LULEÅ UNIVERSITY OF TECHNOLOGY

2004:053 SHU

MASTER'S THESIS

The Internet and SMEs' Internationalization-Cases Studies of Swedish Manufacturing SMEs

LU LIU
SHUANG LI

MASTER OF SCIENCE PROGRAMME IN BUSINESS AND ECONOMICS
SPECIALIZATION: E-COMMERCE

Department of Business Administration and Social Sciences
Division of Industrial Marketing and e-Commerce
Supervisor: Lars Bäckström

2004:053 SHU • ISSN: 1404 – 5508 • ISRN: LTU - SHU - - 04/53 - - SE

Abstract

For many years, the internationalization of the markets, caused by the convergence of the tastes across borders, was thought to result in very large multinational enterprise, which could use their advantages in scale economies to introduce world-standardized products successfully. But, with the development of the world economy, especially the commercial use of the Internet, today's international market is creating more and more opportunities and competitive challenges for SMEs, which have been traditionally considered as weak contributors to the internationalization. The Internet, argued by lots of scholars, presents a fundamentally different environment for SMEs to explore the global market. The purpose of this study is to explore manufacturing SMEs' experience of integrating Internet to their internationalization. It is done by the comparison of existing literature and the sample Swedish SMEs. The findings show that, in these companies, the Internet is only a cheap and fast tool to search information and to do communication when going internationalization. None of them has integrated the Internet into its business strategies or business models, which is argued the best way for SMEs to take advantage from the Internet. For manufacturing SMEs, especially for the SMEs who produce high technological, specialized products, the traditional way of person-to-person business model and the gradual penetration pattern is still the dominant method to do international business.

Acknowledgement

Five months working on this thesis is not so long a journey but quite hard a process. We did all our best to complete the job. SMEs' internationalization is not a new topic in international marketing research, which can be dated back to the middle of last century. While, when combining with the Internet, especially the manufacturing SMEs' use of Internet to go internationalization, it is an area that not so many researchers have paid much attention to. Though all our energy was put into the work, without many other people's great help, it cannot be done and gives some new contributions to this research area. Here we are going to give our sincere gratitude to all of them.

First we would like to thank Mr. Lars Bäckström, our instructor, who has kept giving us invaluable advices, great supports, and all kinds of help. His intelligence, erudition, and kindness are always unforgettable.

Next we would like to give thanks to the managers of Liko AB, Svalson AB, TSG and Polarbröd AB. Without their kind offer of the interview, precious information, feedbacks and encouragement, we could not get such plenty of the empirical data.

And then, we would like to thank Ms. Carola Strandberg, and all the staff in the Industrial Marketing Division for their kind helps.

Finally, we should give many thanks and tributes to our families.

Lu Liu would like to thank her dearest daughter, husband and parents. Without their wholehearted love, trust, understanding and support, she cannot complete the study of this *e*-MBA programme.

I, Shuang Li would like to give thanks to my dearest son, husband, parents and parents-in-law. I would never have completed this e-MBA programme and thesis without generous contributions and the unconditional support from my mother and mother-in-law. I would like to give the best wishes to their health here.

Luleå, January 28, 2004

Lu Liu　　　　　　　　　　　　Shuang Li

Table of Contents

Chapter 1 Introduction ………………………………………………… 1
1.1 Background …………………………………………………………….. 1
1.1.1 The Internationalization of SMEs ……………………………….…….. 1
1.1.2 Definition and Characteristics of SMEs ………………………………. 2
1.1.3 The Internet, World Wide Web and the Internationalization ………… 3
1.2 Research Problem ……………………………………………………… 4
1.3 Structure of the Study ………………………………………………….. 5
Chapter 2 Literature Review ………………………………………. 7
2.1 Internationalization Theories 7
2.1.1 Motives of Internationalization of SMEs ……………………………… 7
2.1.2 Internationalization Process Modes …………………………………… 8
2.1.3 Choice of Entry Modes ……………………………………………….. 14
2.1.4 Barriers to SMEs' Internationalization ………………………………... 17
2.2 SMEs' Internationalization and the Internet ……………………………… 19
2.2.1 Internet's Properties for Doing Business ……………………………… 19
2.2.2 Advantages of Internet for SMEs ……………………………………… 20
2.2.3 Internet Applications for SMEs' Internationalization …………………. 22
2.2.4 Critical Imperatives of the Internet in International Business ………… 31
2.3 Summary ……………………………………………………………….. 32
Chapter 3 Research Questions and Frame of Reference ………. 33
3.1 Research Problem an Research Questions ……………………………... 33
3.2 Delimitation …………………………………………………………… 34
3.3 Frame of Reference …………………………………………………….. 34
3.3.1 Frameworks of Each Research Question ………………………………. 35
3.3.2 Framework Applying to All Research Questions ……………………... 37
3.4 Summary ……………………………………………………………… 39
Chapter 4 Research Methodology ………………………………. 40
4.1 Research Purpose ……………………………………………………… 40
4.2 Research Approach ……………………………………………………. 40
4.3 Research Strategy ……………………………………………………… 41
4.4 Sample Selection ………………………………………………………. 42
4.5 Data Collection Methods ……………………………………………… 43
4.6 Data Analysis ………………………………………………………….... 44
4.7 Quality Criteria ……………………………………………………….... 45
4.8 Summary ……………………………………………………………….. 46
Chapter 5 Empirical Data Presentation ………………………… 47
5.1 Case One: Liko AB …………………………………………………….. 47
5.1.1 Company Background …………………………………………………. 47
5.1.2 General Use of the Internet ……………………………………………. 47
5.1.3 Data Regarding the Research Questions ………………………………. 48
5.2 Case Two: Svalson AB ………………………………………………… 50
5.2.1 Company Background ………………………………………………… 50
5.2.2 General Use of the Internet ……………………………………………. 50
5.2.3 Data Regarding the Research Questions ………………………………. 51
5.3 Case Three: The Trimar Sterling Group (TSG) …………………………... 52
5.3.1 Company Background …………………………………………………. 52
5.3.2 General Use of the Internet ……………………………………………. 52

5.3.3 Data Regarding the Research Questions ………………………………. 53
5.4 Case Four: Polarbröd AB ……………………………………………… 54
5.4.1 Company Background …………………………………………….… 54
5.4.2 General Use of the Internet ……………………………………….… 55
5.4.3 Data Regarding the Research Questions ……………………………… 55
Chapter 6 Analyses ……………………………………………….. 57
6.1 Within-Case Analysis ……………………………………………….….. 57
6.1.1 Data Analysis Regarding the First Case: Liko AB ……………………. 57
6.1.2 Data Analysis Regarding the Second Case: Svalson AB 61
6.1.3 Data Analysis Regarding the Third Case: The Trimar Sterling Group ... 63
6.1.4 Data Analysis Regarding the Fourth Case: Polarbröd AB …………….. 65
6.2 Cross-case Analysis ……………………………………………………. 67
6.2.1 Cross-analysis Regarding Internationalization Process Models ……..… 68
6.2.2 Cross-analysis Regarding Entry Mode Selection ……………………… 68
6.2.3 Cross-analysis Regarding Entry Barriers ……………………………… 69
6.2.4 Cross-analysis Regarding Internet Properties and Advantages for SMEs ………………………………………………………………. 70
Chapter 7 Conclusions and Suggestions ………………………… 72
7.1 Conclusions from the Study …………………………………………….. 72
7.1.1 Conclusions Regarding the First Research Question …………………... 72
7.1.2 Conclusions Regarding the Second Research Question ……………….. 72
7.1.3 Conclusions Regarding the Third Research Question …………………. 73
7.1.4 Conclusions Regarding the Whole Study ……………………………… 73
7.2 Suggestions ……………………………………………………………. 74
7.2.1 Managerial Implications ……………………………………… 74
7.2.2 Implications for the Existing Theory ………………………………….. 75
7.2.3 Suggestion for Future Study …………………………………………… 75
Reference ………………………………………………………….. 76

List of Tables

TABLE 1.1 SMEs Internationalization Motives 2
TABLE 2.1 Barriers to Exporting in SMEs 17
TABLE 2.2 Internet Applications in SMEs' Internationalization 23
TABLE 2.3 Internet Application to Overcoming the Barriers to SMEs Internationalization 24
TABLE 3.1 Operationalization of Internationalization Process Model 35
TABLE 3.2 Operationalization of Entry Mode Theory 36
TABLE 3.3 Operationalization of Entry Barriers Theory 37
TABLE 3.4 Operationalization of Internet Properties and Advantages for SMEs 38
TABLE 4.1 Relevant Situations for Different Research Strategies 41
TABLE 4.2 Basic Knowledge of the Sample Companies 42
TABLE 4.3 Six Sources of Evidence: Strengths and Weaknesses 43
TABLE 4.4 The Four Tests 45
TABLE 6.1 Summary on Internationalization Process Models 68
TABLE 6.2 Summary on Entry Modes Selection 69
TABLE 6.3 Summary of the Entry Barriers of the Four Companies 69
TABLE 6.4 Internet Properties for Doing Business 70

List of Figures

Figure 1.1 Structure of the Study……………………………...…………… 6
Figure 2.1 Four Saturations of Internationalization of a Company………… 11
Figure 2.2 Five-stage Process Model of Internationalization....…………… 13
Figure 2.3 Stages of Internet Commerce Development and Their Characterises …………………………………………………… 26
Figure 2.4 Normative Web-based Commerce Adoption Model …………… 29
Figure 3.1 Frame of Reference …………………………………………….. 39
Figure 4.1 Summary of Methodology …………………………………… 46

Chapter 1 Introduction

In this first chapter, an overview of the thesis will be presented. This includes a brief introduction to the internationalization and its process, the concept of Small and Medium-sized Enterprises (SMEs) and its development, and a short literature review on the Internet and World Wide Web (WWW). And then, based on these discussions, research area and research problem will be drawn forth.

For many years, the internationalization of markets, caused by the convergence of the tastes across borders, was thought to result in very large multinational enterprises, which could use their advantages in scale economies to introduce world-standardized products successfully (Hollensen, 2001). But, with the development of the world economy, especially the commercial use of the Internet, the international marketplace is much more broader and faster changing than before (Craig & Douglas, 1996). So day after day, large companies' drawbacks of inefficiency, bureaucracy and inflexibility have been obviously exposed, while small and medium-sized enterprises (SMEs) have more and more chances to enter and share world market (Bradley, 1999). In Europe, 90 percent of business companies are SMEs, which contribute tremendous part of economic development, and more and more of them have international business now (Acs & Yeung, 1999). In recent years, the internationalization of SMEs has become a key issue in international marketing research (Craig &Douglas, 1996; Knight & Liesch, 2002). The Internet, argued by lots of scholars, i.e. Hoffman & Novak, 1996; Hamill, 1997; Becherer, 1998; Arnott & Bridgewater, 2002, etc., presents a fundamentally different environment for international marketing. New paradigms will have to be developed to take account of SMEs' internationalization process in the emerging electronic age.

Accordingly, the Internet's role in SMEs internationalization is not only an attractive topic in research area, but also a challenging exploration for SMEs. So, this study will focus on the Internet and SMEs' internationalization。

1.1 Background

1.1.1 The Internationalization of SMEs

What is internationalization? There is no well-accepted definition of it. Beamish (1990) defined internationalization as "the process by which companies both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries". Johansson (2000) gave a much broader definition as "the process of adapting companies' operations (strategy, structure, resources, etc) to international environments". Much of the early literature in internationalization was inspired by general marketing theories, such as Penrose' The Penrosian Tradition Approach, which focuses on the companies core competences combined with opportunities in the foreign environment (Penrose, 1959). Later on, internationalization approach dealt with the choice between exporting and foreign direct investment (FDI), such as "Life Cycle Hypothesis", which suggests that companies go through an exporting phase before switching first to market-seeking FDI, and then to cost-orientated FDI (Vernon, 1966). The Uppsala School Approach, then, suggested a sequential pattern of entry into successive foreign markets, coupled with a progressive deepening of commitment to each market (Hollenson, 2001). During the last 10-15 years, there has been much focus on internationalization in networks, by which the company has different relationships not only to customer but also to other actors in the environment, i.e.

the basic assumption of Johansson and Mattson's The Network Approach is that the international companies cannot be analyzed as an isolated actor but has to be viewed in relation to other actors in the international environment. Thus, the individual company is dependent on resources controlled by others. The relationships of a company within a domestic network can be used as connections to other networks in other countries (Johansson and Mattson, 1988).

SMEs have been traditionally considered as weak contributors to internationalization because of financial and managerial constraints (Hamid & Richard, 2003). But, international market is no longer the preserve of large international companies, commodity traders and a few pioneering high-technology companies. With increased internationalization of customers and markets, managers in most industries are now concerned with developments in both domestic and international markets. SMEs are also affected. More and more open and integrated international markets created both opportunities and competitive challenges for SMEs seeking profitable growth. Notwithstanding all their obstacles to geographic diversification, SMEs have revealed a high and growing propensity to internationalize along the various avenues of this multidimensional path. Over the last decade, more and more SMEs were established aiming at foreign markets, which are called Born Globals, particularly in Europe (Hollensen, 2001). With Moen's investigation in 2002, more than half of Norwegian and French' SMEs founded since 1990 could be classified as Born Globals (Moen, 2002). In the United States, the number of SMEs grew from 66,000 in 1987 to 202,000 in 1997, which are responsible for 31 percent of all U.S. exports of merchandise, and this percentage is growing day after day (Costa, 2001)

The main motives for SMEs to go abroad could be generalized in the following chart:

Table 1.1 SMEs Internationalization Motives

Proactive motives	Reactive motives
Profit and growth goals	Competitive pressures
Managerial urge	Domestic market: small and saturated
Technology competence/unique product information	Overproduction/excess capacity
	Unsolicited foreign orders
Economies of scale	Extend sales of seasonal products
Tax benefits	Proximity to international customers/ psychological distance

Source, Hollensen, Global Marketing: A market-responsive approach, 2001

So, the attraction of the international market, both proactive and reactive motives for SMEs to go abroad, all these things push more and more SMEs to join international market, as well, SMEs' internationalization has become one of the key issues to international marketing researchers.

1.1.2 Definition and Characteristics of SMEs

There is also no single international definition of Small and Medium-sized Enterprises (SMEs). For example, the OECD has used the figure of 100 employees or fewer to define the small company (Loveman and Sengenberger, 1990). In the UK, employment and turnover figures have been used to define small companies in different industrial sectors, with 200 employees being the maximum threshold for manufacturing companies and a maximum turnover of GBP450,000 (1990 prices) for retailing companies (Stanworth and Gray 1991). While, 500 employees or fewer has been the limit applied by the Small

Business Administration in the US when considering SMEs (ibid). Recognizing that these employment definitions fail to capture that section of the SME population where new company births and deaths are likely to be highest, the European commission disaggregates the SME sector into micro-, small- and medium-sized companies with fewer than 10, 50 and 250 employees respectively (European Commission, Department of Trade and Industry, 2000)

In the early part of the twentieth century, SMEs were prevalent but were soon overtaken by large companies. One explanation was that, during the Fordist (Henry Ford (1863-1947), Ford's founder) era, emphasis was placed on mass production for mass consumption (Curran and Balackburn 1991). This approach was suited to large companies that could achieve cost advantages via economies of scale, while SMEs were consigned to the role of suppliers of customized machinery for mass production or filling market niches, which were too unprofitable for their larger counterparts. While, the Post-Fordist era resulted in an increasing focus on the customization of products and services to meet more individualized needs where, it was argued, SMEs had an advantage because of their ability to pursue more flexible strategies compared to their larger counterparts.

Compared with large companies, SMEs have their own characteristics, in which some are advantages and some are disadvantages for their' international business. Such as:
Organization**:** The employees in SMEs are usually closer to the entrepreneur, and because of the entrepreneur's influence, these employees must conform to his or her personality and style characteristics if they are to remain employees (Hollensen, 2001）
Risk taking**:** In SMEs risk taking depends on the circumstances. Risk taking can occur in situations where the survival of the enterprise may be under threat, or where a major competitor is undermining the activities of the enterprise. The entrepreneur may also be taking risks when he or she has not gathered all the relevant information, and thus has ignored some important facts in the decision-making process (ibid).
Flexibility**:** Because of the shorter communication lines between the enterprise and its customers, the SMEs can react in a quicker and more flexible way to customers' enquiries (ibid)

1.1.3 The Internet, World Wide Web and the Internationalization

A. A Brief Introduction to The Internet and World Wide Web

Although the Internet was born in 1960s, it has not been widely used in commercial area until 1991, before the National Science Foundation (USA) lifts the restriction of NSFNET (the backbone of Internet) on commercial use. Within only ten years, Internet has been developing so amazingly, that by the end of 2001, there were 50 million Internet users worldwide. 105.5 billion US dollar products (B2B & B2C) were purchased online in 2001 (UNs report, 2002).

Many people confuse two terms that are related but not identical in meaning. The Internet's basic idea was to create a network that would continue to work as a whole, when parts of it collapse. It means a network infrastructure that is built on certain standards, the Internet standards, which are used by all participants to connect to each other. The specification of the Internet protocol (IP) does not specify which type information; services or products should be exchanged. The IP defines how the flow of information is organized. These specifications reside on a layer above the Internet layer and one of these protocols for the exchange of information is the World Wide Web with its hyper-text transfer protocol (HTTP). Besides the World Wide Web, there are other protocols that enable people to communicate via e-mail (POP3, SMTP, IMAP), chat online (IRC) or participate in newsgroups (NNTP). The web offers the exchange of documents via HTTP, which are mainly in the HTML format, allowing browsers to display the content in the correct way (Amor, 2000).

The World Wide Web is just one of the numerous services offered on the Internet and does not specify, if a certain web page is available on the Intranet, Extranet and Internet. It provides a simple-to-use interface that allows people with very little knowledge in computing to access web services all over the Internet. These Web services include content, products and services, which can be viewed or ordered through the web browser. The web browser is a synonym to the first generation of the commercial Internet. It allows customers to self-service themselves over the web. The second generation of commercial Internet usage will move away from "do-it-yourself" to "do-it-for-me". This new paradigm, also known as pervasive computing, will automate many processes customer were using web browsers for. Pervasive computing will still a vision and will take still quite a while to become reality. Therefore browsers will remain important over the next few years (ibid).

So, Internet is much more broader than World Wide Web, and this thesis is based on Internet, not just WWW.

B. The Internet and SME's Internationalization

The role of the Internet in enhancing the internationalization of SMEs is supported by lots of scholars, such as Poon & Jevons (1997); Rialp (2001); Knight & Liesch (2002), Etemad & Wright (2003), etc. They all argue that the commercialization of the Internet has created unpredictable opportunities for SMEs. The Internet will revolutionize the dynamics of international commerce and lead to more rapid internationalization of SMEs. SMEs can now access to the same capabilities as large companies, and are able to engage in international market that previously might have been unaffordable due to the huge amount of resources required. The Internet will reduce the competitive advantages of scale economies for marketers concerning information in many industries, making it easier for SMEs to compete on a worldwide basis. Global advertising costs, as a barrier to entry, will be significantly reduced as the Internet makes it possible to reach a global audience more cheaply. Overall, the low cost communications provided by the Internet permits SMEs with limited capital to become global marketers at an early stage in their development (Quelch and Klein, 1996). Furthermore, as a result of the Internet, the efficiency of international capital flows and foreign direct investments might increase, thus level the playing field between large companies and SMEs in international business (Svensson, 2003).

But some other scholars also argued that the Internet was only a tool instead of strategy for SMEs. SMEs always have their own disadvantages compared with large companies, which have greater resources and network of operations. Although the cost of setting up a simple site is low and affordable for most SMEs, the cost of setting up comprehensive, high profile sites is prohibitive for SMEs (Samiee, 1998). Major search engines such as Yahoo and Google charge a large sum of money to direct their Internet traffic to companies by leasing key words that reflect their business, which is clearly a disadvantage for SMEs (Svensson, 2003).

1.2 Research Problem

Because of both of the initiative motives and competitive pressure, more and more traditionally domestic SMEs are now seeking ways to go to foreign markets, either by exporting, joint venture or direct investment (Hollensen, 2001). With the development of Internet technologies, almost none of the companies can refuse the charm of doing business in cyberspace, which is no national border and cannot be controlled by any single person, company or country. According to Afuah & Tucci (2001), the Internet has 9 outstanding properties, which makes it a great advantage for doing business: **mediating technology** – the companies' individual activities can now interact each other; **universality** – the world can be viewed as a whole; **network externalities** – more user, more added value; **new distribution channel**; **time moderator** – shrinking the time; **information asymmetry shrinker**; **low cost standard**; **creative destroyer** – destroy traditional value chain; and **transaction-cost reducer**. But, other scholar argues that, the Internet is only a tool, not a strategy for SMEs' process of internationalization, if the Internet cannot be wholly integrated into a company's business model (Samiee, 1998). According to Samiee, sustainable competitive advantage cannot be solely derived from access to the Internet or developing a Web site. As an increasing number of companies are acquiring the necessary skills and technology to connect to the WWW, competitive advantage is acquired through the skillful and proprietary ways in which this technology is deployed. Simply put a business tool that is possessed by everyone offers no distinct competitive advantage to anyone. In fact, it has been suggested that the Internet has the potential of eroding some existing advantages of better-established companies and creating a level playing field by allowing almost any interested exporter to obtain a presence on the Internet and to list its address on various directories and Internet search engines. Also, non-exporting companies cannot expect to become exporters overnight by virtue of developing and maintaining a web site. Developing an export-specific infrastructure within the company is fairly involved and costly. Furthermore, export marketing involves many macro and micro planning and management considerations including meeting local product standards, target market pricing and competitive factors, export currency and payment issues, customer support and service requirements, legal and regulatory considerations, and so on. None of these issues will be addressed by virtue of having a presence on the Internet (ibid).

So, can the physical world and cyberspace be combined together and provide SMEs more and more competence to compete with large companies? What is the role of Internet to SMEs in their international competition? Is it true that the Internet is only a tool, not a strategy for SMEs' process of internationalization? These are the contents we are going to study and try to find answers in this thesis. So, the research problem of this thesis is formulated as:

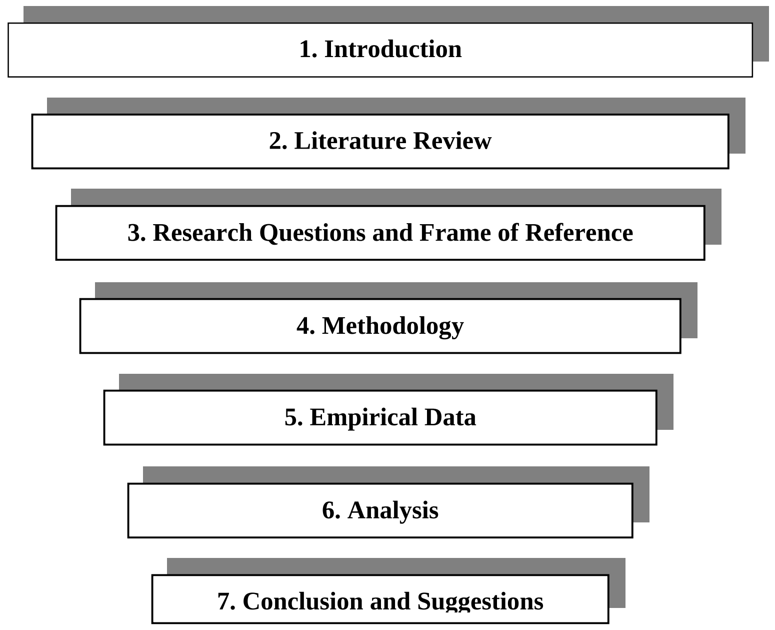
How can the Internet be used in SMEs' internationalization?

1.3 Structure of the Study

Apart from this chapter, the remainder of this thesis is structured as follows: Chapter Two: *Literature Review*, which presents an overview of the literature and theories relevant to the field of research area and research problem. Chapter Three: *Research Questions and Frame of Reference*. In this chapter, research questions will be drawn forth, according to the literature review. At the same time, the theoretical frame of reference will also be described. Chapter Four: *Methodology*, which presents the applied research strategy and method, etc. Chapter Five: *Empirical Data*. Several sample SMEs will be selected as case studies, and the empirical results from them will be described in this chapter. Chapter Six: *Analysis*. Compared with theories, the empirical data will be analyzed. Chapter Seven: the conclusion and further suggestions will be presented based on previous analysis.

It is clearly shown in the following figure of this structure:

Figure 1.1 Structure of the Study



Chapter 2 Literature Review

The literature presented in this chapter deals with internationalization theories and the researches on the Internet & internationalization. Internationalization theories include motives of Internationalization of SMEs; internationalization process models, choice of entry modes; and entry barriers. While the Internet & internationalization include the Internet's properties for doing business, advantages of Internet for SMEs, Internet applications to SMEs internationalization, and critical imperatives of the Internet for doing international business. All this literature is described and explained in order to build a theoretical background for this study.

2.1 Internationalization Theories

2.1.1 Motives of Internationalization of SMEs

In reviewing the literature concerning motives for internationalization, various classifications have been identified in previous studies.

Katsikeas and Piercy (1993) categorized motives into several broad areas: decision-maker characteristics; company-specific factors; environmental factors; company characteristics and ongoing export motives.

Crick and Chaudhry (1997), used the term "internal change agents" and "external change agents" to categorize various motives for internationalization.

- Internal change agents include: differential company advantages; available production capacity; accumulated unsold inventory; and, economies resulting from additional orders, etc.
- External change agents include: unsolicited or fortuitous orders; the effect of government stimulation; the consequences of economic integration; the influence from chambers commerce, industrial associations, banks, and other companies; and the economic climate and trading conditions in both the domestic and international market, etc.

Hollensen (2001) claimed that, the fundamental reason for going internationalization, in most companies, is to make money. But as in most business activities, one factor alone rarely accounts for any given action. Usually a mixture of factors results in companies taking steps in a given direction - this is the same as a company's motives of internationalization.

Proactive motives:

- Profit and growth goals – the desire for short-term profit is especially important to SMEs, which are at a stage of initial interest in exporting, and the motivation for growth may also be of particular importance for the company's export start.
- Managerial urge – this is a motivation that reflects the desire, drive and enthusiasm of management towards global marketing activities. This enthusiasm can exist simply because managers like to be part of a company that operates internationally. Usually, managerial attitudes play a critical role in determining the internationalization activities in SMEs.

- Technology competence/unique product – a company's unique technology or product often lead to a strong motive for a company to go abroad.
- Foreign market opportunities/market information – the attraction of the foreign market opportunities is likely to encourage the decision-maker's consideration of internationalization. Specialized marketing knowledge or access to information can also distinguish a company from its competitors, thus give it strong motives to export.
- Economies of scale – becoming a participant in global marketing activities may enable the company to increase its output and increased production for the international market can also help in reducing the cost of production for domestic sales and make the company more competitive domestically as well.
- Tax benefits – tax benefits from the government allow the companies either to offer a lower cost product or to accumulate a higher profit, thus increase their motivation of export.

Reactive motives

- Competitive pressures – fear of losing domestic market share and competitors' internationalization often play an important role on pushing a company to go to foreign markets.
- Domestic market: small and saturated – a company may be pushed into exporting because of a small home market potential or a saturated domestic market.
- Overproduction/excess capacity – the below-expectation of domestic market can be the trigger for starting export, while a company may also see expansion into international market as an ideal possibility for increasing the utility of its excess production capabilities.
- Unsolicited foreign orders – many SMEs have become aware of opportunities in export markets because their products generated enquire from overseas.
- Extend sales of seasonal products – seasonality in demand conditions may be different in the domestic market for other international market, thus acts as a persistent stimulus for foreign market exploration that may result in a more stable demand over the year.
- Proximity to international customers/psychological distance – physical and psychological closeness to the international market also plays a major role in the export activities of a company.

2.1.2 Internationalization Process Models

Several different models of internationalization process are presented as the following.

2.1.2.1 The traditional marketing approach

The traditional marketing approach focuses on the company's core competences combined with opportunities in the foreign environment (Penrose, 1959).

The cost-based view of this tradition suggests that the company must possess a "compensating advantage" in order to overcome the "cost of foreignness" (Hymer, 1976; Kindleberger, 1969). This leads to the identification of technological and marketing skills as the key elements in successful foreign entry.

2.1.2.2 “Life cycle” concept for international business

Sequential modes of internationalization were introduced by Vernon’s “product cycle hypothesis” (1966), in which companies went through an exporting phase before switching first to market-seeking foreign direct investment (FDI), and then to cost-orientated FDI. Technology and marketing factors combined to explain standardization, which dries location decisions.

Vernon’s hypothesis is that producers in advanced countries are “closer” to the markets than producers elsewhere; consequently, the first production facilities for these products will be in the advanced countries. Then, the concern to “Economies of scale” through mass production became more important, so, the concern about production cost replaces the concern about product adaptations. As a consequence of this concern, with standardized products, the less developed countries may offer competitive advantages as the production locations.

2.1.2.3 The Uppsala internationalization model

During the 1970s, a number of Swedish researchers at the University of Uppsala developed this internationalization model. There are two important points of this model. Firstly, this model is based on the assumption that a company’s internationalization development is step by step, or gradually going on. At the beginning, they will go to familiar and nearby foreign markets, i.e. Norway to Denmark or Germany. Then, go to more faraway markets if the first entrance is successful, i.e. Norway to America or Canada. Secondly, in this model, companies first go into new markets by through independent foreign intermediates exports not own sales organizations or manufacturing subsidiaries. Only after several years, with the successful exports, they start to set up their own subsidiaries (Hollensen, 2001).

The process of this model can be described as:

Stage 1. No regular export activities (sporadic export)
Stage 2. Export via independent representatives (export modes)
Stage 3. Establishment of a foreign sales subsidiary
Stage 4. Foreign production/manufacturing units.” (ibid)

The reason of this “step by step” process is that foreign markets development bases on two factors, market commitment and market-specific knowledge. Market commitment includes the amount of resources and the degree of commitment. Market-specific knowledge bases on the experience (ibid).

In 1998, Welch and Loustarinen developed this model into six dimensions:

- Sales objects (what?): goods, services, know-how and systems
- Operations methods (how?): agents, subsidiaries, licensing, franchising management contracts
- Markets (where?): political/cultural/psychic/physical distance differences between markets
- Organizational structure: export department, international division.
- Finance: availability of international finance sources to support the international activities

- Personnel: international skills, experience and training

The Uppsala model has gained strong support in studies of a wide spectrum of countries and situations. The empirical research confirms that commitment and experience are important factors explaining international business behaviour. In particular, the model receives strong support regarding export behaviour, and the relevance of the cultural distance has also been confirmed (Hollensen, 2001).

2.1.2.4 The Transaction cost analysis (TCA) model

R.Coase made this model in 1937. He said, " a firm will tend to expand until the cost for organizing an extra transaction within the company will become equal to the cost of carrying out the same transaction by means of an exchange on the open market" (Coase, 1937). It is a theory which predicts that a company will perform internally those activities it can undertake at lower cost through establishing an internal (hierarchical) management control and implementation system while relying on the market for activities in which independent outsiders have a cost advantage (ibid).

According to Coase, because of the friction between sellers and buyers, transaction costs emerge. So companies will try to minimize their transaction cost. Transaction costs can be divided into different forms of costs related to the transactional relationship between buyer and seller. The underlying condition for the following description of the cost elements is this equation:

"Transaction cost = Ex ante costs + Ex post costs = (search costs + contracting costs) + (monitoring costs + enforcement costs)

a. Ex ante costs:

- Search costs, include the cost of gathering information to identify and evaluate potential export intermediaries.
- Contracting costs, refer to the costs associated with negotiating and writing an agreement between seller (producer) and buyer (export intermediary).

b. Ex post costs:

- Monitoring costs, refer to the costs associated with monitoring the agreement to ensure that both seller and buyer fulfil the predetermined set of obligations.
- Enforcement costs, refer to the costs associate with the sanctioning of a trading partner who does not perform in accordance with the agreement."

A fundamental assumption of transaction cost theory is that companies will attempt to minimize the combination of these costs when undertaking transactions. Thus, when considering the most efficient form of organizing export functions, transaction cost theory suggests that companies will choose the solution, which minimizes the sum of ex ante and ex post costs (ibid).

2.1.2.5 The network model (Hollensen, 2001)

According to Hollensen (2001), this business network model is based on handling activity interdependences between several business actors. It is different from either above two models.

Different kinds of relationship among companies are the remarkable difference from market model (i.e. The Uppsala Model and TCA Model) to network model. In a market model, companies have no specific relationship among each other. While in the network model, exchange relationship among companies makes interaction take place.

The network model differs from the TCA model in the way that companies are equal and autonomous rather than organized by hierarchical control. So, the network model makes the relationship between companies and their subsidiaries more loosely.

The basic assumption in the network model is that the individual company is dependent on resources controlled by other companies. So a company must establish and develop positions in relation to counterparts in foreign networks to get external resources.

Another advantage of network model is that the relationship of a company in a domestic network can be used as bridges to other networks in other countries.

Also, when entering a network, the company's internationalization process will be more quickly. This is particularly advantageous for SMEs to enter foreign markets and to set up their own subsidiaries more quickly.

According to network model's theory, there are four situations characterized by a low or high degree of internationalization of the company and a low or high degree of internationalization of the market, while the traditional Uppsala Model treats the internationalization of the company independently from the internationalization at the market.

Figure 2.1 Four Saturations of Internationalization of a Company

		Degree of internationalization of the market	
		Low	*High*
Degree of internationalization of the company	*Low*	The early starter	The late starter
	High	The lonely international	The international among others

Source, Hollensen, "*Global Marketing: A market-responsive approach*", 2001

- **The early starter:** the degree of internationalization of both company and market is low. So domestic markets and companies have no important international relationships to foreign markets and companies. Companies enter foreign markets following the Uppsala "step by step" model.

- **The lonely international:** degree of internationalization of the company is high while the degree of internationalization of the market is low. In this situation, companies' experience and relationship in foreign markets can promote internationalization of the market.

- **The late starter:** degree on internationalization of the company is low while the degree of internationalization of the market is high. Companies in this situation are like a "late comer". So it is easier for SMEs who have specific products or technology to enter foreign market than large companies who have standard products and depend on "economies of scale".

- **The international among others:** degree of internationalization of both company and market is high. This is a high degree network model. Companies could use one net as bridge to enter another net. High market relationship makes companies to speed up setting up their subsidiaries in other countries.

2.1.2.6 Born Globals

In recent years, research has identified an increasing number of companies which certainly do not follow the traditional stages pattern in their internationalization process. In contrast, they aim at international markets or maybe even the global market right from their birth. Such companies are named “Born Globals” (Hollensen, 2001). “Born Globals” are typically characterized by being SMEs with less than 500 employees and annual sales under USD100 million-and reliance on cutting-edge technology in the development of relatively unique product or process innovations. But the most distinguishing feature of the “Born Global” company is that they tend to be managed by entrepreneurial visionaries, who view the world as a single, borderless marketplace from the time of the company’s founding. “Born Globals” are small, technology-oriented companies that operated in international markets for the earliest days of their establishment. The “Born Global” phenomenon suggests a new challenge to traditional theories of internationalization (ibid).

Several trends may explain the increasing importance of Born Globals and help explain why such companies can successfully enter international markets.

Increasing role of niche markets – there is a growing demand among customer in mature economies for specialized or customized products. With the globalization of market and increasing worldwide competition from large multinationals, many smaller companies may have no choice but to specialize in the supplying of products that occupy a relatively narrow global niche.

Advances in process/technology production – new technologies allow SMEs to achieve comparable footing with large multinationals in the production of sophisticated products for sale around the world. It also allows small importers to streamline production in ways that make their products highly competitive in the global marketplace. Furthermore, technology is facilitating the production of widely diverse products on an ever smaller scale, which decrease the advantage of economy scale that large multinationals usually enjoy in international market.

Flexibility of SMEs/Born Globals – quicker response time, flexibility, adaptability, etc. facilitate the international endeavors of SMEs and Born Globals.

Advances in information technology – with the invention of the Internet and other telecommunication aids, as well the globalization of technology, i.e. joint research and development platforms, international technology transfers and the cross-border education, SMEs are more and more easy to access international market at the initiating period of their establishment.

Differences from ”Born Globals” to other groups of company

- Differences in competitive advantages

In terms of competitive advantages, one might expect that the highly involved exporters are the most competitive companies. The chief argument being that the most competitive companies might be more likely to try to use their advantages to build a position in the export markets, and that their competitiveness might make them able to successfully export their products. In their meta-analysis, Chetty and Hamilton (1993) found that technological competencies had a strong and significant influence upon performance in most studies presented during the period between 1978 and 1991. Focusing on newly established companies, Rennie(1993) stated that the highly involved exporters often offered leading edge technology. Moen (1999) found that small exporting companies had a stronger competitive advantage in terms of products and technology than larger exporting companies. Since most newly established companies happen to be small, there is support for the expectation that Born Globals have a strong competitive edge in terms of technology.

♦ Differences in export strategy

The export strategy plus performance relationship has received much attention in empirical studies and many significant paths have been identified (Zou and Stan, 1998; Chetty and Hamilton, 1993). Moen (2000) concluded that small companies were more likely to follow international niche focus strategies than larger companies. Examining the Born Global-focused literature, these companies are often described as being highly specialized (Aspelund and Moen, 2001; Knight, 1997; Rennie, 1993). In small countries particularly, newly established, highly specialized companies could be expected to follow international niche focus strategies.

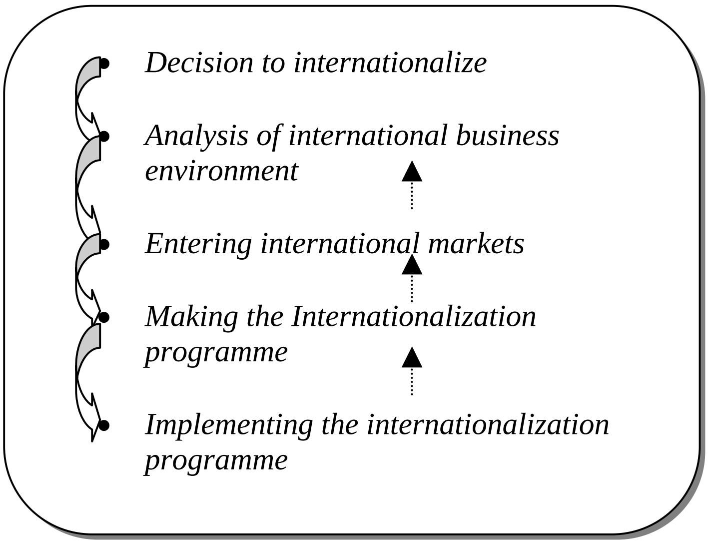
♦ Differences in global orientation

Several studies have shown that the global orientation of managers is different, and that it significantly influences export behaviour and performance. As an example, a manager's export commitment in 15 out of 17 studies was found to be significantly related to export performance in the literature review presented by Zou and Stan (1998). One can expect that a company with a manager possessing a strong global orientation would be more likely to be classified as a Born Global (Moen, 2000).

2.1.2.7 Bradley's five-stage model

In order to examine the company in international markets, a five-stage process model of internationalization is proposed by Bradley in 1999 (Figure 2.2).

Figure 2.2 Five-stage Process Model of Internationalization



Source: edit by author

In the first stage, the company decides whether to internationalize. In order to make such a decision, it is necessary to understand the role of the international marketing in the company. It is also necessary to explore the value of the various theories of the company in international markets. Next, it is necessary to understand the impact of organizational issues on the process. Indeed, the company's resource base and the requirements of the market may constrain the company in its selection of a feasible international marketing strategy.

In the second stage, it is necessary to examine the international marketing environment. First, it is necessary to understand the context of international markets. Then, it is important for the manager to understand the social cultural environment of international markets. The influence of the public policy environment and the role of government and other regional institutions also affect the fortunes of the international company.

In the third stage, the ways of entering international markets are examined. However, it is necessary to understand customer and market behavior and how competitors respond.

In the forth stage, the internationalization programme should be formulated, such as entry strategies, promotion strategies, distribution channels choice, etc.

In the last stage of the process, the internationalization programme is performed and examined. If it is not so satisfactory, managers should go back to previous stages to revise the programme or to make new programme, or reconsider the business environment.

2.1.3 Choice of Entry Modes

An international market entry mode is an institutional arrangement that makes the entry of a company's products, technology, human skills, management or other resources available in a foreign country (Root, 1994). A company can arrange its entry into a foreign country in two ways. The first way is by producing its products outside the target country market and then exporting these products to the foreign country. The second way is transferring its resources in technology, capital, human skills, and enterprise to the foreign country. These two forms of entry can be classified into three groups of entry modes that offer different benefits and costs, and different levels of control and risks to the international company. They are export modes, intermediate modes, and hierarchical modes. The international company has to choose an entry mode that best suites their objectives and goals. For most SMEs the market entry represents a critical first step, and there is no ideal market entry strategy, and different market entry methods might be adopted by different companies entering the same market and /or by the same company in different markets (ibid).

2.1.3.1 Export entry modes

With export entry modes, a company's products are manufactured in the domestic market or a third country, and then transferred either directly or indirectly to the host market. It is the most common mode for initial entry into international market. Entering a foreign market by exporting is a low risky and high flexible way for it requires a minimal commitment of resources or adjustment to a company's domestic planning, but it might suffer from low control (Root, 1994)

♦ Indirect export

Indirect export occurs when the exporting companies use independent organizations located in the producer's country. At this time, the company is not really engaging in global marketing, because its products are carried abroad by others. By using indirect channels, the company is able to start exporting with no incremental investment in fixed capital, low start-up costs, few risks, and profits on current sales. But the company has no control in foreign market and can’t increase any knowledge or experience of internationalization (ibid)

♦ Direct export

Direct export occurs when the exporting companies sell directly to an importer or buyer located in a foreign market area. This method allows exporter to access foreign market and contact foreign customers, but investment is increased and transaction costs occur (Hollensen, 2001).

♦ Cooperative export

This mode involves collaborative agreements with other companies (export marketing groups) concerning the performance of exporting functions. These groups are frequently found among SMEs to take advantages of shared costs and risks of internationalization. But the members of the group may also suffer from the unbalanced relationships and the reluctance of giving up their complete independence (ibid).

2.1.3.2 Intermediate entry modes

Intermediate entry modes are distinguished markets from export modes because they are primarily vehicles for the transfer of knowledge and skills, although they may also create export opportunities. They are distinguished from the hierarchical entry modes in the way that there is no full ownership involved, but ownership and control can be shared between the parent company and a local partner (ibid).

♦ Licensing

Through international licensing, the domestic company may make available their intangible assets, i.e. patens, trade secrets, know-how, and company name, to foreign companies (licensees) in return for royalties and/or other forms of payment. The most obvious advantages of licensing as an entry mode are the possibilities of overcoming trade barriers and high transportation costs. But the most apparent disadvantage of licensing is the licensor’s lack of control over the marketing plan and programme in the target country. Another disadvantage is the limited size of income from a licensing arrangement (Root, 1994).

♦ Franchising

Franchising is a form of licensing in which a company (franchiser) licenses a business system as well as other property rights to an independent company or person (franchisee). The franchisee operates under a name of the franchiser, and the former provides the franchisee with a package including not only trademarks and know-how but also local exclusivity and management, financial assistance and joint advertising as well. Some of the advantages with franchising are rapid expansion into a foreign market with low capital outlays, a standardized method of marketing with a distinctive image, highly motivated franchisees, and low political risks. But there are also disadvantages of this method, such as limitations on the franchiser’s profit, lack of full control very the franchisee’s operations, the possible creation of competitors, and restrictions imposed by governments on the terms of franchise agreements (ibid).

♦ Contract manufacturing

Contract manufacturing is a cross between licensing and investment entry. This entry mode is also known as international subcontracting and involves a company (the principal) in one country placing an order, with specifications as to the conditions of sales and products required, with a company in another country. The contract would be limited to production, and marketing would be handled by the principal’s home market. The principal transfers technology and technical assistance to the local manufacturer.

Advantages with this method are small commitment of financial and management resources, quick entry into the target country, the avoidance of local ownership problems and the permission the international company to exercise control over marketing and after-sale service. The disadvantages are similar to those of licensing (ibid).

- Construction/turnkey contracts

In this kind of a contract the contractor has a responsibility for establishing a complete production unit or infrastructure project in the host country. The contract obligates the contractor to bring a foreign project up to the point of operation before it is turned over to the owner. The contractor's responsibilities differ from project to project, but generally include the basic design and engineering of the plant, provision of technology and know-how, supply of complete plant and equipment, etc (ibid).

- Management contracts

An international management contract gives a company the right to manage the day-to-day operations of an enterprise in a foreign target country. The services may include general management, financial administration, personnel administration, production management and marketing, but are generally limited to ongoing operations and do not give the authority to the management contractor to make new capital investments, assume long-term debt or initiate basic management or policy changes. Management contracts are commonly found as s supplement to licensing, joint ventures or turnkey contracts (Young, Hamill and Wheeler, 1994).

- Joint venture

A joint venture or a strategic alliance is a partnership between two or more parties. In international joint ventures, these parties will be based in different countries. Each partner agrees to a joint venture to gain access to the other partner's skills and resources. Typically, the international partner contributes financial resources, technology or products. The local partner provides the skills and knowledge required for managing a business in its country. Each partner can concentrate on that part of the value chain where the company has its core competence. The advantages of this entry mode are: reduced market and political risk, shared knowledge and resources and shared risk of failure. But the international partner might loss control over foreign market, and the cultural differences and different objectives of each partner might result in conflicts (Hollensen, 2001).

2.1.3.3 Hierarchical modes

These are methods that the company completely owns and controls the foreign entry mode. The distinctive advantage of these entry modes is high control, however, at the expense of high risks and low flexibility (ibid).

- Domestic-based sales representatives

A domestic-based sales representative is one who resides in one country, often the home country of the employer, and travels abroad to perform the sales function. As the sales representative is company employee, better control of sales activities can be achieved than with independent intermediaries. But the company has to pay high travel expense on their representatives' travelling (ibid).

- Resident sales representatives/foreign sales branch/foreign sales subsidiary

In all these cases, the actual performance of the sales functions is transferred to the foreign market. A foreign branch is an extension and a large part of the company, while the sales subsidiary provides complete control of the sales function. This method promises the company with direct market access, reduced transport costs and the access to raw materials and labour, but the initial capital investment would be high and the company might loss of flexibility (ibid).

♦ Sales and production subsidiary/Region centres/transactional organization

All these organizations are built and fully controlled by home company. These organizations can increase regional/global scale efficiency, but will also increase bureaucracy (ibid).

♦ Acquisition

Acquisition enables rapid entry and often provides access to distribution channels, an existing customer base and, in some cases, established brand names or corporate reputations. Particularly, when foreign market is highly competitive or there are substantial entry barriers, market acquisitions may be the only feasible way of establishing a base in this country. But this method is costly and high risk of failure when taking over a foreign company (ibid).

2.1.4 Barriers to SMEs' Internationalization

2.1.4.1 Jim Hamill (1997)'s summary

As shown in Table 2.1, Jim Hamill (1997) identified four main types of barriers to SME internationalization. Psychological barriers relate to SME perceptions concerning the costs, risks and profitability of exporting including an ethnocentric rather than geocentric orientation, short rather than long-term perspective, and so on. Organization barriers arise from having limited resources available to devote to the export effort and the limited international experience of most SMEs. Product/market barriers relate to the suitability (or lack of suitability) of the companies' product or service for foreign markets and the country selection decision, i.e. which countries to enter and the decision regarding market concentration versus market spreading.

Table 2.1 Barriers to Exporting in SMEs

Psychological	Operational
Ethnocentric rather than geocentric orientation Short-term perspective Lack of commitment to exporting Exporting seen s "not for us" or "too much trouble" or "too risky" Fear	Export documentation and management of export operations Language problems Delays in receiving payment and financial risk
Organizational	**Product/Market**
Limited resources (both financial and managerial) Lack of knowledge of foreign markets Lack of internationally experienced personnel Lack of formal education/training in export marketing Sources of competitive advantage abroad Problems in finding suitable overseas representation	Products may not be suitable for foreign markets Foreign market differences need for costly product adaptation Problems in identifying and selecting the most appropriate foreign markets (limited resources for country screening and export market research) Tariff and non-tariff barriers to trade Profitability of exporting

Source, Hamill, "*The Internet and International Marketing*". 1997

2.1.4.2 Hollensen (2001)s' classification of entry barriers

A wide variety of barriers to successful export operations can be identified. Some problems mainly affect the export start; others are encountered in the process of exporting.

a. Barriers hindering export initiation

- Insufficient finances
- Insufficient knowledge
- Lack of foreign market connections and distribution channels
- Lack of export commitment
- Lack of productive capacity to dedicate to foreign market
- Management emphasis on developing domestic markets

b. Barriers hindering the process of exporting

Critical barriers in the process of exporting may be divided into three groups: general market risks, commercial risks and political risks.

<u>General market risks</u>:

- Comparative market distance and language & cultural differences
- Competition from other companies in foreign markets.
- Differences in product usage and specifications in foreign markets
- Complexity of shipping services to overseas buyers

<u>Commercial risks</u>:

- Exchange rate fluctuations when contracts are made in a foreign currency
- Failure of foreign customers to pay due to contract dispute, bankruptcy, refusal to accept the product and fraud
- Delays and damage in the export shipment and distribution process

<u>Political risks:</u>

- Foreign government restrictions and high tariffs on imported products
- National export restrictions and lack of assistance from own government
- Lack of tax incentives for companies that export
- High value of the domestic currency relative to those in export markets
- Complexity of trade documentation and regulations
- Civil strife, revolution and wars disrupting foreign markets

2.1.4.3 Acs and Yeung (2002)'s findings

Acs and Yeung believe that there are a number of barriers to entry, both natural and deliberate, that frequently prevent new start-up SMEs from gaining market share.

Financing Problems

Poor access to capital can stymie the expansion of innovative SMEs, to the detriment of the economy as a whole. From the viewpoint of the banks, creditors' reputation is one of the most important information they collect when considering financial support to a company. However, establishing reputations are costly and subject to various moral hazard and adverse selection problems. SMEs, thus, have imperfect access to capital. And, their imperfect access to capital may force SMEs to limit their size of the physical operations, and the number of people with administrative, operations and marketing expertise, in turn, limit the profits and further development. This lets larger companies earn higher returns than SMEs on similar innovations.

Imperfect Information
Many barriers to entry are ultimately due to SMEs' information disadvantages. Poor information about labor, raw materials, or output market conditions can lead SMEs to make costly mistakes. SMEs may also find it difficult to attract good workers and partner companies because of the higher risks than large companies being viewed.

Entry Barriers Erected by Entrenched Firms
Some entry barriers are erected by established companies resolved to maintain their profits by deterring prospective new competitors. A popular view of such barriers among economists is of established companies colluding to over charge customers and build up war chests, which they then can use to finance predatory pricing to drive away new competitors.

Entry Barriers Erected by Government
Perhaps the highest and most economically damaging entry barriers are those erected by governments. Government regulations and restrictions, legal logistics, taxes, and corruption increase the costs of establishing a new company. Baumol (1990), Shleifer and Vishny (1993), and Murphy, Shleifer, and Vishny (1993) argue that artificial barriers to entry encourage innovative people to invest in exploiting the system, rather than in socially useful innovation. In many countries, inspection procedures, safety standards, environmental standards, and other seemingly worthwhile bureaucratic practices may mask barriers to entry that really serve to protect politically entrenched special interests.

2.2 SMEs' Internationalization and the Internet

2.2.1 Internet's Properties for Doing Business

According to Afuah & Tucci (2001), the Internet has many properties, but 9 of them stand out: mediating technology, universality, network externalities, distribution channel, time moderator, information asymmetry shrinker, low cost standard, creative destroyer, and transaction-cost reducer.

1. **Mediating Technology**, the Internet is a mediating technology that interconnects parties that are interdependent or want to be. The interconnection can be business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C), or consumer-to-business (C2B). The Internet facilitates exchange relationships among parties distributed in time and space. The Internet's interactivity gives it some unique advantages over these media, such as radio or TV, as parties can interact, asking and answering questions rather than one party sending and another only receiving messages. Most important, anyone connected to the Internet has the power to broadcast information to anyone on it. In the older media, broadcasting is limited to a select few (Afuah & Tucci, 2001).

2. **Universality**, universality of the Internet refers to the Internet's ability to both enlarge and shrink the world. It enlarges the world because anyone anywhere in the world can potentially make his or her products available to anyone anywhere else in the world. The Internet shrinks the world in that anyone anywhere in the world can contact each other so quickly, that people seem to have no feelings of geographic distance (ibid).

3. **Network Externalities**, a technology or product exhibits network externalities when it becomes more valuable to users as more people take advantage of it. The Internet clearly exhibits his property: the more people connected to it, the more valuable it is. This is called Metcalfe's law: the value of the network increases as the square of the number of people in the network (ibid).

4. **Distribution Channel**: the internet acts as a distribution channel for products that are largely information, such as software, music, video, etc. when the product itself cannot be distributed by means of the Internet, information on its features, pricing, delivery times, or other useful information about the product can. The Internet has two kinds of effects on existing distribution channels: replacement or extension. There is a replacement effect if the Internet is used to serve the same customers served by the old distribution channel without bringing in new customers. Extension effect means Internet offers a new distribution channel, apart from the old distribution channels (ibid).

5. **Time Moderator**, this is the ability of Internet that it can shrink or enlarge time. It shrinks time because customers can get information very quickly; it enlarges the time because customers can use it 24 hours a day, 7 days a week, which can be imagined in brick-mortar world (ibid).

6. **Information Asymmetry Shrinker**, an information asymmetry exists when one party to a transaction has information that another party does not. Internet can reduce some of these information asymmetries because of its flourished information sources (ibid).

7. **Low Cost Standard**, the Internet are standards open to everyone everywhere and is very easy to use, so that lowers the costs for both sides of suppliers and customers (ibid).

8. **Creative Destroyer**, with low entry cost, flexibility, and virtually unlimited possibilities, Internet might destroy many traditional industries' value chain (ibid).

9. **Transaction-Cost Reducer**, the Internet also reduces transaction costs for many industries-thanks in part to the universality, distribution channel, low cost standard, and information asymmetry reduction properties. Transaction costs are the costs of searching for sellers and buyers; collecting information on products; negotiating, writing, monitoring, and enforcing contracts; and the costs of transportation associated with buying and selling. The Internet can reduce these costs. It reduces search costs because information on buyers, sellers, and products can be obtained more easily through the web. The ability of the Internet to shrink information asymmetry also means a reduction in the cost of contract negotiation, monitoring, and enforcement. For products like software, music, and video that are in digital form, transportation costs are also greatly reduced since they can be "shipped" over the Internet (ibid).

2.2.2 Advantages of Internet for SMEs

There are many advantages in doing business on the Internet for SMEs. The major ones are described as follows.

• All sites on the Internet are equal, and SMEs have just as much space in the heavily used Web search engines as the large corporations. Large companies do not gain any edge from their Web sites over their smaller counterparts, unless their Web sites are better created and maintained. SMEs have just the same freedom of pursuing multiple strategies and experiment of new approaches on the Internet as the large companies have. In addition, potential customers of the SMEs do not have to go through layers of bureaucracy as in the big companies to get to the targeted information through the Internet (Hsien & Lin, 1998)

• The Internet is also considered to be the least expensive way for SMEs to market the goods and services globally. There are millions of people worldwide surfing the Internet every day. A small business has a unique opportunity through the Internet to reach each and every one of them. And, since the Internet provides perhaps the cheapest form of advertisement relative to the number of people that it can reach, small businesses would have the same potential to reach those millions of people as the bigger companies (Wilder *et al.,* 1997).

• The Internet allows SMEs to implement effective globalization strategies, which would be otherwise impossible or implausible due to the complexity of doing businesses in foreign countries (Hsien & Lin, 1998).

• Use of the Internet enables the SMEs to maintain full-scale after-sale customer service at relatively cheap cost and to maintain contact with the customers for all aspects of business activities on a seven-day around the clock basis (ibid).

• It is the most cost-effective way to demonstrate a company’s products/services in multimedia format (ibid).

• The Internet allows small businesses to establish an effective inter-business collaboration. This is particularly attractive for small businesses that normally lack the technical expertise to maintain online communication with their business partners but are desperately in need of establishing such expertise (ibid).

The potential of the WWW

Among all the services that the Internet can provide for the small businesses, the most exciting commercial development is occurring on the WWW. The WWW is a distributed hypermedia environment within the Internet, which was originally developed by the European Particle Physics Laboratory (Hoffman *et al.,* 1995). The information on the WWW is located on a network of servers around the world, which are interconnected, allowing users to travel through the information by clicking their way around hyperlinks. The WWW thus allows the sharing of information and resources on a global basis. It also has the potential to provide an efficient channel for advertising, marketing, and even direct distribution of certain goods and service. Consequently, the WWW has gradually become one of the most popular technologies in business community (Hsien & Lin, 1998).

Because so much attention has been drawn to the WWW as a commercial medium, the Web citizens have devised at least five types of Web site classifications. These are: commerce; promotion; content; corporate information; and search agent (ibid).

Commerce sites, or the so-called online storefronts are the Web’s version of stores we see in real life. They offer direct sales via an electronic catalog or some other, more innovative format. This type of Web site represents a combination of direct marketing and in-store shopping. In this environment, there are tremendous opportunities for customizing the shopping experience and enhancing public relationships (ibid).

Another type of commerce site is referred to as cybermall, which works like a real life mall. Each storefront may contain many different categories of goods for sale. The provider charges rent in exchange for the “virtual real estate” and may offer a variety of services for the mall itself (Gallant, 1997).

The main problems with the commerce sites are that the online versions pale in comparison to real world experiences of flipping through the glossy pages of a huge hard copy catalogue, or shopping in a real mall. Security is another issue, which hampers the acceptance of this marketing approach by the customers. Another obstacle is the speed of surfing the Net. It can make online shopping frustrating and tedious at times (Hsien & Lin, 1998).

Corporation information sites provide a virtual “presence” for a company and the products/ services that it is offering to sell. They may also serve to signal to current and prospective customers, as well as competitors, that the companies on the cutting edge (Angell and Heslop, 1995). The corporate information sites can be in the form of single page electronic flyers with no hyperlinks. Some of them may take the forms that provide detailed information about the company and/or its products. Others may be in the form of image sites, where information about the product is presented in the context in which the product is consumed.

Content sites function like an information broker. They can be fee-based, sponsored, or in the form of a searchable database, where merchants or advertisers pay the site owner for information placement in an organized listing. The promotion or incentive site represents a unique form of advertising that attracts a potential customer to the site. The objective is to pull the user to the commercial site behind it. This, in turn, generates traffic to their respective sites. The content of this type of site is usually transitory (Hsien & Lin, 1998).
Search agent sites, commonly referred to as “search engines” identify other Web sites through keyword search of a database that extends throughout the Web. Most search engines today provide linkages to other Web sites through a hierarchical structure of sites of similar characteristics. Many of the search agents are inter-webbed, and can perform multiple-agent search activities (ibid)

Each of these five types of site can potentially provide small businesses with an efficient way of exposure of the company and the products to a wide range of viewers. There is a lot of evidence, which suggests that Web-based commercial efforts are more efficient than traditional marketing channels, especially for small businesses. Research also points to the fact that directs marketing on the Net is about one-quarter less costly (Cronin, 1994; Dickman, 1995).

2.2.3. Internet Applications for SMEs’ Internationalization

2.2.3.1 Hamill and Gregory’s arguments (1997)

Jim Hamill and Karl Gregory (1997) argued that Internet was becoming an essential tool for successful international marketing. For SMEs, effective use of the Internet can provide a low cost “gateway” to international markets and help to overcome many of the barriers or obstacles to internationalization commonly experienced by such companies. An Internet connection can substantially improve communications with actual and potential customers, suppliers and partners abroad, generate a wealth of information on market trends and developments worldwide, provide an “ear to the ground” on the latest technology and R&D, and can be a very powerful international promotion and sales tool. These applications arise against a background where “Net” access is becoming cheaper; the range of services available is multiplying daily and, with the advent of new hardware and software, the computer know-how required to “surf the net” is now within the grasp of even the most “technophobic” executive.

Table 2.2 presents a conceptual framework for identifying strategic uses of the Internet in the context of SMEs’ internationalization. Three main applications are identified namely, network communications, market intelligence, and sales promotion. Intended targets include all of the actors in the company’s network including foreign customers, agents, distributors, partners, governments, R&D institutions etc. A variety of tools are available for implementing Internet-based international marketing strategies including e-mail and other forms of on-line communications, information search and retrieval software, and the establishment of company websites.

Table 2.2 Internet Applications in SME Internationalization

Communications
Tools: e-mail, Usenet, Listserv, voice mail, IRC, video conferencing, MUDS, etc
Target: customers, suppliers, agents, distributors, partners, research centres, governments
Market Intelligence
Tools: WWW, information search and retrieval software-Netscape, Microsoft, Gopher, Archie, WAIS, Veronica, etc
Target: country and market research reports, industry specific reports, trade contacts, agents and distributors, trade leads
Marketing and Sales Promotion
Tools: World Wide Web Site
Target: Global customers (actual and potential)

Source: Hamill and Gregory, *"Internet Marketing in the Internationalization of UK SMEs"*, 1997

- **Communications** — the Internet provides several tools for improving or supporting communications with the various actors in a small company international network, such as: *e*-mail, Usenet, Listserv, Voice mail, IRC, MUDS, etc. (Hamill and Gregory, 1997)
- **Market intelligence** — the effective management of information systems/information technology can be a powerful source of competitive advantage, according to several researchers (Cecil & Goldstein, 1990;Porter & Miller,1985). Several reasons for the lack of marketing research among small companies have been suggested: export marketing research is too expensive; the scope of the task is too complex and difficult; the company is too concerned with day-to-day problems and has little scope for adopting a longer-term strategic perspective; and the company may lack in-house marketing research personnel, knowledge or resources. The use of the Internet for marketing intelligence is one of the most important ways in which connectivity can assist small companies internationalization. Empirical findings of Hamill and Gregory indicate that few SMEs will use the Web as an export market research resource. Evidence from their study, however, suggests that this might be one of the most productive uses for the Web for SMEs (ibid).
- **Marketing and sales promotion** — more and more SMEs are setting up their own Web sites as means of disseminating useful company and product-specific to potential customers and encouraging customer feedback and interaction. For SMEs, a Web site can be used for advertising corporate visibility, brand name recognition. Public relations, press releases, corporate sponsorship, direct sales, customer support and technical assistance (ibid).

2.2.3.2 Entry barriers and the Internet

Hamill summarized in 1997 that Internet could, definitely, be a very powerful tool to assist SMEs in overcoming the main barriers experienced, resulting in more rapid internationalization. This is shown in following Table 2.3 with the main advantages, which SMEs can derive from an effective Internet strategy, and the way in which these can help to overcome the internationalization obstacles experienced. Thus, the use of the

Internet for market intelligence and to support international networking can lead to a more positive, geocentric orientation towards the strategic importance of international markets. Internet can overcome many of the operational barriers relating to paperwork and export documentation. The establishment and proper marketing of a Web homepage can be used to overcome the product suitability/country market selection decision allowing SMEs to develop global market niche strategies rather than country oriented strategies.

Table 2.3 Internet Application to overcoming the Barriers to SMEs' Internationalization

Barriers to SMEs' internationalization	Internet applications/advantages
Psychological	Increase in international awareness, confidence and commitment through access to global information sources; participation in global network communities; enquiries and feedback to WWW site from potential global customers
Operational	Simplified export documentation through electronic data transfers; electronic payments; online export assistance, etc.
Organizational	Access to low cost export market research resources; improved knowledge of international markets and culture; reduced dependence on traditional agents and distributors through direct marketing; establishment of virtual network of partners
Product/market	Country/market selection decision made easier by online export market research; consumer/market orientation through customer, agent, etc. feedback and comment; costs savings through electronic market research, communication cost savings improving the profitability of exporting; adoption of global niche rather than country centred strategies

Source, Hamill, *"The Internet and international marketing"*, 1997

2.2.3.3 Internet as a market maker for SMEs' international export

According to Klein and Quelch (1997), Market makers (MMs), as a viable model in traditional distribution channels, their capabilities have been widely expanded by the introduction of Internet. Although few consumer Web businesses currently earn a profit through either advertising, sales, or subscriptions, the profitability in the business-to-business marketplace appears more promising (Desaultels, 1996). Internet as a market maker for exporting, is most suitable for the following conditions (Klein & Quelch, 1997).

(1) ***Inefficiencies in traditional distribution channels*** — Buyers cannot find all possible sellers or vice versa and, hence, the prices paid are not optimal (or believed to be optimal) for either party (ibid).

(2) ***Market fragmentation*** — Markets with many geographically dispersed buyers and sellers are often operating suboptimally in terms of transaction costs (ibid).

(3) ***Minimum scale barriers*** — In traditional markets, smaller manufacturers may be boxed out of regular channels by larger players who reap economies of scale and exploit exclusive distribution relationships, either through formal contracts or through the application of channel power. In addition, there may be smaller customers who do not buy enough to qualify for normal quantity discounts through traditional distribution channels (ibid).

(4) ***Commodity-type products*** — Products with well-known technical specifications, manufacturer brands that can easily be price-compared, and those products that do not require substantial after-sales service from vendors are especially suitable (ibid).

(5) ***Short life-cycle products*** — Product-markets with short life cycles create large quantities of obsolete and discontinued items. Customers may experience difficulty finding spare parts or compatible accessories for earlier generations of product. This is especially true in international markets where product launches often lag behind the US market, while at the same time, foreign buyers are paying high prices as captive customers of local vendors (ibid).

2.2.3.4 The Internet, export barriers and the internationalization of businesses

Bennett (1997) argued that the use of the Internet for global marketing enabled companies to leapfrog the conventional stages of internationalization, as it removed all geographical constraints, permitted the instant establishment of virtual branches throughout the world, and allowed direct and immediate foreign market entry to the smallest of businesses. Maloff (1995) similarly asserted that the Internet enabled small companies to grow without expanding physically or incurring relocation expenses, and allowed them to advertise and promote themselves globally at minimal cost. Customers, according to Maloff, cared little about the physical size or remoteness of a supplier, provided high quality products at fair prices are delivered. Such considerations raised the possibility that the availability of the WWW removed “at a stroke” a number of the organizational and resource constraints supposedly associated with exporting (Bennett, 1997).

Entry barriers to exporting might be considerably lessened by the use of the Internet (Bennett, 1997). A company’s Web site offered information about the company and its products to browsers throughout the world. Hence, the conventional model of company’s obtaining export orders through information “seeping” out of a company via formal and informal contacts with clients, suppliers, bankers and the like was not particularly relevant in the post- Internet situation. Exporters did not need to decide which foreign markets to serve, as customers throughout the entire Internet world were liable to place orders. Psychic distance might not be as relevant for an Internet user as for others, because such a company communicates with all the world’s markets simultaneously and regardless of economic, cultural and commercial differences (ibid). Welch (1996) noted the key role played by information transfer and utilization in the internationalization of companies. The evolutionary model of international marketing, he argued, emphasized the importance of experiential knowledge as a foundation for making steady progress towards internationalization, involving information and skills obtained “in the field” through the actual conduct of international business activities. This was a slow process as it involved relatively informal information acquisition and transfer via individual sales staff and other company employees seeking to build contacts and relationships in order to create a customer base. Hence the gradual pattern of internationalization observed in a variety of studies could be explained in information management terms. It was reasonable to suggest that the use of the Internet for international marketing might well be improving information flow and reducing the costs of information collection and transmission to such an extent that some of the fundamental reasons for the slow, gradual and “evolutionary” internationalization of companies were no longer relevant in the modern business world (Welch, 1996).

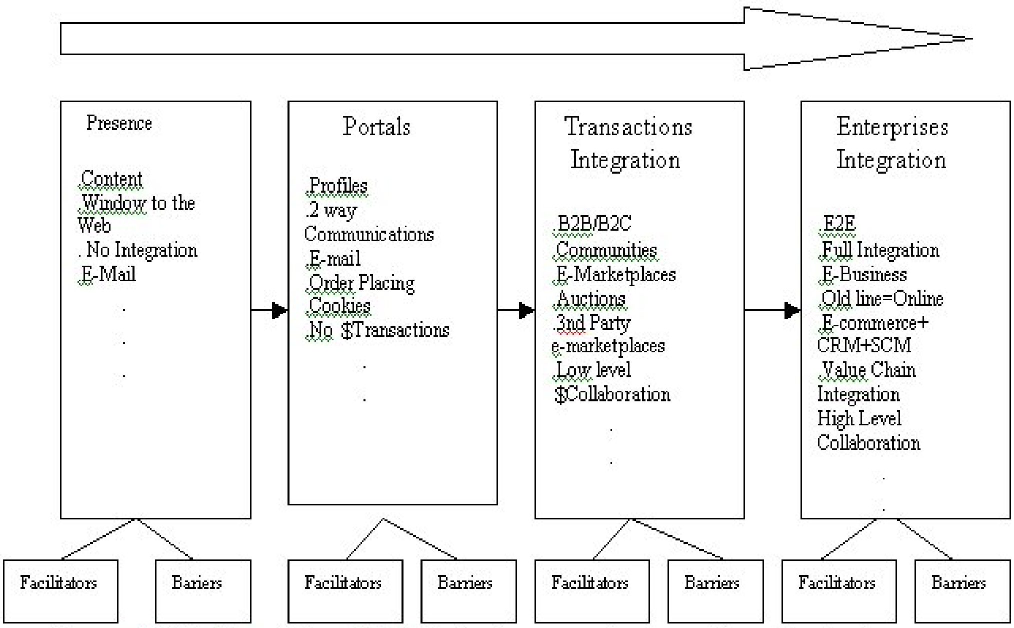
2.2.3.5 Internet business models for SMEs

Business model is the method by which a company builds and uses its resources to offer its customers better value than its competitors and to make money doing so. A business model can also be conceptualized as a system that is made up of components, linkages between the components, and dynamics (Afuah & Tucci, 2001). The Internet business model is the system – components, linkages, and associated dynamics – that takes advantage of the properties of the Internet to make money. It takes advantage of the properties of the Internet in the way it builds each of the components – value, scope, revenue sources, pricing, connected activates, implementation, capabilities, and sustainability - and crafts the linkages among these components (Afuah & Tucci, 2001).

A. A Stage Model for Internet Commerce Development

Internet commerce is defined as: "commercial activities associated with the Internet" (Bambury, 1998). S.Subba Rao and Glenn Metts (2003) proposed that use of the Internet in a company's strategic development took place in four stages (figure 2.3): presence; portals; transactions integration; and enterprises integration.

Figure 2.3 Stages of Internet Commerce Development and Their Characteristics



Soucrecs, S.Subba Rao and Glenn Metts, "*Electronic commerce development in small and medium sized enterprises, 2003*

Though the stage model as proposed appears sequential, it is not necessary that a company begins at the presence stage and then progresses through subsequent stages. The model allows for a company to enter at any stage. As technology and Internet commerce awareness increases it can be anticipated that a given company may enter a later stage, leapfrogging earlier stages in order to accelerate its development process. When a company does this, it is anticipated that all previous stage issues must be addressed. (Subb Rao and Glenn Metts 2003)

Each of the stages, their characteristics and facilitators and barriers are described in the following paragraphs.

1. Presence

Most companies make their first steps in Internet commerce by displaying their company brochure and product offer on a Web site (Timmers, 2000). The presence stage involves the initial steps that organizations do to get involved in a digital environment. This stage is characterized by an organization having a "window to the Web'' (Barry, 2000). At this stage the Web site provides information and primarily one-way communication to any potential user. This stage is best represented by a company having a Web site that provides information about the company's products and services, contact information, and other relevant information in a static manner. Another important characteristic of this stage is that there is no integration with internal and/or external processes, and the presence is primarily used to attract new customers (O'Connor and O'Keefe, 1997).

Facilitators. Facilitators of this stage include not only the physical creation of the site but a number of activities and/or management level mindsets that would precede the development of the site. One of the most important facilitators at this stage is commitment. Commitment refers to strategic organizational motivation to use the Internet as a mechanism for achieving some strategic objective whether it be increasing sales, providing better service to existing customers, making information more available and/or at a cost savings (i.e. catalogue shoppers). Thus, commitment is considered to be a necessary factor for the long-term success of e-commerce development. Other important facilitators include content, price flexibility and competitive access cost for the target users.

Barriers. The barriers a company may face at the presence stage include:

- Technological resistance within their organization and in-house ``know-how'' or expertise;
- Acceptance of growth by managers;
- Financial investment; and
- Development of telecommunication infrastructure.

2. Portals

The portals stage is viewed as the introduction of two-way communication, customer or supplier order placing, the use of profiles and cookies. The main difference between this stage and the presence stage is the capability of two-way communications between the business and customers (B2C) and/or between businesses (B2B). The information provided in the presence stage can be coupled with facilities for ordering, product feedback, and product and/or quality surveys. This allows not only the attraction of new customers, but it also allows the company to engage and retain visitors, and relate them to their individual preferences for customization purposes (Le and Koh, 2001).

Facilitators. There are three important facilitators that come into play at the portals stage: internal organizational changes, investment and usability. At the portals stage the Web site becomes an information gathering and disseminating tool that must be connected to more than just the marketing or sales department of the organization. Others within the organization must be connected to the system in order to handle the increased traffic of the e-commerce system.

Barriers. In addition to all the barriers listed for the previous stage, at the portals stage there are two important barriers, first, development of B2B interfaces and, second, cultural and/or language issues. The degree of integration at this stage is driven by the level of technological development outside the organization as well as within. If suppliers are not capable of or are not willing to utilize the system, further development can be hindered.

3. Transactions integration (TI)

The transactions integration stage (TI) is differentiated from the portals stage mainly by the presence of financial transactions between partners. This in turn will require higher technical capabilities, and IT infrastructure and, thus, SMEs will face new challenges to overcome.

An important characteristic of the TI stage is that interactions can be for selling as well as buying. This stage can include the participation in virtual communities, that allow participants to share information around an area of common interest (Timmers, 2000); electronic auctions, where sellers offer products or services to buyers through a Web site with a structured process for price setting and order fulfillment, third party e-marketplaces, where a third party provider places the catalogues of suppliers online, and offers catalogue search, ordering and payment facilities in a secure environment to purchasers.

Facilitators. Chesher and Skok have identified five facilitators for this stage. They are: (1) the ability to extend IT technology within the SME from a financial investment perspective; (2) the ability to have acquired or to acquire the necessary internal IT competencies; (3) partnerships for B2B and third party opportunities; (4) Internet Commerce community development; and (5) selection of competitive payment systems. A SME at this stage must possess a higher level of technological ability in order to run the e-commerce business (Chesher and Skok, 2000).

Barriers. There are a significant number of barriers at this stage because of the complexity of adding financial transactions to the e-commerce effort. With the addition of money transactions many external barriers, which are beyond the direct control of the SME come into play. It is identified as:

- Financial systems;
- Governmental tax and trade policies;
- Security and/or privacy;
- Governmental contractual and legal environments; and
- Treatment of intellectual property.

Financial systems vary throughout the developed and under-developed countries and the lack of compatibility can result in enormous problems for SMEs trading across borders (Walczuch *et al.*, 2000). The lack of compatibility may result in either making financial transactions virtually impossible or making them so expensive that no added value is obtained.

4. Enterprises integration (EI)

Enterprises integration (EI) refers to complete integration of business processes to the extent that old-line business is indistinguishable from online business. This level of integration involves high levels of collaboration between customers and suppliers. Enterprises integration includes full integration of B2B and B2C business including value chain integration. This level of integration utilizes the e-commerce systems to manage customer relationships (CRM) and the supply chain (SCM). This level of integration is e-commerce + CRM+ SCM. This stage is somewhat of an ideal concept for the ``e-world'' environment. Many of the requirements of this stage still have technology problems and over-whelming integration issues. Successful players in the EI stage will be able to distinguish themselves if they:

- Intimately understand their partners' current and future/strategic needs;
- Work proactively with their partners to create solutions that address these needs;
- Use information sharing; and
- Have long-term contracts (Lacerra *et al.*, 1999; Krause *et al.*, 1998).

It is argued that significant opportunities for improvement often lie at the interfaces between the various supply chain member organizations (Handfield and Nichols, 1999).

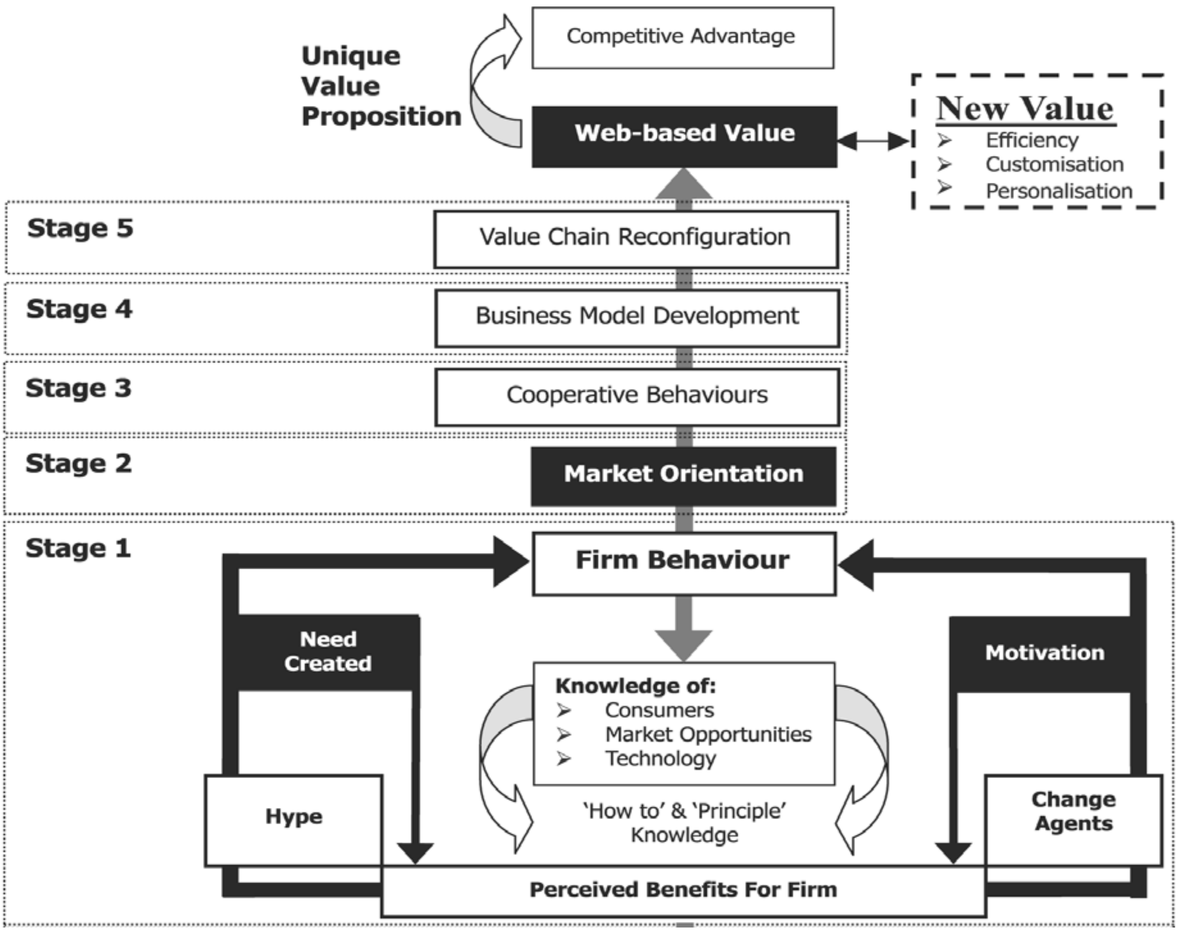
Facilitators. At this stage the Internet Commerce departments disappear and all business processes are fully integrated across internal systems and external collaborators and customers. The critical facilitators for this stage are first, the competencies of internal staff, second, business process integration and control, and third, back office integration. At this point technological considerations (barriers) interfere with the ability of the SME to help itself.

Barriers. There are significant technological barriers at this stage based on the fact that numerous technology gaps exist for SMEs to completely integrate all business processes. The barriers here include technology availability, technology diffusion regionally and globally, international standards for trade and transaction processing, development of e-markets, and network complexity.

B. Normative Web-based Commerce Adoption Model

Jones, Hecker and Holland developed a Web-based Commerce adoption model in 2003, accounting for the critical integration of existing and future knowledge for opportunity identification and exploitation of small companies (figure 2.4).

Figure 2.4 Normative Web-based Commerce Adoption Model



Source: Jones, Hecker and Holland, "Small firm Internet adoption: opportunities forgone, a journey not begun", 2003

Stage1. Web-based commerce adoption drivers

During stage one of the adoption model, it is predicted that companies gain an awareness of the perceived benefits of Web-based commerce through exposure to the hype that surrounds the medium, and through change agents (such as Internet service providers (ISPs) who promote its virtues.

Stage 2. Market orientation

During stage two market-oriented companies should access the required "how to" and "principles" specialized knowledge needed to successfully adopt Web-based commerce. In proposing market orientation as a defendable resource system, Hunt and Morgan (1995) define a company's market orientation to be:

(1) The systematic gathering of information on customers and competitors, both present and potential,
(2) The systematic analysis of the information for the purposes of developing market knowledge, and
(3) The systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation, and modification.

Stage two suggests that without access to specialized knowledge of customers, technology and the marketplace, the company's adoption of Web-based commerce will be less than optimal. Web-based commerce requires an expanded knowledge base and companies with a high degree of market orientation will be able to access essential information sources (Jones, Hecker and Holland, 2003).

Stage 3. Cooperative behaviors

In the absence of technical "Web-based commerce" knowledge, small companies need to access knowledge experts and apply their existing entrepreneurial knowledge to maximize the potential return from their adoption of Web-based commerce. Stage three proposes the use of the company's market orientation to share information and acquire new knowledge of customer needs, technological potential, and marketplace opportunities. This may increase the ability to acquire the "how to" and "principle" specialized knowledge required for the adoption of Web-based commerce. Cooperation at this stage, especially for small companies, is vital given that the acquisition of information for Web-based commerce may well represent a novel and therefore challenging area of knowledge development with regard to a company's absorptive capacity (Cohen and Leveinthal, 1990)

Stage 4. Web-based business models

Stage four contends that as strategy changes, so must structure, and the company's market orientation is the key resource system upon which the new business model is based. Rayport and Jaworsk (2001) state that a high quality Web-based business model should meet the following criteria: it must be unique, provide links between capabilities and benefits, support links between company activities and capabilities, be mutually reinforcing, provide a link between the physical world and the virtual world, and finally, the resource must be capable of supporting a sustainable advantage.

Stage 5. Value chain reconfiguration

Stage five proposes the introduction of new value creating activities to satisfy the identified desired benefits of the target markets. In this stage, the model assumes the company has now acquired "how to" and "principles" specialized knowledge through its prior foresight and market orientation, identifying desired customer benefits which require new company capabilities, resulting in the need to reconfigure the value systems, to access new Web-based value.

2.2.4 Critical Imperatives of the Internet in International Business

In order to properly frame the use of the Internet in international business, according to Samiee (1998), it is critical that certain imperatives and rules are established.

Firstly, sustainable competitive advantage cannot be solely derived from access to the Internet or developing a Web site. As an increasing number of companies are acquiring the necessary skills and technology to connect to the WWW, competitive advantage is acquired through the skillful and proprietary ways in which this technology is deployed. Simply put a business tool that is possessed by everyone offers no distinct competitive advantage to anyone. In fact, it has been suggested that the Internet *has the potential of* eroding some existing advantages of better established companies and creating a level playing field by allowing almost any interested exporter to obtain a presence on the Internet and to list its address on various directories and Internet search engines (Samiee, 1998).

Secondly, non-exporting companies cannot expect to become exporters overnight by virtue of developing and maintaining a web site. Developing an export-specific infrastructure within the company is fairly involved and costly. Furthermore, export marketing involves many macro and micro planning and management considerations including meeting local product standards, target market pricing and competitive factors, export currency and payment issues, customer support and service requirements, legal and regulatory considerations, and so on. None of these issues will be addressed by virtue of having a presence on the Internet (ibid).

Thirdly, inasmuch as industrial demand is derived from consumer demand, regardless of the penetration of the Internet in exporting or other commerce, the level of consumer spending is not affected. This indicates that in the long-run the use of the WWW or other Internet related applications cannot be expected to increase revenue for all companies, though short-run benefits might occur for some companies (ibid).

The fourth axiom involves the issue of communications security of the Internet. This consideration is of critical importance if the Internet is to make any serious impact in exporting business. Though some solutions have been offered, data security will remain one of the main concerns for any company that wants to integrate the Internet in its exporting business. As new solutions are offered, new ways of penetrating and decoding transmitted data or computer data banks are developed and security concerns are likely to remain an ongoing issue.

Finally, some structural impediments in using the Internet are gradually removed. The penetration of personal computers in many nations is still in its infancy and it will take many years before potential clients and importers everywhere are connected to the Internet. Unlike domestic businesses that can benefit from such access, know how, and interest, exporters face varying levels of access and other structural impediments before benefiting from an Internet presence in many markets. These impediments particularly limit the usefulness of the Internet for some critical business-to-business applications.

2.3 Summary

The aim of this chapter was to give the reader an understanding of the research that have been undertaken in the field of the Internet and its relation to SMEs' internationalization from the viewpoint of the research problem in chapter one, namely "*How can the Internet be used in SMEs' internationalization?* It was divided into two main sections: internationalization theories and Internet & SMEs' internationalization. In the first section, several scholars' popular theories were presented, according to internationalization process, entry modes and entry barriers; in the second section, some existing findings were introduced to the Internet's general use for business, the Internet's applications to handling internationalization process, entry modes and barriers, and two Internet business models. In chapter three, these theories will be selected to form a frame of reference, which is the guideline for the collection and the analysis of the empirical data in the following step.

Chapter 3 Research Questions and Frame of Reference

The aim of this chapter is to summarize from those parts of previous chapters in order to develop out research questions and a conceptual framework, which helps to organize and direct data collection and analysis.

3.1 Research Problem and Research Questions

As it is presented at the end of chapter 1, the research problem of this study is formulated as:

"How can the Internet be used in SMEs' internationalization?"

According to chapter 1&2, traditionally, SMEs do not have strong motives to go internationalization, and The Uppsala Internationalization Model is widely used by SMEs when developing foreign market. But this theory is argued now, as the fast-spread usage of the Internet. Bennett's (1997) argued that the use of the Internet for global marketing enabled companies to leapfrog the conventional stages of internationalization. And, more and more SMEs are born globals. So, what did it actually happen in the real word? By using the Internet, how do SMEs behave differently now, from the traditional ways, to explore the international market? Trying to find the answers to these questions, we formulate the first research question as:

Research Question One:

How can the use of the Internet in SMEs' internationalization process be described?

As well, for the lack of financial support and experience & knowledge, usually SMEs are willing to choose export entry mode or some of the intermediate entry modes, such as licensing or joint venture (Root, 1994). But have the things changed now for the use of the Internet? How have the things changes? To answer these questions, we formulate the second research questions as:

Research Question Two:

How can the use of the Internet in SMEs' selection of entry modes be described?

According to Hamill and Gregory (1997), Internet has been becoming an essential tool for SMEs to overcome many of the barriers or obstacles to go internationalization. But it is well know, as it is presented in Chapter 2, because of the limitation of lots of things, such as finance, experience, knowledge, etc. SMEs often face more barriers or obstacles then large companies when going abroad. Has this saturation changed or will change a lot in SMEs for the use of Internet? What advantage can SMEs take from Internet to bypass entry barriers when doing international business? Trying to make some findings on these questions, we formulate the third research question as:

Research Question Three:

How can the Internet be used by SMEs to handle entry barriers?

3.2 Delimitation

All kinds of companies, including large, medium-sized, and small companies, are willing to go internationalization. But this study will delimit only to SMEs' internationalization, because of the fast development of SMEs in Europe nowadays, as it is introduced in Chapter One.

There are lots of definitions of SMEs, as we introduced in chapter 1. Because this study focuses on European manufacturing SMEs, we adopt the European Commission's classification as the SMEs into micro-, small- and medium-sized companies with fewer than 10, 50 and 250 employees respectively (Commission of the European Communities, 1996)

Transaction via Internet can be divided into business-to-business (B2B) field, business-to-consumer (B2C) field, consumer-to-consumer (C2C) field, and consumer-to-business (C2B) field, etc. In this study, we choose business-to-business field as research area. This is because, according to Costa, B2B transactions on the Internet will become even more important than B2C transactions in terms of revenues. The business-to-business market represents the fastest growing segment of new Internet users. It is also the fastest growing segment of on-line commerce (Klein & Quelch, 1997). Its main advantages are the reduction of purchasing costs, better control of inventory, more efficiency in client services, reductions of marketing and sales costs, and the opening of new business opportunities (ibid).

This study will base on manufacturing SMEs. This is because, according to Qingjin Pen (2002), The Internet has quickly become essential for manufacturing SMEs, and next generation manufacturers' key business strategies are likely to include the implementation of the Internet in their operations.

According to the Swedish Institute Seminar 2003, Sweden is one of the high-developed countries of Information Technology on the world, with 80 per cent of the Internet access across the whole country. Sweden is also a country with which has a high percentage of SMEs and the SMEs have achieved a great contribution to the Swedish national economy (Bäckström, 2002). Besides, we are studying in Sweden now; it is very interesting to know how the Swedish manufacturing companies use Internet in their business. So, here, we choose Swedish SMEs in B2B field as the target samples.

3.3 Frame of Reference

Zaltman, Lemasters & Heffring (1982) define a frame of reference as "the set of ideas and outlooks we generally use in viewing things. It is our set of unspoken assumptions, expectations, and decision rules. The frame of reference serves as a lens or a filter between events and researcher's interpretations of those events." Miles & Hubermann (1994), however, state that: "A conceptual framework explains, either graphically or in narrative form, the main things to be studied – the key factors, constructs or variables –

and the presumed relationships among them. The framework helps the researcher to define who and what will, and will not, be studied".

3.3.1 Frameworks of Each Research Question

Question One: ***How can the use of the Internet in SMEs' internationalization process be described?***

Internationalization process is **conceptualized** as "the process of adapting firms' operations (strategy, structure, resources, etc) to international environments" (Johansson, 2000).

From different prospects of going internationalization, there are different models to practice. The presentation in chapter two introduces several of the existing internationalization process models. They are: The traditional marketing approach; "Life cycle" concept for international business; The Uppsala internationalization model; The Transaction cost analysis (TCA) model; The network model; Born Globals; and Bradledy's five-stage model. Among these models, the "Life cycle" model focuses on the advantages of taking "economies of scale " by standard production in less-developed countries, which means that, in domestic country, the international companies focus on new products' research & development while produce these products in their foreign subsidiaries. Usually these subsidiaries are based in less-developed countries where the parent company can take the advantages of low cost resources. This internationalization approach is usually the adoption of large international companies. The TCA model needs to get the data on the cost of the companies' spending on their transactions, which, most of the time, is difficult to acquire. The Bradley's five – stage model is too broad, including the whole process of SMEs' international marketing practice. So, these three models will be excluded when investigating and analyzing the SMEs' experience on internationalization before adopting the Internet. We want to find out how the SMEs behave in the internationalization process; whether or not these behaviors match the models, and the differences among them (table 3.1).

Table 3.1 Operationalization of Internationalization Process Model

<table>
<tr><th>Dimension</th><th>Concepts</th><th>Conceptualization</th><th>Operationalization</th></tr>
<tr><td rowspan="4">Internationalization process model</td><td>The traditional marketing approach</td><td>Focuses on the company's core competences combined with opportunities in the foreign environment</td><td rowspan="4">To investigate the SMEs' experience on internationalization before adopting the Internet.</td></tr>
<tr><td>The Uppsala internatinlzation model</td><td>Step by step going internalization according to geographic location or entry modes</td></tr>
<tr><td>The network model</td><td>To exam SMEs' internationalization by four situations characterized by a low or high degree of internationalization of the company and a low or high degree of internationalization of the market.</td></tr>
<tr><td>Born globals</td><td>SMEs aiming at international markets right from their birth.</td></tr>
</table>

Question Two: ***How can the use of the Internet in SMEs' selection of entry modes be described?***

Entry mode in this study is **conceptualized** as "an institutional arrangement that makes the entry of a company's products, technology human skills, management or other resources available in a foreign country" (Root, 1994).

Traditionally, there are three levels of entry modes, from export to setting up foreign subsidiary. According to the literature in chapter two, usually, a company goes step by step from low level to high level in international market. But, after the adoption of the Internet, would this choice be affected? How would it be affected? This is the aim of forming this research question. The classification of Entry Modes in chapter two is formulated as a conceptual framework of this research question (table 3.3).

Table 3.2 Operationalization of Entry Mode Theory

Dimension	Concepts	Conceptualization	Operationalization
Entry Modes	Export entry modes	A company's products are manufactured in the domestic market or a third country, and then transferred either directly or indirectly to the host market.	To exam the entry modes that SMEs choose
	Intermediate entry modes	Oownership and control are shared between the parent company and a local partner	
	Hierarchical modes	The company completely owns and controls the foreign subsidiaries.	

Question Three: ***How can the Internet be used by SMEs to handle entry barriers?***

The aim of this research question is to find out how and why the adoption of the Internet can deal with one company's entry barriers when doing international business. Theories of entry barriers are used to generalize what entry barriers a company might meet. Although in chapter two, three classifications are presented, their main idea is similar, that entry barriers are usually from these four areas: a company's own limitations; general environment prevents; commercial situation; and political situation. The following table is formulated from these four areas as a framework to answer this question (table 3.4).

Table 3.3 Operationalization of Entry Barriers Theory

<table>
<tr><th>Dimension</th><th>Concepts</th><th>Conceptualization</th><th>Operationalization</th></tr>
<tr><td rowspan="4">Entry barriers</td><td>A company’s own limitations</td><td>Insufficient finances
Insufficient knowledge
Lack of internationally experienced personnel
Lack of foreign market connections and distribution channels
Ethnocentric rather than geocentric orientation</td><td rowspan="4">To exam the entry barriers that SMEs suffer</td></tr>
<tr><td>General environment prevents</td><td>Language & cultural differences
Problems in finding suitable overseas representation
Competition in foreign markets.
Differences in product usage and specifications in foreign markets
Complexity of shipping services to overseas buyers</td></tr>
<tr><td>Commercial situation</td><td>Exchange rate fluctuations
Failure of foreign customers to pay due to contract dispute, bankruptcy, refusal to accept the product and fraud
Delays and damage in the export shipment and distribution process</td></tr>
<tr><td>Political situation</td><td>Foreign government restrictions and high tariffs on imported products
National export restrictions and lack of assistance from own government
Lack of tax incentives for companies
High value of the domestic currency relative to those in export markets
Complexity of trade documentation and regulations
Civil strife, revolution and wars in foreign country</td></tr>
</table>

3.3.2 Framework Applying to All Research Questions

Internet properties for doing business and advantages of Internet for SMEs are adopted as a framework for all three research questions to find out whether or not SMEs have had taken any benefits on internationalization process, entry modes selection and handling the entry barriers after creating their own website, or by using other Internet functions for dong business. Because there are some similar statements in these two theories, we modify it into one criterion as: Internet properties and advantages for SMEs. The sub-items are generalized as: mediating technology, universality, network externalities, distribution channel, time moderator, information asymmetry shrinker, low cost standard, creative destroyer, transaction-cost reducer, equal trading platform, and collaboration maker (table 3.4).

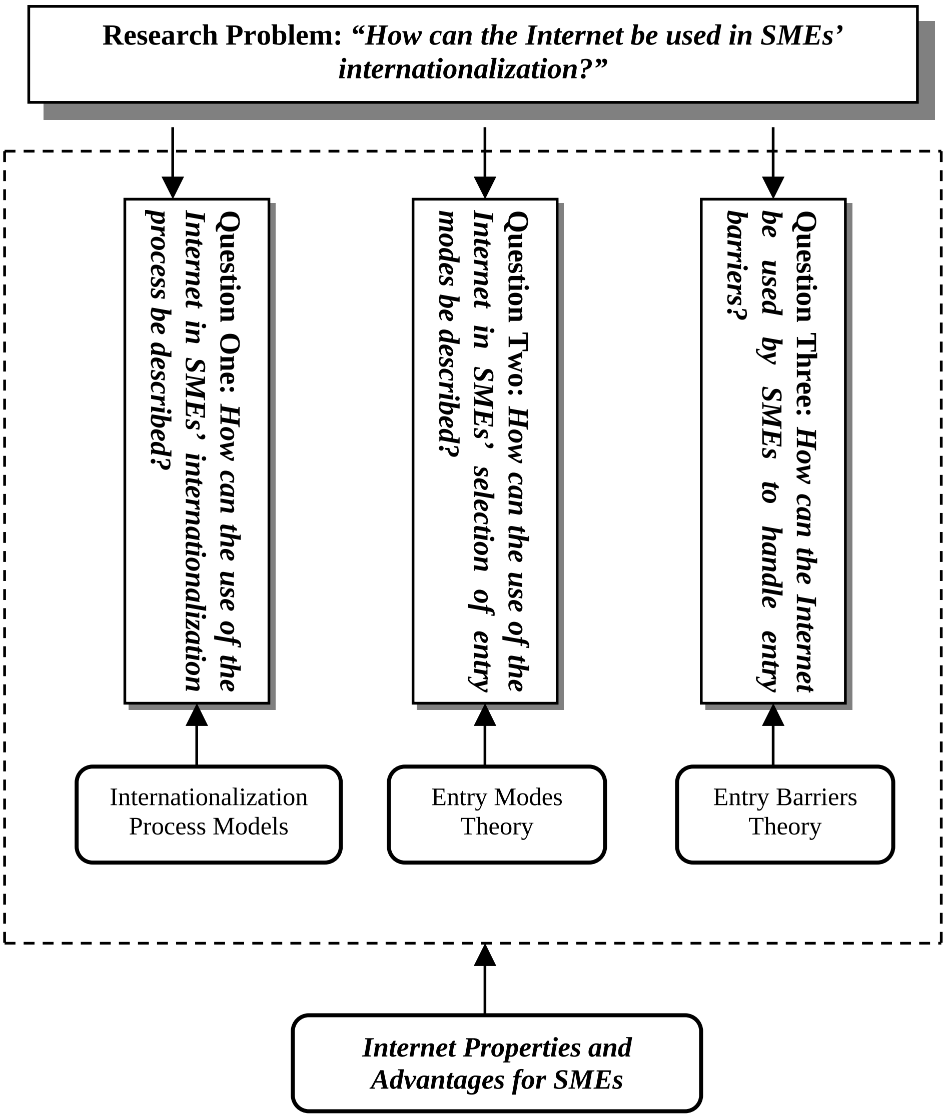
Table 3.4 Operationalization of Internet Properties and Advantages for SMEs

Dimension	Concepts	Conceptualization	Operationalization
Internet Properties and Advantages for SMEs	Mediating technology	The Internet facilitates exchange relationships among parties distributed in time and space.	To exam SMEs' internationalization process, entry mode selection and handing entry barriers changes after the adoption of the Internet
	Universality	The Internet's ability to both enlarges and shrinks the world.	
	Network externalities	The more people connected to the Internet, the more valuable it is.	
	Distribution channel	The Internet offers a new distribution channel, apart from the old distribution channels	
	Time moderator	The ability of Internet that it can shrink or enlarge time	
	Information asymmetry shrinker	Internet can reduce some of these information asymmetries because of its flourished information sources	
	Low cost standard	Lower the costs for both sides of suppliers and customers	
	Creative destroyer	The Internet might destroy many traditional industries' value chain	
	Transaction-cost reducer	Internet reduces transaction costs for many industries.	
	Equal trading platform	SMEs have just the same freedom of pursuing multiple strategies and experiment of new approaches on the Internet as the large companies have	
	Collaboration maker	The Internet allows small businesses to establish an effective inter-business collaboration	

3.4 Summary

From the above discussion, the frame of reference for the whole study can be clearly generalized as the following figure.

Figure 3.1 Frame of Reference



Chapter 4 Research Methodology

Potter (1996) states that Methodology is a strategy or plan for achieving some goal and provides the blueprints that prescribe how the tools should be used. In this chapter we will discuss and justify the research methodology choices undertaken in this thesis. The research methodology choices reported here will give us guidelines for how we should gather needed information for our research and how to process it. This will increase the possibilities to receive appropriate answers to our research questions and make valuable conclusions.

4.1 Research Purpose

There are many ways to carry out research. Most types of research can be classified according to how much the researcher knows about the problem before starting the investigation. According to Yin (1994), and Wiedersheim-Paul & Eriksson (1999) there are three classifications of research available when dealing with a research problem: ***exploratory, descriptive, or explanatory*.**

Exploratory studies aim at exploring something, and are appropriate when the research problem is difficult to delimit. The purpose is to gather as much information as possible concerning a specific problem. Exploratory research is often used when a problem is not well known, or the available knowledge is not absolute. The technique that is best suited for information gathering when performing an exploratory research is interview (Yin, 1994).

Wiedersheim-Paul & Eriksson (1999) argue that descriptive research is often used when a problem is well structured and there is no intention to investigate case/effect relations. Descriptive research is recommended when you search data, often secondary, in order to describe a few aspects of a clearly structured problem.

Explanatory is to develop precise theory that can be used to explain the empirical generalizations. Based on this, the researcher formulates hypotheses that are tested empirically. This kind of research is also appropriate when it does not exist a clear apprehension about what model that should be used and what qualities and relations that is important. (Yin, 1994)

This study's research problem is described as ***"How can the Internet be used in SMEs' internationalization?"*** which has both explorative and descriptive characters from the aim of understanding and describing a phenomenon not yet well developed.

4.2 Research Approach

A research can be approached in either a qualitative or a quantitative way. A qualitative method has an understanding purpose and goes more in depth with the research than a quantitative method does. The researcher who uses the qualitative method wants to study the phenomena from the inside, which often leads to case studies with in-depth interview without specific questions or alternative answers. Additionally, the qualitative approach is characterized by closeness to the source of information and provides abundant information and prerequisites that will yield deeper knowledge of a complex situation (Merriam, 1994).

Quantitative research is most often used in studies with clearly stated hypotheses that can be tested. It focuses on well-defined, narrow studies. A quantitative method discusses the problem from a broader perspective, and often by providing a survey questionnaire with specific answer alternatives (Merriam, 1994)

The purpose of this thesis is to investigate how the Internet can be used in SMEs' internationalization, which the answers can not be quantified or measured in numbers, so qualitative method is much more suitable then quantitative way for doing investigation. The qualitative approach makes it possible to gain a deeper understanding rather than to see things from a broader perspective.

4.3 Research Strategy

According to Yin (1994), there are five primary research strategies in the social sciences: ***experiments, surveys, archival analysis, histories,* and *case studies***. Each strategy has its own advantages and disadvantages depending on three conditions:

- ♦ The type of research question posed.
- ♦ The extent of control an investigator has over actual behavioral events.
- ♦ The degree of focus on contemporary, as opposed to historical, events.

Table 4.1 displays these conditions in each of the three columns and shows how each of the five strategies is related.

Table 4.1 Relevant Situations for Different Research Strategies

Research Strategy	Form of Research Questions	Requires Control over Behavioral Events	Focuses on Contemporary Events
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Case Study	How, why	No	Yes
Archival Analysis	Who, what, where, How many, How much	No	Yes/no
History	How, why	No	No

Source: Yin, *"Case Study Research, Design and Methods"*, 1994

The purpose of this study is to gain a better understanding of how can Internet be used in SMEs' internationalization, which is focusing on the contemporary events and empirical data, thus leads to that historical strategy and archival analysis not appropriate. Due to the fact we cannot and need not control over behavioral events, experiment is out of our choice. Survey is a strategy that we would like to choose for some special sub-questions under research questions, but, unfortunately, cannot be carried out because of the limited resources and time. So, we choose case study as our research strategies.

According to Yin (1994) a case study is a comprehensive description and analysis of a single situation. In case studies the aim of the research is to seek conformity between the results and the theory. This means that the theory helps to identify other similar events to the result that can only be generalized after further studies. Yin (1994) also states that a case study approach is best used as a method for gathering data when a 'how' or 'why' question is being asked about a contemporary set of events over which the researchers have little if no control. Yin also says that a qualitative case study approach has a distinct advantage when how or why question is being asked about a contemporary set of events over which the investigator has little or no control.

Case study research might be conducted as either single or multiple case studies. When using multiple case studies, researchers have the possibility to compare the cases with each other, which the results might be more convincing compared to single case studies (Yin, 1994). Since our research problem and questions focus on "how" and "why", multiple case studies strategy is the most suitable method for our study.

4.4 Sample Selection

Qualitative samples should include units of information that increase the information value and provide a basis for deeper understanding of the studied area. This can be done in different ways. First of all, the sample should have the largest possible variation-width. Second, the respondents should the ones who are expected to possess a lot of information on within the studied areas. Finally, the respondents should have willingness to participate in the study and ability to express themselves within the area (Home & Solvang, 1997)

In chapter 3, Delimitation, we have presented that this study focused on Swedish manufacturing SMEs in B2B field. Because, when looking at the literatures on Internet's applications to SMEs' internationalization, no delimitations have been found on certain industry, and, also because of the lack of the abilities of acquiring enough samples within one industry, in this study, we select sample companies in different industries randomly, based on the potential respondents' willingness. Accordingly, the criteria for the sample selection in this study are:

- ♦ Small and medium-sized enterprises - by European Commission's definition
- ♦ In business-to-business scope
- ♦ Manufacturing Companies
- ♦ Already involved in international business activities
- ♦ Independent ownership – not a subsidiary of a large-scale company
- ♦ Having own website on the Internet
- ♦ Based in Sweden

Four Swedish SMEs were chosen, based on the above criteria, as the samples for the case study (Table 4.2).

Table 4.2 Basic Knowledge of the Sample Companies

Company	Industry	Employees	Respondent's Position
Liko AB	Health Care	Less than 200	Mr. John Lindström - Business Development Manager
Svalson AB	Electronic products	31	Mr. Bill Svensson - the President
Trimar Sterling Group (TSG)	Trading and shipping salvage	15	Mr. Bo Rindegård - Project Management Manager
Polarbröd AB	Bakery	Less than 300	Mr. Thomas Hedberg - Marketing Manager

In Polarbröd AB, there are less than 300 employees, which does not match the definition (less than 250) of European Commission. Because there is no strict definition on SMEs (as shown in chapter one), because Polarbröd AB defines itself as a SME, also because of the difficulties for foreign students to access local (Sweden) companies, we keep Polarbröd AB as a sample for this study.

4.5 Data Collection Methods

Once the cases have been selected according to the stated criteria, the various research methods should be evaluated and selected. The data-collection method is highly influenced by the methodology chosen (Hlome & Solvang, 1991). According to Yin (1994), data for case studies can come from six different forms: documents, archival records, interview, direct observation, participant observation, and physical artifacts. The strengths and weaknesses of the different data collection methods are presented in Table 4.2.

Table 4.3 Six Sources of Evidence: Strengths and Weaknesses

Source of evidence	Strengths	Weakness
Documentations	*Stable:* can be reviewed repeatedly *Unobtrusive:* not created as a result of the case *Exact:* contains exact names, references, and details of an event *Broad coverage:* long span of time, many events and many settings	*Retrievability:* can be low *Biased selectivity:* if collection is incomplete *Reporting bias:* reflects (unknown) bias of author *Access:* may be deliberately blocked
Archival records	(Same as above for documentation) Precise and quantitative	(Same as above for documentation) Accessibility due to privacy reasons
Interview	*Targeted:* focuses directly on case study topic *Insightful:* provides perceived causal inferences	Bias due to poorly constructed questionnaires Response bias Inaccuracies due to poor recall *Reflexivity:* interviewee gives what interviewer wants to hear
Direct observation	*Reality:* covers events in real time *Contextual:* covers context of event	Time consuming *Selectivity:* unless broad coverage *Reflexivity:* event may proceed differently because it is being observed *Cost:* hours needed by human observers
Participant observation	(Same as for direct observations) Insightful into interpersonal behaviour and motives	(Same as for direct observations) Bias due to investigator's manipulation of events
Physical artefacts	Insightful into cultural features Insightful into technical operations	Selectivity Availability

Source: Yin, *"Case Study Research, Design and Methods"*, 1994

All sources have their strengths and weaknesses and many sources complement the others. Using multiple sources of data is advantageous as it increases the external validity of the research (Yin, 1994). Due to the fact that we are conducting qualitative, not quantitative case studies, we are not able to utilize archival records as a source of evidence. *Direct observations* and *participant observations* can't be carried out because of the impossibility, due to limitations regarding time and financial resources. We further more need not insight into cultural features and technical operations, and therefore we don't choose to use *physical artifacts* as a source of evidence. Thus leaves us with two sources of evidence, *interview* and *documentation*.

Yin (1994) states that one of the most significant sources of case study information is the interview. He further clarifies that positive aspects with the interview are that it is "targeted" because it concentrates directly on the case study topic. It is also "insightful" because it gives perceived causal conclusions. Interviewing is the technique of gathering data from humans by asking them questions and getting them to react verbally (Potter, 1996). Interview have several strengths, and are useful when one needs to get large amounts of data quickly. In addition, the interview process allows the researcher to gather a wide variety of information from a larger number of subjects than would be possible if the study were confined to fewer participants. For these merits of interview method and the nature of our study, we regard interview as the best way to collect empirical data.

In this study, secondary data is collected from documentation. Documentation is relevant to almost every case study topic (Yin, 1994), and is particularly relevant in this study since the aim is to investigate how the Internet can be used in SMEs' internationalization. The documentation in this study includes the background of each sample company and a careful examination of each company's website.

4.6 Data Analysis

According to Yin (1994), ″every investigation should start with a general analytical strategy/yielding priorities for what to analyze and why″. Basically, two general analytical strategies are available: relying on the theoretical propositions and developing a case description. Hence, relying on the theoretical propositions strategy is selected and the analysis was conducted in the following manner:

1) Within-case analysis
Analysis is conducted within each case, at each unit of analysis level against the emerged frame of reference of this study. The identified similarities and dissimilarities with the frame of reference provide findings for each case.

2) Cross-case analysis
A comparison among the findings from the cases is conducted. The comparative analysis is implemented at each unit of analysis level.

According to Miles and Huberman(1994) qualitative data analysis focuses on data in the form of words and the analysis consists of three simultaneous flows of activity:

1. Data reduction: the process of selecting, simplifying, focusing, abstracting and transforming the data. The purpose is to organize the data in a way that final conclusions can be drawn and verified.

2. Data display: to take the reduced data and display it in an organized, compressed way in order to facilitate for conclusions to be drawn.

3. Conclusion drawing/verification.: To decide what things actually mean - to note regularities, explanations, patterns, causal flows and propositions.

When analyzing the data collected in this thesis, these three steps will be followed. For each research question, data will be reduced via a within-case analysis. The within-case analysis will be made by comparing our empirical findings to the theories in the conceptual framework. Then the data will be reduced further and displayed in a cross-case analysis. The cross-case analysis will compare the selected companies with each other in an organized and compressed way and detect possible similarities and differences. After the within case-analyses and cross-case analyses are conducted, conclusions of the findings will be made, and each research question will be repeated and answers will be given based on our findings.

4.7 Quality Criteria

There are two important concepts one should keep in mind when writing a report, validity and reliability. Validity is the ability of a chosen instrument to measure what it is supposed to measure. Reliability is the extent to which research results would be stable or consistent if the same techniques were used repeatedly. (Wiedersheim-Paul & Eriksson, 1999).

The role of reliability is to minimize the errors and biases in a study (Yin, 1994). According to Yin (1994) the quality of empirical research can be judged by conducting four specific tests. Since case studies are a type empirical research, these four tests can also be applied when judging the quality of case study research. The four different tests will be presented below in table 4.3.

Table 4.4: The Four Tests

Tests	*Description*
Construct Validity	Establishing correct operational measures for the concepts being studied.
Internal Validity	Establishing casual relationships whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.
External Validity	Establishing the domain to which a study's findings can be generalized.
Reliability	Demonstrating that the operations of a study can be repeated with the same results.

Source: Adapted from Yin, 1994

In order to increase the construct validity, in this study, we use interview and documentation in order to obtain evidence. Interview guide will be examined by our supervisor. When first contacting the researched companies, we will explain our research project so that they will be able to direct us to the person most suitable and knowledgeable to answer our questions.

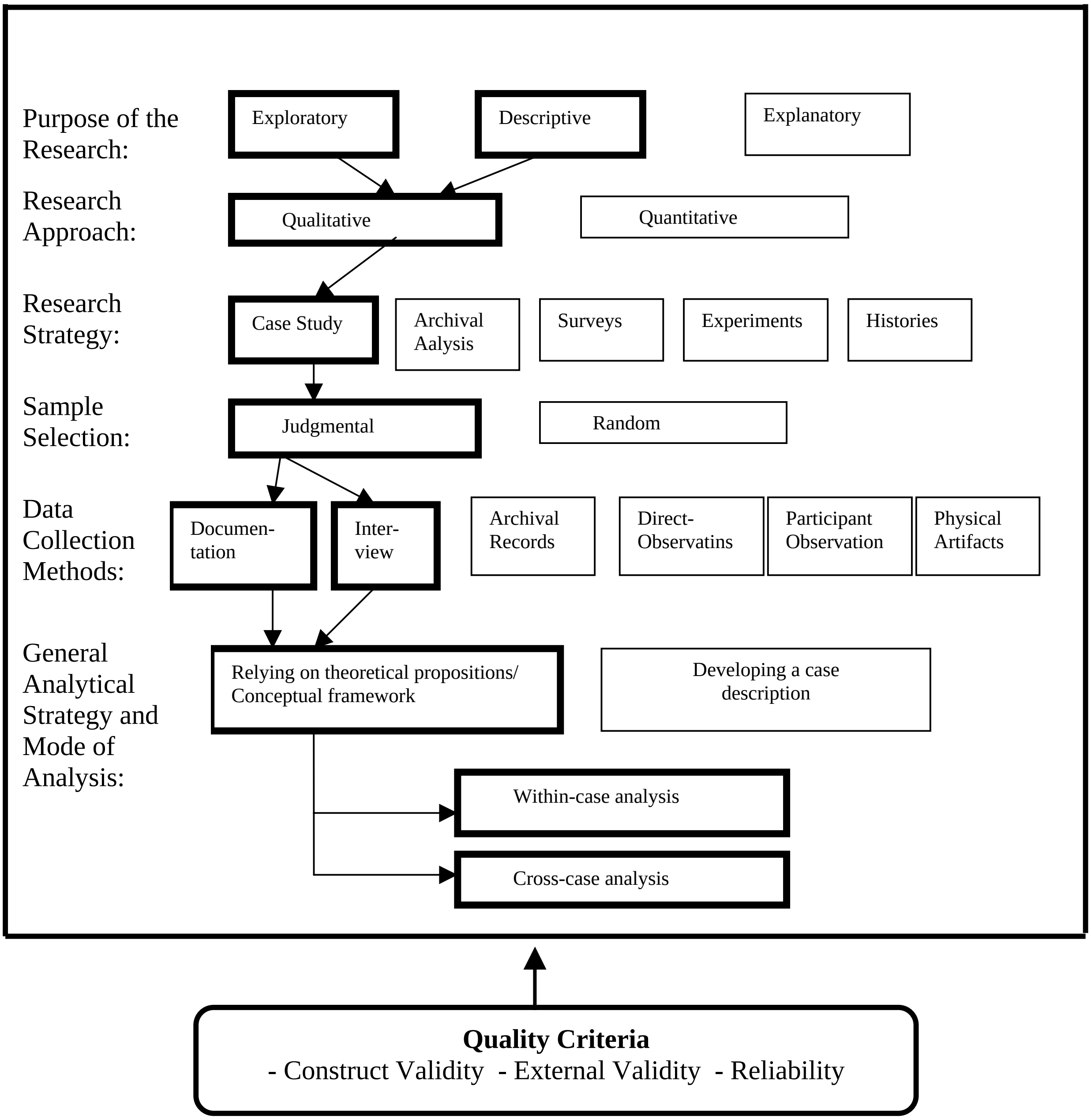
According to Yin (1994), internal validity only concerns causal or explanatory studies, where an investigator is trying to determine whether an event lead to another event. Internal validity is inapplicable to descriptive or exploratory studies, which are not concerned with making causal statement. External validity deals with the issue of knowing whether the findings from a case can be generalized. According to Yin (1994) a single case study is a poor base for generalizing. Yin (1994) however, states that since case studies rely on analytical generalizations, which should try to generalize findings to theory, external validity may still be high. Since this thesis only involves four case studies, the ability to generalize is rather low.

When conducting the interview, we will inform the selected respondents in advance about the main topic of the interview to give the respondents the opportunity to prepare themselves, in order to provide us with accurate answers. A tape recorder will be used when conducting the interview, by doing so we could avoid any misinterpretations, but also to be able to double-check the answers afterwards and ask spontaneous attendant questions. When it comes to reliability and observations, Yin (1994) states that to increase the reliability a common procedure is to have more than a single observer making an observation, whether it is of the formal or casual variety. Thus, when resources permit a case study, investigation should allow for the use of multiple observers. However, since we have conducted face-to-face interview, no observations were made therefore we are afraid that the reliability might be slightly affected.

4.8 Summary

A summary of the methodology chapter is presented in figure 4.1 in order to give the reader an overview of the paths that have been take.

Figure 4.1 Summary of Methodology



Chapter 5 Empirical Data Presentation

The aim of this chapter is to present the empirical data collected from the companies, which were selected according to the delimitation of chapter 3 and the sample selection criteria of chapter 4. The presentations are based on the interview with Liko AB, Svalson AB, Trimar Sterling Group (TSG) and Polarbröd AB that were done by the interview guide shown in Appendix. The interview guide was formed according to the research problem and research questions. Starting with a short introduction to the company's background, this presentation follows the order to the research questions.

5.1 Case One: Liko AB

5.1.1 Company Background

Liko AB was established in 1978 in Luleå, which is located in the northern Sweden. Its main products are lifts with care. Liko's products include mobile lifts, overhead lift systems, slings and accessories, walkers and furniture riser. For more than 25 years, Liko AB has specialized successfully in the design and manufacture of safe, easy-to-use assistant devices for lifting and transferring physically disabled persons. Liko's specialization enables Liko AB to remain at the forefront of healthcare development. It's customers are all over the world.

The whole group of employees of Liko AB is below 200 people. The headquarter is located in Lueå, which has around 70-80 employees. Liko AB has six subsidiaries. Three of them are in Sweden and three of them are abroad. They are: Liko R&D AB in Luleå with some 10 employees; Liko Textile AB in the north of Sweden with some 30 employees; Liko Produktion AB in Luleå with some 12 employees; Liko GmbH in Germany with 15 employees; Liko Ltd in the U.K with 30 employees; and Liko Inc in America with 30 employees.

The organization structure in Liko AB is made up by President; Commercial Department which is in charge of export; Sweden Sells Division; Marketing Department: Logistic Department; Finance Department and Human Resource Environment Department. Liko is a 100 per cent private company, owned by the Liljefors family, who has been living in Luleå since 16th century.

In 2002, the revenues of Liko AB are SEK300 million, which shares 20 per sent of the world market.

The main competitor is Getinge ARJO, which is the market leader both of Sweden and the world. The other Invacare; Sunrise; Guldmann; and Molift etc. The others are small companies, which some concentrate on domestic market (Sweden) and some are located in Norway, Denmark, Japan, U.K. Germany, Belgium and America.

5.1.2 General Use of the Internet

Liko AB created its website - www.liko.se in 2000. It has five language versions of Swedish, Dutch, French, Germany, and British English & American English. According to Mr. John Lindström – Liko's business development manager, the main function of the website is to provide updated information and to communicate with the customers. Liko AB does sign contract with distributors regarding the usage of Liko's website and local sub-websites. But it is not the main part of the work, because sometimes they feel it is unsafe to do so. Besides, Liko AB also uses the Internet to do lots of the market research and market promotion.

As one of the cheapest and quickest channel, Mr. John Lindström feels that attracting interest is the biggest advantage that the Internet can offer. E-mail is the most important communication method related to the Internet.

But the telephone is still the most important function for the person-to-person business. This is because most of the Liko’s customers do not have the access and knowledge to use the Internet and some of them also have language barrier. So the traditional way is still the main method to develop the international business. For an instance, in Thailand and Malaysia, not so many people understand English or other foreign languages, so they do not have strong motivation to browse Liko’s website. So, there must be the distributors to explain the details of the products.

According to Mr. John Lindström, when the customers start to request the use of the e-commerce over the Internet, Liko AB is prepared to do it at any time. But Liko AB would not push the customers first. So, they supply the information what the customers need, not just give what they have. Later on, Liko AB might add more other language versions to its website.

But because the products sometimes require know-how, the business cannot be done only via Internet. In the future, if they can find some new ways through the Internet to transfer the know-how, Liko AB will do it. But now, Liko AB still keep using telephone to contact their customers, because by doing so, Liko AB can build more confidence to the customers than just supply the information on the Internet.

5.1.3 Data Regarding the Research Questions

Research question 1. How can the use of the Internet in SMEs’ internationalization process be described?

At the beginning of 1979, all turnovers in Liko AB were from the production of Liljan – an old fashion lift, which sold only in Sweden. Till the end of 1980s, it developed gradually in Swedish market by designing and producing several kinds of products – mobile lifts, freestanding system, heavy duty lifting and overhead lifting systems.

Around the beginning of 1990s, Liko AB started to go abroad. First, it entered the Northern European market by exporting. Second, it entered the whole Europe by setting up subsidiaries in Germany and U.K. Later on, Liko AB marched in Asian and Northern American market by both exporting and setting up subsidiary. By the end of 1997, 50 per cent of Liko AB’s revenues have come from the international market. By the end of 2002, nearly 70 per cent of its revenues have come from the international market. The Degree of internationalization of both company and market is high. The competition is drastically, either in domestic market or in international market.

According to Mr. John Lindström, Liko AB believes that it must be first strong locally before globally. If the first step of entering a certain foreign market works well, then just go on. If not so, just stop it. Otherwise, it will be too costly and will meet finical risks, i.e., it takes a lot of job to enter a new country because Liko AB has to train the sales people and keep the whole organization running. All these things cannot be done over night. Usually it takes two to three years to set up a new subsidiary. Now Liko AB has three subsidiaries located in America, Germany, and U.K. All of the subsidiaries are selling locally.

Internet is a good way to attract distributors and customers. They can get more information about the products. It is quick and save time. Some people who don't know Liko AB before can also get the information about them only by search on the Internet. This makes Liko AB to be familiar with more people throughout the world. Lots of unknown people, who find Liko AB on the Internet and interest in the products, mail to them. Later on Liko AB will do more business on the Internet according to enquires of distributors and customers.

Although the revenues grow rapidly during these three years, from SEK100 million in 1999, to SEK300 million in 2002, it is not because of the creation of the website, but because of the creation of the new market in America.

Research question 2. How can the use of the Internet in SMEs' selection of entry modes be described?

Liko AB enters the foreign market by direct export and direct investment. It has established three subsidiaries in the U.K, America and Germany, which sell locally. And, it exports the products to the other foreign markets where have no subsidiary.

Liko AB changes the entry mode gradually after entering a foreign market for a while. Export is the first step. Then, after it gained the local market, the company established its own subsidiaries by direct investment. The company has grown gradually from Sweden, Denmark, Norway, then to Germany and the U.K., and then toke a leap to American market.

Liko AB does not have any cooperative relations with the competitors. Sometimes they meet each other in the trade affairs or airport, but don' t have any relationship on business. Liko AB has been accused of patent infringement a couple of times by competitors, but has always won those cases in court.

From Liko's opinion, if one can use the Internet to look for the distributors, that's fine because it is quick and cheap. Otherwise, the Internet does not affect too much on entry modes selection. It is just an attraction. Comparing the Internet with the telephone, some countries are also not so popular and easy to access the Internet, i.e., the U.K. may 6 or 7 *years* behind Sweden of the use of the Internet. So, there is not too much change before and after the Internet is used, except the quick information.

Research question 3. How can the Internet be used by SMEs to handle entry barrier?

When entering the foreign markets, Liko AB has the barriers of insufficient finances and knowledge, lack of foreign market connections and distribution channels, political risks and trade barriers, etc. Among these, language and health care awareness are two important barriers. For example, in the developing countries, the governments do not give more funds on the health care, so the distributors do not have enough money to buy the health care products. In this case, Liko AB does not intend to enter such an immature market. Even if people in these countries can reach Liko's website, the Internet is no use for the entry of the market and handling the barrier.

From Liko's previous experience, the Internet can be used to increase international awareness and insufficient information, so reduce some barriers from its own limitation. But other entry barriers still should be handled by the other ways.

In short, Liko AB increased international awareness, confidence and commitment through access to global information sources through the Internet, and gets the enquiries and feedback via website from potential global customers.

5.2 Case Two: Svalson AB

5.2.1 Company Background

Mr. Bill Svensson started his business in 1979, when he was in the south Sweden. A neighbor who was an architect told him that there was no electrically driven sliding windows selling in the market but it was actually needed. After that, Mr. Svensson did some survey and made the same conclusion. So, he started to make it. His brother-in-law Mr. Hans Carlsson joined him, so the name of the company was created as Svalson AB. Svalson AB began to produce the electrical sliding window from the early 1980s.

Svalson's main products are electrically driven sliding window, accessories, window, doors, display stands, cash turntables and sliders trays. The main customers are hospitals, governments, hotels and restaurants etc.

Savlson AB is 100 per cent family company. Bill Svesson has 55 per cent share holds, and the rest share holds are hold by Hans Carlsson's two sons after Hans Carlsson passed away 10 years ago.

There are totally 31 employees in Svalson AB now. Two people are in the administration department, three are in marketing department, two are in technical department, and others are in the manufacture.

There were 25 employees in 2001, and the revenues were SEK18.3 million. In 2002, he revenues increased to SEK23 millions. Both of the revenues and the number of employees grow each year.

Svalson AB owns 95 per cent of Swedish market. There are two competitors: Berlings Glas is located in Sweden, while Halmstad is abroad.

Svalson AB's products are sold globally to Northern European, Austria, Germany, the U.K., the Netherlands, Switzerland and Japan, etc. 40 per cent of its products is sold to the other countries.

5.2.2 General Use of the Internet

Svalson AB created its website - (www.svalson.se) in 1995. There are three language versions: Swedish, English and Dutch.

According to Mr. Svensson, the advantage of Internet is cheaper and quicker than the traditional communication tools. The communication fees are much saved when using e-mail to conduct with the customers, while more and more people are reached by the website. Without the website, there would not so many people know their products. The website supplies a lot of updated information. The other advertisements such as leaflets or brochures, fairs can't reach this effect.

Svalson AB also uses the website to do the after-sale service. The pictures of the products can be put online through Embedded Internet System (EIS). When customers, especially foreign customers feel anything wrong or want to change some design, the technicians can do the repairing or changing through the Internet instead of going abroad. It saves not only traveling fee but also time, more effective than before.

Svalson AB uses e-mail as a tool to send messages when doing international business. Till now, the company has never used voice mail, video conferencing to communicate with customers and has never used the Internet to do marketing, sales promotion, and the market research.

Svalson believes that if you don't use the Internet, you will lose customers. This is the way for the future. The Internet can attract more and more customers."

5.2.3 Data Regarding the Research Questions

Research question 1. How can the use of the Internet in SMEs' internationalization process be described?

At the time that the company was established, Svalson AB only sold domestically. With the development of the business, it started to develop foreign markets from the nearest surrounding countries to faraway countries step by step. First, it did business within Northern Europe, then went into the markets of other European countries, and then went out of the Europe. Now 40 per cent of the products are exported abroad. Svalson AB evaluates itself as a company with high degree of internationalization. The market is also a market with high degree of internationalization. Svalson AB only has the competition relationship with its competitors.

Svalson uses the Internet to look for the partners who are interested to cooperate with them. They put the information on the Internet and also search information on the Internet. Through the Internet, the company can get and send the current new information frequently. So, it is much easier to find a company to cooperate.

There is only one German speaking sales woman in the company. Before using the Internet, she had to first read the catalogue and then sorted out what she need. There were lots of companies that she needed to sort. But, at the end, only several companies were what she needed. It often took a long time to do such a job. After using the Internet, it is very easy to sort the information, because she can search and read a lot of information of companies online. The information is updated frequently, so avoids the problem of the brochure information that is often outdated, i.e., some companies may change the address or telephone number after they send the brochures. But she contacts with these companies just through the telephone or post letter, not through the Internet.

Research question 2. How can the use of the Internet in SMEs' selection of entry modes be described?

Svalson AB only exports its products to the foreign countries through the retailers in each country. No subsidiary has been established abroad yet. This is because the company still has not grown so big to develop subsidiaries. But they are planning to do so now.

As to the use of the Internet on entry modes selection, according to Mr. Svensson, the adoption of the Internet has no effect on the selection of the entry modes. This is because, Svalson AB only uses Internet to find and gather information of cooperators or retailers, but contact them by telephone and post letters.

Research question 3. How can the Internet be used by SMEs to handle entry barriers?

The main barriers of Svalson AB are the language and the culture. Besides, Svalson AB also has other barriers such as, market risk, commercial risk, and insufficient knowledge, etc. Svalson AB does not have the political risk and insufficient finances.

Some insufficient knowledge risks can be handled by searching and finding a lot of useful information through the Internet. People abroad can also find Svalson AB and get the knowledge of its products through the Internet. It is a fast and cheap way to use Internet as a search engine. As to the other barriers, according to Mr. Svensson, Internet seems no help on dealing with them.

5.3 Case Three: The Trimar Sterling Group (TSG)

5.3.1 Company Background

Neptun North S.A was a trading and shipping salvage company, which was established in 1987. Trimar AB was formed in 1988 as a consulting company with trading activities. Trimar AB and Neptun North S.A formed The Trimar Sterling Group (TSG). The main products are consulting and management services in Trimar AB and oil spill response equipment/consumables, environmentally related equipment in Neptun North.

TSG's headquarter is based in Sweden, while has two subsidiaries in Vietnam and Thailand respectively. It has altogether 15 employees, of which 7 are in the headquarter, the others are the subsidiaries. There are one president, one marketing director and two representatives, respectively, in each subsidiary.

TSG does not face the domestic market. It is a totally global company. The main markets are in South East Asia, Russia and the Baltic States. Customers in Asia are mainly the oil and gas sector and governmental organizations.

In 2002, the revenues are SEK8 million.

5.3.2 General Use of the Internet

95 per cent of communication in TSG is via the Internet (www.trimar.se). Lots of contractual matters, which were earlier done by post mail and fax, are handled via the Internet now. Accordingly, the use of the fax and post has been reduced considerably.

TSG provides all kinds of information about services and products on its home page. According to Mr. Bo Rindegård – the Project Management Manger of TSG, the Internet has great advantages in providing information to people who have a genuine interest in a particular field or in a particular product.

However, till now, the Internet is only a support for the marketing efforts, and could never replace the personal contact/relationship in TSG. According to Mr. Bo Rindegård, although the use of the Internet and the e-mail services is simple and fast, and the volume of information, contacts and communications have also increased tremendously in comparing with the traditional ways, there is a problem as it brings to TSG too, that it takes too much time to respond to these things. Many contacts are with organizations that have never met. The pursuance of such demands from unknowns is normally a waste of time. Therefore, TSG has to establish company policies on who to deal with and who to respond to these unknown enquirers.

5.3.3 Data Regarding the Research Questions

Research question 1. How can the use of the Internet in SMEs' internationalization process be described?

TSG develops the foreign market from the nearest surrounding countries to faraway countries. It started the first business in Vietnam and then developed to Thailand and Malaysia. TSG would never go to China because of the complication. TSG exported their products when it established and then developed one subsidiary in Vietnam and one in Thailand after a while.

The personal relationship of Swedish and local countries are good and very important to the company's business. The most important thing of the company is the growth rate. It is keeping 5 per cent high during years and that is more the criteria than the Internet. The Internet has only the qualification of getting more information and in a quick manner.

There is massive information on the Internet that sometimes TSG's employees felt it was too waste of time of suffering, and afterwards finding the message was useless or not worthily. Sometimes, TSG, does, can find partners or customers via Internet, but they are very cautious conducting such a thing. Particularly, when people asking about the prices and quotations, the TSG replies them even cautiously, because 99 per cent of these requirements are only for the information so that it can be compared with others, and actually they are clients of other companies. To deal with these things wastes a lot of time.

From the previous experience of TSG, when selling the advanced technical or specialized products, it is more efficient to do it through the traditional way, because it is must be adapted into a certain situation. It is hard to evaluate the products and make the decision only through the Internet or by one company's website. So, the Internet is more valuable and suits for the consumer products, because it is fixed standard and specification and people know exactly what are sold.

TSG is both high degree in the internationalization of the market and the internationalization of the company. It has some cooperation relations with some of their competitor. It also takes a lot of time to update the website. One employee has to take the time to do it everyday.

Research question 2. How can the use of the Internet in SMEs' selection of entry modes be described?

TSG entered foreign market by mode of export and direct investment. It has two subsidiaries outside Sweden. Because of the establishment of the subsidiaries in the local country, it is easier to have personal contact with the customers. There are so many websites and competitors around the world. TSG does not know how many people and competitors browse their website everyday. The Internet gives the credibility, but does not have much effect on the selection of the entry modes.

Research question 3. How can the Internet be used by SMEs to handle entry barriers?

When doing international business, TSG faces the culture barriers, political barriers, trust barriers and business practice barriers, etc.

Via the Internet, TSG just provides and gathers information. It cannot help to handle or deal with the barriers. According to Mr. Bo Rindegård, if people want to do business with TSG, they would first read its information carefully and get more knowledge of the company and the products through its website. Then they ask general questions online or by email. And then, to the details of TSG's special products, there should be personal contact between each other. May be in the future, after the products are followed the international standard, it would be workable just through the Internet.

People have to pay the products when they are delivered, but not through the Internet. An issue on that Internet can not conduct too much business is because, in Asia, besides the knowledge of the products, customers would like to know more about the company and have closer personal relationship with one or several certain people in the company, rather than just buy the products and do not care who sells it - which is usually the purchasing custom of North America. For this point of view, the Internet cannot handle this barrier of culture.

5.4 Case Four: Polarbröd AB

5.4.1 Company Background

Polarbröd AB is one of the Swedish leading companies in bakery production. The company started its business in 1972 by Gösta and Greta Nilsson to produce the world's first deep frozen sandwich, the polarsandwich - polarbread with smoked reindeer meat. It is a 100 per cent family company.

The company has been drifted by its present owners since 1984. Among the owners are two daughters to Gösta and Greta, the husband of one of the daughters and two grandchildren.

The head office of Polarbröd AB is located in Älvsbyn, which is both in charge of production and selling. It's two subsidiaries are in Bredbyn and Omne, which are only in charge of production. There are about 300 employees. Polarbröd AB has no subsidiaries abroad.

Polarbröd AB makes soft bread and crisp bread according to cherished traditions in the part of the world. According to Mr Thomas Hedberg, the Marketing Manager of Polarbröd AB, 76 per cent of Swedish consumers now say they eat Polar bread frequently, and in tests people consistently rank Polar bread number one in quality. Export is also growing as more and more Europeans discover the excellent sandwich bread from the northern Sweden.

The revenues are 29100 tonnes in 2002 and 33500 tonnes in 2003 - Polarbröd AB calculated its revenuers in tonnes of total production instead of fingers in SEK.

Skogaholm is the biggest competitor for Polarbröd AB in Sweden, which main products are hamburgers; hog dogs breads and white breads. Polarbröd's main market is in Sweden, northern Europe, and all most all other European countries such as Russia, Germany, Poland, Italy, Iceland, France, Spain, Portugal, UK, Switzerland, and Benelux, etc. Japan is the only international market that outside the Europe. 85 per cent of Polarbröd's products are sold domestically and 15 per cent of the products are sold abroad.

5.4.2 General Use of the Internet

Polarbröd AB set up its website about five years ago (www.polarbrod.se). There are three language versions, Swedish, English and French. The most important way that Polarbröd AB use the Internet is the daily communication by e-mail. Sometimes the company receives orders by e-mail and then confirms these orders via e-mail. It is very fast, cheap and convenient of using e-mail to deal with these things. There are more online communication and application with the customers in Sweden than in other countries because of the different computer system. Till now, the company has never used voice mail, newsletters, or video conferencing. Polarbröd AB has never used the Internet to do the market research, trade contact, and trade leads, as well the marketing and sales promotion. It also uses the Internet to search some information frequently. Polarbröd AB can send online invoices and then customers can pay the invoices online.

According to Mr Thomas Hedberg, to compare with the traditional ways, the greatest advantage of the Internet is that through online communication, money and time are saved; at the same time, international awareness is increased.

5.4.3 Data Regarding the Research Questions

Research question 1. How can the use of the Internet in SMEs' internationalization process be described?

Polarbröd AB developed its international business step by step. When the company established, it only sold the products within Sweden. With the growth of the business, the company exported to Norway, Finland, and other European countries. Some European partners have the business with Japan. Through these partners, Polarbröd AB developed the business with Japan. This is the main way for Polarbröd AB to explore new market that it finds a new partner through an old partner and starts the new export business. The relationship between Polarbröd AB and its competitor is only competition.

Two years ago, Polarbröd AB wanted to enter the Scandinavian country-Norway. The company tried to find a partner who could deal with the distributing, marketing, key accounting and doing all the negotiation and to have the connection with the players. Polarbröd AB worked very tough with the partner on creating distribution and exporting. Finally, they worked with a good result in six months. Norway is now one of the biggest Polarbröd's customers abroad

As to the French market, Polarbröd AB has been there for over nine years. And the first two and three years in France were not successful. French people are very conservative in different bread. It is very tough to persuade French people to accept another type of bread. Though the manager had good ideas on how to develop with their partners and competitors, it has still taken around several years to see some results.

But in Japan, it was just an opportunity. A Japanese businessman saw the bread in European market and he liked it very much, so he wanted to develop the business in Japan. Then they started to cooperate and the result was satisfactory.

So, these are the different ways to enter different markets, and to the managers of Polarbröd AB, there is no any difference of this process before and after the Internet was integrated. Through the Internet, Polarbröd AB can contact with a lot of companies that they don't know before. But the main problem for them to enter a new market is to let the people know the taste of the bread. That must be done in the traditional way of marketing promotion.

Polarbröd AB evaluates itself as a low degree market of the internationalization and a low degree company of the internationalization.

Research Question 2. How can the use of the Internet in SMEs' selection of entry modes be described?

Polarbröd AB only use exporting mode to enter the foreign markets. From the previous experience, the company did not find any influence of the Internet on the selection of entry mode. The only advantage through the Internet was gathering large amount of information. Because of the characters of the bakery products, Polarbröd AB cannot do the business directly via Internet. The website is just for supplying the information so that attracting people to taste its products. Polarbröd AB also searches other customers' information through the Internet. Many customers' websites have the links with others. It is easy to get more information.

Research question 3. How can the Internet be used by SMEs to handle entry barriers?

Norway is not a member of European Union; this is a problem when dealing business with Norwegian customers. There are also some other market risks such as language and cultural barriers with different countries. But According to Mr Thomas Hedberg, these barriers are difficult to handle through the Internet.

The above are the empirical data we collected from the four sample companies. In the following chapter, we are going to analyse these data regarding the research questions.

Chapter 6 Analyses

In this chapter, we are going to analyze the empirical data presented in the previous chapter. The analyses are carried out in two steps, firstly, a within-case analysis will be conducted in relation to the frame of references on all cases from the empirical data collection; secondly, a cross-case analysis will then be presented in which the four cases will be compared to the frame of reference and to each.

6.1 Within-Case Analysis

In chapter 3, we chose *internationalization process models* as the framework for the first research question, *entry modes theory* for the second research question, and *entry barriers theory* for the third research question. *Internet properties and advantages for SMEs* was selected as a framework applying to all research questions. So, in this section, each case will be analysed and compared to these theories, which the basic standpoints are shown as the following.

- According to chapter 3, we use 4 instead of 7 internationalization process models to analysis sample companies' internationalization process. They are: The traditional marketing approach; The Uppsala internationalization model; The network model; and Born Globals. These four models will be used to compare with the sample companies
- A company can arrange its entry into a foreign country in tow ways. The first way is by producing its products outside the target country market and they exporting these products to the foreign country. The second way is transferring its resources in technology, capital, human skills, and enterprise to the foreign country. These two forms of entry can be classified into three groups of entry modes that offer different benefits and costs, and different levels of control and risks to the international company. They are export modes, intermediate modes, and hierarchical modes. The international company has to choose an entry mode that best suites their objectives and goals (Root, 1994).
- According to chapter 3, entry barriers are usually from four areas: A company's own limitations; General environment prevents; Commercial situation; and Political situation. The following comparison will be based this classification.
- In chapter 3, we generalized 11 items as Internet's advantages for SMEs, they are: Mediating technology; Universality; Network externalities; Distribution channel; Time moderator; Information asymmetry shrinker; Low cost standard; Creative destroyer; transaction-cost reducer; Equal trading platform; and Collaboration maker.

6.1.1 Data Analysis Regarding the First Case: Liko AB

Internationalization Process Models

The traditional marketing approach focuses on the company's core competences combined with opportunities in the foreign environment (Penrose, 1959). Liko AB's operation on foreign business matches this model very well for that Liko's products are high specialization and it only enters a market which is a mature one.

Liko AB developed it international market step by step. When the company was established in 1978, its market was based only within Sweden. From 1990, Liko AB started to go to international market. First, it entered the Northern European market, then, to the whole Europe, next, to Asia and Northern America. All these activities match well the Uppsala internationalization mode that is based on the assumption that a company's internationalization development is step by step, or gradually going on. At the beginning, they will go to familiar and nearby foreign markets. Then, go to faraway markets if the first entrance is successful (Hollensen, 2001). Liko AB has grown gradually from Sweden, Denmark, Norway, then to UK and Germany, and then has taken a leap to American market. Furthermore, in this model, companies first go into new markets by through exports not own sales organizations or manufacturing subsidiaries. Only after several years, with the successful exports, they start to set up their own subsidiaries (ibid). This viewpoint is also proved by Liko's development process. Liko AB changed the entry mode gradually after entering a foreign market for a while. They exported first. Then, after gaining the local market, the company established subsidiaries by direct investment.

Compared with the Network Model, Liko AB defines itself as both the company and the market are of high degree of internationalization. This is a position in Network model that calls The international among others**,** of which companies can use one net as bridge to enter another net. High market relationship makes companies to speed up setting up their subsidiaries in other countries. Though Liko AB has set up three foreign subsidiaries in the last 10 years, there no evidence shows that this process has been speeded up. Liko AB developed its subsidiaries gradually.

Apparently, Liko AB is not a Born Global company.

Selection of entry modes

Liko AB enters the foreign market by two means of direct export and direct investment. It has established three subsidiaries in the U.K., America and Germany respectively, which sells locally. And, it exports the products to the other foreign markets where there are no subsidiaries. Liko AB changed its entry mode gradually after entering a foreign market for a while. Export is the first step. Then, after it gained the local market, the company established its own subsidiaries by direct investment. The company has grown gradually from Sweden, Denmark, Norway, then to U.K. and Germany and then toke a leap to American market. Liko AB believes that it must be first strong locally before globally. If the first step works well, then just go on. If not so, just stop it. Otherwise, it will be too costly and will meet finical risks. All these activities and beliefs match well the above entry theory that **for most SMEs the market entry represents a critical first step** and usually they do this step by step from low level to high level of integration of international market (Root, 1994). The difference here is that Liko AB exceeded the second level of intermediate modes. But Liko's experience matches Bukley (1985)'s statement that after the first cautious step of exporting, there is no ideal market entry strategy, and different market entry methods might be adopted by different companies entering the same market and /or by the same company in different markets.

Handling entry barriers

When entering the foreign markets, Liko AB has the barriers of insufficient finances and knowledge; lack of foreign market connections and distribution channels; cultural, competition and language barriers, political risks and trade barriers, etc. Insufficient finances and knowledge barriers are from Liko's own limitations; lack of foreign market connections and distribution channels, cultural, competition and language barriers are from general environment prevents; payment risks are commercial situation; and health care awareness is from political situation.

Among these, language and health care awareness are two important barriers. For example, in the developing countries, the governments do not pay enough attention on health care so do not give enough funds on it, thus the distributors do not have enough money to buy the health care products. It is well known, in these countries, people's income is also relatively low, thus cannot afford expensive health care equipments. It is somehow, rather risky for Liko AB to enter such a market no matter how best they try. As it is shown in chapter 2, some scholars all argued that perhaps the highest and most economically damaging entry barriers are those erected by governments. In this case, government's unawareness even prevents the way of Liko's first entry. So it can be well understood that why Liko AB only enters a mature market.

Internet Properties and Advantages for SMEs

Liko AB believes that Internet is a good way to attract the distributors and customers, because they can get more information about the products. It is quick and save time. Some people don't know Liko AB before also can get the product and information only by search on the Internet. This makes Liko AB to be familiar with more people throughout the world. These experiences prove the Internet's properties as **Mediating technology -** The Internet facilitates exchange relationships among parties distributed in time and space. **Universality** - The Internet's ability to both enlarges and shrinks the world. **Network externalities** - The more people connected to the Internet, the more valuable it is. **Time moderator** - The ability of Internet that it can shrink or enlarge time**.** **Information asymmetry shrinker** - Internet can reduce some of these information asymmetries because of its flourished information sources. From Liko AB's opinion, Internet is one of the cheapest and quickest channels to provide information; e-mail is the most important communication method related to the Internet. To some extent, the Internet, does, **Lower some costs on communication.** Thanks to these Internet properties, the **Transaction Costs** are also reduced.

But the growing revenue in Liko AB is not because of the adoption of the Internet, and the Internet has not become a **New distribution channel**, which destroyed the old value chain of Liko AB. The advantages of **Equal trading platform** and **Collaboration maker** cannot be proved by Liko AB because it does not have large companies as its competitors, and Liko AB has no collaboration with other companies or its competitors.

Since the Internet have not become a new distribution channel, the adoption of the Internet and the website does not have much effect on Liko's internationalization process. It is still going step by step, following the popular Uppsala internationalization model.

The properties and advantages of the Internet cannot be proved to have any help on Liko's choice of entry mode. Liko AB chooses its entry mode according to the degree of the maturation of the foreign market, their competence and the growing condition of their business in that market. The Internet is only used for gathering information and attracting potential customers. There was no difference from before and after the adoption of the Internet. But, If, in the future, Liko AB can find distributors or consultant company on the Internet, they will cooperate with them through the Internet, because Liko AB believe this will be a quicker and cheaper way to development foreign business. till now, they have not have any experience on doing so. Another reason on this is because Liko AB has not integrated the Internet into its business strategies and business model. So, when considering the choice of entry mode, which is one of the most important steps of one company's business strategy, they have not had any considerations on how to use the Internet.

According to Klein and Quelch (1997), Internet as a market marker for exporting, is most suitable for the following condition: (1) ***Inefficiencies in traditional distribution channels***; (2) ***Market fragmentation*** (3) ***Minimum scale barriers***; (4) ***Commodity-type products***, (5) ***Short life-cycle products***. Liko's products are high specialized which cannot follow a standard and need good after-sales service. Apparently, these products are not commodity-type and short life-cycle things. So, even after the establishment of its website, it still remains the business model as person-to-person business, the Internet cannot act as a market maker for it. This is also a reason for that the Internet does not have effect on Liko's selection of entry modes.

Using the Internet, Liko AB increases in international awareness, confidence and commitment through access to global information sources; participates in global network communities; and gets enquiries and feedback on the website from potential global customers. This means the Internet properties and advantages of universality, network externalities, time moderator, and information asymmetry shrinker can help Liko AB to reduces some of the barriers from its own limitation, such as lack of international awareness, insufficient information, insufficient knowledge of foreign market and traditional one-way communication channel. But other advantages cannot be proved to help on handling most of Liko's entry barriers, for, one reason is, the Internet has payment risk itself; the other reason is, From Liko's opinion, even if Liko AB can sigh contract online, the products have to be delivered by physical ways, that means most of general environment barriers, commercial barriers and political barriers have be faced in read world and be handled in traditional ways.

According to Bennett (1997), entry barriers to exporting might be considerably lessened by the use of the Internet. A company's website offers information about the company and its products to browsers throughout the world. Hence, the conventional model of company's obtaining export orders through information "seeping" out of a company via formal and informal contacts with clients, suppliers, bankers and the like was not particularly relevant in the post- Internet situation. Exporters did not need to decide which foreign markets to serve, as customers throughout the entire Internet world were liable to place orders. Psychic distance might not be as relevant for an Internet user as for others, because such a company communicates with all the world's markets simultaneously and regardless of economic, cultural and commercial differences. But Liko AB, does, need to concern which foreign markets will serve and the barriers of cultural, economic and commercial differences cannot be bypassed by the use of the Internet.

Critical Imperatives of the Internet in International Business

Samiee (1998) suggested the following critical imperative for adopting the Internet as: sustainable competitive advantage cannot be solely derived from access to the Internet or developing a Web site; non-exporting companies cannot expect to become exporters overnight by virtue of developing and maintaining a web site; industrial demand is derived from consumer demand, regardless of the penetration of the Internet in exporting or other commerce; the issue of communications security of the Internet; the penetration of personal computers in many nations is still in its infancy and it will take many years before potential clients and importers everywhere are connected to the Internet.

Liko's experience tells us that all these critical imperatives are true that, for the first imperative, Liko's creation of its website did not bring it too much competitive advantage than before; for the second one, Liko AB goes to foreign market step by step, this process did not change after setting up the website; for the third and last one, because most of the Liko's customers do not have enough knowledge of the Internet, Liko cannot push them to use the Internet or its website to do business even if they have already created a website 3 years ago.

To generalize Liko's experience of using the Internet, Liko AB is on the second stage of the Normative Web-based commerce adoption model that the company does have the motivation of adopting the Internet, and does, have gained specialized knowledge of the customers by market research and market promotion. S.Subba Rao and Glenn Metts (2003) proposed that Internet development took place in four stages; presence; portals; transactions integration; and enterprises integration. As Liko AB use the Internet and its website for communication (e-mail), providing and gathering information and attracting customers, there is no transaction integration of the Internet in their business, so, Liko AB is on the second stage of this model. In short, the Internet cannot bring great advantages to a traditional manufacturing company as it is stated in the literature. For Liko AB, it is a tool instead of business strategy.

6.1.2 Data Analysis Regarding the Second Case: Svalson AB

Internationalization Process Models

Svalson AB keeps on using traditional marketing approach to develop its foreign business that first it occupied domestic market by its core competences, and now 95 per cent of Swedish market belongs to it. And then it went to international market by opportunities; always keep a cautious manner on the first entry.

At the time that the company was established, Svalson AB only sold domestically. With the development of the business, it started to develop foreign markets from the nearest surrounding countries to faraway countries step by step. First, it did business within Northern Europe, then went into the markets of other European countries, and then went out of the Europe. Now 40 per cent of the products are exported abroad. Svalson AB's internationalization process approves the Uppsala model.

Svalson AB evaluates itself as a company with high degree of internationalization. The market is also with high degree of internationalization. According to the Network Model, Svalson AB is the international among others. But it has not yet set up any foreign subsidiary. There no evidence shows that the successful exporting has speeded up the process of setting up foreign subsidiary. So it seems on the definition of degree of internationalization, Svalson AB has its own opinion.

When the company established, it only sold products within Sweden. So, Svalson is not a Born Global company.

Selection of entry modes

Svalson AB only exports its products to the foreign countries through the retailers in each country. No subsidiary has been established abroad yet. This is because the company still has not grown so big to develop subsidiaries. So, Svalson AB is on the first level of entry mode as an exporter. With export entry modes, a company's products are manufactured in the domestic market or a third country, and then transferred either directly or indirectly to the host market. It is the most common mode for initial entry into international market. Entering a foreign market by exporting is a low risky and high flexible way for it requires a minimal commitment of resources or adjustment to a company's domestic planning, but it might suffer from low control (Root, 1994). All this characteristics are proved by Svalson's experience.

Handling entry barriers

The main barriers of Svalson AB are the language and the culture. Besides, Svalson AB also has other barriers such as, market risk, commercial risk, and insufficient knowledge, etc. Svalson AB does not have the political risk and insufficient finances. Accordingly, Svalson AB has the barriers from the first three areas of a company's own limitation, general environment prevents and commercial situation, but does not have the barriers from political situation. As we discussed above, political barriers are perhaps the highest and most economically damaging entry barriers. As well, insufficient finance is another main barrier for SMEs. Because, from the viewpoint of the banks, creditors' reputation is one of the most important information they collect when considering financial support to a company. However, establishing reputations are costly and subject to various moral hazard and adverse selection problems. SMEs, thus, have imperfect access to capital. And, their imperfect access to capital may force SMEs to limit their size of the physical operations, and the number of people with administrative, operations and marketing expertise, in turn, limit the profits and further development. This lets larger companies earn higher returns than SMEs on similar innovations (Acs and Yeung, 2002). Svalson AB has enough finances itself, and has not met political risks yet. This might give it great advantage in competition.

Internet Properties and Advantages for SMEs

From Svalson AB's opinion, the advantage of Internet is cheaper and quicker than the traditional communication tools. The communication fees are much saved when using e-mail to conduct with the customers, while more and more people are reached by the website. Without the website, there would not so many people know their products. The website supplies a lot of updated information. The other advertisements such as leaflets or brochures, fairly can't reach this effect. These experiences prove the Internet's properties as Mediating technology; Universality; Network externalities; Time moderator; and Information asymmetry shrinker.

Svalson AB also uses the website to do the after-sale service. The pictures of the products can be put online through Embedded Internet System (EIS). When customers, especially foreign customers feel anything wrong or want to change some design, the technicians can do the repairing or changing through the Internet instead of going abroad. It saves not only traveling fee but also time, more effective than before. Thus pretty well shows the advantage of **Low cost standard** and **Transaction cost reducer**.

Though Svalson AB uses the Internet to look for the partners, and it is much easier than before to find company to cooperate, but usually they do further cooperation step offline. So, the Internet has not become a **New distribution channel**, which destroyed the old value chain of Svalson AB. The advantages of **Equal trading platform** and **Collaboration maker** cannot be proved by Svalson AB because it does not have large companies as its competitors, and has no collaboration with other companies or its competitors.

Internet is only for communication. Once Svalson AB finds a potential partner, they negotiate offline. So the adoption of the Internet has not much influence on its internationalization process. It still follows the traditional step-by-step model.

Since the Internet has not become a new distribution channel, Svalson AB still enters foreign market through the export modes, by traditional ways of through partners. Though Svalson AB's products are commodity-type, which might take the advantage of the

Internet as a market marker, because there is no online transaction, so till now, this facility of the Internet cannot be applied by Svalson AB. From Svalson's experience, there is no difference on selection of entry modes before and after the creation of the website.

Through the Internet, Svalson AB can handle some insufficient knowledge risks. People abroad can find Svalson AB and get the knowledge of its products through the Internet. Svalson AB also increased in international awareness, confidence and commitment through the Internet. It is a fast and cheap way to use Internet as a search engine. As to the other barriers, i.e. cultural and language, which are the main barriers for Svalson AB, the Internet has no help on dealing with them.

Critical Imperatives of the Internet in International Business

All the critical imperatives from Samiee are suitable for Svalson AB that Svalson AB is not a born global. It went to foreign market by traditional way before setting up the website, and the creation the website has not shown strong advantage on developing new foreign market. Personal contact is still the most important way for it to do international business.

In general, Svalson AB is mainly in the first stage of this model that it only uses the website to get awareness instead of a wholly integration of its business model. But, because it is also use the website for after-sale service, and this function increased the efficiency, thus add new value to its value chain. So, it is also part in the fifth stage of the model. It can be concluded from Svalson's experience that the integration of the Internet into one company's business might not be followed the steps, which are argued by business models. They may take advantages from any point of a certain step according to the competence, environment and opportunities. Compared with S.Subba Rao and Glenmn Metts 's stage model of Internet Commerce Development, Svalson AB is on the second stage of portals, for there are no transaction integration; and enterprises integration of the Internet in Svalson's business.

6.1.3 Data Analysis Regarding the Third Case: The Trimar Sterling Group

Internationalization Process Models

Although TSG is based in Sweden, its businesses are all abroad from the day of establishment. So, it is a Born Gloals, which on the contrary to the traditional marketing model.

TSG develops the foreign market from the nearest surrounding countries to faraway countries. It started the first business in Vietnam and then developed to Thailand, Malaysia and other South East Asian countries, and then explored Russian and the Baltic States' markets. This process is in accordance to the Uppsala Model.

TSG defines itself as both high degree of internationalisation of the company and the market in the Network Model. This is the position in Network model of The international among others**,** of which companies can use one net as bridge to enter another net. TSG's development matches this model very well.

Selection of entry modes

TSG aimed at international market from the establishment. It set up two subsidiaries in Thailand and Vietnam respectively and exports to the countries where there are no subsidiaries. So TSG is both on the stage of Export Entry Mode and the stage of Hierarchical mode. According to Root (1994), export entry mode is usually the first step for SMEs' going to foreign market, and usually they do this step by step from low level to high level of integration of international market. But as a Born Globals, TSG first set up the subsidiaries and then exports to other countries. This is on the contrary to the traditional entry mode theories. According to Hollensen (2001), The "Born Global" phenomenon suggests a new challenge to traditional theories of internationalization. TSG's experience on selection of entry mode might prove this viewpoint.

Handling entry barriers

When doing international business, TSG faces the cultural barriers, political barriers, trust barriers and business practice barriers, etc. These barriers are from all the four area. As a Born Globals, TSG should face and deal with the entry barriers from the establishment. This is different from traditional companies, which only enter the foreign market when they feel that everything is read. Lack of enough competence and facing more barriers might be a weakness of Born Globals so make it more risky than the domestic based companies.

Internet Properties and Advantages for SMEs

95 per cent of communication in TSG is via the Internet. Lots of contractual matters, which were earlier done by post mail and fax, are handled via the Internet now. Accordingly, the use of the fax and post has been reduced considerably. TSG provides all kinds of information about services and products on its home page. The Internet has great advantages in providing information to people who have a genuine interest in a particular field or in a particular product. All these experiences apply to the Internet's properties as **Mediating technology; Universality; Network externalities; Time moderator; Information asymmetry shrinker, Low cost standard and Transaction cost reducer.**

TSG sells its products by setting up subsidiaries and then export. The Internet has not become a **New distribution channel** of it. Though TSG has some cooperation relations with some of their competitor, it is not because of the creation of the website, or the use of the Internet, it is done in traditional way. So the Internet is not a **Collaboration maker** of TSG.

The most important thing of TSG is the growth rate. It is keeping 5 per cent high during years and that is more the criteria than the Internet. From the previous experience of TSG, when selling the advanced technical or specialized products, it is more efficient to do it through the traditional way, because it is must be adapted into a certain situation. It is hard to evaluate the products and make the decision only through the Internet or by one company's website. From these viewpoint of TSG, we can see why the establishment of the website has not affected on TSG's internationalization process. TSG does not have strong motivation on integrating the Internet to its business model.

This opinion on the Internet also affect TSG's activities on entry mode selection, that its products are so special, that it can not have any changes through the Internet, the traditional ways are still the main modes. So, the literature of Internet as a market maker for SMEs' international export cannot be applied to TSG.

When doing international business, TSG faces the cultural barriers, political barriers, trust barriers and business practice barriers, etc. Internet can only help TSG of the insufficient information barrier, by which provides undated products and service information online.

If people want to do business with TSG, they would first read its information carefully and get more knowledge of the company and the products through its website. Then they ask general questions online or by email. And then, to the details of TSG's special products, there should be personal contact between each other. Another issue on that Internet can not conduct too much business is because, in Asia, besides the knowledge of the products, customers would like to know more about the company and have closer personal relationship with one or several certain people in the company, rather than just buy the products and do not care who sells it. Accordingly, cultural and trust barriers cannot be handled through Internet. Besides, the political risks erected by government can also not be dealt with through the Internet, but through person conduction.

Critical Imperatives of the Internet in International Business

Critical imperative summarized by Samiee can all apply to TSG, that TSG has not taken much advantages by solely derived from access to the Internet or developing a Web site; TSG's exporting activities are not based on developing and maintaining a web site; TSG's customers like to have personal contact with the company, so provides it is true that industrial demand is derived from consumer demand, regardless of the penetration of the Internet in exporting or other commerce; TSG's customers do not pay through the Internet because of the issue of communications security of the Internet; and the penetration of personal computers in many nations is still in its infancy and it will take many years before potential clients and importers everywhere are connected to the Internet – this is also true to TSG's Asian customers.

Additionally, TSG feels that although the use of the Internet and the e-mail services is simple and fast, the volumes of information, contacts and communications have also increased tremendously in comparing with the traditional ways. This is a problem as it takes too much time to respond to these things. Many contacts are with organizations that have never met. The pursuance of such demands from unknowns is normally a waste of time. This viewpoint can be added as another critical imperatives of the Internet that too much information pouring every minute online can also make business people exhausted, who regard time as money and opportunities.

To summarize this case, TSG is on the first stage of the Normative Web-based commerce adoption model that the company does have the motivation of adopting the Internet, but has not gained specialized knowledge of the customers by market research and market promotion. It is also on the second stage of portals of S.Subba Rao and Glenmn Metts 's stage model of Internet Commerce Development, for there are no transaction integration and enterprises integration of the Internet in TSG's business.

6.1.4 Data Analysis Regarding the Fourth Case: Polarbröd AB

Internationalization Process Models

Bread is the kind of product that customers should taste it themselves. A bakery company can expand a certain market only after the customers really enjoy the products. So, even if a company has strong competence in its domestic market, it does not mean this company can go to foreign market smoothly. It depends on both market opportunities and marketing promotion efforts. Polarbröd AB's French experience proves this very well. It is a traditional manufacturing company, not a Born Globals.

Polarbröd AB developed its international business step by step. When the company established, it only sold the products within Sweden. With the growth of the business, the company exported to Norway, Finland, and other European countries. Some European partners have the business with Japan. Through these partners, Polarbröd AB developed the business with Japan. This is the main way for Polarbröd AB to explore new market that it finds a new partner through an old partner and starts the new export business. This is in accordance with the theory of Uppsala Model.

According to the Network Model, Polarbröd AB evaluates itself as low degree of the market of internationalization and low degree of the company of internationalization, because only 15 per cent of Polarbröd AB products are sold to abroad, as well, usually, bread and sandwich market is a domestic characterized market. Polarbröd AB is on the level of The early starter**:** the degree of internationalization of both company and market is low. So domestic markets and companies have no important international relationships to foreign markets and companies.

Selection of entry modes

When entering the foreign markets, Polarbröd AB only exports to the other countries. Bread and sandwich production is an industry with both low degree of the internationalization of market and the company. This character prevents the speed of Polarbröd's expanding to foreign market. Till now, export is felt the best entry mode for Polarbröd AB to enter foreign market. There is still no either enough competence or enough market demand to set up subsidiary. This shows that for domestic based SMEs, export is still the first or initiate choice for enter foreign market.

Handling entry barriers

For Polarbröd AB, there are only some language and cultural barriers to do the business with different countries. Polarbröd AB only exports its products and develops partnership through existing partners, this method makes it face less barriers. There are no political barriers that Polarbröd AB should to deal with. This may enhance its competitiveness.

Internet Properties and Advantages for SMEs

The most important way that Polarbröd AB uses the Internet is the daily communication by e-mail. Sometimes the company receives orders by e-mail and then confirms these orders via e-mail. It is very fast, cheap and convenient of using e-mail to deal with these things. Polarbröd AB also uses the Internet to search some information frequently. According to Mr Thomas Hedberg, to compare with the traditional ways, the greatest advantage of the Internet is that through online communication, money and time are saved; at the same time, international awareness is increased. These experiences are in accordance with the theory of the Internet's Properties and advantages as **Mediating technology; Universality; Network externalities; Time moderator; Information asymmetry shrinker** and **low cost standard.** Besides, Polarbröd AB can send online invoices and then customers can pay the invoices online. So **Transaction cost** is clearly reduced**.**

Till now, Polarbröd AB explores new market by the way that it finds a new partner through an old partner and starts the new export business. So the Internet has not become a **New distribution channel**, which destroyed the old value chain of Polarbröd AB. The advantages of **Equal trading platform** and **Collaboration maker** cannot be proved by Polarbröd AB because it does not have large companies as its competitors, and has no collaboration with other companies or its competitors.

Although through the Internet, Polarbröd AB can contact with a lot of companies that they don't know before. But the main problem for it to enter a new market is to let the people know the taste of the bread and like it. That must be done in the traditional way of marketing promotion. So, the adoption of the Internet has no much effect on its process of internationalization.

Generally speaking, Bread and Sandwich is an industry with a low degree market of the internationalization. People usually are very conservative on changing their taste. Although many customers' websites have the links with others, it is easy to get more information, Polarbröd AB only finds new partners through old partners, and exports their products, for the opportunities of potential customers' willingness of changing their taste is the most important point to exploring new foreign market. This can be well seen by Japanese case. So, till now, the Internet cannot change Polarbröd AB's entry mode.

Because Polarbröd AB's products are commodity-type, and it receives customers' payment online, to some extent, the Internet can be viewed as a **market marker** for it, but not totally integration.

Internet can help Polarbröd AB some imperfect information barriers. The other barriers such as language and cultural barrier cannot be handled through the Internet.

Critical Imperatives of the Internet in International Business

Samiee' suggestion on that sustainable competitive advantage cannot be solely derived from access to the Internet or developing a Web site can be applied to Polarbröd AB, for it did not take much advantage after the creation of its website. But the issue of communications security of the Internet seems not be concerned by Polarbröd AB, for it conducts online payment. Industrial demand is derived from consumer demand, regardless of the penetration of the Internet in exporting or other commerce – this point is also correct according to Polarbröd AB's experience, for customers will not change their taste of taking Polarbröd AB's products just by the browse of its website.

Generally, Polarbröd AB is on the first stage of the Normative Web-based commerce adoption model that the company does have the motivation of adopting the Internet, but has not gained specialized knowledge of the customers by market research and market promotion, for Polarbröd AB has never used the Internet to do market research, trade contact, and trade leads, as well the marketing and sales promotion. But, as to Polarbröd AB conducts paying matter online, it is, to some extent, on the fifth stage that new web-based value is added to its value chain.

It is on the third stage of transactions integration of S.Subba Rao and Glenmn Metts 's stage model of Internet Commerce Development, for Polarbröd AB has financial activities online.

6.2 Cross-case Analysis

In the cross-case analysis, the four cases will be compared to each other and the frame of reference concerning the use of the Internet on SMEs' selection of internationalization process, choice of entry modes and handling the entry barriers.

6.2.1 Cross-analysis Regarding Internationalization Process Models

From the above within-case study, we can find that all of these four companies conduct their international business step by step. So, the Uppsala internationalization model, shown from the cases, is still the dominant approach for SMEs to do international business. Although it is challenged by some scholars on the standpoint of Born Globals and the adoption of the Internet, i.e. Bennett (1997) argued that the use of the Internet for global marketing enabled companies to leapfrog the conventional stages of internationalization, these viewpoint can not be proved by SMEs' empirical business activates. Even for the Born Globals, i.e. TSG, it faces the global market from the establishment, but still follows this step-by-step process. The difference from it to other sample companies is that it explores foreign market based on its subsidiaries instead of domestic headquarter. So, even on today's information era, the Uppsala Model is still a very popular model applying to SMEs.

Except TSG, all other cases follow The traditional marketing approach, on which focuses the company's core competences combined with opportunities in the foreign environment. But TSG, as a Born Globals, challenges this approach, for it was created for international market instead of staying at home country. Still, the traditional manufacturing SMEs keep on using the traditional marketing approach.

The basic assumption in the network model is that the individual company is dependent on resources controlled by other companies. So a company must establish and develop positions in relation to counterparts in foreign networks to get external resources. These can be seen by the four cases that good relationship between the exporters and the cooperators is very important, or may be the most important thing. Another advantage of network model is that the relationship of a company in a domestic network can be used as bridges to other networks in other countries. Polarbröd AB proves this point that it develops new partners through old partners. But the advantage that, when entering a network, the company's internationalization process will be more quickly, can not be proved by the sample companies, for there is no evidenced on that the sample companies enter foreign markets and set up their own subsidiaries more quickly then before.

The following table show the result of the above comparison.

Table 6.1 Summary on Internationalization Process Models

	Liko AB	Svalson AB	TSG	Polarbröd AB
The Traditional Marketing Approach	Yes	Yes	No	Yes
The Uppsala Internationalization Model	Yes	*Yes*	Yes	Yes
The Network Model	Yes	Yes	Yes	Yes
Born Global	No	No	Yes	No

6.2.2 Cross-analysis Regarding Entry Mode Selection

Direct exporting is the main entry mode applying to all of the four companies. Besides, Liko AB set up its own foreign subsidiaries after many years of the development of its international business. TSG is a born global, so they set up the foreign subsidiaries directly after the company was formed, and exported to other countries except the countries which these subsidiaries were located. The other two companies, then only export their products. These four samples' experience is in accordance to the standpoint that the international company has to choose an entry mode that best suites their objectives and goals. For most SMEs the market entry represents a critical first step, and mostly this first step is by exporting because of the financial and competence limitation. And then there is no ideal market entry strategy, and different market entry methods might be adopted by different companies entering the same market and /or by the same companies in different markets, i.e., Liko AB and TSG leapfrog to set up own subsidiaries after successful exporting (table 6.2).

Table 6.2 Summary on Entry Modes Selection

	Liko AB	Svalson AB	TSG	Polarbröd AB
Exp**ort entry modes**				
Indirect export	No	No	No	No
Direct export	Yes	Yes	Yes	Yes
Cooperative export	No	No	No	No
Intermediate Entry Modes				
Licensing	No	No	No	No
Franchising	No	No	No	No
Contract manufacturing	No	No	No	No
Construction contracts	No	No	No	No
Management contracts	No	No	No	No
Joint venture	No	No	No	No
Hierarchical Modes				
Domestic-based sales representatives	Yes	No	Yes	No
Resident sales representatives /foreign sales branch/foreign sales subsidiary	No	No	No	No
Sales and production subsidiary/Region centres Acquisition	Yes	No	Yes	No

6.2.3 Cross-analysis Regarding Entry Barriers

Different companies meet different barriers in foreign market, this can be generalized as the following table.

Table 6.3 Summary of the Entry Barriers of the Four Companies

	Liko AB	Svalson AB	TSG	Polarbröd AB
A company's own limitations	Yes	Yes	Yes	Yes
General environment prevents	Yes	Yes	Yes	Yes
Commercial situation	Yes	Yes	Yes	Yes
Political situation	Yes	No	Yes	No

From the above table, we can generalize that in most cases, SMEs meet the barriers from all four area. Because of these barriers, SMEs should develop their internationalization process very carefully and cautious, for example, Liko AB only explore a mature market, TSG will never go to China, Polarbröd AB find new partner through old partner, Svalson AB feel not safe to deal with contract online, etc. Partiularly, for Born Globals, they meet more and seriouser barriers than the domestic based international companies. TSG has strong cultural barriers, political barriers, trust barriers and business practice barriers. These barriers even prevent it to enter a certain country. This can be resulted one of the reasons why the Uppsala Model is still so popluar amony SMEs.

6.2.4 Cross-analysis Regarding Internet Properties and Advantages for SMEs

Because all these four companies use the Internet to do communication, gather information and attract potential customers, they all feel that the great advantage of the Internet that can offer is cheap and fast on information exchange. This matches the properties and advantages as mediating technology, universality, network externalities, time moderator and information asymmetry shrinker, low cost standard and transaction – cost reducer. But none of the companies use the Internet as a distribution channel, and none of them has created relationship with competitor through Internet. The above is clearly shown in the following table 6.4.

Table 6.4 Internet Properties for Doing Business

	Liko AB	Svalson AB	TSG	Polarbröd AB
Mediating Technology	Yes	Yes	Yes	Yes
Universality	Yes	Yes	Yes	Yes
Network Externalities	Yes	Yes	Yes	Yes
Distribution Channel	No	No	No	No
Time Moderator	Yes	Yes	Yes	Yes
Information Asymmetry Shrinker	Yes	Yes	Yes	Yes
Low Cost Standard	Yes	Yes	Yes	Yes
Creative Destroyer	No	No	No	No
Transaction-Cost Reducer	Yes	Yes	Yes	Yes
Equal Trading Platform	No	No	No	No
Collaboration Marker	No	No	No	No

Internet can help sample companies to save money and time on information exchange, so reduce the barriers of insufficient information. But, from the sample companies' experience, it cannot reduce the physical and psychological distance, as argued by some scholar. And, it has not yet integrated into any sample company's business model, which destroy the traditional business mode, so that add new web-based value into their value chain. There is only an exception of Svalson AB that it can do after-sale service online, so reduce a lot of travel fee and time. But in this case, Internet is still a tool that fix physical problem instead of becoming a business strategy. From this viewpoint, it is easy to understand that why Internet does not have much influence on sample companies' internationalization process, entry modes selection and handling entry barriers. Because all these steps in one SMEs' internationalization should be dealt by specific business strategies. If the Internet cannot be viewed as a business strategy, of course it cannot conduct strategy things. From the experience of the sample companies, we can see that from their eyes, Internet is a technology, a tool to handle physical business activities, none of them has the consideration on integrating it into strategy stage. So, they use traditional strategies to go internationalization as before, the establishment of the website is mainly for having a new channel to present themselves.

Even as a tool, it seems that some sample companies have not fully taken the advantages of the Internet. Jim Hamill and Karl Gregory (1997) argued that Internet was becoming an essential tool for successful international marketing. For SMEs, effective use of the Internet can provide a low cost "gateway" to international markets and help to overcome many of the barriers or obstacles to internationalization commonly experienced by such companies. An Internet connection can substantially improve communications with actual and potential customers, suppliers and partners abroad, generate a wealth of information on market trends and developments worldwide, provide an “ear to the ground” on the latest technology and R&D, and can be a very powerful international promotion and sales tool. But Svalson AB, till now, has never used voice mail, video conferencing to communicate with customers and has never used the Internet to do marketing, sales promotion, and the market research. As well, Polarbröd AB has never used the Internet to do the market research, trade contact, trade leads, and the marketing and sales promotion.

As to the two Internet business models - the Normative Web-based commerce adoption model and stage model of Internet Commerce Development, all the four companies are on the primary stages, either as an increased awareness or as a portal. Even though Svalson AB and Polarbröd AB can be viewed at the highest stage because their websites add new value to their value chain, it cannot be regarded as integration to the business model.

Chapter 7 Conclusions and Suggestions

Finally, in this chapter, we will provide an overall conclusion regarding the findings of this study, and, furthermore, some recommendations will be made according to the conclusions.

The research problem in this study was formulated as: ***"How can the Internet be used in SMEs' internationalisation?"*** Based on the literature presented in chapter two, three research questions were formulated:

Research question 1. How can the use of the Internet in SMEs' internationalization process be described

Research question 2. How can the use of the Internet in SMEs' selection of entry modes be described?

Research question 3. How can the Internet be used by SMEs to handle entry barriers?

The findings from the empirical data and analysis will be discussed with the respect to each question.

7.1 Conclusions from the Study

7.1.1 Conclusions Regarding the First Research Question

The Uppsala Internationalization Mode is still very popular for manufacturing SMEs to do international business. SMEs go step by step entering different foreign markets, either by the location or by the different level of entry modes, or by both of them, as the example of Liko AB. Even after the adoption of the Internet, this process have not changed much and Bennett's (1997) argument that the use of the Internet for global marketing enabled companies to leapfrog the conventional stages of internationalization cannot be proved by SMEs' practical business activities. Even for the born globals, such as TSG, although it aimed at developing international business from the beginning of the establishment, its internationalization process still followed the Uppsala gradual development rule that the penetration of the business was first from the countries to which close the countries where it had subsidiaries, then to the far away foreign markets. The Internet is only used for communication and information exchange. None of the sample companies do the whole business process through the Internet. Except of saving money and time on gathering information of the potential foreign market, the use of the Internet does not have much influence on SMEs' selection of internationalization process.

7.1.2 Conclusions Regarding the Second Research Question

According to the literature, entering a foreign market by exporting is the lowest risky and highest flexible way for it requires a minimal commitment of resources or adjustment to a company's domestic planning. Because of their financial and managerial constraints, export mode is the most common way for SMEs to choose when considering of the international business (Golinelli, 1992; Jarillo, 1989; Oviatt and McDougall, 1994). This viewpoint is proved in this study because direct export is the main entry mode adopted by all of the sample companies.

After the successful exporting, Liko AB and TSG set up their own foreign subsidiaries, so leapfrog the Intermediate Entry Modes stage. These findings show that after the critical first step, there is no ideal market entry mode for SMEs to choose, and different market entry methods might be adopted by different companies entering the same market and /or by the same company in different markets.

The SMEs choose entry mode according to the traditional criteria such as competitive competence and foreign market opportunities, etc. Although the Internet reduces the physical distance and money & time spending when contacting potential customers, the SMEs cannot decide to enter an unfamiliar faraway foreign country only because one or several companies from this country have browsed their website or show their interest by sending online message. Apparently, it is too risky. The adoption of the Internet has no strong effect on SMEs' selection of entry modes.

7.1.3 Conclusions Regarding the Third Research Question

Entry barriers are usually from four areas: a company's own limitation; general environment prevents; commercial situation; and political situation. From the previous analysis, all the sample companies have this or that kind of barriers from all four areas. Cultural and language barriers are the main things among these barriers. The adoption of the Internet cannot handle these barriers. For example, people cannot test Polarbröd AB's bread and sandwich through their website. Although English is the most popular language on the world, and almost all the companies which have international business has English version of their websites, still, lots of people don't understand it, so won't shown interest on browsing these websites. TSG's Asian customers prefer personal knowledge and contact to the seller. So physical and physiological distance still cannot be overcome for just setting up a website, or using the Internet as a communication tool. Personal contact is still one of the most important ways for manufacturing SMEs to do international business. The only barrier that the Internet can overcome is the insufficient information barrier, but, according to TSG, sometimes it too wastes of the time to search online. Because of the consideration of Internet security, only Polarbröd AB receives online payment. Though Liko AB and TSG do some contractual things online, the products of manufacturing SMEs have to be delivered in physical channel, which all most all entry barriers have to face in real world. This, argued by a lot of scholars, is the main reason for that the Internet cannot deal with the entry barriers.

7.1.4 Conclusions Regarding the Whole Study

In all, from the four sample companies' experience on commercial use of the Internet and website, the Internet is only a tool, not a strategy for manufacturing SMEs to do the business. The most effective function of the Internet for them is to do communication, exchange information and attract the attention of potential customers. None of the sample companies use the Internet or website as a distribution channel. So it cannot create additional value to SMEs' existing value chain. There is only one except here that Svalson AB offers online after-sale service to its customers. Even though, the Internet has not created a new distribution channel for it. None of the sample companies integrate the Internet into its business strategies or business models. So the adoption of the Internet is only on the first or second stage of the existing Internet business model, as a portal or an increased awareness. For manufacturing SMEs, especially for the SMEs who produce high technological, specialized products, the traditional way of person-to-person business model and the gradual penetration pattern is still the dominant method to do international business.

Bennett (1997) argued that the use of the Internet for global marketing enabled companies to leapfrog the conventional stages of internationalization, as it removed all geographical constraints, permitted the instant establishment of virtual branches throughout the world, and allowed direct and immediate foreign market entry to the smallest of businesses. Maloff (1995) similarly asserted that the Internet enabled SMEs to grow without expanding physically or incurring relocation expenses, and allowed them to advertise and promote themselves globally at minimal cost. Customers, according to Maloff, cared little about the physical size or remoteness of a supplier, provided high quality products at fair prices are delivered. Such considerations raised the possibility that the availability of the WWW removed "at a stroke" a number of the organizational and resource constraints supposedly associated with exporting. These standpoints sound very good, but none of them has happened in our sample companies. Cultural and language barriers, customers' conservative on trying new products, etc., have not disappeared after the commercialization of the Internet. And, from the four cases, they will still exist for sometime.

Samiee's Critical Imperatives of the Internet in International Business is essential for SMEs when adopting Internet technology or website. All these imperatives apply to the four companies' experience. It can be concluded in one viewpoint that SMEs cannot take a lot of advantages overnight from just creating a website. Many physical and psychological barriers cannot be overcome by the only means of Internet. From the four companies' experience, we feel that the managers themselves have not prepared ready for the Internet business, i.e. according to Liko AB, "when the customers start to request the use of the e-commerce over the Internet, Liko AB is prepared to do it at any time. But Liko AB would not push the customers first". But it is well known in Marketing literature that a market orientation company should "push"(persuade) their customers to accept the new business function so that let them get more advantages than before and keep their loyalty. TSG believes that " The most important thing of the company is the growth rate. It is keeping 5 per cent high during years and that is more the criteria than the Internet". So TSG consider much more on the growth rate than using Internet to win the future. Thus, we might make a conclusion that the integration of the Internet into one company's business model should be handled in both way of the willingness and the possibility, not based on the beautiful image of the literature.

7.2 Suggestions

We would like to give some suggestions based on the previous analyses and conclusions. These suggestions apply to three respects - the SMEs, existing literature and future study.

7.2.1 Managerial Implications

Liko AB believes that, "if, in the future, Liko can find distributors or consultant company on the Internet, they will cooperate with them through the Internet, because this will be a quicker and cheaper way to development foreign business". Svalson AB believes that "if you don't use the Internet, you will lose customers. This is the way for the future. The Internet can attract more and more customers". TSG thinks that "may be in the future, after the products are followed the international standard, it would be workable just through the Internet". Accordingly, although none of the sample companies has integrated the Internet into their business strategy, they actually realize the importance of the Internet for the future development, even though they are not ready to do so. So, this study might help manufacturing SMEs to reexamine the way they use of the Internet and the website, increase the awareness of the importance of the Internet integration into their business, and get some useful information on how other SMEs conduct their Internet business, as well get some concentrative literature on Internet applying to SMEs' international business, which might highlight their future development.

7.2.2 Implications for the Existing Theory

Although, because of the time and source limitation, we only investigated four SMEs for this study, but they are from different industries and have differenct experiences on the use of the Internet, so, to some extent, we believe that this study has made some findings on the examination of the existing literature. As we discussed before, the traditional international business model, such as internationalization process models, entry modes models and entry barriers models are still very popular applying to manufacturing SMEs business practices, on the contrary, most of the literature, which we find on that how SMEs can take the advantages of Internet to do international business, can not be applied or proved by manufacturing SMEs, just as TSG's belief that, when selling the advanced technical or specialized products, it is more efficient to do it through the traditional way, because it is must be adapted into a certain situation. It is hard to evaluate the products and make the decision only through the Internet or by one company's website. So, the Internet is more valuable and suits for the consumer products, which is fixed standard and specification and people know exactly what are sold. So, we think that the weakness of the existing literature is not the insufficiency of relative literature, but the insufficiency of the practical literature, which can possibly highlight the manufacturing SMEs' Internet integration process, so that make these companies take fully advantages of the Internet.

7.2.3 Suggestions for Future Research

We consider this study is only an explorative one on how the SMEs use the Internet when going internationalization. We focus on finding out the exiting situation of the SMEs instead of giving practical suggestions on how they can improve the current situation. So, we think the further study can research deeply and broaden on how can help the manufacturing SMEs to integrate Internet into their business strategies, so that they can leapfrog the process of their internationalization process, use the internet as a new distribution channel or a new entry mode, and use the Internet to bypass more and more entry barriers. The further study can also research on how the existing literature can be modified so that they can be more practical for SMEs to adopt.

Reference

Afuah, A. & Tucci, C.L. (2001), Internet Business Models and Strategies, *McGraw Hill Higher Education.*

Amor, D. (2000), The E-business (R)EVOLUTION, Prentice-Hall, Inc.

Angell, D. and Heslop, B. (1995), The Internet Business Companion, *Addison-Wesley Reading, MA.*

Arnott, D.C & Bridgewater, S. (2002), Internet, Interaction and Implications for Marketing, *Marketing Intelligence & Planning, Vol. 20 No. 2, pp.86-95.*

Asc, Z.J., & Yeung, B., Small and medium-sized enterprises in the global economy, *University of Michigan Press, 2002*

Aspelund, A. and Moen, é. (2001), "A generation perspective on small firms internationalization - from traditional exporters and flexible specialists to Born Globals'', in Axinn, C.N. and Matthyssens, P. (Eds), *Advances in International Marketing*, JAI Press, Greenwich, CT.

Barry, D. (2000), From Appalachia to India: US small business are going global, *Business Credit, Vol.102, No.6 June, pp.49-50.*

Beamish, P.W. (1990), The Internationalization Process for Small Ontario Firm: A Research Agenda, *In Research in Global Strategy Management-International Business Research for the Twenty First Century: Canada's New Research Agenda, JAI Press Inc., Greenwich.*

Bennett, R. (1997), Export marketing and the Internet - Experiences of Web site use and perceptions of export barriers among UK businesses, *International Marketing Review, Vol. 14 No. 5, 1997, pp. 324-344.*

Bradley, F. (1999), International Marketing Strategy, *Third Edition, Prentice Hall Europe.*

Bäckström, L. (2002), Industrial Selling – Case Studies of Swedish Manufacturing Small and Medium Sized Enterprises, *Luleå University of Technology*

Casta, E.D. (2001), Global E-commerce Strategies for Small Business, *Cambridge, Mass. MIT Press, cop. 2001*

Cecil, J. and Goldstein, M. (1990), Sustaining Competitive Advantage From IT, *McKinsey Quarterly, Vol. 4, pp.74-89*

Chesher, M. and Skok, W. (2000), Roadmap for successful information technology transfer for small business, *Proceedings of the ACM SIGCPR Conference, pp.16-22.*

Chetty, S.K. and Hamilton, R.T. (1993), Firm-level determinants of export performance: a meta-analysis, *International Marketing Review*, Vol. 10 No. 3, pp. 26-34.

Coase, P.H. (1937), The nature of the firm, Economica, pp.386-405

Craig, C.S. & Douglas, S.P. (1996), Developing Strategies for Global Markets: an Evolutionary Perspective, *Columbia Journal of World Business, Vol.31, Spring, pp. 70-81*.

Crick, D. & Chaudhry, S. (1997), Small businesses' motives for exporting - The effect of internationalization, *Journal of Marketing Practice: Applied Marketing Science, Vol. 3, No. 3, 1997, pp. 156-170*

Cronin, M. (1994), Doing Business on the Internet, *Van Nostrand Reinhold, New York, NY.*

Davydov, M.M. (2001), Corporate portals and e-business integration, *New York; London; McGraw-Hill, cop. 2001*

Dickman, S. (1995), Catching customers on the Web, *Inc. Technology, Summer, pp. 56-60.*

Etemad, H. & Wright, R.W., Internationalization of SMEs: Toward a New Paradigm, *Small Business Economics, Feb2003, Vol. 20 Issue 1, p1, 4p.*

European Commission, Department of Trade and Industry (DTI), "Business in the Information Age: International Benchmarking Study", London

Gangopadhyay*, A. (2002*), Managing Business with Electronic Commerce: Issues & Trends, *Idea Group Pub., cop. 2002*

Gallant, J. (1997), Focus your site on the customer: technology marketers who mistake the real target are asking for failure, *February, at http://www.netb2b.com. Green, H., DeGeorge, G. and Barrett, A. (1998)*

Gummesson, E. (1998), Qualitative Methods in Management Research, *Student literature, Lund/Chartwell-Bratt Ltd, England.*

Handfield, R.B. and Nichols, E.L. (1999), Introduction to Supply Chain Management, *Prentice-Hall, Englewood Cliffs, NJ.*

Hamill, J. (1997), The Internet and international marketing, *International marketing Review, Vol. 14(5), 300-323.*

Hamill, J. & Gregory, K. (1997), Internet Marketing in the Internationalization of UK SMEs, *Journal of Marketing Management, 1997, 13, 9-28.*

Herzog, T. (1996), Research methods and data analysis in the social sciences. *HarperCollins, New York.*

Hoffman, D., Novak, T. & Chatterjee (1995), Commercial scenarios for the Web: opportunities and challenges, *at http://www.usc.edu/dept/annenberg/issue3/hoffman.html.cvIndermaaur, K. (1997), "Behind the lines," Internet*

Hoffman, D. & Novak, T. (1996), Marketing in Hypermedia Computer-Mediated Environments: Conceptual Foundations, *Journal of Marketing, Vol. 60, 50-68*

Hollensen, S. (2001), Global Marketing: A market-responsive approach, *Second edition, Prentice Hall Europe*

Holmulnad, S. & Myllykosk M. (2002), Standardization and Adaptation of Brands in the European Market, *Sloan Management Review, Vol. 37(3), 60-75*

Hymer, S.H. (1976), The International Operations of National Firms: A study of direct foreign investment, *Unpublished 1960 PhD thesis, MIT Press, Cambridge, MA*

Hsieh, C. & Lin B (1998), Internet commerce for small businesses, *Industrial Management & Data Systems, 98/3 [1998] 113–119*

Johanson, J. and Mattson, L.G. (1988), Internationalization in industrial systems, *Strategies in Global Competition, edited by Hood, N. and Vahlne, J.E., Croom Helm, Beckenham (UK)*

Johansson, J.K. (2000), Global Marketing; Foreign Entry, local Marketing, & Global Management, Second Edition, Irwin McGraw-Hill.

Jones, C., Hecker R., & Holland P. (2003), Small firm Internet adoption: opportunities forgone, a journey not begun, *Journal of Small Business and Enterprise Development; Volume 10, pp.287-297*

Katsikeas, C.S. & Piercy, N.F. (1993), Long-term export stimuli and firm characteristics in a European LDC, *Journal of International Marketing, Vol. 1 No. 3, pp. 23-47.*

Kindleberger, C.P. (1969), American Business Abroad, *Yale University Press, New Haven, CT*

Knight, G.A.&Liesch, P.W. (2002), Information internalisation in internationalizing the firm. *Journal of Business Research*, Vol.55, No.12, pp.981-995.

Krause, D.R. Handfield, R.B. & Scannell, T.V. (1998), An empirical investigation of supplier development: reactive and strategic processes, *Journal Operations Management, Vol. 17, No.6 December, pp.39-58.*

Lacerra, S.V., Benson, R.A. & Wong, K.A. (1999), b-e Commerce Services, *Business Services for the New Economy, Jefferies & Co., Tucson, AZ.*

Le, T. & Koh, A.A. (2001), Managerial perspective on electronic commerce development in Malaysia, *working paper.*

Maloff, J. (1995), "The virtual corporation", *Internet World*, Vol. 5, July, pp. 46-50.

Marshall, C. & Rossman, G.B. (1999), Designing Qualitative Research, *Sage Publications, Thousand Oaks, CA*

Miles, M.B. & Huberman, A.M. (1994), An Expanded Sourcebook-Qualitative Data Analysis, *second edition, Sage Publication, Thousand Oaks.*

Moen, é. (1999), The relationship between firm size, competitive advantages and export performance revisited'', *International Small Business Journal, Vol. 18 No. 1, pp. 53-71.*

O'Connor, G. and O'Keefe, B. (1997), Viewing the Web as a marketplace: the case of small companies, *Decision Support System, Vol.21, No.3, November, pp.171-83.*

Peng, Q. (2002), A survey and implementation framework for industrial-oriented Web-based applications, *Integrated Manufacturing Systems, 13/5 [2002] 319-327.*

Penrose, E. (1959), The Theory of the Growth of Firm, *Basil Blackwell, London*

Poon, S. & Jevons, C. (1997), Internet-enabled International Marketing: A Small Business Network Perspective, *Journal of Marketing Management, 13, 29-41.*

Porter, M.E. & Miller, V.E. (1985), How Information Gives You Competitive Advantage, *Harvard Business Review, July-August.*

Potter, W.J. (1996), An Analysis of Thinking and Research about Qualitative Methods. *Lawrence Erlbaum Associates Inc., New Jersey.*

Queloh, J. & Clein, Li (1996), The Internet and International Marketing, *Sloan Management Review, Vol. 37(3), 60-75.*

Rao S. & Metts G. (2003), Electronic Commerce development in small and medium sized enterprises, *Business Process Management*, Journal, *Vol. 9 No.1.*

Rennie, M.W. (1993), Global competitiveness: Born Global'', *The McKinsey Quarterly*, No. 4, pp. 45-52.

Rialp, A. & Rialp, J., CONCEPTUAL FRAMEWORKS ON SMEs' INTERNATIONALIZATION: PAST, PRESENT AND FUTURE TRENDS OF RESEARCH, *Advances in International Marketing, 2001 Issue 11, p49, 30p, 3 charts, 3 diagrams.*

Root, F.R. (1994), Implementing international countertrade: a dyadic approach, *Industrial Marketing Management*, vol.23, pp.229-234

Samiee, S. (1998), Exporting and the Internet: a conceptual perspective, *International Marketing Review, Vol. 15 (5), 413-426.*

Subba Rao, S. & Metts, G (2003), Electronic Commerce development in small and medium sized enterprises, *Business Process Management; Journal, Vol.9 No.1,*

Trimmers, P. (2000), Going Global in electronic commerce, *Management in Information, Vol. 5, October, available at http://europa.eu./ISPO/ecommerce/ethesis/GoingGlobal.doc*

Tse, T. & Soufani, K (2003), Business strategies for small firms in the new economy; *Journal of Small Business and Enterprise Development*; *Volume 10, pp.306-320*

Vernon, R. (1966), International investment and international trade in the product cycle, *International Marketing Review, Winter, pp.20-9*

Walczuch, R., Braven, G. & Lundgren, H. (2000), Internet adoption barriers for small firms in the Netherlands, *European Management Journal, Vol. 18, No.5, pp. 561-72.*

Welch, L.S. (1996), Information behaviour and internationalization, *International Journal of Technology Management, Vol. 11 No. 1/2, pp. 179-92.*

Whiteley, D. (2000), *e*-Commerce: Strategy, Technologies, and Applications, *McGraw-Hill Publishing Company*

Wilder, C., Caldwell, B. & Dalton, G. (1997), More than electronic commerce, *InformationWeek, December 15, pp. 30-40.*

Yin, R.K. (1994), Case Study Research: Design and Methods, *Thousand Oaks: Sage Publications*

Zou, S. and Stan, S. (1998), The determinants of export performance: a review of the empirical literature between 1987 and 1997'', *International Marketing Review,* Vol. 15 No. 5, pp. 333-56.

APPENDIX

1. Interview Questions

1.A brief introduction to the company.

a. Would you please give us a short description of your company's history and background?

b. Would you please give us a short description of your company's ownership and organizational structure?

c. How many employees do you have and how much is your company's turnover?

d. What are your main products and who are your main competitor? (both domestic and international)

e. Where are your main market and who are your main customers? (both domestic and international)

2.How do you use Internet to develop international business?

3. Comparing with the traditional ways, what advantages have you taken or will take from using the Internet to do international business? Could you please give us some details, including some figures?

Research question 1: How can the use of the Internet in SMEs' internationalization process be described?

4.What are the mains things that you consider most on choosing a foreign market? (For example, according to the location, transaction cost or other things.)

5.How can the use of Internet on choosing a new foreign market be described? Comparing with question 2, are there any differences from before and after the Internet be used?

6.Traditionally, what is the process of your company to enter a new foreign market? (take an example of one country). Are there any differences of this process before and after the Internet is integrated?

Researches question 2: How can the use of the Internet in SMEs' selection of entry modes be described?

7. What modes did you use and are you using now to enter foreign market? (for example, export or joint venture or direct investment) Why did you choose these modes?

8.How can the influence of Internet on the selection of entry mode be described? Comparing with question 6, are there any changes before and after the Internet be used?

Research question 3: How can the Internet be used by SMEs to handle entry barriers be described?

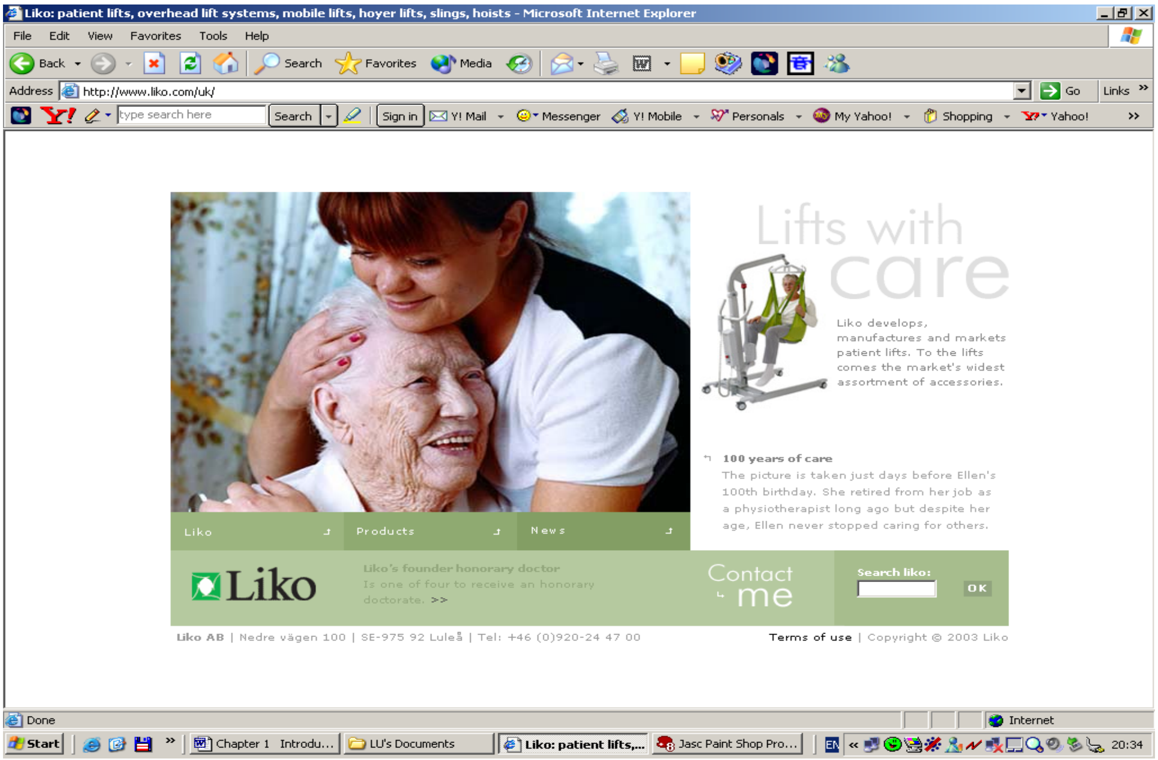
9.What were the barriers that you have met when entering foreign market?

10 .How can the use of Internet to handle entry barriers be described?

11. Do you think your company increased in international awareness, confidence and commitment through access to global information sources through the Internet? Can you get the enquiries and feed back to website from potential global customers?

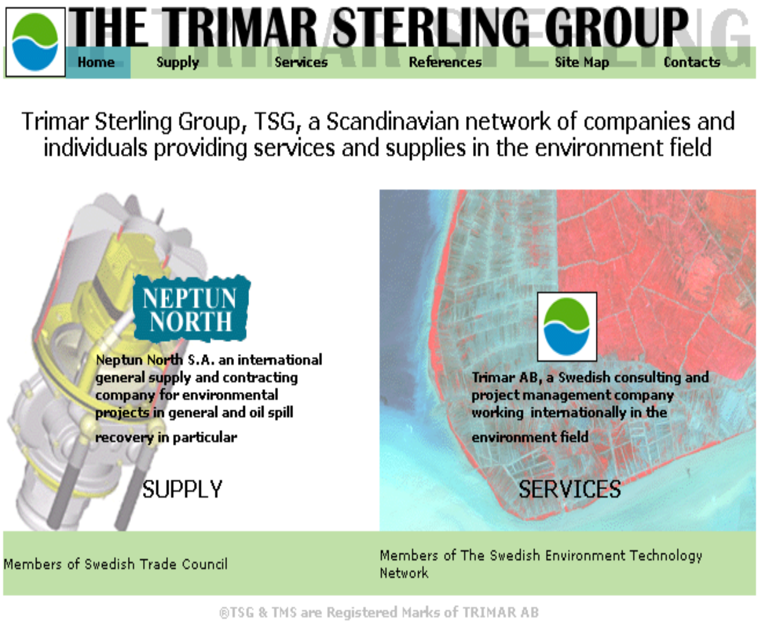
12.Do you think you overcome some barriers to develop global market niche strategies rather than country oriented strategies since the establishment of the web site?

2. Homepage of Liko AB – www.liko.se



3. Homepage of Svalson AB – www.svalson.se

4. Homepage of TSG – www.trimar.se



5. Homepage of Polarbröd AB – www.polarbrod.se