building] trust, you try to find out if I spend a lot of efforts on this customer, does it pay?*

The first German agent was found at a trade fair. He was also working together with the firm that would become Funky Furniture’s agent in Belgium and the Netherlands. Relationships established with foreign agents and distributors since, have almost exclusively been initiated by the partner firms, even if antecedent personal contacts played a role in many of the relationships established in the late 1990s. As far as relationship termination is concerned, Funky Furniture has taken a more active role since the late 1990s, poor profitability of intermediaries being one reason, perceived lack of control over important markets another.

### 5.7.2 Overview of the Upstream Internationalisation Process

Part of production is taken care of by the firm’s subcontractors, Funky Furniture buying many of the components that make up their systems. Additionally, there are many other firms in the area where Funky Furniture is located that are specialised in manufacturing the types of components and materials that Funky Furniture uses, such as wire and wood products. Therefore, most of the firm’s sourcing needs have been filled locally. Currently, no more than five per cent of Funky Furniture’s purchasing comes directly from foreign suppliers, one large foreign supplier, in turn, being responsible for 90 per cent of foreign sourcing. The purchasing manager says,

*We have a few small ones that we buy from every now and then. Actually, it’s been since maybe five, six years or so. But as soon as there are any volumes we try to make our own.*

The most important supplier manufactures wire mesh and was contacted by Funky Furniture at a trade fair in Germany around 1997. Other suppliers have typically also been found at trade fairs, primarily manufacturers of specialised components that Funky Furniture for economic reasons is unable to manufacture itself, like e.g. handles and various fittings.

The firm’s other foreign suppliers are located in China, Germany and Italy, all of which represent only marginal purchasing volumes.
5.7.2.1 Changes in Market Selection

The first international purchasing activities began only in the late 1990s, the focus on sales to Germany being reflected in a focus on purchasing from German suppliers. However, international purchasing corresponds to only five per cent of total purchasing, the type of products sourced typically found locally. Overall there appears to have been only very limited need to source from foreign suppliers. Countries other than Germany where the firm finds products include China and Italy. Yet, in the former case business is primarily conducted through an agent in Sweden. Foreign suppliers have generally been found at trade fairs, the actual country of origin apparently not being of great importance. The purchasing manager explains that the firm aims to do as much sourcing as possible locally, though.

Currently, Funky Furniture is in the process of entering the Southeast Asian market through licensing manufacturing rights to a firm in Thailand, local production being seen as the only realistic way to enter the region.

5.7.2.2 Changes in Mode Selection

The few foreign sourcing activities that have taken place have been conducted in the form of direct importing from manufacturers. There are no specific changes in regard to patterns in upstream mode selection behaviour identified in the case material, the only exception being licensing manufacturing rights to a Southeast Asian firm. According to Funky Furniture’s management, this is a more realistic way than direct exporting when entering such remote markets, especially considering the bulky nature of the firm’s products. The marketing manager says,

Now we’re involved in a project where we’re tying ourselves to another Asian firm, in Thailand. There we discuss how they could produce most of our products under licence in Thailand and then export to the rest of Asia from Thailand to optimise the logistical flows and also to get more efficiency and some product adaptation for the Asian market. [Funky Furniture came into contact with them] through another joint venture that we have, a Canadian firm, they had this contact at their purchasing department, and then we followed it up.

5.7.2.3 Changes in Partner Selection

Upstream relationships have been initiated by Funky Furniture, in a couple of instances through the use of existing relationships with local suppliers. No particular changes in behaviour in regard to this aspect of internationalisation have been identified.

5.7.3 Case Summary

On the downstream side, ten types of changes in strategy can be identified. These include multiple entries into new type of market (2), single entry into
new type of market (2), withdrawal from multiple markets (1), withdrawal from single market (1), new high commitment mode on multiple markets (1), new high commitment mode on single market (1), new low commitment mode on multiple markets (1), new low commitment mode on single market (2), focal-firm termination of multiple relationships (1), and focal-firm termination of single relationship (1).

On the upstream side, two types of change in strategy can be identified, including single entry into new type of market (1), and new high commitment mode on single market (1).

Exhibit 5.7: Changes in International Strategy in Funky Furniture

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Southern Europe.</td>
<td>Unsolicited contacts that either approached FF at trade fair or which arose as result of antecedent relations. Little in the way of evaluation of market and partner potential was apparently undertaken by FF.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: US &amp; Canada.</td>
<td>Encouraged by would-be customer in the US, FF’s management decided to set up of wholly-owned sales subsidiary in US since this was believed to best way to penetrate potentially large market.</td>
</tr>
<tr>
<td>Single entry into new type of market: Japan.</td>
<td>Unsolicited contact (agent for retail chain) made at trade fair.</td>
</tr>
<tr>
<td>Single entry into new type of market: China.</td>
<td>Unsolicited contact (distributor) made at trade fair.</td>
</tr>
<tr>
<td>Withdrawal from multiple markets: Ireland and UK.</td>
<td>Poor profitability and difficulties in cooperating with partner (UK) led to the termination of relations, after which these markets were not further pursued.</td>
</tr>
<tr>
<td>Withdrawal from single market: Japan.</td>
<td>Poor profitability due to recession (Japan) in combination with the fact that FF’s products are not seen by management as being well suited for long range transportation led to withdrawal.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Sales subsidiaries in US and Germany.</td>
<td>Sales subsidiary in Germany (1996-2002) was started to replace agent on which management perceived that the firm had become too heavily reliant. Sales subsidiary in US (1997-2001) started after encouragement by would-be customer in the US since this was believed to best way to penetrate potentially large market.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales joint venture in Canada.</td>
<td>Sales joint venture triggered by Canadian would-be partner who had antecedent relation with individual working for FF’s German sales subsidiary. Joint venture started as a way of remaining on a perceived potentially very large market where previous efforts with wholly-owned sales subsidiary had failed. The sales subsidiary was finally closed down after decision to try joint venture.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Distributors.</td>
<td>Having previously employed agents or direct exporting without intermediary, in the late 1990s FF began using distributors on some markets of marginal importance. All relations with distributors were initiated by the distributors.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Direct exporting to Germany.</td>
<td>A decision was taken that customers in German-speaking countries should be managed directly by the Swedish head office rather than through the costly German subsidiary.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Use of warehouse service in Germany.</td>
<td>After German sales subsidiary was closed down there was a need to find new, local storage of products. Consequently, warehousing services are made use of.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Germany, 1996.</td>
<td>Due to fears that FF was become too reliant on a single agent in Germany, a decision was taken that FF should manage relations with customers through a wholly-owned sales subsidiary in Germany. Subsequently, relations with the agent were terminated.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Around year 2000.</td>
<td>In a general effort to restructure the firm’s international activities, poorly performing foreign market intermediaries were fired around year 2000, in several instances resulting in market withdrawal.</td>
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<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Single entry into new type of market: Thailand.</td>
<td>Licensing of production to Thai firm for further exporting to the region after initial suggestion by individual working for Canadian joint venture partner. This is perceived to be the only realistic way to enter that region.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Licensing to firm in Thailand.</td>
<td>See above.</td>
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5.8 Glossy Grains

Glossy Grains was founded in 1898, the grandfather of the current (part) owner and general manager acquiring the firm in 1931. Glossy Grains was originally started as a manufacturer of gold bronze powder. Production today, however, is focused around various types of aluminium powder. Basically, Glossy Grains acquires spillage aluminium, which is pulverised. This is then processed for various uses by the firm’s customers, including manufacturing of light-weight concrete, explosives, pigmentation for plastics and various paints for industrial use. Glossy Grains also acquires aluminium powder for resale.

Today (2002), the firm employs 51 people and has a turnover of SEK 130 million. Throughout most of its history, international sales have been of great importance, now corresponding to 98 per cent of turnover. International sourcing, however, has always been limited although has been going on intermittently since the 1940s.

5.8.1 Overview of the Downstream Internationalisation Process

At the turn of the century, Germany was the undisputed leader in the field of metallurgy and German management as well as German workers were brought in to help get the firm started. Glossy Grains’ was, thus, in a sense international already from the start. In the late 1920s, following economic problems throughout the 1920s brought on by poor sales, a decision was taken to expand the firm’s insignificant export sales. While no attempts were undertaken to enter the German market – characterised by strong competition and greater expertise than Glossy Grains’ possessed – management searched for and found agents throughout Northern Europe. Denmark, Norway and England were the most important foreign markets by the early 1930s. In the following years sales grew rapidly and the production of pulverised aluminium replaced gold bronze as the firm’s most important product. The outbreak of WWII, however, meant that exporting rapidly dwindled and the network of agents dissolved.

After the end of WWII, the process of finding new agents abroad quickly began. Although foreign competition was fierce, by 1956 Glossy Grains had agents in the U.K., Denmark, Norway, Finland, Spain, Syria, South Africa, India, New Zealand, Peru, Mexico, Costa Rica and Cuba. Additionally, the firm was represented on a great many other markets through two trading firms in Sweden. In the late 1940s, through sales to a large Swedish firm a lot of Glossy Grains’ products began to be indirectly exported to Germany. In the decades to come, the relationship with this firm would also be an important source for achieving indirect export sales on markets all over the world.

In the late 1950s and early 1960s, a few additional agents were found, located in Germany, Italy, France and the U.S. While it cannot be ascertained how these relationships were initiated, at this time expanding into new markets
was of low priority. Growth in international sales took place primarily on already established markets.

The large domestic market and the firm’s relative success on the other Scandinavian markets meant that efforts directed towards expanding export sales to more distant markets were limited. In the mid-1960s, an extensive survey of the situation on Glossy Grains’ export markets was undertaken. This survey revealed that while there was a huge market for Glossy Grains’ products, there were many strong competitors, some of which were more technically advanced than Glossy Grains. The ambition among management was to change this, however, and significant investments in new product development and a new plant were undertaken in the 1960s and early 1970s. Throughout the 1970s, the export share grew to half the sales volume.

Compared to the period between the 1940s to the 1960s, the 1970s and 1980s meant that efforts at expanding the network of distributors slowed down markedly. As the firm already had established representatives on many markets, the focus was clearly on expanding sales on key markets. Product innovations meant that demand was high and mostly the firm had little problem finding a market for its products. In spite of innovations in production technology, much of the time the firm manufactured at capacity.

Due to strong local competition, the U.S. had never been perceived as a very important market for Glossy Grains. In the early-1980s, the U.S. market began to expand due to the emerging practice of mixing aluminium powder in roof coating materials to reduce heat. Glossy Grains’ sales increased with the finding of a new agent there.

Throughout the 1970s the export share had been around or above 50 per cent of turnover. In the mid-1980s this was expanded further with the hiring of export-oriented staff. The current marketing manager says,

*And then things developed, slowly, until the mid-1980s. Then things took off again. And that was primarily because people who were into exports were hired then, people who knew exporting.*

Using agents had previously been the main sales mode. A move towards employing distributors began at this time and in the early 1990s, a few new distributors were found, both opening up new markets and providing better coverage of existing markets. By the mid-1990s, the export share had increased to over 80 per cent of the firm’s turnover.

The late 1990s again meant that Glossy Grains embarked on a process of change in regard to downstream international activities. Relations with many of the firm’s old distributors were terminated or in one case rejuvenated. New distributors were found on most markets, although typically after initiatives taken by the partner firms. The firm’s management also decided to focus on a smaller number of markets. Sales have increased rapidly since. Today much of the firm’s sales go directly to end users rather than through intermediaries. Typically, this is the case with larger customers, while intermediaries manage
smaller customers. Today, the U.S. is Glossy Grains' single most important market and is responsible for much of the growth in the past five years.

5.8.1.1 Changes in Market Selection

In the 1920s due to poor domestic sales a decision was taken to expand the firm’s market, primarily to nearby countries with a focus on Northern Europe. World War II meant that Glossy Grains involuntarily withdrew from its foreign markets, though.

After the end of WWII, basically the same process of finding agents on foreign markets was repeated, although the geographic spread of the network of agents established until the mid-1950s was greater than before WWII, now with several agents in Latin America, for example. Strong international competition led to limited foreign sales at this time, however. The expanding domestic market took most of the firm’s sales as opposed to the previous period of foreign expansion, to some extent decreasing the pressure for foreign expansion. Glossy Grains did, however, manage to export indirectly to a range of countries through a large Swedish customer.

In the late 1950s and early 1960s, investments in product development began paying off and foreign sales expanded. Expansion into new markets was limited, however, although some new agents were hired to complete the firm’s coverage of Western and Southern Europe. Scandinavian markets still dominated sales at this time.

Also the 1970s and early 1980s meant little in the way expansion into new markets, foreign sales expansion being accounted for by increasing sales on existing markets. Some markets of marginal importance in Eastern Europe and Northern Africa were opened up, however. In the mid-1980s, professionalisation of the marketing function began and expansion into Asia took place. More importantly, however, in the mid-1990s the U.S. market began to expand. At this time foreign sales corresponded to more than 80% of turnover.

The late 1990s witnessed a more focused approach to international sales, with withdrawal from several markets where the firm had previously had representation, i.e. withdrawal in the sense that relationships with representatives there were terminated. Concerning the agents and distributors with which relations have been terminated, the marketing manager says,

_They’re all over the place. Switzerland, Algeria, Norway, Finland, Denmark, and then Southeast Asia, we had contacts with these in Pakistan, India, one in Singapore, we had an agent in Mexico. I mean, we had lots of these that we’ve gone through._

In many instances sales had not actually been achieved for long periods of time, although contracts with intermediaries still existed. The strong demand for the firm’s products and Glossy Grains’ difficulties in serving its main markets inspired a decision to focus on Southern and Western Europe and the U.S., the
latter market quickly developing into the firm’s main foreign market. Expansion into new markets is not a priority at present.

5.8.1.2 Changes in Mode Selection

The first international sales of note were achieved through foreign agents in the 1920s and 1930s. At this time there was practically no contact with end users. After WWII, a new global network of agents was created. Direct contacts with customers remained very limited and indirect exporting was achieved through a large Swedish customer. The former general manager of Glossy Grains says,

*In these days, if you go back to the time after the war and until the 70s and 80s, we had no direct contact with the end customers, it was all done through the agents.*

Sales through foreign agents continued as the main mode of international sales until the mid-1980s, when some agents were transformed into distributors. Events at the time influencing this shift include the hiring of more market-oriented staff and expansion of the global market for powdered aluminium. At this time, direct sales to end customers also began to increase in importance.

The 1990s witnessed rapid growth and often production at capacity levels. This also impacted mode selection behaviour. Since 1997, many of the old agents and distributors have been fired, Glossy Grains’ management preferring to work more closely with a small number of distributors, often serving several markets. In some segments direct sales dominate, although this depends primarily on the size of the customer. While larger customers are typically served directly, sales to small customers are achieved through local representatives. The role of intermediaries has thus changed to some extent and, in effect, multiple distribution channels have been established on several markets.

5.8.1.3 Changes in Partner Selection

The earliest relationships with foreign agents were established in the 1920s and 1930s, as a result of low domestic demand. The outbreak of WWII meant that these relationships were involuntarily terminated, though. Also after World War II, Glossy Grains’ management actively searched for agents and initiated a large number of relationships. In the early 1950s, an employee travelled around the world searching for agents and signing contacts. The current marketing manager says,

*Actually, in the 50s an accountant was in charge of sales. He sent letters home, he was in Mexico and he was on his way down to Brazil to catch a boat across the ocean to South Africa. Anyway, he was travelling for six months.*

Since then, the firm has not been very active in relationship initiation, most relationships initiated either by the partner firms or by third parties. Throughout the late 1950s to the 1980s, actually only few new relationships
were even established, foreign sales expansion taking place primarily within already established relationships. A few exceptions can be noted in which third parties or the partner firms were the initiators. On a few Asian markets, newly hired staff also sought out partner firms in the mid to late 1980s. Due to the strong domestic demand for the firm’s products, the subsequent expansion of sales and intermittent problems in keeping up with demand, the need to actively search for partners was apparently limited.

In the late 1990s, a decision was taken to reduce the number of distributors and focus more clearly on the firm’s key markets. As a consequence, a large number of agents and distributors have been fired and a few new relationships have been established to replace these. The marketing manager says,

> Since I came here [in 1997] we’ve removed quite a few agents. We had some that hadn’t sold for [a long time] … some agents were no good to us. They’ve been cancelled. If you’re gonna have an agent, it has to be an agent that works for you. You don’t just want one that locks out a market for you. What we have said, though, is that we are going to work with agents [respondent means distributors], but now we have plenty of time. We have a bit of time to find new agents [respondent means distributors] since our production is working at full capacity, so we’re not exactly hard up.

While the distribution network has been rejuvenated, much of this is not due to initiatives taken by Glossy Grains. The marketing manager says,

> We can see a trend there. Many seek us out today, want to be our agents [respondent means distributors]. We rarely look for agents [respondent means distributors], but they did then, they looked for agents.

Also in the establishment of relationships with direct customers, the importance of which have increased significantly since the mid-1990s, Glossy Grains has relied on being contacted rather than engaging in search activities.

### 5.8.2 Overview of the Upstream Internationalisation Process

Glossy Grains is a largely production-oriented firm. Consequently, great emphasis has been placed on purchasing. Indeed, the general manager is also directly in charge of purchasing. International purchasing has always had a limited role in Glossy Grains, though, in spite of the firm’s strong focus on international sales. Currently between 20 and 30 per cent of the firm’s needs for raw materials are fulfilled by foreign suppliers, while about ten per cent of Glossy Grains’ machinery is acquired directly from foreign manufacturers. This number rises significantly if cases where there is a Swedish agent involved are added, though.

In the 1930s and 1940s, Glossy Grains’ production was focused around the manufacturing of gold bronze and powdered aluminium, the latter product
category gradually replacing the former as economically more important to the firm. Raw materials were found in Sweden at this time. Increasing demand and product innovations forced Glossy Grains’ management to search for suppliers also abroad, however.

In the 1930s, powdered aluminium emerged as an increasingly important product category globally. As Glossy Grains did not possess the resources required to develop a product line on their own, after the end of WWII the firm began manufacturing under license. International purchasing more or less ceased completely in the 1950s, with Swedish scrap dealers providing the firm with most of its raw materials.

In the mid-1950s, though, Brazil emerged as an important market for gold bronze and Glossy Grains for the first time becoming involved in production abroad. The former general manager of Glossy Grains actually went to live in Brazil for five years and worked for a local producer. In 1976, economic and other problems led to the formation of an operations joint venture owned by the Brazilian firm, Glossy Grains and a German competitor.

International purchasing again began in earnest only in the early 1980s with sourcing from an Austrian firm, largely as a result of product innovations and increasing competition for raw materials.

The 1990s witnessed an increase in international purchasing, spurred on by a fire at Glossy Grains’ main Swedish supplier which made apparent the inherent dangers of strong reliance on a single supplier. When asked if a lot of the purchasing is done internationally, the general manager says,

No. Most of it comes from Sweden. Lately, an increasing share has come from abroad, certainly, but that’s because there’s been a shortage of that type of raw materials that we’re looking for in Sweden [and] at [largest domestic supplier] there was a big fire so they were shut down for a while, and there was a gap so we quite simply had to go look for raw materials.

New suppliers were then found in Germany and the U.K. Typically, though, little in the way of search activities have been undertaken by Glossy Grains’ management, who either already knew of or were contacted by most of the firm’s foreign suppliers.

In addition to the procurement of aluminium spillage, products are currently also bought to be traded without further processing, suppliers of such products found in Australia and Austria. Aluminium spillage is also purchased through foreign intermediaries, although not to a very large extent.

In the mid-1980s, Glossy Grains also began purchasing used machinery from a supplier in the Netherlands. Previous acquisitions of machinery had typically been done through foreign manufacturers’ representatives in Sweden.

5.8.2.1 Changes in Market Selection

Most of the firm’s sourcing markets are close to the home market. Since certain industries are located in different countries, this has dictated choice of sourcing
markets, though, one of the firm’s oldest suppliers of raw materials being located in Australia. No particular trends can be observed over time.

Foreign operations take place in Brazil in the form of a joint venture, originally a result of Glossy Grains licensing production to a Brazilian firm. This was triggered by the partner firm, local production being the only way to enter the market due to high customs duties.

5.8.2.2 Changes in Mode Selection

In the case of downstream internationalisation, Glossy Grains has worked together with both manufactures and intermediaries, depending largely on the preferences of the partner firm. In one instance a transition from one mode of purchasing to another can be identified, namely when the Austrian agent of an Australian firm was fired and direct purchasing was initiated as a result of increasing volumes. No particular trends have been observed over time in regard to purchasing mode selection, though.

After the end of WWII, Glossy Grains’ management believed that the firms’ product ranges quickly needed to be updated if the firm were to remain competitive. To develop new products on their own was not seen as possible, so Glossy Grains began manufacturing under license from a Canadian firm.

Another exception from the firm’s upstream strategy was a project in Brazil, where a local firm was given the rights to produce Glossy Grains’ products under license between 1958 and 1974. This was a way for Glossy Grains to tap into a large market that would otherwise have been difficult to serve. The initiative for this project was taken by the partner firm, though. The former general manager of Glossy Grains says,

The thing was that we were selling an awful lot of gold bronze to Brazil, to a cigar manufacturer. And he, they bought 40 tons a year, and that was an awful lot because before that I think we had a total market of about 20 tons, and that was quite funny because it was a low cost product. […] but then they introduced these enormous import duties.

In 1976, a joint venture was started together with a competitor and the former Brazilian licensee, again not initiated by Glossy Grains. The former general manager of Glossy Grains actually went to live in Brazil for five years. He goes on saying,

That’s how it got started. It was a licensing plant. At first you ran the old plant, and I’d never seen machinery like that in my life […] but we made do anyway. And then they built a new factory, and when that was done they ran it. But that didn’t work at all. Then he [the manager of the factory] went to the authorities and said “if you don’t raise import duties by 200 per cent we’re closing down the factory”. But there was no increase in import duties so he closed down. And it was closed for two years. But then [in 1976] he thought better of it, and then we were invited as partners. […] Then at the same time it was formed, one of the world’s largest manufacturers, a colleague and a competitor, was invited as partner [in the joint venture].
In spite of several years of rapid growth and increases in production capacity, Glossy Grains still cannot produce enough to satisfy market demand. The marketing manager says,

*We’re actually in a position where [we sell everything we can produce]. In spite of investments – we’ve invested heavily – it’s not enough. So, we actually buy goods that we sell. Goods for trading.*

5.8.2.3 Changes in Partner Selection

As far as upstream activities are concerned, some relationships have been initiated by Glossy Grains, some by the partner firms and some by third parties. If any trend is to be distinguished, Glossy Grains has become somewhat more active in relationship initiation lately, due to a desire to decrease dependence on the firm’s main Swedish supplier. Since the industry is small with relatively few actors, suppliers typically know about buyers’ existence and vice-versa. The number of foreign suppliers that Glossy Grains deals with on a regular basis is thus limited. The general manager says,

*You can say that a lot of this is spot deliveries, when new ones come and offer new things, but it’s a very small part, no more than 10 per cent […] each year. But, for day to day activities to ensure that things run smoothly, it’s this Swedish supplier, the German supplier [actually Austrian] and the one from Australia, Tasmania, these are the three that I make sure to know about, they’re our main suppliers.*

A safety workshop program initiated by the general manager of Glossy Grains has also turned out to be a useful way of making contacts.

5.8.3 Case Summary

On the downstream side, seven types of changes in strategy can be identified. These include multiple entries into new type of market (1), withdrawal from multiple markets (2), new low commitment mode on multiple markets (2), multiple modes on multiple markets (1), focal-firm initiation of multiple relationships (1), other-firm initiation of multiple relationships (1), and focal-firm termination of multiple relationships (1).

On the upstream side, four types of changes in strategy can be identified. These include single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on single market (3), focal-firm initiation of multiple relationships (1), and focal-firm termination of single relationship (1).
Chapter 5 – The Internationalisation of Sixteen Industrial SMEs

Exhibit 5.8: Changes in International Strategy in Glossy Grains

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Entry into several Asian markets.</td>
<td>Hiring of new staff who decided to exploit new previously untapped markets.</td>
</tr>
<tr>
<td>Withdrawal from multiple markets: Withdrawal from all foreign markets.</td>
<td>The firm was unable to serve its foreign markets due to difficulties in transporting products during World War II.</td>
</tr>
<tr>
<td>Withdrawal from multiple markets: Withdrawal from markets of marginal importance.</td>
<td>Perceived difficulties in keeping up with demand prompted a general reorientation of international activities, where many relations with poorly or non-performing intermediaries were terminated. This resulted in withdrawal from a number of markets, where only scant sales or no sales had been achieved for a long time, markets that were not perceived to be worth pursuing. A decision was taken to focus primarily on Western Europe and the US. This also coincided with hiring of new marketing staff.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Agents</td>
<td>The perceived need to expand to become profitable meant that the firm made efforts to find agents around the world.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Distributors</td>
<td>In a process of restructurating the firm’s international activities, a shift from using foreign agents to selling to foreign distributors was undertaken. This also coincided with the introduction of new products and the hiring of (more professional) marketing staff. Few new relationships were initiated by GG, though, and many of the existing agents were transformed to distributors. In other cases, would-be distributors approached GG.</td>
</tr>
<tr>
<td>Multiple modes on multiple markets: Distributor and direct sales.</td>
<td>To achieve maximum efficiency in sales, GG sells directly to large customers on many markets, while intermediaries (distributors) are allowed to manage smaller customers.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Asian markets.</td>
<td>While reactivity characterised relationship initiation from the 1960s and later, in the case of GG entering some Asian markets in the mid to late 1980s, newly hired staff played an active role.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: 1960s and later.</td>
<td>After attempts at recreating a global network of agents after the end of World War II had been undertaken, in the 1960s to 1990s GG did very little to actively find new foreign intermediaries. The continued (but slow) expansion of the network of agents (and later distributors) occurred largely as would-be partners approached GG. In the process of establishing new relations in the late 1990s, antecedent relations played an important part. Also in the case of relations with direct customers GG has been reactive.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Late 1990s</td>
<td>In a general effort to restructure international activities (influenced by difficulties in keeping up with demand and newly hired staff), relations with poorly performing intermediaries were terminated.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single entry into new type of market: Brazil.</td>
<td>To achieve sales in Brazil, a market protected by high import duties, at first GG licensed production rights to a Brazilian firm and later entered into a joint venture with that firm and another firm.</td>
</tr>
<tr>
<td>Single entry into new type of market: Australia.</td>
<td>The perceived need to find more suppliers for raw materials meant that GG’s management searched outside Europe. GG took the initiative to contact the Australian supplier, although there was an antecedent relation between GG and the Australian supplier’s agent (and later owner) in Australia.</td>
</tr>
<tr>
<td>Withdrawal from single market: UK</td>
<td>Due to WWII, GG could no longer buy materials from its UK supplier.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Licensing (as licensor).</td>
<td>Licensing of manufacturing after end of WWII, when management perceived that GG needed to update its range of products to stay competitive.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Manufacturing joint venture.</td>
<td>Licensing of production to Brazilian firm was seen as only way to penetrate remote market with high import duties. Initiative taken by partner firm.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Manufacturing joint venture.</td>
<td>Manufacturing joint venture started together with former Brazilian licensee and competitor. This was seen as the only way to penetrate a market with high import duties. Initiative taken by partner firm.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Mid-1990s.</td>
<td>Fear of strong reliance on domestic supplier triggered by delivery problems led to active search for additional, foreign suppliers.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: mid-1980s.</td>
<td>Termination of relations with intermediary due to displeasure with high costs. Instead GG buys directly from manufacturer.</td>
</tr>
</tbody>
</table>

Note: Due to difficulties in finding data about some of the periods in Glossy Grain’s internationalisation process, there may have occurred changes not noted in the table.
5.9 Harmless Heating

Harmless Heating was founded in 1955 by two brothers. In 1984, the firm was acquired by the sons of the two founders, who ran it jointly until 1996 when one of them took over as sole owner. Since 1999, the firm has been owned by an investment firm.

Initially, Harmless Heating acted as contract manufacturer of various wire products, such as office mail boxes. In 1963, the firm was contacted by a manufacturer of radiators and soon began producing bracket systems for radiators. Over the years, the focus on contract manufacturing decreased and ceased entirely in the late 1980s. Today bracket systems are Harmless Heating’s main product category, although other products related to heating and ventilation are also manufactured. In year 2002, the firm had 75 employees and a turnover of SEK 115 million.

In the last twenty years of the firm’s history, international sales have been of great importance, in 2001 corresponding to 85 per cent of turnover. International sourcing has always had a very limited role, though, only accounting for ten per cent of all purchasing. Currently, the firm has two foreign subsidiaries, located in Germany and Poland.

5.9.1 Overview of the Downstream Internationalisation Process

International sales have been important to the firm since the early 1980s. By that time, for many years the firm had enjoyed a dominant role in Sweden and internationalisation was perceived as offering the only way to expand sales. The current general manager of Harmless Heating says,

*I'd say that for a great many years we'd been very dominant in Sweden and in order to expand the company with the product lines that we had, we had to go abroad.*

Another reason behind the expansion into foreign markets at this time was the introduction of new products and the expansion of existing product ranges. Early foreign sales were largely concentrated to Scandinavia, with customers in Norway, Denmark and Finland. Due to the nature of the firm’s products, Harmless Heating had not been using market intermediaries in the firm’s international expansion, sales primarily being achieved directly to radiator manufacturers or wholesalers. Active marketing efforts were limited in the earliest phase of internationalisation and the firm’s management relied largely on being sought out by customers, although attendance at international trade fairs had already begun.

In the mid to late 1980s, expansion into other European markets began, with the firm coming into contact with an important customer in the U.K. and two customers in France. Due to the structure of the German market, at Harmless Heating it had previously been decided that no efforts should be
made to enter Germany. A market survey was conducted and showed that there was great potential there, however, and some efforts were undertaken to find German customers. Both in the case of the initial expansion into France and Germany, a consultant was used.

More focused efforts at internationalisation began in the early 1990s, firstly with the establishment of a sales subsidiary in Germany. It was decided that the German sales subsidiary should manage relations with customers in all German-speaking countries as well as Belgium and the Netherlands. Soon, a system developed where Harmless Heating’s headquarters managed the larger customers (i.e. manufacturers of radiators) and the subsidiary managed smaller, wholesale customers.

The process of finding new customers abroad continued slowly in the mid-1990s, most relationships being initiated by the buying firms. Few new markets were entered, although Harmless Heating began selling in Japan and the firm was also approached by a firm that would become agent on Cyprus.

As Harmless Heating’s industry is in stagnation, since the late 1990s the firm’s approach to internationalisation has changed. Management is actively searching out new customers on existing markets and contemplating entering new markets.

For a while, management at Harmless Heating had been considering expanding into the Polish market. In 1998 a survey was undertaken with the help of the Swedish Trade Council and plans for collaborating in distribution with a Polish manufacturer were made. Concerns regarding the marketing of Harmless Heating’s products were soon raised, however, and a decision was taken to set up a sales subsidiary in Poland. The market structure in Poland changed rapidly, though, and it was no longer possible to sell brackets to the firm’s previous customers. This, in turn, meant that the role of the subsidiary changed, largely towards becoming a bridge head into Eastern Europe. Currently, Harmless Heating is also going through a period of expansion into new markets, such as Italy, Turkey and some of the former U.S.S.R. states.

In year 2002, Germany was the largest market with a thirty per cent share of the firm’s turnover, followed by the Polish market which corresponded to a twenty per cent share. Finland and Sweden were Harmless Heating’s third largest markets. After withdrawal from Japan, the firm enjoyed no direct sales outside Europe.

5.9.1.1 Changes in Market Selection
The first markets that Harmless Heating entered were the other Nordic countries in the early and mid-1980s. These entries were initiated by the partner firms, triggered largely by customer interest in the recently expanded product range. A more active approach to market entry ensued in the late 1980s when domestic expansion no longer seemed possible. The firm’s management undertook a survey of the German market, employing an external consultant to help them enter that market and France. The former marketing manager says,
Well, you could say that until ’89 or ’90 when we made a market survey to see how to proceed into Europe, we basically waited for customers to contact us. After that you can say that we’ve been more active in trying to establish contacts on export markets and to sell. But until then we sort of sat waiting like a nestling in a bird’s nest.

Through a sales subsidiary established in Germany, also Austria, Belgium and the Netherlands were entered at his time, the pressure of a mature home market in combination with a dominant domestic market position being more and more clearly felt.

In the mid-1990s, few new markets were entered and the firm again took a less active stance in further market expansion. Through trade fair participation occasional spot sales were achieved to firms in new countries, though. Expansion on existing foreign markets dominated at his time, although the firm made regular sales to a Japanese manufacturer for a couple of years and came into contact with an agent on Cyprus. The firm withdrew from Japan in 1997, however, when the Japanese customer could no longer continue buying products due to the economic crisis in the region. No efforts were undertaken to find new customers there. At this time the industry had reached maturity and signs of decline were noticed in year 2000. The marketing manager says,

[…] if we look at things in a longer perspective, generally, if you make a general assessment, the thing is that [the] customer segment we’re working with is stagnating. There’s no growth, quite the contrary. There is a tendency towards negative growth and in the last two years [i.e. 2000-2001] there’s been a strong stagnation, but that’s more to do with the recession. But the products as such are, if not in a state of decay, at least overly ripe. They’ve been around in the same shape the last 15 years. Not much has happened. So, what happens is that you try to create new markets or you try to find new markets.

A more active stance in finding new customers ensued, although the only new market of note that the firm entered was Poland, which quickly become on of the firm’s most important markets. The marketing manager says,

You could say that when I started here four years ago [i.e. 1998] we made the assessment, an assessment had been made before, that there was a good market for us in Poland, but nothing had happened before. So, what I did was that I contacted the Swedish Trade Council in Warsaw to proceed […]. And we did a market survey that basically meant that I travelled around together with a man from the Trade Council there for a week and met with potential customers, you can say.

Due to the decline on many of the firm’s market, management is currently considering entering a number of new markets, primarily in Eastern Europe.

5.9.1.2 Changes in Mode Selection
The first foreign sales were achieved through direct exporting to manufacturers in the Nordic countries. The realisation in the late 1980s that the German
market offered great potential led to the establishment of a sales subsidiary there in 1990, prior to which some minor sales had been achieved directly to local distributors. The Austrian, Belgian and Dutch markets were entered indirectly through the German sales subsidiary. Except for coming across an agent in Cyprus and making use of an agent to manage relations with a manufacturer in Finland, direct sales to manufacturers continued to be the only entry mode on the firm’s markets. Due to the nature of its products, Harmless Heating had traditionally not been using market intermediaries in the firm’s international expansion. The general manager explains,

“We sell directly to manufacturers of radiators, those who manufacture the heaters, right. [...] And we sell it directly in these countries to those who manufacture radiators because the mountings are enclosed in the radiator package when they sell them, right. But in Germany an awful lot is done through wholesalers, because they buy the mountings - the complementary products - themselves which they sell together with the radiators. But that’s just in Germany, in all other countries it’s directly to industrial customers."

The structure of the German market with a large number of smaller customers thus led management to decide to establish a subsidiary there.

The process that the firm underwent in Germany ten years earlier was repeated on the Polish market in the late 1990s, since also there sales were made primarily through wholesalers. This culminated in the establishment of a sales subsidiary to get a firm grip on what was deemed by management to be a potentially very large market. Restructuring of the Polish market, however, meant that a single manufacturer came to dominate, sales no longer being made through wholesalers. Consequently, the tasks of the sales subsidiary were changed to include marketing activities on several Eastern European markets, the potentials of which are currently being looked more closely into, Harmless Heating continuing to experience a decline of the Swedish market.

5.9.1.3 Changes in Partner Selection

It is possible to identify several trends in downstream relationship initiation. The first foreign market entries were initiated by the partner firms, Harmless Heating relying on being contacted by foreign customers. On that topic the former marketing manager says,

[…] at the beginning of our internationalisation we didn't go out and sell ourselves, rather customers came here in roundabout ways, they'd heard of us.

In the late 1980s, the stance changed towards being more active, largely a result of the domestic market becoming saturated. E.g., a market survey over Germany was carried out and Harmless Heating’s management employed an external consultant to help the firm enter the French market. Having established some form presence on several new markets, the firm again
exhibited a more passive approach to relationship initiation in the mid-1990s. The sales subsidiary in Germany expanded the German market, as well as the Austrian, Belgian and Dutch markets.

The maturation and subsequent decline of the industry in the late 1990s again forced the firm to become more active in finding foreign customers, expanding the Norwegian and Danish markets and entering Poland. Currently, several new contacts have been or will be made with potential business partners, especially in Eastern Europe and countries like Italy and Turkey.

5.9.2 Overview of the Upstream Internationalisation Process

While international sales have been of great importance to Harmless Heating since the early 1980s, upstream internationalisation has always been of very limited importance. Much of the firm’s sourcing has traditionally been done locally and only about 10 per cent of the purchased volume comes from foreign suppliers. In the case of raw materials originally coming from abroad, most of the purchasing has gone through agents in Sweden. E.g., Harmless Heating purchases a lot of steel from agents in Sweden, much of which originally comes from foreign manufacturers.

Since the early 1990s, Harmless Heating has been buying products from a manufacturer in Germany and from two manufacturers in Italy, however. In the case of the Italian manufacturers, relations are managed by their agent in Belgium. Respondents note that trade fairs were the likely venues of relationship initiation in these cases. Between ca 1993 and 2001, the firm also bought steel from a Norwegian manufacturer, but the relation was terminated when prices became too high. For many years, Harmless Heating bought plastic raw materials from a Belgian manufacturer’s agent in Sweden. When the Belgian manufacturer’s sales organisation was restructured in year 2000, Harmless Heating began buying directly from the manufacturer in Belgium.

Since 1998, Harmless Heating had been collaborating with a Polish manufacturer in the same industry. This collaboration took on a new form, however, when the Polish firm in effect became a contract manufacturer for Harmless Heating in 1999.

5.9.2.1 Changes in Market Selection

Only very little in the way foreign sourcing activities have been undertaken, foreign suppliers in the early and mid-1990s being concentrated to Germany, Norway and Belgium. In 1998, Harmless Heating began to collaborate with a Polish firm, which soon became Harmless Heating’s contract manufacturer.\(^1\)

\(^1\) For purposes of analysis, this is not counted as new upstream market entry since a single relation filled both upstream and downstream roles.
5.9.2.2 Changes in Mode Selection

Although very limited, in upstream internationalisation direct purchasing from manufacturers has dominated in terms of purchasing volume throughout the 1990s, although in two instances products have been bought from Italian manufacturers through their agents located in Belgium.

In the late 1990s, Harmless Heating began collaborating with a manufacturer in Poland initially intended to act as the firm’s distributor there. Since the structure of the Polish market changed, the Polish manufacturer came to act as contract manufacturing for Harmless Heating, this being the only exception of note from established upstream behaviour. The manager says,

[... meanwhile we’d been talking about collaborating in production instead, so nowadays we send the brackets in parts to this firm which assembles and packages them for this customer. And in the last year they’ve also begun assembling and packaging for our customers, so now they have twelve employees that work for us, so they distribute to our customer in Poland, but there’s also distribution back to Sweden for distribution to other markets. And this has boosted our profits quite significantly, you can say. And this collaboration has now resulted in them also producing brackets for us. So, our collaboration is expanding all the time.

5.9.2.3 Changes in Partner Selection

Downstream relationships have typically been initiated by Harmless Heating, commonly at trade fairs. In the case of a Belgian supplier of raw materials, direct contacts were initiated when they stopped serving the Swedish market through their agent. Also in the case of the Polish manufacturer, Harmless Heating was actively searching for a local business partner even if that relation began as a downstream relation.

5.9.3 Case Summary

On the downstream side, seven types of changes in strategy can be identified. These include multiple entries into new type of market (2), single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on single market (2), new low commitment mode on single market (2), focal-firm initiation of multiple relationships (2), and focal-firm termination of single relationship (1).

On the upstream side, two types of changes in strategy can be identified. These include withdrawal from single market (1), and new high commitment mode on single market (1).
### Exhibit 5.9: Changes in International Strategy in Harmless Heating

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe.</td>
<td>Entries undertaken after market survey and a decision to focus on growing on foreign markets. This was largely brought on by dominant position on domestic market, which prevented further growth there.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe.</td>
<td>Entries were again brought on by perceived need to expand into new markets in order to grow in a declining industry. A survey of firstly the Polish market and later other East European markets was undertaken.</td>
</tr>
<tr>
<td>Single entry into new type of market: Cyprus.</td>
<td>Initiated by partner firm, which is also agent for HH’s customer in Belgium.</td>
</tr>
<tr>
<td>Single entry into new type of market: Japan.</td>
<td>Initiated by HH, using Swedish customer’s contacts with Japanese manufacturer (which became customer to HH).</td>
</tr>
<tr>
<td>Withdrawal from single market: Japan.</td>
<td>Japanese customer stopped buying from HH (due to recession) and HH undertook no further efforts to find new customers in Japan, which was no longer perceived to be a very suitable market for the firm.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in Germany 1990.</td>
<td>Since on the German market brackets are not typically sold together with radiators (the items are sold separately), HH has only limited sales of brackets directly to manufacturers there. Rather, brackets are sold by wholesalers, of which there are a great number in Germany. It was thus deemed that to serve a large number of customers it would be more appropriate to establish a local sales subsidiary than export directly from Sweden. The German sales subsidiary also manages other German-speaking market as well as Belgium and the Netherlands.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in Poland 1999.</td>
<td>Having found a local distributor, HH’s management soon began feeling that the firm should establish a presence of its own on the potentially very large Polish market, to ensure control over marketing activities and that the market was better penetrated. Consequently a sales subsidiary was set up in Poland. Soon the structure of the Polish market changed with increasing sales directly to manufacturers (rather than sales to many wholesalers), one manufacturer dominating the market. The role of the sales subsidiary therefore changed, today primarily serving as a bridge head into the rest of Eastern Europe.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Agent on Cyprus.</td>
<td>While typically selling directly to foreign manufacturers, in the case of Cyprus HH makes use of an agent (on Cyprus). The relationship was initiated by the agent. The market is seen by management as too small for HH to undertake any major marketing activities of their own, so the use of an agent is perceived as appropriate.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Distributor in Poland.</td>
<td>While typically selling directly to foreign manufacturers (and in a couple of instances using foreign agents), in Poland for a few years HH made use of a local distributor, since this was the logical way of serving the Polish market where brackets were sold through wholesalers rather than directly to manufacturers. The relationship with the distributor was initiated by HH after a survey of the Polish market and search for suitable partners using the Swedish Trade Council.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Late 1980s.</td>
<td>Since the domestic market was saturated and existing foreign markets were perceived as insufficiently large for HH to expand, a survey of Western European markets was carried out. Subsequently, HH sought out customers on some of these markets, in some instances making use of a consultant. The active search for customers during a few years marked a different approach to relationship initiation than what had been the case before.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Mid to late 1990s.</td>
<td>Again in the mid-1990s, management perceived that HH needed to find new markets to expand in a stagnating industry, although primarily sought out more customers on existing markets.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New high commitment mode on single market: Contract manufacturing in Poland.</td>
<td>Polish customer became contract manufacturer. This is a form of collaboration that expanded incrementally, from assembly and packaging for the Polish market to production both for Poland and other markets, cost reasons being the main motivation for HH to become involved in this type of collaboration.</td>
</tr>
</tbody>
</table>
5.10 Intelligent Infrastructure

Intelligent Infrastructure’s production is based on an invention made in the 1970s, namely a microwave link used for communication and identification, originally acquired by a large international electronics company from the inventor in 1982. In 1987, this invention was for the first time applied to the identification of road going vehicles for the payment of road tolls. A handful of projects relating to this were developed in the late 1980s. Financial problems at the large international electronics company at this time led to the sale of all manufacturing rights to a Swedish industrial Group in 1991.

While the microwave link system was initially put to a number of uses, following a few years of poor performance, in 1994 a decision was taken to focus only on systems for traffic control. The sales manager says,

[…] before 1995 when we changed our mission statement and said that we were going to work only with road toll systems, before that we’d do anything. We have installations in the subway in Bucharest and we have installations in, I’d say, 20, 30, multi-story parking lots in Japan. Oil terminals in Italy, cement factories in Austria… this type of product gets people’s imagination going, right. And in those days we worked a lot through distributors, locally. We had a large distribution network that sold for their own installations in their own name, and then we got these little projects. It didn’t generate much revenue for us, really. You get one of these receivers on the side of the road and 25 trucks. So, it was a bit difficult to keep that part of the business profitable.

Since the start of Intelligent Infrastructure in its current form, almost all manufacturing has been outsourced to a range of subcontractors. Typically, Intelligent Infrastructure’s products are sold to a systems integrator or contractor, who, in turn, provides a complete solution to a commissaire who has bought the rights to build and operate a stretch of road. Intelligent Infrastructure does, however, also act as turn key-provider.

Today, Intelligent Infrastructure’s products consist chiefly of electronic transponders placed inside vehicles and a gantry or “arch” through which vehicles pass. The transponder sends a signal to a receiver placed in the gantry. The passing of the vehicle through the gantry is recorded and a fee is charged the owner of the vehicle.

In year 2002, the firm employed 70 people and had a turnover of SEK 292 million. Intelligent Infrastructure relies almost entirely on international sales since the domestic market for the type of systems that the firm develops and sells is practically nonexistent, exports corresponding to 99 per cent of turnover. International purchasing is more limited however. The purchasing manager estimates that foreign suppliers contribute between ten and 20 per cent of purchased value.
5.10.1 Overview of the Downstream Internationalisation Process

While the history of Intelligent Infrastructure in its current form only goes back little over a decade in time, several events that have impacted downstream internationalisation can be identified. When Intelligent Infrastructure was acquired from the large international electronics company, several of the firm’s existing distributors decided to continue working with Intelligent Infrastructure, which at this time also made use of its existing relations with systems integrators to find new customers.

When the Swedish industrial group acquired the rights to the new technology, they also acquired three existing projects, one each in Norway, France and the U.K. In the early 1990s, Intelligent Infrastructure’s business scope was wide enough to include most potential applications of the microwave link for communication. This led to Intelligent Infrastructure being involved in a large number of smaller projects abroad where it was difficult to achieve profitability. Already at this time the firm enjoyed sales on many markets. In regard to finding larger projects, the firm relied mainly on piggy backing with existing customers, i.e. systems integrators, the largest ones being located in Spain and France.

In the early 1990s, Intelligent Infrastructure thus sought out many of the firms acting as systems integrators located in Europe and relied on their contacts to make sales. At this time, Intelligent Infrastructure’s management also began expanding the firm’s network of distributors around the world. These distributors, however, were not actively sought out by Intelligent Infrastructure, which maintained a largely reactive stance towards expansion into new markets. Typically, these distributors were located on distant markets. In or around 1993 distributors were found in countries like Taiwan, Malaysia, Israel, Turkey and Latin America, but also in countries like Austria, Slovenia and Croatia. Around 1993, Intelligent Infrastructure also started its first foreign sales office, located in the U.S. This would be closed down after only three years, however, since adaptation to local standards and business practices proved difficult.

In the mid-1990s, the firm began exhibiting a more active approach to internationalisation, with a stricter focus on road toll systems and greater emphasis on marketing the firm directly towards commissionaires. The reliance on systems integrators for providing contacts was at this time deemed insufficient to meet the profit targets of the firm, which was at this time operating at a loss and needed to expand sales. A greater focus on larger projects and direct sales led to the dismantling of the distribution network, some of its members being transformed into agents. Agents were also found on new markets throughout the latter half of the 1990s, although often without any active efforts on the side of Intelligent Infrastructure. At this time the firm also began setting up more subsidiaries abroad, located in China, Malaysia, Chile and Australia, either as regional representative offices or as project offices after the landing of large contracts.
An important trend observed at this time was increasing competition from systems integrators and their own integration departments. E.g., one of Intelligent Infrastructure’s oldest customers, a French systems integrator, had begun to manufacture products similar to Intelligent Infrastructure’s. Typically during this period, Intelligent Infrastructure’s contacts with end customers increased and there was also a trend towards decreasing the number of agents, relations with whom were often terminated when it was felt among management that there were no opportunities left on the foreign markets that Intelligent Infrastructure could not identify itself.

In 2000, the acquisition of Intelligent Infrastructure by an Austrian industrial group led to Intelligent Infrastructure withdrawing from several markets, primarily in Latin America, since the new parent firm prefers to manage certain markets itself. Other markets where Intelligent Infrastructure now only has indirect presence are Austria, Israel and the Czech Republic. Today Intelligent Infrastructure has few intermediaries left in Europe, while the firm has representative offices in Malaysia, China, Australia and Chile and agents in Italy, Slovenia, Croatia, Turkey, South Korea, the Philippines, Japan and South Africa.

5.10.1.1 Changes in Market Selection
Concerning downstream internationalisation, already from inception Intelligent Infrastructure had access to a wide network of distributors working for its parent firm, even if actual sales of products were limited to a few European markets. When the firm in its current form was created in 1991 and became a more independent unit, many of the former parent firm’s distributors continued to act as such, and sales were quickly achieved on many markets, primarily in Europe and Latin America. In the mid-1990s, further expansion into Asia ensued. Most new market entries, however, were triggered by intermediaries and customers rather than by Intelligent Infrastructure, the unique nature of the firm’s products arguably playing an important role in attracting new contacts. Since the type of projects where Intelligent Infrastructure’s products can be used is fairly limited in number, the firm made no decision concerning limiting its market geographically, the only exception being the U.S. where local standards and competition proved difficult to match. Withdrawal from directly servicing several markets, primarily in Latin America, took place, though, as the firm was acquired by an Austrian firm that manages these markets directly. Since Intelligent Infrastructure’s products are bought by the new parent firm for sale on these markets, indirect presence is still maintained, however.

5.10.1.2 Changes in Mode Selection
Before the 1991 acquisition, sales were achieved through the parent firm’s sales organisation, i.e. its distributors sold Intelligent Infrastructure’s products and a few projects were identified by the parent firm’s agents. After the acquisition,
several established distributors continued to work with Intelligent Infrastructure although the number of agents began to expand and new markets were covered. The agents, in turn, identified contractors hired as systems integrators in large projects, a few key contractors giving access to several projects. Around 1993, a sales subsidiary was established in the U.S. since that market was perceived by management as being potentially a very large one for Intelligent Infrastructure. The subsidiary was closed down after three years due to difficulties in adapting to local standards and dealing with local business practices, though.

In 1994, a decision was taken to focus strictly on traffic control systems. Since these are large projects where direct contact with contractors is necessary, a decision was taken not to have any distributors. These were either fired or asked to act as agents. The sales manager says,

*We have a couple of distributor contracts left, you might say, but they work as agents. […] We don’t have anyone who buys products to stock. […] And as I said we had non-exclusive contracts with a price list and an agency clause, an agency option that was never really specified as to level or scope because you never knew what projects you’d end up with. If you get a project that’s worth two, three hundred million it’s not reasonable to get five per cent commission. But if you think that it might be a million at a time, then maybe five per cent is reasonable.*

Additional agents were hired, still without much effort on the side of Intelligent Infrastructure. Agents also continued to search for projects and initiate relationships with contractors. According to the sales manager,

*The first type of agents we found, I usually call them newspaper readers, that’s pretty much what they do. The keep a look out, and then if anything happens they must have enough contacts so that they can ask people more specifically [about details], at national road administrations, ministries of transportation and things like that.*

In the mid to late 1990s, three foreign subsidiaries were established. One of these was located in China and was established when the collaboration with a partner of the parent firm there failed. Another subsidiary was established in Malaysia, which was originally a subsidiary of the parent firm that Intelligent Infrastructure’s management took over with the intent of using this firm as a regional sales office. The third foreign subsidiary was established in Australia, as a result of Intelligent Infrastructure becoming involved in a large project there. The Chinese subsidiary was sold to an employee after three years of operation, however, since he preferred to act as agent for Intelligent Infrastructure. The Malaysian subsidiary was also closed down after three years in 1998. In 1999, a joint venture was established together with a local businessman, the reason being that an individual with political and other connections was deemed necessary for success in the region. The sales manager says,

*We’ve hired a guy down there, a local, Chinese, [who] has a better overview of the business situation than what the agent had, really, since he came from the political hierarchy. And you must have that if you want to do business down there.*
The project office set up in Australia has come also to act as a local sales subsidiary.

Except for the fact that some agents have been fired on certain markets, the 2000 acquisition has had limited impact on mode selection. Exporting to the parent firm’s headquarters in Austria and subsequent indirect exporting to other countries has replaced a portion of the firm’s direct exporting, though. Agents continue to find new projects and an additional foreign subsidiary has been established, this time in Chile as a response to a large number of motorway projects being initiated there. Like in the case of the Malaysian subsidiary, this emerged from a subsidiary of the parent firm.

5.10.1.3 Changes in Partner Selection

Intelligent Infrastructure’s first foreign partners were more or less given to them by the parent firm. After the acquisition in 1991, many of these relationships were maintained. The network of agents was expanded however, generally as a result of agents contacting Intelligent Infrastructure rather than as a result of activities on the side of Intelligent Infrastructure. These agents, in turn, were responsible for finding infrastructural and other projects and for initiating contacts with systems integrators. The expansion at this time was thus largely achieved without much effort on the side of Intelligent Infrastructure. Established relationships with contractors led to Intelligent Infrastructure becoming involved in more and more projects.

In the mid-1990s, the emphasis on establishing relationships directly with operators became more pronounced, in the initiation of which Intelligent Infrastructure took a more active role than had been the case in the past. The sales manager says,

*So we piggy backed with them until sometime in the mid-90s when people got tired of sitting on the trailer all the time and realised that if we got in touch with the operator first, we could get him to specify our system, because the integrator doesn’t really have any interest in doing that, they don’t make more money off our system than off regular manual systems or anything else. [...] today we have maybe four, five really large systems integrators in Europe, in France and Spain. And they have global sales networks and we piggy back with them, we get a free ride with them to different parts of the world and then we get bridge heads in the bargain, you might say. We get a reason to have contacts with the end customer and then we can start looking around in the area.*

In the case of establishing relations with new agents, however, the largely reactive stance continued to prevail. There was little need for Intelligent Infrastructure to undertake any search activities, since the firm was contacted by so many would-be agents. The sales manager says,

*We’ve been very spoilt in this. Almost everywhere we’ve had many to choose from and we have, in a manner of speaking, been able to point our finger and say, “we want to work with those”. There are so few suppliers...*
The sales manager tells of how Intelligent Infrastructure came into contact with the firm’s agent in Colombia, representing a typical situation of relationship initiation with a foreign agent:

That’s a Swedish guy in his 60s, who’s married, has been married for a long time to a Colombian, lives in Bogotá. It’s the same story there. He’d heard of us and thought that car traffic in Colombia certainly needed electronic road tolls so he contacted us and asked if he could become our representative. And in Colombia we weren’t really interested in setting up anything on our own, so we said “OK, if you can sell anything…”

This shift in focus also meant that Intelligent Infrastructure’s distributors started acting as agents since the new systems would be sold by the firm directly to contractors. The role of the agents became to look for business opportunities, as well as initiate and manage relations with foreign customers. This transition appears to have been implemented with the loss of only a few relationships. Several relationships were also initiated by Intelligent Infrastructure’s parent firm at the time. These, however, did not turn out to be very long lived. The sales manager says,

Yes, it was [partner firm of parent firm] and [parent firm] that closed a management level agreement. It was [chairman of the board of parent firm] and their boss who’d met, don’t ask me how, and decided that we had a lot of things in common and that we should work together. So they made a top-level deal and then they called together all the people they thought should know about it and told us that, [chairman of the board of parent firm] said in those words, “I am not asking you to work together, that’s an order”. Perhaps not exactly what you wanted to hear.

Many relationships were also terminated in the late 1990s, either by the partner firms or by Intelligent Infrastructure as a result of perceived poor performance. New agents also continued to be added on, always as an initiative from the side of the agent. Some relationships, e.g. with agents in Brazil, Colombia and the Czech Republic, have been terminated as a direct consequence of the acquisition in year 2000 by an Austrian firm. As an example, in regard to the Czech agent the sales manager says,

They came to us just before we were bought. In 2000. So when we were bought, our parent firm said “We manage the Czech Republic, so you get out of there”. [...] We gave all the contacts to the Austrians. What they’ve done with them, we don’t know.

5.10.2 Overview of the Upstream Internationalisation Process

According to the purchasing manager, direct international purchasing corresponds to between ten and twenty per cent of total sourcing annually. Typically, Intelligent Infrastructure has initiated contacts with the firm’s foreign suppliers, international purchasing relationships often arising already in the production development phase where early supplier involvement is
necessary due to the complexity of the systems that Intelligent Infrastructure produces. Intelligent Infrastructure has only had a handful of foreign suppliers over the years, though. The firm currently has no manufacturing of its own, relying on a number of subcontractors located in Sweden. These subcontractors manufacture products to Intelligent Infrastructure’s specifications and often also use components suppliers specified by Intelligent Infrastructure. In many of these instances, Intelligent Infrastructure rather than the subcontractor has found the supplier and manages commercial aspects of contacts with the components supplier.

Several of the relationships that Intelligent Infrastructure has with foreign components manufacturers were established in the early 1990s, when development of the firm’s current range of products and systems began, this being the case with suppliers in Austria, Denmark and the Netherlands.

Intelligent Infrastructure also has suppliers of more standardised products where less involvement is required in the product development phase, this being the case with suppliers in France and Germany. In some instances, Intelligent Infrastructure finds a specific supplier for a particular project. This is the case with a supplier found in the U.S.

In the late 1990s, a new phase in upstream internationalisation began, when Intelligent Infrastructure received a large order for a road toll installation in Australia with the subsequent setting up of a subsidiary there. A few years later another subsidiary was started in Chile to implement a large project won there.

The acquisition of Intelligent Infrastructure by the Austrian industrial group has yet had little impact on international sourcing according to the purchasing manager, although discussions concerning future supplies from the parent firm are under way.

5.10.2.1 Changes in Market Selection
Intelligent Infrastructure only has a small number of foreign suppliers, which are primarily concentrated to Western Europe. The specific country where a supplier is located is apparently of little consequence in the supplier selection process, though.

Due to the firm receiving large orders, project offices have been set up in Australia and Chile, marking a change in upstream international strategy since more and more activities relating to the firm’s operations need to be carried out by Intelligent Infrastructures in other countries.

5.10.2.2 Changes in Mode Selection
Since Intelligent Infrastructure does not have any manufacturing of its own, products purchased by the firm are, in effect, purchased for the firm’s subcontractors. Intelligent Infrastructure controls the commercial agreements and ensures that deliveries are made. As such, the firm acts as a form of purchasing agent for its suppliers. Since the products are technologically advanced, the suppliers are often involved in product development. When
contract manufacturing is carried out by Intelligent Infrastructure’s subcontractors it is seen as natural that contacts with foreign suppliers are managed by staff at Intelligent Infrastructure. Some products are bought directly by Intelligent Infrastructure for resale, however.

In 1997, Intelligent Infrastructure started a subsidiary in Australia as a response to the firm landing a large order there. Now, the subsidiary has several roles but was primarily started to implement a large road toll project in Melbourne. In 2001, for the same reasons a subsidiary was started in Chile. The sales manager says,

So we had a permanent guy down there from '97, at [parent firm’s] office. [...] And the reason why we opened was that in October last year we got an order like the one in Melbourne, down in Santiago for a motorway that goes straight through the city there too. And we’re negotiation number two of these orders, so now more than ever there’s a reason to set up shop. So, it’ll be a project office, just like in Melbourne, and in time it’ll be a sales office.

5.10.2.3 Changes in Partner Selection

Although limited in number, typically relationships with foreign upstream partners have been initiated by Intelligent Infrastructure. Generally, these are initiated as the firm needs a specific product. Supplier involvement in the product development phase is often high and relationships with suppliers long-lived. Antecedent personal relations and industry knowledge of the firm’s employees play important roles in finding foreign suppliers. Currently, only limited efforts are made to find new suppliers, though. According to the purchasing manager,

Most of our suppliers are so unique in their industries or what in they supply [...] that it’s difficult to find others, we have the ones we have.

5.10.3 Case Summary

On the downstream side, eight types of changes in strategy can be identified. These include withdrawal from multiple markets (1), withdrawal from single market (1), new high commitment mode on multiple markets (2), new high commitment mode on single market (1), new low commitment mode on multiple markets (1), new low commitment mode on single market (1), focal-firm initiation of multiple relationships (1), and focal-firm termination of multiple relationships (2).

On the upstream side, two types of changes in strategy can be identified, including single entry into new type of market (2), and new high commitment mode on multiple markets (1).
### Exhibit 5.10: Changes in International Strategy in Intelligent Infrastructure

#### Change in downstream strategy

| Withdrawal from multiple markets: After year 2000. | When II was acquired the new parent firm decided that it should not serve certain markets directly and consequently management perceived little choice other than withdrawing from these markets, although they are still served indirectly through the parent firm. |
| Withdrawal from single market: US. | Due to perceived difficulties in adapting to local standards and business practices, II’s management decided that the firm should withdraw after a single system had been sold. |
| New high commitment mode on multiple markets: Sales subsidiaries. | In the mid-1990s, three foreign sales subsidiaries were established on markets where there was believed to be great potential. In 1993 a subsidiary was established in the US; in Malaysia II took over a subsidiary of its parent firm; in Hong Kong/China a subsidiary was established after collaboration with a local agent failed. In a few years time all these subsidiaries were closed down. |
| New high commitment mode on multiple markets: Sales subsidiaries in Australia and Chile. | The subsidiary set up in Australia after II received a large order there in time also came to act as sales office. It had been using the parent firm’s subsidiary in Chile for a few years, but when II received a large order and was sold by its previous parent it was decided that II should start a subsidiary there to oversee implementation of the project, doing so from the home market not being seen as practical. Also this subsidiary came to act as sales subsidiary. |
| New high commitment mode on single market: Joint venture in Malaysia. | Having previously been present in Malaysia through a sales subsidiary, it was deemed that to succeed in the region II would have to collaborate with individuals with better political connections. Therefore a joint venture was started together with a local businessman who had previously worked together with II’s parent firm. |
| New low commitment mode on multiple markets: Agents. | After a shift in business mission towards focusing only on road toll systems, it was no longer seen as meaningful to maintain a network of distributors. Relations with these were either terminated or they were offered to continue working with II as agents. |
| New low commitment mode on single markets: Agent in Hong Kong/China. | The sales subsidiary in Hong Kong did not perform as had been hoped and at the initiative of an employee there the firm was sold to that employee and began acting as agent for II. |
| Focal-firm initiation of multiple relationships: Mid-1990s. | Having previously relied on established relations with integrators or on agents initiating relationships with integrators, a process of establishing relationships with operators began as a way of expanding sales. Prior to this phase, overall II had undertaken little in the way of activities aimed at initiation of relationships. |
| Focal-firm termination of multiple relationships: Mid-1990s. | Termination of relations with some distributors after shift in business mission, since these distributors were no longer seen as useful to II. |
| Focal-firm termination of multiple relationships: Late 1990s. | Continued perceived poor performance prompted an evaluation of the performance of foreign agents, after which relations with some poorly performing ones were terminated. |

#### Change in upstream strategy

| Single entry into new type of market: Australia. | After II received large order, the need for a local project office taking care of many aspects of operations locally arose (see also below). |
| Single entry into new type of market: Chile. | After II received large order, the need for a local project office taking care of many aspects of operations locally arose (see also below). |
| New high commitment mode on multiple markets: Subsidiaries in Australia and Chile. | Subsidiaries were set up in Australia and Chile after II received a large orders there, managing the implementation from the home market not being seen as practical. It was also perceived that it was more or less expected of the firm to set up these project offices. In the case of Chile, it had been using the parent firm’s subsidiary in Chile for a few years as a representative office, which was now taken over. |
5.11 Juggled Junk

Juggled Junk was founded in 1971 and has since been developing and manufacturing various systems for waste management. In 1973, a Swedish industrial group acquired the firm from the founder and an employee of Juggled Junk was appointed general manager. As the firm grew, however, it became obvious that the Swedish industrial group was not the ideal owner and that the benefits in the marketing of Juggled Junk’s products that the acquisition was meant to lead to, failed to be realised. The manager therefore acquired the firm in 1981. The owner and manager of Juggled Junk continued to run the firm, which grew steadily in turnover. In 1989, Juggled Junk was again sold, this time to an investment firm. The general manager continued as such until 1999, when the firm was again sold, this time to a Danish industrial group and a new general manager was hired.

Juggled Junk has 91 employees and an annual turnover of SEK 145 million (2002). While 87 per cent of turnover comes from international sales (2001), at most ten per cent of all sourcing is done internationally.

5.11.1 Overview of the Downstream Internationalisation Process

Juggled Junk was focused on international sales already from inception. International trade fairs were visited and the first international sales contacts were established shortly before Juggled Junk was acquired by the Swedish industrial group. The former general manager says,

[…] we go back to 1972, actually, at a trade fair in London. We'd been shipping some machines over to a firm that [name of founder] had found within materials management and […] there was this guy called [name]. And he exhibited the first machine in England and I went there to see him and then […] he became [our distributor]. […] We were [export focused] from the very beginning. Already in 1972 […] I was in Paris and London [attending trade fairs] and there was a lot of interest in Juggled Junk. But before much came of it, we ran out of capital and so…

The acquisition of Juggled Junk meant that the firm gained access to distributors throughout Europe and the U.S. As time went by and Juggled Junk introduced new products and grew in size, it became obvious that the distributors to which the Swedish industrial group’s acquisition had given access, in turn did not provide access to the customer segments for which Juggled Junk’s products were most suited. It was therefore decided that the general manager would acquire the firm in 1981. He says,

I was in charge of the company during the [parent firm] years and we continued to develop. […] in '78 we found an excellent product in Sweden that became a huge success in England mainly. And then [parent firm] didn’t really fit us anymore, they could see that this wasn’t the right type of product for their distributors, and then my
boss [name of boss] said to me "No, it doesn’t fit in, why don’t you buy it from me?", and that’s what happened, we acquired the firm in ’81. And then basically we continued what we’d started, but primarily we tried to find other actors than the [parent firm] people, because they weren’t really suited [to our needs]. It didn’t really work very well. So, it was a bit of a struggle to start over again. A few hectic years, then.

This, in turn, meant that a new network of distributors quickly had to be created to replace the existing distributors which focused largely on the wrong customers segments. This was basically the first time that Juggled Junk had to actively search for distributors. Rapidly, such were found in a number of countries, including the U.K., Norway, the Netherlands, France, Denmark, Italy, Switzerland, Austria and Belgium. In several instances, employees of existing distributors left to start their own firms, which became Juggled Junk’s new distributors. Several others were encountered at trade fairs and an acquaintance of the general manager was encouraged to become distributor in the U.S. A few new markets were also entered such as Iceland and Hungary.

The process of entering new markets picked up speed in the mid-1980s, with entries into Australia, New Zealand and several Southern European countries. Almost exclusively, these relationships as well as relationships with new distributors on established markets were initiated by the partner firms.

The 1989 acquisition did not affect internationalisation, but then the situation for the firm was very different compared to the 1973 acquisition. Juggled Junk had grown a lot in size and was now profitable. The 1973 acquisition was also partly undertaken to supplement the acquiring firm’s existing product ranges and to provide Juggled Junk with an outlet for its products. The 1989 acquisition was largely motivated by a desire to create an industrial group of manufacturing firms in different industries with different customers and segments. The acquiring firm in 1989 also did not have any distribution outlets for the types of products manufactured by Juggled Junk. Additionally, in 1989 Juggled Junk already possessed a distribution network, as opposed to the situation in 1973.

Throughout the 1980s and 1990s, new distributors were added, some of which as replacements to existing distributors with which contacts had been terminated. Most cases, however, meant the opening of new markets for Juggled Junk. The strategic focus of the firm also shifted. In the early 1980s Juggled Junk actively sought out new distributors – there was no other choice – but most of the relationships with distributors that have been established since, have been initiated by the partners rather than by Juggled Junk.

In the early 1990s, several important relationships were initiated, most prominent among them a partner-firm initiated relationship with a firm in Japan. Other distributors in Asia were added at this time, as were distributors in Latin America. These, however, were found by an employee at the firm who had previously worked there. The Asian crisis in the late 1990s meant that most of the business with that region ceased, though.
In 1996, the owner of the German, Danish and Polish distributors wanted to sell his firms and Juggled Junk’s management, protective of these markets which had grown a lot in importance over the past ten years, decided that Juggled Junk should acquire the three firms. The German subsidiary, however, did not perform well and was closed down in year 2000, while the Danish and Polish subsidiaries were still in operation by 2002. In 1999, the Juggled Junk Group, in which Juggled Junk is the largest firm, was acquired by a Swedish investment firm. Within the same group of firms, a sister firm of Juggled Junk’s has a subsidiary in Germany, which is currently being turned into a distributor for, among other firms, Juggled Junk.

Currently Juggled Junk’s largest foreign market is France. In sales volume, the Swedish market is only the fourth largest, but the general manager notes that Swedish market contributes more to profits as in Sweden Juggled Junk sells directly to end customers.

5.11.1.1 Changes in Market Selection

The earliest attempts at foreign sales were undertaken prior to the 1973 acquisition, the acquisition in turn providing the firm with a wide network of distributors. Foreign sales took off on some markets, mainly in Western Europe, and were spurred by the introduction of new products in 1978. International sales expansion, however, was hindered by the fact that the parent firm’s distributors dealt mainly with categories of customers other than those for which Juggled Junk’s products were most suited. After the 1981 acquisition the new owner of Juggled Junk rapidly established a new network of distributors with a focus on key markets in Europe. In the mid-1980s, sales were expanded into North America and more European markets and also to Australia and New Zealand, the late 1980s and early 1990s witnessing expansion also into Asia. The most important new market entered at this time was Japan. The former general manager says,

*Japan is interesting. There you have a really fun story … The thing is that I thought that Japan had to have something to offer, so I went there in the late 80s and travelled around a bit to check it out and to try to find someone. I made some contacts with a few firms that might be interested, but nothing real. Then in 1990, I got a phone call from [name of manager of U.S. distributor] in the U.S. who said “Now things are happening in Japan”, he said. “What do you mean?” “Well, I've had a fax from a woman called [name of manager of Japanese distributor] who writes [to us]. You see, a Japanese guy that these guys know, had found one of our products in California and thought that “we’ve gotta be able to get this to Japan” and he was really pleased when he saw that it was a Swedish product. […] And the story in Japan is that seven or eight people, investors with a bit of money, joined together and formed this firm [name of firm] and said "we’re going to do something within the environmental sector primarily within packaging". […] And I was so impressed with this fax that I wrote back to her “yes, it sounds very interesting”. She ordered two machines.*
Consistently, until the mid-1990s in the case of entry into new markets, Juggled Junk relied on being contacted by its partner firms. At this time, the firm extended its markets into Latin America, primarily as a result of hiring an individual with many personal contacts there. The area sales manager says,

> Basically, everything that has to do with Latin America comes from a previous employee who came from [name of firm], and who was stationed in Latin America for 13 years. Then when he started working here some of these contacts that he’d made when working for [name of firm] started working a bit like our distributors in Latin America, but it’s very little business.

Apparently, once the firm had established presence on what management considered as the main markets, little need was felt to expand further, as evidenced by the nature of expansion into geographically more remote markets.

### 5.11.1.2 Changes in Mode Selection

Throughout its history, Juggled Junk has focused on employing distributors, a pattern established when the firm was acquired for the first time in 1973. Between 1996 and 1998, Juggled Junk acquired three firms abroad, all of which previously belonged to the same owner. The decision to own foreign subsidiaries, these three being located in Germany, Denmark and Poland, was a result of management not wanting to lose established contacts on important markets when the founder of these firms decided to sell. The former general manager says,

> Eventually, let me see when it was, in ’96, yes, he wanted to sell out, he wanted to do something different. And then we made a deal where we bought it [the Germany parent firm] with an option to buy Denmark — he owned the Danish firm too, and he’d build a firm in Poland. [...] when we made the deal for Germany, we got the exclusive option to buy Denmark and Poland, and that’s what we did, and then we had these subsidiaries.

The former general manager stresses that there were never any plans developed inside the firm to expand such activities. The establishment of these subsidiaries was an exception to the preferred mode of working with foreign distributors. He says,

> The strategy has always been to find distributors. We never really wanted to start any subsidiaries, it just happened in Germany when the agent [respondent means distributor] there wanted out and we bought it … but the strategy has been to find good distributors already from the beginning and actively work with them [...].

The decision to become involved in a higher commitment entry mode was thus largely a reactive one. After three years, the German subsidiary was closed down due to performance problems, Juggled Junk again finding a distributor there.
5.11.1.3 Changes in Partner Selection

The very first foreign business partner was found as a result of trade fair attendance, something that would again become important later in the firm’s history. The acquisition of Juggled Junk in 1973, however, meant that the firm was given access to a wide network of partner firms. Apparently no other relationships were initiated by the firm for several years. With the 1981 buyout by the general manager, however, this would change dramatically. Since the firm quickly had to find new distributors, Juggled Junk’s general manager describes how he travelled around Europe signing on new distributors. He says,

*The day we signed the papers, a telex went out – that’s what we had in those days – that [parent firm] had sold Juggled Junk to me and that I was going to make a deal for each country, right. [...] in ’81 when I acquired the firm there was a lot of restructuring. It [the distribution network] was very dominated by [parent firm], but then I had to try and reorganise it, so it was a pretty hectic year, trying to find the right kind of, well the right kind of distributors. [...] I travelled around Europe for a week, and signed all the deals.*

In some instances, employees at the former distributors left to start their own firms or sub-distributors took over as main distributors, this being the case in Norway, the Netherlands and France. Other new distributors were found at trade fairs, like in the case of Denmark. After intense activity in 1981, however, Juggled Junk did not take an active approach to entry into new markets, relationships with distributors on such markets being initiated by the distributors themselves. One exception to this can be identified in the finding of a new distributor in the U.S. The previous owner of one of Juggled Junk’s Swedish suppliers started a new firm and became distributor there after prompting by Juggled Junk’s manager at the time.

Throughout the 1980s and early 1990s, the reactive stance remained dominant, although the number of markets where Juggled Junk had distributors doubled during this period. Trade fairs was an important venue for relationship initiation, as explained by the current general manager, who says,

*Generally, in an industry like this, you can say that it’s an awful lot of trade fairs, much of external marketing is normally done on the large international trade fairs. Generally you can say that most of the contacts have arisen in connection with attendance at trade fairs.*

With a few exceptions, this pattern continued to pervade. One of these exceptions concerns the entry into Latin America, where an employee at Juggled Junk used his contacts from past work in the region to find distributors there. While in the case of some markets, relationships with poorly performing distributors were terminated, such instances are uncommon in most periods of the firm’s history. Among the exceptions are relationships with perceived poorly performing distributors in the Netherlands and Germany, which have been
recently terminated. Since the mid-1990s, few new relationships have been initiated.

5.11.2 Overview of the Upstream Internationalisation Process

While international sales have always been of great importance to Juggled Junk, upstream internationalisation has always been of very limited importance. Most sourcing has traditionally been done locally. When talking to the purchasing manager, he can only identify two relationships that Juggled Junk has had directly with foreign suppliers, although a small portion of purchasing is also done through foreign firms’ agents stationed in Sweden. The two direct relationships exist with a U.K. manufacturer of hydraulics and with an Italian manufacturing firm. The relationship with the U.K. manufacturer goes back more than a decade, while the relationship with the Italian firm was initiated in 2001. In addition to these relationships, Juggled Junk entered into a joint distribution agreement with their German distributor between 2000 and 2001. This entailed that they would sell Juggled Junk’s products in Germany while Juggled Junk would sell their products in Sweden.

5.11.2.1 Changes in Market Selection

Upstream internationalisation has taken place to the U.K., Italy and Germany, the number of foreign suppliers only being three. No particular trends in or exceptions from upstream market selection behaviour have been identified.

5.11.2.2 Changes in Mode Selection

What little has been undertaken in the way of upstream internationalisation has been in the form of direct importing. No particular trends in or exceptions from upstream mode selection behaviour have been identified.

5.11.2.3 Changes in Partner Selection

Only three direct relationships with foreign suppliers have been identified. In regard to these, no particular trends in or exceptions from upstream partner selection behaviour have been noted.

5.11.3 Case Summary

On the downstream side, ten types of changes in strategy can be identified. These include multiple entries into new type of market (4), single entry into new type of market (3), withdrawal from multiple markets (1), new high commitment mode on multiple markets (1), new low commitment mode on multiple markets (1), new low commitment mode on single market (1), focal-firm initiation of multiple relationships (2), other-firm initiation of multiple
relationships (2), focal-firm termination of multiple relationships (2), and focal-firm termination of single relationship (1).

On the upstream side, one change has been identified including focal-firm termination of a single relationship.

Exhibit 5.11: Changes in International Strategy in Juggled Junk

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe.</td>
<td>After acquisition JJ was given access to new parent firm's distribution network which meant that many new markets were entered.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe.</td>
<td>A result of grasping unsolicited contacts. Also coincides with political changes in the region.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Asia.</td>
<td>A result of grasping unsolicited contacts, although many contacts were made at trade fairs.</td>
</tr>
<tr>
<td>Single entry into new type of market: US.</td>
<td>The hiring of new staff whose contacts from previous work in Latin America were used to initiate new relations.</td>
</tr>
<tr>
<td>Single entry into new type of market: Latin America.</td>
<td>After acquisition JJ was given access to new parent firm’s distributor in the US.</td>
</tr>
<tr>
<td>Withdrawal from multiple markets: 1991.</td>
<td>Initiating by partner firm, whose owner was acquainted with an individual at JJ’s US distributor.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Distributors.</td>
<td>After acquisition JJ was sold to its manager in 1981, it was decided that JJ should develop its own distribution network, more suited to the firm’s products than the distributors of the former parent firm. Relations with existing distributors were thus terminated and efforts were undertaken only to remain on what was perceived as the firm’s main foreign markets.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Distributors.</td>
<td>After owner of German, Danish and Polish distributors wanted to stop running his firms, firstly the German firm was acquired by JJ. Shortly thereafter JJ also acquired Danish and Polish distributors, since these were all seen as important markets that JJ’s management did not want to risk losing.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: 1981 acquisition.</td>
<td>From having made occasional sales directly to foreign customers, after JJ was acquired in 1973 the firm was given access to the parent firm’s network of distributors.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Mid-1980s.</td>
<td>The German sales subsidiary did not perform as well as had been hoped and sales did not motivate maintaining it. Therefore JJ began using the German distributor of its new parent firm’s other subsidiary as distributor.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: 1987 acquisition.</td>
<td>After JJ was acquired by its manager, in a short period of time relations with a number of distributors on the firm’s main foreign markets were established by the owner-manager, since existing distributors were not seen as suitable for JJ.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: 1991.</td>
<td>In a period otherwise characterised by passivity in relationship initiation, relations with distributors in the US and Spain/Portugal were initiated in the mid 1980s. In both instances antecedent relations between people working at JJ and the new distributors existed.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: 1973 acquisition.</td>
<td>After acquisition JJ was given access to new parent firm’s distribution network.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: Early 1980s until today.</td>
<td>After relationships with new distributors had been established in 1981, for a few years no further efforts were undertaken by JJ to find more foreign distributors. The firm did, nonetheless, continue to attract interest by would-be foreign distributors, which were often encountered at trade fairs.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: 1981 acquisition.</td>
<td>When JJ was acquired by its manager in 1981 it was decided that the firm should not use the former parent firm’s distributors (with a few exceptions). A number of relationships were thus terminated.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: US 1984.</td>
<td>At this time relations with several poorly performing distributors were terminated. This coincides with the introduction of new management into JJ.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focal-firm termination of single relationship: Germany, 2001.</td>
<td>JJ entered into a joint distribution agreement with a firm in Germany. The German firm, however, did not sell much of JJ’s products so a decision was taken to terminate relations with the distributor/supplier.</td>
</tr>
</tbody>
</table>
5.12 Kingly Keyholes

Kingly Keyholes was founded by its current owner and manager in 1981 together with a partner. Initially the firm was started to act as distributor on the Scandinavian markets for a German manufacturer of lockers for industrial use. This relationship would not last long, though, and soon Kingly Keyholes started its own manufacturing. Today, the firm’s production is chiefly focused on latching and hinging systems as well as sealing profiles.

The firm is highly international. Two-thirds of the firm’s revenue comes from exporting and nearly half the firm’s sourcing comes from foreign suppliers (2001). In 2002 Kingly Keyholes employed 94 people and had a turnover of SEK 100 million.

5.12.1 Overview of the Downstream Internationalisation Process

Downstream internationalisation has been important to the firm since shortly after it was founded. Throughout the years, international sales have been achieved both through local distributors and through direct contact with manufacturers abroad.

Three phases in Kingly Keyholes’ downstream internationalisation can be distinguished. In the early 1980s, efforts were focused on direct selling to manufacturers in Scandinavia and the founder and manager spent a lot of time travelling in Scandinavia to find and meet with customers. The total number of foreign customers at this time was limited, though, and no distributors had yet been found. Kingly Keyholes’ employees still numbered only a handful, apart from the general manager and his partner.

The second phase begins in the mid-1980s, when downstream internationalisation efforts were more concentrated on creating a distribution network in neighbouring countries and later also in North America. In 1984, Kingly Keyholes found its first foreign distributor. The firm is located in Belgium and is responsible for marketing Kingly Keyholes’ products there and in the Netherlands. In attempting to expand the firm’s customer base, the general manager and founder’s personal contact network was of great importance.

Throughout Kingly Keyholes’ history, relationships with two Swedish customers have been particularly important in international sales expansion. One of these large customers was the previous employer of the founder of Kingly Keyholes. Another large customer, a Switzerland-based industrial group, became a customer shortly after the firm was founded and still has great impact on downstream internationalisation. Currently, Kingly Keyholes sells its products to a large number of firms related to this industrial group all over the world. Initially, little in the way of active search for these firms was undertaken, though, and Kingly Keyholes’ manager relied on being approached. This would change later on when Kingly Keyholes’ management actively began using their
good relations with the large Switzerland-based customer to jointly identify other potential customers.

By 1988, the firm had 10 employees and an export share of around 40 per cent. Foreign markets included primarily the Scandinavian countries, Germany, the U.K., Belgium, the Netherlands and the U.S., with distributors in the latter three countries. Around this time, the firm began increasing its production of cast and turned details, relying less and less on local suppliers.

While the latter half of the 1980s was characterised by the creation of a lot of new international relationships, often based on the general manager’s personal network, in the former half of the 1990s, fewer initiatives were taken by the firm. Although through its contacts with its largest customer Kingly Keyholes had found a few direct customers in Germany, by 1990 the firm still did not have a distributor on the German market. That was about to change, though with a joint distribution agreement with a German firm, for which Kingly Keyholes also acted as distributor in Scandinavia.

Starting in the mid-1990s, during the third phase of downstream internationalisation, the distribution network was extended to other parts of Europe as well as Asia. Attempts at finding distributors were carried out simultaneously with attempts at finding direct customers. What sets this phase apart from earlier phases in the firm’s downstream internationalisation is that most new direct customers were connected to Kingly Keyholes’ largest existing customers. Most other direct customers, Kingly Keyholes’ management now preferred managing through the firm’s distribution network.

With the increasing importance of the U.S. market, Kingly Keyholes’ management decided to establish a subsidiary there as a way of better servicing the U.S. distributor which had become the firm’s largest customer. The mid to late 1990s also meant that Kingly Keyholes began exporting to countries in Asia, activities that were further extended in 1998 when Kingly Keyholes was approached by a large, U.K.-based, international firm wanting to expand its product ranges. The two firms’ managers signed a contract which gave Kingly Keyholes access to a distribution network in Australasia. The mid to late-1990s also meant that Kingly Keyholes ventured into Eastern European markets. Entries into remote markets were generally triggered by the partner firms, though.

By 1997, Kingly Keyholes’ sales had grown to SEK 60 million, the export share corresponding to more than 60 per cent. At this time, Finland and Germany were the largest export markets. Four years later, total sales had grown to over SEK 100 million with an export share of around two-thirds of total sales. The U.S. had by that time grown into the by far largest export market, being responsible for more than one third of export sales.

5.12.1.1 Changes in Market Selection

The firm began foreign operations in the Scandinavian countries already from inception. Indeed, the firm was intended to function as a Scandinavian
Chapter 5 – The Internationalisation of Sixteen Industrial SMEs

distributor for a German manufacturer. In 1983 deliveries to a large Swedish customer began, which would lead to Kingly Keyholes' products becoming indirectly and later also directly exported to a large number of countries in the two decades to come. The general manager says,

_In '82, '83 we started solving a whole bunch of technical problems for [large customer] and the relation with [large customer] in [city] that is, the [department that works with low-tension electronics], has developed to a turnover of more than 20 million kronor. Eighty-six [large customer-related] companies, in as many countries I almost said. All over the world, that is. You know, we were rated world-wide supplier of [large customer] and I don't really know if you could call that … if that's a wholesale deal, because we supply Germany with technical parts shipped in large quantities, which they in turn ship to their licensees of electrical power distribution systems and to over 40 licensees in many countries where we don't deliver. So [large customer] Germany in Ladenburg, they're like wholesalers for us, you might say. And at the same time, they take what they need from what they buy._

In the mid-1980s, the expansion into European markets began and Kingly Keyholes' manager also started building a network of distributors, first in Belgium, the Netherlands and Denmark, but also in the U.S. The expansion into further European markets continued in the early 1990s and by the mid-1990s the firm had sales in most Western European countries. This expansion was largely made possible by the increasing share of in-house manufacturing that developed during his period. While there was a strong willingness among management to grow, there were also obstacles and sometimes production had trouble keeping up with demand. Therefore, much of the expansion into geographically more remote markets was undertaken not at the initiative of Kingly Keyholes, but at initiatives from the firm's customers.

Through contacts with the firm's Swedish customers, Kingly Keyholes got access to new markets, such as China. A deal with a firm in the U.K. in 1998, also provided Kingly Keyholes with a number of markets in Australasia. Expansion into Eastern Europe, where the firm had previously had direct sales only to manufacturers in Poland, began in the late 1990s. Expansion into these markets remained primarily initiated by the partner firms. Chance encounters also appear to have played a role in this process. Today the U.S. has grown to become the firm's most important market, where a sales subsidiary has also been established.

5.12.1.2 Changes in Mode Selection

The first foreign sales were achieved directly to manufacturers, which is natural since that was the part Kingly Keyholes was initially intended to fulfil. Sales activities were undertaken by the general manager himself, who travelled in the Scandinavian countries. Significant indirect exporting soon began to be achieved through the Switzerland-based industrial group. Further sales expansion, it was felt by the manager, was difficult to accomplish without local
representation. Distributors in Belgium, the Netherlands and the U.S. were therefore contracted in the mid-1980s. When looking back at the firm’s activities at this time, the general manager says,

*We did not have clear-cut distributors. Maybe you’re exaggerating a bit if you say that “yes, I signed on these distributors”, I did not have a single contract. I still don’t have a contract with our American distributor who I got to know in 1987 and shook hands with in the good old Swedish tradition and said that “we’ll do it this way”. And 15 years later we’re still doing it “that way”. Now, they’re our biggest customer.*

Further distributors were found in the early 1990s, a time of rapid growth although the firm was still small at this time. These distributors were located in Denmark, Germany and Canada. In the case of the Danish and German distributors antecedent relations were important, while in the case of the Canadian distributor Kingly Keyholes made use of consultancy services. Direct sales to end-customers continued to be important, although small customers were more and more taken over by the firm’s distributors. In effect, the establishment of multiple distribution channels on many markets emerged over time. The relationship with the Switzerland-based customer also led to direct as well as indirect sales to foreign manufacturers, typically relationships initiated by the customers rather than by Kingly Keyholes. In the mid to late 1990s, distributors were signed on also in Norway, Finland, the U.K. and Hong Kong. A contact with a firm in the U.K. further gave access to that firm’s distribution network outside the U.K., with a focus on Australasia. The expansion of the U.S. market led to the establishment of a sales subsidiary there, although all sales to end customers still go through the local distributor. The Marketing manager says,

*[The U.S.] is a really interesting market that we’ve only begun scratching the surface of. Three years ago, in October, we took the plunge … because [name of general manager]’s son moved over to the U.S. He worked here as a salesman before, focusing a lot on exporting, although different markets then, even if he was responsible for the U.S. market then. Then he moved to [city] three years ago and works very closely with our agent [respondent means distributor] there. He has an office on their premises and visits customers together with their salespeople, to protect our interests you might say. Of course, they have a wide range of products, much wider than ours. Still, ours is a large share of their sales, and it’s been incredibly positive. The development since [name of salesman] moved there has been incredible.*

Currently, on markets where the firm has a distributor, sales to large customers are typically still managed directly, while small customers are usually managed by the distributors.

### 5.12.1.3 Changes in Partner Selection

The very first relationships with foreign customers arose as a result of selling activities on the side of Kingly Keyholes. In the case of finding the first
distributors and customers outside Scandinavia, the general manager’s network was crucial. He says,

We had gotten the first contacts, and that was mainly due to my previous job. As I’d travelled all over Europe I had quite a few contacts in England, Germany, Holland, Belgium, Ireland and so on, that I made use of, naturally.

Sales to the Switzerland-based industrial group also gave both direct and indirect access to many of its subsidiaries and suppliers, most of the early relationships not being initiated by Kingly Keyholes. Overall, the firm’s management took a reactive stance towards relationship initiation for a long time. The general manager says,

As all the time, we, well, let’s say we developed and grew above expectations, there was no time [to search for new customers]. Production was always lagging behind, so we spent all our efforts keeping the [existing] customers happy. And then you’re not out selling actively, you don’t push, you don’t really develop the relations. You take the business as it comes along. Today, it’s completely different. Today you need distributors that are tied to you, that are loyal. Not just because you have a contract in your desk drawer, but also because you have an interest as a distributor to make money.

In the late 1990s, increasing efforts were undertaken to actively use relationships with large customers to find more customers. The marketing manager says,

We, or I rather, have been working quite a lot with [large customer] in the past four years to tie up more contacts on our export markets. When it comes to [large customer], I know of quite a few. Among other places, I was travelling in Saudi, Egypt and Jordan where we had a contact, but I assumed that more could be done there. I visited the different firms and it turned out that they buy an awful lot from local manufacturers, our competitors, so there is much to be done. [Large customer in Germany] supplies all these licensees [all over the world] with our products. But they don’t know about us, so I found out this list of different [large customer affiliated] companies and then I called them to enquire what other opportunities for development there could be for us. So, I’ve been going through them one by one.

The development of the distribution network meant that efforts at establishing relationships with end-customers decreased on some markets. In 1998, a number of relationships were established as a result of collaboration with a firm in the U.K. Typically, both antecedent business and social relations have been drivers of new relationship formation.
Kingly Keyholes was originally founded as distributor for a German manufacturer. Upstream internationalisation was thus part of the business model from the very start. While that changed in the second year of operation, the international outlook did not. Two periods of heightened activity can be identified in Kingly Keyholes’ process of upstream internationalisation. The first period includes the early 1980s, brought on by the need to rapidly expand the firm’s supply base.

The break with the German supplier and management’s decision to start manufacturing more or less forced Kingly Keyholes to begin sourcing abroad. The general manager primarily turned to Germany to find suppliers, although suppliers in Switzerland and France were also found. He says,

So we started modest manufacturing in a small shop. We bought parts where we could find them. There were other firms in Germany that could supply us, complementary parts, so that’s really how it got started, our own manufacturing, at the end of ’82.

The late 1980s and early 1990s meant that few new foreign suppliers were found, however. The most significant relationship to be initiated at this time was that with the German firm for which Kingly Keyholes today acts as distributor for the Scandinavian market. The relationship with the Switzerland-based customer also led the firm to find new suppliers, this being the case with a manufacturer in Finland.

The second period of heightened activity occurs around the mid-1990s, partly a result of management’s desire to decrease the firm’s reliance on single suppliers of key products, partly as a result of the firm’s rapid expansion. Traditionally, most of Kingly Keyholes’ suppliers were located in Germany. In the early 1990s, this was still very much the case. In the mid-1990s, however, the geographical focus shifted somewhat and manufacturers in Denmark, Finland, Taiwan, the U.S. and Belgium were added to the supply base. Generally, existing relationships and trade fairs were crucial in the finding of these suppliers. Today, nearly 50 per cent of the purchase value comes from foreign suppliers, with which Kingly Keyholes has generally attempted to establish direct contact.

5.12.2.1 Changes in Market Selection

Suppliers in Germany have dominated in upstream internationalisation, to some extent being a result of the general manager’s contacts there. Buying from firms on markets such as Finland and the U.S. is largely a result of pressure from customers and their specific requirements and not activities that would otherwise have been initiated by Kingly Keyholes. Some cost sensitive products are bought from China through an agent in Taiwan, an initiative taken by the agent.
5.12.2.2 Changes in Mode Selection
Direct importing from manufacturers has been the dominant mode of purchasing, with only few exceptions of using foreign and Swedish intermediaries. Most notably, the firm buys products from mainland Chinese manufacturers through a Taiwanese agent. No particular patterns over time can be identified in regard to mode selection.

5.12.2.3 Changes in Partner Selection
In upstream internationalisation, personal relations and industry knowledge of the general manager as well as relations with foreign business partners have been important for coming into contact with foreign suppliers. The network and knowledge of the general manager was especially important when early suppliers were found in the early 1980s. This was partly a consequence of Kingly Keyholes terminating relations with its first German supplier.

Antecedent relations with business partners were again important in the mid-1990s. In finding a supplier of steel in 1994, e.g., the purchasing manager made use of the by now well-established relationship with Kingly Keyholes’ German business partner. He says,

[…] we have a lot of contacts down in Germany, so I went to our business partner and asked them “where do you buy your raw steel?” for example, and they gave me this tip. It turned out to be pretty valuable, actually.

Overall, Kingly Keyholes has been active in relationship initiation throughout the development of the supply network, relationships not based on antecedent relations typically being initiated at trade fairs. Occasional exceptions can be noted, however.

5.12.3 Case Summary
On the downstream side, nine types of changes in strategy can be identified. These include multiple entries into new type of market (3), single entry into new type of market (1), new high commitment mode on single market (1), new low commitment mode on multiple markets (1), multiple modes on multiple markets (1), focal-firm initiation of multiple relationships (1), focal-firm initiation of single relationship (1), other-firm initiation of multiple relationships (1), and focal-firm termination of single relationship (1).

On the upstream side, three types of changes in strategy can be identified. These include single entry into new type of market (3), new low commitment mode on single market (1), and focal-firm termination of single relationship (2).
Exhibit 5.12: Changes in International Strategy in Kingly Keyholes

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe</td>
<td>When KK was started the firm was intended to serve as distributor in Scandinavia for a German firm. Soon the relationship with the German firm deteriorated and a decision was taken that KK should start manufacturing of its own. Expansion into some Western European markets ensued, in which antecedent relations were crucial. Several entries were initiated by the partner firms, though.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe</td>
<td>These entries occurred as a result of grasping of unsolicited orders and contacts, most of which were made at trade fairs.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Australasia &amp; South Africa</td>
<td>Two large partners triggered KK’s entry into several East Asian markets. One of the partners had been a domestic customer as well as customer on several European markets in the past, its subsidiaries and affiliated companies in East Asian markets also becoming KK’s customers. In the case of the other partner firm, a general agreement to serve as KK’s distributor in Australasia and South Africa was made, which gave KK access to seven new markets. In neither instance was the initiative taken by KK, though.</td>
</tr>
<tr>
<td>Single entry into new type of market: US</td>
<td>Circumstances surrounding the entry are uncertain, although according to respondent it is unlikely that it was triggered by KK.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in US</td>
<td>To better penetrate what was believed to be a potentially very large market, KK started a sales subsidiary in the US as sales began to expand rapidly. The subsidiary acts primarily as a liaison between KK and the US distributor, though, undertaking marketing activities together with the US distributor rather than independently pursuing new and existing customers.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Sales through distributors</td>
<td>Initially KK was intended to act as distributor selling directly to end users in Scandinavia. When the firm started its own manufacturing and expanded into other foreign markets, distributors were employed since this was seen as the best way to rapidly expand sales.</td>
</tr>
<tr>
<td>Multiple modes on multiple markets: Sales through distributors and directly to users</td>
<td>While sales through distributors became the norm in the early phase of international expansion beyond Scandinavia, soon good relations developed with a large customer. KK began selling directly to subsidiaries and affiliated firms around the world in spite of the fact that on some markets KK already had distributors. This continues to be the case also with other large customers.</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships: Late 1990s</td>
<td>Having relied on one of its main international customers to initiate contacts between KK and the customer’s subsidiaries and affiliated companies around the world, KK’s marketing manager began taking a more active role in pursuing these subsidiaries and affiliated companies to expand sales.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Canada, 1992/3</td>
<td>Having been passive in relationship initiation for several years, around 1992 a decision was taken to expand into Canada. The Swedish Trade Council was employed to find a distributor there.</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships: Late 1980s to late 1990s</td>
<td>After a few relations with foreign distributors had been initiated by KK (based on antecedent relations), a long period of passivity in relationship initiation followed. For a long time KK produced at capacity and there was not felt to be much need to find new foreign customers, since KK continued to attract unsolicited orders from end users and unsolicited contacts with would-be distributors.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Canadian distributor, 2001</td>
<td>Relations with the Canadian distributor were terminated in 2001, largely due to perceived difficulties in collaboration. Currently, the US distributor also manages the Canadian market.</td>
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<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
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</thead>
<tbody>
<tr>
<td>Single entry into new type of market: US</td>
<td>Sourcing from the US due to customer’s special requirements.</td>
</tr>
<tr>
<td>Single entry into new type of market: Finland</td>
<td>Having sourced from Germany and Switzerland (in addition to Sweden), after a suggestion from KK’s largest customer, KK began using a Finnish supplier.</td>
</tr>
<tr>
<td>Single entry into new type of market: Taiwan</td>
<td>Kingly Keyholes buys cost sensitive products from mainland Chinese manufacturers through an agent in Taiwan. This was triggered by the Taiwanese partner firm.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Agent</td>
<td>Purchasing through foreign agent in Taiwan (originally a contact acquired through UK distributor) due to perceived difficulties in dealing directly with small manufacturers.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Germany, 1992</td>
<td>After relations with the first German supplier (for which KK acted as distributor in Scandinavia) deteriorated, the relation was terminated by KK.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Germany, 1994</td>
<td>When individuals working for what was seen as an unreliable German supplier left and started their own firm, KK began using that firm as supplier and terminated relations with first supplier.</td>
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5.13 Literary Logistics

Literary Logistics develops and manufactures mailroom systems for automated handling of newspapers, including everything from press folders to loading docks. Literary was originally founded in 1958 as a service and maintenance unit of a Swedish publishing group. Logistics was founded in 1973 as a spin off of one of Literary’s subcontractors. In Logistics, technical competence was greater than financial acumen and the firm ended up in financial difficulties. In 1978, Literary and Logistics were merged to Literary Logistics and owned jointly by the Swedish publishing group that had originally founded Logistics. In 1982, an investment firm took over Literary Logistics and in 1989 the U.S. subsidiary of Literary, originally started in the 1960s, was merged with Literary Logistics. Soon after the organisational reconstruction, the firm underwent several changes in ownership. Already in 1990, the investment firm withdrew and the Swedish publishing group remained as sole owners until 1997, when Literary Logistics ended up in financial difficulties. Two firms in the newspaper industry together with Literary Logistics’ management then acquired the firm, which was in year 2002 taken over by a German manufacturer of printing equipment.

Currently (2002), the firm employs 109 people and has an annual turnover of SEK 301 million. International sales have been of great importance to the firm in the last two decades, in 2001 corresponding to 90 per cent of turnover. International purchasing, however, has always been very limited. Sourcing from foreign suppliers where there is direct contact corresponds to less than five per cent of total purchasing. Currently, the firm has offices in Sweden, Germany, France, the U.K. and Malaysia.

5.13.1 Overview of the Downstream Internationalisation Process

The downstream internationalisation of Literary Logistics is strongly connected to the type of products that the firm sells. Mostly large, complete mailroom systems are sold and rarely single components. Consequently, the firm employs agents who make initial contact with prospective buyers. Once Literary Logistics is convinced of the seriousness and financial status of the prospective buyer, a specific system is developed. As Literary Logistics does not have the resources to actually be present in all its markets, some agents are also charged with performing after-sales service.

Three main phases in downstream internationalisation can be identified. In the 1960s to mid-1980s unfocused market expansion took place with little thought to market coverage and after-sales service. A second phase begins with the establishment of foreign subsidiaries in the late 1980s. The third phase, covering the 1990s, is characterised by closer collaboration with larger firms in the industry.
While originally Literary was founded with the intention of functioning as a service organisation for a Swedish publishing group, early on external sales were also achieved. Downstream internationalisation began soon after the firm was founded and Literary established a leading position in its field in Scandinavia. Although much of Europe was apparently ignored in the earliest phase of international expansion, a subsidiary was set up in the U.S. The 1960s through mid-1980s was otherwise a period characterised by expansion into the world through the hiring of local agents.

The use of small, locally based agents was not seen as enabling Literary Logistics to service existing customers properly, however. In the late 1980s, a new phase in Literary Logistics’ downstream internationalisation therefore commenced. Within two years time, the firm established sales subsidiaries in France and the U.K., perceived to be among the most important European markets for Literary Logistics’ products. With the merger of Literary Logistics and Literary U.S., a sales subsidiary in Hong Kong established in 1987 was also added to Literary Logistics’ portfolio of holdings. This subsidiary would act as a platform for further expansion in the region. A sales subsidiary was also set up in Germany, although this venture never started operating. The French sales subsidiary established in 1989 was soon transformed into a joint venture. By the end of the 1980s, the firm had agents for various countries in Europe such as Norway, Denmark, France and Belgium, but also for large portions of Asia, Africa and Latin America. In many instances, the sales agents were also responsible for providing a certain amount of technical support to installations sold on their respective markets. Potentially important markets that the firm’s management more or less ignored included Germany and the U.S., in the case of the latter market operations having been closed down, requirements for product adaptation combined with local competition serving as deterrents. In the case of Germany, according to the current general manager, the lack of staff speaking German served as an important obstacle.

In 1992, a new marketing manager was hired who, in 1997, would become general manager of the firm. He reflects on the firm’s early international expansion and how changes in the industry impacted Literary Logistics, saying,

> At the beginning they [i.e. Literary Logistics] were good at [servicing] the needs of the Scandinavian newspaper [i.e. smaller papers] […] But since then we’ve beefed up the machinery … so perhaps we’ve missed a bit at the low end. The problem is that there have been such structural changes among newspapers too, so there aren’t really any small papers anymore, so that’s a mistake that’s repaired itself for us [respondent laughs]. […] If I’m going to summarise this internationalisation thing, we’ve been driven by our customers, by where they’re located. […] To get large enough a critical mass we were forced to look outside the country.

The choice of market intermediaries underwent a drastic change in the early 1990s. Previously, Literary Logistics had mainly employed smaller agents. Many of these were replaced and Literary Logistics began making use of the
agents and sales organisations of larger firms in the industry, rather than employing independent agents. In this way the firm gained access to the U.S. market, where for a long time no real sales had been achieved. Australasia and Africa were other regions to which this collaboration was extended.

The second half of the 1990s meant that changes were made in the firm’s portfolio of subsidiaries. In 1996, Literary Logistics received a large order for mail rooms in Malaysia, which led to the establishment of another foreign joint venture together with the local agent, a venture that would be focused both on operations and sales. Since the firm’s last attempt at developing the German market a sales subsidiary still existed there, although it had never been an active firm. In 1997, however, it was decided that the German market should no longer be ignored and the old sales subsidiary was reactivated. People were hired from Literary Logistics’ competitors and a sales and service organisation was created.

Due to the economic crisis in Asia in the second half of the 1990s and the subsequent drop in sales, the cost of maintaining two ventures in the region was no longer seen as motivated. As the cost of maintaining an office in Malaysia was significantly lower than maintaining one in Hong Kong, a decision was taken to close down operations in Hong Kong. The collaboration between Literary Logistics and the Malaysian agent within the framework of the joint venture did not run smoothly, though, so the partner’s shares were acquired. By 2002 the firm thus had subsidiaries and joint ventures in Germany, France, the U.K. and Malaysia, and pursued customers on a great number of markets.

5.13.1.1 Changes in Market Selection

The first markets entered were those in Scandinavia and the U.S. in the 1960s. In the 1970s and 1980s, however, direct sales were achieved on many markets and the firm began establishing a network of agents, with sales throughout Europe, but also in Africa, Latin America and Asia. At this time, agents, especially in the case of distant markets, often managed several markets. Market entries were often reactive and undertaken without any planning. Rather, entries were results of grasping of opportunities that presented themselves. The current manager describes a situation where little attention was directed towards after-sales activities, the firm relying on occasional sales rather than attempting to better penetrate its markets.

The hold on Asia was further strengthened when Literary Logistics merged with Literary Logistics U.S. and got a sales subsidiary in Hong Kong as a consequence. The firm more or less withdrew from the U.S., however, since it proved difficult to adapt to local standards. At this time greater focus on a few key markets can be noted with the establishment of sales subsidiaries in France, the U.K. and Germany. In the case of Germany, however, the subsidiary never took off and this was a market that would be of little or no significance for some time to come. By the 1980s, Literary Logistics already enjoyed a nearly global presence, although in the early and mid-1990s, through collaboration
with larger manufacturers in the industry, a stronger hold on some markets like e.g. the Netherlands, was established. The U.S. market was also re-entered at this time. Since the mid to late 1990s, the firm has adopted a new approach to its foreign markets and new markets are entered only if there is substantial potential there. The general manager says,

*I’m not gonna exaggerate my own role in this, but in the last five years perhaps we’ve been a bit more consistent in the way we enter markets. I use the image that we’re growing like moss, that is slowly we spread across the world, in stead of what we used to do what I like to call parachuting.*

Financial problems, new management and new owners are reasons associated with this shift in strategy.

### 5.13.1.2 Changes in Mode Selection

The first sales were achieved directly to end customers, but soon Literary Logistics began establishing a network of agents around the world. Mostly, these agents were small, independent firms. Some acted on single markets, while others acted on a greater number of markets. The general manager says,

*So, eventually, you started finding agents and they we very much, they were sort of your buddies. You knew someone who’d worked for some paper, often these guys who were characters in the industry, so they ran around and sold a bit every here and there, but there was still the problem with an after market and all that. […] And if we didn’t have any orders everybody ran around a bit and then, bada-boom, “now we’ve got something to do guys!” and then you produced.*

In the late 1980’s, as a way of establishing greater control over some key markets three sales subsidiaries were established in the U.K., Germany and France. Previously, largely agents had been relied on to provide the generally complex systems with after-sales service, which was found to be an unsatisfactory solution by many of the firm’s customers. In the case of the French subsidiary, the former agent was actually acquired. The German sales subsidiary never began operating, though. Through the 1989 merger, Literary Logistics also ended up with a subsidiary in Hong Kong. Since the French subsidiary did not perform well, in 1990 Literary Logistics sold the majority share to the individuals who had previously acted as agents, ending up with a joint venture instead.

In the early 1990s, a process of establishing relationships with the agents of large, international manufacturers began, leading to the replacement of many of the earlier, independent agents. The general manager (marketing manager at the time) says,

[…] you went to some market, sold something, and then you went somewhere else. But no service, no local facilities and things, very substandard. So you, well, perhaps didn’t get a bad reputation, but it didn’t look serious. […] If you go back a bit, then
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every country had a company that sold a printing press every here and there, that is suppliers to the graphics industry. And then you [i.e. Literary Logistics] joined forces with one of those who represented [them, i.e. the smaller firms that “sold a printing press every here and there”], you thought they had a good organisation and so on. So then the aim was to have perhaps the three best in every country that you tied up. And it’s been like that until a while back. But now we’re starting to hang out bit the big guys, that is [names of three large firms in the printing machinery industry]. They take control over the distribution network so you’re no longer [together with the small, independent agents]. I started with [large firm in the printing machinery industry], that was my first strategy, that we should try to be close to [large firm in the printing machinery industry] because if we could only sell to half of the installations that [large firm in the printing machinery industry] sells, I think we’d do really well. So, I wasn’t really interested in the freestlies, and besides, they [the large suppliers of printing presses] often have their own service organisations.

This was, thus, the outspoken strategy of the new marketing manager at the time, the aim being to sell Literary Logistics’ products as complimentary to those products sold by other, large firms in the industry. Being tied to the sales organisations of manufacturers rather than working with independent agents was thus perceived to be more beneficial for the generation of business opportunities and in managing after-sales service.

In 1996, a joint venture was established together with the Malaysian agent when Literary Logistics received a very large order. The general manager says,

[…] but then we received a very large order in Malaysia, [name of firm], and then a lot of resources were needed on site, so we decided to set up an office that, during the entire installation phase, was going to support this [name of firm] [project]. So we built up technical competence there, you might say and we’ve maintained that in Malaysia […] the competence we have there, it supports all of Asia from Kuala Lumpur, instead of from Hong Kong.

In 1997, the German sales subsidiary which had been dormant for more than five years was reactivated in an attempt to enter the German market. The Hong Kong sales subsidiary was closed in 2001 since it was found to be uneconomical to maintain two ventures in the region. In 2002, Literary Logistics bought out the Malaysian joint venture partner, ending up with a wholly owned subsidiary.

5.13.1.3 Changes in Partner Selection

Early sales were achieved both due to marketing activities undertaken by Literary Logistics and as a result of partner firm-initiation activities, the current manager describing the approach to international sales as highly unstructured. It is not possible to say exactly how individual relationships initiated prior to the 1990s were established, however. As the network of agents developed, though, Literary Logistics came to rely on these for initiating relationships with customers.
The establishment of relationships with agents in the late 1980s was largely a reactive process. In the early 1990s, though, a process of tying the firm more closely to the agents of large manufacturers began, a key strategy of the new marketing manager to expand international sales. In some cases these agents were sought out, in other cases a deal made with one agent led to Literary Logistics being contacted by other local agents or even the international parent firms of local agents. In regard to such an instance, the general manager of Literary Logistics says,

We started signing only for North America. But then somehow this spread inside [large firm in the printing machinery industry]'s organisation and then corporate [large firm in the printing machinery industry] caught whiff of this and then they … then they turned up and tried to incorporate us there.

After signing the collaborative agreements, the parent firm wanted to sign a general agreement for global cooperation. The general manager of Literary Logistics thought otherwise. He says,

[…] We’ve been fighting a lot about that. We refused to – they sort of wanted to make this global agreement – but “No, we won’t. We can construct an agreement and then in an appendix, we can say which countries it applies to and if you’re no good in a country, you’re off the list!”, and reluctantly they agreed.

As a consequence, relationships with some existing agents were terminated in the mid-1990s.

5.13.2 Overview of the Upstream Internationalisation Process

The role of foreign sourcing has always very been limited in Literary Logistics. Most of the firm’s purchasing has been done locally and it is hardly meaningful to attempt to divide international sourcing activities into specific phases.

According the purchasing manager, currently direct foreign purchasing corresponds to less than five per cent of total purchase value. Most of the standardised products that the firm does purchase actually originally come from foreign manufacturers. Direct contacts with foreign manufacturers are rare, however, and only five relationships with foreign suppliers have been identified. Foreign purchasing activities are typically undertaken only when no acceptable local alternatives exist and foreign purchasing is typically seen as problematic by management.

The relationships with foreign suppliers identified in the case material typically go back a long time. Such suppliers are located in Germany and Denmark. More recently established relationships also exist and the firm has found two suppliers in Denmark in the last, few years. One of these approached
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Literary Logistics in 1999 and in year 2000, Literary Logistics themselves sought out the other.

Another and clearly more important aspect of Literary Logistics’ upstream internationalisation is the fact that the various subsidiaries and joint ventures that the firm became involved in the 1960s (U.S.) and late 1980s and onwards not only served as foreign sales ventures, but were also (and sometimes primarily) responsible for the implementation of large projects on many of Literary Logistics’ foreign markets, as well as being charged with performing after-sales service. 

5.13.2.1 Changes in Market Selection

Foreign purchasing has apparently been done only from firms in Germany and Denmark. The value of foreign purchasing is limited since the local supply base is well developed. No specific trends in regard to changes in market selection behaviour have been noted in the case material.

Entries into upstream markets have also been identified on the operations side of activities, Literary Logistics becoming involved in subsidiaries and joint ventures on several markets, either because these were perceived as markets of potentially great importance, markets were the firm currently was unable to provide what was seen as acceptable levels of service to installations, or because the firm had received a large order. Countries where operations ventures have been established include the U.S., France, the U.K., Germany, Hong Kong and Malaysia.

5.13.2.2 Changes in Mode Selection

Foreign purchasing has been done in the form of direct importing from manufacturers. No particular trends or exceptions have been identified.

In the internationalisation of operations, Literary Logistics has on several occasions made use of foreign subsidiaries and joint ventures. While achieving sales was an important role for these ventures, the need to be present on foreign markets during the implementation of large projects as well as to provide after-sales service, were the primary reasons why Literary Logistics became involved in these foreign ventures. E.g., in regard to the Malaysian joint venture, the general manager says

They’d been our agent for a number of years. And we’d had some minor sales, and then suddenly they came with this [project]. […] We sold systems to a Malaysian customer for 60 million dollars and in that agreement it was stipulated that we had to set up one of those service firms. And then this company was formed. And we owned 70 per cent and our agent 30 per cent. That’s how it got started. […] in ’96.

The foreign ventures are described in greater detail under 5.13.1.
5.13.2.3 Changes in Partner Selection
In upstream internationalisation, the very few relationships with foreign suppliers that do exist have typically been initiated by Literary Logistics, with one confirmed exception in the case of a Danish manufacturer. No particular trends in regard to partner selection behaviour have been noted.

5.13.3 Case Summary
On the downstream side, nine types of changes in strategy can be identified. These include multiple entries into new type of market (4), single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on multiple markets (1), new high commitment mode on single market (4), new low commitment mode on multiple markets (1), focal-firm initiation of multiple relationships (1), other-firm initiation of multiple relationships (1), and focal-firm termination of multiple relationships (1).

On the upstream side, five types of changes in strategy can be identified. These include single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on multiple markets (1), new high commitment mode on single market (4), and focal-firm termination of single relationship (1).

Exhibit 5.13: Changes in International Strategy in Literary Logistics

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe</td>
<td>Sales through agents, relations with which were typically initiated by the agents. Further circumstances unclear.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Latin America.</td>
<td>Sales through agents, relations with which were typically initiated by the agents. Further circumstances unclear.</td>
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<tr>
<td>Multiple entries into new type of market: Asia.</td>
<td>Sales through agents, relations with which were typically initiated by the agents. Further circumstances unclear.</td>
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<tr>
<td>Multiple entries into new type of market: Africa.</td>
<td>Sales through agents, relations with which were typically initiated by the agents. Further circumstances unclear.</td>
</tr>
<tr>
<td>Single entry into new type of market: US, 1960s.</td>
<td>Circumstances surrounding this venture uncertain, although L established subsidiary there.</td>
</tr>
<tr>
<td>Single entry into new type of market: US, mid-1990s.</td>
<td>Circumstances are unclear, although LL did not take the initiative to this entry.</td>
</tr>
<tr>
<td>Withdrawal from single market: US.</td>
<td>Withdrawal after perceived difficulties in adapting to local standards.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Subsidiaries, late 1980s.</td>
<td>In the late 1980s, four sales subsidiaries were established. In the case of the subsidiary in Hong Kong, this actually existed earlier, but came under the control of LL after the merger between Literary and Logistics. Subsidiaries were at the time also established also in France, UK and Germany (although the latter soon became dormant, but was reactivated in 1997). Reasons cited for establishing these subsidiaries was to get greater control over and penetration of potentially large markets. Reliance on agents was also seen as unsatisfactory by many of the firm’s customers. In the case of France, e.g., the former agent was acquired. These subsidiaries acted as sales subsidiaries and were also responsible for implementation and after-sales service.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in US in 1960s.</td>
<td>Circumstances surrounding this venture are uncertain, although it was closed down after difficulties in adapting to local standards. This subsidiary acted as sales subsidiary and was responsible for implementation and after-sales service.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Joint Venture in France, 1990.</td>
<td>The French subsidiary (and former agent) did not perform well, so a decision was taken to accept an offer by two individuals employed by the firm to buy the majority share of the venture. This venture acted as sales joint venture and was responsible for implementation and after-sales service.</td>
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<thead>
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<th>Change in upstream strategy</th>
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<td>Single entry into new type of market: US.</td>
<td>Circumstances surrounding this venture uncertain, although L established subsidiary there.</td>
</tr>
<tr>
<td>Single entry into new type of market: Malaysia.</td>
<td>After the firm received a large order in Malaysia, a joint venture (and later subsidiary) was established there in order to be responsible for the implementation and servicing of a large project.</td>
</tr>
<tr>
<td>Withdrawal from single market: US.</td>
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</tr>
<tr>
<td>New high commitment mode on single market: Joint Venture in Malaysia, 1996.</td>
<td>After a large order was received, it was determined that LL needed more committed presence on the market which was also expected by the customer. A joint venture was therefore created together with the Malaysian supplier. This venture acted as sales joint venture and was responsible for implementation and after-sales service.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in Malaysia, 2002.</td>
<td>Difficulties in collaborating with the joint venture partner led to LL acquiring his share of the Malaysian joint venture, ending up with a wholly owned subsidiary in Malaysia. This venture acted as sales joint venture and was responsible for implementation and after-sales service.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Danish supplier, c. 1996.</td>
<td>Displeasure with quality and price levels led LL to terminate relations with Danish supplier.</td>
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5.14 Maximum Mobility

Maximum Mobility was founded in 1942 and has been manufacturing various forms of wheels for the past 60 years. In 1987, the firm was acquired by a Swedish investment firm which owned Maximum Mobility until 1991, when the firm was acquired by a consortium of private investors, one of which became Maximum Mobility’s general manager. In 1998, the family of the manager acquired the partners’ shares, becoming sole owner of the firm.

In the past decade, Maximum Mobility has experienced rapid growth, today (2002) having a turnover of SEK 129 million and employing 101 people. While international sales are of great importance to the firm, corresponding to 45 per cent of turnover (in 2001), international sourcing constitutes only ten per cent of total purchasing.

5.14.1 Overview of the Downstream Internationalisation Process

International sales began in the early 1970s, with a focus on neighbouring countries. Distributors were found in Finland, Norway and Denmark. At this time, the firm was still relatively small and the focus on the Swedish market was much greater than today, one large Swedish customer being responsible for most of the firm’s sales. Throughout the 1970s, the network of distributors was extended to a few other European countries, including Austria and Switzerland. Some direct sales were also achieved. Maximum Mobility began attending international trade fairs at this time, but it was only in the early 1980s that the firm’s management would take steps towards greater foreign market commitment, in the form of a sales subsidiary in the U.S. Efforts to penetrate the U.S. market in this way failed, though, and the subsidiary was soon closed down and replaced with a local distributor. In the mid-1980s, Maximum Mobility also entered into a relationship with a firm in Germany that, in addition to Germany, opened up several new markets for Maximum Mobility, including France, Spain, the U.K. and Australia. Starting in the mid-1980s, Maximum Mobility’s downstream internationalisation thus became strongly influenced by the firm’s largest customers, another example being relationships initiated by and through the large Swedish customer.

A new phase in downstream internationalisation commenced in the early 1990s, with a greater focus on selling directly to manufacturers. One of the reasons why Maximum Mobility began working together with end customers rather than primarily through local distributors was that the firm increasingly came into contact with customers’ contract manufacturers. At this time, new distributors and other direct customers were also found, trade fairs remaining an important venue for the typically partner-initiated relationship. Southern Europe emerged as an increasingly important market at this time.

In the late 1990s, increasing efforts were undertaken to utilise the potential that the large Swedish customer’s contract manufacturers represented. Rather
than just waiting for the Swedish customer to instruct its contract manufacturers to use Maximum Mobility’s products, Maximum Mobility’s marketing manager began actively seeking out these firms, sometimes bypassing the Swedish customer’s purchasing organisation.

Expansion on established markets characterises this phase. Several distributors were replaced and multiple distribution channels were established on some markets, although occasional forays into more remote regions such as Southeast Asia and Eastern Europe were also undertaken. In the last years, some of Maximum Mobility’s customers have moved production abroad, which also meant that Maximum Mobility expanded into new markets, e.g. contacts in Hungary and India arising this way.

5.14.1.1 Changes in Market Selection
Foreign sales began on Northern European markets and were expanded to the U.S. in the early 1980s with the establishment of a sales subsidiary there. Since there was such a strong focus on a single, large Swedish customer, the drive towards internationalisation was apparently limited. Contacts with the large Swedish customer also led to indirect foreign market entries and would continue to do so for some time.

In the mid to late 1980s, sales were achieved in most of Western Europe as well as Australia, although few new markets were actually entered at this time. The establishment of a firmer foothold on several European markets as well as in Australia was a result of a contact with a German firm and the subsequent establishment of relations with its foreign subsidiaries. The marketing manager says,

_in the mid-1980s we started working with a firm in Germany, a competitor to us you could say, that’s called [name of firm]. And this firm was represented in France, England, Spain, and they had […] subsidiaries in England, France and Spain, and a distributor in Australia. […] And in these three countries, Spain, England and France, we established cooperation, and we also did that in Australia. When this was started in the mid-1980s they had [i.e. manufactured] a version of our wheel that was a lot more expensive, while we had a cheaper type. So, when they couldn’t sell their own wheels they took a cheaper option, so that’s how the business got started. And we’re still working together, well not with the one in England, there we helped another firm get started, but both in Spain and France and Australia. And the Australian firm has been acquired by another global firm, but they still buy from us and they’re our representative in Australia._

In the early and mid-1990s, the expansion into new markets picked up pace, with contacts in Eastern and Southern Europe. For a couple of years, Maximum Mobility also sold to a Japanese firm encountered at a trade fair. When that firm stopped buying from Maximum Mobility, though, no further efforts were undertaken to stay on the Japanese market, perceptions regarding
its remoteness, lack of opportunities for sales and Maximum Mobility’s lack of contacts there being important reasons.

An important change at this time was increasing sales achieved directly to the large Swedish customer’s foreign contract manufacturers. I.e., the share of direct exporting increased at the expense of indirect exporting. In this way, Maximum Mobility was drawn into more and more markets. Other important changes that lay behind the sales expansion of the mid-1990s was a shift in consumer preferences towards furniture on wheels, as well as the trend of transferring production to low-cost countries. Customer-following apparently led Maximum Mobility to enter distant markets that management otherwise likely would not have contemplated. E.g., since the late 1990s sales have been achieved in countries like India and Hungary in this way. Western Europe remains the firm’s main market, though, with some sales in Eastern Europe, Asia and the U.S. The marketing manager says,

> Our philosophy or business idea is that Europe is our home market and that’s what we prioritise.

5.14.1.2  Changes in Mode Selection

Exporting was not a priority early on since most of the firm’s production was sold to a single customer, which also indirectly provided Maximum Mobility with export markets. The firm did not have the resources and management apparently did not have the inclination to manage export business directly. Thus, most of the early venturing into foreign markets took place in the form of exporting through distributors.

In the early 1980s, a sales subsidiary was established in the U.S., this being the first major deviation from the established patterns in mode selection. The marketing manager of Maximum Mobility says,

> [...] he [owner at the time] wanted to break into the American market, and everybody who has tried knows that it’s incredibly difficult, it’s really tough. And so it turned out. In the early 1980s they spent maybe between three and five million, which was quite a lot in those days, on this company [i.e. the U.S. subsidiary] but the only result was that we withdrew from the market. And the reason was that there were many different standards. We were used to a European standard and they were used to an American standard. So we had to adapt everything to them, and that’s incredibly expensive with a lot of tools and so on. That was a costly adventure.

The subsidiary was, therefore, closed down shortly thereafter when management realised that difficulties in adapting to U.S. standards had been underestimated.

The network of distributors was expanded throughout the 1980s, typically as a result of the firm being contacted by the partner firms. In one instance several relationships were initiated with the subsidiaries of one customer in Germany.
In the early 1990s, the share of exporting directly to end customers began to increase as a result of Maximum Mobility coming into contact primarily with the large Swedish customer’s contract manufacturers. In the mid to late 1990s, this trend was even more apparent, with an outspoken preference for serving large customers directly, relying on distributors primarily to serve smaller customers. Since then, there has also been greater focus placed on actively seeking out end customers, rather than waiting for them to announce their interest. The marketing manager says,

Well, you could say that in the Scandinavian countries, there we have both agents [respondent means distributors] and we work ourselves. So, there we have firms helping us get out into the market for small and medium-sized firms, while we take care of the larger firms ourselves.

Customer following abroad has also resulted in direct foreign sales. While a number of distributors were exchanged in the mid and late 1990s, in the case of entry into new markets typically distributors have not been found there. This is the case of sales to India, for example. The marketing manager says,

We have [a customer] in India. It’s pretty new, and it’s [firm] in India that has manufacturing down there and [firm] has initiated that contact. […] [Firm] had that kind of manufacturing in Sweden, but they closed it down in Sweden and continued at this place down in India instead.

5.14.1.3 Changes in Partner Selection

Trade fairs have been important venues for relationship initiation throughout the firm’s downstream internationalisation. While it cannot be ascertained with any certainty how individual relationships were initiated in the 1970s and early 1980s, according to the marketing manager they likely arose as a result of Maximum Mobility being contacted at trade fairs. The largely partner-firm driven approach to relationship initiation continued throughout the 1980s, e.g. relations established with one customer leading to relations established with that firm’s distributors in several European countries as well as in Australia. Contacts with end customers outside Sweden were still limited at this time.

The number of relationships with foreign business partners increased drastically in the 1990s. Many of the relations established during this period arose from Maximum Mobility’s contacts with its main customers, primarily the large Swedish one. At this time, in the case of direct relationships with contract manufacturers, the manufacturers or their customers were generally the initiators. In regard to such an event involving Italian customers, the marketing manager says,

[…] [firm] initiated this. What happened was that we got a fax that said “according to [firm]’s design, here and here, we want this and that wheel”. And, so I know that that was through [firm]. Often, [firm] has two models of garbage machines, like in
This changed in the late 1990s, however, when a more active search approach can be noted. Rather than waiting for customers to arrive, the marketing manager of Maximum Mobility seeks out e.g. the contract manufacturers of the large Swedish customer. The marketing manager says,

[...] in some cases we can go to [firm] if we know that there is a sofa where our wheels are prescribed, then in some cases we can find out from [firm] who manufactures them – but that’s a bit hush-hush, we don’t want to spread that on, who gave them the address and so on. But then we can get a list of maybe seven manufacturers and then we contact them.

5.14.2 Overview of the Upstream Internationalisation Process

Direct upstream internationalisation has never been of great importance to Maximum Mobility. The purchasing manager estimates that currently 10 per cent of total purchasing comes from foreign suppliers. A lot of the raw materials that the firm purchases originally comes from foreign manufacturers, although relations are managed by agents in Sweden. Over the years, the number or direct relationships with suppliers abroad has thus been limited. The purchasing manager mentions access to local suppliers and limited resources to devote to foreign sourcing as important reasons for this.

The few direct relationships that the firm has been involved in have been with manufacturers in Germany and the U.K., all of which were initiated in the late 1990s or later by the sellers rather than by Maximum Mobility. Recently, the firm has also come into contact with a handful small manufacturers in China, who serve as Maximum Mobility’s contract manufacturers. Relations with these manufacturers are managed by an agent located in Hong Kong, though.

5.14.2.1 Changes in Market Selection

In the case of upstream internationalisation, Maximum Mobility has only had very few relationships with foreign suppliers. These are located in Germany and Denmark. Entries typically arose without initiative from the side of Maximum Mobility. Lately, the firm has also begun purchasing some components from China, the only exception from established foreign sourcing strategies apparent in the case material.

5.14.2.2 Changes in Mode Selection

In upstream internationalisation, direct importing from manufacturers has never been the aim of the firm’s management, which has always relied heavily on local suppliers and Swedish agents of foreign manufacturers. Indeed,
according to the purchasing manager the outspoken strategy has been to use Swedish suppliers and direct contact with foreign suppliers has been taken only when necessary. He explains why:

_We have a small purchasing department that works with Swedish agents where you can talk to them very easily and you can call someone who’s in charge in this country, rather than adding on maybe two or three guys that are gonna fly all over the world looking for suppliers, right. So, that’s a strategic choice we’ve made, to keep it down._

In a few instances Maximum Mobility has direct contacts with manufacturers, though. In two cases this arose as a result of foreign manufacturers firing their Swedish agents, forcing Maximum Mobility to deal directly with the foreign supplier. More recently, contact has also been made with manufacturers in China who act as contract manufacturers for Maximum Mobility. Relations are managed by an agent stationed in Hong Kong, though.

### 5.14.2.3 Changes in Partner Selection

No particular trends in upstream internationalisation can be identified other than a couple of direct relationships with suppliers being initiated when the suppliers stopped selling through agents in Sweden.

### 5.14.3 Case Summary

On the downstream side, nine types of changes in strategy can be identified. These include multiple entries into new type of market (1), single entry into new type of market (3), withdrawal from single market (1), new high commitment mode on single market (1), new low commitment mode on multiple markets (1), new low commitment mode on single market (1), multiple modes on multiple markets (1), focal-firm initiation of multiple relationships (1), and focal-firm termination of single relationship (1).

On the upstream side, three types of changes in strategy can be identified. These include single entry into new type of market (1), new high commitment mode on single market (1), and new low commitment mode on single market (1).
**Exhibit 5.14: Changes in International Strategy in Maximum Mobility**

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Multiple entries into new type of market: Eastern Europe.</strong></td>
<td>Entries into Eastern Europe began in the early 1990s and most countries in the region have been entered since. In all these instances the partner firms or third parties have initiated the relationships, entries occurring as MM grasped unsolicited offers and contacts.</td>
</tr>
<tr>
<td><strong>Single entry into new type of market: US.</strong></td>
<td>MM entered the US through setting up a wholly-owned sales subsidiary there, since the US was believed to be a market offering great potential.</td>
</tr>
<tr>
<td><strong>Single entry into new type of market: Australia.</strong></td>
<td>This entry was initiated by MM's German distributor who also owned the firm that became MM’s distributor in Australia.</td>
</tr>
<tr>
<td><strong>Single entry into new type of market: Japan.</strong></td>
<td>Withdrawal from single market: Japan. Japanese customer stopped buying from MM and no efforts were undertaken to stay on the Japanese market, since management did not think that firm had any contacts there and that the potential for sales was perceived to be low.</td>
</tr>
<tr>
<td><strong>New high commitment mode on single market: Subsidiary in the US.</strong></td>
<td>MM entered the US through setting up a wholly-owned sales subsidiary there, since the US was believed to be a market offering great potential and this was believed to be the best way to penetrate the market.</td>
</tr>
<tr>
<td><strong>New low commitment mode on multiple markets: Direct sales.</strong></td>
<td>From having primarily used distributors on the firm’s foreign markets, in the 1990s an increasing share of sales was made directly to end customers. This is especially the case on new markets, but is also a result of customer following. I.e., since some of MM’s domestic customers have transferred production to other countries, MM now supplies their customers’ foreign suppliers and manufacturing facilities. In time, this trend developed into the outspoken strategy to serve large customers directly and small customers through local distributors. This was also perceived as a requirement from certain customers.</td>
</tr>
<tr>
<td><strong>New low commitment on single market: Distributor in US.</strong></td>
<td>US standards proved difficult to adapt to and the US sales subsidiary subsequently failed to yield the desired outcome. When a customer of the US sales subsidiary offered to work as distributor on that market, the offer was accepted.</td>
</tr>
<tr>
<td><strong>Multiple modes on multiple markets: Distributors and direct sales.</strong></td>
<td>While most foreign sales were achieved through distributors in the 1970s and 1980s, in the 1990s MM started selling more and more directly to end customers, also on some market where the firm had distributors. In time this trend developed into an outspoken strategy to serve large customers directly and small customers through local distributors. This was also perceived as a requirement from certain customers.</td>
</tr>
<tr>
<td><strong>Focal-firm initiation of multiple relationships: Late 1990s.</strong></td>
<td>To further expand sales, in the late 1990s, MM began actively searching out the foreign suppliers of some of MM’s largest domestic customers, as opposed to previously having relied on being contacted by these.</td>
</tr>
<tr>
<td><strong>Focal-firm termination of single relationship UK, 1997.</strong></td>
<td>Displeasure with the existing distributor led MM to terminate the relationship when the manager of the distributor left to start his own firm and offered to act as MM’s distributor in the UK.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single entry into new type of market: HK/China.</strong></td>
<td>Sourcing from Chinese low-cost manufacturers and contract manufacturers. Relations are largely managed by an agent in Hong Kong with whom relations were established when he worked for large domestic customer to MM.</td>
</tr>
<tr>
<td><strong>New high commitment mode on single market: Contract manufacturing.</strong></td>
<td>Contract manufacturing activities undertaken by Chinese suppliers for cost reasons.</td>
</tr>
<tr>
<td><strong>New low commitment mode on single market: Agent.</strong></td>
<td>Relations with Chinese contract manufacturers are largely managed by agent located in Hong Kong. Contacts with the Hong Kong agent were established when he previously worked for MM’s largest domestic customers. Direct contact with the contract manufacturers is not perceived as realistic.</td>
</tr>
</tbody>
</table>
5.15 Nifty Nursing

Nifty Nursing was founded in 1945. Initially, production was focused around a variety of meat containers and trays for professional use as well as various household products, all made of stainless steel. In the late 1950s, Nifty Nursing began manufacturing interiors for hospitals and professional kitchen. In the early 1960s, this developed into also including interiors for laboratories and ventilation cabinets. In the late 1960s, Nifty Nursing began manufacturing hygiene cabinets, i.e. cabinets containing paper tissues, plastic cups and soap, for public use.

In the early 1970s, Nifty Nursing began collaborating with another firm in the same industry. This collaboration proved very successful for both parties and led to the acquisition of Nifty Nursing by the partner firm at the end of 1974. In 1985, a new product category was added to Nifty Nursing’s line, products related to patient hygiene in hospitals, such as lifters, bathing systems and shower trolleys.

In 1990, Nifty Nursing’s owner decided to sell off its subsidiaries, which led to the creation of Nifty Nursing in its present form. Beginning in the early 1990s, the firm again moved into a new product category, this time products related to physiotherapy and rehabilitation, later complemented by the production of walkers.

In year 2002 the firm employed 46 people and had a turnover of SEK 51 million. International sales corresponded to 37 per cent of turnover in 2001, while direct international purchasing amounted to only five per cent of total sourcing.

5.15.1 Overview of the Downstream Internationalisation Process

While it is difficult to distinguish specific phases in Nifty Nursing’s downstream internationalisation, international activities strongly reflect the development of the firm, including both changes in ownership and changes in product categories.

In the first 30 years of Nifty Nursing’s history, no real efforts were made to achieve international sales. Only when Nifty Nursing was acquired by its previous partner firm at then end of 1974 did downstream internationalisation begin, although at that time still on a very modest scale. Nifty Nursing’s new owner had previously established subsidiaries in Norway, Finland and Denmark, which now became distributors for Nifty Nursing’s products on those markets. At this time, a distributor was also found on Iceland. No other foreign distributors were added during the 1970s and foreign sales remained marginal.

It was only in the mid-1980s that Nifty Nursing’s expansion into new foreign markets would continue. In 1985, Nifty Nursing’s owner acquired the remains of a firm that had gone bankrupt. This firm owned the rights to...
various systems facilitating patient hygiene care in hospitals, such as lifters and bathing systems. This firm also had a network of distributors in Europe that Nifty Nursing made use of. In 1985, Nifty Nursing ventured into the U.S. for the first time, a result of Nifty Nursing's owner starting a subsidiary there. Collaboration with a U.K. manufacturer also opened up the Australian market to Nifty Nursing.

In 1990, when Nifty Nursing's owner decided to sell off its manufacturing units, Nifty Nursing was acquired by the general manager and a business partner of his. At this time, international sales still corresponded to a limited share of turnover. The early 1990s, however, meant that foreign sales quickly expanded. During this period, though, Nifty Nursing entered few new markets, Germany being the most notable exception. Nifty Nursing’s U.S. distributor, a subsidiary of Nifty Nursing’s former parent firm, was at this time also sold to a firm that would act as distributor in the U.S.

The introduction of a new product category in the early to mid-1990s – products used in patient rehabilitation and physiotherapy – also meant that the general manager and now part owner of Nifty Nursing found it necessary to add to the list of distributors on several markets, in effect establishing parallel distribution channels.

In the mid to late 1990s, in rapid succession Nifty Nursing entered a number of new markets around the world, primarily in Eastern Europe and Asia. These entries were triggered by the partner firms, though. Additionally, the distributors on several foreign markets underwent organisational changes. In 1997, for the first time Nifty Nursing entered into a joint venture. The marketing manager of the poorly performing Dutch distributor left to start a new firm together with Nifty Nursing, which, however, sold its share in the venture in year 2000. The joint venture in the Netherlands was not the only foreign venture established at this time. In 1998, the owner of Nifty Nursing’s distributor in the U.S. decided to retire and a decision was taken that Nifty Nursing should establish a new subsidiary on the U.S. market. The U.S. subsidiary only has two employees, however, and acts mainly as importer; Nifty Nursing’s products are actually sold through local dealers. Further, a sales subsidiary was started in Germany in 2000 after attempts at finding suitable distributors for products related to rehabilitation had failed. The adding on of new distributors continued at this time, primarily in Asia.

Since the mid-1990s, the number of markets where Nifty Nursing has distributor has doubled. This, however, has not been followed by a similar increase in export sales’ share of turnover. By 1994, foreign sales corresponded to 51 per cent of turnover. In 2001, this had dropped to 37 per cent.

5.15.1.1 Changes in Market Selection
The two earliest waves of expansion into foreign markets are tied to changes in ownership. In 1974, Nifty Nursing acquired a subsidiary and was given access to that firm’s foreign distributors, located in Denmark, Norway and Finland. In
1985, Nifty Nursing’s parent firm acquired another firm, this time one that had gone bankrupt. Nifty Nursing was then given access to that firm’s distribution network, which covered most of Western Europe. At the same time Nifty Nursing underwent a process of increasing market orientation and a new product line was added which led to rapidly expanding sales. Nifty Nursing’s parent firm also started a sales subsidiary in the U.S., which became the firm’s distributor there. As a result of working with a U.K. firm – again a contact established through the parent firm – Nifty Nursing also entered Australia in the late 1980s.

In the early 1990s, few new markets were entered, Germany being an important exception. When relations with the U.K. distributor were terminated, the firm left that market for a few years. At this time, however, a new product category was introduced, with rapid sales expansion for Nifty Nursing on several markets as a result.

Since the mid-1990s, the number of markets where Nifty Nursing is present has doubled, largely a result of Nifty Nursing being contacted by would-be distributors. Western Europe and the U.S. are still the firm’s main foreign markets, according to the general manager who says,

> And then we have, well, twenty or so distributors listed here [respondent refers to list of distributors] but I mean, not all are prioritised. But, if someone wants to sell our products and we feel that they seem OK, then they’re welcome to do so. But there are a number of larger markets. In Europe we’re perhaps talking about Germany, England, Holland, partly France. And then there’s the U.S. which is also a big market. And then there are some new markets that are a bit more difficult, like Japan.

Throughout the firm’s history, market entries have thus been largely initiated by parties other than Nifty Nursing, except for a few instances on key markets. Typically, trade fairs and acquisitions have played important roles in this expansion.

### 5.15.1.2 Changes in Mode Selection

Direct exporting to distributors has been the main mode for most of Nifty Nursing’s downstream internationalisation, partly due to the fact that the firm was given access to a wide network of distributors as a result of various acquisitions. Beginning in the early 1990s and continuing throughout the decade, a process of establishing double distribution channels on some key markets began, since Nifty Nursing at this time began selling two, distinctly different product ranges. Only in the late 1990s, did Nifty Nursing enter into higher commitment modes, with the establishment of subsidiaries in the U.S. and Germany and a joint venture in the Netherlands between 1997 and 2000. According to the manager, the establishment of the subsidiaries occurred as exceptions to the firm’s established strategy and do not represent his preferred mode of internationalisation. He says,
that’s our strategy, really, that we want to work with local distributors. Then, the fact that we have two subsidiaries, that’s like mistakes, you could say. It’s not our strategy to have subsidiaries; we want to work with local dealers, one per geographic market. Then, in some cases we might have two, but then we're talking about two different product categories.

In the case of the German subsidiary, this firm handles only one of the product ranges and was created due to the manager’s perception that the firm needed to establish a committed presence on that market in combination with difficulties in finding an adequate distributor.

The U.S. subsidiary was started when the owner of the former distributor decided to retire. The manager of this firm, which acts mainly as importer relying on its own network of distributors, was an employee of the former distributor. The general manager says,

And then that company was sold and another larger American firm took over the marketing of our products. [...] And we started this company in '92. It was actually intended to function as a service office for the real distributor or agent, but they quit in '98 and since then we've begun to actively sell our products through local dealers. [...] The guy who works at [U.S. subsidiary] is actually an ex-employee of [name of Nifty Nursing’s former owner].

In the case of the Dutch joint venture, this was established due to a combination of dissatisfaction with the distributor and the desire to help the marketing manager of that distribution firm start his own firm, a firm that would become Nifty Nursing’s distributor in the Netherlands. According to the general manager,

There were two reasons, actually. One thing was that they [the existing distributor] were having some financial difficulties, and they also took on some competing products, but mostly it was the financial problems. [...] So then the marketing manager started his own firm, and we went in as partners. But we sold our share two years ago, in 2000.

When this firm became financially solid, Nifty Nursing thus sold its share in the firm to the manager. The decisions to become involved in higher commitment entry modes were thus apparently largely reactive in nature.

5.15.1.3 Changes in Partner Selection
The establishment of relationships with the first foreign distributors found in the mid-1970s and the mid-1980s was largely a result of acquisitions. No particular efforts were thus required on the side of Nifty Nursing to find foreign partner firms. Only in the 1990s can examples of a more active stance be identified, like in the case of entry into Germany in the early 1990s.

Antecedent business and social relationships have also been fundamental for the initiation of new relationships, e.g. in the case of former employees of
distributors leaving their place of employment to start new firms that became distributors to Nifty Nursing. Similarly, in a few instances Nifty Nursing has come into contact with distributors’ subsidiaries or sub-distributors. Overall, however, relationships continued to be established by the partner firms in the case of entries into more remote markets. E.g., in year 2000 Nifty Nursing entered Estonia. The general manager says,

*Actually, the person who runs that firm is a physiotherapist and what happened was that Lions in this city [which is the sister city of the city where he lives, and they have given some money to an orphanage. Then he was going to visit this city and he had presumably asked whether there were any manufacturers of this kind of training equipment in Sweden. So, that was a stroke of good luck [respondent laughs].*

Especially in the 1990s, trade fair attendance was an important venue for coming into contact with new business partners. Lately, Nifty Nursing’s website has also played a role in attracting new distributors.

### 5.15.2 Overview of the Upstream Internationalisation Process

While downstream internationalisation has been of great importance to Nifty Nursing in the past decade, international purchasing has had a limited role throughout the firm’s history. Currently, the purchasing manager estimates that direct purchasing from manufacturers and distributors abroad corresponds to no more than five per cent of the total value of purchasing, this number rising to around ten per cent if contacts managed by agents in Sweden are added. The local supply base is developed enough that the firm does not need to find many foreign suppliers, however.

The first efforts at direct international purchasing were undertaken in the early 1980s and include the establishment of relationships with two Norwegian manufacturers. These relationships arose as a consequence of Nifty Nursing being acquired in 1974, both Norwegian manufacturers previously having supplied Nifty Nursing’s new owner. Trade fairs have been important for Nifty Nursing when it came to finding the firm’s remaining foreign suppliers, this being the case of suppliers in Denmark, Italy and Germany.

#### 5.15.2.1 Changes in Market Selection

Also in upstream internationalisation did the 1974 acquisition of a subsidiary led to the initiation of contacts, in this case with two Norwegian suppliers. In the late 1980s the firm also found a supplier in Denmark. Only after year 2000 was the foreign supply base expanded with the firm contacting two suppliers, this time in Germany and Italy. The purchasing manager notes that the actual country where products are sourced is of little consequence, though. He says,
The most important criterion, the two most important are price and quality. That’s what’s most important, right? But then … which countries we turn to … no, as I see it’s not [important]. Price, quality, and delivery, that’s what matters.

5.15.2.2 Changes in Mode Selection
Upstream international activities have been conducted in the form of direct importing from foreign manufacturers or in the form of indirect importing through agents and distributors located in Sweden, where there is no contact with the manufacturers. The purchasing manager says,

After all, our European friends make contact with us through their own people travelling around in Sweden, right. That’s very common, it’s more common now than before.

No specific preferences concerning purchasing appear to exist, though, Nifty Nursing buying both directly and through intermediaries.

5.15.2.3 Changes in Partner Selection
The first upstream relationships with two Norwegian manufacturers were a result of the 1974 acquisition, no initiative on Nifty Nursing’s side being required. Later relationships have been established by Nifty Nursing at trade fairs, this being the only change of note in regard to partner selection behaviour, brought on by a perceived need for certain types of products. The purchasing manager says,

And then we’re more active when it comes to visiting trade fairs and things like that, and there you get contacts, right. Which does not mean that you go to a trade fair for something specific, you’re more generally interested in what’s out there, and often you find sometime and say, “Hey, we’ll try that out”.

5.15.3 Case Summary
On the downstream side, seven types of changes in strategy can be identified. These include multiple entries into new type of market (3), single entry into new type of market (2), withdrawal from single market (1), new high commitment mode on single market (3), new low commitment mode on single market (1), focal-firm initiation of single relationship (2), and focal-firm termination of single relationship (2).

On the upstream side, two types of changes in strategy can be identified. These include multiple entries into new type of market (1), and focal-firm initiation of multiple relationships (1).
### Exhibit 5.15: Changes in International Strategy in Nifty Nursing

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe.</td>
<td>After the acquisition in 1974, NN was given access to new parent firm’s distribution network. This expansion also coincided with the introduction of new products.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe.</td>
<td>A result of grasping unsolicited contacts made primarily at trade fairs, this expansion coincided with the introduction of new products and political changes in the region.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: East Asia.</td>
<td>A result of grasping unsolicited contacts, several of which were made at trade fairs.</td>
</tr>
<tr>
<td>Single entry into new type of market: Australia.</td>
<td>The entry was triggered by the UK partner firm (originally contact initiated by parent firm) which had a subsidiary in Australia which became NN’s distributor there.</td>
</tr>
<tr>
<td>Single entry into new type of market: Australia.</td>
<td>NN’s parent firm started a subsidiary in the US which came to act also as NN’s distributor on that market.</td>
</tr>
<tr>
<td>Withdrawal from single market: UK, 1992-1999.</td>
<td>Relations with UK distributor were terminated (for unclear reasons) and no further efforts were undertaken to remain on the market.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in the Netherlands, 1997-2000.</td>
<td>The existing distributor in the Netherlands had financial difficulties and also took on competing products. When NN was approached by employee of existing distributor who suggested that they start a sales joint venture (since the employee did not have the financial resources to start a firm on his own), NN’s management decided to accept the offer.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in the US, 1998.</td>
<td>When the owner of NN’s distributor in the US decided to retire and sell his firm, NN’s management feared losing a large market. Employing a former employee of the US distributor as manager, NN started a wholly-owned subsidiary. The subsidiary, however, acts primarily as importer relying on a number of local distributors.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in Germany, 2000.</td>
<td>With the introduction of a new product category, it was determined that NN’s existing distribution channels were not optimal to sell these products. NN searched for a suitable distributor in Germany, but when the firm was unable to find one, a decision was taken to start a wholly-owned subsidiary there, which also was seen as appropriate given the potential of the markets.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Distributor in the Netherlands.</td>
<td>When the sales joint venture in the Netherlands was viable without support from NN, NN’s share was sold to the Dutch partner.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Germany, early 1990s.</td>
<td>After acquisition, the new owners wanted to expand foreign sales and believed Germany to be a promising market. After recommendations from a business partner, a German firm was contacted and became NN’s distributor in Germany.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Australia, mid-1990s.</td>
<td>When the owner of the existing distributor in Australia decided to retire, NN’s manager asked him to recommend a new distributor, who was then contacted by NN.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: The Netherlands, 1997.</td>
<td>The existing distributor in the Netherlands had financial difficulties and also took on competing products. When NN was approached by an employee of the existing distributor who suggested that they start a sales joint venture, the relationship with the existing distributor was terminated.</td>
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### Change in upstream strategy

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<tr>
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<tbody>
<tr>
<td>Multiple entries into new type of market: Sourcing outside Scandinavia, 2001.</td>
<td>Sourcing outside Scandinavia from suppliers contacted at trade fair due to perceived needs for certain products.</td>
</tr>
</tbody>
</table>
5.16 Optimal Offices

Optimal Offices was founded in 1975 and has been owned by the same family since. The firm develops, manufactures and sells ergonomic chairs, primarily for office use. Currently (2002) the firm employs 112 people and has an annual turnover of SEK 232 million. International sales have been important throughout the Optimal Offices’ history, constituting 50 per cent of overall turnover in 2001. Purchasing from foreign suppliers has also been important, in 2001 corresponding to 35 per cent of total sourcing. Today, Optimal Offices has subsidiaries in Norway, Denmark, the Netherlands and France. The firm also has a sales office in the U.K.

5.16.1 Overview of the Downstream Internationalisation Process

Optimal Offices’ downstream internationalisation reflects the firm’s development over the years. Three phases can be distinguished. Shortly after the firm was started export sales began, primarily to Norway and Denmark. In the early to mid-1990s expansion into Europe commenced, while in the late 1990s Optimal Offices began establishing subsidiaries on its main markets.

More or less from inception, Optimal Offices thus began selling chairs on the Danish and Norwegian markets, where the founder had contacts that were established long before the firm was started, contacts formed when he was working as a product developer for a Swedish office furniture manufacturer. Apart from finding distributors in Norway and Denmark, no real efforts were made to expand sales geographically in the firm’s first decade of operation, though. The marketing manager says,

[…] in those days I was in charge of the Swedish market together with the father of [sons of founder], [name of founder], […] and in those days we did not really have any plans to begin exporting. It was pretty much like “if they have some extra time, sure they can fool around a bit with this”.

The early 1990s witnessed a new phase in Optimal Offices’ downstream internationalisation, several new markets being entered at this time. An external marketing manager had also been recently hired and a decision was taken to focus more on export markets. He says,

*We took a decision to focus more on export markets, and I was able to let go of the Swedish market a bit because [name of employee] started then. Before he’d been working in production, but he wanted to get into sales, so I got more time [to focus on export markets].*

The marketing manager thus became an export manager and still works in that position. The U.K. was one of the first foreign markets outside Scandinavia that Optimal Offices entered, which took place in 1990. In rapid succession, several
additional Western European markets were entered, as well as the U.S. Many of these entries were initiated by the partner firms, however.

Sales in the U.K. expanded rapidly after a few years and Optimal Offices’ management began considering starting a subsidiary there. At first a warehouse was set up and around 1993 a decision was taken to set up a permanent office in the U.K., although a subsidiary in the legal sense was never actually formed.

In the firm’s attempts to enter the U.S. market in the early 1990s, a succession of different, but unsuccessful, constellations with intermediaries was tried and a decision was taken so set up a sales subsidiary. By the mid-1990s, it was clear that also this entry mode failed to yield the desired sales. Subsequently, attempts were made to sell directly to local manufactures. Also this attempt failed and in 1999 Optimal Offices finally withdrew from North America, terminating contacts with existing direct customers.

In the late 1990s, a new phase began in Optimal Offices’ downstream internationalisation. While the firm’s management already had some experience with establishing foreign ventures – both in the U.S. and the U.K. – for the first time the firm’s approach to downstream internationalisation changed radically. Based on the perceived need to get a firmer grip on Optimal Offices’ foreign markets and to ensure that local salespeople were adequately trained and received the support they needed, it was deemed that wholly-owned sales subsidiaries should be set up on the firm’s most important markets; In 1996, the general manager of Optimal Offices at that time decided to expand sales further and that the firm’s attention should be directed specifically towards France. Contact was made with the Swedish Trade Council in Paris to help Optimal Offices enter that market. In 1998, the first wholly owned subsidiary was set up there. It was also perceived that the Norwegian, Danish and Dutch markets would benefit from direct representation. Consequently, in late 2000 subsidiaries were set up in Norway and Denmark. A decision was also taken to restructure Optimal Offices’ market channels on the Dutch market, where steps were taken to set up a subsidiary in the fall of 2001.

5.16.1.1 Changes in Market Selection
In the first expansion into foreign markets around 1977, Norway and Denmark were the target countries, the founder of Optimal Offices using his personal contacts to enter these markets. Only in the early 1990s did the expansion into other European markets begin, partly due to the hiring of a market manager who in time began focusing more on exports. Finland, the U.K., the Netherlands and the U.S. were the first target markets. At this time, entries were largely triggered by the partner firms, though, trade fairs being important venues where contacts were made. Some sales were also achieved directly to wholesalers in Germany, Austria and Switzerland. Apart from occasional sales, only in the late 1990s did the process of entering new markets continue, this time with France. A decision to focus activities to a few key markets lay behind
this entry. At this time, after several costly attempts at market penetration the firm also withdrew from North America. The founder of Optimal Offices says, 

*Then* [after the subsidiary was closed down] *we started working with a firm in Canada and we supplied quite a lot of parts and they were assembled into a chair which a really fat person sat in and then a small star lock [respondent explains term] broke and he fell backwards and hurt himself and he got a lawyer and sued us for an awful lot of money, even though we had not delivered the chair. […] It was all Hell and misery. The darkest part [of the firm’s history] is in this story [i.e. the four attempts to enter North America], that’s just the way it is.*

Main markets today are Denmark, Norway, the Netherlands, the U.K. and Finland. In the case of the former three markets, the firm has established subsidiaries and in the U.K. a sales office. Sales to markets other than the firm’s main markets are either indirect or very infrequent.

5.16.1.2 Changes in Mode Selection

During most of the firm’s history, management’s outspoken strategy was to sell through local distributors. Some efforts were also directed towards finding end customers, although the actual deals were commonly made through the local distributors, which occasionally also functioned as agents. Having relied on distributors for a couple of years, sales ventures in the U.S. and the U.K. were established in the early 1990s, largely based on the belief that these markets offered great potential and that more committed market presence was necessary to better serve and inspire confidence in customers. Regarding the U.K. venture (a de factor subsidiary although not an independent legal body), the marketing manager says,

*[…] if you use packaging materials intended for the domestic market and you ship a few of these [chairs] – and during transportation they’re handled roughly – there was much damage. I think we had damage on 25 per cent of everything we shipped. So we said “OK, we can’t keep doing this”. At the same time sales had increased enough so that we said “OK, we’ll get a small warehouse” because it’s easier if you ship a whole container with products because then it goes from here to the warehouse without any damages. […] Then what happened was that the warehouse thing expanded and expanded and at the same time we noticed that it didn’t work too well with this warehouse hotel either, because the level of knowledge among those who work there is not too high, because they also work with other products and then we took a decision to open our own warehouse. And when we did that, we hired our own warehouse guy and you can say that that’s the beginning of Optimal Offices U.K., which is a branch office, not a company of its own or anything.*

In the case of the U.K., the prediction concerning sales potential turned out to be accurate, while in the case of the U.S., the subsidiary was closed down in 1996 after Optimal Offices had found new distributors in the U.S. and Canada.
In the mid-1990s, direct sales to customers without going through the firm’s local distributors also increased. The export manager says,

 [...] It’s a matter of principle, and it applies to the whole firm except for one place in Sweden, but we can come back to that, and that is working only with distributors. Then for different reasons we may have to sell to end customers because you might not have a distributor in that area although you may have a customer who has an office here or there or someone might have heard of you. I mean, you’re not dumber than you grab any business you can, but that’s always where there is no [distributor] or where – and that happens more and more today – there is a large business deal and we don’t want to go via a representative because they are too small. “We don’t feel quite comfortable, we want to do business directly with you” [says the customer] and then we always do it together with the local distributor, we never go behind his back, of course not. Because they [the customer] might need support and service from the distributor. I mean, the customer might want two chairs six months later and then it does not really work dealing with us, then it’s more accepted turning directly to the distributor.

The current strategy, however, is to have subsidiaries on key markets, since otherwise adequate levels of customer service and support cannot be maintained according to respondents. Among the firm’s larger markets, today only Finland is served by a distributor.

5.16.1.3 Changes in Partner Selection

In finding the first distributors abroad, the founder of Optimal Offices used his contacts from his past workplace. He says,

In Denmark and Norway you can say that I had contacts since long before I started the firm. Eighty per cent or even more than ninety per cent of all contacts in Sweden were my old contacts since before – and then these firms may have been sold or the sons may have taken over but they’re still the same. And in Denmark and Norway, well some have been added lately, but otherwise these are my old contacts.

Some of these intermediaries thus remained with the firm for a long time. Efforts were also directed towards finding end customers. During this phase the firm was, consequently, largely active in searching for partners in downstream internationalisation, coming into contact with most of its new partners at trade fairs.

In the second wave of downstream internationalisation, occurring in the early to mid-1990s, Optimal Offices took a more reactive stance in the finding of distributors, although two subsidiaries were also established, which led to the termination of some relationships with intermediaries. In the late 1990s, yet more direct relationships with distributors were ended as Optimal Offices established subsidiaries in France, the Netherlands, Norway and Denmark.
5.16.2 Overview of the Upstream Internationalisation Process

Like in downstream internationalisation, upstream internationalisation has been vital throughout Optimal Offices’ history. While it is difficult to distinguish specific phases, it is possible to identify two periods of intensified activity in regard to upstream internationalisation. The first such period occurs in the mid to late 1970s with the finding of suppliers in Scandinavia and Germany, brought on by the need to find suppliers to the firm’s first product line. The second period begins in the late 1980s, again brought on by the need to find suppliers for a new product line, characterised by a wider geographical scope although still with a focus on European suppliers.

Throughout the firm’s history, though, Optimal Offices has actively been searching out foreign suppliers, much more so in fact than the level of activity displayed in finding foreign customers. In the firm’s first five years, in addition to suppliers in Sweden, direct suppliers were found in Norway, Denmark and Germany. While the founder’s personal network was an important source for finding the first distributors in Scandinavia, quite a few of the firm’s first suppliers were also found that way. While most of the handful of relationships established at this time have by now been terminated, a couple still survive. Reasons for terminating relationships with suppliers found at this time include perceived quality problems, logistical problems and the fact that in time, as Optimal Offices grew in size, the firm began manufacturing some of the products previously bought. Throughout the early and mid-1980s, few efforts were made to expand the foreign supply base, Optimal Offices relying largely on already established contacts.

The late 1980s and early 1990s witnessed increasing efforts at finding foreign suppliers. The purchasing manager at Optimal Offices made several attempts to find suppliers of mechanical parts in Italy between 1989 and 1990, e.g., all of which only led to short-lived relationships. Additionally, relationships with suppliers in the U.K., Denmark and Germany were established at this time. Trade fairs remained an important venue for finding foreign suppliers, most relationships actually being initiated by Optimal Offices rather than by the firm’s suppliers. Overall, most of the relationships established at this time would be short lived, perceived quality problems and an inability on the side of the suppliers to deliver on time cited as the most important reasons.

By the mid-1990s, foreign sourcing corresponded to 75 per cent of total sourcing. In year 2001, however, only 35 per cent of total purchasing came from suppliers abroad, this reduction being brought on by perceived logistics problems, dissatisfaction with delivery times and decreasing relative costs of local sourcing. As a result of management’s desire that the firm be less dependent on international sourcing, in the past five years efforts directed towards finding new suppliers abroad have been limited. Today, Optimal Offices’ foreign supply situation is thus such that there exist well-established, long-term relationships with a few suppliers and a few more recently created
relationships. In total, Optimal Offices has just over ten foreign suppliers with which the firm deals directly.

In regard to foreign operations, Optimal Offices has recently also begun assembly at the subsidiary in the Netherlands, which primarily functions as a sales subsidiary, though.

### 5.16.2.1 Changes in Market Selection

In upstream internationalisation there appears not to have been any preferences for specific markets, although relations were established primarily with suppliers in Northern European countries. The first foreign suppliers were found in Norway, Denmark and Germany, such relationships typically either being initiated by Optimal Offices at trade fairs or by the founder through use of his contacts from his previous workplace. At this time, the perceived need to quickly find suppliers very much drove the upstream market entry process forward. In the late 1970s and early 1980s, though, apparently only very few new foreign suppliers were found and no new upstream markets were entered.

The introduction of new products in the mid to late 1980s again generated a need to find new suppliers, the purchasing manager actively seeking out suppliers primarily in Italy. Other suppliers were also found in Germany and the U.K. Relations with the Italian suppliers were short lived due to delivery and quality problems. The purchasing manager says,

> The reason, I would say, is primarily logistics. The culture to deliver a product on time is much higher here in Scandinavia than compared to further south. And today our customers place great demands on us – shortened lead times and so on – and perhaps they don’t manage quite as well when you go further south. It’s not considered as important. [...] Problems with logistics, I think that’s the main reason why we’re now working a lot in Sweden. [...] today we also find the cost situation more interesting in Sweden, primarily.

Throughout the 1990s, additional suppliers were found, primarily in Germany, Denmark and the U.K. While suppliers have also been found by Optimal Offices in Canada and Spain, the focus on North European sourcing markets remains.

With the establishment of the sales subsidiary in the Netherlands, also some assembly there has also been initiated.

### 5.16.2.2 Changes in Mode Selection

In foreign purchasing there has always been a preference for working directly with manufacturers rather than buying through their distributors and agents. This is even more outspoken today, according to the purchasing manager who says,
Today, these - I call them shylocks - they don't fill any purpose in Europe anymore. [...] we all speak the same language so we manage directly. We only see them as an added cost, really. And, if you're talking shorter lead times, they're even an obstacle.

No specific trends in regard to this preference can be noted, although occasional purchasing activities have been carried out through foreign distributors.

Regarding foreign operations, as the Dutch market grew the distributor there was also allowed to begin assembling chairs to sell on the local market, in effect acting as licensee to Optimal Offices. As the market grew, however, management decided to establish a subsidiary there. Recently, Optimal Offices has also begun foreign assembly at the Dutch subsidiary. The founder of Optimal Offices presents the following view of the firm's establishment of a subsidiary in the Netherlands,

Now I look at our establishment in Holland in this way; we had a negotiator who became a competitor. And we saw where this was headed and when we hired a new general manager [i.e. at Optimal Offices in Sweden] we gave him the job of solving this, and he did it in the way that he simply bought their market share for our products. [...] And that was one expensive deal. The largest establishment we have ever made. Besides getting brand new premises we also moved some of our production down there, so we have established our presence [there] at great cost. [...] But on the other hand if we'd established ourselves it would have taken three times as long. Now we can catch a moving train, but the price of the ticket is high.

5.16.2.3 Changes in Partner Selection

A great measure of activity on the side of Optimal Offices characterises relationship initiation in upstream internationalisation. The first contacts with suppliers were either firms that the founder of Optimal Offices had worked with at his previous place of employment or were firms sought out at trade fairs. The founder of the firm says,

Well, as I had been working in product development before it was quite natural. I already had contact with everybody, you might say. Before I started the firm. That's one of the reasons why I COULD start the firm.

A few instances of partner-firm initiated relationships can be identified, however.

Also in the second wave of upstream internationalisation, commencing in the late 1980s, a largely active approach can be noted. Again, this was based on the perceived need to find suppliers for new products. In the late 1980s and early 1990s, a process of terminating relationships with suppliers can also be identified. This can be interpreted as being a result of the firm’s management no longer accepting quality and delivery problems, a consequence of perceived increasing demands from customers and a generally higher awareness of quality standards.
Throughout the 1990s, Optimal Offices continued to add foreign suppliers, most of which were actively sought out by the firm, trade fairs remaining the most important venue for relationship initiation. Since the late 1990s, the dependence on foreign suppliers has decreased significantly, though. This, however, has in itself not led to the termination of many relationships with foreign suppliers. Rather, Optimal Offices now purchases less from most of their existing foreign suppliers according to the purchasing manager.

5.16.3 Case Summary

On the downstream side, ten types of changes in strategy can be identified. These include multiple entries into new type of market (1), single entry into new type of market (2), withdrawal from multiple markets (1), new high commitment mode on multiple markets (1), new high commitment mode on single market (2), new low commitment mode on single market (1), multiple modes on multiple markets (1), focal-firm initiation of single relationship (1), and focal-firm termination of multiple relationships (3).

On the upstream side, five types of changes in strategy can be identified. These include withdrawal from single market (1), new high commitment mode on single market (2), new low commitment mode on single market (1), focal-firm termination of multiple relationships (2), and focal-firm termination of single relationship (3).

Exhibit 5.16: Changes in International Strategy in Optimal Offices

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe</td>
<td>New staff were hired and it was determined that more time should be devoted to internationalisation. This did not, however, mean that a great deal of activity ensured on the side of OO in finding new foreign customers. Entries into Western European markets were undertaken after grasping of unsolicited contacts, primarily with would-be distributors, some of which were encountered at trade fairs. This also coincided with the introduction of new products.</td>
</tr>
<tr>
<td>Single entry into new type of market: US</td>
<td>The entry was triggered by the would-be US distributor.</td>
</tr>
<tr>
<td>Single entry into new type of market: Dubai</td>
<td>The entry was triggered by the would-be Dubai distributor met at trade fair.</td>
</tr>
<tr>
<td>Withdrawal from multiple markets: US and Canada</td>
<td>After several failed attempts to penetrate the US market, among them through a wholly-owned subsidiary, a decision was taken in 1999 to terminate relations with the firm’s US and Canadian distributors and withdraw from the market. OO still has some indirect sales in North America, though.</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets: Sales subsidiaries in Denmark, Norway, the Netherlands and France</td>
<td>This was part of an overall effort to restructure international activities begun in the late 1990s, partly brought on by new management. Subsidiaries was also seen as a way to ensure that local sales people were adequately trained and received the support they needed, which was not believed to be the case when using foreign intermediaries.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in the US</td>
<td>Displeasure with existing distributor led OO’s management to start a sales subsidiary, since this was believed to be the best way to penetrate and get control over what was perceived to be a potentially very large market.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in the UK</td>
<td>Due to problems in transportation and delivery to the firm’s few customers in the UK, OO began stocking some products locally. Over time, more and activities were undertaken locally in the UK, and the venture evolved into a (de facto) sales subsidiary (although it is a sales branch, not an actual company of its own in a legal sense).</td>
</tr>
</tbody>
</table>
New low commitment mode on single market: Distributor(s) in the US. The sales subsidiary did not perform as well as had been hoped, management underestimating the difficulties involved in such an undertaking in the US and difficulties in adapting the firm's products to local requirements. There was also displeasure with local management of the subsidiary. After the firm was approached at a trade fair in 1995 by three separate firms wanting to sell OO's products in the US, a decision was taken to close down the subsidiary and work with these distributors.

Multiple modes on multiple markets: Direct sales and sale through distributors. Due to perceived difficulties in achieving profitability in sales to large customers when using foreign intermediaries, sales directly to large customers were favoured over using intermediaries. This was also part in an overall effort to restructure international activities in the late 1990s, partly brought on by new management.

Focal-firm initiation of single relationship: Manufacturer in Finland. While the firm had long had sales in Denmark and Norway, in order to extend sales to Finland in the second wave of internationalisation a firm that would become OO's largest customer was actively pursued.

Other-firm initiation of multiple relationships: Early to mid-1990s. When the firm was first started, the founder made use of his social network to find foreign distributors, in the second wave of international expansion little in the way of active search for new foreign partners was undertaken, the firm grasping opportunities that presented themselves rather than actively identifying such opportunities.

Focal-firm termination of multiple relationships: Around year 2000. When sales subsidiaries were set up on the firm's key markets as a way of gaining more control (partly brought on by new management and their desire to restructure international activities), relations with intermediaries on these markets were terminated.

Focal-firm termination of multiple relationships: US, early 1990s. Relations with the firm's first distributor in the US were terminated after it was decided that the firm's second US distributor (Swedish firm with operations in the US) should become exclusive distributor (requirement from the distributor, who was believed to offer greater potential than the first distributor). A year later, however, this relationship was also terminated when the perceived potential failed to materialise. It was consequently decided that OO should start a wholly-owned sales subsidiary in the US which was to act as sole distributor.

Focal-firm termination of multiple relationships: US and Canada, year 1999. After several failed attempts to penetrate North America, among them through a wholly-owned subsidiary, a decision was taken in 1999 to terminate relations with the firm's US and Canadian distributors and withdraw from these markets.

Change in upstream strategy

<table>
<thead>
<tr>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Withdrawal from single market: Italy. Perceived problems with delivery times and quality prompted withdrawal from this sourcing market for five years.</td>
</tr>
<tr>
<td>New high commitment mode on single market: De facto licensing of assembly in the Netherlands. Distributor in the Netherlands was also given right to assemble chairs after that market had grown significantly in a few years time.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Subsidiary in the Netherlands. Assembly at recently established operations and sales subsidiary in the Netherlands, partly due the high cost of transporting bulky, assembled furniture.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Distributor. Importing from distributor when manufacturer would not sell directly to OO, while the products in questions were still perceived as necessary.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: Italy, early 1990s. Perceived problems with delivery times and quality led to the termination of a number of relationships with suppliers from this country.</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships: early to mid-1980s. When OO started manufacturing similar products themselves, relations with some suppliers were terminated.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Germany, c. 1988. Terminated due to perceived quality problems.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Netherlands, 2000. Relations with the Dutch contract manufacturer/distributor were terminated when OO's management decided to start a subsidiary in the Netherlands.</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship: Italy, 2002. Perceived problems with delivery times and quality led to the termination of this relationship.</td>
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</table>

Note: One instance of single entry into new type of upstream market (the case of sourcing from Canada) has mistakenly been omitted from the exhibit and is not further dealt with in the thesis.
5.17 Popular Playgrounds

Popular Playgrounds manufactures products for the outdoor environment, primarily play equipment and street furniture. The firm was founded in 1948. In 1986, the founder sold his shares in the firm to his family and in year 2000 Popular Playgrounds was acquired by a U.S. firm.

The firm has been growing rapidly in the last decade, both in sales and in profitability. In year 2002, the firm employed 164 people and had a turnover of SEK 353 million. Adding sales of foreign subsidiaries and joint ventures, the total turnover reached nearly SEK 500 million.

Currently, Popular Playgrounds is involved in three foreign sales ventures, located in Germany, Great Britain and Spain. More than 60 per cent of sales comes from exporting, while less than five per cent of the purchasing volume comes from foreign suppliers (2001).

5.17.1 Overview of the Downstream Internationalisation Process

Downstream internationalisation began around the mid-1960s with modest export sales. Firstly, the firm began exporting directly without foreign intermediaries, mainly to the neighbouring countries. This was not seen as generating sufficient foreign sales and direct selling was perceived as requiring too great selling efforts on the side of the firm. Management therefore began looking for distributors abroad. In the following few years, Popular Playground latched onto other manufacturers’ established distribution channels, since there were no independent distribution channels at the time. A distribution network covering most of Western Europe was created in this way. The expansion outside Europe took off in the mid-1970s, with the firm finding distributors for Singapore, Hong Kong and Japan. These relationships were initiated by the partner firms, though.

Using competitors’ distribution channels was soon found to be unsatisfactory, since not enough attention was paid to Popular Playgrounds’ products. The 1980s was a period of restructuring in the industry with the establishment of distribution chains independent of large manufacturers. A process of finding such independent distributors therefore commenced.

In the 1980s, a new phase began also in that Popular Playgrounds started a number of wholly or jointly owned subsidiaries abroad, chiefly focusing on Europe. The firm’s first foreign subsidiary was located in Denmark, but was soon transformed into a joint venture. In 1984, Popular Playgrounds started another foreign joint venture, this time in Great Britain. These firms were both started due to dissatisfaction with performance and management’s perception that the firm needed to establish a committed presence on some foreign markets. At this time, a wholly-owned sales subsidiary was also started in the U.S., a market that Popular Playgrounds had so far not penetrated. This subsidiary, however, would not be long lived due to perceived problems with
In 1985, for the first time Popular Playgrounds ventured into Spain, an undertaking that would lead to the establishment of another foreign joint venture when the local distributor ended up in financial difficulties. In 1987, Popular Playgrounds started yet another foreign sales subsidiary, this time in Germany. As had been the case in several other such undertakings, employees of the existing distributor were taken over. In the late 1980s, Popular Playgrounds experienced rapid sales growth due to a boom in the building industry. By 1989, annual turnover had reached 160 million, about one-third of which came from export sales.

The process of replacing foreign manufacturers as distribution channels had begun a decade earlier and was largely completed in the early 1990s, when the rapid sales expansion of the late 1980s was halted. While Swedish sales would continue to stagnate and only in 1999 reached the levels of 1991, export sales rose throughout the period. The Danish sales joint venture which had not been performing very well in the early 1990s was transformed into a wholly-owned subsidiary. Performance did not improve, however, and a new distributor was found.

The second half of the 1990s meant that a great number of new relationships with foreign distributors were created and many new markets were opened up to Popular Playgrounds, primarily in Asia and Eastern Europe. These relationships were not initiated by Popular Playgrounds, however, many originating at trade fairs. The years 2000 and 2001 also meant that a great number of new distributors were found around the world on markets such as China, the former U.S.S.R. and the Middle East. Again, these were relationships initiated by the partner firms. By now, the total turnover (including subsidiaries’ sales) had increased to nearly SEK 500 million annually, corresponding to 50 per cent growth in five years. Like in 1995, the export share was at 60 per cent.

In year 2000, Popular Playgrounds was sold by the owner family to an American firm with several subsidiaries in the same industry. This led to changes in Popular Playgrounds’ distribution system on the U.S. market, where a new sister firm now markets Popular Playgrounds’ products.

5.17.1.1 Changes in Market Selection

The first steps in downstream internationalisation were taken in the late 1960s with sales to other Nordic countries. The general manager says,

[...] it actually began already in the late 1960s, to the neighbouring countries, Norway was first, then came Denmark and then Finland. And this happened more or less by accident. Someone in Norway was looking and then they found us, right. That’s how it happened in those days.
Throughout the 1970s, Popular Playgrounds expanded into other parts of Western Europe and also achieved some sales in a few Asian countries. Most of these market entries appear to have been triggered by the partner firms. In the 1980s, the number of markets where Popular Playgrounds was presented expanded quickly and sales were achieved in most of Western, Northern and Southern Europe. The firm also began expanding into the U.S. and had some sales in Asia.

The 1980s was a period of greater internationalisation efforts generally, indicated by the establishment of several subsidiaries and joint ventures on the firm’s most important foreign markets, such as the U.S., Denmark, Germany, the U.K. and Spain. In the expansion into new markets, Popular Playgrounds still took a largely reactive stance, however. The 1990s saw further expansion into Eastern Europe, Asia and Northern Africa, new market entries being largely triggered by partner firms. Since the acquisition in year 2000, the U.S. market has been expanding rapidly.

Throughout most of the firm’s history the geographic expansion of sales thus appears to have been undertaken without much effort on the firm’s side. This, however, is true if one considers only expansion into new markets and not the further penetration of established markets, which apparently proved a much more arduous task.

Generally there appears to have existed a willingness among management to enter new markets, even if this specific process was undertaken without much planning on the side of Popular Playgrounds. Currently, a more critical approach to new market entry prevails, however, especially in the case of requests from remote markets. The general manager says,

\[
\text{Almost every week we get [inquiries] from India, Thailand and so on, but we say that these aren’t markets for us, it just doesn’t work.}
\]

### 5.17.1.2 Changes in Mode Selection

Popular Playgrounds has employed a number of different modes to enter foreign markets over the years. The first efforts at international selling took place directly to end-customers and began in the late 1960s. In the 1970s, there were no established distribution channels for Popular Playgrounds’ products. Sales to foreign manufacturers for further resale offered one way of getting the firm’s products abroad. Indeed, the manager of Popular Playgrounds describes this as the only practical way of international sales expansion. He says,

\[
[...] \text{and then we chose to ally ourselves with other producers in Europe, that’s a quick way of getting into markets, as they have the markets, and it was believed that Swedish quality products would be a good complement to the perhaps inferior products that many of these countries had. In the beginning it turned out fine, but then these started copying [Popular Playgrounds’ products] so today we don’t have any distributors that have their own manufacturing. We don’t have any distributors who have any other play systems either. They mustn’t sell for our competitors, right.}
\]
Using foreign manufacturers as intermediaries thus proved problematic. In the 1980s, though, the industry underwent both growth and restructuring in the form of establishment of independent distribution channels. The general manager says,

But then in the 80s it turned out that you could make a living off this as a distributor, so you might say that the major restructuring took place in the 80s.

Therefore, during this period the firm began replacing manufacturer/distributors with pure distribution firms on some markets. On the firm’s more important markets, though, higher commitment entry modes were typically employed. Both wholly owned subsidiaries and joint ventures were established in the years to come. In the case of Denmark, a sales subsidiary was established, but perceived performance problems led to the subsidiary soon being transformed into a joint venture together with the manager of the subsidiary at his suggestion. In 1993, the joint venture was again transformed into a sales subsidiary, which did not solve continuing performance problems and eventually it was closed down in 1996. In the case of the U.S., a sales subsidiary was established in 1984. This was closed down already in 1987, also due to perceived performance problems, when Popular Playgrounds again started using distributors. Also the U.K. market underwent changes in modes. In 1984, a joint venture was established together with an individual working for the previous distributor. The general manager says,

There we’ve had a subsidiary since ’84 and what happened was that there we were working together with another firm and there were two people working for that firm, and it wasn’t working out. The same syndrome again, they were selling too little because they were too busy with their own stuff. So these two guys left and we formed a subsidiary together with them in ’84. They owned 40 per cent and we owned 60.

Even today a joint venture is the mode employed, although there has been a change of partners. In Spain, a joint venture was established together with the former distributor in 1987. The general manager says,

There was a woman, a Spanish lady, who married a Swede, lived in [city], came here in 198…85, and asked “Can’t we sell this in Spain?”. “Sure”, we thought, “a Swedish guy and a Spanish girl, sounds great”. And they started with this, and he turned out to be completely incompetent so after three years they could no longer pay their bills. And then we had to go into the firm and what we did then was that together with a risk capital group, a bank down there that was interested, we put up 45 per cent, they 35 per cent, and she 20.

In Germany a sales subsidiary was established in 1987 as a result of the distributor not acting in Popular Playgrounds’ best interest. The general manager says,
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There we started in the same wrong way that we've always done, with a manufacturer. And in '87, the sales manager left and we felt that we weren't happy with the distributor so after a while, just six months or so after he left, we started a wholly-owned subsidiary with him as manager and that's been very good for us. We've had a stable market in Germany.

While the decision to enter into higher commitment entry modes might at a first glance appears to be a planned strategy on the side of the firm, when the individual reasons for establishing each of the subsidiaries and joint ventures are examined, a different picture forms. Financial problems, antecedent relations, initiatives from partners and events outside Popular Playgrounds’ control appear to have been more important than any managerial urges or plans. The general manager of Popular Playgrounds makes the same observation. He says,

“Our export net is based on three subsidiaries, Germany, England, and we have 45 per cent in Spain, but that’s not an aim, it’s pretty much accidental that we’ve got daughters there. It’s happened when a distributor’s been weak, and we’ve been forced to take over, and we say "Why should we be able to do this better than a German or Frenchman or a Spaniard or an Englishman?" So, our aim is to have distributors, not agents, but distributors who have their own organisation. They buy from us and sell on. The characteristics of our product are very much that you sell first and buy later. Very few stock up. Instead we produce and stock here, which means that we have very short delivery times and the customers don’t need the products the next day either. So, you could say that our strategy is, we’re gonna have distributors, we’re not gonna have subsidiaries, we’re not gonna have agents, we want distributors who work actively with this.

In the 1990s, there was also a process initiated towards the use of exclusive distributors in the sense they were not allowed to sell both Popular Playgrounds’ products and the products of competitors. This is today a strategy that the firm follows fairly strictly.

5.17.1.3 Changes in Partner Selection

Most downstream relationships established with manufacturers and distributors have been initiated by the partner firms. On the firm’s key markets a different approach is apparent, though, where Popular Playgrounds has been more active in establishing relationships and especially in terminating relationship with poorly performing distributors. The same applies to relationships where there has been a perceived conflict of interest, especially from the 1980s and onwards. When terminating such relationships, there has often already existed a back-up plan in the sense that new ventures have rapidly been established to replace old distributors. On several occasions, such ventures have been set up by former employees of existing distributors, either by themselves of together with Popular Playgrounds, this being the case in Finland in 1977, the U.K. in 1984, the U.S. in 1987, Switzerland around 1995, Denmark in 1998, Austria in 1998, Portugal in 1999 and France in 2001.
Currently, when new relationships are initiated, more care is taken to evaluate the partner firms than was the case in the past. The general manager notes,

[…] if you go back 20, 25 years, there was no structure in how we were exporting. It just happened, they contacted us, found us at some trade fair and we said “let’s go”. I wasn’t here in those days. Now we try to be a bit more structured, right. I believe that if we were to start over today, if we had a clean slate, we would have a completely different strategy today. First of all we’d never allow anyone like [name] in Greece and [name] in the Czech Republic – amateurs without any money – then we’d go with firms that have stable operations, stable financial strength. That’s how we work today when we switch distributors.

Other than a higher degree of focal-firm activity in the establishment of relations on what is perceived to be key markets while entries into less important and more distant markets have typically been triggered by the partner firms there, it is difficult to identify any trends in relationship initiation. Trade fairs have remained an important venue for relationship initiation throughout the firm’s downstream internationalisation process, though.

5.17.2 Overview of the Upstream Internationalisation Process

Upstream internationalisation has always been of limited importance to Popular Playgrounds. A purchaser at the firm estimates that currently foreign direct purchasing accounts for around five per cent of the total value of sourcing.

Although it is not really possible to distinguish any specific phases in international purchasing, this began in the late 1970s with lumber from Norway and a few years later with steel chains from a manufacturer in Germany. Later on wood products were purchased from Finland. As the cost of foreign sourcing increased over time, however, the firm began using domestic suppliers for these needs. Attempts at selling some of Popular Playgrounds’ products in countries with warmer climates than Northern Europe meant that new materials were required, which also meant that foreign suppliers were affected. Most of the relations established with foreign suppliers during and before the 1990s have thus been terminated for cost and other reasons.

In the mid-1990s, three more foreign suppliers were found, all of which were relationships initiated by Popular Playgrounds. These are located in Norway, Austria and Germany. In year 2000, Popular Playgrounds found another supplier, this time in the Netherlands. The acquisition of Popular Playgrounds in 2000 meant that the firm got a new distributor in North America, a subsidiary of its new parent firm. It also meant that Popular Playgrounds began purchasing certain products from the parent firm.

5.17.2.1 Changes in Market Selection

In upstream internationalisation, nearby markets such as Norway, Germany and Finland dominated until the mid 1990s, the reason being that the types of
products needed could be found there. Due to the weakening Swedish currency, the already limited foreign purchasing decreased in the early 1990s to almost nothing, although since the mid 1990s the firm has been buying some specialised products from a few suppliers, which are currently located in Norway, Austria, Germany and the Netherlands. The acquisition of Popular Playgrounds by a U.S. firm in 2000 has also meant that Popular Playgrounds has begun purchasing some materials there. A certain measure of indirect importing also takes place, primarily from Finland and Poland. The purchaser interviewed expressed the opinion that the firm benefits from focusing on Sweden in its sourcing activities.

5.17.2.2 Changes in Mode Selection
In downstream internationalisation direct importing from manufacturers has dominated, although in a few instances indirect importing through agents in Sweden has been undertaken. No trends in use of modes can be identified.

5.17.2.3 Changes in Partner Selection
In upstream relationship initiation, Popular Playgrounds has typically taken the initiative, this also being the case in termination. Initiation has been a result of perceived needs for specific products, while termination has been brought on by issues relating to costs. In one instance a relation has been terminated due to a perceived need for new types of materials when the firm entered more remote markets, characterised by difference in climate compared to established markets. In a couple of the later relationships, initiated in the mid-1990s, antecedent relations were crucial for initiation. The 2000 acquisition also meant that Popular Playgrounds began purchasing from its new parent firm.

5.17.3 Case Summary
On the downstream side, eight types of changes in strategy can be identified. These include multiple entries into new type of market (4), single entry into new type of market (1), new high commitment mode on single market (7), new low commitment mode on multiple markets (2), new low commitment mode on single market (2), focal-firm initiation of single relationship (1), other-firm initiation of multiple relationships (1), and focal-firm termination of multiple relationships (1).

On the upstream side, three types of changes in strategy can be identified. These include single entry into new type of market (1), withdrawal from multiple markets (1), and focal-firm termination of multiple relationships (1).
relationships:

Focal-firm termination of multiple
Withdrawal from multiple markets:
Single entry into new type of market:
Change in upstream strategy
Perceived influences on change

1970s and onwards.

Other-firm initiation of multiple relationships: 1970s and onwards.

Focal-firm termination of multiple relationships: Early 1990s.

Exhibit 5.17: Changes in International Strategy in Popular Playgrounds

<table>
<thead>
<tr>
<th>Change in downstream strategy</th>
<th>Perceived influences on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market: Western Europe.</td>
<td>Events surrounding this expansion are uncertain, although PP searched for distributors during the early phase of expansion into Western Europe.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Eastern Europe.</td>
<td>Both first and subsequent entries were triggered by partner firms (primarily distributors but occasionally also manufacturers), many relations being initiated at trade fairs. This coincided with political changes in the region.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: Middle East and North Africa.</td>
<td>Both first and subsequent entries were triggered by partner firms (distributors), some relations being initiated at trade fairs.</td>
</tr>
<tr>
<td>Multiple entries into new type of market: East Asia.</td>
<td>Both first and subsequent entries were triggered by partner firms (primarily distributors), many relations being initiated at trade fairs.</td>
</tr>
<tr>
<td>Single entry into new type of market: US.</td>
<td>It was believed that the US market offered great potential.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in Denmark (early to mid-1980s).</td>
<td>It was felt that customers on the Danish market were not pleased with placing orders and receiving invoices from Sweden. Therefore a decision was taken that a sales subsidiary should be set up in Denmark.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in the US (1984-87).</td>
<td>The belief that the US market offered great potential made management start a sales subsidiary there.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in Germany (1987).</td>
<td>The German distributor was not seen as selling enough of PP’s products. When the sales manager left the distributor and offered to work for PP in Germany, a decision was taken that PP should start a sales subsidiary there.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Sales subsidiary in Denmark (1990s-96).</td>
<td>The Danish joint venture had not been performing as well as expected and PP offered to buy out the Danish partners who accepted the offer.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Joint venture in UK (1984).</td>
<td>The UK distributor (also manufacturer) was not seen as selling enough of PP’s products, so when two of the distributor’s employees offered to leave the firm and focus entirely on PP’s products, PP’s management agreed to start a sales joint venture in the UK with a 60% ownership share.</td>
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<tr>
<td>New high commitment mode on single market: Joint venture in Denmark (mid-1980s-1993).</td>
<td>Two salesmen working for the Danish sales subsidiary wanted to become part owners, so PP’s management decided that they could each acquire 20% of the subsidiary.</td>
</tr>
<tr>
<td>New high commitment mode on single market: Joint venture in Spain (1998).</td>
<td>A person of Spanish descent approached PP wanting to become PP’s distributor in Spain. After three years the firm ended up in financial difficulties and PP acquired a share in the firm in the not to lose the market (a local venture capital firm also became part owner).</td>
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<tr>
<td>New low commitment mode on multiple markets: Distributors.</td>
<td>The earliest foreign sales were achieved directly to end customers. Achieving sales this way was not found to be cost effective and management decided that PP should sell through foreign distributors although in some instances the firm also attracted attention from would-be agents who were hired.</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets: Agents.</td>
<td>The earliest foreign sales were achieved directly to end customers. Achieving sales this way was not found to be cost effective and management decided that PP should sell through foreign distributors although in some instances the firm also attracted attention from would-be agents who were hired.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Distributor in the US.</td>
<td>After the sales subsidiary failed to become profitable, PP’s management decided that it should be closed down. Two of the subsidiary’s salesmen wanted to become distributors in the US and were allowed to act as such.</td>
</tr>
<tr>
<td>New low commitment mode on single market: Distributor in Denmark.</td>
<td>After the sales subsidiary failed to become profitable, PP’s management decided that it should be closed down. One of the subsidiary’s customers became distributor for Denmark.</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship: Switzerland, 1992.</td>
<td>The existing Swiss distributor (also manufacturer) was seen as performing poorly so PP decided to find a new distributor, using a consultant.</td>
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<tr>
<td>Other-firm initiation of multiple relationships: 1970s and onwards.</td>
<td>After the first attempts at finding foreign intermediaries and entries had been made into main, nearby markets, little in the way of active search for partners took place in the following two decades. The firm did, however, continue to attract interest from would-be intermediaries and end customers, many of which were encountered at trade fairs.</td>
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<tr>
<td>Focal-firm termination of multiple relationships: 1970s.</td>
<td>The first distributors that PP began using were also manufacturers. When management perceived that these manufacturers did not adequately market PP’s products (and in some instances even copied them), relations with a number of distributors were terminated.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Change in upstream strategy</th>
<th>Perceived influences on change</th>
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<tbody>
<tr>
<td>Single entry into new type of market: US.</td>
<td>After the acquisition in year 2000, PP began sourcing from new parent firm.</td>
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<tr>
<td>Withdrawal from multiple markets: Early 1990s.</td>
<td>Increasing costs of foreign sourcing prompted increased domestic sourcing and withdrawal from several foreign sourcing markets</td>
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<tr>
<td>Focal-firm termination of multiple relationships: Early 1990s.</td>
<td>When products where no longer seen as needed, relations with suppliers were terminated.</td>
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CHAPTER 6
Changes Across Cases

To fulfil the purpose of this thesis, the empirical material presented on process-level, sub-process level, change level and relationship level in the previous chapter must be subjected to an analysis across cases. In doing so, the aim of this chapter is to provide an answer to the first research question posed in 2.4.1, i.e. to discuss “what changes in industrial SMEs’ international strategy can be identified”. Following the structure established in chapter two (see Exhibit 2.7), this chapter focuses on changes in market, mode and partner selection strategy in downstream (see 6.1) and upstream (see 6.2) internationalisation. The chapter ends with a summary (see 6.3).

6.1 Changes in Downstream Strategies

In this thesis, changes in strategy are argued to be manifest in changes in behavioural patterns in regard to market, mode and partner selection. These can be further subdivided depending on their magnitude, here defined as whether the changes concern one or multiple markets, or one or multiple relationships. Exhibit 6.1 (see below) provides a link between the within-case analyses of chapter five and the initial cross-case analysis of this chapter, listing the firms in which every type of change has been encountered. As evident by the overview, most of those changes suggested by chapter one have indeed been found in the empirical material. The overview does, however, also imply that some changes have been encountered in more firms than is the case with other changes.

The following three subchapters discuss changes in market selection strategy with a focus on market entry and withdrawal (6.1.1), changes in mode selection strategy with a focus on shifts between modes implying higher, lower and similar levels of commitment (6.1.2) and changes in partner selection strategy with a focus on shifts between focal-firm and other-firm initiation and termination of relationships (6.1.3). In addition to the identification and discussion of changes, in each subchapter attempts are made also to provide an overview of the empirical material as a whole. This is done through the listing of market expansion and withdrawal patterns, as well as the tabulation of absolute and relative frequencies of modes and relationship initiation and termination situations. This chapter thus focuses on the lower two units of analysis, i.e. relationship and change (see also chapter 4).
### Exhibit 6.1: Changes in Downstream International Strategy

<table>
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<tr>
<th>Changes in strategy</th>
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6.1.1 Changes in Downstream Market Strategy

There are different types of changes in regard to downstream market selection strategy apparent in the empirical material (see Exhibit 6.1). Entry into single and multiple markets that are geographically more remote than those served in the past occurs in most firms. Divestment from single and multiple markets occurs less commonly.

6.1.1.1 Multiple Entries into New Type of Market

New market entry implies that a firm expands the number of markets where it is present. In all but two firms, this type of change in strategy has clearly been identified. In those two firms where this pattern could not be seen (Dynamic Designs and Intelligent Infrastructure) this was due to the fact that the firms entered a great number of markets at the beginning of their downstream internationalisation.

When trying to distinguish between markets based on their geographic location and entry over time, some interesting patterns emerge (see Exhibit 6.2). In most firms, a pattern of sequentially entering clusters of markets geographically close to each other can be observed. I.e., a region-based pattern of discontinuous geographic expansion can be identified. Commonly, at first the firm enters a group of markets – for example those nearby the home market, in this case Scandinavia – being content with serving these for some time. Then another group of markets – for example those in Western Europe – are entered. Market expansion is thus not typically a continuous process in the studied firms, but more commonly a discontinuous one. I.e., new market entry frequently occurs in large increments rather than in small increments.

As far as which specific geographic markets are served, internationalisation literature is replete with observations concerning which types of firms exhibit what types of patterns. While leap-frogging (i.e. entering distant markets without prior entry into geographically or mentally close markets), has been observed as a common phenomenon in e.g. high-tech firms or small firms with specialised products, broadly speaking the firms in this study exhibit the type of pattern observed in early internationalisation process studies focusing on larger firms (cf. Johanson & Wiedersheim-Paul, 1975). Exhibit 6.2 clearly indicates that in first entries Scandinavian countries dominate together with Great Britain and countries in Northern Europe. Typically entry into other Western European countries follows, the U.S. and Canada, Eastern Europe and Southeast Asia (and Australia) being other frequently occurring clusters of markets. While in some firms it can be observed that Latin American markets are given an important role, regions such as Africa and the Middle East appear to be of only limited importance to most of the firms in the study.
<table>
<thead>
<tr>
<th>Brand Name</th>
<th>First foreign market entries</th>
<th>Subsequent new market entries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>NO, NL &amp; DK (late 1970s)</td>
<td>BE, CH, FR, LI &amp; GB (e.1980s), AU &amp; DE (late 1980s), MY, US &amp; IL (e. 1990s), ES, FI (mid-1990s), AT, IT, NZ, US (re-entry) &amp; BR (around yr. 2000).</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>NL, NO &amp; DK (c.1990)</td>
<td>Pl, FI &amp; BH (e.1990s), BE, PT &amp; ES (mid-1990s), DE (1997), GB (2001)</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>NO, FI, DK, NL, BE, GB, IN, PL, Latin America (1920s-1930s).</td>
<td>GB, DK, NO, FI, ES, SY, ZA, IN, NZ, PE, MX, CR, CU &amp; BR (many re-entries) (late 1940s-mid-1950), FR, DE &amp; IT (late 1950s-1960s), US, some entries into Eastern Europe and Northern Africa (1970s to e.1980s), some entries into Asian markets (mid-1980s to mid-1990s).</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>Global (through former parent firm, in 1980s).</td>
<td>Global.</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>US &amp; Scandinavia (1960s).</td>
<td>Western &amp; Southern Europe (1970s), large Asian &amp; African markets (1980s), North (re-entry) and Latin America (e.1990s), further expansion into Asian markets (mid-1990s).</td>
</tr>
</tbody>
</table>

Note: The entries listed above occasionally diverge from Appendix 1, since in the case of some entries it has not been possible to identify specific relations. Exhibit 6.2 in a few instances relies on respondents’ more general stories of entries. See Appendix 3 for country codes. Early expansion patterns cannot be identified more precisely. 2 Through agent in Denmark. 3 New product category introduced. Prior sales to Norway and Denmark are ignored here.
6.1.1.2 Single Entry into New Type of Market

While the overall pattern of new market entry corresponds to observations made by other researchers, there are plenty of exceptions apparent in the empirical material. Frequently, new market entries occur outside what may be defined as the firm’s key foreign markets or outside the group of markets that the firm is currently in the process of entering. These single, atypical market entries may be geographically highly diverse. In fact, such exceptions can be identified in nearly all the firms in the study. In the case of Intelligent Infrastructure no single entries into new type of market have been noted since the firm was global more or less from inception. In the case of Glossy Grains some uncertainty concerning early expansion patterns has also prevented the identification of such entries.

Not only do these atypical entries occur in most firms, in most firms they also occur two or more times. To some extent this observation can be explained by the fact that certain entries more or less always become defined as atypical since they involve large markets that are geographically remote from other large markets, such as the US, Australia and Japan. Nonetheless, a wide variety of other markets have been defined as single entries into new type of market, including markets on all continents.

6.1.1.3 Withdrawal from Multiple Markets

While the typical pattern observed in almost all the firms in the study is one of discontinuous market expansion, in downstream internationalisation market withdrawal also occurs in most firms.

A distinction between situations of market withdrawal can be made depending on the rationale for the withdrawal decision. Either withdrawal occurs after management has decided that the firm should no longer serve a certain market (or after pressure has been put on the firm to leave one or several markets) or withdrawal occurs when a foreign partner stops buying from the focal firm, while at the same time the focal firm’s management undertakes no steps to remain on the market (or fails in their attempts to remain on the market). In the case of multiple withdrawals, which can be observed in Clever Containers, Funky Furniture, Glossy Grains, Intelligent Infrastructure, Juggled Junk and Optimal Offices, the only instance where the decision did not originate inside the firm (or the parent firm) was when World War II prevented Glossy Grains from serving its foreign markets.

6.1.1.4 Withdrawal from Single Market

Few firms in the study actively limit the number of markets to be present on, as a consequence withdrawing from certain markets. This does not mean that market withdrawal as such is an exceptional occurrence. Indeed, most firms in the study have, at one point or another, withdrawn – permanently or temporarily – from one or several of their markets (See Exhibit 6.3). In the case of withdrawal from single market, the empirical material provides only seven
examples, though. Among these, withdrawals occurring as a result of management’s decision to withdraw and withdrawals occurring after partner-firm initiated relationship termination are evenly distributed.

Exhibit 6.3: Downstream Market Withdrawal

<table>
<thead>
<tr>
<th></th>
<th>Withdrawal initiated by focal firm (or by focal firm after pressure from 3rd party)</th>
<th>Withdrawal as result of relationship terminated by partner firm (or when partner firm stops buying from focal firm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>None observed.</td>
<td>US.</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>None observed.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>Recent acquisition means that parent firm will manage marketing activities and CC will sell only to nearby markets.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>None observed.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Enovable Environments</td>
<td>None observed.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>JP, GB.</td>
<td>IE.</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>Intermediaries on many markets of marginal importance fired.</td>
<td>Temporary withdrawal from all foreign markets due to World War II.</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>None observed.</td>
<td>JP.</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>US; The 1991 acquisition meant that a few markets were left and soon re-entered. Withdrawal from Latin America (except Chile), IL &amp; CS as a consequence of 2000 acquisition. Only indirect presence through parent firm.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>Not all markets re-entered after 1981 acquisition.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>None observed.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>US.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>None observed.</td>
<td>JP.</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>None observed.</td>
<td>GB.</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>US &amp; CA.</td>
<td>None observed.</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>None observed.</td>
<td>None observed.</td>
</tr>
</tbody>
</table>

Typical of markets from which withdrawal takes place is that either these markets are of marginal importance as far as sales are concerned or that these markets failed to fulfill the potential that inspired their entry in the first place. When intermediaries on markets of greater importance are lost, efforts are apparently rapidly undertaken to replace these.
6.1.2 Changes in Downstream Mode Strategy

In downstream internationalisation, the firms in the study have employed most of the modes identified in chapter two (see 2.5.1.2). In line with observations made in other studies (see 3.1.2) low commitment modes dominate, being used in 547 relationships, while only 44 instances of high commitment modes have been recorded. Among low commitment modes, direct exporting to foreign manufacturers/end customers (148 instances), direct exporting to foreign distributors (277 instances) and the use of agents as intermediaries (122 instances) have been noted. Only 13 sales joint ventures and 31 sales subsidiaries have identified (see Exhibit 6.4).

Exhibit 6.4: Downstream Modes Employed within the Relationships Identified

<table>
<thead>
<tr>
<th>Lower commitment modes</th>
<th>Higher commitment modes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exporting to end customer</td>
</tr>
<tr>
<td>Agreeable Armchairs</td>
<td>5</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>5</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>31</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>3</td>
</tr>
<tr>
<td>Enviable Environments</td>
<td>1</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>0</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>3</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>14</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>27</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>0</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>16</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>0</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>42</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>0</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>1</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
</tr>
</tbody>
</table>

Notes: Within the frame of one relationship different modes may have been employed. ¹ I.e., all relations with end customers, regardless whether an agent acts as intermediary. ² Nowadays the firm exports directly to all customers in Germany, Austria and Switzerland, customers numbering around 200. ³ Today the firm is involved in direct exporting to a number of larger customers. ⁴ Until the early 1990s, the firm also had several distributors. The shift in focus that occurred in 1994 meant that distributors were no longer needed, so these were fired or turned into agents. ⁵ The firm exports directly and/or indirectly to a number of customers around the world, primarily firms associated with one of its largest customers.

These numbers would seem to indicate that only in few firms can be identified changes when firms go from using low commitment modes to high
commitment modes on several markets, while there are greater chances of the empirical material yielding observations concerning changes between lower commitment modes. Exhibit 6.1 also supports this assumption.

Below are identified the use of new high commitment entry mode on multiple markets and on single market, as well as new low commitment mode on multiple markets and single market. It should be noted that by new mode may be understood a mode that is new to the firm, but also a mode that is new to a particular market. Changes implying the use of multiple modes are also discussed below.

6.1.2.1 New High Commitment Entry Mode on Multiple Markets

Most past research on internationalisation processes recognises that SMEs tend to being employing low commitment entry modes, progressively adopting higher commitment modes over time (Gankema, Snuif & Zwart, 2000). This observation is supported by the empirical material collected for this study in as much as higher commitment modes are usually preceded by lower commitment modes, although three firms (Clever Containers, Dynamic Designs and Glossy Grains) have not progressed to high commitment downstream modes.

The adoption of new high commitment modes on several markets can be identified in Enviable Environments, Funky Furniture, Intelligent Infrastructure, Juggled Junk, Literary Logistics and Optimal Offices. Except for Enviable Environments which established four joint ventures in the early to mid-1990s, the other firms established sales subsidiaries to replace direct exporting. In none of these cases did the establishment of a subsidiary signify a new market entry, although Enviable Environments did establish a sales subsidiary in Estonia in connection with a first entry into that country.

6.1.2.2 New High Commitment Entry Mode on Single Market

There are also high commitment mode involvements that cannot be defined as being part of a more comprehensive strategy of adopting high commitment modes across several markets. In fact, most firms exhibit this type of change.

Again, however, it would appear that the adoption of high commitment modes does not generally coincide with new market entry. In the material, 25 instances of new high commitment entry mode on single market have been recorded. In only four of these instances (Agreeable Armchairs in the U.S., Harmless Heating in Germany, Maximum Mobility in the U.S. and Popular Playgrounds in the U.S.) did they also represent new market entries.

Changes between different high commitment modes clearly occur infrequently in the empirical material. Only five such instances have been recorded. In three instances firms established joint ventures having previously operated subsidiaries, including Intelligent Infrastructure in Malaysia, Literary Logistics in France and Popular Playgrounds in Denmark. In two cases subsidiaries were established after a period of operating through a joint venture, including Literary Logistics in Malaysia and Popular Playgrounds in Denmark.
In one instance it can be noted how a firm employed a high commitment mode as a complement to a low commitment mode, namely Nifty Nursing in Germany.

Since four new high commitment modes represent new market entries, five new commitment modes represent switches between high commitment modes, and one mode the adoption of multiple modes, the remaining 15 new high commitment modes represent changes from lower commitment to higher commitment modes.

6.1.2.3 New Low Commitment Entry Mode on Multiple Markets

Not all mode changes take the form of switches between high commitment modes or switches from low to high commitment modes, however. In several firms it can be noted how a preference for one low commitment mode is replaced with preferences for another low commitment mode on multiple markets. In total, 16 instances of new low commitment entry modes on multiple markets have been identified. Among these, the most common changes occur when the focal firms go from direct sales to end customers to employing agents (five instances) or selling to distributors (five instances). Less commonly, the focal firms go from agent to direct sales (two instances) and distributor to direct sales (one instance). In two cases it has been noted how a preference for using agents is supplanted by direct sales and in one instance how sales through foreign distributors is replaced with direct sales. In a single case has a reversal from high commitment modes to low commitment modes been noted, namely when Enviable Environments withdrew from two of the firm’s joint ventures and began selling through distributors.

6.1.2.4 New Low Commitment Entry Mode on Single Market

While the material generally indicates managerial preferences for specific modes – preferences which may change over time – managers nonetheless occasionally appear to be willing to make exceptions from preferred modes. Similar to the discussions under 6.1.2.2 concerning new high commitment modes, new low commitment modes on single markets could logically represent new modes in combination with new market entry, that more than one mode is employed on the market, that the firm has switched from using one low commitment mode to another and that the firm has switched from a high commitment mode to a low commitment mode. Among the total of 14 instances of new low commitment mode on single market that have been identified, five represent new market entry. In nine instances did the focal firms switch from high to low commitment modes, while none represent multiple modes or changes between low commitment modes.

6.1.2.5 Multiple Modes on Multiple Markets

The discussion about preferences for one mode over another must be complemented by a discussion concerning another phenomenon. When firms
go from a pattern of employing a single mode to a pattern of employing multiple modes on the same market. Only four instances have been identified in the empirical material, however. These include Glossy Grains’, Maximum Mobility’s and Optimal Offices’ use of distributors to serve smaller customers while selling directly to larger customers and Kingly Keyholes’ sales directly to firms associated with a large customer while otherwise employing distributors.

Not only do firms move from using single to multiple modes generally, in a few instances it can also be observed that multiple channels (using the same mode) are established on single markets, as in e.g. Nifty Nursing after the introduction of new products. Generally, though, among those firms that use local market intermediaries, one intermediary per market is employed.

6.1.3 Changes in Downstream Partner Strategy

Not counting those relationships firms have with their subsidiaries, a total of 547 downstream relationships have been identified in the study (see Exhibit 6.5). Among those, in 86 cases (or 16%) respondents were unable to state who had initiated the relationship, which yields a total of 461 downstream relationships with identified initiators. In 28 per cent of these cases the relationships were initiated by the focal firms and in 54 per cent by the partner firms, the remaining 18 per cent being initiated by third parties such as parent firms, customers and suppliers.

A variety of changes in partner selection behaviour or partnering strategies can be observed in the studied firms. In fact, in all firms except Funky Furniture can changes in relationship initiation behaviour be noted.

In the previous sections of this chapter it can be seen how market selection is not just a question of expansion into new markets (6.1.1) and that mode selection is not just a question of moving from lower to higher commitment entry modes (6.1.2). Important components of the process of internationalisation are market withdrawal and changes from higher to lower commitment modes. Similarly, partnering behaviour is not only a question of entering into new relationships. It is also a question of relationship termination.

When discussing partner selection from a strategy perspective, here emphasis is placed on who initiates and terminates relationships. Two broad categories are constructed for analytical purposes: the focal firm as initiator or terminator; and other firm as initiator or terminator. The “other firm” category has been further subdivided into partner firm and transaction-wise unrelated third parties in the case of relationship initiation. In the case of relationship termination, only focal firm activity is seen as reflecting a behavioural pattern (see further discussions under 2.5.1.3).

Patterns of focal-firm and other-firm initiation are also not necessarily mutually exclusive. Indeed, in many firms it is impossible to distinguish a general pattern of either other-firm or focal-firm relationship initiation patterns. At times – or even throughout a firm’s internationalisation process – a pattern
of mixed relationship initiation behaviour may be apparent, i.e., some relationships are initiated by the focal firms and some are initiated by other firms.

### Exhibit 6.5: Downstream Relationship Initiation

<table>
<thead>
<tr>
<th>Relationship initiator</th>
<th>Focal firm</th>
<th>Partner firm</th>
<th>Third party</th>
<th>Uncertain</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>11</td>
<td>12</td>
<td>1</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>7</td>
<td>9</td>
<td>2</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>8</td>
<td>17</td>
<td>2</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Enviabile Environments</td>
<td>8</td>
<td>30</td>
<td>4</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>0</td>
<td>11</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>23</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>37</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>7</td>
<td>7</td>
<td>0</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>11</td>
<td>22</td>
<td>11</td>
<td>13</td>
<td>57</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>13</td>
<td>23</td>
<td>12</td>
<td>6</td>
<td>54</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>4</td>
<td>18</td>
<td>8</td>
<td>4</td>
<td>34</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>4</td>
<td>21</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>7</td>
<td>26</td>
<td>15</td>
<td>10</td>
<td>58</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>2</td>
<td>16</td>
<td>13</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>4</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>12</td>
<td>28</td>
<td>2</td>
<td>14</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>251</strong></td>
<td><strong>83</strong></td>
<td><strong>86</strong></td>
<td><strong>547</strong></td>
</tr>
</tbody>
</table>

**Notes:**
1. Not including relationships with subsidiaries.
2. Including those relationships initiated by the focal firms' agents when acting on behalf of the focal firms.
3. Including those relationships initiated by the partner firms' agents when acting on behalf of the partner firms.
4. An agent previously managed the German market and initiated relationships with around 200 customers, relationships that were later taken over by Funky Furniture. These relationships are now managed directly by Funky Furniture.
5. The long history of Glossy Grains makes it very likely that there is a significant number of relationships not identified in the empirical study.
6. Many of these relationships were initiated in the 1920s through 1950s, the presumption being – largely supported by a published study regarding Glossy Grains – that such relations were initiated by the firm since there was little knowledge about the firm abroad, while there was a strong need to find foreign agents to expand sales.
7. Not including a number of relationships with firms associated with large customer. Most of these were initiated by the partner firms, some by Kingly Keyholes.
8. Not including relationships initiated prior to 1990.
9. Twelve of these were initiated in the early 1980s or earlier.

### 6.1.3.1 Focal-firm Initiation of Multiple Relationships

Focal-firm initiation of multiple relationships is here seen as occurring when preceded by a period of no relationships being initiated by the focal firm, except if this occurs in the earliest phase of internationalisation. The empirical

---

1. In which case it could be argued that no change in strategy occurred since there was no strategy in the first place.
material provides 15 examples of such changes in strategy, including all firms except Funky Furniture, Nifty Nursing, Optimal Offices and Popular Playgrounds. In Blissful Backs and Juggled Junk, two instances have been identified.

6.1.3.2 Focal-firm Initiation of Single Relationship
Examples of instances of focal-firm initiation of single relationships during periods otherwise characterised by passivity on the side of the focal firm in relationship initiation are also noted in the empirical material. Somewhat surprisingly, only eight such cases have been noted, however, involving six firms (Blissful Backs, Clever Containers, Kingly Keyholes, Nifty Nursing, Optimal Offices and Popular Playgrounds).

6.1.3.3 Other-firm Initiation of Multiple Relationships
Above are noted 15 instances of firms going from relying on their partners or other actors in the initiation of relationships with foreign counterparts to becoming more active on multiple markets. In ten instances the opposite pattern can be observed, i.e. when a pattern of focal-firm initiation is replaced by a pattern of other-firm initiation. This pattern has been observed in the case of eight focal firms.

Other-firm initiation of single relationships is not seen as signifying a change in strategy (see 2.5.1.3).

6.1.3.4 Focal-firm Termination of Multiple Relationships
Exhibit 6.5 identifies 547 downstream international relationships. Of these, 161, or 35 per cent, have been terminated (see Exhibit 6.6). In 19 instances (12%) respondents were unable to state who had terminated the relationship and in eight instances relationships were terminated due to World War II. This leaves 134 relationships where the terminator could be identified by the respondent. In 84 cases, or 63 per cent, this role was held by the focal firm (see Exhibit 6.6).

A change towards termination behaviour on the side of the focal-firm concerning multiple relationships can be observed in 17 instances in the empirical material, this type of behaviour being exhibited by all firms except Blissful Backs, Harmless Heating, Kingly Keyholes, Maximum Mobility and Nifty Nursing. It also appears quite clear that relationships with direct customers are rarely terminated, while relationships with intermediaries more frequently inspire this type of action.

6.1.3.5 Focal-firm Termination of Single Relationship
There are also examples of occasional focal-firm termination when there is otherwise no pattern of relationship termination exhibited by the focal firms. A total of 16 such cases have been observed, involving ten focal firms.
### Exhibit 6.6: Downstream Relationship Termination

<table>
<thead>
<tr>
<th>Relationship terminator</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Focal firm</td>
</tr>
<tr>
<td>Agreeable Armchairs</td>
<td>7</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td></td>
</tr>
<tr>
<td>Clever Containers</td>
<td>3</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>3</td>
</tr>
<tr>
<td>Envious Environments</td>
<td>9</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>4</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>2</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>1</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>10</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>17</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>1</td>
</tr>
<tr>
<td>Literary Logistics^6</td>
<td>0</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>1</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>2</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>8</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
</tr>
</tbody>
</table>

Notes: 1. A relationship is not considered as terminated if it still exists within a new organisational form, e.g. when a joint venture partner becomes a distributor after a joint venture is dissolved. Not including relationships with subsidiaries. 2. To which should be added a few customers in Great Britain which are now managed by the local distributor. 3. The long history of Glossy Grains makes it very likely that there is a significant number of relationships not identified in the empirical study. 4. To this should be added a number of dormant relationships recently terminated. 5. These eight relationships were terminated as a result of World War II. 6. Not including relationships terminated prior to 1990.

### 6.2 Changes in Upstream Strategies

Also in regard to upstream internationalisation an overview has been created to connect the within-cases analyses of chapter five with the initial cross-case analysis of this chapter (see Exhibit 6.7). The model implies that much fewer changes in strategy have been identified in regard to upstream internationalisation than what is the case in downstream internationalisation (cf. Exhibit 6.1). This is quite natural since the number of upstream markets and the proportion of upstream purchasing in relation to downstream sales are low (see Exhibit 5.1) and much fewer upstream relationships have been found.

The following three subchapters identify changes across cases according to the same structure used in 6.1. I.e., 6.2.1 centres on market selection, 6.2.2 deals with mode selection and in 6.2.3 partner selection is in focus.
Exhibit 6.7: Changes in Upstream International Strategy

<table>
<thead>
<tr>
<th>Changes in strategy</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AA</td>
<td>BB</td>
<td>CC</td>
<td>DD</td>
<td>EE</td>
<td>FF</td>
<td>GG</td>
<td>HH</td>
<td>II</td>
<td>JJ</td>
</tr>
<tr>
<td>Multiple entries into new type of market</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Single entry into new type of market</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Withdrawal from multiple markets</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>New high commit., mode on multiple markets</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>New low commit., mode on multiple markets</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Focal-firm initiation or multiple relationships</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>
Chapter 6 – Changes Across Cases

6.2.1 Changes in Upstream Market Strategy

Changes in upstream market selection strategy exhibit both differences and similarities compared to changes in downstream market selection strategy. Obviously, in upstream internationalisation – be it in the form of importing or foreign manufacturing – it is no aim in itself for the firm to cover a certain number of markets, as might be the case with sales. Consequently, foreign purchasing activities typically take place on fewer markets than do foreign selling activities (see Exhibit 6.2 & 6.8). Nonetheless, when talking to people involved in international activities in firms, many note that the actual choice of upstream market is an important one, both when importing standardised products, when employing foreign contract manufacturers and when manufacturing abroad. While a general preference for nearby sourcing markets can be observed in many firms, this is largely contingent on the type of product sourced internationally. E.g., those firms that rely on contract manufacturers typically source from physically or mentally remote low-cost markets, while those that rely to a greater extent on raw materials with a lower degree of processing typically source from nearby markets. Since so few instances of foreign upstream subsidiaries and joint ventures have been identified, market selection patterns in regard to foreign operations have not been mapped.

Another overall observation concerning upstream market expansion is that this is a much slower process than downstream market expansion and that there is no general trend of greatly expanding the number of upstream markets over time. Many of the interviewees in the study connect this to the fact that the region where the firms are located is well known for its highly developed supply base.

Like in the case of downstream internationalisation, first foreign upstream market entries typically take place on nearby markets. The overall reliance on Scandinavian countries in first entries to fill sourcing needs, however, is lesser than the reliance on these markets for sales, that role apparently to a greater extent being filled by countries such as Germany and the U.K.

6.2.1.1 Multiple Entries into New Type of Market

While observations of multiple entries into new types of downstream markets could be made in most of the firms in the empirical material, this rarely happens in the case of upstream internationalisation. Once supply markets – typically those located near the home country – have been established, these apparently generally remain as the firms’ main supply markets. In only three firms, including Agreeable Armchairs, Envious Environments and Nifty Nursing, has it been possible to identify a pattern of multiple entries into new markets. This observation is of course connected both to the fact that upstream market expansion is a slow process and that the median number of foreign upstream markets in firms in the study is only five.
### Exhibit 6.8: Sourcing Market Entry Patterns

<table>
<thead>
<tr>
<th>First observed foreign sourcing market entries</th>
<th>Subsequent foreign sourcing market entries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clever Containers</strong></td>
<td>DK &amp; NL (1970s or earlier). DE, BE, FR, CH (early to mid-1980s), NO (c.1987), IT (early 1990s).</td>
</tr>
<tr>
<td><strong>Funky Furniture</strong></td>
<td>DE (c. mid-1990s). IT (late 1990s), CN (1999).</td>
</tr>
<tr>
<td><strong>Glossy Grains</strong></td>
<td>GB (1940s). AU, AT, NL &amp; GB (1980s), DE (mid-1990s).</td>
</tr>
</tbody>
</table>

Notes: See Appendix 3 for country codes. Since there are no records of early foreign sourcing activities, in some cases the information provided concerning first foreign sourcing market entries must be interpreted with a certain measure of caution.

### 6.2.1.2 Single Entry into New Type of Market

While multiple entries into new types of markets are encountered only three times, one might logically expect to find a greater number of single entries into atypical markets since, even if expansion is slow and limited to few markets, in all firms there is nonetheless a pattern of expansion over time. A total of 17 such single entries into geographically new types of markets of have been identified, involving nine firms.

### 6.2.1.3 Withdrawal from Multiple and Single Markets

Withdrawal from multiple sourcing markets has been identified in only one firm, while withdrawal from single sourcing markets has been observed seven times in a total of six firms. In the empirical material withdrawal from upstream markets thus occurs more frequently in relation to the total number of upstream markets than does withdrawal from downstream markets in relation to the total number of downstream markets.
6.2.2 Changes in Upstream Mode Strategy

Eight different upstream modes have been identified in the study (see Exhibit 6.9). Like in the case of downstream modes, those that imply a low level of commitment from the side of the focal firms dominate, corresponding to 82 per cent of all modes identified.

Purchasing directly from independent manufacturer (or similar) without a foreign intermediary is the mode used within 137 relationships, or in 81 per cent of all relationships where there is an act of purchasing from independent supplier firm involved. In the case of purchasing through a foreign agent, this is the mode used in eight per cent of these situations, while only four instances of purchasing from foreign distributor have been noted (3%). Importing from contract manufacturer is the second most commonly encountered foreign purchasing mode, being used in nine per cent of the cases identified.

Only occasional examples of higher commitment modes such as licensing (two with the focal firm as licensee and three with the focal firm as licensor), foreign operations joint ventures (three) and foreign operations subsidiaries (ten) have been identified.

6.2.2.1 New High Commitment Modes on Multiple Markets

The dominance of low commitment modes combined with the fact that few firms have employed multiple high commitment modes would indicate that there are only few instances where new high commitment modes have been used on multiple markets. This is also the case, with only three such observations made. Dynamic Designs began using foreign contract manufacturers while Intelligent Infrastructure and Literary Logistics began establishing foreign operations subsidiaries on more than one foreign market. In the case of Dynamic Designs, in one instance this also signified a new upstream market entry, while in the other firms these replaced lower commitment modes.

6.2.2.2 New High Commitment Mode on Single Market

A total of 14 instances of new high commitment mode on single market have been noted. These include four operations subsidiaries, three operations joint ventures, two instances of the focal firm acting as licensee, three instances of the focal firm acting as licensor and two instances of contract manufacturing. While in the case of downstream internationalisation typically one mode is employed per market, this is not the case in upstream internationalisation. New modes do thus not necessarily entail switches from other modes or new market entries, although in seven instances the new high commitment modes actually represent mode changes (four cases of low to high and three cases of high to other high commitment modes).

---

1 i.e., including direct importing, importing from distributor, importing via agent and importing from contract manufacturing, but not including licensing, foreign operations joint venture or foreign operations subsidiary.
Atypical upstream high commitment modes are in a few instances also directly connected to downstream international activities. In the case of Optimal Offices it can first be seen how the distributor became a licensee and later how the focal firm’s managers wanted to take advantage of the subsidiary in the Netherlands not only for sales but also for assembly. In Harmless Heating it can be seen how a customer became contract manufacturer and in the case of Maximum Mobility, a contact established through the firm’s largest domestic customer acted as agent in the setting up of contract manufacturing in China.

Exhibit 6.9: Upstream Modes Employed within the Relationships Identified

<table>
<thead>
<tr>
<th></th>
<th>Lower commitment modes</th>
<th>Higher commitment modes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct importing from foreign manufacturer</td>
<td></td>
</tr>
<tr>
<td>Agreeable Armchairs</td>
<td>4 1 0</td>
<td>4 0/0 0 1</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>7 0 0</td>
<td>0 0/0 0 0</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>16 0 0</td>
<td>0 1/0 0 0</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>10 4 0</td>
<td>4 0 0 0</td>
</tr>
<tr>
<td>Enviable Environments</td>
<td>12 0 0</td>
<td>0 0 0 0</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>6 0 0</td>
<td>0 0/1 0 0</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>7 4 3</td>
<td>0 1/1 1 0</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>3 1 0</td>
<td>1 0 0 0</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>5 0 0</td>
<td>2 0 0 2</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>3 0 0</td>
<td>0 0 0 0</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>18 1 0</td>
<td>0 0 0 0</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>5 0 0</td>
<td>0 0 2 6</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>3 1 0</td>
<td>5 0 0 0</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>5 0 0</td>
<td>0 0 0 0</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>24 0 1</td>
<td>0 0/1 0 1</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>9 0 0</td>
<td>0 0 0 0</td>
</tr>
<tr>
<td>Total</td>
<td>137 12 4</td>
<td>16 2/3 3 10</td>
</tr>
</tbody>
</table>

6.2.2.3 New Low Commitment Mode on Single Market

No instances of firms using new low commitment modes on multiple markets have been noted. Considering the dominance of direct importing without using intermediaries, this was also expected. Five instances of atypical low commitment modes on single markets have been identified, though. Four of
Chapter 6 – Changes Across Cases

these cases entail purchasing through agents and one case purchasing from foreign distributor. In two instances these represent mode changes (from direct importing to importing through foreign intermediary) and in three instances they represent the use of an atypical mode within a new relationship.

6.2.3 Changes in Upstream Partner Strategy

Like in the case of downstream internationalisation, upstream relationships can be initiated by the focal firm, by the partner firm or by a third party (see Exhibit 6.10). While the degree of uncertainty concerning the initiator is higher in upstream relationships (26% vs. 17%), among those relationships where the initiator could be ascertained, the focal firm held that role in 65 per cent of the cases, third parties playing only a marginal part in relationship initiation.

Changes in upstream relationship initiation patterns to some extent reflect those in downstream internationalisation, although generally fewer changes have been identified, occurring in fewer firms. This is especially obvious in relationship initiation and to a lesser extent in relationship termination.

Exhibit 6.10: Upstream Relationship Initiation

<table>
<thead>
<tr>
<th>Relationship Initiator</th>
<th>Focal firm</th>
<th>Partner firm</th>
<th>Third party</th>
<th>Uncertain</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeable Armchairs</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>5</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Enviable Environments</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>13</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>16</td>
<td>7</td>
<td>0</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>33</strong></td>
<td><strong>12</strong></td>
<td><strong>45</strong></td>
<td><strong>174</strong></td>
</tr>
</tbody>
</table>

Notes: ¹Not including relationships with subsidiaries. ²Including relationships initiated by the focal firms’ agents when acting on behalf of the focal firms. ³Including relationships initiated by the partner firms’ agents when acting on behalf of the partner firms. ⁴Likely does include all relations in which GG has been involved.
6.2.3.1 Relationship Initiation

The main difference compared to downstream relationship initiation lies in the fact that in upstream relations the focal firm is the dominant initiator (cf. Exhibit 6.5). As a consequence of there being fewer relationships and the fact that so few are initiated by firms other than the focal firms, very few changes in strategy have been identified.

In fact, the emergence of a pattern of focal-firm initiation of multiple relationships has been observed only in Enviable Environments, Glossy Grains and Nifty Nursing, while initiation of single relationship has been recorded only for Agreeable Armchairs. A pattern of other-firm initiation has been observed only in Enviable Environments. It should be noted, though, that in some firms, such as Optimal Offices, it is not possible to distinguish a specific pattern of focal-firm or other-firm relationship initiation. Occasionally, the history of a firm may be characterised by the simultaneous existence of both strategies. While five instances of other-firm initiation of single relationships have been noted, this type of event can hardly be seen as a change in strategy from the side of the focal firm.

Exhibit 6.11: Upstream Relationship Termination

<table>
<thead>
<tr>
<th>Relationship terminator</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Focal firm</td>
</tr>
<tr>
<td>Agreeable Armchairs</td>
<td>2</td>
</tr>
<tr>
<td>Blissful Backs</td>
<td>2</td>
</tr>
<tr>
<td>Clever Containers</td>
<td>6</td>
</tr>
<tr>
<td>Dynamic Designs</td>
<td>2</td>
</tr>
<tr>
<td>Enviable Environments</td>
<td>1</td>
</tr>
<tr>
<td>Funky Furniture</td>
<td>0</td>
</tr>
<tr>
<td>Glossy Grains</td>
<td>3</td>
</tr>
<tr>
<td>Harmless Heating</td>
<td>1</td>
</tr>
<tr>
<td>Intelligent Infrastructure</td>
<td>0</td>
</tr>
<tr>
<td>Juggled Junk</td>
<td>1</td>
</tr>
<tr>
<td>Kingly Keyholes</td>
<td>2</td>
</tr>
<tr>
<td>Literary Logistics</td>
<td>1</td>
</tr>
<tr>
<td>Maximum Mobility</td>
<td>0</td>
</tr>
<tr>
<td>Nifty Nursing</td>
<td>0</td>
</tr>
<tr>
<td>Optimal Offices</td>
<td>13</td>
</tr>
<tr>
<td>Popular Playgrounds</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
</tr>
</tbody>
</table>

Notes: 1 A relationship is not considered as terminated if it still exists within new organisational form. 2 The long history of Glossy Grains makes it likely that there is a number of relationships not identified in the empirical study. * Terminated due to World War II.
6.2.3.2 Focal-firm Relationship Termination

On the downstream side, 35 per cent of all identified relations had been terminated. In the case of upstream internationalisation, 26 per cent of relations have been terminated (see Exhibit 6.11). Among those, only seven (or 16%) were not terminated by the focal firms. One might, therefore, expect to find a number of changes in strategy implying that the focal firms begin to terminate relations, either single relations or multiple relations. Indeed, while only five changes in initiation strategy have been identified, seven instances of focal-firm termination of multiple relationships and nine instances of focal-firm termination of single relationships can be noted in the empirical material. These situations occur after a period when the focal firm has never been involved in terminating any relations or has not taken such action in a long time. Single and multiple-relationship termination does not appear to have been undertaken at the request of a parent firm or other external stakeholder.

6.3 Summary

In total, 284 changes in international strategy have been identified in the 16 firms. Downstream changes outnumber upstream changes by a factor of three. While 213 downstream changes have been recorded, only 71 changes in upstream international strategy have been observed (see Exhibit 6.12). Changes of lower magnitude, i.e. those concerning single markets or single relationships, number 156, while higher magnitude changes number 128. Changes concerning market selection strategy are the most frequently encountered type of change with 109 observations, followed by changes in mode selection strategy with 88 recorded instances and changes in partner selection strategy with 87 observations.

Building on the findings of this chapter, chapter seven focuses on the second research question. I.e., it attempts to identify perceived influences on the 284 changes noted above.
### Exhibit 6.12: Overview of Observed Changes

#### Changes in downstream strategies

<table>
<thead>
<tr>
<th>Change Description</th>
<th>Observed in number of firms</th>
<th>Observed number of times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market</td>
<td>14</td>
<td>33</td>
</tr>
<tr>
<td>Single entry into new type of market</td>
<td>14</td>
<td>34</td>
</tr>
<tr>
<td>Withdrawal from multiple markets</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Withdrawal from single market</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>New high commitment mode on single market</td>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>New low commitment mode on single market</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>To multiple modes on multiple markets</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>To multiple modes on single market</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>213</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### Changes in upstream strategies

<table>
<thead>
<tr>
<th>Change Description</th>
<th>Observed in number of firms</th>
<th>Observed number of times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple entries into new type of market</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Single entry into new type of market</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Withdrawal from multiple markets</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Withdrawal from single market</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>New high commitment mode on multiple markets</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>New high commitment mode on single market</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>New low commitment mode on multiple markets</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New low commitment mode on single market</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Focal-firm initiation of multiple relationships</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Focal-firm initiation of single relationship</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other-firm initiation of multiple relationships</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Focal-firm termination of multiple relationships</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Focal-firm termination of single relationship</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 7
Perceived Influences on Change

The previous chapter presents a summary of the changes that have been identified across the sixteen firms, with a focus on discussing the first research question. The aim of chapter seven is to build on these findings and address the second research question, i.e. to identify "what perceptions influence changes in industrial SMEs' international strategy". In pursuing this aim, the chapter thus focuses on those aspects of the conceptual model of the change process (see Exhibit 2.5) dealing with perceptions about the environment, the organisation and realised strategy. However, since there are 15 types of downstream change, 13 types of upstream change (see Exhibit 2.7) and a total of 284 individual changes (see Exhibit 6.12), systematising the empirical material poses some challenges. Therefore, in order to identify trends across cases without getting lost in the multitude of details, perceived influences on each of the types of change have been divided into categories. In order to visualise this, in regard to each type of change an exhibit has been constructed. The left-hand column of the exhibit provides a description of the category of influences and lists the firms where it has been noted, while the right-hand column reports the number of times each category has been observed. Overall, the chapter follows the structure of chapter six, with a focus on downstream (see 7.1) and upstream (see 7.2) changes.

7.1 Influences on Change in Downstream Strategy

Changes in downstream international strategy outnumber changes in upstream international strategy by a factor of three, having generated 213 and 71 observations respectively. Among the 213 downstream changes, 81 concern market strategy, 66 concern mode strategy and 66 concern partner strategy. Below, perceived influences on these changes are and discussed and categorised.

7.1.1 Influences on Change in Downstream Market Strategy

In chapter six it is noted that most firms in the study appear to follow a pattern of discontinuous expansion into increasingly physically and mentally remote markets. This observation coincides with what other scholars been found to be the case for SMEs, different researchers having proposed a variety of reasons
why firms display such patterns (see 3.1.1). This subchapter aims to identify reasons why the firms in this study exhibit these patterns. It departs from typical studies of SMEs’ market expansion in two respects, though. Firstly, it differentiates between changes that entail single entries into atypical markets and changes that entail multiple entries into geographically coherent clusters of markets. Secondly, here change in strategy in the form of market withdrawal is also in focus, again making a distinction between lower and higher magnitude changes, the former being composed of singular withdrawals and the latter of withdrawals from multiple markets.

### 7.1.1.1 Multiple Entries into New Type of Market

A closer look at the reasons explicitly stated by managers why their firms undertook change in the form of multiple new market entries as well as at other factors associated with these entries that have been identified in the within-case analyses, indicate that three categories of influences can be distinguished (see Exhibit 7.1, which also notes that in four instances influences could not be categorised).

In the case of the first category, noted in 20 of 33 changes in nine firms, management apparently had no plans to enter the new markets, but when faced with unsolicited orders and contacts (including those made by firms previously unknown to individuals in the focal firm as well as those with which there existed some form of antecedent relation), such opportunities were grasped. Attendance at trade fairs, political and other changes in partner firms’ home countries, and the introduction by the focal firms of new products are apparently factors that are influential in the emergence of this type of pattern.

#### Exhibit 7.1: Categories of Influences on Multiple Entries into New Type of Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The focal firm’s management apparently had little intention of entering new markets, but when perceived beneficial opportunities to do so presented themselves these were grasped (BB [twice], CC, FF, JJ [3 times], KK [3 times], LL [4 times], MM, NN [twice] &amp; PP [3 times]).</td>
<td>20</td>
</tr>
<tr>
<td>Management wanted to expand the firm’s business and sought out new foreign markets (EE, FF, GG, HH &amp; PP).</td>
<td>5</td>
</tr>
<tr>
<td>Management experienced pressure to enter new markets and therefore sought out new partners (BB, HH, JJ &amp; NN).</td>
<td>4</td>
</tr>
<tr>
<td>The change exhibits simultaneous components of initiatives from focal firms’ management, would-be foreign partners, new management and/or perceived parent firm pressure for growth (AA, EE [twice] &amp; OO).</td>
<td>4</td>
</tr>
</tbody>
</table>

In regard to the second category, in only five instances can change in the form of entry into multiple new markets be identified as arising from management’s desire to grow the firm by expanding its business geographically, actively pursuing this aim by finding new partners on new markets. In Enviable Environments and Glossy Grains this change was brought on by new staff.
Urge for growth without the introduction of new products or staff has only been noted in Funky Furniture, Harmless Heating and Popular Playgrounds. This is certainly an interesting observation which hints at the orientation towards international growth among the studied firms, where new market entry appears to have only a limited role.

A third category entails an intermediate form, occurring after management experiences a pressure to enter new markets and then actively seek out new partners. In three instances this pattern arose after pressure from the focal firms’ parent firms for growth (Blissful Backs, Juggled Junk and Nifty Nursing) and in one instance as a reaction to a perceived shrinking home market (Harmless Heating).

In four instances of change in strategy in the form of multiple entries into new type of market it has not been possible to distinguish a pattern, changes exhibiting simultaneous examples of focal-firm and partner-firm initiations of relationships, perceived pressure from parent firms to grow and respondents expressing views to the effect that geographical expansion was seen as desirable at the time. Agreeable Armchairs, Enviable Environments (twice) and Optimal Offices exhibit this mix of focal-firm and partner-firm initiation of relations.

Overall, entry into geographically new types of markets is thus primarily undertaken as a result of perceptions concerning the potential of unsolicited requests and is less commonly triggered by managerial urge to expand. When looking also at new market entries that do not represent a change in strategy as defined here (see 2.5.1.1), it appears that managers are more proactive in entering markets in or in proximity to their established geographical areas than they are in entering more remote markets. When managers decide to exploit new products, for example, remote markets are apparently not the main target. Another interesting observation is that attendance at trade fairs is apparently rarely perceived as an opportunity to actively seek out foreign partners on new markets, but primarily serves as a venue where the focal firms may be contacted by prospective downstream partners.

### 7.1.1.2 Single Entry into New Type of Market

Also in the 34 instances of single entry that have been identified, the same three categories noted in regard to change in the form of multiple entries are arguably relevant to consider (see Exhibit 7.1), although the mixed reactive-proactive entry pattern has not been noted (which is logical since only a single market entry is concerned).

If the findings on entry into multiple new markets indicate that this is a process largely driven by perceptions regarding other-firm initiated opportunities for sales (and only occasionally triggered by managerial urge for the firm to grow or by perceived pressure from parent firms), the picture that emerges when lower magnitude changes, i.e. single entries into atypical markets, are studied points even more clearly in that direction (see Exhibit 7.2). While the first category, i.e. single entry triggered by the partner firms or third parties
(two of which by the focal firms’ parent firms), is present in no less than 28 instances. A second category entailing outspoken managerial urge for growth represent only four instances of atypical single market entry (Harmless Heating, Maximum Mobility, Nifty Nursing and Popular Playgrounds). Interestingly, in two of these instances the U.S. was the target market. Trade fairs are clearly also of importance in atypical market entries, having preceded ten such instances. Again, the observation can thus be made that managers apparently rarely proactively use trade fairs to expand downstream markets.

Exhibit 7.2: Categories of Influences on Single Entry into New Type of Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The focal firm’s management apparently had little intention of entering new markets, but when opportunities to do so presented themselves these were grasped (AA [6 times], BB [twice], CC [3 times], DD [twice], EE [3 times], FF [twice], HH, JJ [twice], KK, MM [twice], NN &amp; OO [twice]).</td>
<td>(28)</td>
</tr>
<tr>
<td>Management wanted to expand the firm’s business and sought out a new foreign market (HH, MM, NN &amp; PP).</td>
<td>(4)</td>
</tr>
<tr>
<td>Circumstances are uncertain (LL [twice]).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Since the first category of influence on change can be identified in most firms in the study – and in some firms on three or more occasions – clearly managers are often willing to grasp opportunities that present themselves, even if these opportunities entail sales on markets with which there is limited familiarity in the focal firms.

7.1.1.3 Withdrawal from Multiple Markets

Quite naturally, examples of changes in strategy entailing market withdrawal are much scarcer in the empirical material than are changes that entail expansion into new markets. Indeed, only seven instances of withdrawal from multiple downstream markets have been observed.

Logically, an important influence on new market entry is what markets a firm is already present on. Firstly, managers may perceive that their firms are present on those markets that are suitable for their firms. Secondly, since there are only so many markets to enter, the process of entering new markets is a finite one. In the firms in this study, however, such an ending point is largely theoretical since no single firm serves more than a quarter of the countries in the world (see Exhibit 5.1). Foreign market entry is not by the respondents seen as an end in itself, though. In fact, many managers appear to believe that their firms have indeed reached an optimum number of foreign markets and in some instances voice the opinion that this number has actually been exceeded. This notwithstanding, few managers apparently actively deselect established foreign markets (although the extent to which manages actively deselect potential new markets has not been studied empirically here).
Looking at the reasons for multiple withdrawals stated by managers and identified in the analysis, they appear somewhat idiosyncratic. Largely, they break down into four main categories, however (see Exhibit 7.3). The first category entails active withdrawal by the focal firm after an evaluation of international activities and identification of what are perceived as unprofitable markets and relationships. This can be seen in Funky Furniture, Glossy Grains and Optimal Offices. In the case of Glossy Grains, this also coincided with the introduction of new staff, a shift in production focus and difficulties in keeping up with demand. Thus, in regard to this category managers perceived a need to focus on certain markets, withdrawing from others.

Exhibit 7.3: Categories of Influences on Withdrawal from Multiple Markets

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>After an evaluation of international activities, management of the focal firm decided that the</td>
<td>(3)</td>
</tr>
<tr>
<td>firms should withdraw from some markets characterised by perceived poor performance (FF, GG,</td>
<td></td>
</tr>
<tr>
<td>&amp; OO).</td>
<td></td>
</tr>
<tr>
<td>The focal firm withdrew from some of its markets as a consequence of being acquired and</td>
<td>(2)</td>
</tr>
<tr>
<td>subsequent parent-firm pressure for withdrawal (CC &amp; II).</td>
<td></td>
</tr>
<tr>
<td>When the focal firm was acquired and lost its foreign intermediaries, the manager did not</td>
<td>(1)</td>
</tr>
<tr>
<td>perceive that it was meaningful to pursue all previous markets (JJ).</td>
<td></td>
</tr>
<tr>
<td>Due to the outbreak of World War II, management likely did not feel that it was realistic to</td>
<td>(1)</td>
</tr>
<tr>
<td>pursue the firm’s foreign markets (GG).</td>
<td></td>
</tr>
</tbody>
</table>

A second category of influence on change can be identified in the case of Clever Containers and Intelligent Infrastructure, where being acquired was an influential factor in withdrawal from multiple markets. In these two cases withdrawal was a result of the new parent firms deciding to serve certain markets, the actual withdrawal decision being taken outside the focal firms.

In the third category, also relating to acquisition of the focal firm, Juggled Junk undertook multiple withdrawals when new relations were not re-established on all the firm’s markets after relations with the former parent firm’s intermediaries had been terminated. Clearly, the manager decided to focus on what were perceived to be the potentially largest markets.

A fourth reason for multiple market withdrawal can be seen in case of Glossy Grains, where the outbreak of World War II meant that management could no longer pursue any of the firm’s foreign markets for a few years.

7.1.1.4 Withdrawal from Single Market

Also lower magnitude change in the form of single market withdrawal can be categorised as being triggered by actions taken by other parties or originating in the firms’ managements’ perceptions that certain markets are not suitable for their firms. The issue is more complicated than that, however.

In regard to the first category, triggers for divestment originate outside the focal firms, such as e.g. bankruptcy of the foreign partner firm. Examples of this
can be found in Agreeable Armchairs, Funky Furniture, Harmless Heating and Nifty Nursing. The strategic decision in this form of change, which may be termed other-firm triggered market divestment, i.e. the decision *not to further pursue* the market after the contact there has been lost, however, may depend on low perceived market potential, previously experienced difficulties in serving the market, lack of alternative contacts there or a combination of these factors.

### Exhibit 7.4: Categories of Influences on Withdrawal from Single Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>After a partner firm stopped buying from the focal-firm no further efforts were taken to remain on market, which was of perceived limited importance to the focal firm (AA, FF, HH &amp; NN).</td>
<td>(4)</td>
</tr>
<tr>
<td>Focal firm’s management decided to withdraw from the foreign market since it was perceived as being unsuitable for the firm (II [twice] &amp; MM).</td>
<td>(3)</td>
</tr>
</tbody>
</table>

In regard to the second category of influences on change, i.e. where management perceived the market to be unsuitable and actively withdrew after termination of relations there, factors such as perceived poor performance due to the focal firm’s product characteristics not being suitable for transportation or perceived difficulties in adapting to local standards were apparently important (see Exhibit 7.4). This category can be noted in the case of Intelligent Infrastructure (twice) and Maximum Mobility.

Overall, perceptions regarding market potential for the focal firms were thus important in the decision to divest from a single market, regardless whether the decision was triggered by a specific event.

### 7.1.1.5 Summary and Comparison with Extant Research

In summary, change in the form of expansion into new types of markets – often occurring in “clusters” of entries into more and more remote markets – is commonly undertaken by the focal firms as a consequence of positive perceptions regarding unsolicited orders and contacts, or occurs after perceived pressure from external stakeholders. This reflects findings made by Crick and Jones (2000), Ellis (2000), Ellis and Pecotich (2001), Brush (1995), Meyer and Skak (2002) and Coviello and Munro (1995; 1997), who identify factors such as serendipity and external-actor dependent patterns when discussing foreign market entries in general. Market withdrawal, though, appears to be quite an infrequent occurrence, as argued by Benito and Welch (1997).

Most commonly, what may be referred to as reactive entries are thus undertaken. In much fewer instances the opposite type of behaviour is exhibited, e.g. when management proactively wants to exploit a new product on a new market. This has certainly not been noted to the extent identified by Meyer and Skak (2002), who in a study of 20 Danish firms’ entries into Eastern Europe were able to determine that half of all entries were preceded by active search behaviour. Active search behaviour, however, does not necessarily equate
a proactive entry, as can be seen in some instances when parent firms pressured focal firms to expand, the focal firms subsequently seeking out potential foreign partners. A clear example of this can be seen in the case of Agreeable Armchairs’ entry into Germany. It would thus appear that a reactive-proactive typology does not entirely capture all types of behaviour observed in the studied firms. Rather, it would appear that a clearer distinction between triggers of potential actions and reasons why potential actions are undertaken must be made. Perhaps here an explanation can be found to why e.g. Lindqvist (1997) was able to observe that rational reasons such as market potential played a large role in market entry. Market potential may not have led the focal firms to seek out new markets, but perceptions regarding market potential were arguably important when the focal firms’ managers accepted unsolicited offers from foreign would-be partners.

7.1.2 Influences on Change in Downstream Mode Strategy

In chapter six it is noted that low commitment modes dominate over high commitment modes in downstream internationalisation (see 6.1.2). The chapter also indicates that among the 66 mode changes that have been identified, an almost equal number of instances involve changes to high commitment modes and changes to low commitment modes. The aim of this subchapter is to identify, discuss and characterise perceptual influences on these changes, as well as on changes involving use of multiple modes.

7.1.2.1 New High Commitment Mode on Multiple Markets

Since only seven instances of high magnitude change in the form of new high commitment mode usage on multiple markets have been identified, only a limited number of perceived influences have been noted (see Exhibit 7.5), and three categories have been formed.

Logically, such changes in strategy can be divided into two main categories, proactive changes and reactive changes. The former might be brought on by management’s desire to grow the firm, the latter as a response to a specific situation. When looking at the empirical material, however, the matter appears more complex. In all instances it can be seen that respondents imply that for such changes to take place, the market must be perceived as offering large potential or the firm must have received a large order there. This might thus be seen as a basic prerequisite for the firm to become involved in high commitment modes on a larger scale.

In Funky Furniture the setting up of foreign subsidiaries was management’s own initiative, although it was undertaken only after fears were being raised concerning reliance on intermediaries on one key market and the desire not to repeat what was seen as a risky strategy. In Optimal Offices, the establishment of four foreign sales subsidiaries was also a result of an evaluation of current performance of intermediaries in relation to what was believed to be potentially
large markets over which the firm’s management felt that the focal firm did not have sufficient control, the same being the case in Literary Logistics. In Intelligent Infrastructure multiple subsidiaries were established when collaboration with a local intermediary failed and when the firm’s management decided to take over a subsidiary of its parent firm.

It can be seen in two instances, forming a second category, that these changes were largely induced by the partner firms. Either, like in the case Juggled Junk, when the owner of the distributor in Germany, Poland and Denmark decided to retire and management felt a need to acquire his three firms not to lose three important markets, or, like in the case of Enviable Environments, when initiatives to starting joint ventures were taken by the partner firms.

Exhibit 7.5: Categories of Influences on New High Commitment Mode on Multiple Markets

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management’s reaction to what was perceived as largely unfavourable situations, e.g. lack of control over important markets (FF, II, LL &amp; OO).</td>
<td>(4)</td>
</tr>
<tr>
<td>Management’s reaction to what was perceived as a largely unfavourable situation, triggered by external actors (JJ &amp; EE).</td>
<td>(2)</td>
</tr>
<tr>
<td>Management’s reaction to what was perceived as a largely favourable situation, in this case the focal firm receiving a large order (II).</td>
<td>(1)</td>
</tr>
</tbody>
</table>

In all these instances the establishment of high commitment modes were thus, in one way or another, reactions to events or specific situations rather than being brought on by management’s urge to expand international sales. Six of these can be characterised as reactions to what management perceived to be largely negative situations, while a single instance can be characterised as being a reaction to a largely favourable situations (when Intelligent Infrastructure received large orders on two foreign markets and set up operations subsidiaries there which also came to function as sales subsidiaries), forming a third category.

7.1.2.2 New High Commitment Mode on Single Market

No less than 25 changes entailing use of new high commitment mode on single market have been noted in the empirical material. In most instances when occasional high commitment modes do not also represent new market entries (of which there are four), the focal firms’ management experienced problems with the existing modes. These problems typically concern the performance of partner firms but in some instances also concern difficulties in providing adequate service and lack of legitimacy in the eyes of large customers. This would thus indicate that change in the form of use of atypical high commitment modes is commonly a response to an unfavourable situation, either a response initiated by management or a response triggered by an
unsolicited proposal from a would-be partner firm (in the case of joint venture) or a would-be employee (in the case of subsidiary) that coincides with an unfavourable situation. High commitment mode involvement is thus often a measure taken to remain on a market, even if only few respondents express that particular view.

Five categories of influences on change have been noted (see Exhibit 7.6), the two most commonly encountered ones being the establishment of sales subsidiaries (ten instances) and the starting of a sales joint ventures (seven instances) as responses to unfavourable situations on established markets, i.e. when management perceived a problem with the existing mode.

Concerning the first category, perceived problems include poor performance and/or difficulties in collaborating with the old partner in combination with the new mode being perceived as either the only way to work together with certain people, get more control over the market or, on two occasions, even as the only way to stay on a market.

Exhibit 7.6: Categories of Influences on New High Commitment Mode on Single Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management perceived that the situation involving another mode was unfavourable and established a sales subsidiary which was believed to remedy the unfavourable situation, i.e. the specific mode choice was primarily an internal initiative although was a response to an external situation requiring action (BB, HH, LL, NN [twice], OO [twice] &amp; PP [three times]).</td>
<td>10</td>
</tr>
<tr>
<td>Management perceived that the situation involving another mode was unfavourable, and established a sales joint venture which was believed to remedy the unfavourable situation. Six of these ventures were started after suggestions from would-be partners (FF, II, LL, NN, PP [3 times]).</td>
<td>7</td>
</tr>
<tr>
<td>Management perceived that the best way to enter a new market was through a sales subsidiary (AA, HH, MM &amp; PP).</td>
<td>4</td>
</tr>
<tr>
<td>Management perceived that establishing a sales subsidiary would better enable the firm to penetrate the foreign market without there being a specific unfavourable situation involving another mode or that a certain mode was perceived as expected of focal firm (BB &amp; KK).</td>
<td>2</td>
</tr>
<tr>
<td>The establishment of a sales joint venture as a response to a favourable situation (LL).</td>
<td>1</td>
</tr>
<tr>
<td>Circumstances unclear (LL).</td>
<td>1</td>
</tr>
</tbody>
</table>

In regard to category two, in five of the seven cases the joint ventures were started at the suggestion of the would-be partners. This would thus seem to indicate that managers in the focal firms in the study did not actively pursue joint venture as an appropriate mode, but were willing to become involved in a joint venture when this was necessary in order to work together with a specific partner, this, in turn, being a solution to a perceived problem with the existing mode. It might also be worth noting that while those markets concerned were typically not the focal firms’ most important markets, they were, nonetheless, considered significant enough to warrant a high commitment mode. None of the joint ventures thus also represent new market entries.
In regard to a third category, i.e. when new market entries coincide with the use of atypical modes, in all four instances respondents cite that the perceived potential of the new market motivated the setting up of a sales subsidiary. In two of these changes (including Agreeable Armchairs’ entry into the U.S. and Harmless Heating’s entry into Germany), respondents also note that they felt that a high commitment mode was more or less expected of the firm.

A fourth category can be noted in the case of Blissful Backs in the U.K. and Kingly Keyholes in the U.S., where the firms were already present on the markets, but where management perceived that starting sales subsidiaries would better allow the firms to tap into the potential of these markets.

When looking at the joint ventures specifically, a relatively coherent picture of influences emerges, although in one instance, making up a fifth category, the establishment of a joint venture arose as a reaction to a favourable situation. This occurred in the case of Literary Logistics receiving a large order in Malaysia, the firm establishing an operations venture there which also functions as a sales venture.

7.1.2.3 New Low Commitment Mode on Multiple Markets

Also in the case of new low commitment mode usage on multiple markets do the influences on change at a first glance appear highly idiosyncratic. Generally, though, four categories can be distinguished in the empirical material. Two categories again entail change that is preceded by management’s perception that there was a problem with the current mode (see Exhibit 7.7).

Perceived problems with existing modes include primarily that the mode does not permit further expansion, that the mode no longer suits the firm’s products or that the firm’s customers are not happy with the mode. This, however, does not automatically entail that management sets out to deliberately change operating modes. In the case of the first category, management believed that there was a problem present but did not actively pursue a new mode by changing partners (or changing the mode within the same partnership). Rather, the adoption of a new mode on several markets was triggered by the partner firms. Thus, perceptions regarding problems primarily indicated a willingness to grasp opportunities for change, not necessarily that change was actively pursued. This pattern has been observed in six cases, including Clever Containers’ use of agents, Dynamic Designs’ use of agents, Kingly Keyholes’ selling through foreign distributors, Literary Logistics’ use of agents, Maximum Mobility’s sales directly to manufacturers and Popular Playgrounds’ use of agents.

While it can be complicated to determine the extent to which a specific mode change represents a deliberate change on the side of the focal firm’s management, in only five changes (including Envious Environments, Glossy Grains (twice), Intelligent Infrastructure and Popular Playgrounds) can it be noted with a reasonable degree of certainty that the use of a new low commitment mode on multiple markets occurred as part of more deliberate
strategy formation, forming a second category. In these instances, change was preceded by management’s perception that there was a problem involving the current mode.

Exhibit 7.7: Categories of Influences on New Low Commitment Mode on Multiple Markets

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management perceived that there was a problem with the current mode but did not set out to adopt a new mode. Rather, when would-be partner firms better fitted to management’s desired mode approached the focal firm, relationships were formed and mode change undertaken (CC, DD, KK, LL, MM, PP).</td>
<td>(6)</td>
</tr>
<tr>
<td>Management perceived that there was a problem with the current mode and set out to adopt a new mode (EE, GG [twice], II, PP).</td>
<td>(5)</td>
</tr>
<tr>
<td>The focal firm attracted attention from partners operating through modes other than those typically preferred by the focal firm’s management without there being a specific problem with the commonly used mode (AA, EE, PP).</td>
<td>(3)</td>
</tr>
<tr>
<td>Changes relating to acquisition of the focal firm (CC &amp; JJ).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

A third category can be noted when the focal firm attracts attention from a mode-wise new type of partner without there being any particular problems with current modes present, occurring e.g. after the introduction of a new type of products (as in Agreeable Armchairs) or without any specific such underlying changes (as in Enviable Environments and Funky Furniture). Then the crucial question is, why did management accept this atypical mode? It would appear that the urge to make a sale outweighed typical mode preferences.

In the fourth category, the acquisition of the focal firms brought with it a change in modes, as can be noted in Clever Containers and Juggled Junk. In the case of the former firm, agents were no longer seen as necessary since the parent firm was to take on most activities relating to foreign sales. In the latter case, direct sales were no longer seen as necessary since the firm was given access to a network of distributors.

7.1.2.4 New Low Commitment Mode on Single Market

The new low commitment mode on single market type of change breaks down into two main groups, those that represent new market entries (five of 14 instances) and those that represent switches from high to low commitment modes. The new market entry category further breaks down into two categories, while changes on established markets form one category (See Exhibit 7.8).

The most commonly encountered category of influence on change, identified in nine instances, represents new low commitment modes on existing markets, in turn representing changes from previous high commitment modes. Two aspects of the same category may be considered, including reasons why the original high commitment mode was deselected and reasons why the specific new mode was selected. Primarily perceived performance problems account for eight of nine changes, the ninth change occurring when Nifty Nursing
withdrew from the firm’s Dutch joint venture after management believed that the enterprise had become viable on its own, effectively removing the reason why Nifty Nursing’s manager agreed that the firm would become involved in a joint venture in the first place. In seven of the nine changes, the new mode also represented the firm’s typical operating mode (including Intelligent Infrastructure, Juggled Junk, Maximum Mobility, Nifty Nursing, Optimal Offices and Popular Playgrounds [twice]), the only exceptions being noted in Funky Furniture when management believed that the firm’s customers in German-speaking countries would be served directly by Swedish headquarters rather than through foreign intermediaries. Interestingly, in all those instances where high commitment modes were replaced by low commitment modes, the focal firms already had new market channels in place, often based on employees or customers of the focal firms’ subsidiaries.

Exhibit 7.8: Categories of Influences on New Low Commitment Mode on Single Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management perceived a problem with a high commitment mode on an existing market which meant that a new low commitment mode came to be used there. Five changes were internally triggered and two externally triggered, while in two instances the trigger is uncertain (FF [twice], II, JJ, MM, NN, OO &amp; PP [twice]).</td>
<td>(9)</td>
</tr>
<tr>
<td>The focal firm attracted an unsolicited contact on a new market and perceived the new market entry to be important enough to warrant an atypical mode or insignificant enough that an exception from typical operating mode did not matter (BB, DD &amp; HH).</td>
<td>(3)</td>
</tr>
<tr>
<td>When the focal firm’s management perceived that the focal firm’s typical mode was not suitable on a new market, an atypical low commitment mode was used (EE &amp; HH).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

In regard to those atypical modes that coincide with new market entries, two main influences on change have been noted, representing two different categories (see Exhibit 7.8). Firstly, corresponding to a second category in regard to new low commitment mode usage on single market overall, the focal firm is approached by a would-be partner on a foreign market operating through a mode other than what the focal firm usually employs. Interestingly, two different reasons why such a deviation from typical firm behaviour occurs have been noted: either the new market is of such limited importance that the focal firm’s management does not consider a change from the firm’s typical mode as being of much consequence (as in the case of Harmless Heating on Cyprus) or the foreign market is important enough that reservations concerning certain modes are overcome (as in the case of Blissful Backs in Finland and Dynamic Designs in Norway).

Secondly, in regard to change in the form of new market entry (representing a third category overall) in two instances respondents noted that attempts at employing the firm’s typical mode of operation was not perceived as possible due to local market structure. This has been noted in the case of Enviable
Environments’ direct sales in the U.S. and Harmless Heating’s sales through a Distributor in Poland.

The fact that atypical modes on single markets is such an uncommon occurrence and the fact that in no instance has such a change been noted for an existing market, would seem to imply that managers adhere fairly strictly to certain low commitment modes, unless changes on multiple markets are involved.

7.1.2.5 Multiple Modes on Multiple Markets

All four instances where change in the form of adoption of multiple modes on multiple markets have been noted, entail simultaneous sales through distributors and sales directly to end customers. All four instances also represent change situations where the firms first sold to foreign distributors, later increasing foreign direct sales. In Glossy Grains, Kingly Keyholes, Maximum Mobility and Optimal Offices large foreign end customers are served directly while smaller customers are required to buy through local intermediaries. All respondents note that this was both perceived as a requirement from large foreign customers and believed to be a necessary step to maintain or improve profitability (see Exhibit 7.9).

Exhibit 7.9: Categories of Influences on the Use of Multiple Modes on Multiple Markets

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management’s perception that a single mode did not suffice in reaching the firm’s customers, which was also a perceived requirement from customers (GG, KK, MM &amp; OO).</td>
<td>(4)</td>
</tr>
</tbody>
</table>

Additionally, in Kingly Keyholes the marketing manager notes that relations with two large, domestic customers led the firm to begin selling also to foreign firms affiliated with these customers, regardless of the fact that Kingly Keyholes simultaneously already sold through distributors on most of these markets. This strategy evolved to include also other large customers.

Overall, it can be observed that the focal firms employ a high degree of consistency in mode selection in the sense that competing modes are only infrequently used on the same foreign market. This is both supported by most respondents’ comments on the matter and by the fact that no particular usage of multiple modes on single markets has been noted. Thus, in the studied firms competing modes are apparently used across several markets or not at all.

7.1.2.6 Summary and Comparison with Extant Research

In summary, the downstream mode selection process is typically characterised by the use of one or relatively few low commitment modes, mirroring findings of e.g. Lindqvist (1997), Holmlund and Kock (1998) and Bell (1995). This is
largely determined by a combination of an awareness of the business logic of the industry and managerial preferences for certain modes.

The most commonly encountered influence on mode change is perceived problems with existing modes, typically in the form of perceived poor performance. Interestingly, while such pressures for change may be present for some time, actual changes in strategy are frequently triggered by external change agents rather than being initiated by the focal firms’ management.

In most firms the dominating mode neither changes at all or a new low commitment mode is used across many or most of the firms’ markets. Perceived customer preferences and managerial urge to be present on certain markets, however, will typically outweigh such mode preferences as expressed by respondents. This coincides with findings made by authors such as Lindqvist (1997), who notes that firms are more likely to create subsidiaries on industrialised markets, and Osborne (1996), who argues that higher sales value leads to higher levels of market channel integration.

In the case of joint ventures, antecedent relations have been identified in most instances, matching findings made by e.g. Keogh, Jack, Bower and Crabtree (1999) and Covin and Dunne (1995; 1997), who note that network relationships are important for firms when taking the decision to become involved in high commitment modes.

Occasionally, firms have also been found to use multiple modes or mode combinations on the same market, typically occurring in connection with greater differentiation between large and small customers. This corresponds to what Petersen and Welch (2002) describe as segmented modes, i.e. different modes are used for different customers segments. In this study, the focal firms serve larger customers directly, while smaller customers are served by local distributors.

7.1.3 Influences on Change in Downstream Partner Strategy

A total of 66 changes in downstream partner selection strategy have been identified in the empirical material, half of which concern relationship initiation and termination respectively. Below are identified and discussed important perceptual influences on these changes and categories of change situations are formed.

7.1.3.1 Focal-firm Initiation of Multiple Relationships

Two main categories have been identified in the empirical material (see Exhibit 7.10). In eleven instances change in the form of focal-firm initiation of multiple relationships was largely grounded in managements’ desire that their firms should grow, making up a first category observed. This has been noted in the case of Clever Containers, Dynamic Designs, Enviable Environments, Glossy Grains, Harmless Heating (twice), Juggled Junk (twice), Kingly Keyholes, Literary Logistics and Maximum Mobility. It should, however, be noted that in
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four instances (Enviable Environments, Glossy Grains, Juggled Junk and Literary Logistics) this change was partly brought on by or occurred in connection with the hiring of new staff. This, of course, does not mean that the hiring of new staff is not a lead in generating foreign expansion. What it does mean is that in four changes out of eleven it is uncertain if such a pattern would have emerged without initiatives from new organisational members.

In a few instances, this type of change in strategy is also effected after the realisation that existing relations with large customers can generate more relations and that new products can be further exploited. In four instances it also coincides with new market entry. Two of the instances of new market entry, involving Enviable Environments and Glossy Grains, also coincide with the hiring of new staff, who, in effect, used their personal contacts to expand their firms’ business abroad.

Exhibit 7.10: Categories of Influences on Focal-firm Initiation of Multiple Relationships

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primarily an internal initiative, i.e. management wanted to expand the focal firm’s business and sought out new partners (CC, DD, EE, GG, HH [twice], JJ [twice], KK, LL &amp; MM).</td>
<td>(11)</td>
</tr>
<tr>
<td>Primarily externally triggered, i.e. management perceived that there was a pressure for growth and subsequently sought out new partners (AA, BB [twice] &amp; II).</td>
<td>(4)</td>
</tr>
</tbody>
</table>

While focal-firm initiation of multiple relationships may in itself hint at the adoption of a proactive strategy to internationalisation, this is not always the case, as can be seen when rationales for such action are explored. In four of the 15 instances where this type of change has been identified perceived pressure from the parent firm that the focal firm should grow prompted this type of action, forming a second category. Of course, perceived pressure from parent firms regarding growth does not exclude internal managerial urge for growth. It is, however, uncertain if the initiation of multiple relations would have taken place had parent firms not been perceived as exerting a pressure on their subsidiaries.

7.1.3.2 Focal-firm Initiation of Single Relationship

The influences surrounding focal-firm initiation of single relationships are idiosyncratic in nature, although three categories of influences on change have been identified (see Exhibit 7.11), two of which have not been noted in regard to multiple relationship initiations.

A first category has been noted in four instances, namely the initiation of a new relationship originating in management’s desire to expand the focal firm’s business. Two of these relationships were formed in connection with new market entries, including Kingly Keyholes’ entry into Canada and Optimal Offices entry into Finland.
A new category entails the need to find a new partner when the old partner is no longer interested in doing business with the focal firm, i.e. new relationship initiation is perceived as necessary to remain on a foreign market. This has e.g. been noted in the case of Nifty Nursing in Australia when the owner of the firm’s distributor there decided to retire.

Exhibit 7.11: Categories of Influences on Focal-firm Initiation of Single Relationship

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focal firm’s active search for new partner as part of managerial urge to expand sales (CC, KK, NN &amp; OO).</td>
<td>(4)</td>
</tr>
<tr>
<td>Focal firm’s management perceived a need to initiate a new relationship in order not to lose sales (NN &amp; PP).</td>
<td>(2)</td>
</tr>
<tr>
<td>Focal firm’s management took action after a chance event/encounter which was perceived to offer potential for sales (BB &amp; CC).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Unlike focal-firm initiation of multiple relationships, no instances of change in the form of single relationship initiation after perceived parent firm pressure or pressure exerted by other external stakeholders have been noted. On the other hand, another new category has been identified, one that one would logically expect only in single relationship initiation, namely that of focal firm action taken after a purely serendipitous event that management perceived offered potential for foreign sales (i.e., the same event leading to one new relation). Only two such instances have been identified, though. These include Clever Containers acting on a suggestion to contact a potential partner in the U.K. without having been looking for one and Blissful Backs, where a chance encounter led the firm’s manager to initiate a relationship at a trade fair.

What is interesting about change in the form of focal-firm initiation of single relationships is perhaps not the idiosyncratic perceptual influences surrounding these events, however. More noteworthy is the fact that there are so few instances identified in the empirical material. Chapter six (see 6.1.3) notes that in 72 per cent of all relationships where the initiator can be identified that role is held by a firm other than the focal firm. Even if one assumes that focal-firm initiation of multiple relationships occurs in many or even most firms, one might still expect a larger share of the remaining 28 per cent or 127 relationships to occur as single, focal-firm initiated relations. Admittedly, paucities in the data on many occasions do not allow focal-firm relationships to be categorised as being initiated individually or in groups. Nonetheless, the empirical material still indicates that focal firms are seldom the initiators of single relationships during periods otherwise characterised by other-firm initiation. Indeed, many of the respondents also make note of this fact during the interviews.
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7.1.3.3 Other-firm Initiation of Multiple Relationships

While there is a clear dominance of other-firm initiation of relationships apparent in the internationalisation of most of the firms in the study (see 6.1.3), the fact that change in the form of focal-firm initiation emerges at times would seem to indicate that patterns of other-firm initiation may also form. In the empirical material, ten such changes have been identified in a total of eight firms, forming a single category (see Exhibit 7.12).

There are three main issues to discuss in regard to this change: firstly, why did the focal firms cease to initiate relationships; secondly, after this occurred why did the focal firms continue to attract interest from would-be partners and third parties; and thirdly, why did the focal firms accept becoming involved in new relationships?

Exhibit 7.12: Categories of Influences on Other-firm Initiation of Multiple Relationships

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management apparently experienced that those markets which were suitable for the firm at the time (given resources, production capacity, nature of products) had been entered and did not actively pursue new markets. The focal firm nonetheless continued to attract interest from would-be partners on markets that were typically considered by management as being of lesser importance and unsolicited offers for sales or new relations were accepted (BB [twice], DD, GG, JJ [twice], KK, LL, OO &amp; PP).</td>
<td>10</td>
</tr>
<tr>
<td>In most instances, managers apparently either experienced that suitable markets at the time had been entered and that no new relations were thus needed (Blissful Backs, Dynamic Designs, Juggled Junk, Literary Logistics and Popular Playgrounds), perceived that no new relations needed to be established since the firm was having difficulties in keeping up with demand (Glossy Grains and Kingly Keyholes) or that acquisition gave access to all the markets that the firm needed (Juggled Junk). Either respondents make direct comments to this effect or this can be inferred when studying market expansion patterns in relation to relationship initiation patterns over time (see Exhibit 7.12).</td>
<td>10</td>
</tr>
<tr>
<td>One should, of course, be cautious when it comes to trying to identify specific reasons why the focal-firms continued to attract attention from would-be partners after the focal firms had ceased actively pursuing new partners, since this requires speculation concerning motives of parties who have not been interviewed. Some respondents note, however, that they perceive that antecedent relations were important in this. When plotting relationships over time, this can in fact be identified as relevant in the case of Blissful Backs, Dynamic Designs, Glossy Grains, Juggled Junk, Kingly Keyholes, Literary Logistics and Popular Playgrounds. Similarly, the focal firms’ attendance at trade fairs can be noted as an important factor in attracting new partner firms, as in the case of Blissful Backs (two occasions), Juggled Junk, Optimal Offices and Popular Playgrounds.</td>
<td>10</td>
</tr>
</tbody>
</table>
In regard to why focal-firm managers accepted unsolicited offers, most respondents voice opinions to the effect that when opportunities for sales are encountered or when there is a chance to find an intermediary on a new market, these opportunities are often grasped, regardless whether management had any previous intentions of entering into new relations or markets (see also discussions about new market entry in 7.1.1.1 and 7.1.1.2).

One can also ask oneself if a pattern of other-firm relationship initiation emerged because managers of the focal firms did not experience a need to take the first step in relationship initiation since their firms kept attracting unsolicited interest from would-be partners. Indications of this can be found in at least Kingly Keyholes, Literary Logistics and Optimal Offices. Possibly, the single category noted above (see Exhibit 7.12) might thus have been broken down into further categories, had data permitted this.

### 7.1.3.4 Focal-firm Termination of Multiple Relationships

In eleven of 16 firms in the study, change in the form of focal-firm termination of multiple relationships can be identified. Across these firms, a total of 17 such changes have been noted (see Exhibit 7.13).

#### Exhibit 7.13: Categories of Influences on Focal-firm Termination of Multiple Relationships

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>An internal initiative to evaluate international activities or shift in business focus led to greater attention regarding performance of partners, management terminating relations with poorly performing partners (DD, EE [twice], FF, GG, II [twice], JJ, LL, OO [3 times] &amp; PP).</td>
<td>(13)</td>
</tr>
<tr>
<td>Management perceived that there was a pressure for growth and subsequently terminated relations with poorly performing partners (AA, CC &amp; DD).</td>
<td>(3)</td>
</tr>
<tr>
<td>Relations with foreign partners were terminated by the focal firm’s management as a consequence of a management buy-out when manager perceived that former parent firm’s intermediaries were not well suited to the firm’s needs (JJ).</td>
<td>(1)</td>
</tr>
</tbody>
</table>

A first category of influences on change has been noted in 13 instances, where it can be observed that the focal firms undertook some form of evaluation of international activities or change in business focus, resulting in several relations being terminated. A variety of reasons why international activities were subjected to scrutiny and relations were terminated can be noted, however. Most commonly these include perceived performance problems or management’s belief that another mode was more suitable for the focal firm. In three instances this was impacted by the introduction of new management and, in some instances, was part of market withdrawals. Typically, several simultaneous influences impact the formation of this type of change.

The remaining four instances break down into two categories. In three instances, forming the first of these two categories, parent firms were perceived as putting pressure on the focal firms to expand their foreign business, which, in
turn, resulted in relations with poorly performing partners being terminated. This has been noted in Agreeable Armchairs, Clever Containers and Dynamic Designs.

In regard to the last category, which has been noted only in the case of Juggled Junk, relations were terminated as part of a management buy-out when the manager perceived that new intermediaries would better serve the firm.

### 7.1.3.5 Focal-firm Termination of Single Relationship

In two of the sixteen instances of focal-firm termination of single relationship that have been identified, reasons for termination are unclear. In the remaining 14 changes of this type, management’s displeasure with the perceived performance of the partners and management’s fear of reliance on a powerful partner were the main reasons why relations were terminated (see Exhibit 7.14).

A first category of influence on change can be identified in eight instances. This category is relatively straightforward in that management seeks out a new partner firm aimed to replace what is either perceived as a poorly performing partner or what is perceived as an inappropriate mode. The focal firms’ managers thus initiate the development of alternative plans.

#### Exhibit 7.14: Categories of Influences on Focal-firm Termination of Single Relationship

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management perceived that the foreign partner performed poorly and either set out to find a</td>
<td></td>
</tr>
<tr>
<td>replacement for the foreign partner, terminated the relation and then set out to find a new</td>
<td></td>
</tr>
<tr>
<td>partner, terminated the relation as a consequence of using a new mode not requiring an</td>
<td></td>
</tr>
<tr>
<td>intermediary or terminated the relation in favour of an existing alternative channel (AA, BB,</td>
<td>(8)</td>
</tr>
<tr>
<td>EE, FF, HH, JJ, KK &amp; NN).</td>
<td></td>
</tr>
<tr>
<td>Management perceived that the foreign partner performed poorly. When the opportunity</td>
<td></td>
</tr>
<tr>
<td>presented itself to work with another partner, that opportunity was grasped and relations with</td>
<td></td>
</tr>
<tr>
<td>the old partner were terminated (BB [twice], DD, EE, MM &amp; NN).</td>
<td>(6)</td>
</tr>
<tr>
<td>Management perceived that there was a problem in the current relationship and terminated it</td>
<td></td>
</tr>
<tr>
<td>without having alternative plans in place (AA [twice]).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

One may, of course, also ask oneself what triggered termination of single relations at a specific point in time, especially considering that respondents’ comments indicate that several of the partner firms had been perceived as performing poorly for quite some time. In at least six instances it can be noted that the new, would-be partners announced their interest in working with the focal firms rather than the focal firms actively searching for alternative plans, representing a second category of influences on change. Thus, while the old relations were actually terminated by the focal firms whose managers perceived the partner firms as performing badly, the new, would-be partners’ proposals triggered the focal firms’ actions. Consequently, this represents a category different from the one above where the focal firms’ management actively sought
out new partners, and has been observed in Blissful Backs (twice), Dynamic Designs, Enviable Environments, Maximum Mobility and Nifty Nursing.

It is worth noting that in fourteen of the sixteen instances of change in the form of single relationship termination, respondents indicate that they already had plans regarding new market channels in place. This would appear quite logical. While one can certainly conceive of numerous reasons for terminating an existing relationship before an alternative relationship has been established, if the main problem in the relation is one of poor sales, such action would typically not appear motivated. In two instances, though, management terminated relations without having alternative plans in place or developing alternative plans in connection with termination, representing a third category observed twice in the case of Agreeable Armchairs.

It is also worth noting that 15 of the 16 terminated relations involved intermediaries. Only one instance of downstream relation with end customer has been identified as being focal-firm terminated.

7.1.3.6 Summary and Comparison with Extant Research
In summary, several interesting observations can be made concerning perceived influences on changes in downstream partner selection strategy. As one would logically expect, focal-firm initiation of relations commonly finds its origin in managerial urge for expansion, although also perceived pressure from e.g. parent firms generate this type of behaviour. Again, it can thus be noted that a reactive-proactive typology does not fully capture the behaviours encountered here, where different perceived degrees of freedom to act on the side of the focal firms’ managers appears to be an important additional dimension to consider. Focal-firm initiation thus does not signify proactive behaviour, nor does focal-firm termination.

An important factor in the formation of patterns of focal-firm relationship termination is perceived poor performance of the partner firms, although this type of behaviour also often seems to be triggered by external change agents and not simply by managerial displeasure reaching a critical point.

Perceived degree of choice in action appears relevant to consider also in regard to other-firm initiation of relations. Sometimes the focal firms’ managers perceive that they have little or no choice in entering into the new relations, especially if they are initiated by parent firms. However, when multiple other-firm relations are concerned, these apparently involve primarily markets of lower perceived importance, where the focal firms’ managers may or may not accept unsolicited offers.

Of course, there are scholars who support the general findings made here to the effect that the majority of downstream relations are initiated by the partner firms (see Ellis, 2000; Ellis & Pecotich, 2001; Lindqvist, 1997). There are also authors who attest to the importance of antecedent relations (Coviello & Munro, 1997) and serendipitous meetings (Brush, 1995; Meyer & Skak, 2002). Other scholars also note a lack of care in intermediary selection (Petersen,
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Benito & Pedersen, 2000), which frequently seems to be present among the firms studied in this project. Attempts at explaining why changes in partnering strategy occur, though, have not been encountered in extant research to any great extent, especially in the case of relationship termination. An exception to the latter is Hohenthal (2002), who notes that lack of potential was the main reason why relations between ten Swedish firms and their foreign partners were terminated. He studied relations in the earliest phases, though, and was not concerned with relations that had existed for some time. Nonetheless, lack of potential as expressed by Hohenthal (2002) and the importance of perceived poor performance stressed here refer to some extent to the same issue, even if this study employs a different time perspective.

7.2 Influences on Change in Upstream Strategy

Only one quarter of the changes in international strategy identified in the empirical material concern changes in upstream strategy. Among these 71 changes, 28 concern entry into new markets and market withdrawal, 22 concern mode changes and 21 concern relationship initiation and termination. Below these changes are discussed and different categories of perceived influences are identified.

7.2.1 Influences on Change in Upstream Market Strategy

Upstream market expansion patterns to some extent reflect downstream market expansion patterns in the sense that entry into nearby upstream markets commonly precedes entry into more remote markets. However, since it is no aim from the point of view of most managers to source from or have operations on a variety of different markets, there is no pattern of greatly expanding the firms’ foreign sourcing markets over time apparent in the focal firms. As is noted in 6.2.1, though, it is quite clear when talking to managers that the actual choice of foreign upstream market is one of great importance, not only when foreign operations are concerned, but also in the use lower commitment modes such as direct importing. Firms may, thus, enter and withdraw from foreign sourcing and operations markets in much the same way as they enter and withdraw from foreign sales markets, although perhaps for different reasons.

7.2.1.1 Multiple Entries into New Type of Market

Only three instances of change in the form of multiple entries into geographically new types of upstream markets have been identified. Agreeable Armchairs’ entered the Baltic markets, action that was triggered by the supplier firms and accepted by Agreeable Armchairs as they entailed perceived cost improvements. Enviable Environments entered a number of Western European
sourcing markets starting in the late 1990s, this being a result of perceived needs to supplement existing product ranges and perceived pressure to use certain suppliers. Nifty Nursing’s sourcing from Western European markets was also undertaken due to perceived needs for specific products. While all concern sourcing activities, perceived reasons for expansion are thus somewhat idiosyncratic in nature. Due to the small number of instances where this type of change has been observed, however, it has not been found meaningful to attempt to identify any main categories.

7.2.1.2 Single Entry into New Type of Market

While multiple entries occur only rarely in the empirical material, change in the form of single entries into new type of upstream market has been noted in 17 instances, involving more than half the firms in the study. When different influences are identified and characterised, three main categories can be noted (See Exhibit 7.15).

Exhibit 7.15: Categories of Influences on Single Entry into New Type of Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The focal firm’s management perceived pressure (from parent firm or customer) to buy from a certain partner firm on a new market or to establish operations on a certain market because this was expected of them by customers (AA [3 times], II [twice], KK, LL &amp; PP).</td>
<td>(8)</td>
</tr>
<tr>
<td>The focal firm’s management apparently had little intention of sourcing from/becoming involved in operations on the new market, but when a perceived beneficial opportunity to do so presented itself it was grasped (AA, DD, FF, GG &amp; MM).</td>
<td>(5)</td>
</tr>
<tr>
<td>The focal firm’s management experienced a need for a certain type of new product which led the firm to seek buy from a supplier on a new market (DD &amp; GG).</td>
<td>(2)</td>
</tr>
<tr>
<td>Circumstances are uncertain or unclear (KK &amp; LL).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

A first category of influences on change can be noted in eight instances, where it has been observed how the focal firms’ managers experienced some form of pressure to enter new upstream markets. In three instances of establishing operations in new countries (Intelligent Infrastructure [twice] and Literary Logistics) this arose after the focal firms landed large orders on new markets and managers perceived that this was both expected of them and practical given the nature of the orders. In an additional two instances, parent firms were perceived to exert pressures which led the focal firms into new markets. Agreeable Armchairs established operations in Poland, which occurred as part of the parent firm’s growth strategy for the focal firm and Popular Playgrounds began buying from its new parent firm after the focal firm was acquired. In the last three instances making up this category, the managers in the focal firms perceived strong pressures to use certain suppliers, as in the case of Agreeable Armchairs buying from Belgium and India, and Kingly Keyholes buying from the U.S.
A second category, observed in five instances, entails the focal firm’s management grasping a perceived beneficial unsolicited opportunity which led the focal firm into a new type of market. Antecedent relations and the opportunity to source from low-cost countries were apparently important factors contributing to the formation of this pattern, which has been noted in Agreeable Armchairs in Australia, Dynamic Designs in Thailand, Funky Furniture in Thailand, Glossy Grains in Brazil and Maximum Mobility in China.

Logically, an important reason for change in strategy entailing entry into a new type of sourcing market is management’s perception that a specific product is needed, one which cannot be found on existing markets, at least to the best of the knowledge of managers in the focal firms. This third category has only been noted in two instances, though, including Dynamic Designs buying from Estonia and Glossy Grains buying from Australia.

These three categories of influences on change are not necessarily mutually exclusive. The need for a certain type of product may well have been experienced by management and an opportunity corresponding to this need grasped when it presented itself. The categorisation of instances above represents what has been identified as the main influence on each new market entry.

Interestingly, no instances of management proactively seeking out suppliers on new markets or considering new markets for foreign operations have been identified in the empirical material. This, of course, does not mean that such action has never been taken by the focal firms’ management, but it does indicate that e.g. proactive search for new partners in combination with new market entries are probably uncommon. In two instances, circumstances are either unclear or it is difficult to identify specific influences, though.

### 7.2.1.3 Withdrawal from Multiple Markets

Only one example of withdrawal from multiple upstream markets has been identified in the empirical material. This occurred when Popular Playgrounds stopped buying from some of the firm’s foreign suppliers due to increases in costs, which management experienced hurt profitability too much.

### 7.2.1.4 Withdrawal from Single Markets

Seven occasions of withdrawals from single markets have been identified, forming three categories of influences on change (see Exhibit 7.16). The perhaps most obvious category, that of the focal firm no longer buying from a sole supplier on one market thus withdrawing from there, has been identified in five instances. A variety of different reasons behind the termination of relations have been noted, however, including that the type of product sourced is no longer perceived as needed (Blissful Backs in France), price levels are thought too high (Harmless Hearing in Norway) and changes in product categories
(Dynamic Designs in Thailand) and production systems (Agreeable Armchairs in Australia) meaning that certain suppliers are no longer seen as useful.

**Exhibit 7.16: Categories of Influences on Withdrawal from Single Market**

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to perceived changes in sourcing needs, the focal firm no longer bought products from a sole supplier on a foreign market, (AA, BB, DD &amp; HH).</td>
<td>(4)</td>
</tr>
<tr>
<td>Negative, market-specific managerial perceptions led the focal firm to withdraw from a foreign upstream market (LL &amp; OO).</td>
<td>(2)</td>
</tr>
<tr>
<td>Due to perceived pressure to terminate a relation with a supplier, the firm withdrew from a sourcing market (AA).</td>
<td>(1)</td>
</tr>
</tbody>
</table>

In the four instances noted above, there is obviously no specific desire present among management not to source from a particular market. On one occasion, though, a respondent noted that after repeated problems with delivery times and quality, in Optimal Offices the decision was taken to terminate relations with all suppliers from a certain country, forming a second category. In another case, namely that of Literary Logistics in the U.S., the firm ceased operations after management experienced difficulties in adapting to local standards. Managerial perceptions regarding market-specific factors thus lead firms to withdraw from upstream markets, not just changing sourcing needs.

In one instance, forming a third category, Agreeable Armchairs’ management perceived strong pressure from a customer to terminate relations with a specific supplier, which meant that Agreeable Armchairs left India as a sourcing market.

### 7.2.1.5 Summary and Comparison with Extant Research

Relatively few changes in sourcing market strategy have been encountered in the empirical material. The main influences on these changes include perceptions regarding unsolicited offers and opportunities, perceived pressures from stakeholders, perceptions regarding sourcing needs and perceptions regarding foreign sourcing markets. Apparently, these are not issues that have greatly interested researchers in the past.

The literature found on SMEs’ market selection for foreign operations is also scant. The “rational” reasons stated by managers of Japanese SMEs why certain foreign markets were selected for operations (Vachani, 1998) seem only to partly match the findings made here. Nor do the findings of Apfelthaler (2000) concerning individual preferences among managers guiding market selection fully explain the instances of foreign operations identified in this empirical material. Rather, here reasons such as perceptions regarding primarily unsolicited opportunities and stakeholder expectations led firms into operations on foreign markets.
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The previous discussions on reactive and proactive patterns appear relevant also in the case of upstream market selection, where various forms of reactive behaviour are exhibited by the studied firms. Primarily perceptions regarding unsolicited opportunities, stakeholder pressure and sourcing needs, rather than proactive search for alternative suppliers and markets for foreign operations, seem to dictate upstream market selection.

7.2.2 Influences on Change in Upstream Mode Strategy

Only 22 changes concerning upstream mode strategy have been identified in the empirical material. Of these, three entail the use of a new high commitment mode on multiple markets, 14 represent the use of new high commitment mode on single market and five the use of a new low commitment mode on a single market. No instances of new low commitment modes on multiple markets have been encountered, which is perhaps not surprising given that 90 per cent of all low commitment modes involved direct importing from manufacturer (see 6.2.2), only ten per cent involving an intermediary. Occasional paucities in data have prevented the identification and classification of some changes, though (e.g. concerning Glossy Grains and Dynamic Designs).

7.2.2.1 New High Commitment Mode on Multiple Markets

Since change in the form of use of a new high commitment mode on multiple markets has been encountered on only three occasions, it has not been found meaningful to identify any general categories. The three occasions that have been observed include: (1) Dynamic Designs’ use of contract manufacturing in low-cost countries, relations that were initiated by the focal firm after a decision to outsource much of production; (2) Intelligent Infrastructure’s setting up of (primarily) operations subsidiaries on markets where the firm received large orders, both perceived to be an expectation from customers and the only way to practically manage implementation; and (3) Literary Logistics’ setting up of sales and operations subsidiaries on what were perceived to be important markets, partly because the reliance on agents for provision of service was found to be unsatisfactory by the focal firm’s customers and caused difficulties in the installation phase.

7.2.2.2 New High Commitment Mode on Single Market

A total of 14 instances of change entailing the focal firms’ employment of a new high commitment mode on a single market have been identified. These break down into contract manufacturing (2), licensing (3 as licensee, 2 as licensor), operations subsidiaries (4) and operations joint ventures (3). Since this type of change covers a wide variety of modes, any attempt at identifying categories will by necessity be fairly general in nature. In one instance (Literary Logistics’
subsidiary in the U.S.) circumstances are unclear. Among the remaining 13 changes, in six instances the change was triggered by the partner firm (or third party) representing a first category. In seven instances the initiative was taken by the focal firm, representing two other categories (see Exhibit 7.17).

Exhibit 7.17: Categories of Influences on New High Commitment Mode on Single Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
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<tbody>
<tr>
<td>Other firm triggered the initiative to become involved in a high commitment mode and management perceived that there were benefits to the proposal (cost benefits and market access) and accepted it or perceived that there was little choice in accepting it (AA, GG [twice], MM, OO &amp; LL).</td>
<td>6</td>
</tr>
<tr>
<td>It was management's initiative to become involved in the specific high commitment mode, although the decision was taken as a reaction to a perceived problem with an existing mode and/or relation and/or that the mode was expected of the firm (CC, GG &amp; LL [twice]).</td>
<td>4</td>
</tr>
<tr>
<td>It was management's initiative to become involved in the specific high commitment mode based on the perception that the new mode would yield specific benefits (FF, HH &amp; OO).</td>
<td>3</td>
</tr>
<tr>
<td>Circumstances unclear (LL).</td>
<td>1</td>
</tr>
</tbody>
</table>

In the first of three categories, where the initiative for change is taken by an outside actor, one must also look for the rationales why management accepted becoming involved in higher commitment modes, since this was not their intent prior to the external initiative. Such rationales include perceived cost benefits and market access, as can be seen in the case of Agreeable Armchairs’ manufacturing subsidiary in Poland, Glossy Grains’ licensing and joint venture in Brazil, Maximum Mobility’s contract manufacturing in China, Optimal Offices allowing its Dutch distributor to also assemble for the local market and Literary Logistics allowing individuals working for the French subsidiary to acquire the majority share of the subsidiary after perceived performance problems.

In regard to the second category, which is also the first of two categories entailing managerial initiative for change, a number of reasons behind management’s initiative can be identified, such as there being perceived problems in collaboration with the existing partner (Literary Logistics’ joint venture in Malaysia being transformed into a wholly-owned subsidiary), the perceived need for a specific product (Clever Containers’ licensing from a firm in France and Glossy Grains’ licensing from a firm in Canada) and management’s perception that it was expected of the firm to establish more committed presence on some markets after large orders had been landed there (Literary Logistics’ joint venture in Malaysia).

The third category overall also entails a focal-firm initiative, and includes management’s perception that proximity to sales market would improve profitability (Optimal Offices subsidiary in the Netherlands) or that the firm could make use of lower cost manufacturing to the same end (Harmless Heating in Poland and Funky Furniture in Thailand).
7.2.2.3 New Low Commitment Mode on Single Market

While five examples of change entailing new low commitment modes on single markets have been noted, they represent two different categories (see Exhibit 7.18).

A first category has been observed in three cases, where the focal firm’s management perceived that the firm had to buy through an intermediary since the focal firm’s supplier had either never sold directly to end customers or changed its preferred mode from direct sales to indirect sales, while at the same time the perceived need for the specific product obviously outweighed any reservations management may have had concerning the mode in question. This has been noted in Agreeable Armchairs, Dynamic Designs and Optimal Offices.

Exhibit 7.18: Categories of Influences on New Low Commitment Mode on Single Market

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The supplier either did not sell directly to end customers at the time when the relation was</td>
<td>(3)</td>
</tr>
<tr>
<td>initiated or stopped selling directly, forcing the focal firm to buy through an intermediary,</td>
<td></td>
</tr>
<tr>
<td>perceptions regarding the need for the product in question outweighing mode preferences (AA, DD &amp; OO).</td>
<td></td>
</tr>
<tr>
<td>An intermediary (located abroad) was used to largely manage relations with foreign suppliers</td>
<td></td>
</tr>
<tr>
<td>since management perceived that direct contacts were impractical (KK &amp; MM).</td>
<td>(2)</td>
</tr>
</tbody>
</table>

A second category of change situation entails the use of an intermediary to manage relations with a number of foreign suppliers, as in the case of Kingly Keyholes purchasing from Chinese manufacturers via an agent in Taiwan and Maximum Mobility employing an agent in Hong Kong to manage relations with Chinese contact manufactures. In both these instances management perceived that direct contacts were not practical.

In the first category the use of an intermediary is thus seen as a negative measure by management, while in the second category this is considered quite necessary.

7.2.2.4 Summary and Comparison with Extant Research

Negative managerial perceptions appear to be an important factor in limiting foreign sourcing and many SME managers seem never even to consider foreign operations. Likewise, among many managers there appear to be preferences for direct importing without intermediaries. When perceptions regarding mode problems are strong enough or when the perceived benefits of unsolicited offers appear great enough, exceptions to preferred modes will be made and changes in strategy are effected, though. At other times, changes are effected after perceived pressures from external stakeholders. Also in regard to upstream mode change it can, thus, be noted that it appears relevant to distinguish between triggers of change and reasons why management was willing to accept change. An identification of reactive-proactive strategies that takes into consideration
both the trigger of change and perceived degree of choice in accepting change appears to offer a fruitful typology.

Extant research on SMEs’ upstream mode selection is scant indeed, although this study confirms findings made by Hyväirinen (1994) and Jones (2001) concerning the dominance of low commitment modes. Donckels and Lambrecht’s (1995) findings concerning market access, financial capacity and potential for growth as important reasons for Belgian SMEs when setting up foreign joint ventures, do not appear to explain why initiatives for such and other higher commitment upstream ventures were taken in the firms studied here. Although, perceptions regarding these issues may explain why management was willing to become involved in such ventures when opportunities arose.

7.2.3 Influences on Change in Upstream Partner Strategy

In regard to upstream partner selection strategy, 21 changes have been observed in twelve firms. Below these are discussed from the point of view of perceptual influences and categories are formed.

7.2.3.1 Relationship Initiation

Only five changes have been noted in regard to relationship initiation patterns, including both focal firm initiatives (four instances) and other firms as triggers (one instance). Due to the small number of changes, identifying different categories of change situations has not been found meaningful.

In those three instances where a pattern of focal-firm initiation of multiple relationships has been noted this was brought on by management’s fear of reliance on a large domestic supplier (Glossy Grains) and the perceived need for certain products that could not be found on the firms’ regular supply markets (Nifty Nursing and Enviable Environments). In the case of Enviable Environments, this change also arose as part of a more conscious strategy in supplier selection and coincided with the hiring of new staff. In Agreeable Armchairs, a single relationship was initiated in a period not otherwise characterised by this type of behaviour. The perceived need for a specific type of product prompted this action.

In the one instance where a pattern of other-firm initiation emerged, this also involved Enviable Environments. The purchasing manager at the time describes a situation where he experienced that he had little time to devote to finding foreign suppliers and all attention was directed towards keeping production running. At the time there was also an outspoken strategy to focus on local suppliers, partly due to the fact that having foreign suppliers was seen as risky. Nonetheless, the firm attracted some unsolicited offers from foreign suppliers and relations with a few were started at this time.
7.2.3.2 Focal-firm Termination of Multiple Relationships

In seven instances in six firms, change that entails focal-firm termination of multiple relationships can be identified. In four of these instances, forming a first category, termination of multiple relations occurred when the focal firms’ management perceived that the firm no longer needed the type of products sourced previously (see Exhibit 7.19), as can be seen in Blissful Backs, Dynamic Designs, Optimal Offices and Popular Playgrounds.

Exhibit 7.19: Categories of Influences on Focal-firm Termination of Multiple Relationships

<table>
<thead>
<tr>
<th>Category of influence on change</th>
<th>Number of times noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The focal firm stopped buying products from suppliers since these products were no longer perceived as needed (BB, DD, OO &amp; PP).</td>
<td>(4)</td>
</tr>
<tr>
<td>The focal firm stopped buying products after management experienced displeasure with multiple suppliers (CC &amp; OO).</td>
<td>(2)</td>
</tr>
<tr>
<td>Perceived pressure from stakeholder in combination with changing sourcing needs (AA)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

In two instances, forming a second category, termination of multiple relationships took place after displeasure with deliveries from several manufacturers. In the case of Optimal Offices, repeated displeasure with suppliers from a certain country prompted this action and in the case of Clever Containers a period of trying out new suppliers ended when one supplier was able to deliver superior products. In the case of Agreeable Armchairs, relations were terminated partly due to stakeholder pressure, partly due to changing sourcing needs.

7.2.3.3 Focal-firm Termination of Single Relationship

Change in the form of focal-firm termination of single relationships has been noted in six firms on a total of nine occasions, forming a single category. All these changes occurred after management experienced some form of displeasure with the partner firm, rather than this being a result of the focal firm no longer needing the type of product previously sourced (see Exhibit 7.20).

Specific reasons for relationship termination vary between firms and often a combination of reasons can be noted. In the case of Enviable Environments displeasure with delivery times were paramount, while in the case of Glossy Grains management was displeased with costs associated with having to buy through an intermediary, thus terminating a relation.

In the first case involving Kingly Keyholes, general displeasure with the treatment by the supplier led the focal firm to terminate that relation. In the second case, termination of a relation with what was perceived to be an unreliable supplier was triggered when individuals working there left their place of employment to start a competing firm and offered to became Kingly Keyholes’ supplier.
Literary Logistics terminated relations with a supplier after a period of perceived quality problems and increasing costs. Perceived quality problems were important reasons also why Optimal Offices terminated two relations, while in the case of another, displeasure with delivery times were also important. Juggled Junk terminated relations with a German firm with which a joint distribution agreement was in place after management became dissatisfied with the sales volumes achieved in Germany. In this case, displeasure with downstream performance thus led to the termination of an upstream relation.

In the case of Optimal Offices, relations with a Dutch distributor who also acted as licensee were terminated when the focal firm started a subsidiary in the Netherlands. In this instance, fears were raised among management regarding how the Dutch market was managed and management was dissatisfied with the fact that the partner firm there in essence had become a licensee to Optimal Offices. Like in downstream relationship termination, in some instances it can thus be noted that the focal firms already had alternative plans for new modes and/or partners in place.

### 7.2.3.4 Summary and Comparison with Extant Research

Changes in upstream partner strategy are scarce, most firms exhibiting a great measure of consistency over time in regard to this aspect of international strategy. Sourcing relationship are few in number, while only a handful foreign operations relations have been identified.

Relations are most commonly initiated by the focal firms as a consequence of perceptions regarding changing sourcing needs, and are less commonly initiated by other firms. This study thus confirms Scully and Fawcett’s (1994) observations regarding the nature of SMEs’ foreign sourcing as commonly being reactive in nature, foreign sourcing activities often arising due to specific problems. It is quite clearly so that focal-firm initiation of relations with foreign suppliers cannot in many instances not be regarded as a proactive measure. The fact that one-third of upstream relations are initiated by other firms, though, would also seem to support Scully and Fawcett’s (1994) observation that grasping opportunities is important in SMEs’ foreign sourcing, indicating another form of reactive strategy formation.

In this study, change in the form of upstream relationship termination is influenced by two factors: perceptions concerning sourcing needs and perceptions concerning the performance of the partner firms. No previous studies explicitly addressing this issue have been encountered.
Chapter 8
Change and the Internationalisation Process

Chapter six focuses on identifying changes across cases, in a sense primarily dealing with the content of change. Chapter seven discusses perceived influences on these changes and focuses largely on the environmental and organisational context in which individual changes take place. Based on the findings of these two chapters, chapter eight addresses the third research question, the aim of which is to discuss how changes in strategy can be understood when placed in the overall context of the internationalisation process of industrial SMEs. In doing so, this chapter is thus no longer primarily concerned with change as an episodical event, but also focuses on change as an element in the formation of a process. The conceptual model of the change process (see Exhibit 2.5) highlights several aspects of change that are relevant to consider with this perspective. In the first two parts of this chapter, three of these aspects are in focus, including reactivity-proactivity, emergence-deliberation and planning. These issues are discussed in regard to downstream (see 8.1) and upstream (see 8.2) internationalisation, the chapter ending with some observations made across the sub processes with reference to the thesis’ model of change (see 8.3).

8.1 Downstream Internationalisation

This subchapter addresses change in the context of the three sub processes of downstream internationalisation. Subchapter 8.1.1 focuses on market selection strategy, 8.1.2 on mode selection strategy, 8.1.3 is centred on partner selection strategy and 8.1.4 provides a brief summary of observations.

8.1.1 Change in the Downstream Market Selection Process

If one looks at the foreign downstream market entry process across the whole international history of the firms in the study, a number of observations regarding changes in strategy and process formation can be made.
8.1.1.1 Reaction and Proaction

In chapter seven it is noted that most changes in downstream market strategy are triggered by external actors, actual change depending on how these triggers are perceived by management (see 7.1.1). This applies both to changes entailing expansion into multiple markets and expansion into single markets (see Exhibit 7.1 and 7.2), although is most apparent in the latter. It applies also to contraction of the focal firms' foreign markets, although to a somewhat lesser extent (see Exhibit 7.3 and 7.4).

Observations made regarding changes in market selection strategy are supported also by numbers concerning relationship initiation. With a process perspective it is well motivated to ask oneself if firms exhibit different behaviours at different times during the internationalisation process and if differences in behaviour can be detected in regard to different types of markets. Exhibit 8.1 presents an overview of new relations that also entail new market entries, taking into consideration relationship initiator, geographic location of the market and time since downstream internationalisation began.

Exhibit 8.1: Focal-firm & Other-firm Initiation of Relations Entailing New Market Entry (or Re-entry) by Region & Time Period Since Downstream Internationalisation Began

<table>
<thead>
<tr>
<th>Region/Time period</th>
<th>Nordic Countries</th>
<th>Other W/S. Europe</th>
<th>Eastern Europe</th>
<th>N. &amp; S. America</th>
<th>Asia</th>
<th>Other Region</th>
<th>Total F &amp; O per time period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1-5</td>
<td>F:4/O:8</td>
<td>F:3/O:12</td>
<td>F:0/O:1</td>
<td>F:0/O:1</td>
<td>F:0/O:0</td>
<td>F:7/O:23 (F:23%)</td>
<td></td>
</tr>
<tr>
<td>Year 6-10</td>
<td>F:0/O:1</td>
<td>F:3/O:11</td>
<td>F:0/O:0</td>
<td>F:0/O:1</td>
<td>F:0/O:0</td>
<td>F:3/O:14 (F:18%)</td>
<td></td>
</tr>
<tr>
<td>Total F &amp; O per region</td>
<td>F:6/O:12 (F:33%)</td>
<td>F:16/O:68 (F:19%)</td>
<td>F:2/O:24 (F:8%)</td>
<td>F:4/O:13 (F:24%)</td>
<td>F:3/O:28 (F:10%)</td>
<td>F:21/O:155 (F:17%)</td>
<td></td>
</tr>
</tbody>
</table>

Note: F=Focal firm initiation. O=Other-firm initiation. Figures indicate absolute number of focal-firm initiated and other-firm initiated relations that also entail new market entries per geographic region and time since internationalisation began. The “total” row also indicates focal-firm initiated relations as percentage of total number of focal-firm and other-firm initiated relations per geographic region, the “total” column doing the same in regard to time period. Only those relations where the initiator could be identified have been included, as have those market entries where no indications have been encountered that the firm had any prior contacts. The table does not include (1) Intelligent Infrastructure’s entries since the firm was given access to markets worldwide through parent firm, (2) Glossy Grains’ and Literary Logistics’ entries since it is difficult to more precisely date earliest entries or (3) Popular Playgrounds’ entries since in the case of so many early entries it is not possible to determine relationship initiator.

While the table must be interpreted with some caution (since, e.g., it considers only relations where the initiator could be identified, thus being biased towards including more relations formed during the later phases of the internationalisation process, consequently also being biased towards including more relations with firms on remote markets), it does nonetheless indicate that across the firms studied here, the number of focal-firm initiated new market entries in relation to all entries does not appear to increase over time. If
anything, the opposite pattern can be noted. The specific changes in strategy identified in chapter six (see 6.1) and discussed further in chapter seven (see 7.1) occur during various phases in the process. Although again somewhat biased towards events occurring later in the process (since first market entries are not considered, only subsequent changes in strategy), no clear patterns of reasons underlying change can be found over time.

It can also be noted in the table (see Exhibit 8.1) that entries into remote markets, regardless during which phase in the process they occur, are triggered by other firms. Overall, Eastern Europe, Asia and other regions (Africa and Oceania) exhibit the lowest proportions of focal-firm initiation of relations. Of course, there are also a few new market entries undertaken without any relations being formed, i.e. when new market entries coincide with the establishment of subsidiaries¹. These are few in number, though, and do not impact the figures in the table greatly.

That a pattern of focal-firm initiated new market entry commonly does not form over time in the studied firms is logical given that the markets that become the firm’s key markets are typically established in the earlier phases of internationalisation. Later phases generally involve entry into more remote markets that are also of less perceived importance. Unless there is some specific pressure perceived by the managers of the focal firms to enter these remote markets, proactive behaviour is apparently rarely exhibited.

Simply relating proactivity and reactivity in new market entry to relationship initiator leads to oversimplification of dynamics that are more complex, though. Chapter seven notes that there are different types of reactive change in regard to the market selection process. Primarily, these break down into three categories (see Exhibit 8.2). A first and most common form of change is the one triggered by an external actor where the focal firm’s managers may or may not accept change depending on the benefits that the proposed change is perceived to yield, i.e. where change is voluntarily undertaken. Clearly, in these instances reactivity coincides with other-firm initiated relationships. While it may be difficult to neatly assign some of the changes to the ideal type situations identified in Exhibit 8.2, the discussion concerning influences on change (see Exhibit 7.1 and 7.2) indicates that overall this is the dominant pattern. This is also logical given that only 28 per cent of downstream relations were initiated by the focal firms (see Exhibit 6.5).

A second form of reactive change is market entry where specific actions to be undertaken by the focal firm are dictated by a powerful stakeholder, i.e. an involuntary change occurring when the focal firm is instructed to enter into a specific relationship on a certain new market. In this case, reactivity in strategy formation also coincides with other-firm initiation of relations. No entries into atypical new markets of this type have been noted, although a few such new

¹ Relations with wholly-owned foreign subsidiaries and foreign joint ventures are not considered to be international relationships, although in the latter case the relation with the joint venture partner is considered an international relationship.
market entries that did not actually entail change in strategy have been encountered in the empirical material.

A third form of reactive change, also occurring with less perceived choice but without an external actor dictating which specific actions are to be undertaken, entails e.g. new market entry as a response to a shrinking established markets. It may also occur when focal-firm management perceives a pressure for growth from the parent firm. Thus, simply because a relation – the consequence of which is new market entry – is initiated by the focal firm does not mean that this is done for proactive reasons. Consequently, this implies that some of the 28 per cent of focal-firm initiated relations do not represent a proactive approach from the side of the focal firm, the same being the case in the 17 per cent of new market entries coinciding with focal-firm initiation of new relationships. A total of four such changes in strategy have been encountered.

Exhibit 8.2: Reactive and Proactive Change in Market Strategy Connected to Initiation of New Market Entry and Perceived Choice in Undertaking Change

<table>
<thead>
<tr>
<th>Perceived degree of choice in undertaking change</th>
<th>PROACTIVE CHANGE: NME initiated by focal firm as a result of a perception of unexploited opportunity or search activity (9 encountered).</th>
<th>REACTIVE CHANGE: NME proposed by would-be partner firm, although the focal firm may or may not enter new market (48 encountered).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatively higher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relatively lower</td>
<td>REACTIVE CHANGE: NME initiated by focal firm due to pressure for growth (e.g. from owner firm) or perceived need enter new market due to shrinking home market (4 encountered).</td>
<td>REACTIVE CHANGE: NME initiated by third party (e.g. parent firm or customer) where focal firm management perceives little choice in undertaking change (none encountered).</td>
</tr>
</tbody>
</table>

A proactive change, on the other hand, arises from managerial urge to expand the firm’s business, management consequently seeking out new opportunities without there being present a specific pressure to do so. Clearly, such changes in strategy are scarce relative to reactive changes (see also Exhibit 7.1 & 7.2).

Of course, there are occasional exceptions among the studied firms where more proactive changes can be noted. Consequently, a pertinent question is which firms break most clearly with the typically observed pattern and what explanations can be found in the individual cases? Glossy Grains is perhaps the firm that stands out the most, exhibiting a greater measure of proactivity in two waves of international expansion, i.e. in first new market entries in the late 1920s and in market re-entries after World War II. Specific reasons can be found for these bursts of activity, though (see 5.8 and 7.1), in between these periods the firm’s behaviour following that observed in most other firms in the study.
Much of the logic applying to new market entry and changes entailing market expansion arguably applies also to market withdrawal, although data suggest that this type of change occurs much less frequently. Since so few changes in strategy entailing market withdrawal have been encountered, it has not been meaningful to attempt to identify reactive-proactive patterns over time. Relationship termination also coincides with market withdrawal to a much lesser extent than relationship initiation coincides with new market entry, preventing comparisons between the two types of changes.

In summary, reactive changes entailing expansion into new markets coinciding with other-firm initiated relations dominate throughout the process, if anything being more prominent in later phases and in regard to remote markets.

8.1.1.2 Emergence and Deliberation

What does emergence and deliberation mean in the context of downstream market selection? A deliberately formed process would imply one where management had preconceived notions about which markets the firm should enter and how this should progress over time, then implementing these ideas. That the direction of the downstream market selection processes of the firms in this study should be characterised by that type of behaviour can quite easily be rejected. Most entries are reactive in nature, based on unsolicited offers and relations which management could hardly have predicted. When asked about issues of market expansion, most respondents also note that the process formed in unforeseen ways. E.g., the general manager of Kingly Keyholes indicates that at the beginning of internationalisation his ambitions regarding market expansion were quite modest. He says,

*If we put it this way, after all I never planned to build a company that exported. My initial plan was to look after the Swedish or Scandinavian market as I felt at home here. [...] The export business was not planned. These people came to me and said “you have this and that, can’t you ship us some?”*

Enviable Environments provides another good example of how the market selection process emerges over time. The firm’s former general manager makes the following observation,

*You can’t really say that we have had a master plan, it’s more like we’ve been given suggestions or ideas or inquiries that made us realise that there was potential. [...] No, we didn’t have any strategy in those days.*

Another illustrative quote is provided by the marketing manager of Optimal Offices. He says,

* [...] in those days I was in charge of the Swedish market together with the father of [sons of founder], [name of founder], [...] and in those days we did not really
It must also be kept in mind that when internationalisation began, almost all the 16 firms were quite small. Respondents frequently comment on this, sometimes stressing that they themselves were often the only sales people in the firm. E.g., the former general manager of Agreeable Armchairs says,

*It was pretty much a one man’s job, since I managed all sales and product development and all that.*

Similarly, the general manager of Blissful Backs comments on how he himself managed foreign sales for more than a decade after the firm began internationalising. He says,

*Then I managed it, I took care of sales both at home and outside [i.e. abroad] at the end of the 80s. So, it’s only in the 90s that we’ve gotten a proper marketing organisation.*

This is again echoed by the former general manager of Enviable Environments, who says,

* [...] then my father died in ’68 and I’ve been running it since, and I was in charge of sales until about 1995, I ran sales on my own, since then we’ve had salespeople.*

The limited time many of the respondents had to devote to international expansion and the overall production-orientation that characterises most firms are apparently important reasons why little thought was put into which markets the firms should enter and serve.

However, simply because entries are largely reactive in nature does not mean that the process is automatically an emergent one. If only certain unsolicited offers are accepted depending on where the would-be partner firms are located, this also implies that management takes a deliberate approach to which markets the firm enters. The general manager of Popular Playgrounds provides a case in point here. The firm has direct sales on more than 40 markets around the world, problems involved in making sales on many of these outweighing their very marginal contributions to turnover. He says,

*Almost every week we get [inquiries] from India, Thailand and so on, but we say that these aren’t markets for us, it just doesn’t work.*

The avoidance of change in market selection strategy can also be seen as a deliberate approach to strategy formation. Admittedly, this study has not focused on relations that were never initiated and, consequently, not on changes that never occurred, but when searching the empirical material for indications that managers over time consistently avoid relations that would lead their firms
into new types of markets, none have been encountered. Most managers are thus apparently willing to sell to firms located more or less anywhere, at least during some periods. This, of course, does not mean that certain markets are not given priority over others in regard to which marketing activities are carried out there, most respondents mentioning that they consider a few markets as prioritised. For example, the marketing manager of Enviable Environments says,

*We don’t need more [markets]. I come from a much larger organisation than this and we didn’t have half as many countries that we were working on, and that was more than enough. Actually, my ambition has been not to open a single new market, but rather reshuffle the ones we have. To try to find another basis in some countries.*

Nonetheless, when opportunities to make sales present themselves they are grasped even if they entail new market entries, of which a few have occurred in Enviable Environments since the decision to focus international marketing activities to fewer market. Also, while the marketing manager thinks that the firm has too many markets, he does not consider withdrawing from any of them. In regard to this he says,

*[…] I mean, if they call here and want to buy something, OK. But we don’t go there, we don’t really support them, so if there’s a sale there’s a sale. […]*

An example of a firm that actually has withdrawn from a number of foreign markets as a lead in focusing on key markets is Glossy Grains. Although, as indicated by chapter six (see 6.1.1) and seven (see 7.1.1), such changes occur rarely in the studied firms.

In summary, the process of downstream market selection appears to be largely emergent in nature, where relatively few changes in strategy can be characterised as being primarily deliberate in nature.

### 8.1.1.3 Planning

When rejecting the notion that the overall downstream market selection processes in the studied firms are mainly deliberately formed, it is more or less implied that they were also not planned since deliberation requires some form or planning. As indicated by the discussions above, planning does not appear to play a very great role when it comes to changes in market strategy in the studied firms. In fact, most respondents note that for the better part of the internationalisation processes of their firms, very little attention was placed on planning.

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1 Although of course managers can be involved in extensive planning regarding market selection, and then not follow the plans.

2 Planning which may well take the form of unstructured, informal plans, i.e. not necessarily requiring formalised planning.
That changes are not planned to take place does not necessarily mean that no planning is undertaken in regard to foreign markets, though. Some respondents indicate that with increasing international activities and increasing ambitions for international sales, follows a more planned approach to the firms’ foreign markets. A common aspect of this is that those markets which are perceived to be the firm’s key markets (e.g. those that are largest) receive more attention while less important markets are ignored as far as marketing activities are concerned. The general manager of Popular Playgrounds provides a good example of this. When asked about how potential business partners are evaluated, he says,

[…] we sit down and talk to them. Then, of course, it depends a bit on which country we’re talking about, right. If we talk about this French firm that we started working with in ’93 we made a proper study what kind of firm it was and so on. Otherwise, these small ones … let’s say that someone from Bangladesh comes here, then… […] you might say that there are 20 countries that are interesting, right, 15, 20. There we follow how the market develops, right, but not when new countries are added. […]

The marketing manager of Enviable Environments makes a similar observation. He notes,

What we are trying to do now is to consolidate. Perhaps before it was more about quickly increasing turnover and running on many markets to grab easy sales, because on any given market there are always some who are willing to change suppliers tomorrow, and those you get quite easily. Then, if you want to penetrate the market you need much, much more resources and that’s what we’re doing right now, identifying which are our main markets […] and putting up rules for how we want to work on these markets, to see how we can get there. Mapping the markets, finding out how big they are for one thing. […]

Apparently, in these firms management over time perceived that with increasing turnover and an increasing number of foreign markets, a more structured approach to existing markets as well as to new market entry was needed.

Most of the firms in the study have, at one time or another, been acquired, only Enviable Environments, Funky Furniture, Kingly Keyholes and Optimal Offices still being controlled by the founders or their families. The acquisition typically meant that the new parent firm (or private owner) exerted some form of pressure on its subsidiary and occasionally new management was introduced as a result of the acquisition. These two factors apparently frequently also generate an important change; a greater focus on international activities is apparent in many of these firms, as expressed by several respondents. In Literary Logistics, for example, the acquisition and the financial problems leading to this

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4 Although Glossy Grains has been owned by the same family since 1931.
5 Or recently acquired firm in the case of managerial take over.
generated a different approach to internationalisation. Subsidiaries were
established on key markets since an important lead in achieving profitability
was perceived to be availability of qualified after sales service. Also in these
instances a greater need for planning on the side of the firm emerged. There are
yet other examples. In Nifty Nursing, after the firm was acquired by its
manager, greater focus on key markets can be observed. In Agreeable
Armchairs, perceived pressure from the parent firm to grow led to more active
evaluation of markets and the decision to enter a potentially large but so far
ignored market, namely Germany.

Increasing differentiation between sales markets can thus arguably be seen as
part of a process of increasing international planning, although not necessarily
one characterised by formal planning activities. In some instances this appears
to be naturally evolving, in other instances differentiation between markets
occurs as a result of more sudden outside pressure. It is important to note that a
change towards an increasingly planned orientation does not imply more
foreign market entries, though. It primarily signifies a more critical approach
among management concerning which and how many markets the firm should
serve and what efforts should be spent on them.

8.1.2 Change in the Downstream Mode Selection Process

Also in regard to downstream mode selection is it relevant to address reaction
and proaction, emergence and deliberation, and planning in regard to change
and process formation.

8.1.2.1 Reaction and Proaction

When looking at the various perceived influences on the 66 instances of
downstream mode change identified in chapter seven (see Exhibit 7.5-7.9), it
certainly appears as if most changes were primarily reactive in nature, regardless
whether they involve new low commitment modes or new high commitment
modes and regardless of the number of markets the changes concern. In few
instances, mode changes can be described as mainly proactive, although of
course there are examples, including six instances of new mode usage in
connection with new market entry and two instances of mode change being
part of initiative for growth without there being any specific pressure for mode
change from e.g. external stakeholders. However, even in these cases the
changes contain reactive components; unless change was undertaken growth
was not perceived as possible.

When the events surrounding the decision to become involved in high
commitment modes are studied, these decisions are frequently responses to
events outside the firms’ control, including e.g. perceived lack of control over
markets served by financially weak and poorly performing distributors and the
desire to work together with certain individuals lacking the financial resources
to start their own firms. Many example of this can be found if the events
surrounding the starting up of Blissful Backs’, Enviable Environments’, Intelligent Infrastructures’, Juggled Junk’s, Literary Logistics’, Nifty Nursing’s and Popular Playgrounds’ subsidiaries are looked at more closely. E.g. the former general manager of Juggled Junk says,

The strategy has always been to find distributors. We never really wanted to start any subsidiaries, it just happened in Germany when the agent there [respondent means distributor] wanted out we bought it […]. Eventually, let me see when it was, in ’96, yes, he wanted to sell out, he wanted to do something different. And then we made a deal where we bought it [the Germany parent firm] with an option to buy Denmark – he owned the Danish firm too, and he’d build a firm in Poland. […] when we made the deal for Germany, we got the exclusive option to buy Denmark and Poland, and that’s what we did, and then we had these subsidiaries. […] but the strategy has been to find good distributors already from the beginning […].

Also the general manager of Popular Playgrounds stresses that the firm’s outspoken strategy in regard to mode selection does not include the use of foreign subsidiaries. He says,

Our export net is based on three subsidiaries, Germany, England, and we have 45 per cent in Spain, but that’s not an aim, it’s pretty much accidental that we’ve got daughters there. It’s happened when a distributor’s been weak, and we’ve been forced to take over, and we say “Why should we be able to do this better than a German or Frenchman or a Spaniard or and Englishman?” So, our aim is to have distributors, not agents, but distributors who have their own organisation.

Often, high commitment mode usage is thus a reaction to a specific situation where the previous use of another mode was perceived as problematic or no longer possible. In a couple of instances, change in the form of new high commitment modes was as a reaction to a perceived favourable situation, such as the focal firm receiving a large order.

In all firms, one or a few modes dominate at different periods in time. When attempting to identify how many focal-firm and other-firm initiated relations involve the use of this dominant mode versus the use of an atypical low commitment mode, a relatively clear picture of atypical low commitment mode usage as reactive forms. In fact, only three instances of focal-firm initiation of relations involving atypical low commitments modes have been encountered, corresponding to only nine per cent of all relations involving atypical low commitment modes (see Exhibit 8.3) and less than three per cent of all focal firm initiated relations. Consequently, managers in the focal firms do not typically pursue partner firms unless they fit the focal firms’ dominant mode.

Going from using higher commitment to using lower commitment modes occurs in some firms, indicating that also in the case of mode selection, de-internationalisation or decreasing international commitment is a relevant change to consider. This is a logical observation given that the employment of high commitment modes is often a reactive response to events outside the firm’s
control. Perceived poor performance and the removal of the factors that once motivated the use of high commitment modes may thus lead managers to decide that their firms should revert to using low commitment modes.

Exhibit 8.3: Focal-firm and Other-firm Initiation of Relations Entailing Use of Dominant Mode and Atypical Low Commitment Modes

<table>
<thead>
<tr>
<th>Firm</th>
<th>Period</th>
<th>Dominant mode(s)</th>
<th>Initiator</th>
<th>Atypical LC modes (s)</th>
<th>Initiator</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>All</td>
<td>Ag, Dis</td>
<td>F:11/O:8</td>
<td>DEx</td>
<td>F:0/O:5</td>
<td>F:11/O:13</td>
</tr>
<tr>
<td>BB</td>
<td>All</td>
<td>Dis</td>
<td>F:8/O:8</td>
<td>DEx</td>
<td>F:1/O:3</td>
<td>F:7/O:11</td>
</tr>
<tr>
<td>CC</td>
<td>All</td>
<td>DEx</td>
<td>F:2/O:18</td>
<td>Ag</td>
<td>F:0/O:1</td>
<td>F:2/O:19</td>
</tr>
<tr>
<td>FF</td>
<td>All</td>
<td>Ag</td>
<td>F:0/O:6</td>
<td>Dis</td>
<td>F:0/O:5</td>
<td>F:0/O:11</td>
</tr>
<tr>
<td>GG</td>
<td>1920s-1984</td>
<td>Ag</td>
<td>F:21/O:1</td>
<td>Dis, DEx</td>
<td>F:0/O:4</td>
<td>F:21/O:5</td>
</tr>
<tr>
<td></td>
<td>1985-2002</td>
<td>Dis</td>
<td>F:0/O:3</td>
<td>DEx, Ag</td>
<td>F:0/O:1</td>
<td>F:0/O:4</td>
</tr>
<tr>
<td>II</td>
<td>1980s-1992</td>
<td>Dis, DEx</td>
<td>F:0/O:4</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:0/O:4</td>
</tr>
<tr>
<td></td>
<td>1993-2002</td>
<td>Ag, DEx, SS</td>
<td>F:2/O:29</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:2/O:29</td>
</tr>
<tr>
<td>JJ</td>
<td>All</td>
<td>Dis</td>
<td>F:13/O:35</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:13/O:35</td>
</tr>
<tr>
<td>KK</td>
<td>All</td>
<td>Dis, DEx</td>
<td>F:4/O:25</td>
<td>Ag</td>
<td>F:0/O:1</td>
<td>F:4/O:26</td>
</tr>
<tr>
<td>MM</td>
<td>All</td>
<td>Dis, DEx</td>
<td>F:7/O:41</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:7/O:41</td>
</tr>
<tr>
<td>NN</td>
<td>All</td>
<td>Dis</td>
<td>F:2/O:28</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:2/O:28</td>
</tr>
<tr>
<td></td>
<td>1998-2002</td>
<td>Dis, SS</td>
<td>F:0/O:1</td>
<td>None</td>
<td>F:0/O:0</td>
<td>F:0/O:1</td>
</tr>
<tr>
<td>PP</td>
<td>1960s-1983</td>
<td>Dis</td>
<td>F:0/O:1</td>
<td>Ag</td>
<td>F:0/O:1</td>
<td>F:0/O:2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>F:105/O:300</td>
<td>(F:26%)</td>
<td>F:3/O:29</td>
<td>F:108/O:329</td>
</tr>
</tbody>
</table>

Note: F=Focal firm initiation. O=Other-firm initiation. Ag=Agent. Dis=Distributor. DEx=Direct exporting (i.e. where there is no unprocessed resale). SJV=Sales joint venture. SS=Sales subsidiary. LC=Low commitment. Figures indicate absolute number of focal-firm initiated and other-firm initiated relations within which are used dominant modes and non-dominant low commitment modes. The “total” row also indicates focal-firm initiated relations as percentage of total number of focal-firm and other-firm initiated relations per dominant/non-dominant mode. Only those relations where the initiator could be identified have been included. The table does not include relations initiated by the focal firm’s agents.

What may be described as largely proactive use of atypical low commitment mode has only been encountered twice (see Exhibit 7.7). New low commitment mode usage as a reactive consequence of the abandonment of other modes (in turn a consequence of perceived problems with these modes) has been encountered on 20 occasions, making this the by far most common circumstance surrounding new low commitment usage on single market.
Another form of reactive usage is the case when management perceives benefits of unsolicited contacts strong enough to warrant the use of an atypical mode, a change that has been encountered six times (see Exhibit 7.7 and 7.8).

Like in the case of downstream market selection, it can thus be noted that there are apparently different forms of reactive change. Degree of choice in undertaking change and change initiator are again relevant dimensions to consider. For example, some literature suggests resource limitations as a reason why firms do not invest in higher commitment entry modes (see 3.1.2.2). When looking at the actual sales subsidiaries and joint ventures established by the firms in the study, resource issues appear not to have been a very important barrier that had to be overcome, though. This may to some extent be explained by the fact that perceived pressures for and triggers of change into high commitment modes are often external to the firm. I.e., managers may not typically proactively initiate the use of high commitment modes – possibly because such modes were never considered due to resource limitations – but are willing to enter into such modes when necessary to maintain a market or achieve greater control over a market.

Exhibit 8.4: Reactive and Proactive Change in Mode Strategy Connected to Initiation of Change and Perceived Degree of Freedom in Undertaking Change

<table>
<thead>
<tr>
<th>Perceived degree of choice in undertaking change</th>
<th>Change initiated by focal firm</th>
<th>Change initiated by other firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatively higher</td>
<td>LARGELY PROACTIVE CHANGE: Change initiated by focal firm due to managerial urge for growth, although change may be seen as required for growth (8 encountered).</td>
<td>REACTIVE CHANGE: New relation proposed by would-be partner firm. Focal firm accepts proposal even though it entails mode change without perceived problems with current mode/relation (6 encountered).</td>
</tr>
<tr>
<td>Relatively lower</td>
<td>REACTIVE CHANGE: Problems involved in current mode are strong enough that focal firm management sets out to change modes (27 encountered).</td>
<td>REACTIVE CHANGE: New relation proposed by partner firm where relation would entail change. Due to perceived problems with existing mode/relation focal firm management accepts proposal (22 encountered).</td>
</tr>
</tbody>
</table>

One must thus consider initiator of change and underlying reasons why change was undertaken (see Exhibit 8.4), allowing for the identification of three types of reactive change. Two of these entail change triggered by other firms with varying degrees of choice for the focal firm to undertaken change and one type entails change that is initiated by the focal firm where there is little perceived choice in undertaking change.

When applying this categorisation of mode changes to the empirical material, no purely proactive changes have been noted among the studied firms. Even changes in connection with focal-firm initiated new market entry can be seen as partly reactive since a mode change was perceived as a requirement for

---

6 Note that encountered changes include new high commitment modes, new low commitment modes and multiple modes.
new market entry. Clearly, the three categories of reactive change dominate with only eight changes being characterised as largely proactive, i.e. entailing a relatively higher degree of choice while being focal-firm triggered. Overall, those changes where management arguably perceived a lower degree of choice in accepting change (i.e. where change was a reaction to a specific negative situation involving other mode or relation) dominate, although there are no major differences regarding internal and external triggers of change. It should be noted, however, that not all changes are easily categorised.

8.1.2.2 Emergence and Deliberation

Like in the case of downstream market selection, both the process as such and the changes making up the process of downstream mode selection are relevant to discuss with reference to emergence and deliberation. While in the case of market selection respondents almost unanimously voice the opinion that they never could have foreseen the development over time, respondents typically also mention that they prefer one or two specific modes. When plotting modes used per firm over time (see Exhibit 8.5) it can be noted that especially in the earlier phases of the internationalisation process, mode usage is indeed limited to one or two modes. It can also be noted that low commitment modes typically precede high commitment modes as predicted by some internationalisation process theory, something that also observed in various SME internationalisation studies (see 3.1.2).

The overwhelming dominance of low commitment modes in the material combined with the fact that in many firms the mode selected initially continues to dominate throughout the internationalisation process gives the mode selection process the appearance of being deliberately formed, especially in regard to the earlier phases in the process. When looking more closely at why individual modes were selected, though, a host of idiosyncratic reasons may be identified and changes in the form of exceptions from prevailing patterns of mode selection occur in almost all firms (see Exhibit 7.5-7.9). In fact, while relatively strong preferences for certain modes are expressed by almost all respondents, actually a pragmatic approach to mode selection appears to dominate among the managers in several of the firms in the study. E.g., the general manager of Nifty Nursing comments on the role of high commitment modes and says,

[…] that’s our strategy, really, that we want to work with local distributors. Then, the fact that we have two subsidiaries, that’s like mistakes, you could say. It’s not our strategy to have subsidiaries; we want to work with local dealers […].

The export manager of Optimal Offices says in regard to the use of foreign distributors,

[…] It’s a matter of principle, and it applies to the whole firm […], and that is working only with distributors. Then for different reasons we may have to sell to end
## Exhibit 8.5: Modes Used during Different Periods in Downstream Internationalisation

<table>
<thead>
<tr>
<th>Firm</th>
<th>Year 1-5</th>
<th>Year 6-10</th>
<th>Year 11-15</th>
<th>Year 16-20</th>
<th>Year 21-now</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor, Direct Exporting</td>
<td>Agent, Distributor, Direct Exporting</td>
<td>Agent, Distributor, Direct Exporting</td>
<td>Agent, Distributor, Direct Exporting, Sales Subsidiary</td>
</tr>
<tr>
<td>BB</td>
<td>Distributor, Direct Exporting</td>
<td>Distributor, Direct Exporting</td>
<td>Distributor, Direct Exporting, Sales Subsidiary</td>
<td>Distributor, Direct Exporting, Sales Subsidiary</td>
<td>Distributor, Direct Exporting, Sales Subsidiary</td>
</tr>
<tr>
<td>CC</td>
<td>Agent, Direct Exporting</td>
<td>Agent, Direct Exporting</td>
<td>Agent, Direct Exporting</td>
<td>Direct Exporting</td>
<td>n/a</td>
</tr>
<tr>
<td>DD</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor</td>
<td>n/a</td>
</tr>
<tr>
<td>EE</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor, Agent, Direct Exporting, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>FF</td>
<td>Distributor, Agent</td>
<td>Agent</td>
<td>Agent, Distributor, Direct Exporting, Sales Subsidiary</td>
<td>Agent, Distributor, Direct Exporting, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>GG</td>
<td>Direct Exporting</td>
<td>Direct Exporting, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary</td>
<td>n/a</td>
</tr>
<tr>
<td>HH</td>
<td>Distributor, Direct Exporting</td>
<td>Distributor, Direct Exporting, Agent, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>II</td>
<td>Distributor</td>
<td>Distributor, Direct Exporting, Agent, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>JJ</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor, Sales Subsidiary</td>
<td>n/a</td>
</tr>
<tr>
<td>KK</td>
<td>Distributor, Direct Exporting</td>
<td>Distributor, Direct Exporting, Agent, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>MM</td>
<td>Distributor</td>
<td>Distributor, Direct Exporting, Agent, Sales Subsidiary</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>Direct Exporting, Agent, Sales Subsidiary, Sales Joint Venture</td>
<td>n/a</td>
</tr>
<tr>
<td>NN</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor</td>
<td>Distributor, Sales Joint Venture, Sales Subsidiary</td>
<td>n/a</td>
</tr>
<tr>
<td>OO</td>
<td>Distributor</td>
<td>Distributor, Direct Exporting</td>
<td>Distributor, Direct Exporting, Sales Subsidiary</td>
<td>Distributor, Direct Exporting, Sales Subsidiary</td>
<td>n/a</td>
</tr>
<tr>
<td>PP</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor</td>
<td>Agent, Distributor, Sales Subsidiary, Sales Joint Venture</td>
<td>Agent, Distributor, Sales Subsidiary, Sales Joint Venture</td>
</tr>
</tbody>
</table>

Note: The periods refer to years since downstream internationalisation began. In some instances it has been difficult to ascertain exactly when a new mode was first employed, in which case it has been assigned to the latter of the two possible periods. By direct exporting is meant direct exporting to manufacturer or similar (i.e. not where there is unprocessed resale). N/A indicates that the firm has not yet reached this period. Logistics has not been included above due to difficulties in charting mode usage during the firm’s earliest phases of internationalisation. 1 While Clever Containers had some very minor sales to Norway early on in its internationalisation, since the firm shifted product categories in the mid-1980s, the internationalisation process is seen as having re-started which in the late 1980s when the new products were sold abroad. 2 The exact point in time when downstream internationalisation began could not be ascertained, although occurred around 1950, which has been used as starting point. 3 The exact point in time when downstream internationalisation began could not be ascertained, although occurred around 1965, which has been used as starting point.
customers because you might not have a distributor in that area although you may have a customer who has an office here or there or someone might have heard of you. I mean, you’re not dumber than you grab any business you can, but that’s always where there is no [distributor] [...].

The selection of modes and changes in mode selection behaviour over time must clearly also be connected to the dominant business logic of the industry within which the firm operates. Many respondents note that certain modes are expected of them. E.g., foreign intermediaries are employed because foreign end customers expect to be able to contact a local representative rather than their foreign supplier directly. The export manager of Optimal Offices says in regard to the use of foreign distributors,

 [...] that happens more and more today – there is a large deal and we don’t want to go via a representative because they are too small. “We don’t feel quite comfortable, we want to do business directly with you” and then we always do it together with the local distributor, we never go behind his back, of course not. Because they [the customer] might need support and service from the distributor. I mean, the customer might want two chairs six months later and then it does not really work dealing with us, then it’s more accepted turning directly to the distributor.

In some instances, the same type of reasoning lies behind the establishment of sales subsidiaries as can be seen in e.g. Intelligent Infrastructure, Kingly Keyholes and Optimal Offices. When firms grow (in number of employees, turnover, resources, contacts, etc.), more and more modes are arguably also available to them. In some instances, though, respondents argue that due to their size they are expected to deal directly with some, usually large, customers, in effect employing multiple modes. E.g., the marketing manager of Maximum Mobility says,

 Well, you could say that in the Scandinavian countries, there we have both agents [respondent means distributors] and we work ourselves. So, there we have firms helping us get out into the market for small and medium-sized firms, while we take care of the larger firms ourselves.

I.e., increasing firm size might in effect also limit the number of modes available. Outspoken mode preferences among management do in most firms apparently not change greatly over time, although of course there are exceptions. As seen above, though, mode change does not necessarily imply that preferences for certain modes have changed.

In summary, relatively lengthy periods of stability in strategy may lend the mode selection process the appearance of being deliberately formed. Changes are more commonly emergent in nature, though, and the appearance of deliberation may be a consequence of managerial preference, industry logic and routinised behaviour, managers possibly not even reflecting on alternative modes.
8.1.2.3 Planning

Several times above has it been noted that managers express preferences for certain modes and that these preferences remain stable. These preferences may even be regarded as a type of informal plan or what Bracker and Pearson (1986) refer to as an intuitive plan, although typically being stable over longer periods of time than what these authors imply.

Generally, it would thus appear that changes in mode selection were not planned to take place. As seen above, respondents comment on how they perceive that they were more or less forced or expected to undertake certain changes, other changes entailing greater degrees of freedom but still being unpredictable in nature. That changes were not planned to take place of course does not mean that no planning took place in connection with such changes, although here a distinction must arguably be made between lower and higher commitment modes. While the circumstances surrounding the implementation of higher commitment modes have admittedly not been studied in detail, it is apparent in the empirical material that respondents perceive these to be events of much greater importance than the occasional use of an atypical low commitment mode. Some respondents describe how great care went into establishing foreign sales subsidiaries, this being apparent in e.g. Optimal Offices in the Netherlands and Harmless Heating in Poland. On the other hand, several respondents comment on the failure of foreign high commitment ventures, citing reasons such as underestimation of the difficulties involved and unreliable partners, something that can be noted in Blissful Backs, Funky Furniture and Intelligent Infrastructure, Maximum Mobility, Optimal Offices and Popular Playgrounds in the U.S., Intelligent Infrastructure in Hong Kong, Intelligent Infrastructure and Literary Logistics in Malaysia, Juggled Junk in Germany and Popular Playgrounds both in Denmark and the U.K. One may of course question if more careful planning in regard to mode selection would have convinced managers in these firms not to undertake such ventures.

8.1.3 Change in the Downstream Partner Selection Process

How can the nature of the downstream partner selection process and its dynamics over time be characterised? Clearly, the process of relationship establishment as such is in many firms characterised by periods of lesser and greater focal-firm efforts, indicating that changes in strategy occur.

8.1.3.1 Reaction and Proaction

When looking at relationship initiation and termination, some indications regarding reactivity and proactivity in strategy formation can be found. When looking at new market entries, it is concluded that overall expansion into new markets coincides with other-firm initiation of relations, although greater focal-firm activity can be noted in regard to nearby markets (see exhibit 8.1). Similar
observations can be made if all relationship initiations are compared across regions (see Exhibit 8.6), although the pattern is less clear.

The greatest share of focal-firm initiation or relationships can be found where relations in the Nordic countries are concerned, followed by relations in North and South America. Relations in Western and Southern Europe are initiated by the focal firms to the same extent that relations on average are focal firm-initiated. Eastern Europe and Asia show a very clear dominance of other-firm initiation.

Exhibit 8.6: Focal-firm and Other-firm Initiation of Relations by Geographic Location

<table>
<thead>
<tr>
<th>Firm</th>
<th>Nordic Countries</th>
<th>Other W/S. Europe</th>
<th>Eastern Europe</th>
<th>N. &amp; S. America</th>
<th>Asia</th>
<th>Other Region</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FF</td>
<td>F:0/O:0</td>
<td>F:0/O:9</td>
<td>F:0/O:0</td>
<td>F:0/O:2</td>
<td>F:0/O:0</td>
<td>F:9/O:12</td>
<td></td>
</tr>
</tbody>
</table>

Note: F=Focal firm initiation. O=Other-firm initiation. Figures indicate absolute number of focal-firm initiated and other-firm initiated relations per geographic region. The “total” row also indicates focal-firm initiated relations as percentage of total number of focal-firm and other-firm initiated relations per geographic region.

Only those relations where the initiator could be identified have been included. Note, though, that the older the relation the more difficult it is to identify the initiator, while at the same the time the older the relation the more likely it is to involve a firm on a market close to the home market. 1 Relation with firm spanning both Finland and Baltic States. 2 Relation with firm spanning most of former USSR.

However, with a process perspective, it is important to track patterns also over time. Therefore, one may ask oneself if there are differences in initiation patterns depending on stage in the internationalisation process. The issue is of course complicated by the fact that not all firms have been involved in international activities equally long, but dividing the internationalisation process of firms into five-year phases nonetheless yields an interesting
observation (see Exhibit 8.7). Among the 14 firms on which the table is based, there are no major differences between time periods, the share of focal-firm initiation of relations apparently not increasing over time. This also indicates that newly internationalising firms are not necessarily more or less active in relationship initiation than firms that have enjoyed international sales for many years. The findings are somewhat skewed by the fact that the number of relations where the initiator is uncertain increases the earlier the phase when the relation was initiated, though 7.

Exhibit 8.7: Focal-firm and Other-firm Initiation of Relations by Time Period Since Downstream Internationalisation Began

<table>
<thead>
<tr>
<th>Firm</th>
<th>Year 1-5</th>
<th>Year 6-10</th>
<th>Year 11-15</th>
<th>Year 16-20</th>
<th>Year 21-now</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>DD</td>
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<td>F:0/O:3</td>
<td>F:5/O:4</td>
<td>F:0/O:0</td>
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<tr>
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<td>F:0/O:0</td>
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<td>F:0/O:2</td>
<td>F:12/O:26</td>
<td>F:12/O:30</td>
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<tr>
<td>Total</td>
<td>F:13/O:31 (F:30%)</td>
<td>F:15/O:37 (F:29%)</td>
<td>F:19/O:62 (F:23%)</td>
<td>F:12/O:46 (F:21%)</td>
<td>F:41/O:136 (F:23%)</td>
<td>F:100/O:312 (F:24%)</td>
</tr>
</tbody>
</table>

Note: F=Focal firm initiation. O=Other-firm initiation. Figures indicate absolute numbers of focal-firm initiated and other-firm initiated relations per time period. The “total” row also indicates focal-firm initiated relations as percentage of total number of focal-firm and other-firm initiated relations per time period. Only those relations where the initiator could be identified have been included. In some instances it has been difficult to ascertain exactly when a relation was started, in which case it has been assigned to the latter of the two possible periods. Glossy Grains and Literary Logistics are not included in the overview since during some periods it has been difficult to ascertain relationship initiation patterns. N/A indicates that the firm has not yet reached that period. The internationalisation process is seen as having re-started in the late 1980s when an entirely new product category was introduced and sold abroad. The exact point in time when internationalisation began could not be ascertained, although occurred around 1950, which has been used as starting point. The exact point in time when internationalisation began could not be ascertained, although occurred around 1965, which has been used as starting point.

A reservation must be made here; the world today and the world 30 years ago offer small firms very different opportunities for coming into contact with foreign business partners. Therefore, simply adding relations formed in the early 1970s to those forming in the early 2000s may lead to incorrect conclusions. Since Glossy Grains commenced downstream internationalisation already in the late 1920s, the relationships of that firm are not included in the table partly for this reason.
Different firms exhibit different patterns in regard to this issue, though. E.g., in Glossy Grains early on there was felt a need among management for expansion into new markets and partners were sought out actively. In later stages of internationalisation, when the firm became better known, this was no longer necessary. In regard to this, the marketing manager of Glossy Grains says,

“We can see a trend there. Many seek us out today, want to be our agents [respondent means distributors]. We rarely look for agents, but they did then [in the early phase of internationalisation], they looked for agents.

The opposite observation is made by the former marketing manager of Harmless Heating, who says

[…] at the beginning of our internationalisation we didn’t go out and sell ourselves, rather customers came here in roundabout ways, they’d heard of us. […] you could say that until ’89 or ’90 when we made a market survey to see how to proceed in Europe, we basically waited for customers to contact us. After that you can say that we’ve been more active in trying to establish contacts on export markets and to sell. But until then we sort of sat waiting like a nestling in a birds nest.

These observations made by managers also correspond to observations that can be made when the individual relationships are plotted on a time line. In other firms, a single pattern pervades throughout the internationalisation process (or, rather, during the periods studied) and no higher magnitude changes can be noted. E.g., the general manager of Clever Containers says,

[They’ve] seen some package that we’ve had there and they walk around looking, the purchasers, and then they call and say “Hey, I’ve seen it in a store, it says Clever Containers on it” and then there’s a phone number, or it was in those days, so they’ll call you or find the phone number some other way. It’s often like that, that purchasers go around looking at packaging, “who produces that one?” and then they call you.

Concerning Blissful Backs’ approach to relationship initiation which also remained largely passive throughout the studied period, the marketing manager there says,

[…] 80 to 90 per cent of the business is initiated by the buyer.

The above tables (Exhibit 8.6 and 8.7) and quotes do not necessarily address proactivity and reactivity, however, since there may be reactive reasons for focal-firm initiation. Bearing this in mind, the overall pattern of reactive strategy formation, regardless of region and time period, appears even clearer.

As indicated in the discussions on relationship initiation and new market entry, though (see 8.1.1.1 and Exhibit 8.2), there are different types of reactive changes entailing relationship initiation. Centring on the perceived influences
on this type of change noted in chapter seven (see exhibit 7.10 and 7.11), 15 may be considered as primarily proactive, six as primarily reactive and two contain components of both reactivity and proactivity. Those that are proactive of course also allowed the focal firm a great deal of freedom in whether change was to be undertaken, although it could be argued that without a change in partnering strategy towards focal-firm initiatives, achieving managements’ aims concerning expansion could not have been done. Also those two changes that clearly contain both proactive and reactive elements were voluntarily undertaken. Those changes that were reactive were undertaken with less perceived freedom in action.

Changes entailing focal-firm termination of relationships complicate the discussions regarding proactivity and reactivity in partnering strategy, though. Three main types of change entailing relationship termination have been noted, a first type comprising those changes where management experienced displeasure with the partner firm and terminated the relation, with or without having alternative plans in place (encountered 24 times). A second type entails the termination of a relationship for the same reasons, but only after an initiative from an external party (encountered six times), while a third type entails perceived pressure for growth and subsequent termination of relationships (encountered three times; see Exhibit 7.13 and 7.14). These may all be seen as involving different degrees of reactivity, none being undertaken for purely proactive reasons. In regard to the first type where changes also entailed termination of multiple relations, a degree of proactivity may be noted, though, since in several instances this change coincided with greater focus on and evaluation of international activities as a lead in increasing foreign sales overall, for example. Changes in the form of termination are thus more difficult to assign to the ideal types of reactivity-proactivity (cf. Exhibit 8.2).

An overview of focal-firm and other-firm relationship termination per time period provides no direct clues regarding reactivity and proactivity in relationship termination as implied by the fact that changes towards focal-firm termination are largely undertaken for reactive reasons (see 7.1.3.4 and 7.1.3.5). All it indicates is that the number or relations terminated increases over time which is natural since firms become involved in more and more relations. Consequently, such an overview has not been included here.

The issue of reactivity and proactivity in other-firm initiation of multiple relationships is also a complicated one. The fact that the relation was other-firm initiated implies a reactive approach on the side of the focal firm in regard to the specific relationship, but the main issue is why a pattern of other-firm initiation was formed when previously a pattern of focal-firm initiation had been apparent (see also 7.1.3.3). Not further pursuing foreign relationships may be a result of the focal-firm management’s perception that no further relations were needed or were appropriate, which, in turn, may be seen as reactive or proactive depending on the reasons why this perception arose. The empirical material does not allow the further classification of this type of change, though.
8.1.3.2 Emergence and Deliberation

What can be said about the process of downstream partner selection in terms of emergence and deliberation? It is clearly so that reactivity in relationship initiation does not imply that the process is not at least partly deliberate. I.e., it can be management’s intention not to actively seek out foreign partners. It also does not necessarily imply that decisions concerning which partners the focal firm works with are taken without consideration. I.e., de-selection of potential partners can be seen as a deliberate approach in partner selection. This is well reflected in an observation made by the general manager of Kingly Keyholes, who says,

[…] we, well, let’s say developed and grew above expectations, there was no time [to find new partners]. Production was always lagging behind, so we spent all our efforts keeping the customers happy. And then you’re not out selling actively, you don’t push, you don’t really develop the relation. You take the business as it comes along, […] when an opportunity presented itself, we grabbed it. And then you expanded your production capacity and that’s the story. So this is a pretty painful construction, stone by stone, not a focused effort. I would not think of our firm like that. […] Today, it’s completely different. Today you need distributors that are tied to you, that are loyal. Not just because you have a contract in your desk drawer, but also because you have an interest as a distributor to make money.

I.e., in the case of Kingly Keyholes, the general manager describes how the partnering strategy evolved from being characterised by a largely reactive approach to how relations were initiated (i.e., by the partner firms) and a largely emergent approach to which partners the firm worked with (i.e. grabbing of opportunities without much thought) to a more deliberate but still largely reactive approach also in selecting specific partners (i.e. more thought devoted to which opportunities were selected).

What may be described as a deliberately reactive approach is apparent also in other firms. Some respondents note the intimate connection between being present at venues where opportunities are likely to present themselves and strategy in relationship initiation. Attending a trade fair may be seen as a deliberate step in partnering strategy, even if the focal firm still relies on relations being initiated by the partner firms. In regard to this, the former general manager of Agreeable Armchairs says,

[…] we became better known – we attended the fairs abroad then – it was like circles on water.

The former general manager of Funky Furniture mentions a similar pattern in his firm, noting

Always at first contact, trade fairs are important. That’s the way it is. Especially the international trade fairs are important because we rarely or never make any business deals at the trade fairs like maybe ten years ago when you came home with filled
order books from a trade fair. It doesn’t work like that anymore. Contacts are made and followed up in the sense that you present your concept, you make visits and […] you try to find out if I spend a lot of efforts on this customer, does it pay?

Especially in the early phase of internationalisation when, in many firms and among many managers, there are few established contacts from which business opportunities may arise, exposure of the firm and its products are important. As seen above, the general manager of Clever Containers stresses how important the display of products was for the firm being approached by new partner firms. The former general manager of Enviable Environments also comments on this, saying,

We were passive as export sellers. We didn’t have stalls at any trade fairs and we did not conduct marketing activities on any foreign markets. It was thanks to the fact that our products were visible, when for example [name of burner manufacturer] or [name of burner manufacturer] exhibited a burner in Germany – actually it was enough that one was shown by a wholesaler, then others could read who had made the shunt.

In nearly all firms can be noted periods of stability in strategy stretching across several years during which the focal firms attract foreign partner firms without any focal-firm initiated relations being apparent, some respondents connecting this to their firms’ difficulties in keeping up with demand, for example. Others note that they did not have to actively seek out customers to expand, since customers sought them out. Of course, these periods of more or less deliberate reactivity vary greatly in length within and between firms (see Appendix 1). In some firms can even be noted a “reactively deliberate” pattern, as e.g. in the case of Glossy Grains when domestic demand did not allow the firm to operate at a profit and in the case of Harmless Heating when management experienced that the firms’ existing markets were shrinking. In both instances, the firms very deliberately sought out foreign customers, but for primarily reactive reasons.

The formation of a pattern of focal-firm termination of multiple relationships is commonly connected to a more structured approach to internationalisation, e.g. entailing a more critical approach to the performance of intermediaries. Underlying reasons may be perceived pressures from parent firms for growth or an internal initiative, indicating that varying degrees of reactivity and proactivity may inspire this type of action. Apparently, managers frequently appear to accept that on certain markets there are poorly performing intermediaries until the decision is taken that several poorly performing partners should be replaced, either as an internal initiative or based on pressure exerted by an outside stakeholder. This form of more deliberate change can clearly be observed in Agreeable Armchairs, Clever Containers, Dynamic Designs and Intelligent Infrastructure.

Even if the case material provides plenty of clues regarding seemingly deliberately reactive and reactively deliberate behaviours and changes in
Chapter 8 – Change and the Internationalisation Process

downstream partner selection, the deliberate properties of the process as such should not be exaggerated. Shifts between patterns in behaviour are determined by factors such as perceptions regarding outside pressure for change, managerial urge for growth and the perceived need to replace poorly performing partner firms. As such, changes in patterns may thus occur at any time in a firm’s history, depending on changes in ownership structures, changes in management, the introduction of new products, changing market characteristics and so on. There are far too many events, states and people who at different times impact changes in strategy for the whole process to be considered as deliberately formed. Even in firms such as Funky Furniture, Nifty Nursing and Optimal Offices, where strategy in relationship initiation remains constant for a decade or more, it hardly seems possible that management intended for this to be the case. A more realistic way of describing the processes in these and most other firms is perhaps as more emergently deliberate. I.e., at first there is no particular managerial intent regarding international relations at all, internationalisation not being a prioritised way of achieving sales. Alternatively, after the establishment of a few international relationships, there are limited efforts spent on further international expansion. The focal firm nonetheless continues to attract occasional foreign partners, e.g. at trade fairs, foreign sales increasing over time along with which management perceives that the current strategy is appropriate and continues to act accordingly. In effect, a more or less deliberate strategy emerges. Over time, a more reflected approach to internationalisation may form where expansion of foreign sales is a greater priority, changes in strategy entailing e.g. focal-firm initiation or termination of relations arising. Of course, this is not an overall pattern that can be noted in all firms, although it appears to largely capture the development of partnering strategy in Agreeable Armchairs, Blissful Backs, Dynamic Designs, Enviablo Environments, Funky Furniture, Glossy Grains (after World War II), Harmless Heating, Juggled Junk, Kingly Keyholes, Maximum Mobility, Optimal Offices and Popular Playgrounds. In firms such as Clever Containers and Nifty Nursing, a more deliberate approach to partner selection appears not to have formed. Intelligent Infrastructure and Literary Logistics acted differently, with greater focus on foreign sales throughout their internationalisation processes, the nature of their products largely explaining this.

8.1.3.3 Planning

From the discussions above, it should be clear that long-range planning, or even careful planning in the short run, rarely occurs. However, the managerial intent underlying deliberate reactivity in relationship initiation may be considered a type of informal plan, especially if it entails the focal firms attending trade fairs or being present at other venues where they may be approached by potential business partners.

That managers do not necessarily plan how to come into contact with partner firms of course does not mean that managers do not have ideas about
which types of partners they prefer to work with. With greater complexity in and focus on international activities, a more critical approach to international relationship formation appears to emerge in many firms, some respondents indicating that over time they came to take greater care in which intermediaries were hired, e.g. making use of special rules of thumb concerning their size. Often, an overall pattern of focal-firm or other-firm initiation of relationships across all markets cannot be distinguished, however. In some cases, this can be connected to a differentiation between markets, managers taking a more active role in managing and drawing up plans for key markets while they are less concerned with markets of marginal importance (see 8.1.1). Indications of this can be found in several firms, including at least Enviable Environments, Kingly Keyholes, Literary Logistics, Maximum Mobility and Popular Playgrounds.

8.1.4 Summary

The main arguments and findings concerning proactivity-reactivity, emergence-deliberation and planning in regard to the downstream sub processes are summarised below (see Exhibit 8.8). These issues are further discussed in 8.3, where the model of the change process (see Exhibit 2.5) is commented on.

Rather than just talking about strategy formation as reactive or proactive, it seems that a continuum of perceived degree of choice in undertaking change combined with change initiator is more relevant, since it enables the capturing of different types of reactive behaviour, i.e. where the focal firm’s managers perceives little choice in initiating change or little choice in accepting change initiated by an outside party. A third type of reactive change occurs when change is initiated by an outside party, but where the focal firm’s management perceives a great degree of freedom whether to accept change. A proactive change, on the other hand, is characterised by focal-firm initiation and a high degree of choice. The frequency with which different types of changes are encountered varies greatly, although overall proactive change is not very common.

Overall, it appears that the downstream processes are characterised by a high degree of emergence even if individual changes may show more deliberate properties. This, however, also varies between types of change. Consistency in action may lend the processes the appearance of being deliberately formed, though.

It should not be assumed that because a change exhibits deliberate properties it is formally planned, though. It appears quite clear among the studied firms that internationalisation process formation is not characterised by a great deal of planning. However, because managers do not plan which markets to be present on, does not mean that no plans are made in regard to individual foreign market entries, the same applying to individual modes selection and partner selection.
## Change in the Downstream Partner Selection Process

**Reaction and Proaction**
- Other-firm initiation of relations dominates in all regions and periods in NME, although the share of focal-firm initiation is lowest on remote markets and late in the process.
- Focal-firm relationship initiation does not equal proactivity in NME, since there are frequently reactive reasons why focal firms initiate relations, such as pressure from stakeholders. Perceived degree of choice in relationship initiation is thus an important aspect of understanding reactivity.
- Few instances of market withdrawal have been encountered. Reactive reasons appear to dominate, although withdrawals are often more difficult to define.

**Emergence and Deliberation**
- Overall the process is largely emergent, reflecting the development of the firms.
- A deliberate process implies not only that management selects certain markets, but also that management deselects potential partner firms, although this does not appear very common.
- Withdrawal as part of more deliberate strategy formation is also rarely encountered.

**Planning**
- The market expansion process as a whole is not formally planned and few instances of formally planned market entries have been identified.
- Informal plans based on managerial preferences often form during the process.
- That entries and withdrawals are not planned does not mean that planning does not take place concerning activities on foreign markets, of which increasing differentiation between markets can be seen as an example.

## Change in the Downstream Mode Selection Process

- High commitment mode usage is typically a reaction to a specific situation perceived as problematic or where the firm's typical mode cannot be used.
- Focal firms rarely initiate relations where the typical or preferred mode cannot be employed, change is thus not typically proactively pursued.
- Overall reactive changes dominate where there is little perceived choice in undertaking change, regardless whether change is triggered by the focal firm or by another firm.

## Change in the Downstream Market Selection Process

- Other-firm initiation of relations dominates in all regions and periods, although more clearly on remote markets. No major differences over time have been noted.
- While focal-firm initiation does not equate proactivity, change in initiation towards focal-firm initiation is primarily based in managerial urge for growth, which abates when suitable markets are entered.
- Change towards focal-firm termination entails various degrees of reactivity, displeasure with performance being the key influence. Initiatives and perceived pressure from external actors also generate this type of reactive behaviour.

## Exhibit 8.8: Main Findings Regarding the Downstream Sub Processes

<table>
<thead>
<tr>
<th>Reaction and Proaction</th>
<th>Emergence and Deliberation</th>
<th>Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other-firm initiation of relations dominates in all regions and periods in NME, although the share of focal-firm initiation is lowest on remote markets and late in the process. Focal-firm relationship initiation does not equal proactivity in NME, since there are frequently reactive reasons why focal firms initiate relations, such as pressure from stakeholders. Perceived degree of choice in relationship initiation is thus an important aspect of understanding reactivity. Few instances of market withdrawal have been encountered. Reactive reasons appear to dominate, although withdrawals are often more difficult to define.</td>
<td>Overall the process is largely emergent, reflecting the development of the firms. A deliberate process implies not only that management selects certain markets, but also that management deselects potential partner firms, although this does not appear very common. Withdrawal as part of more deliberate strategy formation is also rarely encountered.</td>
<td>The market expansion process as a whole is not formally planned and few instances of formally planned market entries have been identified. Informal plans based on managerial preferences often form during the process. That entries and withdrawals are not planned does not mean that planning does not take place concerning activities on foreign markets, of which increasing differentiation between markets can be seen as an example. Clear preferences for certain modes can be found in almost all firms. These serve as an informal or intuitive plan. That mode changes were not planned to be undertaken does not mean that no planning is undertaken in connection with mode change. Especially in the case of high commitment modes there are indications that occasionally a great deal of planning is undertaken, which does not mean that they do not fail.</td>
</tr>
</tbody>
</table>
8.2 Upstream Internationalisation

Subchapter 8.2 focuses on discussing changes in the upstream market (8.2.1), mode (8.2.2) and partner (8.2.3) selection sub processes. A summary of observations is also provided (8.2.4).

Three times as many relations and changes have been encountered in regard to downstream internationalisation as in upstream internationalisation. This means that while 8.2 largely follows the same structure as 8.1, the types of tables used to support the discussions on downstream process formation cannot all be meaningfully duplicated in regard to upstream process formation.

8.2.1 Change in the Upstream Market Selection Process

As has been noted previously, the market selection decision in upstream internationalisation cannot simply be equated to the market decision in downstream internationalisation. The particular market is nonetheless relevant to consider both in regard to foreign sourcing and foreign operations, especially in the case of firms being involved in higher commitment modes. Many respondents make remarks to this effect, remarks which are supported by observations concerning individual relationships and changes in strategy.

8.2.1.1 Reaction and Proaction

The small number of relations where the initiator can be determined combined with difficulties in many firms in ascertaining exactly when upstream internationalisation began means that a meaningful overview of relationship initiation coinciding with new market entry per time period cannot be made. Like in downstream relationship initiation, though, focal-firm relationship initiation and termination cannot be equated to proactivity in strategy formation. Consequently, upstream market entries coinciding with focal-firm relationship initiation cannot be assumed to be undertaken for proactive reasons. Indeed, the empirical material would seem to indicate that the opposite is the case, when the changes in strategy identified in chapter six (see 6.2.1) and further discussed in chapter seven (see 7.2.1) are studied.

Two types of reactive strategies have been identified: (1) new market entries undertaken as a consequence of perceived pressure from external actors or undertaken as a consequence of perceived sourcing needs, i.e. new market entries coinciding with focal-firm initiated relations where there was a lower perceived degree of choice; (2) new market entries occurring after grasping of unsolicited offers, i.e. other-firm initiated entries where there was a greater perceived degree of freedom present. These changes have been encountered twelve and six times respectively. Interestingly, in no instances did respondents indicate that new upstream market entries were undertaken for what may be interpreted as proactive reasons.
These observations concerning specific changes in strategy are very much reflected in the attitudes towards foreign sourcing detected among the respondents. Generally, two main positions regarding sourcing from foreign markets can be identified in the empirical material. To most purchasers and purchasing managers, international sourcing is seen as problematic, time consuming, causing uncertainty, delays and added costs. To these individuals, purchasing abroad should be done primarily when products cannot be sourced locally. Foreign suppliers are sought out due to necessity, this type of behaviour e.g. being triggered by new products requiring new types of materials or when local suppliers go out of business. A high degree of reactivity is thus commonly present in foreign sourcing market decisions. E.g., the purchasing manager of Dynamic Designs says,

[... most of the purchasing in the 60s, 70s, 80s, if you take a pair of compasses and draw a circle, maybe fifty, sixty, eighty, a hundred kilometres, because you can get there fairly quickly by car if there’s a problem, so we’ve decided that this is where we’ll look for suppliers, primarily, and it’s worked fine. But since, certain regimes have fallen, it’s become easier to work with other countries, so we’ve gone there for economic reasons. But there are practical problems buying across the border, well, delivery times, personal visits to the supplier, and so on, right.

This attitude can be detected among managers in several other firms. The general manager of Glossy Grains says,

Most of it comes from Sweden. Lately, an increasing share has come from abroad, certainly, but that’s because there’s been a shortage of that type of raw materials that we’re looking for in Sweden [and] at [largest domestic supplier] there was a big fire so they were shut down for a while, and there was a gap so we quite simply had to go look for raw materials [abroad].

Similarly, the purchasing manager of Harmless Heating says,

Of course, if there’s one close by and one 1,000 kilometres away and there’s no difference in price, it’s more convenient to have one close by. That’s just the way it is.

Along the same lines, the purchasing manager of Literary Logistics notes,

There are several reasons, right. Partly it has to do with logistics and then there is a great concentration of these types of firms right here. And then you try, if everything else works out – price and quality and everything – you primarily select one who’s local, right.

Reflecting attitudes noted above, the purchasing manager of Maximum Mobility explains the firm’s strategy concerning foreign purchasing, saying,

We have a small purchasing department that works with Swedish agents where you can talk to them very easily and you can call someone who’s in charge in this country,
rather than adding on maybe two or three guys that are gonna fly all over the world looking for suppliers, right. So, that's a strategic choice we've made, to keep it down.

Clearly, this is the dominant attitude among those in charge of purchasing in the firms studied here. Since the supply base of many of the firms in this study is well developed locally, many firms have not been forced to find foreign suppliers, though. The current general manager of Enviable Environments summarises what is apparent in many interviews. He says,

*This is a part of the country that is amazing when it comes to the network of suppliers, being able to find suppliers nearby. It doesn't have to be a negative thing [to find suppliers elsewhere] but here you find pretty much everything and they all face competition, internally in this region, sort of, so they have to shape up. Yes, the internal competition has made sure that you measure up pretty well to the outside, I think.*

A smaller group of purchasers and purchasing managers includes those who see international sourcing as an opportunity to save on costs and find novel products. Purchasers and purchasing managers in Agreecable Armchairs, Clever Containers, Intelligent Infrastructure and Kingly Keyholes to varying degrees also appear to at least partly share this sentiment. Nifty Nursing is one of the firms that undertakes the least foreign sourcing, although the purchasing manager there notes,

*The most important criterion, the two most important are price and quality. That's what's most important, right? But then … which countries we turn to … no, as I see it's not [important]. Price, quality, and delivery, that's what matters.*

Clearly, even if negative perceptions regarding foreign sourcing do not exist, that does not automatically mean that foreign suppliers are sought out. Only few examples of higher commitment purchasing mode usage (i.e. contract manufacturing) have been identified in the empirical material. As noted above, though, the specific market selected when becoming involved in these modes is of greater importance. Low-cost countries are clearly favoured in the case of contract manufacturing, which to a great extent explains market expansion patterns. Still, relations tend to be initiated by the partner firms, changes being largely reactive but also voluntary in nature.

As far as foreign markets selected for operations subsidiaries and joint ventures are concerned, there is clearly a strong connection between the market and mode decision. The establishment of foreign operations subsidiaries and joint ventures by Intelligent Infrastructure and Literary Logistics (which represent ten of a total of 13 foreign operations subsidiaries and joint ventures) was undertaken due to the fact that certain activities needed to be carried on specific foreign markets, such as the implementation of large projects. Reasons similar to those motivating managers to become involved in contract
manufacturing in some countries, i.e. primarily cost rationales particular to specific markets, appear to have been prominent factors only in the cases of Agreeable Armchairs, Glossy Grains and Optimal Offices, firms that carry out actual manufacturing or assembly at their foreign operations ventures. In the case of Agreeable Armchairs’ operations in Poland, the market was selected by the parent firm, while Glossy Grains responded to an unsolicited offer. In the case of Optimal Offices establishing operations in the Netherlands, the actual market selection was due to the fact that the firm already had plans in place to establish a sales subsidiary there.

Also in the case of the focal firms acting as licensees when this coincides with new market entry can differing degrees of reactivity be noted. While Glossy Grains’ involvement in this type of mode was triggered by the partner firms, the clearest proactive properties are exhibited in Funky Furniture’s involvement in licensing. In the two cases of focal firms acting as licensees, the specific market of the partner firm was perhaps not of very great significance.

Overall, while some changes entailing operations market entries certainly contain elements of proactivity, largely reactive reasons thus appear to underlie selection of operations markets as well as sourcing markets. No particular changes in regard to the upstream market selection process can be observed over time, except for the fact that in the later phases of the process the focal firms are involved in more relations including more upstream markets than in the earlier phases (cf. Appendix 2).

8.2.1.2 Emergence and Deliberation

In those firms that undertake a low degree of foreign sourcing (see Exhibit 5.1) where simultaneously respondents indicate negative attitudes towards sourcing (see 8.2.1.1), it can be argued that at least a partly deliberate approach to sourcing market selection is taken. I.e., an approach that is deliberate in the sense that it entails deliberate avoidance of sourcing from foreign markets.

Managers frequently also voice the opinion that the actual choice of sourcing market is an important one, not simply because certain types of suppliers can be found on certain markets or because of cost advantages. The fact that those countries located close to the focal firms’ home country are usually the firms’ main sourcing markets, as well as the fact that these are typically established early on in the firms’ history, are likely explanations why these sourcing markets are commonly preferred by purchasers. I.e., market familiarity and established business practices arguably lead to preferences for certain markets, rather than just what these markets have to offer in terms of products and services. A high degree of consistency in which foreign markets are used to fulfil sourcing needs and, consequently, long periods of stability in strategy thus also lend the process the appearance of deliberation.

Additionally, just because the focal firms typically undertake sourcing from new markets for reactive reasons does not mean that changes in strategy are automatically emergent in nature. If needs for a specific product are perceived
by management, management may still have some choice in which specific market that product is bought from. While the change may be largely reactive, it can still be deliberate.

In one instance a change in the attitude to international sourcing where a positive attitude is replaced by a more negative attitude has been noted. In Optimal Offices foreign sourcing has decreased markedly over the last years. The purchasing manager explains why. He says,

_The reason, I would say, is primarily logistics. The culture to deliver a product on time is much higher here in Scandinavia than compared to further South. And today our customers place great demands on us – shortened lead times and so on – and perhaps they don’t manage quite as well when you go further south. It’s not considered as important. […] Problems with logistics, I think that’s the main reason why we’re now working a lot in Sweden. […] today we also find the cost situation more interesting in Sweden, primarily._

The withdrawal from a single market, one of the consequences of this new approach, may be seen as a deliberate change in strategy. In the other instances of withdrawals from sourcing markets, changes appear to have been more emergent in nature, there not being present any specific reasons not to buy from a particular market, withdrawals more commonly being effected as a consequence of changing sourcing needs.

There are also indications that sourcing market selection is an emergent process. The process of entering foreign sourcing markets appears overall to be triggered primarily by external actors or by the recognition of external opportunities, and less by perceived sourcing needs. As such, the upstream market process thus gives off the appearance of being largely emergent in nature, even if individual entries and exits may show more deliberate properties. Even if preferences for certain markets are voiced, these are apparently often outweighed by specific needs or stakeholder pressures (which can be seen when opinions regarding sourcing are compared to actual sourcing market selection), again accounting for emergent characteristics.

The opinions expressed by respondents (see 8.2.1.1) in most cases refer to the current situation rather than reflecting a change over time. It cannot be assumed that the entire processes have been guided by the same attitudes. That certain markets dominate is arguably at least partly due to the fact that the focal firms are more likely to come into contact with firms on some markets, e.g. when attending trade fairs. What may initially have been an emergent process guided by more or less unstructured search behaviour, may over time have turned into a more deliberate approach to sourcing market selection after relations have been formed with firms on some markets.

Of course, not all firms are characterised by the same behaviours in regard to foreign sourcing, the number of markets as well as time periods when foreign sourcing began varying greatly. Firms such as Agreeable Armchairs, Clever Containers, Intelligent Infrastructure, Kingly Keyholes and Optimal Offices
have either been involved in foreign sourcing since they were started or buy a
great deal from abroad. When market selection in these firms is compared to
market selection in other firms, can differences be identified in regard to
deliberate properties of the process? Interestingly, this does not generally seem
to be the case, although Kingly Keyholes, where a strong focus on Germany can
be noted, and Agreeable Armchairs, where there is a focus on low cost
countries, can be seen partly as exceptions. Also in these firms, actual expansion
and contraction patterns are tied to similar factors as in other firms, though.

The actual choice of markets for foreign operations subsidiaries and joint
ventures is a more deliberate one, undertaken for very specific reasons, be they
more or less reactive or proactive in nature. Overall, though, the process of
subsequent entry into and exits from foreign markets for operations – to the
extent that it may even be described as a process since so few instances have
been encountered – can hardly be described as deliberate, unforeseen
opportunities to such a large extent guiding changes in strategy.

8.2.1.3 Planning
Negative overall perceptions regarding foreign sourcing combined with
avoidance of sourcing from foreign markets can be considered an informal,
intuitive plan regarding foreign sourcing market selection. Some respondents
voice preferences for certain markets, which may also be interpreted as informal
planning. It seems quite clear, though, that formal planning has little or no role
in sourcing market selection or de-selection.

As far as planning of entry into and exit from operations markets is
concerned, actual choices were in most cases undertaken as a consequence of
unsolicited contacts or the focal firms actively pursuing large orders, in turn
being perceived as requiring committed presence abroad. That the focal firms’
managers did not typically develop long-range plans regarding which operations
markets to enter, though, of course does not mean that no planning was
undertaken in connection with entries.

8.2.2 Change in the Upstream Mode Selection Process
Like in market selection, upstream mode selection cannot be equated to
downstream mode selection. Nonetheless, the two sub processes share a number
of characteristics, such as a focus on low commitment modes. The reasons why
modes are selected differ partly, though.

8.2.2.1 Reaction and Proaction
Concerning downstream modes, it was noted that focal firms did not tend to
initiate relations with partner firms if those relations would entail the use of
atypical or not preferred modes. This can be clearly seen also in regard to
upstream mode selection, where only one instance of a focal firm initiating a
relationship entailing the use of an atypical purchasing mode has been noted (Agreeable Armchairs importing through agent). The two instances of focal firms acting as licensees also entailed relations initiated by the focal firms, as did one instance of a focal firm acting as licensor and two of the three operations joint ventures. These six focal-firm initiated relations involving atypical modes only correspond to seven per cent of the total of 84 focal-firm initiated upstream relations (see Exhibit 6.10).

Exhibit 8.9: Reactive and Proactive Change in Mode Strategy Connected to Initiation of Change and Perceived Degree of Freedom in Undertaking Change

<table>
<thead>
<tr>
<th>Perceived degree of choice in undertaking change</th>
<th>Change initiated by focal firm</th>
<th>Change initiated by other firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatively higher</td>
<td>PROACTIVE CHANGE: Change initiated by focal firm due to perceived potential savings on costs (4 encountered).</td>
<td>REACTIVE CHANGE: Activity involving atypical mode proposed by partner firm. Focal firm management perceives that proposal is beneficial and accepts atypical mode (1 + 5 encountered).</td>
</tr>
<tr>
<td>Relatively lower</td>
<td>REACTIVE CHANGE: Change initiated by focal firm after perceptions re. problems with current mode, that typical mode can not be used, that needs outweigh preferences or that atypical mode is expected (7 enc.).</td>
<td>REACTIVE CHANGE: Partner firm changes mode of operation while needs for product outweigh mode preferences or change is based on perceived pressure from stakeholder (4 encountered).</td>
</tr>
</tbody>
</table>

Again it can be noted, though, that focal-firm initiation of a relation does not necessarily coincide with proactivity. If an attempt is made to classify the 22 changes in upstream mode selection according the typology introduced previously (see 8.1.1.1), it can again be seen that reactive changes dominate, with only four changes being defined as largely proactive in nature, including those where the focal firms decided to use atypical modes to exploit potential cost benefits (see Exhibit 8.9, see also 7.2.2).

Some of the changes are difficult to define along a continuum of degree of choice, though, especially including those that are other-firm initiated. Glossy Grains’ entry into Brazil on two occasions using atypical modes as well as Kingly Keyholes’ and Maximum Mobility’s purchasing from Chinese manufacturers through agents may be seen as voluntary in the sense that undertaking the activities as such was not of crucial importance to the firm. On the other hand, in order to make use of these opportunities (entering a potentially important sales market and buying products cheaply), focal-firm initiated relations only correspond to seven per cent of the total of 84 focal-firm initiated upstream relations (see Exhibit 6.10).

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8 What is an atypical mode of course depends on what other modes the focal firm used at the time when the relation was initiated rather as seen in contrast to all upstream modes used by the firm throughout the internationalisation process. Difficulties in ascertaining exactly when some relations were initiated means that likely two or three additional relations entailing use of atypical modes were initiated by the focal firms. This hardly affects the overall impression of focal firms not initiating relations unless they involve typical of preferred modes, though.

9 Note that in regard to one change (Literary Logistics in the U.S.) circumstances are unclear.
management had to accept the atypical modes. The changes are still reactive since they were not focal-firm initiated, though.

Concerning reactivity and proactivity in the upstream mode selection process, it can be noted that none of those four changes that are mainly proactive in nature occur in earliest phase, although this applies also to most of the reactive changes identified.

8.2.2.2 Emergence and Deliberation

Since direct purchasing (i.e. from manufacturers and contract manufacturers) dominates throughout the studied firms’ internationalisation processes (see Appendix 2), changes are scarce. This would thus seem to imply that purchasing mode selection is at least partly deliberately undertaken. Indeed, it is apparent when talking to purchasing managers that not only do most prefer to deal directly with manufacturers, many respondents even express a dislike for dealing with intermediaries. As an example, the purchasing manager of Optimal Offices says,

*Today, these – I call them shylocks [respondent refers to agents] – they don’t fill any purpose in Europe anymore. […] we all speak the same language so we manage directly. We only see them as an added cost, really. And, if you’re talking shorter lead times, they’re even an obstacle, too.*

The same opinion is expressed by the general manager of Kingly Keyholes, who says,

*Agents don’t suit us, it does not fit price-wise. The customers are so price sensitive so producer-customer is the best solution, or producer-wholesaler-customer and then working based on commission rather than selling over the counter.*

The role of foreign suppliers’ intermediaries is thus not appreciated by purchasing managers in some of the studied firms. The purchasing manager of Dynamic Designs says,

*S有时候 we skip the agent if you see what I mean, to speed things up a bit, it doesn’t matter, we still have to pay his commission whether we contact him or not, so sometimes we contact him just because we think he should earn his wages. We still have to pay for it.*

In regard to the same issue, the purchasing manager of Enviable Environments comments on a specific relationship. He says,

*[…] a few years ago when we got really fed up with the Swedish agent we simply forced our way through to the manufacturer, who didn’t want direct contact with us. But we more or less forced him to let us buy directly. And that was a lucky stroke, because the agent no longer exists and he does not deserve to exist, but it was a lucky stroke. Suddenly, this filter through the office in Sweden disappeared. You started*
Occasional exceptions have been found, primarily regarding Maximum Mobility, where the purchasing manager prefers not to have direct contacts with foreign suppliers. Overall, though, avoidance of intermediaries appears to be a priority in almost all firms. This is supported by the overview or relationships (see 6.2.2), which also implies that over time in most firms mode selection remains constant (see Appendix 2), periods of stability in strategy thus commonly being long, some firms in the study never having undergone any changes. Rare exceptions occur when there is outside pressure meaning that a certain mode must be employed or when the need for a certain product outweighs mode preferences.

Other than indications regarding mode preferences as expressed by respondents, the study has generated no observations concerning the extent to which potential suppliers have been de-selected due to their selling modes not fitting the focal firms’ managers’ purchasing mode preferences. However, the dominance of direct purchasing modes must not solely be connected to management selection for such modes. The fact that direct modes dominate may partly be explained by this also being the preferred or only mode employed by the focal firms’ suppliers. The seemingly deliberate properties of the process may thus be less deliberate and more a consequence of industry logic.

Operations modes are typically not employed in the earliest phases of the internationalisation processes (see Appendix 2). Until the situation arose that motivated their use, there are no indications in the case material that management contemplated employing such modes. In that sense, they would appear to be largely emergent in nature. Some changes exhibit more deliberate properties, however. E.g., in the case of Literary Logistics establishing a number of subsidiaries in the 1980s, for some time the firm’s management had been experiencing displeasure from customers concerning implementation of projects and poor after-sales service. Some concerns were also raised regarding the firms’ control over its main markets. Consequently, the decision was taken that subsidiaries should be established.

Overall, it would thus seem that the upstream mode selection process is characterised by both emergent and deliberate properties. The deliberate properties find their origin in managerial preferences for certain modes manifest in stability in strategy for long periods of time, while scarce changes appear to be largely emergent in nature, being reactions to unforeseeable events.

8.2.2.3 Planning
Sourcing mode selection may not be planned in Mintzberg and Waters’ (1985) sense of the word, although is apparently to a great extent guided by managerial
preferences, which, like in the case of downstream mode selection and upstream market selection, may be seen as functioning as intuitive or informal plans.

In Literary Logistics and Intelligent Infrastructure it can be noted that the firms’ management in effect made plans to be present on markets when required to implement large projects. In the former firm, this is manifest in the use of different high commitment modes over time on key markets, changes undertaken to maintain committed presence on these markets. That a number of other operations mode changes were reactive in nature does not mean that their implementation was not planned. E.g., the general manager of Agreeable Armchairs describes how the firm went to great lengths to plan for the establishment of a manufacturing subsidiary in Poland.

8.2.3 Change in the Upstream Partner Selection Process

Patterns in upstream partner selection both exhibit similarities and differences compared to patterns in downstream relationship initiation. Due to the fact that so few instances of operations modes entailing partnerships have been encountered, in this subchapter only sourcing relationships are considered.

8.2.3.1 Reaction and Proaction

Chapter six notes that among those relations where the initiator can be identified, in nearly two-thirds of the cases this role was held by the focal firm. Similarly, in relationship termination less than one relation in ten was terminated by the partner firm. Subtracting those relations not involving sourcing does not change these numbers. The small number of relations, combined with difficulties in many firms in ascertaining exactly when upstream internationalisation began, means that a meaningful overview of relationship initiation coinciding with new sourcing market entry per time period cannot be made. Interestingly, an overview of relationship initiation per geographic region (see Exhibit 8.10) indicates that foreign market remoteness is not a factor that explains the likelihood of a relation being focal-firm initiated (see also Appendix 2).

Exhibit 8.10: Focal-firm and Other-firm Initiation of Relations by Geographic Location

<table>
<thead>
<tr>
<th>F &amp; O of relations</th>
<th>Nordic Countries</th>
<th>Other W/S Europe</th>
<th>Eastern Europe</th>
<th>N. &amp; S. America</th>
<th>Asia</th>
<th>Other Region</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute</td>
<td>12/12</td>
<td>54/23</td>
<td>3/2</td>
<td>3/1</td>
<td>6/5</td>
<td>1/1</td>
<td>79/44</td>
</tr>
<tr>
<td>Relative</td>
<td>50%</td>
<td>70%</td>
<td>60%</td>
<td>75%</td>
<td>55%</td>
<td>50%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Note: F=Focal firm initiation. O=Other-firm initiation. Only those relations where the initiator could be identified have been included.

The small amount of relations on some markets of course means that the numbers must be interpreted with a great measure of caution. The table does
indicate that there are no regions where other firm initiation is dominant, though. Also, the fact that so few sourcing relations are initiated on remote markets may indicate not only that the focal firms’ manager are reluctant to initiate such relations, but are reluctant to enter into them also when they are other-firm initiated. Further, there are relatively great differences between firms, both in regard to how many upstream relationships they have been involved in and who initiated them, as well as the number of relations where the initiator could not be determined (see Exhibit 6.10). Especially Optimal Offices and Kingly Keyholes are firms where many relations can be noted and where the focal firms are the dominant initiators. In both instances respondents cite a need to source abroad as vital for starting the focal firms in the first place. Funky Furniture, Harmless Heating, Juggled Junk, Literary Logistics and Nifty Nursing exhibit the opposite pattern, i.e. few sourcing relations overall and few relations initiated by the focal firms. The availability of local suppliers and a local sourcing strategy is also stressed in these firms. Firms such as Blissful Backs and Popular Playgrounds, on the other hand, have also been involved in few sourcing relations, although appear to take a more active role in initiation.

Like in downstream relationship initiation, though, focal-firm initiation does not necessarily signal proactive behaviour. It appears quite clear when talking to managers that foreign sourcing relationships are initiated largely for reactive reasons, primarily because a specific type of product is required (see 7.2.3.1). Further, when looking at relationship termination, it is quite natural that largely reactive reasons can be noted, although it is interesting to note that overall displeasure with suppliers rather than changing sourcing needs dominates as the reason behind changes in strategy. However, since in regard to those changes that entail multiple terminations, changing sourcing needs is the main influence, overall more or less the same number of individual relations was terminated for either reason.

Only one instance where a relation was actually terminated after stakeholder pressure has been noted. In regard to the other changes, determining the degree of choice in undertaking change is complex. Of course, there would seem to be little point in maintaining a transactional relationship after the focal firm no longer needs the type of product previously bought from the supplier firm, in which case the degree of choice may be seen as low. It seems that in several instances when relations were terminated after displeasure with delivery times and quality, the focal firms terminate relations only after a certain period of displeasure. The general manager of Kingly Keyholes explains why this might be the case,

\[ \text{It costs money, there is always a risk with these things. So, if at an evaluation on the business side you find a small margin, you try to set you existing supplier straight. Because there has to be a substantial gain before you get down to … changing suppliers. And then, of course, we have developed relations with our suppliers, they have learnt how we operate.} \]
Such changes thus appear to be undertaken reluctantly.

Other than noting that the number or relations and the number of terminated relationships increase over time, little can be said about the process dynamics of reactivity and proactivity in change in upstream partnering strategy.

8.2.3.2 Emergence and Deliberation

Many respondents in this study comment on the strategic importance of selecting appropriate suppliers. They also note that long-term relations are preferred. E.g., the general manager of Kingly Keyholes says,

[...] I can’t go around every day changing my supply channels and purchasing channels, with other products and worse quality as a consequence … so we have long-term relations with our suppliers and we have grown with our suppliers. [...] it depends a bit on what type of product you have, but it’s quite clear that changing suppliers is no end in itself.

The purchasing manager of Enviable Environments indicates a similar opinion,

We have not often interrupted any [relationships] regardless of whether they are domestic or international, for other reasons really than that the product has changed or is about to be discontinued. Sure, we have changed suppliers, like the one in Denmark that we are trying to stop working with due to quality problems and inability to deliver on time, certainly, but these are a few exceptions.

On the same topic, the former logistics manager of Clever Containers says,

We've always bought from the companies we have now [as suppliers], it's pretty much the same we had ten, fifteen years ago, some have disappeared [implied: as a result of mergers], but even some of the same people are still there because they've followed the mergers, right. So, I think I can say that not much has happened there.

The current general manager of Enviable Environments, previously in charge of purchasing, explains,

[...] I had quite a lot of different things to do back then. I build up our MPS system and planning and everything else, so … the purchasing part was more that … you never really had time to do anything other than make sure that deliveries turned up and hunt down the stuff [you needed]. But you never had any time to do the kind of work you should have to find new suppliers, at best you could knock the ones you already had over the head and try to get better prices and things, right?

Other respondents make similar comments. Care taken in supplier selection in combination with problems involved in switching between suppliers, means that relations with foreign suppliers commonly last for a long time. This is also indicated by the fact that only one-quarter of the upstream relationships
identified have been terminated (see 6.2.3.2). In relationship termination, the focal firms were the terminators in almost all cases (see exhibit 6.11). The overall consistency in regard to initiation and termination, an overall reluctance to source from foreign partners (see 8.2.1) and care taken in maintaining relations when such are established as expressed by several respondents, can all be taken as indications of deliberate process formation. Several firms also concentrate most or all of their foreign sourcing activities to a few markets, which may be taken as a sign of deliberate process formation, although as discussed previously another explanation can be that the focal firms are more prone to come into contacts with partners on certain markets (see 8.2.1.2).

There are also indications of the process being more emergent in nature. The fact that stakeholder pressure and unsolicited opportunities rather than proactive search for alternatives dominates as the reason why foreign suppliers are used, certainly suggests a strong component of emergence.

Exceptions to the more commonly prevailing patterns outlined above can be noted in some firms. What might be termed a trial and error type of behaviour in regard to foreign suppliers dominated in Clever Containers in the mid- to late 1980s and Optimal Offices in the late 1980s and early 1990s. In fact, the focal-firm terminated relations in these two firms correspond to half of all focal-firm terminated relations that have been identified.

8.2.3.3 Planning
Observations made in regard to the other sub processes can be made also in regard to upstream partner selection. While the process as such can hardly be said to be planned in the formal sense, nonetheless managers select partners with some care, purchasing managers expressing preferences for long-term relations with suppliers and a focus on certain markets. Some respondents also note that more recently evaluation of partner firms, with e.g. a focus on ISO-certification and similar issues, is undertaken before relations are formed.

8.2.4 Summary
The main arguments and findings of this sub chapter are summarised below (see Exhibit 8.11). Many of the findings regarding downstream internationalisation are reflected in upstream internationalisation. Again, it appears relevant to focus on change initiator in combination with degree of perceived freedom in becoming involved in change.

The sub processes of mode selection and partner selection exhibit a greater measure of consistency over time and also in regard to market selection are major changes uncommon, all of which may imply a greater degree of deliberation. Overall, there are no outspoken plans in regard to upstream internationalisation, although managerial preferences may be seen as a form of intuitive plan.
Change in the upstream partner selection process

- Focal-firm initiation of relations dominates overall.
- Most firms have been involved in few relations. Those that have been involved in the most are also the most active initiators.
- Focal-firm initiation and termination are primarily undertaken for reactive reasons.
- Focal firm managers pursue long-term sourcing relations due to problems and costs involved in changing suppliers.
- No particular patterns have been noted over time.
- Overall, the process appears deliberate due to consistency in behaviour, lack of action (i.e. foreign sourcing avoidance) and care taken to maintain relations.
- Individual changes vary in degree of emergence/deliberation, although defining them as either is often difficult.
- Overall the process is not planned in the formal sense, although informal and intuitive plans guide partner selection.
- Many respondents also express that some care is taken in partner selection (although it appears that there is a greater focus on evaluating the product than the supplier).

Change in the upstream mode selection process

- Most changes are reactions to unsolicited offers, external pressures for change or perceived unfavourable situations.
- Focal firms do not initiate relations where the typical or preferred mode of purchasing cannot be used. Change is thus not proactively pursued.
- Reactive changes dominate, although perceived degree of freedom in undertaking change varies.
- Overall, the sub process appears largely deliberate in most firms due to consistency in mode selection and long periods of stability in strategy.
- Seemingly deliberate properties of the process may be explained by industry logic and partner firms’ mode preferences.
- Individual changes exhibit largely emergent properties, although in a few cases of high commitment mode usage a more deliberate approach can been noted.
- Preferences appear stable over time.
- In the case of the few high commitment modes identified more formal planning takes place regarding their implementation.

Change in the upstream market selection process

- Only very few relations exist on remote markets, nearby markets dominating as sourcing markets.
- In spite of focal-firm initiation of relations dominating, new market entries appear to be undertaken for largely reactive reasons, such as pressures from external actors unsolicited contacts or sourcing needs.
- Important reasons behind reactive sourcing market entries is preference for and availability of local sourcing.
- Overall strong connection between market selection and choice of mode.
- Withdrawal initiated by management, due to changing sourcing needs, displeasure with partner firm or displeasure with market.
- Overall high connection between market selection and choice of mode.
- Withdrawal initiated by management, due to changing sourcing needs, displeasure with partner firm or displeasure with market.
- Overall stable connection between market selection and choice of mode.
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8.3 Reflections on the Change Process Model

Based on the dimensions of the conceptual model of the change process (see Exhibit 2.5), several themes have emerged across the sub process discussions.

8.3.1 Periods in the Change Process

In chapter two (see 2.1.4) it is argued that strategy processes are characterised by periods of greater and lesser stability in strategy. There are periods during which certain patterns in behaviour prevail, interspersed with changes in such behaviours (see e.g. Jess Hansen, 2002). In this thesis, the relative length of periods of pressure for change, periods of transformation and periods of stability have been found to vary greatly between firms, sub processes and the type of change in question. For years managers may e.g. be displeased with performance of partners before action is taken to terminate a relationship. Similarly, opportunities for sales may be perceived to exist for years before action is taken to exploit them. At other times periods of pressure for change may be briefer, like when firms are acquired and changes in strategy are rapidly expected by the new parent firms. Periods of transformation may also vary greatly in length. In some instances it can be observed how there is pressure for change recognised by management, a decision is taken and change is implemented quickly, e.g. when the decision is taken to switch between two low commitment modes. In other instances mode switches take years to be effected if more than one or a few markets are involved. The same typically applies to entries into new types of markets. Moving from a strategy of focusing on North European markets to a strategy that entails presence also throughout Eastern Europe may take years to be effected, as countries are added one by one. In other instances changes in market selection strategy may be effected rapidly, when a contact with a single partner is initiated, leading the focal firm into a number of new markets. Also periods of stability vary in length. In some firms there are no changes in which markets are served or bought from, which modes are used or in how relationships are initiated and terminated for years or even a decade. In other firms, changes occur rapidly and frequently. Overall, the speed and frequency of change appears to increase with time since internationalisation began, although again great variations exist between firms.

The periodisation of the change process may fail to capture some important process dynamics, though. Since it takes into consideration only some of the activities involved in the change and primarily considers the implementation of the decision whether to undertake change as a breaking point between a period of pressure for change and one of transformation, perhaps it does not present an entirely realistic picture of the change process. Rather, this may be achieved with greater focus on those activities undertaken in preparation of change, as well as change-related activities not leading to change. With such an approach, one would likely reach the conclusion that periods of stability in strategy are
briefer than implied here and that international strategy is more commonly put into question by management.

8.3.2 Types of Change and Magnitude of Change

In this study changes have been defined depending on their magnitude, operationalised as whether they concern the firm’s activities on one or more markets or concern one or more relationships. This operationalisation was largely born out of the need to find a simple way of characterising changes, which would arguably on average be of lesser importance if they concern only one market or one relationship than if they concern several.

Exhibit 8.12: Magnitude of Change and Strategic Consequences over Time

Clearly, when looking back at e.g. the sub process of downstream market selection to date in any of the firms, as such it represents an important change in strategy. When focusing on individual market entries, though, some obviously represent changes of greater perceived importance than others in terms of sales volume or other benefits, such as whether they generate entries into further new markets. Respondents frequently express the opinion that many new market entries were not considered important at the time they took place, but later turned out to be just that. This is especially true in the case of partner-firm initiated new market entries, which commonly do not appear as having been perceived as being of very great consequence when initiated. For example, while Juggled Junk’s manager was only too happy to accept an offer from the manager of newly founded firm to act as Juggled Junk’s distributor in Japan, he did not envision that rapidly that market would expand to become one of the firm’s most important foreign markets. In the case of entries initiated by the focal firms’ management, changes are commonly either expressed by respondents as being of greater perceived importance at the time they were undertaken or this can be inferred when the efforts involved in such actions are analysed, e.g. when a new market was entered using a high commitment mode.
When looking at market entries in hindsight, some thus obviously represent changes of greater perceived importance than others. To properly understand the magnitude aspect of change, it would not appear sufficient only to look at what aspects of strategy it concerns but also to consider its impact on the firm as a whole. A relatively small change in market strategy, such as entry into a single new country, may have great strategic consequences for the firm. The strategic consequences can, of course, not be identified until after the change has taken place and some time has passed. What management perceived as an important change at the time might not appear so five years later. Inversely, a new market entry that was perceived as nearly insignificant at the time it occurred may generate a great sales expansion over time (see Exhibit 8.12).

8.3.3 Perceived Influences on Change Connected to Reaction and Proaction in Change

A great many observations in regard to perceived influences on change can be made across the different types of change discussed in this chapter and chapter seven. These will not be reiterated here. Suffice it to say that perceptions regarding opportunities in the environment and the performance of partner firms are very influential in both downstream and upstream changes, although in upstream changes perceptions regarding organisational needs play a greater role than in downstream changes. Simply put, foreign sales are primarily driven by perceptions of environmental opportunities while foreign purchasing and operations are also driven by perceived needs. This is perhaps not a very surprising finding although to some extent it contradicts normative assumptions concerning the nature of marketing as being a seller-driven activity. There are three related themes that emerge from the discussions on influences on change, though.

(1) The observation made by scholars that one must consider both environmental and organisational factors if a comprehensive picture of change is to be formed (see e.g. Melin, 1989) is certainly validated by this study. Clearly, to separate between managers’ perceptions of organisational, environmental and past strategy-related influences on change at times becomes very difficult. Frequently, perceptions concerning organisational, environmental and strategy-related factors interact in impacting managerial action. This is not just an analytical or theoretical problem; it also indicates something about how change comes about. While not put into these terms, this argument is certainly supported by other internationalisation researchers (e.g. Covello & McAuley, 1999; Wilkinson & Nguyen, 2003), who argue that combinations of theoretical frameworks offer fruitful avenues for understanding a variety of different aspects of internationalisation.

Considering perceptions as influencing change in strategy also appears to be a valid approach. Indeed, the meaningfulness of attempting to separate between perceived influences and “objective” influences – to the extent that the latter
can even be identified practically – can be questioned; perceptions of events and states are arguably as important in strategy formation than any underlying events and states.

(2) As a consequence of (1) when looking at influences on change it is also apparent that one must distinguish between triggers of or pressures for change and underlying reasons why managers were willing to undertake activities leading to change. In many instances it appears as if managers had little thought of change, but when perceived beneficial opportunities for change presented themselves, these were grasped. In other instances it appears as if management did indeed desire change although without actively pursuing it, again grasping opportunities that presented themselves. For example, would Nifty Nursing’s manager have been willing to let his firm enter into a joint venture in the Netherlands if he had not already been displeased with the firm’s distributor there? It is not likely that this would have been the case, as indicated also by the firm’s manager when asked about preferences regarding foreign selling modes. Looking only at what triggered the change in strategy, i.e. in this case an unsolicited offer from a would-be partner, would thus have generated only partial understanding of the change. In yet other cases, change was actively pursued by management, although apparently management had limited choice in what action to take, e.g. due to pressure from a parent firm or a powerful customer.

While the triggers can often readily be distinguished, it is clearly more difficult to find reasons why managers effected change. In the past, scholars have talked about this issue in terms of motives for internationalisation and triggers of internationalisation. While the former have commonly been characterised as reactive or proactive, the latter have typically been characterised as internal or external to the firm (see e.g. Hollensen (2004) for an overview). Triggers and motives have primarily been discussed in regard to internationalisation efforts in general, though, typically without specific reference to market selection, mode selection and partner selection.

Although the distinction between triggers of change and motives for change is straight forward in theory, when conducting research on this issue the two categories are clearly more difficult to isolate. Focusing on the individual decisions, events and actions that form the internationalisation process as well as employing theoretical frameworks capable of capturing a variety of influences may aid in this. E.g., the strategizing perspective, which focuses on strategic acting and thinking and which allows for varied influences on this process (Melin, Ericson & Müllern, 1999; Nygaard & Hull Kristensen, 2002; Jess Hansen, 2002), appears to offer a fruitful avenue for this type of inquiry.

(3) As a consequence of (2), the need for a typology capable of defining change not only as reactive or proactive, but one which manages to capture initiator or trigger of change as well as capturing perceived degrees of freedom in effecting change, emerged in chapter seven and was further developed in regard to the sub processes in this chapter. One cannot, e.g., assume that just
because the focal firm initiates a relationship, that this is a proactive act. It may be reactively initiated due to perceived needs for certain products or shrinking established markets, or may be initiated after pressure exerted by a parent firm or other external stakeholders. Part of the literature on internationalisation treats strategy formation somewhat naïvely in failing to capture this dimension. External actors’ activities, e.g. unsolicited orders from firms on new markets, do not in themselves generate changes in strategy in the focal firms. Management generates changes when accepting these offers. Change cannot thus simply be seen as externally triggered; one must also consider underlying conditions that must be satisfied for change to be effected by management, such as their perceived benefits.

8.3.4 Emergent-Deliberate Properties of Change Connected to Planning

To realistically characterise changes in SMEs’ international strategy, strategy formation must be considered as being partly deliberate and partly emergent, as argued by Mintzberg and Waters (1985) to be the case in most strategy processes. Then, what is a relatively more deliberate strategy and what is a relatively more emergent strategy? For a strategy or change to be deliberate, that particular strategy or change must be intended.

In none of the studied firms did the respondents claim that the development of their international business over decades followed a pre-conceived master plan. Quite to the contrary, the respondents almost unanimously denied the existence of any such intent, especially in earlier phases of internationalisation. Most comment on how unforeseeable events led them to change market strategy, mode strategy and partner strategy. On the other hand, respondents both express preferences for and exhibit certain types of behaviour entailing consistency in action, in turn implying a degree of deliberate thought and action, i.e. that some form of intent is present.

Intended changes may also generate other changes that were not intended. E.g., when a focal firm changes from a pattern of no relations being initiated to focal-firm initiation because management perceives a need to find new customers, this in turn may lead the focal firm into new markets that management had not originally intended to enter, perhaps also using modes that were never intended. In this case, the deliberate change in partner strategy generated what may be seen as an emergent change in market and mode strategy. When focusing on individual changes, a greater measure of intent may thus be present even if the process as a whole exhibits largely emergent properties, and vice-versa. The simultaneous existence of components of emergence and deliberation is, thus, not contradictory and may to some extent

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10 Of course, there are also intended changes that never come about, but these have not been studied within this project.
be explained by the fact that managers (and firms) act more deliberately in regard to specific events and opportunities than they do in regard to process formation over time. I.e., there are preferences among managers for dealing with certain situations in certain ways. Since this type of more deliberate action is not necessarily consistent over time, the internationalisation process as such may appear emergent in nature.

A realistic use of the terms deliberate and emergent strategy in SME internationalisation thus hinges on the extent to which specific changes, e.g. in regard to market entry, mode selection and relationship initiation, follow some form of – more or less outspoken – consistency in action. If managerial reactions to environmental and organisational stimuli are relatively consistent, strategy may be described as more deliberate. If managerial action is not consistent, then strategy may described as more emergent.

Exhibit 8.13: Degree of Formalisation of Intent and Consistency in Action

Rather than attempting to characterise change according to the eight generic types of strategy formation patterns proposed by Mintzberg and Waters (1985), perhaps a typology that takes into consideration consistency in action and degree of formalisation or outspokenness of intent regarding responses to perceived environmental and organisational conditions and changes is more appropriate (see Exhibit 8.13). While the dimensions should perhaps be considered as continua rather than generating discrete categories, for the sake of argument four ideal types can be identified. Firstly, a situation where there is formalised intent, e.g. a business plan, that is also consistently followed may be described as a formalised, largely deliberate strategy. This appears to be very scarce in the firms in the study. Secondly, a few examples of formalised intent to which firms do not adhere very strictly have also been found, as e.g. in the case of Enviable Environments, which may be described as a formalised but at least partly emergent strategy. Thirdly, much more common are those strategies that entail a low degree of formalisation, although which simultaneously exhibit a relatively great measure of consistency, as can be seen in the case of mode selection in many firms. This may be described as an informal, but largely
deliberate strategy. Fourth, there is an ideal type where there is little in the way of outspoken plans and where limited consistency in action can be noted. Examples of these include primarily the grasping of unsolicited orders leading firms into new markets, markets that managers may even have perceived as being not very suitable for their firms. This may be described as a largely emergent strategy.

Of course, degree of formalisation of intent and consistency in managerial action are not static over time. Rather, firms may move along the continua in either direction (see Exhibit 8.13), with changing degrees of formalisation and changing degrees of consistency in action. Also, at the same time different approaches can be found in regard to the different sub processes. What is quite clear among the studied firms is that a more deliberate approach to internationalisation implies greater concern for being on the right markets, operating through the right modes and dealing with the right partners, rather than expanding into new markets, employing higher commitment modes and finding more partners.

Intent is thus an important aspect to understand strategy formation. In regard to the findings of this study, what may be understood by intent? Throughout the empirical fieldwork, respondents have tended to downplay the role of formal search and evaluation behaviour in international strategy formation. In regard to market and partner selection, others have made similar findings (e.g. Ellis, 2000; Ellis & Pecotich, 2001). The lack of formalised criteria for decision-making is not necessarily the same as a lack of intent, however. Intent entailing planning in the sense that planning is used by Mintzberg and Waters (1985:259, defined as “clear and articulated intentions, backed up by formal controls to ensure their pursuit, in an environment that is acquiescent” is clearly rarely present in the contexts studied here. Perhaps the conditions of the term “plan” should be relaxed and by “plan” be understood something else, as implied by Bracker and Pearson (1986). Intuitive plans also signal intent, although Bracker and Pearson (1986) assume these to be of short-term duration, while in the firms studied here consistency in action and managerial preferences can often be noted over several years.

8.3.5 The Connection between the Deliberate-Emergent and Reactive-Proactive Typologies

Above it is noted that for strategy to be deliberate in nature, it must be intended. By intent can be understood anything from formalised plans to managerial preferences for certain actions. Just because a change was intended, though, does not mean that it was born of managerial urge to expand. Intent can be proactive and reactive in nature.

Downstream market selection can be used as an example to illustrate this. Many individual changes and realised strategies in between changes make up the market selection process. However, if the process overall appears to be
emergent in most firms, can individual changes still be characterised as being largely deliberate? As indicated above reactivity in change does not necessarily imply that the change in question is emergent in nature, since management may take a more or less deliberate approach to which changes are accepted. Similarly, even if occasional changes show more deliberate properties, it does not mean that they were necessarily proactive on the side of the firm, since management may have sought out new markets due to perceived pressures from e.g. parent firms.

Exhibit 8.14: Dynamics of Change in Multiple New Market Entries

With a dynamic perspective on change, one should also allow for the fact that the deliberate/emergent properties of change may vary over time. Changes entailing multiple downstream market entries can be seen as an example of this. For instance, when first entries into a new type of market coincide with partner-firm initiation of relations while later entries coincide with focal-firm initiation of relations, one may identify a change in market strategy that starts out as reactive, the first steps in the change exhibiting primarily emergent properties. In time, more proactive steps towards completing the change are taken, the change evolving into a more deliberate one (see Exhibit 8.14). Four instances of change in market expansion strategy could not be characterised according to the patterns otherwise observed (see Exhibit 7.1), these changes exhibiting both proactive and reactive components. Two of these concern Enviable Environments. When that firm entered Eastern Europe, the first entries were triggered by unsolicited contacts, while the firm later took the initiative to enter Hungary and Poland. Very broadly speaking, the change may thus be described as going from largely emergent to more deliberate. A similar but less clear pattern can be note in the case of the same firm’s entry into East Asian markets.

The opposite pattern, i.e. where first entries are focal-firm initiated and later entries are partner-firm initiated may of course also be conceived of, although has not been observed in this study.
8.3.6 Sub Processes Interrelatedness

The model of the change process deals primarily with change as an episodical event. Throughout the internationalisation process of any firm, change may occur several times in regard to any of the sub processes. Consequently, it may be assumed that one change impacts other changes, a notion on which many of the discussions in 8.1 and 8.2 are based. One aspect that has been touched upon several times in regard to this but which has not yet been explicitly addressed is how the sub processes are connected, and how strategy and change in regard to one sub process may impact the other sub processes. Below downstream sub process interrelatedness and upstream sub process interrelatedness are discussed, as well as the connection between downstream internationalisation and upstream internationalisation.

8.3.6.1 Downstream Market and Mode Selection Interrelatedness

Clearly, the mode and market decisions are connected. There is, e.g., a connection between differentiation between markets (into those of lesser or greater importance) and the modes selected for those markets. Occasionally, managers move from preferring a single mode to implementing the use multiple modes. The usage of higher commitment modes is then commonly focused to the firms’ key markets, while markets of less importance are served through lower commitment modes. However, since the decision to employ high commitment modes is so often a result of outside pressure rather than an internal strategic initiative, while higher commitment modes are employed on key markets, the differentiation between markets in itself does not mean that higher commitment modes are contemplated. Rather, it indicates relatively greater willingness to become involved in high commitment modes if necessary.

8.3.6.2 Downstream Market and Partner Selection Interrelatedness

That there is a connection between the market decision and the partner decision is obvious. In more than half of all downstream relationships where the initiator could be identified, this role was held by the partner firm (see Exhibit 6.5). This suggests that market entries are often reactive, undertaken without much in the way of planning or evaluation on the side of the firm, an issue that many respondents also comment on. Two patterns can be identified in regard to this. Here one also finds a key to explaining why there is not necessarily a contradiction between being reactive and deliberate in strategy formation. A first strategy implies that the firm will enter (more or less) any markets that would-be partner firms suggest they enter, without much consideration regarding the specific market on the side of management. Rather, the focus is on evaluating the partner, to the extent that evaluation is undertaken at all. Thus, here the partner decision is more important than the market entry decision. A second strategy implies that the firm will only enter markets that would-be partner firms suggest they enter if these markets fit management’s
plans regarding which markets should be entered (provided, of course, that the partner firm is acceptable to management). Thus, here the market entry decision is more important than the partner selection decision. Overall, the first strategy is more common early on in internationalisation, while there is greater focus on the second strategy in later stages of the process.

8.3.6.3 Downstream Mode and Partner Interrelatedness
What partner you decide to work with to some extent determines the organisational form within which that collaboration will take place (cf. Andersen & Buvik, 2002). Similarly, what modes you are willing to become involved in determines which firms are your potential business partners. The key question is, which is the more important decision? I.e., will the desire to work with a specific partner outweigh any reluctance in regard to mode?

In a (very) few instances it can also be seen how different modes are employed within the frame of the same relationship (see e.g. Intelligent Infrastructure in France). It can also be noted in a few firms, such as Popular Playgrounds, that management’s displeasure with working through a particular mode (sales on foreign markets through local manufacturers) led to the termination of many relationships. Also, in one instance force was actually applied to make the partner stop manufacturing on their own if they were to remain as Popular Playgrounds’ distributor. Whether the mode or partner decision dominates thus arguably depends on the relative importance of the market, the position established there by the partner firm, the difficulties and costs involved in switching partners (cf. Petersen, Benito & Pedersen, 2000) and the reluctance among management to be involved in certain modes.

8.3.6.4 Upstream Market and Mode Selection Interrelatedness
In the case of higher commitment upstream modes, there is a stronger connection between market selection and mode selection than in the case of lower commitment modes. In the case of contract manufacturing, low cost countries dominate. Clearly, the markets are selected because the mode is more appropriate there, given firm objectives, regardless whether the relationship is initiated by the focal firm or by another firm. In other instances, the mode is selected because the firm requires that type of presence on the specific market, like when Intelligent Infrastructure and Literary Logistics set up operations subsidiaries on large markets, too remote to be served from the home country.

8.3.6.5 Upstream Market and Partner Selection Interrelatedness
Most upstream relationships are initiated by the focal firms (see Exhibit 6.10). It is clearly so that the focal firms rarely initiate relations with firms outside the established range of markets, though (see Exhibit 8.10). There is thus a connection between the partner and market selection sub processes, indicating a preference among purchasers for sourcing from established markets.
If there is a preference for sourcing from certain markets over others, though, does that mean that managers avoid entering their firms into relationships when the focal firms are approached by would-be suppliers located outside established markets? While it has been noted several times that apparently sourcing needs outweigh concerns regarding foreign markets, the empirical material provides few clues concerning relationships that were not established. The small number of relations on atypical (remote) markets might lead one to suspect that relations on such markets are avoided, though.

8.3.6.6 Upstream Mode and Partner Interrelatedness

The desire or need to buy certain products will also lead firms to buy from certain suppliers, meaning that only certain modes are available. There is thus a connection between the mode and the partner decision. It is clearly also the case that the focal firms do not initiate relations with partner firms unless these fit preferred or typical modes, at least in the case of sourcing (see 8.2.2).

One might also speculate concerning the extent to which certain sellers are avoided because of their mode of selling, e.g. through an intermediary when managers prefer direct contact. The empirical material certainly indicates that it is reasonable to assume that this happens, as implied by the quotes in 8.2.2.

8.3.6.7 Downstream and Upstream Interrelatedness

Several researchers imply that the impact of downstream internationalisation on upstream internationalisation is both a neglected and potentially very important issue (see e.g. Fletcher, 2001; Forsman, Hinttu & Kock, 2002). Regarding this, the firms in the study provide some varied findings. While first upstream and downstream entries most frequently occur on markets close to the home market (see Exhibits 6.2 & 6.8), the small number of foreign sourcing markets combined with managerial reluctance to source from remote markets, largely explains why firms typically also export to the markets from which they import. Changes in sourcing market selection are thus not commonly connected to changes in downstream market selection, reflecting findings of e.g. Forsman, Hinttu and Kock (2002), and very few direct links between upstream and downstream market selection have been identified among the studied firms.

In a few instances, it is possible to identify direct influences of downstream internationalisation on the selection of atypical modes in upstream internationalisation, though. E.g., in Maximum Mobility, Kingly Keyholes and Harmless Heating contacts with customers led to foreign contract manufacturing opportunities and Optimal Offices established a combined sales and production subsidiary in the Netherlands.

A small number of direct links between sales activities and sourcing activities have also been identified, as have a few instances where a downstream relationship led to the initiation of an upstream relationship (and the other way around). Largely, though, there appears to be very little direct impact of downstream changes on upstream internationalisation and vice-versa.
CHAPTER 9

Conclusion

The purpose of this thesis is to describe and explain changes in strategy in the internationalisation process of industrial SMEs. This chapter presents a concluding discussion aimed at making explicit how this purpose has been fulfilled. Firstly, seven statements regarding different aspects of change are formulated (see 9.1). Secondly, these statements are contrasted to the analyses of the individual cases to ensure that the behaviours noted in the empirical study are adequately captured (see 9.2). Then, some limitations of the study are addressed (see 9.3) and implications for future research and managerial practice are outlined (see 9.4).

9.1 Industrial SME Internationalisation: Seven Statements

The conclusions of this thesis are presented in the form of seven statements. These statements are empirically grounded in the sense that they are based on the interpretation of observations made after interviews with people who have been practically involved in international activities. The statements are also theoretically grounded since they have been generated based on a theoretically derived understanding of the phenomenon under study. Further, the statements are grounded in past research since they build on and take into consideration findings of previous empirical studies in the SME internationalisation area. Thus, these statements comprise a theoretical contribution to the understanding of industrial SME Internationalisation.

In regard to making theoretical contributions, Eisenhardt (1989:548) notes that good theory is “parsimonious, testable, and logically coherent”. She also notes that one of the weaknesses of theory building from case studies is the inherent risk that empirical evidence will generate overly complex theory. A theoretical contribution is, thus, not necessarily better because it can capture all conceivable aspects of the phenomenon under study if that simultaneously entails great complexity. In order to comply with Eisenhardt’s (1989) recommendations concerning theoretical contributions from case-based research, it has been found meaningful to focus on the most prevalent and pertinent findings across cases. Each of the first six statements is concerned with descriptive aspects of change, explanatory aspects of change and placing change in the process of internationalisation. Thus, the statements draw on the findings
of chapters six, seven and eight (See Exhibit 9.1). Statements 1a through 6a draw mainly on chapter six, while statements 1b through 6b draw primarily on chapter seven. Statements 1c through 6c are derived mainly from chapter eight.

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<th>Exhibit 9.1: How the Statements Are Derived</th>
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In addition to the first six statements which focus on the separate sub processes, statement seven addressed sub process interrelatedness and draws largely on the discussions in chapter eight.

### 9.1.1 Statement 1: Downstream Market Selection

The first statement focuses on change in downstream market selection. While the literature on downstream market selection has not addressed this as a change process, there are plenty of studies that focus on why firms select foreign markets, although first foreign market entries have raised greatest interest among scholars. Aspects that have not commonly been studied in the past, though, include market withdrawal and change in downstream market strategy from a magnitude point of view. Thus, this thesis provides insights into issues regarding market selection that have only received cursory treatment in the past. At the same time, this study supports those studies on market selection that recognise this as a largely unplanned, evolutionary process where firms start out on nearby markets, successively entering more remote markets.

Concerning market selection, the following statement can be formulated with a focus on what changes occur, what influences these changes and how change can be understood when placed the sub process of downstream market selection in industrial SMEs:

S1a: Changes in downstream market selection

*Even if those foreign downstream markets established early on in the process remain as the firm’s main markets in terms of sales value, changes occur in the form of discontinuous new market entry into increasingly mentally and physically remote markets. Often, changes entail entry into clusters of new markets, but firms also undertake changes in the form of entries into single,
atypical markets. Change in the form of withdrawal is an integral part of market selection, although it occurs rarely.

S1b: Influences on changes in downstream market selection
Change in the form of atypical new market entry is primarily undertaken as a consequence of management grasping unsolicited opportunities. This is the primary mechanism also in entries into multiple new markets, although greater levels of managerial urge for expansion may be present. Important factors in facilitating this process are exposure of the firm to potential partner firms, antecedent relations as well as the introduction of new products that make the firm attractive to potential partner firms. While withdrawal from multiple markets is connected to perceived pressure from external stakeholders or an evaluation of international activities, withdrawals from single markets occur when management perceives that individual markets are not worthwhile pursuing. Past experience with foreign markets entries and managerial urge for growth might explain why unsolicited opportunities for new market entries are accepted.

S1c: Change and the downstream market selection process
The downstream market selection process is largely emergent in nature. Individual changes in strategy are commonly reactive, primarily triggered by external actors with varying degrees of choice in undertaking change perceived by management. There is little though to long-range planning of expansion patterns. Managerial preferences to some extent dictate which opportunities for new market entry are grasped, though, and may be regarded as an informal way of planning. Over time, if managers perceive that the international strategy of the firm becomes increasingly complex or perceive an external or internal pressure for change, a more deliberate approach to market selection may form, one which entails greater care for the firm being present on the right markets rather than more markets, as well as stronger differentiation between markets of greater and lesser importance.

9.1.2 Statement 2: Downstream Mode Selection
The second statement concerns downstream mode selection, which is also an issue that has interested scholars for some time. Studies concerning downstream mode selection in SMEs typically conclude that low commitment modes dominate in the early phase of internationalisation, firms progressively adopting higher commitment modes (Gankema, Snuif & Zwart, 2000), supporting some of the findings made also here. Unlike the research conducted for this thesis, though, most studies on internationalisation modes do not address the issue of de-internationalisation in the sense of firms exchanging high commitment modes with low commitment modes. Further, in past research, mode selection
has not typically been seen as a change process (cf. Pedersen, Petersen & Benito, 2002; Change & Rosenzweig, 2001), where managers not only select a new mode but also deselect an old mode, as is the case in the research reported in this thesis. Another relatively novel issue addressed here is that of firms employing multiple modes, either within or across markets. Consequently, some new insights into mode selection have been made here. The following statement may be formulated:

S2a: Changes in downstream mode selection

Low commitment modes dominate as does one or two modes, either the mode originally selected for foreign markets or another mode which has been implemented across the firm’s markets. Changes in strategy entailing exceptions to the firm’s typical mode occur occasionally. When high commitment modes are employed, they are preceded by low commitment modes, such changes in strategy typically being reserved for what are perceived as key markets. Change in the form of decreasing levels of commitment occurs occasionally while the use of multiple modes is typically avoided.

S2b: Influences on changes in downstream mode selection

Managers perceive that a certain low commitment mode is superior to others, which is often also determined by industry logic. Decreasing levels of commitment in mode selection can be observed if the previous high commitment mode failed to yield the expected outcome or when the reasons for its initial employment are removed. Change in strategy in the form of usage of alternative modes is primarily a response to what is perceived as unfavourable situations or situations that cannot be otherwise managed, often at the initiative of an external actor. Thus, changes do not commonly arise from managerial urge for growth, although management may for some time have been experiencing problems with existing modes. While market size and experiential learning do not typically explain initiatives for mode change, these are factors that might explain why managers are willing to accept atypical modes.

S2c: Change and the downstream mode selection process

Managerial preferences concerning modes are commonly stable over time unless perceptions change enough that a new mode is employed across the firm’s markets. Together with extended periods of stability in strategy, this gives the downstream mode selection process the appearance of being largely deliberately formed. Changes concerning single or a few markets are typically reactive in nature and exhibit more emergent properties. Changes commonly entail limited perceived choice, being undertaken when markets are regarded as important enough that presence there motivates mode change. A more deliberate approach to mode selection implies greater care that the right mode is selected for each market, not that higher commitment modes are used.
9.1.3 Statement 3: Downstream Partner Selection

In the third statement, downstream partner selection is in focus. While past research to some extent has attempted to define partner selection depending who initiates relations with foreign partner firms (Ellis, 2000; Ellis & Pecotich, 2001; Hohenthal, 2001), this typically has not been considered as a change process in the sense that this thesis does. Although some studies have attempted to characterise firm behaviour as reactive or proactive (Campbell, 1996) and the process as emergent (Brush, 1995), studies that follow firms over time enabling the identification of patterns in change are clearly scarce. Another issue addressed here that remains otherwise nearly unexplored in an SME internationalisation context is that of relationship termination. Consequently, also in regard to changes in partner selection strategy does this thesis provide some novel insights. The following statement may, therefore, be formulated with a focus on which changes occur, what influences these changes and how they are part of the sub process of downstream international partner selection:

S3a: Changes in downstream partner selection
Overall, other-firm initiation of relationships is the dominant way for the industrial SME to find foreign partners, while the industrial SME is the dominant terminator or relations. Exceptions from these otherwise prevailing patterns occur occasionally, though. At times, a change towards greater levels of activity on the side of the focal firm in relationship initiation can be detected, although not in connection with entry into new markets. Overall, the industrial SME is most active in regard to initiating and terminating relationships on key markets.

S3b: Influences on changes in downstream partner selection
Primarily managerial urge for growth and the perceived need to replace terminated relations lie behind changes in behaviour entailing focal-firm initiation of relationships. When management perceives that the firm has entered those markets that are believed to be suitable at the time, when no specific partners need to be replaced or when the customer base does not need to be added to, the industrial SME largely ceases to pursue foreign partners. When the industrial SME continues to attract interest from would-be partners, change towards a pattern of partner initiation of relations forms. When management perceives that there is a problem with the partner firm, mode or market, change in the form of a pattern of focal-firm termination of relationships emerges. This pattern is often triggered by an external change agent, though.

S3c: Change and the downstream partner selection process
Changes in initiation and termination patterns exhibit both emergent and deliberate properties. Periods of stability in strategy vary greatly in length,
although one or several periods covering several years without change in strategy, can be identified. Informal or intuitive plans in the form of rules of thumb commonly exist regarding how to select partners. A more deliberate approach to partner selection commonly forms over time and in regard to key markets. This implies greater care that the industrial SME works together with the right partners rather than with more partners.

9.1.4 Statement 4: Upstream Market Selection

The fourth statement is concerned with upstream market selection. This issue certainly has not received the same amount of attention that downstream market selection has. Thus, not a great deal is known about sourcing market entry and withdrawal. In regard to this issue, the thesis generates some new insights, allowing the following statement to be formulated:

S4a: Changes in upstream market selection

Those sourcing markets that are entered early on during the upstream market selection process remain among the most important ones, there being apparent no change in strategy entailing significant expansion in the number of sourcing markets over time. Nearby countries dominate, although low magnitude changes in the form of single entries into atypical, remote sourcing markets may occur occasionally, as does sourcing market withdrawal.

S4b: Influences on changes in upstream market selection

Changes in sourcing market selection strategy are primarily effected after management perceives a pressure or need to buy from a foreign market, or less commonly receives an unsolicited offer leading the firm into a new market. Change in the form of sourcing market withdrawal is primarily effected when a single relationship on a foreign market is terminated, in turn primarily a result of changing perceived sourcing needs. An common reason behind the lack of change in the form of sourcing market expansion is negative managerial perceptions regarding foreign sourcing, in turn implying that foreign sourcing activities are primarily undertaken when there are no satisfactory domestic alternatives.

S4c: Change and the upstream market selection process

Overall, negative managerial perceptions concerning foreign sourcing and focus on few sourcing markets lend the slowly unfolding process of upstream market selection the appearance of being largely deliberately formed. Periods of stability in strategy often cover many years. While changes in strategy are

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1 Since so few instances of foreign operations have been encountered, this aspect of upstream internationalisation is excluded from statements 4-6.

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scarce, they do, however, exhibit largely emergent properties, being reactions to external and internal pressures for change or unsolicited offers. There is little or no thought to long-range planning.

9.1.5 Statement 5: Upstream Mode Selection

In the fifth statement, upstream mode selection is in focus, an issue that has certainly not received as much attention from scholars as downstream mode selection. Those few studies that do focus on upstream mode selection do not consider this phenomenon as a change process, however, and do not typically focus on identifying changes in sourcing modes, focus on identifying influences on such changes or address change as a component of the upstream mode selection process. Consequently, some new insights have been reached, and the following statement concerning upstream mode selection can be formulated with a focus on sourcing modes:

S5a: Changes in upstream mode selection
A single, low commitment mode dominates, although changes in the form of exceptions to the firm's typical mode occur occasionally. It cannot be presumed that higher commitment modes are preceded by lower commitment modes, the usage of the former commonly occurring in connection with entry into a new upstream market.

S5b: Influences on changes in upstream mode selection
Managerial preferences for certain modes largely explain consistency in mode selection, which may also be a consequence of industry logic. If change in the form of high commitment mode usage occurs, this is done to exploit specific, typically unsolicited opportunities. Antecedent relations are commonly important in this decision. If atypical low commitment modes are accepted, this occurs when no alternative is perceived to exist or be functional. Perceived needs in combination with a lack of alternatives will, consequently, outweigh managerial mode preferences.

S5c: Change and the upstream mode selection process
Managers express preferences for certain modes, preferences which are stable over time and which to some extent explain the seemingly deliberate properties of the upstream mode selection process. Individual changes, if such can be identified, typically exhibit more emergent properties and are primarily reactive in nature. While there is little thought to long-range planning, periods of stability in strategy are commonly long, typically covering years or even decades.
9.1.6 Statement 6: Upstream Partner Selection

The sixth statement concerns upstream partner selection, an issue apparently not addressed to any appreciable extent in an SME context. Consequently, this study’s attempts at identifying changes in strategy, influences on changes and change in the upstream partner selection process, generates some new insights. The following statement regarding upstream partner selection with a focus on sourcing partnerships can be formulated:

S6a: Changes in upstream partner selection
*The focal firm is the dominant relationship initiator and terminator, although exceptions to this type of behaviour occur primarily in regard to relationship initiation. Commonly, for long periods of time there is little activity in initiation and termination of relations, though, the most common change in strategy entailing increasing and decreasing levels of focal firm activity.*

S6b: Influences on changes in upstream partner selection
*Perceived needs for certain products prompt managers to initiate relations during periods not otherwise characterised by this type of behaviour, thus generating a change in strategy. If any changes in regard to termination occur at all, displeasure with suppliers is the main reason why managers terminate single relations, while in multiple relationship termination changing sourcing needs are also an important factor. Primarily perceptions regarding organisational conditions in the industrial SME, thus, generate changes in initiation while perceptions regarding both environmental and organisational conditions impact changes in termination behaviour.*

S6c: Change and the upstream partner selection process
*A lack of action and consistency in action give the upstream partner selection process the appearance of being deliberately formed. Individual changes show more emergent and reactive properties, although typically for long periods of time there is no change in strategy apparent at all. The process is not formally planned, although intuitive plans guide partner selection, in which long-term relations are strived for.*

9.1.7 Statement 7: Sub Process Interrelatedness

Statement seven is concerned with how the downstream sub processes are interrelated, how the upstream sub processes are interrelated and how upstream and downstream internationalisation are interrelated. More specifically, it concerns how changes in one sub process of internationalisation might impact the other sub processes of internationalisation. In extant research, this is not an
aspect that has been in much focus, although several researchers indicate that this is potentially a very important issue that warrants more attention from scholars (Fletcher, 2001; Forsman, Hinttu, & Kock, 2002.). Insights into these issues generated by the study reported in this thesis are summarised into a statement below.

S7a: Downstream sub process interrelatedness
On key markets, firms exhibit greater willingness to undertake changes entailing the use of high commitment modes and greater focal-firm activity in relationship initiation and termination is apparent. Mode preferences may lead to some potential partner firms being selected over others and may prevent changes in market selection strategy.

S7b: Upstream sub process interrelatedness
The upstream sub processes are commonly characterised by a lack of change. Needs for certain products or managerial desires to exploit certain opportunities will commonly outweigh preferences for specific modes, though, and may, thus, lead to changes in mode selection. When atypical modes are used, this is commonly the case on mentally or physically remote markets. Preferences for certain modes also lead firms into specific markets and to initiate and terminate certain relations. There is a connection between type of market and level of focal-firm activity in relationship initiation and termination, greater levels of activity being apparent on the firm’s established range of markets.

S7c: Interrelatedness of downstream-upstream internationalisation
Overall, changes in downstream international strategy are typically triggered by external actors or managerial perceptions concerning environmental conditions. This is frequently the case also in changes in upstream internationalisation, although in the latter case organisational changes and perceptions regarding organisational conditions play a greater role than in the former. There are few direct connections between upstream and downstream changes, however, even if occasionally antecedent upstream relations will impact the initiation of downstream relations and vice-versa.

The next sub chapter will compare these statements to the empirical material as a step in ensuring that relevant and accurate conclusions have been drawn.
9.2 Returning to the Empirical Material

Although taking a number of measures aimed at ensuring the quality of the empirical study and the subsequent analysis, each step in the data analysis process by necessity also entailed a measure of data reduction and a focus on major findings. As a final step in checking the quality of the study, therefore, the seven statements are contrasted to the within-case findings.

While of course the statements presented in the previous section (see 9.1) lay no claims to universally describing and explaining the behaviour of all industrial SMEs on an individual firm level, it can nonetheless be interesting to see to what extent they coincide with findings regarding the behaviours of the firms in this study. There are two major concerns in this undertaking. Firstly, the statements are checked for the extent to which they actually fail to capture the types of behaviour encountered in the individual firms. I.e., the statements are checked for lack of relevance. Secondly, the statements are contrasted against the empirical material to see whether there are contradictions. I.e., they are checked for lack of accuracy. Rather than looking for confirmation of the statement, attempts are, thus, made to reject or falsify them (cf. Wallén, 1996).

To illustrate this process, a table is constructed (see Exhibit 9.2). When the statement contradicts or lacks relevance in regard to the individual case to such an extent that it must be rejected, this is noted “R”.

In those instances where the statement is both applicable to the individual case and does not contradict empirical observations in any important way, the statement is noted as being not rejected, or “N”. Not every single aspect of the statement must be fully relevant to or fully observable in each case, however. A minor deviation from the statement will not lead to its rejection if the statement still captures the overall patterns observed in the case.

If some, but still only relatively minor, contradictions or deviations have been found, this is noted as the statement being partly rejected, or “P”. By a minor contradiction is understood a contradiction to the statement which still does reject the overall pattern. For example, one or a few individual changes in downstream mode selection may exhibit greater deliberate properties than suggested by statement 2c, while the general pattern indicated by the statement can still be observed.

As can be seen in the below exhibit (see Exhibit 9.2), overall there appears to be good fit between the within-case analyses and the statements. Each of the seven statements consists of three sub statements, generating a total of 21 sub statements that can be tested against the within-case analyses. Since there are 16 firms, a total of 336 sub statements-per-case tests for relevance and accuracy can be made. Of these 336 tests, 272 have been rated “N” for not rejected, 48 have been rated “P” for partly rejected and 16 have been rated “R” for rejected. While in itself being a relatively meaningless number, this implies that in 81 per cent of all tests the sub statements largely capture the behaviours of
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the studied firms. In 14 per cent of the tests, this is partly the case, while five per cent resulted in the rejection of the statement. This would seem to imply that overall the process of between-case analysis has been conducted with a reasonable trade-off in data reduction.

Since a theoretical contribution of the type presented above can hardly lay claims to fully explaining the phenomenon under study in all researched firms, however, there are of course also instances where individual empirical observations contradict the statements. There are thus a few central issues that require further discussion. Are there some statements that appear to be more or less supported than others? Are there certain firms, the behaviours of which the statements capture better than is the case with other firms? Perhaps most importantly, why have the statements failed to describe and explain what they were meant to describe and explain?

Looking at Exhibit 9.1, there are four firms where more than one quarter of the sub statements are partly or fully rejected. These firms are Agreeable Armchairs, Funky Furniture, Glossy Grains and Intelligent Infrastructure. In the cases of Agreeable Armchairs and Intelligent Infrastructure, much of the cause of the poor fit lies in the firms’ atypical approaches to upstream internationalisation. Otherwise idiosyncratic explanations must clearly be sought in each case and in regard to each sub process of internationalisation.

Overall, statements regarding upstream internationalisation exhibit more partial and full rejection than those concerning downstream internationalisation, implying that behaviour in regard to the former sub processes are more difficult to characterise across firms. No differences worth noting have been observed when the market, mode and partner sub processes are compared. Further, no major differences have been detected when statements have been compared depending on whether they deal with the identification of types of change (i.e. 1a-6a), influences on change (i.e. 1b-6b) or change in internationalisation process formation (1c-6c).

In conclusion, is this a purposeful contribution or not? Clearly, if more specific statements are formulated, they will be relevant to and match the behaviours of fewer firms unless the statements are made very lengthy and complex. If more general statements are formulated, though, they will become increasingly meaningless. A central question is, thus, when have statements been formulated that both describe and explain behaviours of individual firms and behaviours across firms? In short, when has an optimal theoretical contribution been made? This, of course, is a largely rhetorical question that cannot really be answered. Nonetheless, it impacts the extent to which this study may lay claims to generating implications for research and managerial practice. It also gives rise to some issues concerning limitations of this study.
9.3 Limitations of the Study

There are several limitations of this study. These concern its context specificity, some issues of methodology and operationalisation of concepts.

The specific geographic location of the firms in the study proved a limitation in regard to upstream internationalisation. There was a paucity of activity over time which prevented the collection of material as rich as that pertaining to downstream internationalisation. Especially operations aspects of upstream internationalisation proved elusive. This meant that operations could not be included in the statements, although the decision was taken not to exclude operations entirely from the thesis since doing so would have detracted from the understanding of internationalisation process formation of those firms involved in such activities.

On a conceptual level, the study might have benefited from a stronger separation between sourcing and operations, though. Since foreign operations turned out to correspond to such a small share of upstream activities (in terms of markets, modes and partners rather than financial investments), the lack of strong separation generated few practical implications for the analysis process, however.

The fact that the empirical study did not focus on a single industry might be seen as a limitation in achieving constancy in case selection. As has been observed in the empirical material, in different industries different logics prevail concerning mode usage. Largely practical concerns, regarding availability of firms to study and travelling times, for example, prevented a single-industry focus, though.

The method employed naturally also generates some uncertainties concerning the extent to which international strategies and changes have actually been uncovered in the studied firms. While measures were taken to ensure the comprehensiveness and accuracy of data such as interviews with multiple respondents and the use of secondary material, these measures proved difficult to implement consistently. Thus, it is likely that not all international relationships in which the focal firms have been involved have been recorded, which has consequences for the overall contribution of the thesis.

The study would likely have benefited from a stronger separation between firms depending on their ownership structure. Especially changes in ownership emerged as an important influence on changes in international strategy.

The study only focuses on market, mode and partner selection while there are arguably other aspects of international strategy that might be in focus, such as product standardisation/adaptation and coordination of international activities. The picture presented concerning change in strategy is thus partial.

With a truly dynamic process perspective the outcome component of internationalisation ought to be in greater focus, outcomes being an integral part of the process. This study has largely failed to take outcomes into consideration (except in instances when perceived poor performance led to
manifest changes), partly because the method did not allow this, partly because developing a method capable of handling the outcome aspect would likely have yielded a meagre result. In regard to the studied firms, it may be more or less assume that data concerning outcomes in financial terms could not have been obtained anyway.

The operationalisation of the change process as consisting of distinct periods, of course, entails a strong simplification of what in reality is a more complex process, as discussed also in 8.3.1. Due to the method employed and the time perspective under study in this thesis, however, an approach that might have generated greater insights into process dynamics could not be applied.

9.4 Implications

This sections comments on the study’s implications for future research and managerial practice.

9.4.1 Implications for Future Research

This study has a number of implications for future research. These are theoretical, empirical and methodological.

Primarily, this study has proposed and implemented a new way of regarding international strategy, one that comes closer to capturing strategy formation than has typically been the case in past SME internationalisation research. This study supports the idea that internationalisation can be broken down into sub processes. Future research should build on this understanding and also explore whether adaptation/standardisation of products (or services) and coordination of international activities are also meaningful sub processes to study.

Like this study, future research on international strategy formation and change would benefit from considering the relationship as the micro (or "tertiary") unit of analysis, adhering to Jones' (2001) observation that the internationalisation of a firm equals the totality of the firms' international relationships. Relationship initiator, circumstances surrounding initiation, mode involved, market(s) concerned, duration, termination and reasons for termination have clearly been demonstrated as important factors in understanding internationalisation. A theoretical perspective capable of conceptualising these aspects of strategy formation is, thus, necessary.

An important methodological implication is the recognition that the retrospective method, commonly cited as a weakness in studies employing such an approach, for most scholars offers the only realistic way to study international strategy formation over time. While a genuine real-time longitudinal method would certainly generate more reliable as well as richer observations, since processes form over long periods of time – often decades –
the conditions under which an entire study could be based on real-time research appear unrealisable. Further, since it can only be determined in hindsight whether a change in fact occurred, a real-time approach also appears to be a risky approach for a researcher to employ.

Using a retrospective method, however, does not mean that a lower level of stringency in data collection should automatically be accepted. An important methodological observation of this project is that in similar future studies, scholars would be wise to carefully select cases where there is greater access to secondary data, e.g. contracts and sales/purchasing records, since this lends greater credibility to interview data. Nonetheless, when focusing on relationships as the micro unit of analysis, reliance on respondents’ memories is typically the only available data source. One may, of course, discuss if attempts should be made to ensure the collaboration of the focal firms’ foreign partner firms. The extent to which this is a realistic option, though, depends on how many relations have been identified, possibly where the foreign partners are located and whether relationships are still active.

Future research should also connect process studies to performance or organisational outcomes, an important element of Rajagopalan and Spreitzer’s (1997) model (see Exhibit 2.4) which has served as an inspiration for this study. Little is known about the impact of sub process formation and profitability, for example.

This thesis has developed a number of statements regarding change in industrial SME internationalisation. As it stands now, that theoretical contribution has emerged from a study of a specific empirical context. While no claims are made concerning the universal applicability of these statements, they are nonetheless relevant to test against other empirical contexts. This should arguably be undertaken using a similar method to the one employed here, i.e. not necessarily subjecting the statements to testing in the statistical sense, since this is argued not to practical when employing the understanding of change that this thesis draws on (see 4.1.2).

One area of particular importance in future studies is upstream activities. Clearly, this is an issue that is underexplored while potentially of great importance to smaller firms. Future research should also explore whether more clearly separating between upstream internationalisation into sourcing and upstream operations will generate further insights.

Future research should also focus on what prevents change, an aspect of change that has not specifically been in focus here although it has been touched upon several times.

9.4.2 Implications for Managerial Practice

What implications for managers may be identified in a research project such as the one conducted here? Apart from the empirical case descriptions, some caution might be inspired by the mistakes committed by others in the past.
Consequently, this study points out a few issues that SME managers would be wise to consider in internationalisation.

Managers should exercise great caution when starting sales subsidiaries in connection with new market entry. Several firms in this study have done so, and in most instances the results have been very negative for the firms.

The success of international activities is strongly related to the choice of collaborative partner. If greater care is taken in partner selection, for example avoiding partners with limited experience or financial resources, costly, lengthy and difficult processes of exchanging foreign intermediaries can be avoided. Further, it should not be assumed that new markets cannot develop into markets of great importance. Care should, thus, also be taken when deciding to work with partner firms on new, possibly more remote markets. Simply grasping unsolicited contacts may work out well, but there are many examples of the focal firms not finding out enough about their would-be foreign intermediaries, ending up with poorly performing partners.

Whether one should recommend managers to develop clearer plans in regard to international activities is a complex issue. There is research contending that the correlation between formal planning and financial outcome is inconclusive (Fletcher & Harris, 2002). It is quite obvious from this study that the lack of long-term planning or even careful short-term planning has not prevented these firms from becoming highly international, at least on the downstream side. If a more planned approach among the firms would have yielded a better outcome in terms of international performance, can only be speculated about, though.

Several times in this thesis it is noted how being present at venues, primarily trade fairs, where the focal firms could be exposed to unsolicited contacts changed strategy in ways that were difficult to predict. Many of the focal firms’ most important international contacts were made this way. Participating in such events can, thus, be a general recommendation if international expansion is on the agenda, even if attendance at trade fairs in itself generates little in the way of immediate sales.

It is also noted many times throughout the case descriptions and cross-case analyses that antecedent relations were crucial in the formation of new relations. Managers that are intent on international expansion might, therefore, be wise to exploit their own social networks, the social networks of employees, as well as domestic and foreign business contacts. Hiring new staff with international experience has also shown to positively impact internationalisation in several firms.

A general recommendation to managers concerns foreign sourcing. While overcoming prevailing negative perceptions is perhaps not easy, being proactive in finding foreign suppliers might well prove to be a fruitful strategy rather than searching for foreign suppliers only when no domestic alternative can be found.
References


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### Appendices

#### Appendix 1: Downstream Relationships

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### Jönköping International Business School

#### 1999-2001 TW Partner firm - Direct exp to customer Partner firm

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### Kingly Keyholes

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Notes: See Appendix 3 for country codes. The overview contains also subsidiaries. ¹ Note that the compilation is only partial. ² A few relationships with distributors that were terminated in the mid-1990s transformation of distributors to agents are not listed. ³ Not including relations initiated prior to 1990.
Appendices

Appendix 2: Upstream Relationships

### Agreeable Armchairs

<table>
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### Appendices

#### Juggled Junk

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#### Kingly Keyholes

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### Popular Playgrounds

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Note: See Appendix 3 for country codes. The overview contains also subsidiaries.
### Appendix 3: ISO (International Organisation for Standardisation) Country Codes

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Appendices

Appendix 4: Interview Guide

General areas:

- Overview of firm history (founding, changes in ownership, changes in product categories, changes in management, financial development/growth, industry development)
- Foreign markets (aided by website, internal material etc.)
- Structure of foreign sales/purchasing activities & organisation
- Foreign turnover/purchasing as share of total turnover/purchasing
- Foreign manufacturing
- Start of internationalisation
- Other individuals in the firm that have been involved in activities relating to internationalisation
- Internal material in regard to internationalisation (e.g. contracts, market plans, overviews of foreign partners etc.)

Further areas aimed to achieve more complete overview of international relationships (after current markets have been established):

- Market withdrawal
- Other partners (per market) with which relationships have been terminated
- Other activities (per market)

Areas covered in regard to each relationship:

- Market(s) concerned
- Year(s) or duration
- Activities preceding relationship initiation (market research, evaluation)
- Relationship initiator
- Circumstances of initiation (incl. venue, antecedent relations)
- Type of transaction/mode (current, past)
- Reasons for termination (if applicable)

Further issues addressed after relationships have been charted (unless already raised by respondents):

- Preferences for certain markets
- Preferences for certain modes
- Partner selection strategy
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