European SME's and Global Business

European SME's and Global Business: A Scandinavian Perspective

By

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This book is dedicated my father, Gjert Emil.

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PREFACE

Globalisation has changed the competitive environment of entrepreneurs, and large and small firms are now operating with similar conditions. However, most research studies in international business tend to focus on large multinational enterprises. Hence this study focuses on international entrepreneurship and seeks to increase the understanding of the factors influencing the speed of entrepreneurial internationalisation. This is of significance to both the entrepreneur and government bodies that support enterprises in their internationalisation. There might be a performance advantage in rapid internationalisation, and an entrepreneurial firm that begins to operate in foreign markets during its formative period, is more likely to embrace an international identity than is an older firm.

The research objectives of this study have been achieved through four case studies of Norwegian SMEs, underpinned by in-depth interviews, observation, archival methods and documentation.

Research completed in this study has shown that some of the proposed forces influencing the speed of internationalisation vary in their significance. The research concluded that the technological advances that have taken place in the last decades have strongly contributed to the speed of entrepreneurial internationalisation. Furthermore, the entrepreneurial actor, foreign market knowledge and tie strength of the networks are also found to have strong significance to internationalisation speed. This particularly manifests itself into earlier entry to foreign market.

This study contributes to the growing area of international entrepreneurship literature, and to an increased understanding of SME internationalisation in Norway.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Since the early 1990s, the accelerated internationalisation of new ventures has attracted the attention of international business scholars, and several studies have attempted to explain why new ventures internationalise so early in their life cycles (Zahra et al., 2004). Most research studies in international business, however, tend to focus on large multinational enterprises (MNEs) as the traditional unit of analysis. Although valuable, most of these frameworks have proved to be too limited to explain the entrepreneur who pursues an international strategy (Ibrahim, 2004). While there are opportunities for entrepreneurs that internationalise, serious threats face those who ignore the international arena: with the liberalisation of trade and improved telecommunications, international competitors threaten domestic firms in formerly protected markets (Dana and Wright, 2004). Globalisation has changed the competitive environment of entrepreneurs, and large and small firms are now operating with similar conditions (Ibid). Thus it is important to be aware of, and understand, the factors that influence on the speed of internationalisation, both to the entrepreneur and government bodies that support enterprises in their internationalisation. By understanding the barriers that influence and moderate internationalisation, these can be illuminated prior to an internationalisation. The study of international entrepreneurship has grown rapidly over the past decade, reflecting the increasing globalisation of business activities and the rising importance of entrepreneurship in gaining a competitive advantage in global markets (Zahra et al., 2004). A recent definition of international entrepreneurship is the one of Oviatt and McDougall (2005: 540);

> "International entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services."

There are two branches to the study of international entrepreneurship, one focusing on the cross-border behaviours of entrepreneurial actors, and the other branch compares entrepreneurial behaviour among nations (Oviatt et al., 2004). The attention of this study will be on the cross-national border entrepreneurial behaviour of four Norwegian SMEs.

Research studies suggest that, as part of the entrepreneurial process, most entrepreneurs perceive international opportunities from the first day they start their business (Oviatt and McDougall, 1994). Entrepreneurs' personality traits and backgrounds drive them to scan the environment looking for market opportunities (Ibrahim, 2004). Differences between new and established ventures in mode of entry, pattern and speed of foreign expansion have also been pointed out as emerging research issues in international entrepreneurship (Zahra et al., 2004).

International trade agreements facilitated by the European Union (EU) and the World Trade Organisation (WTO) have facilitated an upward evolution of national powers to higher levels, for instance the European Parliament, and hence removed the domestic market protection formerly afforded by national governments (Dana and Wright, 2004). Thus a small firm, even if it prefers to not enter international markets, must achieve world scale efficiencies (Ibid). By January 2006 there were approximately 460,000 companies in Norway, employing 1.4 million people. 99. 5% of these companies have less than 100 employees, and occupy approximately 50% of labour force. These SMEs contribute to 54% of the total industry's turnover (Statistics Norway, 2006). Hence these SMEs and the respective entrepreneurs and managers deserve a broader attention from scholars, embracing their invaluable contributions to society.

1.2 Research Issue

Oviatt and McDougall (2005) have recently suggested a model of the forces influencing the speed of internationalisation, as an attempt to guide future empirical research on the topic.

The earlier in its history that a firm internationalises, the faster it seems to grow. Hence, it is fundamental to explain why some entrepreneurial behaviour crosses national border with greater speed than others. This study builds upon Oviatt and McDougall's framework, and has surveyed the forces enabling, motivating, mediating and moderating four Norwegian SMEs' internationalisation speed. In addition, the nature of these internationalisation processes has been assessed.

1.3 Research Aim and Objectives

The aims and objectives of any research project are largely determined by how much is already known about the topic selected (Shaw, 1999). The main research issue for this study is to explore the forces influencing the speed of internationalisation among SMEs in Norway and how they impact on the internationalisation process*?* There are two research objectives that emerge from the main research issue: Research objective 1: To explore differences and similarities between recent and earlier internationalisation processes among Norwegian SMEs, and Research objective 2: To investigate, in the context of four Norwegian cases, why the entrepreneurial internationalisation process happens at different speeds – exploring the forces influencing the speed of internationalisation.

Research objective 1 will be discussed in light of relevant literature on the stage theory-models, for example the Uppsala-model proposed by Johanson and Vahlne (1977, 1990), one of the most cited and criticised contributions within internationalisation literature. In contrast, more recent contributions as those of Bell (1995), Madsen and Servais (1997) and Ibrahim (2004) focus on the concept of ‘born globals’ or ‘international new ventures’, are utilised to illuminate the internationalisation process from an SME-perspective.

As regard research objective 2, the main emphasis of this research study, takes a starting point in a model recently suggested by Oviatt and McDougall (2005). The model is underpinned by findings and frameworks from studies within international business, entrepreneurship, anthropology, economics, psychology, finance, marketing, and sociology. Hence some of the literature reviewed relates to entrepreneurs (Anderson, 2000), knowledge (Autio, 2000) and networks (Bell, 1995).

1.4 Research Methodology for Primary research

Ghauri and Grønhaug (2005) point out that typical examples of qualitative research are research problems focusing on uncovering a person’s experience or behaviour, or where further understanding and revealing of an unexplored phenomenon is desirable.

The underlying research objectives require an open and un-structured approach to the research. Quantitative research techniques would not have facilitated this study to the extent that new aspects of accelerated internationalisation could have been properly illuminated. According to

Shaw (1999), small firm-research is at too “young” a stage in its development to benefit from a positivist research approach that encourages the use of quantitative methods of scientific inquiry. The primary concern of researchers should be theory development, not testing (Churchill and Lewis, 1986, cited in Shaw, 1999). Qualitative techniques have their strengths in measuring for example psychological factors, motivating factors, and employees’ capabilities (Amaratunga, 2002). This method also tends to take a “snapshot” of the situation, rather than measuring variables over time. In primary research, qualitative methods utilise observation, interview and focus groups. As regards secondary sources, archival methods and documentation are two available approaches (Jacobsen, 2005).

The research methodology for this study emphasises qualitative research techniques as regards primary research. Four cases are investigated and compared, according to the research objectives of the study. The case studies have been constructed utilising in-depth semi-structured interviews, observation, archival methods and documentation. Hence, several techniques have contributed to the data collection of the sample surveyed.

1.5 Structure of volume

Chapter 1 introduces the main theme of this study – international entrepreneurship. The reader is made familiar with the research. Further, the research issue, the aims and objectives to the study, and the research methodology are outlaid. At the end, the structure of the book is followed by a brief summary.

Chapter 2 outlays those theoretical contributions that influence on the conceptual framework, and defines small and medium sized enterprises, internationalisation, networks, knowledge and international entrepreneurship. The last part of the literature review concerns the framework model of Oviatt and McDougall (2005), which is central to this study.

Chapter 3 presents various directions within research methodology and explains why the most adequate approach is taken to this study. The case study-method, including research instruments as in-depth semi-structured interviews, observations, archival methods, and documentation, is pointed out as the qualitative approach taken, based upon naturalism as research paradigm.

Chapter 4 contains the findings of this study, first introducing the background of the four Norwegian case study companies selected for this research. This is followed by a cross-case analysis of the four case study companies, presenting the findings related to the two research objectives. Hence, the reader is able to compare the findings along the way. A number for tables presents summaries of the different findings throughout the chapter.

Chapter 5 discusses the findings from the previous chapter, matching the empirical findings against theory of internationalisation and international entrepreneurship. Next, the findings are incorporated into the conceptual framework and a descriptive framework emerges.

Last, emerging themes, research limitations, and suggestions for future research are presented.

1.6 Summary

This chapter has introduced this research study, and first given a presentation to the area of international entrepreneurship and pointed out the shortcomings of traditional research on internationalisation. The research issue has been explained and the aim and objectives of the study presented. The research methodology for this study has been introduced, followed by a summary of the 5 chapters that constitute this book

The next chapter will review the relevant literature to this study, regarding SMEs, internationalisation, international entrepreneurship, knowledge and networks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to present those theoretical contributions that have an influence on the research model: small- and medium sized enterprises, business internationalisation, network, knowledge and international entrepreneurship. The last part of this chapter presents the conceptual framework, which builds upon a recent suggested model from the emerging research field of international entrepreneurship.

2.2 Small and medium sized Enterprises

The vast majority of businesses in Europe are small, creating the most jobs and making the European economy viable (European Union, 2006). Despite the growing interest of international entrepreneurship, most research studies in international business tend to focus on large multinational enterprises (MNEs) as the traditional unit of analysis (McDougall and Oviatt, 2000). Hence it is important to account for the differences between these MNEs and the small and medium sized enterprises (SMEs), as the latter have the main focus of this research.

2.2.1 What is an SME?

There is no common consensus around the term SME. Internationally there are several definitions. There is a tendency that countries with a high share of large scale industry define SME broader in terms of size than in countries with little large scale industry (Isaksen and Spilling, 1996). The borders between small and large companies might also be dependent on the basis of comparison; a company with just a few employees might be "large" in the sense that it has a dominant market position within its niche. However, the most frequently used measure is employment (Ibid).

Within the European Union, a new definition of SMEs was adopted by the European Commission in 2005. SMEs are now defined according to the amount of employees and annual turnover. Medium-sized are defined as enterprises which employ fewer than 250 employees and whose annual turnover does not exceed €50 million (European Union, 2006). A small company is one which employs fewer than 50 employees and whose annual turnover does not exceed €10 million, followed by the micro firm that has less than 10 employees and the turnover does not exceed €2 million (Ibid). There is also an option of replacing the turnover with the value of the company's main assets. In addition, the enterprise has to be independent, having control over at least 75% of the capital or holding rights (Ibid).

Table 2.1 Structure of Norwegian Companies – two definitions

Size	Isaksen (1996)	EU (2005)
Large	0,6%	0,1%
Medium	4,2%	1,5%
Small	13,1%	8,3%
Micro	82,2 %	90,1%

Source: Based on figures from Statistics Norway (2006), N=459,853

Johansen (2003) defines a Norwegian medium-sized company as having less than 100 employees, a small company less than 20 employees and a micro firm less than 5. As illustrated in Table 2.1, Isaksen and Spilling (1996) also justify this division of the industry, as the SMEs are divided into more narrow categories.

2.2.2 SME characteristics

Compared to larger companies, the most striking characteristic of SMEs is that they are very different (Johanson, 2003). SMEs are found in all sectors, producing different products (Isaksen, 1996). Some SMEs produce for the home market and some produce export goods, some produce goods and some produce services, some are solvent and some are not, some are new and some are old, some are labour intensive and some are capital intensive, the productivity varies, and different SMEs have different market positions (Johanson, 2003). These differences make analysing all SMEs within the same framework very difficult (Ibid). However, according to Johanson (2003) there are some similarities to be found between the SMEs. First, the distance between management and the employees seem to be smaller in SMEs, contributing to a tighter network that generating a good climate for growth. Second, SMEs are more flexible in terms of changes in production processes or system requirements. Last, the disadvantage of being small is that the venture has less sources of income and thus more sensitive to exogenous changes in the economic conditions that create the framework within which they operate (Ibid). Ramström (1975 cited in Johanson, 2003) grouped SMEs with different characteristics, as an attempt to simplify a complex picture:

- The independent venture based on the development of a new idea,
- The service enterprise working within a certain region offering services of technical, administrative or financial character to a relative large amount of nearby companies,
- The franchise dependent on a superior organisation,
- The subcontractor that supply other companies, often larger companies,
- Subsidiary company that belongs to a corporation.

These categories are not mutually exclusive, however they illustrate that SMEs have different roles in the economy (Johanson, 2003).

2.2.3 SME in an international context

As regard SMEs and competition, the removal of barriers towards EU through the EEA-agreement has made way for foreign competitors to enter the Norwegian market (Johanson, 2003). On the other side, Norwegian enterprises gained access to the European market. Oviatt and McDougall (2005) suggest that many entrepreneurs pursue international markets because they are encouraged or even forced upon by foreign competitors. According to a recent survey of the global competitiveness, Norway ranks 12th, having advanced from 15th position last year (IMD, 2006). In Europe Norway rank as number 7, beaten by (in descending order) Iceland, Denmark, Switzerland, Luxembourg, Finland and Ireland (Ibid). (See Appendix B for complete list of countries) While competition might motivate internationalisation among entrepreneurs, technology is suggested to have enabled accelerated internationalisation the last decades

(Oviatt and McDougall, 2005). First, faster, more efficient and cheaper transportation between multiple countries have brought down the cost for foreign trade and investment (Ibid). Next, the cost of travelling has dropped significantly in terms of price, enabled entrepreneurs to travel more frequent and over longer distances (Ibid). The development within digital technology has enabled SMEs with limited resources to conduct market research in other countries on their own computer, and communicate cheaper and faster through e-mail (Ibrahim, 2004).

How the entrepreneur perceives these two forces; competition as motivator, and technology as an enabling force of internationalisation; together with the entrepreneurial opportunity, are central to the internationalisation of the SME (Oviatt and McDougall, 2005). Ibrahim (2004) states that no one single contribution can claim to provide a realistic explanation of the internationalisation process in the context of small business. Havnes (2003) point out that the stimuli to start exporting may be external and related to different factors such as saturated home market, better prices in export market and the most common; unsolicited orders, making it an unplanned event. The stimuli might also be internal such as excess capacity, uniqueness of the product, the personal interest and competence of the decision maker (Ibid).

2.2.4 SMEs in the Norwegian economy

Norway is a relatively large country, situated at the northernmost periphery of Europe. The geography is harsh, with mountains and fjords, and relatively few people live in Norway (4.5 million). However, Norway is, and has always been, relatively rich on natural resources as crude oil, minerals, energy and forest. Since the beginning of the 1970’s, oil extraction has become an increasingly important activity for the Norwegian economy (Isaksen and Spilling, 1996). Norway has become one of the richest economies in the world, with a relatively active, re-distributing state (Johansen, 2003). The public sector produces many foods and services that probably would be produced by the private sector in more liberal economies, especially in peripheral regions (Ibid).

The Norwegian economy runs at almost full capacity, at least compared to many other countries. This implies low unemployment rates (Johansen, 2003). It is increasingly new and small firms, rather than large ones, that are the major providers of new jobs (European Commission, 2003). By April 2006 there were approximately 460 000 companies in Norway, employing 1.4 million people (Statistics Norway, 2006). 99.4%

of these companies have less than 100 employees, and occupy approximately 50% of labour force. These SMEs contribute to 54% of the total industry's turnover (Ibid). Norway differs from other countries in Europe in many respects. One of the perhaps most distinctive characteristic is that Norway is not a member of the European Union. This means, in principle, that Norwegian policies can be defined within the nation. However, Norway has signed a treaty with the EU (the EEA – the European Economic Area). This treaty means that Norway has to adapt to European rules of competition, in exchange of access to the European market. Norwegian authorities are quite good at adapting to European rules and regulations, often quicker that the EU member states themselves (Johansen, 2003). More than 75% of all export from Norway goes to the EU (Innovation Norway, 2006). A recent survey among Norwegian enterprises stated that a majority of the managers did not experience any simplification or improvements after 10 years with the EEA-agreement, and this view was particularly prevailing with managers of SMEs (Euro Info Centre, 2006) Moreover, two thirds of the managers find little difference in exporting to EU compared with other international markets (Ibid), despite the unified European market.

The total exports from Norway increased by 15% in 2005, reaching a total of €105,000 millions. Of this, 80% were goods and 20% services. Norway's export of crude oil and gas contributed to 50 % of the total export last year (Innovation Norway, 2006). The director of Confederation of Norwegian Business and Industry recently stated his view on the future prospect of Norway in a global context:

> "The Norwegian economy is highly exposed to international economic cycles and price changes of exported goods. When the demand from international markets sooner or later cool off, Norway has once again to be able to offer the best products at the lowest price, in order to get the goods sold. This is dependent on a wage development similar to our trading partners and that the enterprises are able to gain market shares to their export goods. We have to focus into the future and take into account a situation where the global economy might give Norway greater challenges than we have experienced the recent years." [Petter H. Brubakk, in Confederation of Norwegian Business and Industry, (2006: 3) Author's translation]

Through the state owned body Innovation Norway, the Norwegian government assists SMEs in among others promoting trade in international markets. Different measures as export school, trade fairs, seminars, consulting and grants are utilised to help Norwegian SMEs release their potential and contribute towards innovation, internationalisation and promotion (Innovation Norway, 2006). Last year, €150 millions were targeted projects with an international orientation. Innovation Norway's priority areas are 1) collection and distribution of information and knowledge regarding international affairs, 2) exploitation of international opportunities, and 3) international exchange of technology and knowledge (Ibid). Innovation Norway foreign offices serve as mediators between Norwegian managers and foreign businesses.

2.2.5 SME and the entrepreneur

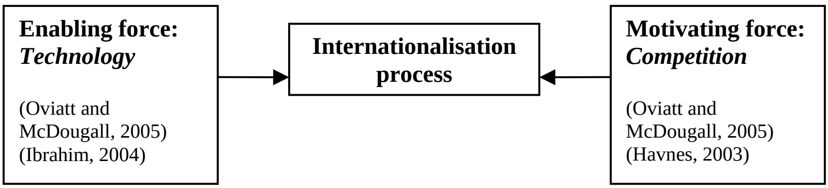
In a business context, entrepreneurship involves organising known resources in new ways, often leading to the creation of a new venture (Spilling, 2000). Entrepreneurship is of fundamental significance to the dynamic of industrial development, and contains important sources of innovation. In Norway, The Total Entrepreneurial Activity Index (TEA) has fallen every year since the country first participated in the Global Entrepreneurship Monitor (GEM) in 2000. However, Norway remains one of the most entrepreneurial countries in Europe, only beaten by Iceland, Ireland and Poland in 2004 (GEM, 2004). According to a survey among managers of Norwegian SMEs, 23% of the sample surveyed had set up the business they were working in either alone or together with others. 34% had set up *other* businesses as well, either alone or together with others (Spilling, 2000). Entrepreneurship has its counterpart in the companies that are liquidated (Ibid). The survival rates among new ventures in Norway are 60% after one year, and 50% after two years (Statistics Norway, 2006).

Entrepreneurship is first and foremost a mindset (European Commission, 2003). It covers an individual's motivation and capacity, independently or within an organisation, to identify an opportunity and to pursue it in order to produce new value or economic success (Ibid). Entrepreneurs are a heterogeneous group and come from all walks of life, yet there are certain common characteristics of entrepreneurial behaviour, including a readiness to take risk and a taste for independence and self-realisation (Ibid). Statistical data on new ventures in Norway reveal that an entrepreneur is more likely to be male (75%) and between 25 and 44 years old (65%) (Statistics Norway, 2006). Entrepreneurship is not necessarily a 'one man-show', but often a team of entrepreneurs set up a business together (Spilling, 2000). In comparison to domestic new ventures (DNV), international new ventures (INV) have been found to be significantly different on the basis of their entrepreneurial team experience, strategy, and industry structure (McDougall et al., 2003). In particular, the entrepreneurial team of INVs were more aggressive, and operated in more channels of distribution compared to DNVs (Ibid).

In summation, the role SMEs play and their contribution to a nations economy is significant. Because of the size of the SMEs, compared to larger and more rigid companies, Owner/managers are able to quickly respond to changes in the business environment. Thus, SMEs make the economy more dynamic and vital (European Commission, 2003).

Changes within technologies the last decades has enabled internationalisation of SMEs, and removal of for example trade barriers are forcing new potential competitors upon entrepreneurs, motivating them to take pre-emptive advantage of their business ideas (Oviatt and McDougall, 2005). Figure 2.1 illustrates how the two forces relate to international entrepreneurship and the speed of this process.

Figure 2.1 Enabling and motivating forces to internationalisation process of entrepreneurs



2.3 Internationalisation

Internationalisation is defined as the process of increasing involvement in international operations (Andersson, 2000). Important issues in the internationalisation concept are market choice and choice of entry mode (Johanson and Vahlne, 1977; 1990). Traditional internationalisation theories have mainly focused on larger, established, already multinational firms as trade and investment regulations and less developed transport and communication systems inter alia, posed considerable barriers to small resource constrained firms (Dana, 2004).

There are two dominant views in international business research: the economic and the process view (Benito and Gripsrud, 1992 cited in Andersson, 2000). In the economic view, the manager has access to perfect information and will choose the rational solution. The process approach has its base in organisational theory, which replaces the manager with behaviours (Cyert and March, 1963 cited in Andersson, 2000). Although these two views contribute useful knowledge of the behaviour of international firms, they do not provide all the answers. Since internationalisation is a complex phenomenon, many different perspectives are needed to understand it (Andersson, 2000).

In many studies, the international involvement of a firm has been described as a gradual development process (Cavusgil, 1980; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; 1990). The research traditions conceptualise export development as taking place in gradual and sequential stages (learning sequences involving feedback loops), based on a series of incremental commitment decisions depending on perception, expectation, experience, managerial capacity, etc. This slow and incremental manner may be due to lack of knowledge about foreign markets, high risk aversion, high perceived uncertainty, or similar factors (Madsen and Servais, 1997). The firm is assumed to build a stable domestic position before starting international activities (Rasmussen and Madsen, 2002). Perhaps one of the most well-known and discussed models, the Uppsala-model, were presented by Johanson and Vahlne (1977) where the firm follows four incremental stages in the internationalisation process:

1) No regular export

2) Export via independent enterprises or agents

3) Sales subsidiaries

4) Establishment of production plants overseas

This implies that additional market commitment as a rule will be made in small incremental steps (Andersen, 1993). There are, however, three exceptions. First, firms that have large resources experience small consequences of their commitments and can take larger internationalisation steps. Second, when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than experience.

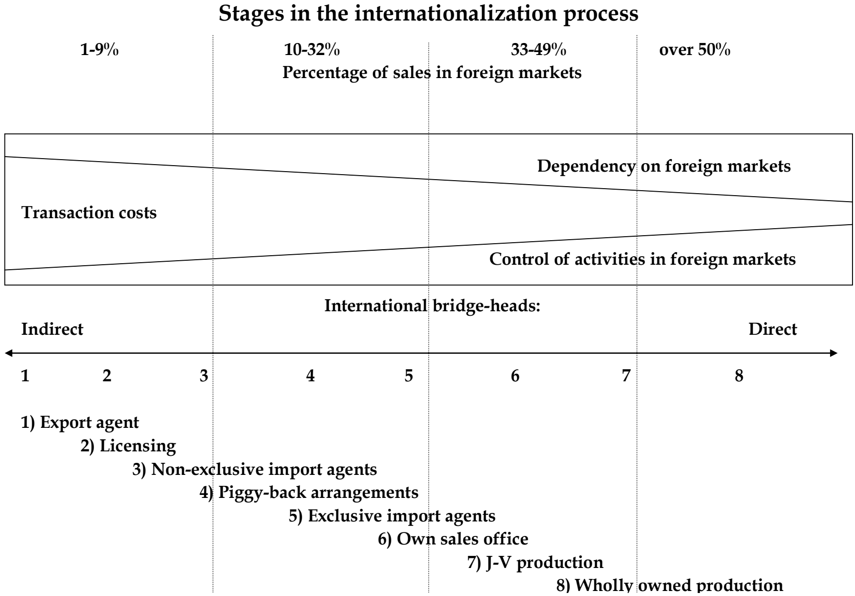
Third, when the firm has considerable experience from markets with similar conditions, it may be able to generalise this experience to any specific market (Ibid).

A major assumption of the stage or process theory is the gradual accumulation of knowledge. In essence, the notion of organisational learning is fundamental to the success of the firm's internationalisation strategy. Organisational learning in this context is the process of acquiring and assimilation new knowledge about the foreign market into the firm's pool of knowledge (Autio et al., 2000). Another pattern that the Uppsala-model of Johanson and Vahlne (1977) seeks to explain is the notion that firms enter new markets with successively greater psychic distance. Psychic distance is explained by differences in for instance language, culture, political system, which disturb the flow of information between the firm and the market (Ibid). Another manifestation of the internationalisation process is market commitment, either foreign investment or strength of links with foreign market, made in small steps. An illustration of increasing commitment is illustrated in Figure 2.2, explaining the relationship between commitment and the incremental stages of the process.

As Falkenberg (2005) illustrates in Figure 2.2, the dependency and control of activities in international markets relates to the degree of establishment that are chosen, ranging from export agents to wholly owned production. Thus, this model suggests the development of a company's presence in the international market, given the incremental approach of the stage theories.

A major criticism has been directed at the key tenet of the process theory: the notion that the internationalisation process is incremental and occurs at a later stage of the firm's growth process (Ibrahim, 2004). Indeed the theory does not explain the recent phenomenal growth of early internationalisation of relatively new knowledge-based entrepreneurial firms. In many of these firms, international activities are initiated during the venture creation process or in the early stage of venture growth (Ibid). The Uppsala-model of Johansen and Vahlne (1977) focuses on traditional cross-border behaviour, not on accelerated internationalisation or on entrepreneurial behaviour (McDougal and Oviatt, 2005). Welch (2004: 138) argues that:

Figure 2.2 The stages in the internationalisation process

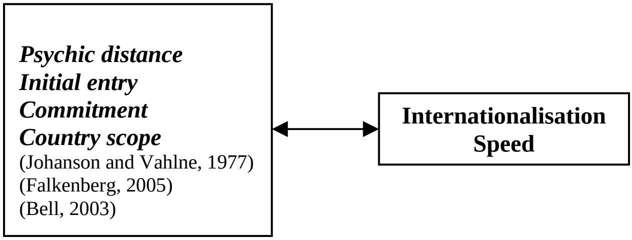


Source: Falkenberg (2005: 6)

> "The inability of the process view of internationalisation to explain international entrepreneurial activity centres upon the emphasis on incrementalism, that individuals/companies are constrained by limited information about foreign markets, limited experience of international operations and a general concern not to be exposed to unacceptably high levels of risk and uncertainty."

In summation, the traditional process view of internationalisation suggests that the international involvement of firms take place in gradual and sequential stages. The firm is assumed to build a stable domestic position before starting international activities. One of the key contributors to this school of thought are Johanson and Vahlne (1977), and their suggested measures and internationalisation stages are utilised in the framework, constituting of psychic distance, commitment, initial entry and country scope (See Figure 2.3). This so-called Uppsala-school has received much criticism, as it fails to explain the recent phenomenal growth of early internationalisation of new ventures (Ibrahim, 2004).

Figure 2.3 Measures of the internationalisation speed



In the context of this study, the Uppsala-school and a more recent contribution to the internationalisation theory (Bell, 2000; Falkenberg, 2005) will underpin this research.

2.4 Networks

Some of the recent literature on international entrepreneurial activity has focused on the importance of networks, particularly personal networks, as key explanatory factors (Welch, 2004) To SMEs, with limited resources which can be dedicated to specific tasks and limited capacity for market intelligence, networks can replace internal resources and capacities of large firms (Havnes, 2003). In this respect, internationalisation of the firm will be very closely related to the firm's capability of establishing and sustaining a cross-border network (Ibid). A general definition of network is: "A set of intersections or nodes belonging to a set of connecting lines or chains" (Dale et al., 2004: 19). Ford (2003: 18) defines a network as: "A structure where a number of nodes are related to each other by specific threads". Ford (Ibid) further explains that a business market can be seen as part of a network where the nodes are business units, such as producers, customers, service companies and suppliers of finance, knowledge and influence. The threads, or ties (Oviatt and McDougall, 2005) are the relationships between the companies. Both the threads and the nodes have their own particular content in a business network, and are heavy with tangible and intangible resources: physical, financial and intellectual, in many different forms. The business units or nodes consist of physical, technical and human resources bound together in a variety of different ways (Dale, 2004). Similarly, each relationship is a "quasi-organisation" that arises from the investment of physical and human resources by both companies (Ibid). The network is not a world of individual and isolated transactions, but the result of complex interactions