

# Antecedents of SME Internationalization: Multiple Case Study of Finnish SMEs' Expansion into Estonia

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Elena Öhman

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**Abstract**

This thesis studies the phenomenon of SME internationalization in the context of the Finnish mechanical engineering and metals industry. The first objective of the study is to identify and examine the Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization. The second objective is to examine why these SMEs decide to expand their operations into Estonia in particular. The topic of this study is very timely, as the high interest towards Estonia as a target market for Finnish SMEs' international expansion is expected to continue.

The theoretical framework of this study is formed by taking a look at the earlier literature focusing on antecedents of SME internationalization. Existing models, as well as major internationalization theories, are discussed in the light of the research questions and objectives of the study. Since there is a relatively limited amount of data on Finnish SMEs' internationalization to Estonia available, a broader range of literature on SME internationalization to the CEEC is examined.

The empirical research was conducted as a multiple case study of three Finnish mechanical engineering and metals industry SMEs. All of the case companies had expanded into Estonia after the country gained its independence in 1991. The data was collected through personal interviews with the case companies' founders and key executives. Moreover, some additional and corrective questions were placed by e-mail. Secondary sources were used to complement the data.

The results of this study indicate that an in-depth understanding of internationalization antecedents in the Finnish mechanical engineering and metals industry SMEs requires an analysis at three different levels: environmental level, firm level and managerial level. At all levels of the analysis, internationalization antecedents can be divided into two interlinked groups. The first group consists of internationalization antecedents of primary importance. Among other things, the entrepreneur's prior international experience and commitment to internationalization, the company's networks, as well as several host country and home country related factors fall into this category. The second group consists of internationalization antecedents of secondary importance, and includes factors such as the global mindset of the entrepreneur, the strategic orientation of the company, and costs of the target market.

The key findings of this research show that existing customer networks and the increasing demand for the industry products, in particular, appear to be the most important factors for Finnish mechanical engineering and metals industry SMEs to expand into Estonia. Lower labour and production costs, the Estonian taxation system, and financial benefits for investing companies, in turn, seem to help SMEs make the final internationalization decision in favour of Estonia

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**Keywords** SMEs, SME internationalization, antecedents of internationalization, Finnish mechanical engineering and metals industry, Estonia

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**Tiivistelmä**

Tämä Pro gradu –tutkielma tutkii pk-yritysten kansainvälistymistä suomalaisten pk-yritysten näkökulmasta. Tutkimuksen ensimmäinen tavoite on tunnistaa ja tutkia suomalaisten kone- ja metallialan pk-yritysten kansainvälistymisen ennakkoehtoja. Toinen tavoite on tutkia, miksi alan pk-yritykset etabloituvat juuri Viroon. Aihe on ajankohtainen, sillä suomalaisten pk-yritysten kiinnostuksen Viroa kohtaan odotetaan jatkuvan.

Tutkimuksen teoreettinen viitekehys muodostetaan tutkimalla aiempaa pk-yritysten kansainvälistymisen syitä käsittelevää kirjallisuutta. Olemassa olevia malleja ja kansainvälistymisen teorioita tarkastellaan tutkimuskysymysten ja –tavoitteen valossa. Koska suomalaisten pk-yritysten etabloitumisesta Viroon on saatavilla verrattain vähän tietoa, käsitellään tutkimuksessa myös laajemmin pk-yritysten Keski- ja Itä-Eurooppaan laajentumiseen liittyvää kirjallisuutta.

Empirinen tutkimus koostuu kolmesta tapauksesta. Kaikki kolme suomalaista kone- ja metallialalla operoivaa case-yritystä ovat etabloituneet Viroon maan itsenäistymisen eli vuoden 1991 jälkeen. Tutkimusmateriaali kerättiin haastattelemalla tapausyritysten omistajia ja avainhenkilöitä. Lisäksi muutamia lisäkysymyksiä ja tarkentavia kysymyksiä esitettiin sähköpostitse. Toissijaiset lähteet täydentävät tutkimusta.

Tutkimustulokset osoittavat, että syvälinen suomalaisten kone- ja metallialan pk-yrityksen kansainvälistymisen edellytysten ymmärtäminen edellyttää analyysiä kolmella tasolla: ympäristön tasolla, yritystasolla ja johtotasolla. Jokaisella analyysitasolla kansainvälistymisen syyt voidaan myös jakaa kahteen toisiinsa sidoksissa olevaan ryhmään. Ensimmäinen ryhmä koostuu tekijöistä, jotka näyttävät olevan ensiarvoisen tärkeitä alan pk-yritysten kansainvälistymiselle. Näitä tekijöitä ovat mm. yrittäjän aiempi kansainvälinen kokemus ja sitoutuneisuus kansainvälistymiseen, yrityksen verkostot ja alihankinta strategiana sekä useat koti- ja isäntämaahan liittyvät tekijät. Sen sijaan esimerkiksi yrittäjän globaali ajattelutapa, yrityksen strateginen orientaatio ja useat kustannuksiin liittyvät seikat nousevat tutkimusmateriaalista esiin toissijaisina kansainvälistymisen ennakkoehtoina.

Tarkasteltaessa Viroa kohdemaana huomataan, että erityisesti olemassa olevat asiakasverkostot ja kasvava kysyntä alan tuotteille ajavat suomalaisia kone- ja metallialan yrityksiä etabloitumaan Viroon. Halvemmat tuotantokustannukset, Viron yritysverotusjärjestelmä ja muut rahalliset edut investoiville yrityksille nousevat puolestaan esiin tekijöinä, jotka auttavat yrityksiä tekemään viimeisen päätöksen kansainvälistymisestä Viron hyväksi.

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**Avainsanat** pk-yritys, pk-yritysten kansainvälistyminen, kansainvälistymisen ennakkoehdot, suomalainen kone- ja metalliala, Viro

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# **1. INTRODUCTION**

## **1.1 Background**

Within the past two decades, the business world has changed dramatically through rapid globalization and internationalization, creating a new and fierce business environment for enterprises. At the same time, international communication, technologies and information networks have improved significantly, which has created numerous new opportunities for businesses. These days those challenges and opportunities increasingly affect small and medium-sized enterprises (SMEs), as well, namely, companies with an increasing relevance in the growth and change of the world economy (Kalinic & Forza 2012). Among other things, intensifying international competition has forced also SMEs to reconsider their competitive advantages, reshape their strategies, and seek new market opportunities from abroad (Lu & Beamish 2001; Kalinic & Forza 2012).

As SME internationalization is still a relatively new and underdeveloped area of research (e.g. Korsakiene & Tvaronaviciene 2011; Kannieß 2010), I wanted to explore the topic in more detail in my thesis. As a Finn, it felt also natural to study SME internationalization in the context of the Finnish SMEs. Moreover, I chose to focus on Finnish SMEs because, as Luostarinen et al. (1994) state, Finland is an interesting example of a small and open economy (SMOPEC), which is to a great extent dependent on its international business relations, and where SMEs play a significant role in the economic growth of the country. In fact, 99.8 % of all companies operating in Finland employed less than 250 persons and had an annual turnover of less than 50 million Euros in 2012, and therefore they were classified as small or medium in size (Statistics of Finland 2014). SMEs also employed 63 % of all personnel and accounted for 53 % of total turnover of the country (ibid).

In small and open economies, specifically, often the only way for SMEs to grow is to establish and expand operations into foreign markets (Agdahl & Chetty 2006). In case

of mature Western markets, SMEs have been particularly interested in seeking growth from the emerging markets of the Central and Eastern Europe (CEE) and the Baltic States. When it comes to Finnish SMEs, they have been particularly interested in expanding their operations into Estonia. As examples, a recent study by The Confederation of Finnish Industries (2012) shows that Finnish SMEs consider Estonia as the second most potential destination for their investments after Russia. Additionally, the study by Finnish Chamber of Commerce (2005) shows that more than half (57%) of the companies interviewed considered Estonia as the most interesting market area for their products and services in the Baltic Sea Region. In numerical terms, there are already around 4000 active Finnish companies currently operating in Estonia while the same number was approximately 1,700 in 2005, and a little less than 2,800 in 2009 (Kunnas 2013). The chairman of SEKE, The Association of Finnish Companies in Estonia, has also stated that the high interests towards Estonia as a target market for Finnish companies' internationalization can be expected to continue in the future, and that another 4000 companies may expand into Estonia in the coming years (ibid).

In fact, Estonia started to attract Finnish SMEs already in the early 1990s, for example, because of the country's short cultural and geographic distance from Finland (Luostarinen, 1994). Additionally, Kosonen (2007) states that, in the 1990s, Estonia's gateway position to Russia made Finnish companies to consider Estonia as a target market for international expansion. She also explains that democratization of Eastern Europe, and gradual eastwards enlargement of the European Union, have further encouraged Finnish companies to enter the Estonian market. During the economic crisis of 2008, Estonia faced serious economic difficulties. However, thanks to effective policy reforms, the country recovered fast, and continued rapid economic growth. In 2011, Estonian economy grew by 8.7%, five times the Euro zone average, and, since then, the growth has stayed above the Euro zone average (Eurostat 2013). The euro area membership gained in 2011 has also strengthened Estonia's credibility for foreign investors (Confederation of Finnish Industries 2012). Finally, the most recent studies highlight that, nowadays, particularly Estonia's investment friendly corporate tax



system, lower costs, and the ease of doing business attract Finnish companies to the Estonia market (The Confederation of Finnish Industries 2012). Therefore, Finnish companies growing interest towards business possibilities in Estonia is well justified, and seems to provide fruitful grounds for future studies.

Hence, due to my own interest and the gap in the academic literature around the SME internationalization, I have decided to explore the internationalization of Finnish SMEs in this thesis. Since the high interests towards Estonia as a target market for Finnish SMEs' international expansion is expected to continue, I have decided to study the SME internationalization in this specific context. Next, a more detailed description of this study is presented.

## **1.2 Research Gap and Research Problem**

The phenomenon of internationalization has captured the interest of researchers in international business, strategic management and entrepreneurship. Even though earlier studies have traditionally focused on examining large multinational enterprises and their internationalization, the amount of literature around SME internationalization has also increased during the past years (Lu & Beamish 2001). The existing studies have dealt with, for example, internationalization patterns, geographic range, entry modes, strategy selection, and success factors of SME internationalization (e.g. Hollenstein 2005; Villar et al. 2010). However, more research on SME internationalization is constantly needed; firstly, because more and more of SMEs are expanding their operations overseas and; secondly, because many of the internationalization challenges, such as limited market knowledge, limited use of networks, shortage of finance, and limited international experience of the entrepreneurs, are distinctive to SMEs (Lu & Beamish 2001; Kalinic & Forza 2012).

As stated, this thesis aims at understanding the current phenomenon of SMEs internationalization in the context of Finnish SMEs which have expanded their

operations into Estonia. In order to understand the current trend in greater depth, it is particularly important to recognize the reasons and preceding conditions for SME internationalization. In fact, in the existing literature, a wide range of factor has been studied as antecedents of internationalization and several theories have been presented on the topic. The most traditional theories, for example, explain SME internationalization by environmental conditions and the company's increasing knowledge and experience (Luostarinen 1994). Furthermore, SME internationalization has been explained by the company's networks and managements' skills and competencies. Generally speaking, it seems that at least three issues must be analysed in order to understand the antecedents of SME internationalization more comprehensively, namely, environmental conditions, organizational or firm characteristics, and entrepreneur's characteristics (Ruzzier et al. 2006; Kuivalainen et al. 2012). However, only a limited number of studies have considered these issues from Finnish SMEs' point of view, and therefore, I have decided to focus on examining the antecedents of Finnish SMEs' internationalization in this study.

To limit the scope of the study, I have decided to focus on studying Finnish SMEs which have expanded into Estonia, as explained in the previous section. The topic is of great interests also because SME internationalization to CEE has, in general, been suggested as a fruitful area of further research (Jansson & Sandberg 2008). Bevan and Estrin (2004) have also stated that more research on FDI flow to the economies of post-Soviet countries are needed, since the countries represent a particularly useful laboratory to test hypotheses, due to their short history of independence, and because the CEE countries are so different in size, level of economic and institutional development, and their proximity to Western Europe.

In fact, only few earlier studies have focused on examining SME internationalization in the CEE from Finnish companies' point of view. To give examples, Lindström (2003) has studied Finnish companies' international business operations in the Baltic Sea region and The Center for Markets in Transition (CEMAT 2004) has published a study

focusing on Finnish companies' internationalization and investments to Estonia. The most recent study regarding Finnish SMEs in the Baltics was published in 2007. The study by Heliste et al. (2007) examines the developments of business practices and norms in the Baltic States from Finnish companies' point of view.

Additionally, to limit the scope of the study, I have also chosen to focus on studying the Finnish mechanical engineering and metals industry SMEs, and their internationalization antecedents in terms of Estonia as a target country. The mechanical engineering and metals industry was chosen as a focus industry because Finnish companies of this specific industry have long traditions of internationalization (see Table 1). In fact, the mechanical engineering and metals industry companies have been among the first Finnish companies expanding into foreign markets and therefore SME internationalization is relatively advanced in the industry (Luostarinen 1994). Additionally, accelerating internationalization has forced traditional manufacturing sector companies in particular to reconsider their strategies and competitive advantages (Villar et al 2010). The above mentioned issues make the mechanical engineering and metals industry internationalization an especially interesting area of further research.

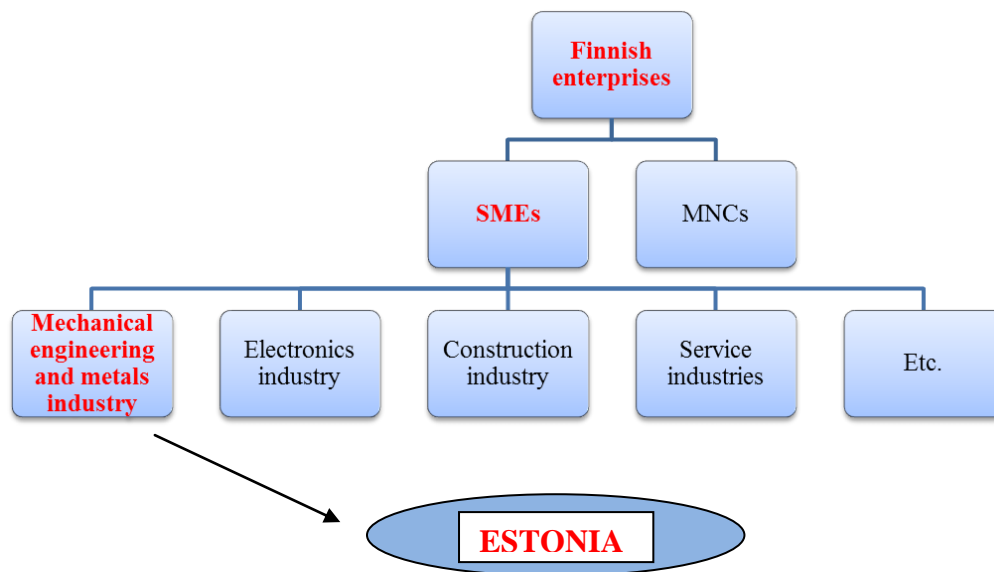
**Table 1** Internationalization of Finnish Industries

INTERNATIONALIZATION ORDER OF DIFFERENT FIELDS OF BUSINESS IN FINNISH ECONOMY	
Order	Field of business to be internationalized
I	Manufacturing industry (1850-)
II	Construction industry (1970-)
III	Service industry (1975-) (except shipping, forwarding)
IV	Retail business and wholesale business (1980-)

(Source: Luostarinen 1994, p. 4)

To summarize, the research problem of this study is to seek answers to the current phenomenon of SME internationalization in the contexts of Finnish mechanical engineering and metals industry SMEs by asking what the antecedents of internationalization for the Finnish mechanical engineering and metals industry SMEs are, and why these SMEs have decided to expand into Estonia in particular. The Figure 1 below demonstrates the contexts of the study. All in all, this thesis does not just settle to explain *what* is happening, but aims to answer *why* the phenomenon under research is taking place. In the next section, the objectives and research questions of this thesis are presented.

**Figure 1** Context of the Study



### 1.3 Research Objectives and Research Questions

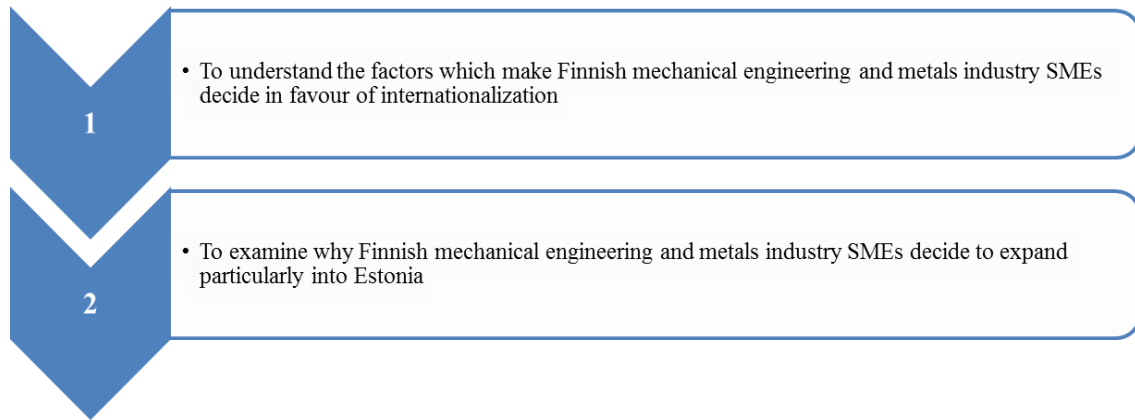
This study seeks to identify and analyse antecedents of Finnish SMEs internationalization with specific focus on the Finnish mechanical engineering and metals industry SMEs and Estonia as their internationalization destination. Therefore, the purpose of this study is twofold. The first objective of the study is to understand the

factors which make the Finnish mechanical engineering and metals industry SMEs decide in favour of internationalization. In order to present the results of the study as clearly as possible, I also try to identify and separate those antecedents of internationalization, which are of primary importance in the internationalization process, from those antecedents of internationalization, which are of secondary importance. The first objective is captured by reviewing earlier and current academic literature of international business and SME research. Among other things, the main internationalization theories are considered in terms of research questions of this study.

The second objective of the study is to examine why Finnish mechanical engineering and metals industry SMEs decide to expand particularly into Estonia. As mentioned, for example, a recent study by The Confederation of Finnish Industries (2012) shows that Finnish SMEs see Estonia especially, as an interesting market area for their operations. Since there is only a limited amount of previous literature available on Finnish SMEs internationalization to the country, empirical and theoretical studies focusing more broadly on SME internationalization to the CEE area are examined.

In addition, in the empirical section of this study, the two objectives are captured by conducting a multiple case study of three case companies. All case companies chosen for further analysis are Finnish by origin, small or medium in size, and they operate in the mechanical engineering and metals industry. Moreover, they have internationalized to Estonia at different times after the country gained its independence in 1991. To gather the data from the case companies, entrepreneurs and key executives responsible for the companies' actual internationalization process were interviewed using a semi-structured interview method. A qualitative case study method was chosen, as it allows holistic investigation of the topic.

**Figure 2 Objectives of the Study**



The research questions and sub-question of this thesis are defined as follows:

- What are the antecedents of internationalization for Finnish mechanical engineering and metals industry SMEs?
  - What are the antecedents of primary importance? What are the antecedents of secondary importance?
- Why have Finnish mechanical engineering and metals industry SMEs expanded into Estonia in particular?

To address these questions, the study is divided into six parts. The structure of the paper follows from the theoretical and empirical objectives and research questions of the study. The first chapter includes the introduction and positioning of the study. The second chapter reviews the related literature on the SME internationalization. The third chapter deals with the research method of the study, and is followed by a chapter where the results of the case study are presented. The findings of the study are then discussed and analysed in further detail in the fifth chapter. The paper ends with conclusions.

## 1.4 Definitions

To clarify the academic literature of the subject, it is necessary to explain several key terms that are specific to this analysis and are repeated in this paper. These terms are defined with further detail as follows:

### *Antecedents of Internationalization*

This study focuses on examining the antecedents of SME internationalization. Although there is no single definition for the term antecedent, the earlier studies, as well as this study, use the word to refer to the reasons and preceding conditions for SME internationalization. Ruzzier et al. (2006) mention that internationalization antecedents consist of environmental conditions, organizational characteristics and entrepreneur's characteristics that can be seen as preconditions for internationalization. Kuivalainen et al. (2012) agree that identifying internationalization antecedents requires considering a multitude of factors at the environmental level, firm level and managerial level.

### *Small and Medium Sized Enterprises (SMEs)*

The main factors determining whether a company is an SME are number of employees and either turnover, or balance sheet total. The European Commission (2014) define small and medium sized enterprises as companies that (1) employ less than 250 people and (2) have an annual turnover of less than 50 million Euros. This definition was chosen, since the focus of this study is on Finnish SMEs.

**Table 2** What is an SME?

Company Category	Employees	Turnover	or Balance sheet total
Medium-sized	<250	≤ € 50 m	≤ € 43 m
Small	<50	≤ € 10 m	≤ € 10 m
Micro	<10	≤ € 2 m	≤ € 2 m

(Source: European Commission 2014)

### *Multinational Enterprise (MNE)*

MNEs are firms which own and control income-generating assets in more than one country (Lindström 2003). In this study, SMEs are, for example, compared with large multinational enterprises.

### *Central and Eastern European Countries (CEE countries / CEECs)*

The term Central and Eastern European Countries is generally used when referred to a group of countries comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. (OECD 2001)

### *Mechanical engineering and metals industry*

According to The Federation of Finnish Technology Industries, machinery industry consists of two branches; namely the mechanical engineering industry, and the metals industry. The common factor for the companies operating in the industry is that they all process metals in different ways, either further to high-tech products, or to more simple products. It is estimated that mechanical engineering alone employs circa 125,000 people in Finland, making it the largest employer in the Finnish technology industry. In turn, metal processing industry employs circa 17,000 people in Finland. (The Federation of Finnish Technology Industries 2014)

## **1.5 Limitations**

At this point, the limitations of the study concern mainly the contexts and scope of the research. Firstly, the study is limited to SMEs, as there is a call for further studies on SME internationalization. Secondly, the empirical part of this study takes place within the Finnish machinery industry. More specifically, the research is conducted among the Finnish mechanical engineering and metals industry SMEs, which have expanded their operations into Estonia after the country gained independence in 1991. The preliminary framework for the study is framed specifically in terms of this particular industry, not



because I believe the principles underlying the arguments apply only to such firms, but because there are only mechanical engineering and metals industry SMEs in the multiple case study. Thirdly, the study focuses merely on understanding the antecedents of internationalization, which means that it does not, for example, take a stance on the antecedents of successful internationalization. Finally, the relationships between antecedents and outcomes of internationalization are limited to outside the study.

## **2. LITERATURE REVIEW**

In order to create a preliminary theoretical framework for empirical research, this chapter examines existing works of academic researchers and organizations from the field of international business and SME research. The focus is especially on earlier studies related to internationalization of SMEs, antecedents of internationalization, and Eastern Europe as a destination for SMEs' international operations. Moreover, the literature review introduces the key concepts of SME internationalization in the academic context.

The structure of this literature review follows the research objectives of this study. The discussion starts with defining the term internationalization. As there are several views on internationalization, it is necessary to understand what internationalization in the context of this study means. This is followed by a review of literature on the antecedents of SME internationalization. Among other things, ways to classify internationalization antecedents, and existing internationalization theories, are discussed and evaluated from SMEs' point of view. This is because the internationalization process of small and medium sized enterprises, in general, is assumed to differ significantly from that of large multinational enterprises (Musteen et al 2010). Finally, a preliminary theoretical framework, and propositions explaining why especially Finnish SMEs operating in the mechanical engineering and metals industry, decide to start

internationalization, and why they internationalize their operations to Estonia, in particular, are presented.

## **2.1 Defining Internationalization**

Before moving to discuss previous theories and frameworks regarding antecedents of SME internationalization, it is relevant to define what internationalization in the context of this study means. In fact, after the research focusing on the internationalization of SMEs began in the early 1970s, when Nordic scholars specifically became interested in the phenomenon, several attempts have been made in order to clearly define the concept 'SME internationalization' (Kalinic & Forza 2012; Korsakiene & Tvaronaviciene 2011)

As there are several perspectives to internationalization, there are also several definitions of the concept. As an example, Ruigrok (2000) states, that in the context of SMEs, the concept of internationalization is used to refer the outward movement of international operations (cited in Ruzzier et al. 2006, p. 478). Additionally, he states that internationalization can be explained as a changing state, where the growth provides a background to internationalization, causing growth and internationalization to become intertwined (ibid). Kuivalainen et al. (2012, p. 449), in turn, use a definition by Calof and Beamish (1995, p.116), who define internationalization as 'the process of adapting firms' operations (strategies, structures, resources, etc.) to international environments.'

Traditionally, research on SMEs' internationalization has focused on the enterprises' international activities or operations by applying product, operation, and market analyses (e.g. Luostarinen 1979), or network analyses (e.g. Johanson & Mattsson 1993) (cited in Ruzzier et al. 2006, p. 478). Nordic researchers, for example, have seen the processes of internationalization as gradual or sequential, consisting of several stages. Therefore, they define internationalization of SMEs broadly as 'the process of increasing involvement in international operations' (Welch & Luostarinen 1993, p.

156). Researchers explaining internationalization in a network context, in turn, have defined internationalizations as a ‘cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm’ (Johanson & Mattson 1993, p. 306, cited in Ruzzier et al. 2006, p. 478). However, this definition has been questioned, as it focuses exclusively on relationships. A more widely accepted view is also provided by Johanson and Mattson (ibid), who define internationalization as ‘the process of developing networks of business relationships in other countries through extension, penetration, and integration.’

Small and medium sized enterprises tend to move into foreign markets as exporters and/or as foreign investors (Lu & Beamish 2001). Based on Luostarinen’s study from 1979, nearly all (99%) of the Finnish industrial companies started their internationalization process through exporting (cited in Luostarinen 1994, pp. 212-218). Thus, Luostarinen (ibid) states that typical Finnish industrial SMEs follow the traditional step-by-step pattern in their internationalization process. However, these days, for example, accelerating globalization and the companies’ key individuals’ high level of international knowledge can also speed up the companies’ internationalization. As this study focuses on Finnish SMEs operating in the mechanical engineering and metals industry, it seems to be justified to use a traditional definition of internationalization in the contexts of this study, and therefore define internationalization as a process of increasing involvement in international operations.

However, as stated above, the traditional definitions of internationalization have been criticized for being too narrow and simplistic. Therefore, the definition by Lehtinen and Penttinen (1999, cited in Ruzzier et al. 2006) is used in this thesis study when SME internationalization is referred to. The researchers define SME internationalization as follows:

*‘Internationalization concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the*

*personnel's cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward and cooperative operations.'* (Lehtinen and Penttinen 1999, cited in Ruzzier et al. 2006, p. 479)

This definition was chosen for the purposes of this study, as it does not just summarize the fundamental characteristics of the internationalization process based on the traditional Nordic research findings, but also applies the concepts of international orientation and international commitment to the definition. International orientation refers to a company's general attitude towards internationalization, while international commitment refers to the requirements of the operation modes chosen, and the size of the business (Ruzzier et al. 2006). Additionally, this definition takes into account the relationship between the company and its international environment. It is justified to apply this definition as one of the objectives of the study is to understand why Finnish mechanical engineering and metals industry SMEs expand into Estonia in particular, and therefore environmental factors as antecedents of internationalization are of great interests. Next, I move on to taking a look at the existing literature on antecedents of SME internationalization.

## **2.2 Antecedents of SME Internationalization**

The factors behind SMEs internationalization decisions have been studied with various names by different authors in broader SME literature including 'motives', 'stimuli', 'facilitating factors', 'antecedents' and 'drivers of internationalization' (Hutchinson et al. 2007, p. 97). In this study, I have chosen to use the word antecedents when identifying and analysing the reasons for SME internationalization. The word is suitable for the purposes of this study, as it aims at describing broadly the sources, or reasons, for a certain action. The concept of 'antecedent' includes the issues that precede SME internationalization.

There are also several perspectives and theoretical models that have been used in the existing SME internationalization literature to distinguish, explain and classify the antecedents of internationalization. Before moving to the actual review on SME internationalization antecedents it is, therefore, necessary to explain how and why this literature review is structured as it is. This will be done in the next section.

### **2.2.1 Classifying Antecedents of Internationalization**

In the most simplistic frameworks of earlier literature, antecedents of SME internationalization have been divided into external and internal factors. The more advanced frameworks, in turn, use more detailed divisions. As an example, Korsakiene and Tvaronavicien (2012) divide antecedents of internationalization into four sub-groups: decision-maker characteristics, firm characteristics, firm-specific factors, and environmental factors.

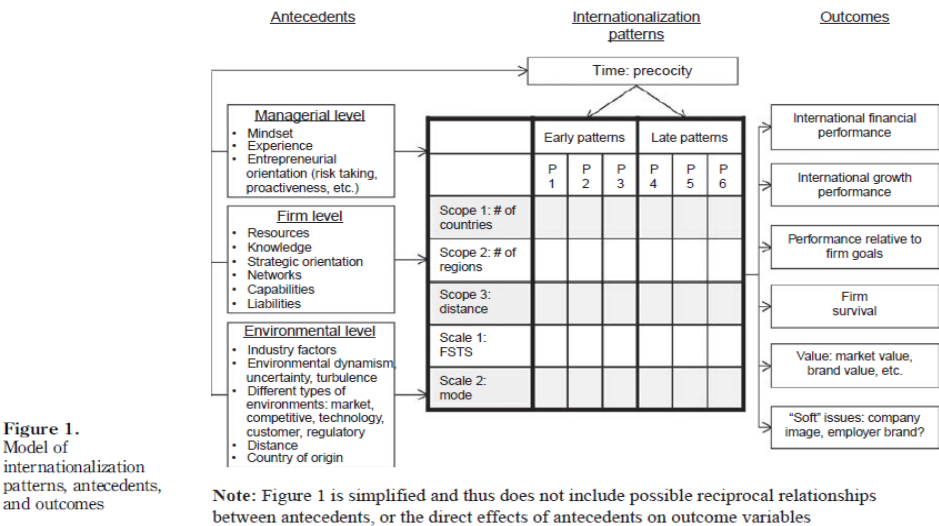
Furthermore, Luostarinen (1994) has stated that internationalization can be analysed at three levels: country level, industry level, and firm level. According to him, there also are many forces to be analysed when factors explaining internationalization specifically are studied. These forces are global, international, domestic, and company-specific forces. Luostarinen explains that global forces represent motives that are common to all firms regardless of their country of origin, whereas domestic forces represent country-specific motives of internationalization, that are less common for firms in other countries. International factors are motives that remain between global and domestic forces.

Another way to group the antecedents of SME internationalization is presented by Hutchinson et al. (2007) in their study on internationalizing small and medium sized retailers. They conclude that internationalization antecedents can be divided into macro environmental and micro-firm-level dimension. They also mention that the antecedents of internationalization can be grouped to ‘push’ and ‘pull’ factors. Push factors include, for instance, economy, legislation, domestic saturation, and industry competition; while

pull factors include the opportunity for profit, as well as economic and political stability in foreign market.

Despite the numerous options described above, I have decided to structure this literature review focusing on the antecedents of SME internationalization with a help of a framework, or model, developed by Kuivalainen et al. (2012), who focus on presenting an overview of conceptual frameworks and concepts for SME internationalization research. The model (Figure 3) suggests that antecedents of internationalization must be considered at three levels. These levels are managerial level, firm level, and environmental level. At each level, several factors must be analysed. At the managerial level these factors include, for example, entrepreneurial orientation and managements' mindset. At the firm level, for example, resources, networks and knowledge should be included into the analysis. Finally, at the environmental level, the model suggests that for example environmental dynamism, industry factors, and distance must be analysed in order to fully understand internationalization antecedents of SMEs. Additionally, the model shows a simplified picture of the relationship between different antecedents and internationalization outcomes, but these issues are limited outside this study.

**Figure 3** Model of Internationalization Patterns, Antecedents, and Outcomes

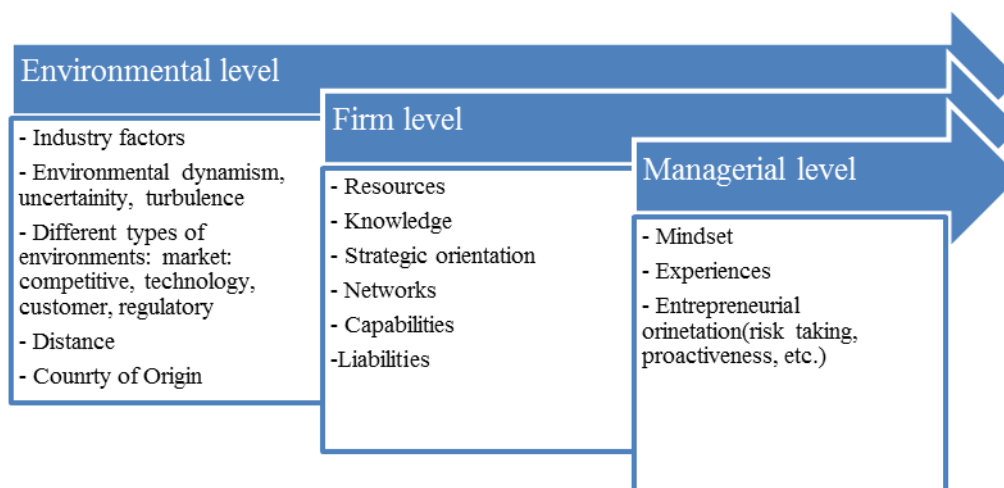


(Source: Kuvalainen et al. 2012, p. 452)

The model by Kuivalainen et al. (2012) was chosen as the framework for this study, since it includes many of the perspectives from the other, above mentioned, classifications of internationalization antecedents, but is still both comprehensive and clear. Choosing a framework that combines views from several theoretical perspectives is also justified because it is increasingly difficult to capture the internationalization concepts using only one traditional theoretical framework in today's rapidly changing world (Jansson & Sandberg 2008). Most importantly, the framework seems to provide the most accurate way for answering my research questions, as it divides the antecedents for internationalization clearly into three groups, or levels.

However, as this study focuses solely on identifying the antecedents of internationalization, and not on identifying antecedents' relationships and internationalization outcomes, only the antecedents' part of Kuivalainen et al.'s (2012) model is applied to this study. The applied version of the framework (Figure 4) is used to structure the literature review, to build the preliminary theory for the empirical part of this thesis, and later, when the findings of the case studies are analysed.

**Figure 4** Potential Antecedents of Internationalization



(Adapted from Kuivalainen et al. 2012, p. 452)

Now that I have explained and justified the framework and structure of this study, it is time to move on to the literature review on SME internationalization antecedents. Since already the most traditional internationalization theories have explained internationalization antecedents at the environmental level, it is natural to start the review of earlier literature with a focus on environmental level antecedents of SME internationalization. After that, I take a look at the firm level antecedents of internationalization. The most recent literature has explained SME internationalization with management level factors, and therefore, I will end this section with a review of antecedents of internationalization at the management level.

### **2.2.2 Antecedents at the Environmental Level**

Environmental factors can influence in SMEs' internationalization decisions, either by pushing firms toward international markets, or by forming entry barriers. Among other things, industry conditions may require firms to internationalize, if they want to strengthen their competitiveness, while global economic downturn may limit firms' willingness to move into foreign markets. As the model by Kuivalainen et al. (2012) demonstrates, for example, industry factors, environmental dynamism, different types of environments (market, competitive, technology, customer, regulatory etc.), country of origin, and distance, are issues that must be considered, when analysing potential antecedents of SMEs internationalization at the environmental level.

As early as in 1979, Luostarinen divided environmental factors affecting internationalization into two categories: push factors and pull factors. Push factors were used to refer to home country factors that act as forces pushing for internationalization. Pull factors, in turn, were used to refer to host country based macro factors that act as international pull forces. In the same study, Luostarinen mentions, that these external factors affecting internationalization decisions, are likely to vary between small and large countries. Bellak & Luostarinen (1994) add that push factors seem to be more important to firms in small and open economies (e.g. Finland and Austria), while pull factors seem to be playing a more important role as antecedents of internationalization



in large countries. Therefore, I have decided to divide this chapter, focusing on environmental level factors of internationalization into two sub-chapters. First, I discuss home country factors as drivers of internationalization. Second, I concentrate on host country factors. As this thesis study focuses on Finnish SMEs that have expanded into Estonia, I have tried to keep the emphasis of the discussion on earlier studies, focusing on the Estonian business environment. In this way, I try to identify those special characteristics of the Estonian business environment, which can be considered as antecedents of internationalization.

#### 2.2.2.1 Home country factors

With push factors, researchers often refer to domestic saturation, legislation, economy and industry competition (Hutchinson et al. 2007). Luostarinen (1979, 1994) recognizes three main domestic factors acting as push forces for the internationalization of Finnish firms. These three factors are: small size, peripheral location, and openness of the domestic market.

It is justified to say that Finland has a relatively small domestic market among industrialized countries, when the size of the population, the size of the GDP and the amount of per capita income are compared. According to Luostarinen's (1979) study, 70% of the industrial firms interviewed see that the smallness of the domestic market has an important, or very important, role in their internationalization. For example, Rundh (2007) got similar results in the Swedish context. Swedish SMEs saw limited domestic market size as one of the most important motives to expand their operations abroad. Based on the findings, it seems to be safe to generalize that internationalization has become one of the most important growth strategies for Nordic SMEs.

Due to the openness of the Finnish market, there are also more enterprises competing for the limited domestic demand. Those companies that have already internationalized also face tougher competition. Thus, competition caused by openness of the domestic market, forces enterprises to internationalize their operations rapidly. Luostarinen

explains that Finland is a typical example of a SMOPEC (small and open) country, where companies, regardless of the size and industry, are forced to internationalize, in order to survive and remain competitive. (Luostarinen 1994)

Moreover, Finland is located far away from its main markets and is isolated by the Baltic Sea, which forces Finnish companies to be active in seeking new markets. It is the only way to be able to follow, for example, technological development, competition and demand of other European and global markets. Similarly, peripheral geographic location increases the costs and length of information flow. (Luostarinen 1979, 1994)

Later studies broaden the above discussion about the home country factors, motivating companies to internationalize. Among other things, the study by Alho et al. (2004) shows that the difficulty of finding skilled labour in Finland drives Finnish companies to look for business possibilities abroad. Regarding companies' aspects on labour availability in Finland, and its relationship to their internationalization, no significant difference between the answers of SMEs and large companies were found. In turn, Korsakiene and Tvaronavicien (2012) also concluded from the findings of their study examining the drivers for internationalization in Norwegian and Lithuanian SMEs that in small domestic markets, competitive pressure and proximity to customers and suppliers are among the most important motives impacting internationalization. Moreover, in some cases internationalization seemed to be a result for companies' willingness to maintain their competitive positions in the market, as well as to increase their profit margins.

Finally, a recent study by The Confederation of Finnish Industries (2012), focusing solely on Finnish companies expanding into Estonia, revealed that many recent economic policy decisions made in Finland push Finnish SMEs to internationalize their operations to Estonia in particular. Among other things, tightening Finnish company tax, and the increasing additional costs for Finnish industries, caused by new edicts, force Finnish SMEs seek lower costs abroad. Moreover, reforms in energy tax refund

have put large amounts of pressure on Finnish SMEs in energy intensive industries. It is highlighted that in many ways Finnish SMEs do not see the operational environment in Finland as competitive as it should be. Thus, increasing production costs play a significant role, when the competitiveness of Finland is evaluated.

Before moving on to the literature review on host country factors as antecedents of internationalization, the key authors presented in this section, and their perspectives to internationalization antecedents, are summarized below in Table 3.

**Table 3** Summary of main perspectives and author of the literature review: home country factors

MAIN PERPECTIVES FROM EARLIER RESEARCH: HOME COUNTRY RELATED INTERNATIONALIZATION ANTECEDENTS		
Author	Antecedents of internationalization	Context of the study
Luostarinen (1979, 1994)	small size, peripheric location and openness of the domestic market	Finnish SMEs and MNCs
OECD (2009)	limited domestic market size	Swedish SMEs
Alho et al. (2004)	difficulty of finding skilled labor	Finnish SMEs and MNCs
Korsakiene and Tvaronavicien (2012)	competitive pressure and proximity to customers and suppliers	Norwegian SMEs and Lithuanian SMEs
Confederation of Finnish Industries (2012)	tightening Finnish company taxation, increasing production costs, increasing additional costs for Finnish industries	Finnish SMEs

#### 2.2.2.2 Host country factors

Host country related factors form a pull force for domestic enterprises to internationalize. Furthermore, the openness and size of the foreign market, for example, can act both as home country related push factors, and as host country related pull factors. In general, companies from small and open economies like Finland seem to be more motivated by push factors when they move into foreign markets. However, especially SMEs are influenced by pull factors, particularly if they are in the later stages

of SME globalization process. Thus, it is relevant to discuss the pull factors of internationalization also in the light of the research questions and objectives for this study. (Luostarinen1994)

As early as 1990s, the most important antecedents for Finnish enterprises to make outward direct investments included cost related and host market related pull factors. The five most important motives for internationalization were expected growth in demand, wage level, insecurity of integration strategy, the insecurity of access to ECC markets, and economies of scale (Bellak & Luostarinen 1994). Luostarinen (1994a) lists that the most distinctive pull forces for Finnish firms at macro level, are the large size and reciprocal openness of foreign target markets. Similarly, Luostarinen recognizes some micro-based pull forces affecting internationalization decisions of Finnish companies. These factors include advantages of economies of scale, advantages of specialization, advantages of global alternatives, and integration advantages. Even though Luostarinen examined companies of different sizes, pull forces mentioned are quite general by nature and therefore, in some extent, they can be expected to affect Finnish SMEs' internationalization, as well. In fact, later studies show that most of these above mentioned factors are still valid as drivers for internationalization today.

Laurila (1994), in turn, states that Finnish FDI flow, particularly to Estonia, is explained by the geographical and cultural affinity, and by both side's ease and willingness in making contracts. Thus, Estonia's relatively limited market size is not hindering Finnish FDI in the region. Laurila also recognizes, that lower labour costs and successful implementation of economic reforms in Estonia, are among the factors attracting Finnish enterprises to the country. Lindström's (2003) findings support Laurila's first arguments, as they show that geographic proximity, with historical and cultural ties, has a strong influence on Finnish companies' decisions to locate their foreign operations to the neighbouring countries of the Baltic Sea Region. Uhlénbrück (1997), in turn, agrees that market-seeking and low-wage labour motivate companies to expand to CEE area. He adds a low degree of competition to the list of pull factors attracting companies to

the CEE. However, Uhlenbruck's study focuses on MNEs' expansion to the CEE area in the late 1990s, and therefore its results may not be valid in context of today's SMEs.

Since the early 2000s different studies focusing on examining SME internationalization in the CEEC, and in the Baltics, have started examining the impacts of the eastern enlargement of the European Union on companies' internationalization decisions. Among other things, Alho et al. (2004) have studied the effects of EU enlargement on the strategies of Finnish firms by analysing the economic situation in the new EU-member countries, and their convergence towards the old EU countries. Furthermore, the researchers have conducted a questionnaire among Finnish companies having operations in the Baltic States and other Eastern European countries. Based on the results of the questionnaire, it was concluded that growing market size and low production costs are among the most important drivers of internationalization. In fact, small companies considered low costs as a more important factor when thinking about expansion to new EU-member countries than large companies did. Other pull factors affecting, especially the internationalization decisions of SMEs mentioned in the study, are: a good availability of labour, and the logistic location of the new member states. Moreover, Estonia's favourable corporate tax system<sup>1</sup> seems to attract Finnish companies of all sizes.

Kosonen's (2007) findings support the findings by Alho et al. (2004). In her article, Kosonen states, that rapid economic growth in the Baltics, is one of the key motives for Finnish companies' internationalization in the area. Furthermore, once again, low production costs, flexible labour market and close geographic / psychic distance, and

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<sup>1</sup> In Estonia, companies do not pay taxes on business profits, if it is not distributed as dividends to the owners. This taxation practice encourages companies to invest their profits, which often lead to business growth, as well as reduces the need of corporate debt financing. (The Confederation of Finnish Industries 2012)

cultural proximity, are mentioned as motives for Finnish companies to expand to Estonia in particular. Favourable corporate tax system is mentioned as a reason for expansion, too. Finally, Kosonen emphasizes, that the Baltic countries may also be seen as an intermediate stage, when Finnish companies look for business opportunities at global level.

Even though the focus of Heliste et al. (2007) study is not solely on SMEs, several findings support the above mentioned statements. The researchers have studied the developments of business norms and practices in the Baltic States from the perspective of Finnish companies. Based on their findings, Heliste et al. list motives, of Finnish companies from different industries, to establish operations to Estonia and other Baltic States. In terms of this thesis study, it is particularly interesting to take a look at the motives of Finnish sub-contractors, companies with market seeking behaviour and companies with cost-oriented behaviour. Heliste et al. state that Finnish companies using sub-contractors expand their operations to the Baltic States because of lower production costs and local partners' existing know-how and employees. Market-seeking Finnish companies, in turn, move into the Baltic States mainly because of the growing demand in the region, while cost-oriented Finnish companies are interested in lower production and employee costs provided by the region. Although salaries have increased during the past years, it is emphasized, that Finnish companies still see Estonia, as the most potential market among the Baltic States, because of the country's rapid economic growth, investment-friendly business environment, EU-membership (which has increased investors trust on the market) and low corruption rate.

Finally, the recent study by The Confederation of Finnish Industries (2012) raises some of the pull factors into discussion. It seems that the interest in Estonian markets among Finnish SMEs has not been reduced even though the financial crisis hit Estonia hard in 2008. Fast recovery after the crisis, and rapid economic growth, has further encouraged, especially Finnish SMEs, to expand their operations to Estonia. Thus, Estonian competitive business environment and the support for foreign companies from the

Estonian government are among the main pull factors for Finnish SMEs at the moment. Low labour and production costs, labour availability and further internationalization opportunities are again mentioned as motives to expand operations to Estonia. Moreover, Estonia's low corruption rate compared to other Baltic and Eastern European states, stable institutions and tax reforms encourage Finnish businesses to the country. As an example, Transparency International ranks Estonia as the 28<sup>nd</sup> out of 177 countries in its Corruption Perception Index of 2013, while Lithuania is ranked as the 43<sup>th</sup>, and Latvia as the 49<sup>th</sup> country (Transparency International 2014). Estonia was also the most transparent and the least corrupt country in the whole CEE region (ibid). As a final point, Estonia is still seen as a gate for Finnish businesses into the Russian market and other Baltic states.

Now that earlier literature concentrating on issues which can be considered as host country related antecedents for internationalization have been discussed, it is time to focus on reviewing the existing literature explaining antecedents of internationalization at the firm level. However, before that, the key authors presented in this section, and their perspectives to internationalization antecedents, are summarize below in Table 4.

**Table 4** Summary of main perspectives and author of the literature review: host country factors

MAIN PERSPECTIVES FROM EARLIER RESEARCH: HOST COUNTRY RELATED INTERNATIONALIZATION ANTECEDENTS		
Author	Antecedents of internationalization	Context of the study
Bellak & Luostarinen (1994)	expected growth in demand, wage level, insecurity of integration strategy, insecurity of access to ECC markets, economies of scale	Finnish and Austiran SMEs
Luostarinen (1994a)	large size and reciprocal openness of foreign target markets, advantages of economies of scale, advantages of specialization, advantages of global alternatives, integration advantages	Finnish companies
Laurila (1994),	geographical and cultural affinity, both side's ease and willingness in making contracts, lower labor costs, successful implementation of economic reforms in Estonia	Finnish companies in Estonia
Lindström's (2004)	geographical proximity, historical and cultural ties	Finnish companies in the Baltics
Uhlenbruck (1997)	market-seeking, low-wage	European MNEs in CEE
Alho et al. (2004)	good availability of labor, logistic location, the EU	Finnish SMEs and MNCs
Kosonen's (2007)	rapid economic growth in the Baltics, low production costs, flexible labor market and close geographic / psychic distance, cultural proximity, intermediate stage	Finnish companies in the Baltics
Heliste et al. (2007)	lower production costs, local partners, existing know-how, employees, growing demand in the region, lower production and employee costs, rapid economic growth, investment-friendly business environment, EU-membership, low corruption rate	Finnish companies in the Baltics
Confederation of Finnish Industries (2012)	rapid economic growth, competitive business environment, support for foreign companies, low labor and production costs, labor availability ,low corruption rate further internationalization opportunities	Finnish SMEs in Estonia

### 2.2.3 Antecedents at the Firm Level

At the firm level, at least SMEs' resources, strategies, knowledge, capabilities, networks and liabilities must be analysed when the antecedents of SME internationalization are studied (Kuivalainen et al. 2012). Understanding the firm level antecedents of internationalization is especially relevant since SMEs differ significantly from each other. Moreover, in this chapter, it is necessary to take a look at the three major theoretical approaches, or models of internationalization; the eclectic paradigm, the stage models, and the network approach, as they also try to explain internationalization at the firm level.



The study by the OECD (2009) confirms the need of firm level analysis when examining the antecedents of internationalization. The study gathers together the recent research findings in the field of SME internationalization research presented by scholars from all around the world. When the list of findings regarding the motives of SME internationalization is examined, a link between firm level antecedents of internationalization and environmental level antecedents of internationalization can be found. This is because the studies referred in the paper show that characteristics motivating SMEs to internationalize seem to differ between countries and regions. Among other things, the studies conducted in the context of Southern and Central European SMEs show that SMEs seem to be motivated to move into foreign markets, for example, due to social networks and knowledge search. Swedish SMEs, in turn, seem to be more motivated to expand abroad, for instance, due to their unique products or technologies. However, these country specific characteristics were discussed in greater detail in the previous section under the topic ‘Antecedents at the Environmental Level’. Since the importance of a firm’s characteristics on SME internationalization is now justified, it is natural to move into discussing the three leading theories of international business research, which provide explanations to firms’ internationalization decisions also at firm level (eclectic paradigm, stages mode, networking approach).

Firstly, as an example, Hollenstein (2002) has studied the factors determining international engagement of both large firms and SMEs, in the manufacturing and service sector, from several perspectives, using the eclectic paradigm by Dunning (1988, 1993, 2000) as the theoretical framework of the analysis. The eclectic paradigm explains that, in order to internationalize, a firm must enjoy both ownership (O) advantage and internalization (I) advantage, while the foreign market should be able to offer locational (L) advantage (Bevan & Estrin 2004). In terms of this chapter, especially ownership advantages are of great interest. Nakos and Brouthers (2002, p. 49) define that ‘ownership advantages are to be found within the firm and are the ones

that differentiate a firm from its competitors.’ As already mentioned, unique product or technology may be considered as that kind of a differentiator (Rundh 2007). In general, ownership advantages can relate both to a firm’s tangible and intangible assets (Ruzzier et al. 2006). Tangible assets can be, for example, products or technologies, whereas intangible assets can be, patents or brands owned by the company. The internalization advantages, in turn, focus on the capacity of a company to manage and coordinate its activities internally in the value added chain. Locational advantages relate to the institutional and productive factors provided by a particular geographic area, and are discussed more in depth in the next chapter.

As stated, Hollenstein (2005) has used the eclectic paradigm as a framework for his study. Through a large scale survey among Swiss companies, he concludes, that a company’s size and sector, play a critical role as antecedents for internationalization. Size plays a significant role in international activities of manufacturing companies in particular. Application-oriented knowledge and foreign experience proved to be especially relevant when SMEs were studied from the perspective of ownership-specific advantages’. In contrast, R&D proved to be of primary importance only for larger firms. Thus, the findings clearly demonstrate that ownership-specific advantages are among the main drivers for internationalization. Location-specific advantages, on the other hand, seem to foster international activities only in the case of SMEs, while internalizing advantages seemed to be much more important in large firms.

While ownership advantages seem both to motivate firms to go abroad, and influence in their market choice, several major obstacles regarding ownership advantages can also be identified (Hollenstein 2005). Among other things, Hollenstein lists high financial risks, insufficient capacities, and at some level, previous knowledge about foreign locations, as major obstacles for Swiss firms entering foreign markets. Due to these challenges especially smaller firms with less resources are more willing to engage in nearby ‘less risky’ locations in the old EU-member countries, whereas larger firms were more often

interested in more distant markets. To summarize; size and age of the firm must be evaluated as antecedents for internationalization also in the context of this thesis study.

The second theory that tries to explain internationalization from the firm point of view is called the stages model. As stated earlier in this paper, researchers have traditionally seen internationalization of firms as a step-by-step process. This approach was first presented by Nordic researchers in the 1970s, and therefore, the models created during that time have been referred to as Nordic models, or learning models, while the researchers are often referred to collectively as the Uppsala School (Ruzzier et al. 2006). In addition, these models have been called stage models, or evolutionary models, by their developers (e.g. Johanson & Vahlne 1997; Luostarinen 1970, 1994). Among other things, Korsakienė and Tvaronavičienė (2011) summarize the key message of this approach. According to them, regardless of the size, firms' motives for internationalization highly depend on the stage of their internationalization. Jansson and Sanberg (2008) add that process theories are highly useful when international business operations, especially in Eastern Europe, are examined. Thus, it is relevant to review the stage models for the purposes of this thesis.

There are, in fact, two major schools of thought explaining internationalization of a firm from the stage model perspective: the Uppsala models (the U-models) and the Innovation-related internationalization models (I-models) (Gankema et al. 2000). Although the main emphasis of these models is on explaining the process of internationalization, they also consider the motives of internationalization in the context of SMEs.

The key idea of the traditional Uppsala models is that companies' increasing market knowledge also leads to their increasing international involvement (Ruzzier et al. 2006). The model first created by Johanson and Vahlne (1997) proposes that general and experimental market knowledge, together with companies' resource commitment (state aspect), have an impact on companies' commitment decisions and business activities

(change aspect). The change aspects, in turn, increase companies market knowledge, and therefore, also resource commitment to foreign markets. In other words, firms learn about doing business abroad and subsequently tend to gradually increase their international involvement. First, they increase their involvement within the markets in which they currently operate. After that, they will enter new markets with greater psychic distance (Ruzzier et al. 2006). The study by Luostarinen et al. (1994) identifies four stages of internationalization: starting stage, development stage, growth stage, and mature stage. At the starting stage of internationalization, companies introduce same products to foreign markets as they sell domestically. Often, companies also start their internationalization operations in nearby markets, when measured by business distance. At later stages, companies move further away from their nearby markets. It makes them reconsider their choices of entry mode and strategy.

Compared to the U-model of internationalization, the innovation related internationalization model is formulated by using an export/sales ratio, and its key idea is that each subsequent stage of internationalization is considered as an innovation for the company (Ruzzier et al. 2006). According to Gankema et al. (2000), the I-model seemed to hold for European manufacturing SMEs at least in the early 1990s. While the U-model traditionally states that there are four stages of internationalization, the number of internationalization stages varies in studies examining the I-model. As examples, Gankema et al. (2000) have identified five stages of internationalization. During the first stage, called domestic marketing, companies are not capable of handling export orders. Therefore, they have no motive to internationalize. When the firms move to the pre-export stage, they start evaluating the feasibility of export activities, despite the lack of market knowledge. On the third, experimental involvement stage, companies start exporting on a small basis, with a foreign market having limited psychical and cultural distance. At the fourth, active involvement stage, companies are able to increase sales through export to multiple countries. Finally, at the fifth stage companies become highly dependent on their foreign markets. According to the research, moving from one stage to another, takes around two years, although high variation occurs. Thus the

findings of the I-model research are not that different to the findings of the U-model research.

As an example, Korsakiene and Tvaronaviciene (2011) take a look at the stage model in their study focusing on explaining the internationalization of Lithuanian and Norwegian SMEs. They noticed that motives of internationalization differ clearly between these two countries. One of the main trade barriers for Lithuanian SMEs seems to be their weak market knowledge. This is due to the young market economy in Lithuania. Hence, especially market knowledge, and psychic distance, which are defined as the common features of the stage model, seem to affect the internationalization decisions of Lithuanian SMEs. Notably, Lithuanian SMEs consider geographic proximity as their most important criteria for international market selection. In contrast, Norwegian SMEs at the more advanced development stage do not consider psychic distance that important for their international market selection. In contrast, related to the stage model, Norwegian SMEs see, for example, accumulated knowledge as one of the most important motives for internationalization.

Despite the fact that stage models have been among the most studied internationalization theories that have been applied to empirical research in the field of SME internationalization, they have also been criticized widely. Among other scholars, Korsakiene and Tvaronaviciene (2011) state that the stage models may fail to explain the phenomenon of born-global firms. Jansson and Sandberg (2008) agree that traditional stage models can be claimed to be invalid for ‘the leap-frogging’ companies that internationalize through a rapid non-incremental internationalization process. They suggest that at least in these cases, the network approach can be a more appropriate theory explaining internationalization decisions. Although this thesis focuses on studying Finnish SMEs in manufacturing sector, not born-global firms, the criticism should also be evaluated before applying the stage models to the discussion regarding the antecedents of SME internationalization.

The study by Rajshekhar and Todd (2011) support the above notion as the researchers reveal that the size and age of a firm have an important role in explaining the internationalization decisions at least in the contexts of Indian SMEs. Entrepreneurial SMEs which were growing in size were more likely to seek new business opportunities abroad. The situation was the same when the firm got older. This is related to the increasing knowledge in the company.

The third major theory of international business research that must be considered in term of this study is the network approach. As stated already in the beginning of this chapter on the firm level antecedents of SME internationalization, networks and relationships can also play an important role in the beginning of the internationalization process. While the stage models concentrate on explaining internationalization of companies through managerial learning, increasing market knowledge, and a step-by-step process, the network approach is more concerned with the business network's relationships and knowledge of the market. As explained by Jansson and Sandberg (2008), according to the network approach to internationalization, 'entries into local market networks take place through establishing relationships'. They highlight that network-based strategies are especially common, and even vital, when companies enter new markets in the CEEC, where transition from planned economy to market economy is still in progress. Citing Jacklic (1998), Ruzzier et al. (2006, p.67), networks can be particularly useful for SMEs entering into transition economies, since they may enable SMEs to overcome some of the problems related to issues such as knowledge, technology, and capital accumulation. They also agree with Bonaccorsi (1992) that small firms can trade and acquire information through their social network, leading them to imitate one another. As a consequence, networks can speed up SMEs' market entry.

Among other things, Jansson and Sandberg (2008) highlight that relationships should, in fact, be placed at the core of the internationalization process when SME internationalization, especially in the CEEC is studied. In their study, the researchers

aimed to explain how and why SMEs from old EU countries internationalize their operations to the new EU member countries in Eastern Europe, especially in the Baltic Sea Region. The survey of 116 Southern Swedish SMEs operating in traditional industries, and trading with the Baltic States and other Eastern European countries, revealed that network relationships and internationalization move together. Relationships proved to be an especially important motive for SME internationalization in this particular region.

Fink and Kraus (2007) agree that in order to be able to compete in the global market, it is beneficial for SMEs to join forces with a partner. Through cooperation, SMEs are able to overcome the notable problem regarding their internationalization: lack of sufficient resources and information. The researchers have conducted a comprehensive study, focusing on understanding whether trust-based coordination is feasible in the context of the SME internationalization process. Additionally, they have also tried to find out why specifically Austrian SMEs engage so intensively and rapidly into the CEEC. After conducting a large-scale questionnaire among Austrian, Slovenian and Czech companies, the researchers noticed, that Austria's close geographical, cultural and historical proximity to the CEEC, creates a favourable precondition for cross-border cooperation. Moreover, minor psychic distance, and other similarities between countries, seems to foster the evolution of trust, which is seen as a prerequisite for the development of cooperation. Thus, due to the relatively minor psychic distance between Austrian SMEs and the CEEC, Austrian SMEs have been able to establish a basis of trust earlier than their competitors, enabling them to find and maintain stable cooperation relationships with enterprises in the CEEC in particular. Like Finland, Austria is a small and open economy, which means that the findings of the above study may give a clue to the results of this study. In other words, new or existing networks and cooperation may act as a catalyst for internationalization in Finnish manufacturing SMEs, as well.

Musteen et al. (2010) agree with previous studies; small and medium sized enterprises routinely rely on network relationships when they try to overcome resource constraints and capability limitations associated with entering new markets. According to the researchers, it is particularly true for firms in transitional economies, for instance in Central and Eastern Europe. In addition, they state that networking, both formal and informal, is central to success in CEE countries. Studying Czech SMEs covering a broad range of manufacturing industries, and drawing on the social capital literature, they broaden the earlier discussion regarding the networking theory of internationalization, pondering how CEOs' own international relationships influence the speed, and the relative success, of the first international venture. They found out that weak relationships in many cases may be more beneficial than close ties, especially in the later stages of a firm's lifecycle, as they help firms to identify new opportunities. Close personal ties may block information flow and links to new contacts.

Even Meyer and Skak (2002) emphasize the importance of networks and relationships in the context of SME internationalization. According to them, smaller enterprises in the old EU-member countries currently spot new business opportunities, especially in Eastern Europe. However, they are often lacking in resources, and country-specific knowledge, which leads them to seek new business networks elsewhere. Formal knowledge is easier to acquire, but networks are needed to gain access to practical knowledge. Hence, business networks play a crucial role in SME strategies.

In the first part of their comparative study, Meyer and Skak (2002) studied Austrian and Danish SMEs, and their Russia-specific capabilities. These countries were chosen for further research, not just because of their similar size in terms of population, and GDP, but also because of their similar business structure with large numbers of SMEs. The researchers mention, that Austrian SMEs have traditionally had business links with the neighbouring countries, whereas Danish SMEs have focused on countries around the Baltic Sea. The first study concludes that companies see professional experience in the Russian market, Russian language skills, and a personal contact in Russia, the most



important qualifications affecting their outward activities. All in all, SMEs from both countries seem to draw upon knowledge held in their business networks, when engaging with businesses in Russia.

The second part of the study by Meyer and Skak (2002) concentrates on exploring the dynamics of networks in the internationalization process of Danish SMEs. Based on the study, the researchers conclude, that networks have a critical role in SME internationalization process, as they provide additional resources for their internationalization. A prior contact with future partners seemed to be the most important motive when choosing new markets. In many cases, SMEs' motives for foreign expansion seemed, not to be based on strategic planning, but on reaction to opportunities that occurred through personal contacts, and other business networks, which have been created, for example, by attending trade fairs. Holmlund et al. (2007) add, that a major contribution of the network approach to internationalization, and thus to the research on the antecedents of internationalization, is its focus on social relationships between individuals. These relationships have a substantial impact on the internationalization, since close social relations influence the interest and possibilities of doing business abroad.

Finally, even Kock et al. (2010) highlight that in order to fully understand the internationalization process, it is important to study the company's networks. They complement the earlier discussion by studying international opportunities gained through co-opetition from SME point of view, and evaluating the influence of different levels of co-opetition on international opportunities. With co-opetition they refer to simultaneous competition and cooperation between companies operating in the same business. Using multiple in-depth case studies as sources of their study, Kock et al. concluded that SMEs have been able to find and develop their practical and strategic international opportunities, and therefore, they have also strengthened their competitiveness. Among other things, co-opetition gives SMEs a better access to international distribution networks, market information and business contacts, which

prerequisites international success, as stage models already have emphasized. Both weak and strong cooperation-dominated relations seem to create international business opportunities. Thus, co-opetition may be a motive for SMEs in the metal product and mechanical engineering industry, to internationalize their operations to Estonia.

As stage models, the network approach on internationalization also has been widely criticized. Among other things, Ruzzier et al. state, that especially the strategic position, and influence of individuals (e.g. entrepreneurs), in the SMEs' internationalization is neglected. In order to take this perspective into consideration, the entrepreneurship theory is discussed in the next section focusing on potential antecedents for internationalization at the managerial level. Finally, Kock et al. (2010) remind, that networks can also create limitations for companies, as they may restrict companies from developing and creating new contacts outside the existing network.

Now that three major theories of SME internationalization have been introduced and discussed, it is still necessary to take a look at those factors mentioned at the very beginning of this chapter. As stated, SMEs' resources, strategies, knowledge, capabilities, networks and liabilities may play a role as antecedents of SME internationalization at the firm level (Kuivalainen et al. 2012). Pett et al. (2004) add to this discussion that there is also a relationship between a SME's competitive strategies, firm performance, expected external conditions, and internationalization motives. Like with ownership and locational advantages, only the first two of these factors are analysed under firm level antecedents of internationalization in this chapter. External conditions were already discussed in the previous chapter. According to Pett et al, SMEs can be divided into proactive and reactive ones, based on their characteristics. Proactive firms are those, that are likely to view internationalization as an opportunity, which may allow the firm to utilize its' internal advantages that it can use to exploit a new foreign market successfully. Internal advantages usually allow a firm to operate from a position of strength, and may be created, for example, by proprietary market knowledge, skills, know-how, and technology of a successfully differentiated and

unique product. In contrast, reactive firms are likely to view internationalization as a necessary response to unfavourable conditions in their current markets, or they may see internationalization as a way for improving, or overcoming, a firm's internal problems. To sum, the proactive drivers of internationalization are offensive, and reactive drivers are defensive. The researchers expect both factors to drive companies to internationalize.

Firstly, the findings by Pett et al. (2004) show that there is a visible relationship between a SME's performance and internationalization antecedents. Especially firms with high performance, in terms of revenue growth, are likely to have proactive internationalization motives. In other words, high performing firms experiencing growth in their domestic markets internationalize from a position of strength. However, lower performing firms did not demonstrate strong relationships within either proactive, or reactive, internationalization motives.

Secondly, the analysis regarding competitive strategies shows that SMEs using differentiation strategies are also likely to have proactive motivations, while SME's with cost-strategy, are not clearly associated with either of the motivations. Finally, high performing differentiators were more likely to use proactive motives, while poorly performing cost-leaders tended to be influenced by reactive motives for internationalization. Based on these findings, it is not just enough to take size into account when analysing internationalization motives of Finnish SMEs in the manufacturing sector, but also consider their resources and business strategies

To conclude, this chapter has presented several views and theories regarding antecedents of internationalization at the firm level. Therefore, it is more than relevant to summarize the key authors, and the main findings of the literature review, as follows in Table 5. In the next section, I will finally focus on managerial level antecedents of internationalization.

**Table 5** Summary of main perspectives and author of the literature review: firm level

MAIN PERSPECTIVES FROM EARLIER RESEARCH: FIRM LEVEL ANTECEDENTS OF INTERNATIONALIZATION		
Author	Antecedents of internationalization	Context of the study
Kuivalainen et al. ( 2012)	resources, strategies, knowledge, capabilities, networks and liabilities	Finnish SMEs
Hollenstein (2005)	size , sector, application-oriented knowledge, foreign experience	Swiss SMEs
Rajshekhar and Todd (2011)	size	Indian SMEs
Johannson & Vahlne (1997), Luostarinen, (1970, 1994), Ruzzier et al. ( 2006)	knowledge, stage of internationalization	Nordic companies
Korsakiene and Tvaronaviciene (2011)	stage of internationalization, geographic proximity, psychic distance, accumulated knowledge	Norwegian SMEs and Lithuanian SMEs
Gankema et al. (2000)	innovation	SMEs
Jansson and Sandberg (2008), Musteen et al. (2010) , Holmlund et al. (2007)	networks and relationships	Swedish SMEs, Czech SMEs, Finnish SMEs
Fink and Kraus (2007)	historical cooperation between countries, and businesses, trust	Austrian SMEs
Meyer and Skak (2002)	prior contact with future partners, access on experiential knowledge	Austrian SMEs and Danish SMEs
Kock et al. (2010)	co-opetition, networks	SMEs
Pett et al. (2004)	competitive strategies, firm performance, expected external conditions, internationalization motives	SMEs

## 2.2.4 Antecedents at the Managerial level

Existing international business literature concentrating on understanding SMEs internationalization demonstrates agreement that internationalization is an entrepreneurial activity (Lu & Beamish 2001), and that the owner is a key resource of internationalization (Kannieß 2010). Thus, for example Kuivalainen et al. (2012) emphasize that managerial level analysis is needed in order to be able to identify possible determinants and antecedents of SME internationalization. Among other things, it is relevant to consider the CEO's mindset, international experience, and entrepreneurial orientation (Kuivalainen et al. 2012). In this chapter, these issues, as

well as a new stream of SME internationalization research called international entrepreneurship, will be discussed in order to understand the entrepreneur's role as a driver of SME internationalization. The main findings of the earlier academic researchers, referred in this chapter, are also summarized in Table 3, at the end of the chapter.

The concept of the entrepreneur is quite complex and therefore definitions vary. One of the widely used and quoted classical definitions of the entrepreneur was presented by Schumpeter in 1934. He defined the entrepreneur as 'an innovator, who implements change within markets through the carrying out of new combinations' (Schumpeter 1934, cited in Ahmad & Seymour 2008, p. 8). Later, Hebert and Link (1989, p. 213, cited in Ahmad & Seymour 2008, p. 8 ) defined the entrepreneur as '...someone who specializes in taking responsibility for and making judgmental decisions that affect the location, form, and the use of goods, resources or institutions.'

Additionally, Ahmad and Seymour (2008), for example, identify three perspectives to the entrepreneurs' role in an organization. These roles include enterprising human activity, leveraging creativity, innovation, and identifying opportunities, and creating value to the firm. In other words, the entrepreneur is someone who takes risks, acts as a change agent and innovator, and facilitates the firm's growth. From the perspective of this study, it is notable that the discovery of new market opportunities is seen as one of the main themes in the current entrepreneurship research.

In fact, a new emerging approach to SME's internationalization research called international entrepreneurship, has been developed from the grounds of international business and entrepreneurship research, when it was noticed that the traditional process approach to internationalization (discussed under the topic 'Firm Level Antecedents of Internationalization') was overlooking the possibility of individuals making strategic choices (Ruzzier et al. 2006). As already stated entrepreneurs cannot be ignored anymore because they play an increasingly important role, for example, in identifying

business opportunities and forming strategies for companies' international expansion. McDougall and Oviatt (2000, p. 903) state that international entrepreneurship can be seen as 'a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organizations.' Although the international entrepreneurship research is still in its infancy, two main streams of research have already appeared (Lu & Beamish 2001). The first stream focuses on evaluating internationalization and strategies of born-global firms, and start-ups, using the approach. The second stream studies internationalization of established, yet small, firms using international entrepreneurship approach. In term of this thesis study, the later stream of research is more interesting.

Although, there is very little research on Finnish manufacturing SMEs, which applies to the international entrepreneurship perspective available, Korsakienė and Tvaronavičienė (2011), as an example, have studied Norwegian and Lithuanian SMEs' antecedents of internationalization through the theory. Due to, for example, cultural and historical similarities between Finland and Norway, findings from this study may be applicable in the context of Finnish SMEs, as well. Besides confirming that there is a clear link between the entrepreneur's characteristics and internationalization strategies, researchers found that accumulated knowledge, and the varied experience of entrepreneurs, are among the most important criteria when Norwegian SMEs make decisions regarding internationalization. In contrast, Lithuanian SMEs considered these attributes less critical for entrepreneurs. Thus, it seems that the international entrepreneurship theory can be applied specifically to the behaviour of Norwegian, and maybe also other Nordic SMEs, when they enter into new markets. The findings also confirm that the entrepreneur's skills, competencies, and management know-how must be analysed in order to fully understand the reasons behind SME internationalization.

Earlier studies focusing, for instance on CEOs' attributes, global mindset, and entrepreneurs' international orientations, are also in line with the approach of international entrepreneurship. Among other things, Hutchinson et al. (2007) highlight

that the owner usually plays a key role in an organization (e.g. as a general manager), and is the person responsible for all important business activities and decisions in the SME. Therefore, he is expected to have a significant role in identifying opportunities for a company's international expansion. The study shows that management's competence, international orientation, and global mindset, correlate particularly positively with the SME's level of international orientation, and its' willingness to seek market possibilities abroad. In addition, managers with good language skills and experience from working, living or traveling abroad, tend to encourage SMEs to expand their operations overseas.

The findings of Wneg-Tsung et al. (2013) support this view, too. Focused on explaining how the CEO's attributes affect SME internationalization and a firm's performance, the researchers conducted a study among 187 Taiwanese SMEs which have expanded abroad. After analysing panel data, they noticed that differences in CEO characteristics may result in varying performances, even in firms with the same level of internationalization. The findings demonstrate that, for example, age, education level, international experience, and duality of the CEO, have a moderating effect on firms' internationalization and motivation to go abroad.

Based on the findings of Wneg-Tsung et al. (2013), it seems that the older the CEOs are, the less likely they are to identify potential international opportunities for their firms. Thus, the age of a CEO matters when the SME makes internationalization decisions. Similarly, the level of education can be considered as an antecedent for internationalization. The study shows that, compared to CEOs with less education, CEOs with a high level of education, seem to be more likely to tolerate ambiguity, and take risks, which correlates positively both with firms' internationalization and performance. The same positive correlation can be seen with CEOs' international experiences. CEOs with previous international experience seem to have valuable market knowledge, and confidence to make internationalization decisions, and therefore companies under their leadership tend to move into foreign markets more often than other companies. However, if the CEO also serves as a chair of the board in his, or her,

company, internationalization-performance relationship may become weaker. Wneg-Tsung et al. (2013) concluded that input from others may bring important new knowledge, and perspectives, regarding the international operations of the firm to the company. To summarize, based on this study, internationalization and international performance of the company increase if the CEO of the firm is young, highly educated, with international experience, and does not serve as Chairman of the Board.

Together with other CEO attributes, the CEOs' global mindset also has been stated to function as a cognitive driver of SME internationalization. According to the study by Miocevic and Crnajak-Karanovic (2012, p. 142), global mindset can be defined as 'a multidisciplinary concept comprised of cognitive and cultural dimensions which both influence the international behaviour and decision making of the firm', and that 'GM consists of openness and awareness of differences among markets, and aims to synchronize them.' With a sample of 121 exporting Croatian SMEs, the researchers concluded that the managerial mindset indeed plays a critical role in the SME internationalization process. Managerial cognition, for example, influences in the internationalization efforts by indicating which markets are strategically important to SMEs. However, the study also reveals that global mindset cannot be the only driver of the SMEs' export performance and, similarly, that global mindset and international experience are independent of each other. In other words, both global mindset and international experience can be seen as antecedents of SMEs internationalization.

Rajshekhar and Todd (2011) extend this discussion regarding entrepreneurs' attributes and mindset to SMEs in emerging markets. They examine how entrepreneurial orientation, management commitment, and human capital, influence in the internationalization of SMEs in India. After analysing data collected through a questionnaire from 150 Indian SMEs, the researchers concluded that all the above mentioned factors play a strategic role in explaining the internationalization of SMEs at least in the emerging market of India. Again, educational level and former international experience were found to be significant predictors to the firms' degree of



internationalization. Thus, their findings are in line with the findings of Wneg-Tsung et al. (2013) and Hutchinson et al. (2007). In addition, they support Johanson and Vahlne's (1990) findings which were discussed in this paper under the topic 'Antecedents at the Firm Level'. Their study shows that firms with some experience in international markets tend to engage in more internationalization efforts.

Additionally, Rajshekhar and Todd (2011) found that the management's overall commitment to internationalization, at least in the case of Indian SMEs, correlates positively with a firms' degree of internationalization. Managers and owners of SMEs, who fostered a positive attitude towards expanding internationally among employees and thought outside the domestic market, were more likely to expand their SMEs abroad. Furthermore, internationally committed entrepreneurs seemed to create a competitive advantage to their firms. Rajshekhar and Todd also noticed that there is a strong link between entrepreneurial orientations on SMEs' internationalization decisions. Although the findings of this study are somewhat in line with the other studies discussed in this chapter, their application in the case of Finnish SMEs expanding to Estonia must be considered carefully, as Indian SMEs and their CEOs operate in a significantly different cultural environment than the Finnish ones.

Again, the key authors and the main findings of the literature review are summarized below in Table 6. After summarizing the findings of this section, it is time to summarize the main findings of the literature review. This will be done in the next section.

**Table 6** Summary of main perspectives and author of the literature review: managerial level

MAIN PEPPECTIVES FROM EARLIER RESEARCH: INTERNATIONALIZATION ANTECEDENTS AT THE MANAGRIAL LEVEL		
Author	Antecedents of internationalization	Context of the study
Kuivalainen et al . (2012)	mindset, experience, and entrepreneurial orientation	Exsisting literature
McDougall and Oviatt (2000)	International entrepreneurship	Exsisting literature
Lu and Beamish (2001)	international entrepreneurship	Japanese SMEs
Korsakiene and Tvaronavicia (2011)	knowledge and varied experience of entrepreneurs, entrepreneur's skills, competencies, management know-how	Norwegian and Lithuanian SMEs
Hurchinson et al. (2007)	management's competence, international orientation, global mindset, good language skills, experience from working, living or traveling abroad	U.K. SMEs
Hsu et al. (2013)	CEO attributes: age, education level, international experience and duality of the CEO	Taiwanese SMEs
Miocevic and Crnajak-Karanovic (2012)	global mindset	Croatian SMEs
Rajshekhar and Todd (2011)	entrepreneurial orientation, management commitment human capital	Indian SMEs

### 2.3 Summary of the Findings

In the literature review, I have discussed previous studies, and theoretical frameworks, which try to explain the antecedents behind SME internationalization from several viewpoints. As only a relatively limited number of existing studies have investigated specifically Finnish SMEs' antecedents of internationalization, the findings of earlier literature presented here are not directly applicable in the context of the Finnish

mechanical engineering and metals industry SMEs. However, by comparing and evaluating the key findings of the earlier studies, suggestions for answers to the research questions of this study may be found. In this chapter, the main findings of the literature review are therefore summarized, conclusions from the review are presented, and a preliminary framework for the empirical research of this study is introduced.

As explained, I have decided to use the model by Kuivalainen et al (2012) as a framework for this study. However, the focus of this study is solely on internationalization antecedents and not on its outcomes. Thus, a simplified version of Kuivalainen et al. (2012) framework is applied to this research (see Figure 4 p. 20). The framework dividing antecedents of internationalization into environmental level antecedents, firm level antecedents, and managerial level antecedents is quite simple, but it clearly shows, that internationalization antecedents can be studied at various interrelated levels. Since this study aims at achieving deep understanding of the factors behind the Finnish mechanical engineering and metals industry SMEs' internationalization, particularly to Estonia, analysis at all three levels is justified. Especially the environmental level analysis on the antecedents of internationalization may help to understand Finnish SMEs interest towards the Estonian market. Therefore, I first reviewed earlier literature on environmental level antecedents of internationalization. Then, I took a look at firm level antecedents of internationalization. Finally, I focused on existing literature on managerial level antecedents of internationalization.

At the environmental level, existing studies agree that both home country / push factors and host country / pull factors affect SME internationalization. Moreover, they agreed that operational environment can either support, or limit, internationalization of smaller companies (Kuivalainen et al. 2012).

As Finland is a small and open economy (Luostarinen 1994), SMEs operating there may share similar home country related antecedents of internationalization with other

SMOPEC countries. In these countries, SMEs often decide to internationalize due to the small size and increasing industry competition of the home market. Furthermore, Luostarinen mentions that, in case of Finnish SMEs, the peripheral and isolated location far away from customers, pushes the companies to consider internationalization. Domestic market saturation, legislation, and lack of skilled labour have also been discussed in previous research examining the antecedents of internationalization. Recently, tightening corporate tax and its impact on companies' internationalization, has become an emerging theme in Finnish SME research.

Especially in the case of SMEs, host country factors should also be evaluated as antecedents of internationalization (Luostarinen 1994). Based on the existing research, openness of market, low competition, economies of scale, advantages of specialization, and large market size, may act as antecedents of internationalization. There are several studies that have focused on considering the factors behind SME internationalization, particularly to the CEEC, as well. These studies (e.g. Laurila 1994; Alho 2004, Helsite et al. 2007; Kosonen 2007) state that especially close geographic and cultural proximity, lower labour costs, favourable corporate tax system and low level of competition attract SMEs to expand to the area. Finally, Estonia's location has been mentioned as an antecedent of internationalization in the most recent studies (e.g. Kosonen. 2007; The Confederation of Finnish Industries 2012), since Finnish companies often see the country as a gate to other foreign markets in Europe and Russia.

At the firm level, several factors must again be considered as antecedents of SME internationalization. Certain characteristics and capabilities of a firm arose from earlier studies as factors, which may lead to the internationalization of SMEs. Earlier studies agree, for example, that prior international knowledge, greater resources, and the bigger size of a company, support SMEs' internationalization

In addition, three major theories of international business research offer their explanations to the questions in this research. Firstly, studies aiming at explaining

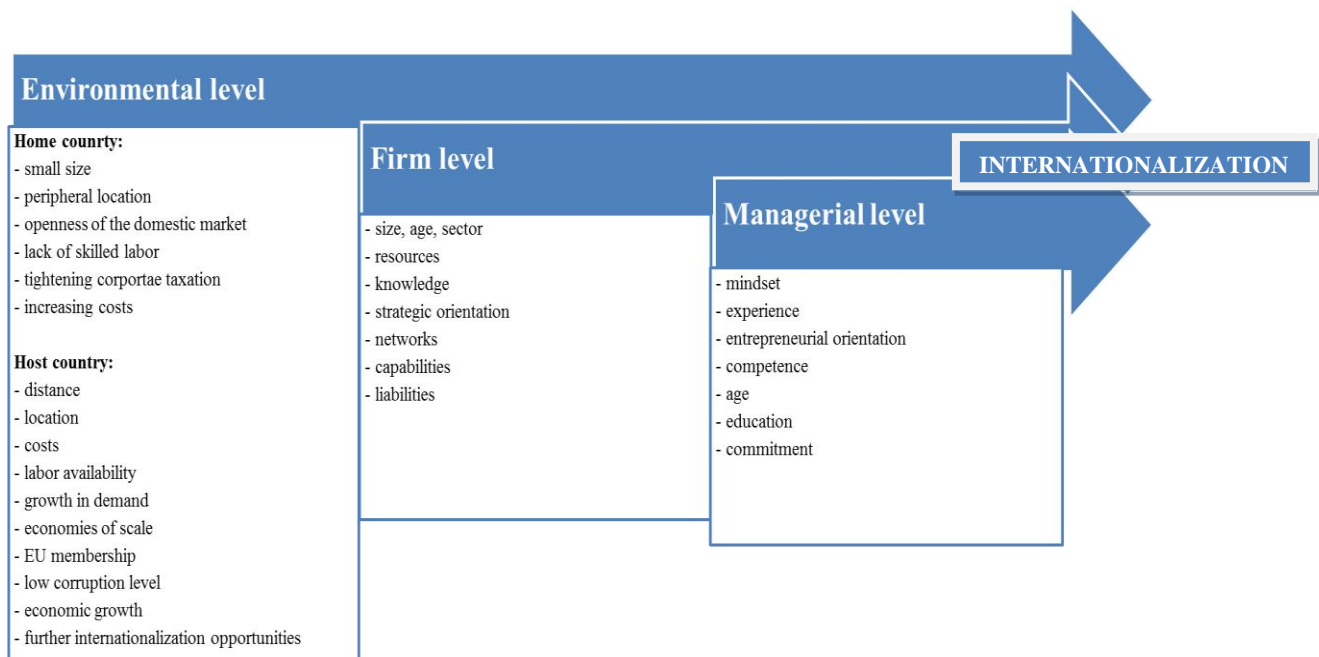
internationalization through Dunning's eclectic paradigm agree, that both tangible and intangible ownership advantages play key roles in SME internationalization. Secondly, the process model of internationalization claims that internationalization is a step-by-step process. When companies' knowledge eventually increases, they become more willing to expand their operations abroad. Finally, the network approach explains that internationalization happens through SMEs' prior contacts. Prior contacts may even affect the locational choices regarding the company's foreign operations (Meyer and Skak 2002).

Finally, the literature review to managerial level antecedents of SME internationalization made it clear that the entrepreneur should be seen as a key component for SME internationalization as he, or she, is usually the one responsible for all important business activities and decisions made within the company (e.g. Hutchinson et al 2007; Miocevic & Crnajak-Karanovic 2012). The earlier studies agree that the certain entrepreneur's characteristics and competences correlate especially positively with SMEs level of internationalization. These factors include the entrepreneur's previous international experience, global mindset, skills, know-how and commitment to internationalization. Thus, it also seems be justified to explain SME internationalization using the theory of international entrepreneurship, which explain that the entrepreneur's willingness to take risk and act as a change agent and innovator push companies into foreign markets. In addition, Wneg-Tsung et al. (2007) state that more educated and younger entrepreneurs with good language skills, may be more willing to take a risk and expand abroad.

In order to make the conclusions from the literature review as clear as possible, the findings of the earlier studies are summarized with the help of the Figure 5 below. After the literature review was conducted, it became evident that some additions must be made to the model by Kuivalainen et al. (2012) so that it is more applicable in the contexts of this study. As an example, several factors which were not mentioned in the original framework arose from the wider literature review as important antecedents of

SME internationalization, and therefore, it is relevant to consider also these issues in the context of this study. Among other things, the original model did not mention entrepreneurs' attributes and commitment, or firms' size and age, as internationalization antecedents. Moreover, it did not divide the antecedents of internationalization at the environmental level into host country related factors and home country related factors. Most importantly, the original framework, of course, did not take a stance on internationalization antecedents, which may be connected to Estonia as a target country. Hence, the Figure 5 is created keeping the context of this study (the Finnish mechanical engineering and metal industry SMEs expansion into Estonia) in mind.

**Figure 5** Antecedents of SME internationalization based on the literature review



Even though this study also aims at identifying the antecedents of internationalization of primary importance and the antecedents of internationalization of secondary importance, conclusions regarding these issues can be made only after the empirical research. Based on the literature review, such divisions are difficult to make, because most of the studies reviewed focus on examining or testing specific internationalization

antecedents, or theories, rather than focusing on studying several antecedents at different levels of analysis.

The findings of the literature review summarized in the figure above will be tested in the empirical part of this research, which is a multiple case study. However, before moving to the empirical research and analysis, it is relevant to familiarize the reader with the methodological choices made in the empirical study.

### **3. METHODOLOGY**

In this chapter, the choice of the empirical research approach and method is presented, the selection of the data sources involved in this research is explained, and the research process of the chosen approach is introduced. Additionally, validity and reliability, as well as limitations and generalizability of the results, are evaluated.

#### **3.1 Research Method**

The empirical section of this study is a qualitative interview-based multiple case study on three Finnish small and medium sized enterprises which operate in the mechanical engineering and metals industry, and have expanded their operations into Estonia after the country gained independence from the Soviet Union in 1991. The overall aim of the case study is to answer the research questions and objectives presented in the introductory chapter. The focus of the study is not just to test existing theoretical frameworks and models in the context of the internationalizing Finnish mechanical engineering and metals industry SMEs, but to analyse the data collected, and try to find emerging patterns and differences regarding the antecedents of internationalization among, and between, the case SMEs.

Qualitative research with a case study approach was chosen as a research method of this study, since the method is useful for providing answers to research questions that are complex, and aim at a holistic understanding of the issue studied (Eriksson & Kovalainen 2008). Due to the nature of the study objects and research questions, which look for answers, more to the reasons and meanings of the phenomenon, than to clearly measurable objects, it would have been very difficult to conduct the study in only numerical terms. Qualitative research is, in fact, often seen as an opposite to quantitative research, and as a method that provides better understanding of the issues that remained unclear in the quantitative studies. As Silverman states, ‘quantitative research cannot deal with the social and cultural constructions of its own variables’ (2001, p. 29, cited in Eriksson & Kovalainen 2008, p. 4). Finally, the choice of conducting qualitative research was dependent on availability of data. There was only little quantitative information available on SMEs internationalization antecedents.

Four perspectives presented by Marschan-Piekkari & Welch (2004) also support choosing the qualitative research method for the purposes of this study. First, the researchers mention that the qualitative method suits research which requires exploratory and theory-generating research rather than empirical testing provided by quantitative research. Second, qualitative research allows for deeper cross-cultural understanding and is less likely to suffer from cultural bias of the researcher. Third, the method also allows me, as a researcher, to choose a research instrument that suits a particular location and case. Finally, qualitative research seeks to understand ‘soft’ factors such as the meanings and beliefs underlying action and not just to measure observable behaviour. Understanding ‘soft’ factors is also an aim of this study.

When choosing a methodology for this thesis study, I went through numerous options. For example, Yin (2009) has developed a practical tool for choosing the most relevant method for the research. According to him, three conditions should be considered before deciding the research method: form of research questions, extent of control over behavioural events, and degree of focus on contemporary, as opposed to, historical



events (Figure 6). Before starting the actual research process, I decided to consider my choice with the help of Yin's model and noticed that this research is clearly exploratory in nature, and it aims at answering mainly 'how' and 'why' research questions. Moreover, it seemed that I, as a researcher, have no actual control over the phenomenon I am examining. Finally, although the case companies studied had already moved into the foreign markets, it was clear that the focus of this study would be on explaining a contemporary event or phenomenon. Historical occasions would only be used in forming the theoretical framework of this study. Based on these answers, it became clear that case study is the most suitable method for the purposes of this specific study. In the next section, I discuss case study method in the light of this study more in detail.

**Figure 6** Relevant Situations for Different Research Methods

METHOD	(1)	(2)	(3)
	Form of Research Question	Requires Control of Behavioral Events?	Focuses on Contemporary Events?
Experiment	how, why?	yes	yes
Survey	who, what, where, how many, how much?	no	yes
Archival Analysis	who, what, where, how many, how much?	no	yes/no
History	how, why?	no	no
Case Study	how, why?	no	yes

**Figure 1.1** Relevant Situations for Different Research Methods

SOURCE: COSMOS Corporation.

(Source: Yin 2009, p. 8)

### 3.2 Case Studies

The case study method is a key research strategy in international business research (Piekkari & Welch 2011). The method has widely been used in the field, as it takes into consideration environmental characteristics, resource constraints and cultural traits, and

helps researchers deepen their cross-cultural understanding (Fletcher & Plakoyiannaki, 2011). Although case studies can be used in any kind of research, i.e. both in qualitative and quantitative research, it is most commonly used when a researcher seeks to answer 'how' and 'why' questions, as in this study (Marschan-Piekkari & Welch 2004; Yin 2009). The method is also relevant if research questions require extensive and in-depth analysis of some social phenomenon (Yin 2009). The central feature of all case studies is that they consist of one or more cases which research certain questions, then try to understand and solve them. Theory building can be seen as the primary goal for the case study research (Eisenhard 1989). In fact, case study can also be seen as a choice of what is to be studied rather than as a methodological choice (Stake 1995).

Case studies consist of either single or multiple cases, and numerous levels of analysis, as can also be seen in this study (Eisenhard 1989). The number of cases usually depends on the purpose of the study (Fletcher & Plakoyiannaki 2011). Single cases are especially appropriate when a specific case is critical, and the purpose is to explain, or question, an existing theory. Furthermore, a single case can be used to explain a unique case or a case which is revelatory (Marschan-Piekkari & Welch 2004). Thus, the aim of a single case study is not necessarily to produce knowledge that could be generalized to other cases, but to give researchers an opportunity to gain in-depth understanding on a particular phenomenon (Eriksson & Kovalainen 2008; Fletcher & Plakoyiannaki 2011). Nevertheless, many scholars argue the evidence of a study consisting of multiple cases to be a more credible, than the evidence of a single case study, because multiple cases often make external generalizing more reliable. This is also one of the reasons why multiple case study was selected for the purposes of this research.

It is relevant to take two or more cases under research if a researcher is more interested in understanding a general phenomenon than in the individual case, or if we cannot understand a given case without studying other cases (Stake 1995). In multiple or comparative case studies, the same questions are asked in several organizations. After that, the answers are compared with each other to be able to draw conclusions

(Marschan-Piekkari & Welch 2004). In other words, the aim of the data collection is to compare the phenomenon in a systematic way, evaluate its different dimensions, or to study different levels of research variables. A large amount of emphasis must be put on justifying the selection of each case. Typically, the questions to be studied are more or less predefined toward a specific research interest. The differences illustrated in Table 7 (Fletcher & Plakoyiannaki 2011) were taken into account when the final decision on the appropriate case design for this study was made.

**Table 7** Single and Multiple Case Selection

Single case design	Multiple case design
Deep insights: greater depth	Replication logic: greater breadth
Emphasis on thick descriptions – better stories	Emphasis on comparison – better constructs
Can be highly context specific, focus on the uniqueness of the case	Greater opportunity for generalizability and external validity

(Source: Fletcher & Plakoyiannaki 2011, p. 185)

Besides categorizing studies as single or multiple case studies, they can also be categorized as intensive or extensive. The main difference between intensive and extensive case study research is their focus. Intensive, or classic, case study research aims at finding out as much as possible, and at developing deep understanding of one or a few cases. Interpretation plays an important role in the research. In contrast, extensive case study focuses on finding common patterns and characteristics across cases. In other words, intensive case study focuses on studying how a specific or unique case works while extensive research focuses on developing, elaborating, or testing an existing theory. (Eriksson & Kovalainen 2008)

Another way to categorize case studies is to divide them into intrinsic and instrumental cases. A case that itself is of interest is called an intrinsic case. It aims at understanding some abstract constructs, or generic phenomenon, without theory building. Instrumental

case studies, in turn, focus on providing insight into an issue or to creating generalizations. The case itself is of secondary interest and it is usually used as an instrument to achieve something else. Although these groupings exist, no clear line can be drawn between intrinsic and instrumental case studies. (Eriksson & Kovalainen 2008; Stake 1995)

Based on the explanations presented above, this thesis study is a multiple case study, drawing on qualitative data, as it consists of three cases that are compared with each other in order to understand what the antecedents are behind the Finnish mechanical engineering and metals industry SMEs' internationalization. The same pre-defined topics are discussed with each case company. Moreover, this study can be characterized as an extensive and instrumental, although it has also some elements of intrinsic studies. It is because the purpose of this study is to find common patterns in Finnish SMEs internationalization antecedents using three cases as a tool for that. The purpose is to create a generalization drawing on case study comparisons, and to elaborate and evaluate existing theories on SME internationalization antecedents and their adaptability in the context of Finnish SMEs.

Next, I briefly explain the criteria for selecting the case companies for this study. A more detailed introduction of the case companies is presented in the beginning of the following chapter 'Empirical Findings'.

### **3.3 Case Companies**

In this multiple case study, I examine three companies as my cases. These case companies are Makron Oy, Hyrles Oy, and Company C, which requested to stay anonymous. I chose these particular companies based on three main criteria. Firstly, each one of them is Finnish by origin and fulfils the definition for small and medium sized enterprises. In other words, they employ less than 250 people and have an annual turnover of less than 50 million Euros (European Commission 2014). Secondly, all

three companies operate in the Finnish mechanical engineering and metals industry. Lastly, the companies have expanded to Estonia at different times during the period of the past twenty years. The companies were found by contacting The Finnish-Estonian Chamber of Commerce, The Association of Finnish Companies in Estonia and Enterprise Estonia.

I selected case companies which have expanded to Estonia at different times in order to get a more comprehensive view on the antecedents of the Finnish SMEs internationalization in a particular industry. Though the sample of three case companies was rather limited, the approach still helped me to be aware of possible timing related differences in case companies internationalization antecedents. In fact, Makron Oy has been among the first Finnish SME sized mechanical engineering and metals industry companies to expand into Estonia after 1991. The company started internationalization as early as in 1998 by establishing a production unit to the country. In turn, Hyrles Oy and Company C have both expanded to Estonia in the 2000s. Hyrles opened a subsidiary to Estonia in 2008 and Company C in 2011.

In addition, my decision to focus on these three companies was affected by the existence of earlier data regarding the companies' internationalization process. I was concerned that, if I solely rely on the interviews conducted for the purposes of this thesis, I would receive only a polished, official story from the interviewees. I was also concerned about relying solely on the interviewees' memory as a source of data. By comparing my findings from the interviews with the earlier newspaper and online articles on the case companies' internationalization, I was then able to evaluate and complement the data, as well as point out possible inconsistencies between it. All in all, I was able to find two newspaper/online articles on each case company's internationalization. As examples, Finnvera, the official Export Credit Agency of Finland, has published an article on Makron Oy's internationalization to Estonia on its' website: The Federation of Finnish Technology industries has written an article concentrating on Hyrles Oy and its' expansion to Estonia; and The Union of

Professional Engineers in Finland has published an article on Company C and its' internationalization to Estonia. These secondary sources are identified in detail in the next section.

As mentioned, three case companies are studied and analysed in the light of the research questions and objectives of this study in the empirical part of the research. The focus is on finding emerging patterns and discontinuities concerning the case companies' internationalization antecedents, not just on evaluating each case separately, and, based on that, build a generalization on small and medium-sized Finnish mechanical engineering and metals industry companies' antecedents to expand to Estonia in particular.

Before moving on to explaining the data collection and analysis methods used to gather and analyse the data from the case companies, it is relevant to take a look at the overall research process of this study. This will be done next.

### **3.4 Research Process**

The research process of this study can be divided into several stages. One of my first ideas was to study SMEs and their internationalization. I also wanted to incorporate a specific target market to the focus of the study. Therefore, I started my thesis process with forming preliminary research questions and sub-questions, which summarized the overall topic and objectives of my research, and writing a preliminary research plan. At the very beginning, my ideas regarding the phenomenon I wanted to study were quite vague which forced me to consider how to limit the scope of the study.

When I started familiarizing myself with the existing literature, both in the field of international business and SME research, I noticed that there is a research gap in the field of SME internationalization research. The review of the literature showed that there are several studies written by both Nordic and foreign scholars, which examine the

internationalization process and entry mode choices of SMEs. However, I also noticed that only a limited number of these studies focused on examining the phenomenon of SME internationalization in the context of Finnish SMEs. Furthermore, a very limited number of these contemporary in-depth studies examined internationalization antecedents focusing on Finnish SMEs. Therefore, I finally decided to narrow down the scope of my research to Finnish SMEs' and their internationalization antecedents. I also chose to study Estonia as a target market for internationalization due to the reasons listed in the introductory chapter, and to focus on Finnish SMEs operating in the mechanical engineering and metals industry; an industry which has long traditions of internationalization. The final research questions can be found in the first chapter of this thesis.

The second stage of my research process involved an extensive study through the collection of various secondary data sources. Based on the data collected, I started writing the first version of the literature review; however it was revised several times during the thesis writing process. During this step, I also decided which research and data selection methods to use. After evaluating several options carefully, I decided to conduct an interview-based multiple case study. Multiple case analyses seemed to be a more appropriate method for the purposes of this study than single case analysis, as it provides grounds for more extensive research and greater opportunity for generalizability and external validity (Eriksson & Kovalainen 2008). Case companies were selected based on their size, industry and target market for internationalization, as explained in detail in the previous section.

The decision concerning the data collection method of the study was made between questionnaire and interviews. After analysing my research topic in the light of a tool provided by Daniels & Cannice (2004), I finally chose interviews as my main data collection method. The authors encourage international business researchers to consider three issues before choosing interviews as a method. First, they state that interviews are especially well suited for exploratory and theory building studies. Second, they mention

that interviews may be an optimal method when there is only a small population of possible respondents. Thirdly, they state that the interviews as a method may help a researcher to ‘develop a deeper rapport with informants’ than for example questionnaires (Daniels & Cannice 2004, p. 187).

At the third step of my research, after familiarizing myself with the existing data, and after making the decision regarding an appropriate data collection method, I conducted an extensive online research in order to obtain case companies to be interviewed. The criteria used for selecting potential case companies are presented in section 3.3 of this study. Since it was quite challenging to find suitable case SMEs just through online research, I decided to contact The Finnish-Estonian Chamber of Commerce, The Association of Finnish Companies in Estonia and Enterprise Estonia via e-mail. Thanks to their suggestions, I found eight companies which best suited my study purposes. I contacted them via e-mail in mid-August aiming at finding three to four SMEs for interviews. I received responses from three companies within a week from sending the interview requests and therefore I decided to schedule interviews in these companies. Prior conducting the interviews, I also explored the official websites of the companies, searched and read existing articles on their internationalization, and familiarized myself with the companies’ basic information and characteristics, such as firm size, product selection, and managerial structure. When the first round of interviews was conducted, it became clear that I had to check some details, and develop some additional questions for the interviewees. The second round of interviews was conducted through e-mail.

After the interviews were conducted, I finally started writing the findings and the analysis & discussion. Simultaneously, I revised both the literature review and the research questions to match the focused scope of the study, and in response to the issues that emerged from the interviews. Among other things, some irrelevant theories were removed from the literature review. All in all, the study process lasted one and a half years from January 2013 to September 2014.



Next, I give a more detailed description of the data collection and analysis method used in this study.

### **3.5 Research Design**

#### **3.5.1 Data Collection**

The empirical data for the study was collected in two different ways during a period of one year (July 2013 – July 2014). Most of the information was retrieved through face-to-face interviews as primary data, but additionally secondary sources such as company websites and news archives were used to provide an additional perspective to the study. Interviews with the case company representatives, however, were chosen as the main source of data because they allowed a direct researcher-to-respondent conversation, as well as an opportunity for me as a researcher to both lead the conversation to the desired direction, and ask further questions (Hirsjärvi & Hurme 2009). Furthermore, since the subject was bound to the context of the Finnish mechanical engineering and metals industry and Estonia as a target market for SME internationalization, the access to, and the number of, secondary sources and other written documents were limited.

The primary data was retrieved in two different ways: through personal interviews and via e-mail. More specifically, the first round of interviews was conducted as face-to-face interviews, while the second round of interviews was conducted through e-mails. The second round of interviews was conducted in order to verify some details and to make additional questions on the topics discussed during the personal interviews. The interview with the CEO of Hyrles OÜ was an exception since it was conducted via phone due to time and resource constraints of the researcher.

Only a few individuals are usually in charge of decision making in SMEs. Consequently, there were only a limited group of potential interviewees available in the three case companies. My aim was to find and interview case companies' key decision

makers because they were the ones with the most accurate and reliable information on the companies' internationalization antecedents in terms of Estonia. Answers given by the company representatives were of great interest, since this thesis focuses on answering to the research questions and objectives presented in the first chapter, particularly through case companies' perspectives. Collecting entirely objective and unbiased information on the topic was also demanding because antecedents of internationalization were expected to vary from company to company. Emerging trends occurred from the answers, though.

I ended up scheduling interviews with the founders / owners of the three case companies. In case of Makron Oy and Hyrles Oy, the entrepreneurs alone made the final internationalization decision while, in case of Company C, the decision was made in agreement with the company's two owners. In Company C, however, I interviewed only one of the two owners; the entrepreneur who also was the former CEO (the sitting CEO during the time of international expansion), and the founder of the company.

To broaden the perspectives and to get additional information on case companies' internationalization, I also decided to interview also those people who were not involved in the actual internationalization decision, but who were heavily involved in the companies' expansion into Estonia. Thus, I contacted the Sales manager of Company C who was responsible for establishing the company's factory in Estonia and who is still in charge of the Estonian operations. I also interviewed the CEO of Hyrles OÜ. Despite several attempts, I was not able to contact the person who was responsible for establishing Makron Oy's Estonian subsidiary. He is not anymore working for the company.

Thorough research prior to meeting the representatives of each company helped to ensure that I could cover all the relevant issues in the interviews. The approach also helped me as a researcher to take the first steps towards the analysis part of the research. As mentioned, I came across secondary sources, such as online articles on the

companies' internationalization, when I searched for potential case companies. Only secondary sources which are generally considered as reliable (e.g. the Federation of Finnish Technology Industries, Finnvera) were chosen to serve as additional perspective to the study. However, it must be noted that the perspectives offered by the secondary sources are not totally unbiased. Sources of secondary data are summarized in Table 8 below.

**Table 8** Sources of Secondary Data

	Company webpage	Newspaper articles published online	Other online material
<b>Makron Oy</b>	x	<ul style="list-style-type: none"> <li>• TRIO-plus (the Federation of Finnish Technology Industries, 2012)</li> </ul>	<ul style="list-style-type: none"> <li>• Finnvera</li> <li>• The Federation of Finnish Technology Industries (2009)</li> </ul>
<b>Hyrles Oy</b>	x	<ul style="list-style-type: none"> <li>• TRIO-plus (the Federation of Finnish Technology Industries, 2011)</li> </ul>	<ul style="list-style-type: none"> <li>• TeollisuusNyt (2012)</li> <li>• Finpro (2011)</li> </ul>
<b>Company C</b>	x	<ul style="list-style-type: none"> <li>• Insinööri-lehti (2012)</li> <li>• Organisaatio-Sanomat (2013)</li> </ul>	

All the interviewees were first approached via e-mail. The actual interviews were then conducted at case companies' Finnish headquarters in the Finnish language (except the interview with the CEO of Hyrles OÜ, which was conducted via phone). The interviews with the founders of Makron Oy and Hyrles, as well as the interview with the Sales manager of Company C, were conducted in September 2013, while the interview with Company C's entrepreneur was conducted in May 2014. The phone interview with the CEO Hyrles OÜ was conducted in July 2014. I chose to collect data from the companies using focused semi-structured interviews since this particular interview method did not restrict the interviews to specific questions, but allowed me as a researcher to lead the discussion through certain pre-decided themes (Hirsjärvi & Hurme 2009). Prior to the interviews I wrote down a list of key themes and question examples to be discussed, and used them as a frame for each interview (Appendix A).

After conducting all the interviews, which I also recorded, I transcribed them in order to support the analysis process. The second round of interviews was conducted via e-mail with the entrepreneurs because some additional questions had emerged during the analysis process. In the very end, I went through all my data sources, including case companies' webpages and online articles again, and made sure that the data I had collected during the period of one year was still the most up-to-date information available.

It is important to notice that the interviewees' answers should not be taken without some degree of criticism. The interviewees may have hidden some relevant information regarding their companies' internationalization antecedents, and only told the official view during the interview. Among other things, the researcher did not have access to case companies' detailed economic information from the time of international expansion, so some economic motives for expansion may have remained unidentified. Additionally, it is important to remember that case companies' had moved into Estonia some 3-16 years ago, and the information concerning internationalization antecedents gathered through interviews, relied strongly on the interviewees' memories.

Now that I have explained the data collection method of this study, I move on to describing and justifying the analysis method selected for the multiple case study.

### **3.5.2 Analysis and Interpretation**

'Analysing data is the heart of building theory from case studies' (Eisenhard 1989, p. 539). However, it is often also the most challenging part of the research process. As data collection and analysis are usually overlapping phases in case study research, it is necessary to start considering the appropriate data analysis method as early as during data collection (Eriksson & Kovalainen 2008; Hirsjärvi et al. 2007). In fact the best way is to intertwine data collection and data analysis right from the first interview (Ghauri 2004). It helps in theory development while the volume of data is growing and, at the same time, allows the research problem to be formulated, or even reformulated (ibid).

Thus, I decided to start evaluating appropriate analysis techniques from the very beginning of my research process.

In practice, it is difficult to separate different analysis methods. This means that, in most cases, several of them are used simultaneously (Eskola & Suoranta 1999). When choosing the data analysis method for this study, I considered several options. I decided to choose a technique called cross-case analysis which was developed specifically to analyse case studies. It is also a common method in international business research. First, I conducted a within-case analysis in order to clarify the data and to become familiar with each case as a stand-alone entity (Eisenhard 1989). In other words, I started the analysis process by analysing each individual case separately through thematic content analysis also called coding, classifying, or labelling (Eriksson & Kovalainen 2008). In thematic content analysis, a researcher seeks to organize empirical data by identify emerging themes and issues, which he or she later uses to analyse, for example, similarities and differences across cases. It should be kept in mind that a coding process always includes a degree of interpretation. After within-case analysis, I moved to cross-case analysis, which usually focuses on identifying similarities and differences across case studies and comparing these findings with the theory (ibid).

In the first phase of my analysis, I focused on analysing data on my three individual case companies. In the beginning, I read through research data several times in order to familiarize myself with the cases, and to identify emerging themes from the data. As I collected data through the thematic interview method, I already had a clue of the themes that I could identify from the data. Managers' roles, firms' characteristics and environmental issues were among the themes discussed during the interviews and therefore, they were also the themes that could be relatively easily identified from the research data. However, I also was curious to see if there were any other themes emerging from the data. I took a large amount of notes while I was reading, and based on them, I started to classify my observations and investigate linkages between the different themes.

In the second part of my analysis, I focused on analysing three separate cases with a cross-case analysis perspective. This part of the analysis is also presented in this thesis, while the within-case analysis was not included in the final paper. I decided to concentrate on three recurring themes which were already used to construct the theoretical part of this thesis as there were no other themes strongly emerging from the data. As one of the most common ways to draw conclusions from the data collected especially through multiple case studies, is to look for commonalities and differences (Marschan-Piekkari & Welch 2004), I decided to use this perspective also in my analysis. This method was also selected, as the objectives and research questions of this study require generalization of the research findings. Thus, I focused on identifying internationalization motives that are specific to a particular company and motives that all case companies share. Next, I will evaluate the reliability and validity of this research.

### **3.6 Reliability and Validity of the Study**

In general, three concepts are used as a framework when the quality of business research is evaluated. These concepts are reliability, validity, and generalizability of the study. Traditionally, reliability refers to a degree of consistency in research. A study can be considered a reliable one if repeated trials of the study end up with similar findings. Validity, in turn, refers to the extent to which research findings give an accurate description or explanation of what happened. In other words, the findings of a valid study are true or certain, and they and research evidence accurately represent the phenomenon under research. (Eriksson & Kovalainen 2008)

Both reliability and validity as concepts draw on traditions of quantitative research which means that their adequacy as evaluation criteria in qualitative research can be questioned (Hirsjärvi & Hurme 2008; Eskola & Suoranta 1998). Therefore, in qualitative research, the term ‘validity’ is often seen as aiming ‘to provide research with a guarantee that the report or description is correct’ (Eriksson & Kovalainen 2008, p.

292). Analytic induction, triangulation, and member check are commonly used as tools to evaluate this correctness of research. Triangulation in particular was used to examine the validity of this research.

The concept of triangulation assumes that there is one version of reality that can be approached from several viewpoints that increase our understanding of the phenomenon under research (Eriksson & Kovalainen 2008). In this research, triangulation of methods and data are applied. In other words, several methods and techniques of analysis are used to validate findings as described under the topic ‘Analysis and Interpretation’. Moreover, evidence of multiple empirical sources, such as interviews, company webpages, and online newspaper articles focusing on case companies’ internationalization, is used to cross-check information.

Although case studies can be evaluated using the same procedures as for other type of research, there are also a couple of evaluation criteria specific to case studies. As Eriksson and Kovalainen (2008) explain, a good case study should be complete, significant and relevant in one way or another. This study meets these requirements as it was described when the research gap of this research was defined. Motives of SME internationalization are a topic of high interest, since SMEs play an increasingly important role in the economic development of Finland. Furthermore, several sources of empirical data are used to critically evaluate the conclusions of the study.

In order to demonstrate the quality and validity of this study, I decided to evaluate it using a four-part framework introduced by Yin (2009) (See also Hirsjärvi & Hurme 2008). These four tests, explained in further detail below, are called constructed validity, internal validity, external validity and reliability. The most relevant tactics in terms of this research are discussed as follows.

Construct validity: After familiarizing with the existing literature focusing on the motives of SME internationalization, it became clear that the nature of this study

requires the use of multiple sources of data. Thus, three sources of data were used to draw a comprehensive picture of the internationalization motives of case SMEs, and to identify potential contradictions between information gathered from different sources. In each case, the data was collected via interviews, via public information available on a case company's webpage (e.g. press releases), and via earlier newspaper articles found online. During the research process, I also paid attention to ensuring that an outside observer could follow and understand the chain of evidence from the research questions to the research report and back. Thus, this study meets the test of construct validity.

Internal validity: According to Yin (2009) internal validity, as a test for judging the quality of the research, is valid only in case of explanatory and causal studies where causality between two issues is under research. In other words, the test does not meet internal validity, if the researcher incorrectly concludes, that an event was caused by factor x, while it, in reality, was caused by factor y. As this study is exploratory in nature, there is only a very limited risk to misunderstanding such causalities.

External validity: External validity refers to the generalizability of the case study findings (Hirsjärvi & Hurme 2004). Often generalizability of findings is tested using replication logic, by testing if the findings can be replicated in several cases. In this multiple-case study, case companies were first studied separately and then through cross-case study analysis using same protocols. However, this study was exploratory in nature, so I focused on analysing similarities and differences between each case without any prior expectations on the findings.

Reliability: As already stated, reliability aims at minimizing the mistakes and biases in research. The objective of the fourth test is to make sure that a later researcher can follow the same research process, conduct the same case study, and end up with the same conclusions as the first researcher, if needed. To ensure this, I collected and stored together all the data used in this research. The data is stored either in printed format



(e.g. earlier newspaper articles and press releases) or in electronic format (e.g. recorded interviews). (Yin 2009)

Generalizability of the case study findings is often mentioned as a weakness of the method, as previously discussed. However, case studies do not aim at similar generalizability as quantitative research. As Eskola and Suoranta (1998) propose, generalizations cannot be drawn from the direct findings of the case data, but from their interpretations. In this study, I focus on understanding the Finnish mechanical engineering and metals industry SMEs' internationalization antecedents to expand into Estonia by comparing and evaluating findings drawn from the three cases. Most of the results are therefore generalizable merely in this specific context, and the generalizability of this study relies on interpretations, not on the data itself. Now that I have evaluated the validity and reliability of this paper, it is finally time to move on to the empirical research of this thesis study.

#### **4. EMPIRICAL FINDINGS**

This thesis focuses on increasing our knowledge of the antecedents of SME internationalization in the Finnish context, and asks 'what are the antecedents of internationalization for Finnish mechanical engineering and metals industry SMEs?' As a part of this question, the study tries to find out 'what are the antecedents of primary importance?' and 'what are the antecedents of secondary importance?' The study also asks 'why have Finnish mechanical engineering and metals industry SMEs expanded into Estonia in particular?' The empirical part of this thesis is a multiple case study on the Finnish mechanical engineering and metals industry SMEs and their internationalization antecedents, and it aims at answering the above mentioned questions.

I begin this chapter by briefly introducing the three case companies. The companies are Makron Oy, Hyrles Oy, and, due to anonymity reasons, Company C (hereafter referred to as Makron, Hyrles and Company C). In order to fully understand SME internationalization decisions, it is also justified to briefly discuss the internationalization processes of each case company. Then, I continue to examine and describe the findings regarding the case SMEs' antecedents of internationalization. The findings are divided under three sub-headings: environmental level antecedents, firm level antecedents, and managerial level antecedents. In other words, the applied version of the model introduced by Kuivalainen et al. (2012) is used as a framework of this chapter, just like it was used as a framework in the literature review. The aim is to present the findings of this, in depth, case study both in an accurate and a clear manner.

Before moving ahead, I now briefly summarize the data collection method of this study, which was also explained in greater depth in the methodology chapter. As mentioned, interviews are the main source of data in this study. The first round of focused interviews with the representatives of the case companies was conducted face-to-face. However, the CEO of Hyrles OÜ was interviewed via phone. The interviews were semi-structured in nature, because I had listed some topics and questions to be discussed on paper, before starting the round of interviews (Appendix A). In order to clarify some details, and to make supplementary questions, I also conducted a second round of interviews with the entrepreneurs of the case companies by sending them a list of open-ended questions via e-mail.

In each case company, I interviewed the key person, or persons, who have been responsible for the company's internationalization process and / or internationalization decision. In Makron, I interviewed Pekka Leppänen, the owner and the former CEO of the company, who currently serves as Chairman of the Board. In Hyrles, I interviewed Juhani Hyry, the owner and managing director of the company. Moreover, I interviewed Urmo Sisask, the CEO of the Estonian subsidiary, Hyrles OÜ. He has been actively involved in the company's internalization process from the start, even though he did not take part in the final internationalization decision. In Company C, I interviewed both the

entrepreneur, who also serves as Chairman of the Board, and the manager, who was responsible for establishing the Estonian unit, and who is still in charge of it. Again, the manager of the Estonian unit was not involved in the final internationalization decision, which was made in an agreement with the two owners of the company. All the case companies have expanded to Estonia at different times: Makron in 1998, Hyrles in 2008 and Company C in 2011.

Secondary data, such as newspaper and online articles and other publicly available data on companies' websites, were used to complement and evaluate the data gathered via interviews.

## **4.1 Case Companies**

In this section each of the three case SMEs are introduced, and their internationalization processes are discussed individually. Themes and findings emerging from the analysis are discussed in the next chapter.

### **4.1.1 Makron Oy**

Makron Oy specializes in the manufacturing of heavy machines from the procurement of raw materials and components, to electrification and trial runs. Its customers include leading Finnish and international export companies, both in the medium and heavy machinery industry. The current Chairman of the Board, and the founder of the company, Pekka Leppänen, describes that the competitiveness of Makron is based on two advantages. Firstly, Makron is able to provide its customer with a comprehensive service concept, which enables the company to assist its customers at all stages of mechanical engineering. Among other things, the service concept includes designing of machines, mechanical and automation engineering, electrification and installation, deployment, and spare parts and maintenance service. Secondly, the company has been able to maintain its cost competitiveness, in which internationalization has played a strategic role. (18.9.2013 Leppänen; Makron Oy website)

The story of Makron dates back to 1998, when Leppänen bought the company's current engineering services from its previous owner. He had, however, founded the company under a different name (Bofo Oy) already in the previous year. In October 1998, Lepänen also established Bofo Oy's subsidiary in Tallinn, Estonia, with the name Bofo OÜ, after meeting a Finnish businessman with experience of the Estonian market. To minimize the risk, ownership of the Estonian subsidiary was divided in half between the entrepreneur and the businessman, who also received a position in the company's Board of Directors. (18.9.2013 Leppänen)

In 2004, an Austrian plant engineering group sold its machine workshop to Makron. Since then, the company headquarters has located in Hollola, the Päijänne Tavastia region. In 2007, Bofo OÜ was incorporated to Makron, and the name of the subsidiary was changed to Makron OÜ. As Leppänen explained, it was time to rebuild the corporate structure for the company. Currently, the heaviest and most complex machines for the needs of pulp mills, forest industry and energy industry, are produced in Finland, while the Estonian subsidiary focuses on slightly lighter products, such as sawing machines and plywood machines. Due to increasing competition, amongst other things, and costs in Estonia, as well as the growing demand for heavy machines and other engineering products from Central Europe, the company also started to consider other markets as destinations for further internationalization. In 2008, Makron established a machine workshop focused on sub-contracting to Grodno, Belarus. (18.9.2013 Leppänen)

Currently, Makron has around 110 employees in its Finnish plant, around 60 employees in its Tallinn plant and less than 10 employees in Belarus. The company turnover was 18,1million euros in 2012 (Kauppalehti 22.8.2014). According to the company website, Makron's business strategy is strongly based on close co-operation with its' long-term customers and networking partners.

#### **4.1.2 Hyrles Oy**

Established in Lohja, in the region of Uusimaa in 1989, Hyrles Oy provides a comprehensive selection of electronic contactor services for its Finnish and international customers. The company manages all the working phases from production planning to material sourcing and final assembly. According to Hyrles' website, this capability separates the company from many of its Finnish competitors. The company mission is to meet customer demands by providing high quality products and flexibility. (Hyrles Oy website)

In the very beginning, Hyrles focused on mechanical subcontracting. However, the company has always been committed to growth, and during the economic recession of the 1990s, it became clear that success requires also broader knowledge. In ten years, the company was able to produce finished high quality products. According to Juhani Hyry, the owner, and managing director of the company, most of the principles and business concepts he started with are still valid today. However, he highlights that growing from zero to a middle sized metal company is also partly a matter of positive coincidences. (Interview 11.9.2013)

In the early years, after the establishment of Hyrles, most of the customers were Finnish companies. However, quite soon large international customers discovered Hyrles, as well. As Hyry describes, a change took place in the Finnish mechanical engineering and metals industry in the early 2000s. It became clear that, in order to stay competitive, Hyrles had to also be present in international markets. Meeting the needs of the company's main international customers in particular, required a presence outside Finland, as well. After careful market analysis and benchmarking, Hyry finally decided to open a production unit in Rae Municipality close to Tallinn, Estonia, in 2008. From the very beginning, Urmo Sisask, the current CEO of Hyrles OÜ, also was actively involved in the company's internationalization process, first as a hired consultant, and later as the head of the Estonian unit. During the time of expansion, the economic crisis hit Estonia. However, Hyry did not see the impact of the crisis as entirely negative,

since salaries and other costs came down in the market too. As there were no production units meeting the standards of Hyrles' modern technologies available, the production building had to be built from scratch. Production in the company's Estonian subsidiary Hyrles OÜ started in spring 2009, one year after the internationalization decision. (11.9.2013 Hyry)

Currently, Hyrles employs around 200 people, of which around 60 work in the plant in Estonia. The company's turnover was around 16.9 million euros in 2013, while it was around 15.9 million euros a year before (Kauppalehti 22.5.2014). Around half of the Estonian production is imported to Finland, while the rests is sold to customers in Estonia, and other part of Europe. The growth of the company these days is achieved predominantly through the Estonian subsidiary. (11.9.2013 Hyry; 25.7.2014 Sisask)

#### **4.1.3 Company C**

Company C provides subcontractor services for a variety of industries, including electrical equipment manufacturers, the petrochemical industry and the steel industry. The company is strong in versatile processing of copper, steel and aluminium alloys and its' product range varies from busbars to special steel structures and insulators. Company C's products are made both for domestic customers and for export. The company aim is being a flexible and competent partner to its customers. Company C has two production units in Finland; both the headquarters, and the second production unit, are located in the Ostrobothnia region, on the west coast of Finland. (Company C website)

Company C was founded in 1993 by two brothers when a big international MNC outsourced its' unit producing busbars. At the beginning, the company operated from the premises, and with the machines, of its' main customer. Only later the company bought the machines to itself. In 2006, the company moved to its current premises. Since 1990s, Company C has grown relatively fast from zero to a company that

employs around 60 employees today. The turnover of Company C was around 12.6 million euros in 2012 (Kauppalehti 9.7.2013). (13.9.2013 Sales manager)

According to the owner and the current chairman of the board, Company C has exported its' products to customers around Europe from the very beginning. Nevertheless, sales have always been coordinated from Finland. In 2011, one of Company C's main customer stipulated, that it requires its' subcontractor to be present in the Estonian market, as well. Consequently, the entrepreneurs started thinking about expansion to Estonia. The following year, in 2012, the company started its' operations in Tallinn. (7.5.2014 Entrepreneur)

## **4.2 Data and Results**

After introducing the case companies and their internationalization paths, it is finally time to move on to presenting the data; thus the findings of the case study. In other words, internationalization antecedents arisen from the data are presented. The structure of this chapter follows the applied framework of Kuivalainen et al. (2012) (See Figure 3 in page 19). Thus, I will start the discussion with examining case companies' antecedents of internationalization at the environmental level. Then, I move to identifying the firm level antecedents of internationalization. Finally, the findings regarding internationalization antecedents at the managerial level are presented. In addition, each of the three sections is organized on a per-firm basis, meaning that each case company is also addressed in its own subsection. Later on, in the next chapter, I will discuss and analyse topics that were recurring in the interviews and secondary data, and compare the findings of the multiple case study to the findings of the existing literature.

### **4.2.1 Antecedents at the Environmental Level**

When analysing the data regarding the case companies in the Finnish mechanical engineering and metals industry, both home country, and host country, related

antecedents of internationalization can be identified. In the following, these findings are discussed in further detail.

#### 4.2.1.1 Makron Oy

##### Home country factors:

Makron moved into Estonia as soon as it was established because the company wanted to be closer to its customers from other parts of Europe. In other words, the peripheral and distant location of Finland pushed the company to look for foreign market opportunities. Leppänen also understood that the main customers for the company came from the international markets because of the relatively limited size of the home market. (18.9.2013 Leppänen)

However, Leppänen emphasized that it was the lack of qualified employers in the home market which made the company consider internationalization in the first place. There were not enough skilled welders available in Finland. As the entrepreneur (Interview 18.9.2013) put it; ‘When even the lightest boom takes place in Finland, we run out of welders. Young Finns do not want to weld.’

##### Host country factors:

According to Leppänen, Estonia was a clear choice of destination for Makron’s foreign expansion in the late 1990s and no other markets were seriously considered. As mentioned, Leppänen made the internationalization decision in favour of Estonia after meeting a businessman with experience in the market. Thanks to this contact, establishing the subsidiary was relatively easy. Among other things, the contact already knew of suitable premises for the company. (13.9.2013 Leppänen)

Like all the other interviewees from other case companies, also Leppänen considered Estonia’s location as logistically convenient. Even more importantly the entrepreneur considered the country as a good gate to other European markets, as well as a step



towards expansion to Russia. When other Baltic countries were discussed, Leppänen mentioned, that it is Estonia's close proximity to Finland which in general attracts Finnish companies. The other Baltic markets are dominated by, for example, Swedish companies. Additionally, cultural closeness seems to attract Finnish companies to the market, even though Leppänen was also able to identify several differences between the Estonian working culture and the Finnish one in the late 1990s. Leppänen explained that the impact of Soviet times could often still be seen in the employees' attitudes. (ibid)

As stated in the previous section, lack of qualified employees in the home market motivated Makron to expand its operations abroad in the first place. Thus, it is no wonder that Leppänen highlighted availability of skilled labour in Estonia as one of the key benefits behind his decision to expand into the country. Additionally, the company was interested in the Estonian market due to the lower labour costs there. Now that costs in Estonia have been increasing, Makron has also started to search for other markets for future expansion, as mentioned earlier. Though, Leppänen emphasized that costs cannot be the only reason for foreign expansion. (ibid)

When the discussion moved onto the tax system of Estonia, Leppänen explained that the system makes expansion of the company's operations in the country easier. However, Leppänen emphasized that the tax aspect has never been an important issue for him. He stated: 'The most important thing is to do good business and make profit, and then you can pay the taxes that are due. But, yes, if you start to plan the business only through taxation, then you forget the actual business.' (Interview 13.9.2013)

Estonia was not a member of the EU or the Euro zone when Makron moved into the market, so these issues, of course, did not play any role as antecedents of internationalization at the beginning. In fact, Leppänen noted that he cannot see any major differences in the Estonian business environment before or after Estonia's EU membership. (ibid)

#### 4.2.1.2 Hyrles Oy

##### Home country factors:

Three specific issues emerged from the interviews as home country related antecedents of internationalization in case of Hyrles. These three internationalization antecedents are; limited domestic market size, diminishing demand of subcontracting services in the Finnish mechanical engineering and metals industry, and the peripheral location of Finland. Most importantly, limited market size of Finland has forced Hyrles to seek future growth from other markets. As Hyry summed up; 'If a company wants to grow, the Nordic markets are limited. Growth requires internationalization.' (11.9.2013 Hyry)

In addition, Sisask pointed out, that Finland is, in general, seen as an expensive country for production. These prejudices make international customers to think other options when they try to find subcontractors. According to Sisask, one way to break such images is to open a production unit to a country with 'cheaper' image, and let the customers to buy products from this foreign subsidiary. (25.7.2014 Sisask)

##### Host country factors:

Based on the data, especially existing networks and growing demand for metal products in the market, as well as Estonia's location and distance from Finland have been factors of primary importance when Hyry has decided in favour of expansion into the country. Sisask explained that Estonia's relatively close culture and similar practices also make the country an easy destination for Finnish companies. Moreover, he stated that lack of bureaucracy attracts Finnish companies in the market, as well. Although the interviewees were able to also identify a number of differences between Finnish and Estonian working cultures, these differences were not seen as something insurmountable. Furthermore, both interviewees emphasized the importance of Estonia's and Tallinn's distance from the Finnish headquarters as one of the main antecedent for the company's internationalization to the country. Sisask (Interview 25.7.2014) summed up: 'You can leave Finland in the morning, travel to Tallinn, take

care of your businesses and travel back home in the evening.’ (11.9.2013 Hyry; 25.7.2014 Sisask)

However, Hyry considered other market options as well, before deciding to expand the company’s operations into Estonia. He explained that, in addition to Estonia, the company was selling products for instance to the USA, Germany and Italy during the time of expansion. However, Hyry felt those other markets were quite distant, especially when the aim was to establish a production unit abroad, and not, for example, a sales unit. The final choice regarding the target market for internationalization was between Estonia and Poland. Hyry stated that these two countries seemed to be the most suitable destinations for the company’s internationalization according to the market and benchmarking analyses conducted by Finpro. Estonia was finally chosen over Poland because of the country’s close proximity to Finland. (11.9.2013 Hyry)

When the discussion turned to the role of labour and production costs as well as tax system and financial benefits of the target market, Hyry highlighted that these factors played only a secondary role when he made the internationalization decision. Sisask, however, added that Estonia’s tax system and financial support for new investing businesses, helps companies to decide in favour of expansion into Estonia. Regarding costs as internationalization antecedents, Hyry (Interview 11.9.2013) also mentioned that he knows of several examples of companies which have looked for ‘cheap production’ and failed. He emphasized ‘It is important to remember that the competitors have the same benefits. That is something that many companies fail to recognize.’ In his opinion, Finnish people are perhaps too eager to moved production to low-cost countries, emphasizing that ‘we must follow the demand’. Thus, Hyrles has moved to Estonia because of its’ main customers, and increasing demand, not because of low costs. (11.9.2013 Hyry; 25.7.2014 Sisask)

Hyrles moved into Estonia soon after the country joined the EU. When I asked about the role of EU membership of Estonia in the internationalization decision of the company, Hyry stated that it has not affected the decision. According to Sisask,

introduction of the Euro as a currency in 2011 has made business easier when it comes to, for instance, financial reporting. This, however, happened only after the company was already present in the Estonian market. (ibid)

#### 4.2.1.3 Company C

##### Home country factors:

The current trend among the big players of the heavy industries has been towards diminishing their orders from Finland. As subcontractors, the Finnish mechanical engineering and metals SMEs, including Company C, are highly dependent on their major international customers. In case of Company C, especially, current industry changes made the entrepreneurs consider internationalization as a serious option. As the sales manager of the company (Interview 13.9.2013) highlighted: ‘We must keep alert. Otherwise our jobs move elsewhere.’ (5.7.2013 Entrepreneur; 13.9.2013 Sales manager)

An interesting finding which emerged from the interview with the entrepreneur of Company C relates to the image of Finland as an antecedent of internationalization. According to the entrepreneur, there is a misconception concerning the cost of production in Finland among, for instance, German, French and other Central European companies. Customers from these countries think that production in Finland is much more expensive than in, say, Estonia. Therefore, they prefer putting in orders to other countries. The entrepreneur, however, explained that this notion does not necessarily holds true as the prices of products made of copper are mainly determined by the international raw material prices. (5.7.2013 Entrepreneur)

##### Host country factors:

It was relatively easy for Company C to decide in favour of Estonia as a target country. However, in the very beginning of the internationalization process, the entrepreneur also made a business trip to China. As the entrepreneur explained, the idea of China as a destination for the company’s foreign subsidiary was dismissed straight after the trip,

because of the recognizable risks and distinctly different business culture of the Chinese market. (5.7.2013 Entrepreneur)

Even though existing customer networks and thus existing demand in the Estonian market, can be seen as the key antecedent for the company to move into Estonia, other factors also arose from the interviewees and other sources. Firstly, the interviewees mentioned Estonia's close proximity to Finland, and overall geographic location, as benefits that motivated the case company to consider Estonia as a target market for internationalization in the first place. Based on the data, short distance was seen as a way to decrease risk and maintain control over the subsidiary. (5.7.2013 Entrepreneur; 13.9.2013 Sales manager)

However, costs have not been a primary reason for Company C to open a subsidiary in Estonia. The interviewees, in fact, stated that many of the products made now in Estonia could be produced for a lower price in Finland due to the high raw material costs. The company has to for example, import most of the copper used by the company to the Estonian market. Regarding labour costs, the entrepreneur mentioned that the overall employee costs in Estonia are still lower than Finland, which in general attracts employers. However, these costs have been expected to increase. Moreover, the sales manager stated that there were no experienced employees available in the market, and the employee retention rate in the industry in Estonia is generally higher than in Finland. These issues, of course, add cost for the company. (ibid)

Additionally, the interviewees agreed that Estonia's tax system is more business friendly than the Finnish one, but not enough to be considered as one of the company's key internationalization antecedents. Though, Company C's entrepreneur mentioned that taxation may become a reason for companies to expand to Estonia in the future, if the Finnish corporate tax system is not developed to a more business friendly direction soon. (ibid)

As a final point, neither Estonia's EU membership, nor the introduction of the Euro as a national currency in 2011, were seen as factors which have affected Company C's

internationalization decision. The interviewees agreed that the Euro may have done business slightly easier, when thinking about accounting issues, but the change of currency was still not a reason to move into the Estonian market. (ibid)

#### 4.2.1.4 Conclusions

All in all, the results of the environmental level analysis show that internationalization antecedents of SMEs in the context of this study can be divided into two interlinked groups, namely, the antecedents of internationalization of primary importance and the antecedents of internationalization of secondary importance. Though, the boundaries of this division are somewhat vague. The home country factors of primary importance are related to the limited domestic market size, diminishing demand of subcontracting services, and the peripheral location of the home market, as well as Finland's image as an expensive country. Additionally, Estonia's location and close cultural and geographical proximity to Finland emerged from the data as host country factors of primary importance. Availability of labour resources in terms of home and host markets, in turn, divides the case companies. Surprisingly, based on the data, lower production and labour cost, tax system and other benefits for companies offered by the Estonian state seem to be factors only of secondary importance when case SMEs made internationalization decisions.

The results of the interviewee's responses and secondary sources to SMEs' antecedents of internationalization at the environmental level are presented below in the summary Table 9. In the next chapter, data and results regarding firm level antecedents of internationalization are presented.

**Table 9** Summary of the case companies' response to environmental level internationalization antecedents

Potential antecedents	Impact on internationalization decision (number of companies)	Comments	Discussed in secondary data
<b>Home country factors</b>			
Limited domestic market size	3/3	“If a company wants to grow, the Nordic markets are limited.”	yes
Peripheral location	3/3		yes
Diminishing industry demand	3/3	“We must keep alert. Otherwise our jobs move elsewhere.”	yes
Image of Finland	2/3		no
Lack of skilled labor	1/3	“When even the lightest boom takes place in Finland, we run out of welders.”	no
Business environment (costs etc.)	3/3	“...if you start to plan the business only through taxation, then you forget the actual business.”	yes
<b>Host country factors</b>			
Close geographic and cultural proximity	3/3		yes
Location	3/3	“You can leave Finland in the morning, travel to Tallinn, take care of your businesses and travel back home in the evening”	yes
Industry demand	3/3		no
Business environment (taxation, bureaucracy, etc.)	3/3	“The most important issue is to make good business and profit, and then you pay those taxes which are given. But, yes, if you start to plan the business only through taxation, then you forget the actual business.”	yes
Labour resources	1/3		no
Costs	1/3	“It is important to remember that the competitors have the same benefits.”,	yes

#### 4.2.2 Antecedents at the Firm Level

Previous theories claim that, for example resources, knowledge, capabilities, and strategies affect foreign entry decisions at the firm level, either by supporting companies' internationalization, or slowing down the process. Moreover, the impacts of firm age, size and sector on SME internationalization have been considered in earlier internationalization literature, when internationalization antecedents have been

examined. Next, the findings regarding these antecedents at the firm level are discussed in detail.

#### 4.2.2.1 Makron Oy

Compared to other case companies, Makron is an exception, as it started its' international expansion as soon as it was established in 1998. Thus, the company was still small in size when it first moved into Estonia. As already mentioned, Leppänen emphasized, that subcontracting as a strategy, required the company to be present also in markets outside of Finland. The company specifically aimed at being closer to its main customers from the Central European markets. Hence, subcontracting as a business strategy emerged from the data as one of the company's key antecedents of internationalization. (18.9.2013 Leppänen)

Regarding the strategic orientation of the company, Leppänen described, that the competitiveness of Makron is based on two advantages. Firstly, the company is able to provide customized projects and a comprehensive service concept to its customers. According to Leppänen, the company's main customers have said directly that they do not expect their subcontractors to be present all over the world. Instead, the customers expect the company to focus on providing them with the cost-effective and competitive customized service within Europe. (ibid)

Secondly, Makron has been able to maintain its cost competitiveness. Cost-effectiveness, in fact, arose from the data as one of the key motives for the company to open a production unit abroad. Estonia was still a country with lower production costs at the end of the 1990s. Since then, however, both production and labour costs in the country have been increasing. As explained by Leppänen, the company has now started to search for other more costs-effective markets for expansion. In 2008, Makron finally opened a unit in Belarus, a location which is both close to the company's major customers, and where costs of production and labour are still relatively low. (ibid)



When the resources of Makron were discussed with the interviewee, it became evident that sufficient financial resources were a must when the company expanded into foreign markets. As an example, the company was able to secure its finances for its Estonian subsidiary through the entrepreneur's existing contacts with private financial institutions and Finnvera, as described already in the previous section. (ibid)

#### 4.2.2.2 Hyrles Oy

Hyrles started a more rapid internationalization process only after it had grown from a small company to a medium sized one. Even though the company had exported products, and bought raw materials and machines from foreign markets since the 1990s, the entrepreneur had not seriously considered international expansion as an option before. However, when the size of the company and its relations to internationalization decision were discussed, Sisask did not consider bigger size as a prerequisite for internationalization. Instead, sufficient resources were seen as a more important issue for internationalization. (Hyry 11.9.2013; Sisask 25.7.2014)

When it comes to the strategy of Hyrles, Hyry stated that cost-competitiveness has, of course, played a role when the final decisions on expansion into Estonia were made. He emphasized, however, that cost-related issues were not of primary importance in the decision-making process. The company's strategy is more focused on providing small batches of high technology products for customers in heavy industries, than it is on cost-savings. (11.9.2013 Hyry)

In contrast, both interviewees highlighted that the most important motive for Hyrles to expand overseas and to Estonia in particular, was increasing demand for the company's products in the market. In other words, the company started its international expansion in the wake of its main customers having heavily increased their operations in Estonia. Hyry (Interview 11.9.2013) explained 'If one expands abroad without any contacts, it would be quite a risk. Therefore one has to find the contacts first and, in that way, be a little bit more prepared.' This notion demonstrates the importance of company's

customer networks as antecedents of internationalization. (11.9.2013 Hyry; 25.7.2014 Sisask)

Sufficient financial resources of a company arose again from the data as an issue which has to be taken into account before the final internationalization decision can be made. As Hyry (Interview 11.9.2013) highlighted; ‘If one sells production, one has to have machines and factories. It is a big investment.’ He continued: ‘In this business you always have to invest millions before you get anything out of it. If you sell a computer game, the situation is different.’ Securing sufficient finances can thus be connected to the earlier discussion on calculated risk. Quite surprisingly, however, ownership specific advantages discussed, for example, by Dunning (1988, 1993, 2000, cited in Hollenstein 2002) in the earlier internationalization literature, seemed to have only a minor role in the case company’s internationalization. Hyry (Interview 11.9.2014) highlighted that China was a market to expand to only if a company has ‘a hyper product which no one else has.’ He did not see such ‘hyper products’ as a prerequisite of internationalization in case of the Estonian market.

Lastly, even though Hyry has been active in several organizations which provide assistance for internationalizing companies (e.g. The Association of Finnish Companies in Estonia, SEKE), and these contacts have been valuable in different phases of the company’s internationalization process, such organizations should not be considered as actual antecedents for internationalization. It seems that the role of these organizations has become essential only after Hyrles had already been present in the Estonian market. Finpro, however, proved to be an exception. The entrepreneur mentioned that he ordered market analyses from Finpro right at the beginning of the internationalization process. (11.9.2013 Hyry)

#### 4.2.2.3 Company C

Both interviewees of Company C emphasized that customers’ requirements were the most important antecedent for the company’s internationalization. The interviewees explained that one of the company’s main customers made it clear that it expects its

subcontractors to be present in the Estonian market. The customer made it also clear that, some time in the future, it will decrease the number of orders from its subcontractors located in Finland. As the sales manager of Company C (Interview 13.9.2013) stated: 'We know the future trends of the main customers, and they will reduce their subcontractor services in manufacturing in Finland.' We, of course, want to continue as a supplier, so our role is to adapt.' Consequently, the company's expansion to Estonia has mainly been motivated by its willingness to adapt its services to the changing needs of its most important customers, including several large heavy industry MNCs. Losing one of the large customers would be a severe setback for any of the companies in the industry. (5.7.2013 Entrepreneur; 13.9.2013 Sales manager)

Additionally, both interviewees from Company C stressed, that lower costs were not a reason for the company's expansion to Estonia. As stated, the reason was a call from one of the main customers. Since Company C is specialized in products made of copper, labour costs are less than 10 percent of the price of the final product, as explained by the interviewees. The entrepreneur (Interview 7.5.2014) highlighted: 'It is the London Stock Exchange which determines 90 percent of the price of the final product.' Thus, there are no big differences in the cost of the final products between Finland and Estonia. To conclude, cost-savings as a strategic orientation does not explain Company C's internationalization.

When it comes to the resources as antecedents of internationalization, the sales manager explained, that the company understood its resource and knowledge constraints. Thanks to a careful planning process, which included market analysis and meetings with country experts, financial risks to the company were decreased. Furthermore, the company decided to limit its risks relating to internationalization by establishing a subsidiary into rented premises, and by renting the machines needed in Estonia from its Finnish parent company. (5.7.2013 Entrepreneur; 13.9.2013 Sales manager)

The roles of company size and age as antecedents of internationalization in case of Company C were not discussed during the interviews.

#### 4.2.2.4 Conclusions

At the firm level, especially networks with current customers, as well as contacts with people with expertise on the target market, seem to defend their places as key antecedents of internationalization in the Finnish mechanical engineering and metals industry. The importance of customer networks is evident as they are a guarantee of demand for case companies' products in the Estonian market. Furthermore, the roles of networks seem to be interlinked to the other internationalization antecedents which emerged from the data. Networks have helped the case companies to limit risks relating to internationalization, and overcome the drawbacks of foreignness and newness.

Additionally, the data shows that sufficient financial resources can be considered as an antecedent of internationalization. In fact, all the case companies emphasized financial resources as one of the most important prerequisites for the company's successful internationalization. However, one should be careful when making conclusions from the data, regarding the importance of size and age, or strategic orientation of the company, when antecedents for internationalization are examined. Controversial outcomes regarding these issues emerged from the data.

The results of the interviewee's responses and secondary sources to SMEs' antecedents of internationalization at the firm level are presented below in the summary Table 10. Next, the data and results regarding the managerial level antecedents of internationalization are discussed.

**Table 10** Summary of the case companies' response to firm level internationalization antecedents

Potential antecedents	Impact on internationalization decision (number of companies)	Comments	Discussed in secondary data
Networks	3/3	“If one expands abroad without any contacts, it would be quite a risk. Therefore one has to find the contacts first and, in that way, be a little bit more prepared.”	yes
Subcontracting as a strategy	3/3	“We know the future trends of the main customers, and they will reduce their subcontractor services in manufacturing in Finland.”	yes
Strategic orientation: - cost-orientation - market-seeking orientation	1/3 2/3	“A major customer has grown fast in Estonia, so there is demand for us”, “It is the London Stock Exchange which determines 90 percent of the price of the final product.”	yes
Financial resources	3/3	“If one sells production, one has to have machines and factories. It is a big investment.”, “In this business you always have to invest millions before you get anything out of it.”	yes

#### 4.2.3 Antecedents at the Managerial Level

All the interviewees emphasized the importance of the entrepreneur's role when asked about the people who were responsible for making the final internationalization decision in the company. Not surprisingly, besides internationalization decisions, entrepreneurs seemed to be responsible for all the major decisions made in the case SMEs. In Makron and Hylres, the entrepreneur made the internationalization decision alone, whereas in Company C, the internationalization decision was made in agreement with the two main owners.

Next, the findings regarding the managerial level antecedents of internationalization are discussed in more detail. Especially the interviews with entrepreneurs of the case companies were of great interests in terms of this section.

#### 4.2.3.1 Makron Oy

The entrepreneur of Makron, Pekka Leppänen, explained that he made a long and international career in large Finnish heavy industry MNCs before starting his own business. After he graduated as a Master's of Science in Engineering from the University of Oulu, Faculty of Technology, Leppänen worked for 10 years in one of the leading Finnish heavy industry companies. During that time he worked and lived both in Brazil and Canada for long periods of time, and was responsible for buying and establishing his employer's international operations. After returning to Finland, he started as a head of a unit in another Finnish heavy industry company. Later, Leppänen served as CEO of the company; again traveling around the world 80-100 days per year. (18.9.2013 Leppänen)

Leppänen emphasized that he had always enjoyed a strong entrepreneurial drive. Therefore, when an intriguing opportunity occurred, he decided to start his own business in 1997. Leppänen also explained that it was clear from the very beginning that the company was to aim at international markets. Years spent abroad, in particular, encouraged him to consider internationalization as a serious option for his newly established company. As Leppänen (Interview 18.9.2013) put it 'It felt natural to me to expand abroad in the early stages of the company's establishment.' The entrepreneur also noted that, since the beginning, he had thought that providing subcontractor services for international mechanical engineering and metals industry customers requires a presence in foreign markets, where the company could be closer to the customers. (ibid)

However, at the beginning, Leppänen was not sure where to open the company's foreign subsidiary. By coincidence, he met a businessman with considerable experience and expertise on the Estonian market. After discussions with him, it became clear that Estonia was the most prominent market for Makron to start its international expansion. Through his existing contacts with private financing institutions and Finnvera, Leppänen was also able to secure the financing of the internationalization. Thus, it

seems that the entrepreneur's personal contacts have played an important role in the company's internationalization process. (18.9.2013 Leppänen)

Even though Leppänen highlighted his commitment to internationalization several times during the interview, he decided to give the lead of the actual internationalization process to his new business partner, who had more experience of operating in the target market. Leppänen mentioned that the only contact he had had with Estonia prior to the company's expansion to the country, was with the Estonian welders, who had worked for Makron in Finland. The entrepreneur also noted that, in order to limit the risks related to internationalization, the Estonian subsidiary was established with 50-50 ownership with the new business partner. (ibid)

#### 4.2.3.2 Hyrles Oy

The owner and managing director of Hyrles, Juhani Hyry, explained that he had always wanted to do something of his own, challenge himself and be able to influence the decisions making and, therefore he ended up establishing his own company at a young age. Even though Hyrles was established as a small scale project in a garage, the entrepreneur's aim was to grow the company relatively quickly. The entrepreneurs' educational background was somewhat surprising, as he had no technical education, but both a high school diploma, and a business degree from vocational school. However, thanks to modern technologies, the interviewee mentioned that technical background is not anymore a must in the industry; rather it is becoming more and more important to understand the business side. (11.9.2014 Hyry)

Even though Hyry was strongly committed to the growth of the business, he did not consider expansion into foreign markets before the turn of the new millennium. Neither had he any considerable personal contact networks abroad prior to that. As Hyry explained, a significant change took place in the Finnish mechanical engineering and metals industry in the early 2000s; it became clear that the company must be present also in the international markets in order to grow and stay competitive. Hyry started to analyse different options after he recognized this need. (ibid)

The entrepreneur's ability to take calculated risk arose from the data as one of the most important benefits for the company's internationalization. Hyry stressed several times the importance of careful planning before the actual expansion could be started. He explained that, without a careful planning process, the future of the whole company might have been at stake. This is related to the limited resources and market knowledge of the SMEs as discussed later in this paper. As Hyry (Interview 11.9.2013) put it 'One must take risks, but not oversized risks.'

In the actual internationalization process, Hyry decided to take a leading role. As he (Interview 11.9.2013) explained: 'SMEs with less than 250 employees, and we have 200, do not have additional resources. You have everything at stake, so you cannot afford to fail'. To show his commitment to the project, Hyry took charge of the internationalization project right from the very beginning. Among other things, he searched for suitable target markets for expansion (he visited, for example, Estonia and Poland), built contact networks, negotiated with current and potential customers in Estonia, and was responsible for recruiting the top management of the Tallinn unit. In the latest case, personal contacts build during the initial stages of internationalization became especially valuable. Even today the local manager of Tallinn unit is directly responsible to the entrepreneur. In fact, Urmo Sisask (Interview 25.7.2014), the CEO of the Estonian unit described that Hyry has been 'the engine' of successful internationalization.

Finally, language skills and their importance in the internationalization process of the company were briefly discussed in the interviews. Hyry highlighted that all the official business negotiations in Estonia were conducted in English, so lack of Estonian skills was never a stumbling block for him as a negotiator. However, for example Sisask is able to speak Finnish which makes communication between the two managers more fluent. Hyry also emphasized that he would be interested in learning Estonian and several other language had he time. Now he is able to communicate in English, Swedish and German. Besides language skills, Hyry also mentioned that his curiosity towards different cultures has been an advantage when he negotiated with potential new business



partners and local officials. Such knowledge usually makes a good impression on his local counterparts. (11.9.2013 Hyry; 25.7.2014 Sisask)

#### 4.2.3.3 Company C

In Company C, I interviewed the owner and former CEO of the company, who made the internationalization decision in consensus with the other owner of the company. The entrepreneur explained that he had been interested in becoming an entrepreneur for a long period of time. When he was offered an opportunity to become one, it did not take more than a weekend to decide, whether to leave his permanent job in one of the leading international heavy industry companies, and start his own business. Prior to this decision, the interviewee had worked for the same employer more than twenty years. At the very beginning, the interviewee also invited his brother, who was a newly graduate engineer from a University of Applied Sciences, to join him in the company. The interviewee himself had a technical background as he had attended a vocational school, training in engineering. (7.5.2014 Entrepreneur)

The entrepreneur mentioned that neither of the owners had prior international contacts before the company expanded to Estonia. However, the company had been exporting products and importing raw materials and machines for years. The interviewee emphasized that language skills were not necessary during the exporting stage, because the communication was done mainly through numbers. However, when it became clear that the company's competitiveness required internationalization, language skills became an issue. The entrepreneur of Company C mentioned that lack of English skills was one of the reasons for him to move aside as CEO, and to appoint a new one with English skills, as well as to put the company's sales manager in charge of the Estonian subsidiary. Moreover, besides English skills, the sales manager already had Estonian friends, so prior contacts in the target market. (ibid)

When asked about characteristics that made him an entrepreneur in favour of international expansion, he underlined two factors. Firstly, risk-tolerance of the entrepreneur arose as a benefit which supported the internationalization decision. As the

entrepreneur (Interview 7.5.2014) put it ‘One can make mistakes, but if one is afraid of them, one should not become an entrepreneur.’ Nevertheless, he also emphasized, that successful internationalization requires careful market analysis and planning. Secondly, he mentioned that he has been able to see the big picture, which has prevented him from spend too much time on unnecessary details. (7.5.2014 Entrepreneur)

Finally, the entrepreneurs decided to move into Estonia with carefully calculated investments. Among other things, they decided to rent existing premises for the subsidiary company, and not to build new ones. This decision can be seen as the entrepreneurs’ way of reducing risks relating to SME internationalization. (ibid)

#### 4.2.3.4 Conclusions

All in all, entrepreneurs should be regarded an integral part of the research when SMEs’ antecedents of internationalization are studied in the context of the Finnish mechanical engineering and metals product industry SMEs. This is evident because the entrepreneurs have been responsible for all the major decisions made in the case companies, including internationalization decisions. In case of Makron, prior international experiences and global mindset of an entrepreneur seem to explain the company’s internationalization especially well. These factors seem to be tightly linked to each other. However, in cases of Hyrles and Company C, the entrepreneurs had no prior international experience, or personal contacts abroad, and therefore, it is necessary to evaluate the role of other managerial level issues as potential antecedents of internationalization. In fact, entrepreneur commitment to successful internationalization, and entrepreneurial orientation (especially ability to take calculated risks), arouse from the data as factors which seem to explain all case companies’ internationalization. To conclude, internationalization antecedents at the managerial level seem to be strongly connected to entrepreneurs’ prior experiences and, on the other hand, their personalities and characteristics. This is the case at least in the context of the Finnish mechanical engineering and metals industry SMEs.

Again, the results of the interviewees' responses and secondary sources regarding case SMEs' antecedents of internationalization at the managerial level are presented below in the summary Table 11.

**Table 11** Summary of the case companies' response to managerial level internationalization antecedents

Potential antecedents	Impact on internationalization decision (number of companies)	Comments	Discovered in secondary data
International experience	1/3	"I have lived abroad, and I bought the Northern American branch to my employer, and Asian unit. Therefore, it was natural to expand abroad."	yes
Entrepreneurial spirit and orientation	3/3	"One must take risks, but not oversized risks", "One can make mistakes, but if one is afraid of them, one should not become an entrepreneur."	yes
Commitment to internationalization	3/3	"He has been the engine for the company's internationalization"	yes
Global mindset	1/3	"It felt natural to me to expand abroad in the early stages of the company's establishment."	no

Now that I have presented the data and results of the three case studies, it is time to move on to discussing and analysing the findings emerged from the interviews, and other data sources, in greater depth. This will be done in the next chapter.

## **5. DISCUSSION & ANALYSIS**

The previous chapter focused on presenting the data and findings of the study. In this chapter, I consider and analyse these findings in more detail, in the light of the research questions of this thesis, using cross-case analysis method. The chapter is divided into three sections: the first section is dedicated to answering the first research question (What are the antecedents of internationalization for Finnish mechanical engineering and metals industry SMEs) and the two sub-questions (What are the antecedents of primary importance? What are the antecedents of secondary importance?). The second section aims at answering the second research question of the study (Why have Finnish mechanical engineering and metals industry SMEs expanded into Estonia in particular?). The third section concludes the discussion and analysis.

### **5.1 Cross-case Analysis**

In order to answer to the main research question of this thesis, it is necessary to discuss and analyse the similarities and differences which emerged from the empirical data and findings. The cross-case analysis method was chosen for this purpose, as explained in the methodology part. With the help of this approach, firm specific antecedents for internationalization can be separated from those antecedents for internationalization which seem to be common to all the case companies. The approach therefore helps to build somewhat generalized answers to the main research questions. In addition, it is justified to compare the findings of the empirical research with the findings of the earlier literature on SMEs internationalization antecedents presented in the literature review of this study. At some degree, this helps to test the generalizability of the results. It is also interesting to evaluate the applicability of existing theories and models in the context of this study.

I have decided to divide this chapter further into three sections. Firstly, I conduct an environmental level analysis on case companies' antecedent of internationalization.

Then, I focus on analysing firm level antecedents of internationalization. Finally, I conduct a cross-case analysis on managerial level factors as antecedents of internationalization. For the purposes of facilitating the cross-case analysis, I also have created Table 12 addressing internationalization antecedents that emerged from the individual cases. I hope it makes the analysis more clear and coherent.

**Table 12** Internationalization antecedent of the case companies

Antecedent of Internationalization	Makron Oy	Hyrles Oy	Company C
<b>MANAGERIAL LEVEL</b>			
International experience	x	-	-
Entrepreneurial spirit and orientation	x	x	x
Commitment	x	x	x
Global mindset	x	-	-
Age and educational background			
<b>FIRM LEVEL</b>			
Networks	x	x	x
Subcontracting as a strategy	x	x	x
Strategic orientation			
-costs orientation	x	-	-
-market-seeking	-	x	x
Financial resources	x	x	x
Size, age	-	-	-

**Table 12** Internationalization antecedent of the case companies (continued)

ENVIRONMENTAL LEVEL			
<b>Home country factors</b>			
Limited domestic market size	x	x	x
Peripheral location	x	x	x
Diminishing industry demand	-	x	x
Image of Finland	-	x	x
Lack of skilled labor	x	-	-
Business environment (costs, taxation etc.)	x	x	x
<b>Host country factors</b>			
Close geographic and cultural proximity	x	x	x
Location	x	x	x
Industry demand	x	x	x
Business environment (taxation, bureaucracy, etc.)	x	x	x
Labor resources	x	-	-
Costs	x	-	-

### 5.1.1 Environmental Level Antecedents

In earlier research, external factors affecting internationalization decisions are often divided into home country factors, which act as a push force for internationalization and host country factors, which act as a pull force for internationalization (e.g. Luostarinen 1994). As also mentioned in the literature review of this study, Bellak and Luostarinen (1994) have noticed that especially push factors have usually a significant role as internationalization antecedents in small and open economies like Finland. When external factors are considered in the context of the Finnish mechanical engineering and metals industry SMEs, this notion seems to hold true.

As discussed both in the literature review, as well as in the findings of this study, limited domestic market size and the peripheral location of the home market push

Finnish companies abroad. All the case companies agreed on that. Additionally, in the case of the Finnish mechanical engineering and metals industry, the diminishing demand of subcontractor services, in particular, emerged from all interviews, and secondary data, as an issue which has forced the case companies to look for further growth abroad. Makron's entrepreneur saw the need to be present in the foreign markets as early as in the 1990s, while Hyrles and Company C recognized the same need in the late 2000s. Hence, home country factors identified above seem to be quite general in nature, and not, for example, tied to a specific time of internationalization. To conclude, these antecedents and pressures can also be expected to affect other Finnish mechanical engineering and metals industry SMEs internationalization.

As can be seen, most of the home country related antecedents of internationalization seem to be common to all the case companies. However, only Makron's Leppänen highlighted that lack of qualified welders in Finland forced him to look for other markets in the first place. This finding is in line with the findings by Alho et al. (2004), who noticed that, in an increasing extent, Finnish companies struggle with finding skilled labour in the home market, and therefore they are forced to move into other markets. Lack of skilled labour did not, however, arouse as a reason to go abroad when Hyrles and Company C's antecedents of internationalization were analysed. On the contrary, both of them have faced difficulties in finding skilled labour in Estonia. Therefore, lack of qualified labour resources can be seen either as a company specific antecedent of internationalization in the mechanical engineering and metals industry or as an antecedent which is closely linked to the timing of internationalization, as Makron moved abroad in 1998 and the study by Alho et al. (2012) was conducted in the early 2000s.

Quite surprisingly, in my opinion, the interviewees did not see tightening Finnish corporate tax or increasing costs as important antecedent for internationalization, although, as an example, a recent study by The Confederation of Finnish Industries (2012) listed these factors as issues pushing Finnish companies into foreign markets; rather, the findings of this case study show that the case companies considered lower

costs of the target market as a benefit, but not as a decisive factor when they made internationalization decisions.

Another surprising factor which emerged from the data as a home country related antecedent for internationalization concerns the image of Finland as a country with high costs and expansive prices. Both the entrepreneur of Company C and Sisask (Hyrles OÜ) explained that many customers assume the products of the Finnish mechanical engineering and metals industry to be more expensive, than the products of the same industry in Estonia, and therefore, end up ordering products from Estonia or other markets with 'cheaper' image. As Company C's entrepreneur explained, in reality, the cost of products made in Finland is not necessarily more expensive, as raw material prices are the same regardless of the production country. To conclude, Finland's image as a more expensive country in terms of the mechanical engineering and metals industry seems to be linked to diminishing demand for the industry products in Finland.

I now move on to discuss host country factors as antecedents of internationalization. I will keep the discussion on quite a general level. Estonia, and factors which guided case companies to choose this specific market, are discussed in further detail later in the section, which aims at answering the second research question.

The findings of the multiple case study demonstrate that especially three issues, in general, dictate the choice of target market. These factors are location, geographic and psychic distance and existing demand in the target market. Among other things, when the case companies considered internationalization, they seemed to look for a target country which was culturally and geographically close to Finland, which had logistically convenient location, and which could be seen as a gate to other foreign markets. These same factors also emerged from the literature review of this study as factors which have pulled Finnish SME, in general, into foreign markets. However, even though lower costs of labour and production were noted as internationalization antecedents in most of the earlier literature, the multiple case study shows somewhat different results. Surprisingly, it shows that costs seem play only a secondary role as



antecedent of internationalization in the Finnish mechanical engineering and metals industry, while several other issues discussed in this chapter can be recognized as primary internationalization antecedents.

All in all, the findings of the discussion and analysis regarding environmental level antecedents of internationalization for the Finnish mechanical engineering and metals industry SMEs, is summarized in the following Figure 7. Those antecedents of internationalization, which arose as internationalization antecedents of primary importance, are highlighted. The other issues, listed in the figure, are antecedents of internationalization of secondary importance, or factors, which require further research.

The figure is complemented with firm level and managerial level antecedents of internationalization later in this paper. In the next chapter, firm level analysis on internationalization antecedents is conducted.

**Figure 7** Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization at the environmental level

Environmental Level Antecedents	Firm Level Antecedents	Managerial Level Antecedents
<ul style="list-style-type: none"> <li>• Home country factors <ul style="list-style-type: none"> <li>• <b>Limited domestic market size</b></li> <li>• <b>Peripheral location</b></li> <li>• <b>Diminishing industry demand</b></li> <li>• <b>Image of Finland</b></li> </ul> </li> <li>• Lack of skilled labor</li> <li>• Increasing costs</li> <li>• Finnish taxation system</li> <li>• Host country factors <ul style="list-style-type: none"> <li>• <b>Close geographic and cultural proximity</b></li> <li>• <b>Logically convenient location</b></li> <li>• <b>Access to other markets</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• ?</li> </ul>	<ul style="list-style-type: none"> <li>• ?</li> </ul>

### **5.1.2 Firm Level Antecedents**

One of the most important findings of this study concerns networks and their role as antecedents of internationalization. In fact, it seems that certain networks should be recognized even as key antecedents of internationalization in the context of the Finnish mechanical engineering and metals industry SMEs. All the interviewees agreed that networks have played a crucial role in their companies' internationalization process.

Besides networks, several other firm level factors also emerged from the data as important antecedents of internationalization for the case SMEs, and therefore, they deserve further consideration, as well. Among other things, subcontracting as company strategy and sufficient financial resources arose from all interviews, and other data sources, as factors which have made the case companies decide in favour of international expansion. On the other hand, some controversial findings emerged from the data, as well. These findings were related to, for example, size, age and, strategic orientation of the company as antecedents of internationalization. Surprisingly, the findings also showed that company level knowledge on the target market is not a necessity when making internationalization decisions if the entrepreneur himself has the information needed, or if the information can be acquired through the company's networks. Next, I will consider each of the above mentioned factors in more depth from the case companies' point of view.

I start the discussion with taking a look at networks as an antecedent of internationalization. As mentioned, previous studies highlight the role of networks in the case of SME internationalization. As an example, Meyer and Skak (2002) argue that prior contacts with future partners are often the most important motive for choosing the new market. In many cases, foreign expansion of SMEs seems to be more based on reaction to opportunities that have occurred through personal contacts and other business networks, than on strategic planning. The previous notion seems to hold true also in the context of this study.

In particular, customer networks and networks with people with prior experience on the target market emerged from the data as the most important networking types for the case companies' internationalization. Therefore, these networks can also be considered as internationalization antecedents of primary importance in the context of the Finnish mechanical engineering and metals industry SMEs. As stated, Makron moved abroad just after it was established, because the entrepreneur recognized the need to be nearer to the company's international customers, while Hyrles and Company C moved into Estonia because of their main customers' requests and increasing demand for the mechanical engineering and metals industry products in the target market. A current trend among the case companies' major customers in the heavy industries seemed to be to diminish their orders from their subcontractors located in Finland, and increase the orders in Estonia.

Besides customer networks, the findings also show that new and existing contacts with people with experience from the target market have played an important role in the case companies internationalization process. For example, both Hyrles and Company C hired consultants and ordered market analyses from Finpro before making the final internationalization decisions. These same people work for the companies in Estonia still today.

In fact, networks should also be considered when analysing firm resources, knowledge and liabilities as antecedents of internationalization. As stated by Musteen et al. (2010), networks can help companies to overcome resource constraints and capability limitations. Based on the findings, for example, networks seem to have helped the case companies to overcome both their knowledge constraints and issues of foreignness and newness regarding the target market. It seems, therefore, that some of the resources which were considered as key antecedents of internationalization in the literature review of this study can also be attained through existing, or new, networks. Consequently, some factors, which can be considered as antecedents of internationalization in the contexts of the Finnish mechanical engineering and metals industry SMEs can also be

attained through networks. These factors include sufficient resources and target market related knowledge.

Due to the importance of networks as antecedent of internationalization particularly in case of Hyrles and Company C, the networking approach seems to provide the most appropriate explanation for these two companies internationalization. However, due to the limited length of this paper, I am unable to provide a more extensive discussion on the topic in this study, but can suggest it as a topic for further studies. The network approach to internationalization is also especially relevant in the context of this study since earlier literature agrees that network-based strategies are particularly common and even vital, when companies enter new markets in the CEEC. In contrast, the traditional stage model perspective to SME internationalization seems to provide too limited a view to the discussion regarding antecedents of internationalization.

The next issue, which emerged from the data as an internationalization antecedent for all the case companies, is subcontracting as a business strategy. Since all the case companies operate as subcontractors for larger MNCs in the heavy industry, they must be ready to adapt their operations to the changing needs and requirements of their key customers. Company C is an especially good example of such behaviour since it expanded into Estonia only after its' main customer expressed that it requires its subcontractors to be present in that market, as well.

In contrast, the results also show that the case companies' strategic orientations vary relatively clearly. Despite of this, all of them have finally done the internationalization decision. Regarding strategic orientations, only the entrepreneur of Makron expressed that a costs-saving strategy has lead the company to look for new target markets; whereas the interviewees from Hyrles and Company C emphasized that costs of the target market have played only a secondary role, when they have made internationalization decisions. Both companies explained that their strategic orientation lies more on providing high-technology products for their customers than on cost savings. Thus, their strategic orientation can be described as market-seeking rather than

cost-oriented. To conclude, no particular strategic orientation seems to explain internationalization in the industry under research.

Lastly, as mentioned, the data gave mixed results regarding the role of size and age of a company as antecedents of internationalization. Both Makron and Hyrles expanded abroad only after they had grown to middle-sized companies and had twenty years' experience of operating in Finland. Makron, in contrast, expanded abroad as a newly established company. In the earlier literature, Hollenstein (2005), in turn, has argued that the size of the company plays a significant role in international activities of particularly manufacturing companies. It can be, therefore, concluded that company size and its role as an antecedent of internationalization in the context of the Finnish mechanical engineering and metals industry SMEs is a topic for further research.

To conclude the findings of the discussion and analysis regarding firm level antecedents of internationalization in the context of this study, I have summarized them in the following Figure 8. Again, those antecedents of internationalization which arose as internationalization antecedents of primary importance are highlighted. The other issues listed in the figure are antecedents of internationalization of secondary importance, or factors, which require further research. In the next section, the analysis will finally focus on the managerial level antecedents of internationalization.

**Figure 8** Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization at the firm level



### **5.1.3 Managerial Level Antecedents**

The main differences between the case companies emerged when their possible managerial level antecedents of internationalization were studied. This is clearly related to the varied backgrounds of the entrepreneurs. As emphasized by earlier literature, the entrepreneur is usually the main decision-maker in the company, and therefore, it is especially interesting and important to consider his, or her, role in the SME's internationalization process also in terms of this study.

Generally speaking, those capabilities and characteristics of an entrepreneur, which push him, or her, to decide in favour of international expansion, can be considered as internationalization antecedents. Based on this research, however, managerial level antecedents seem to explain internationalization decisions especially well only in case of Makron; whereas certain firm level and environmental level factors stand out as the most important antecedents of internationalization for Hyrles and Company C, as discussed later. Thus, I first take a look at Makron's antecedents of internationalization, and then point out two managerial level factors which seem to positively affect also Hyrles and Company C's internationalization decisions.

The first issue which arose from the data as an antecedent of internationalization for Makron, and should therefore be discussed in further detail, is the considerable international experience of an entrepreneur. Mr. Leppänen had, for example, been responsible for establishing foreign operations for one of his former employers during the years he lived and worked abroad. Such experiences made him see internationalization as an inevitable step for his own company's competitiveness and to understand the risks and possibilities related it. Because of his experiences, it was relatively easy for Leppänen to make the final internationalization decision.

In fact, the findings of the earlier research also emphasize the significance of international experience of an entrepreneur as an antecedent of internationalization. As an example, Korsakiene and Tvaronaviciea (2011) have argued that there is a clear link between the entrepreneur's characteristics and internationalization strategies, and that

accumulated knowledge and varied experience of entrepreneurs specifically support the SME entrepreneurs to make internationalization decisions. Since these findings emerged by studying Norwegian manufacturing SMEs, it may not be too daring to say that Finnish SMEs in the mechanical engineering and metals industry seem to share similar internationalization antecedents with other Nordic manufacturing SMEs, at least when it comes to the entrepreneurs' capabilities, characteristics, and experiences.

The second issue which seems to explain Makron's international expansion is the global mindset of the entrepreneur. As Miocevic and Crnajak-Karanovic (2012) presented in the literature review of this study, global mindset consists of openness and awareness of differences among markets, and helps a manager identify those markets which are strategically important to SMEs. The definition seems to suit especially well the mindset of Leppänen. However, the above mentioned researchers also emphasize that global mindset cannot alone explain SMEs' internationalization. This seems to hold true also in the case of Makron. The entrepreneur's global mindset seems to be strongly linked to the entrepreneur's prior international experiences. Therefore, global mindset can be considered as an internationalization antecedent of secondary importance. It has helped Makron's entrepreneur to make the final internationalization decision, but has not been the decisive factor.

As McDouglass and Oviatt (2002) have defined, international entrepreneurship can be seen as 'a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in an organization.' This behaviour seems to be characteristic to Leppänen, and therefore this theoretical approach could provide a fruitful starting point for further analysis when Makron's internationalization antecedents are studied.

When it comes to analysing Hyrles and Company C's managerial level antecedents of internationalization, it is evident that international experience of an entrepreneur cannot explain their internationalization. The entrepreneurs of these two companies had relatively little prior international experience. Entrepreneurial orientation (especially

risk-taking ability), as well as entrepreneurs' strong commitment to internationalization, in turn, emerged from the data as factors which have made these entrepreneurs decide in favour of internationalization. Again, the findings of this study are in line with the findings of the earlier literature. As mentioned, for example the study by Rajshekhar and Todd (2011) showed that the management's overall commitment to internationalization correlates positively with a firms' degree of internationalization. The researchers noticed that managers and owners of SMEs who fostered a positive attitude towards expanding internationally among employees and thought outside the domestic market, were more likely to expand their SMEs abroad. Even though these notions were made by studying Indian SMEs, the same findings arose from the analysis regarding the Finnish mechanical engineering and metals industry SMEs. It can therefore be concluded, that the entrepreneur's commitment to internationalization and entrepreneurial orientation, can explain the internationalization of SMEs regardless of the industry and country of origin.

The most controversial results between the case studies and earlier literature are related to the role of entrepreneurs' language skills as an antecedent of internationalization. Even though earlier research states that the entrepreneur's good language skills facilitate SME internationalization, none of the case companies' entrepreneurs mentioned language skills as an important reason, or as a stumbling block, for the company's internationalization. In fact, the two entrepreneurs' of Company C decided to expand their company abroad although they lacked foreign language skills. Based on the findings, it is also hard to say if CEO attributes, such as age and educational background of the entrepreneur, can be considered as internationalization antecedents in the context of the Finnish mechanical engineering and metals industry SMEs. All the interviewees, for instance, came from different educational backgrounds, and had been middle aged when their companies first moved into foreign markets. Wneg-Tsung et al. (2007), however, have stated that certain CEO attributes, such as a younger age and a high educational level of the entrepreneur, correlate positively with the firm's level of internationalization.



The findings of the discussion and analysis regarding managerial level antecedents of internationalization in the context of this study are summarized in the following Figure 9. Those antecedents of internationalization, which seemed to have been of primary importance in case companies' internationalization, are highlighted. The antecedents of internationalization, which are clearly Estonia specific, are discussed in the next chapter, and are later incorporated to this figure

**Figure 9** Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization at the managerial level

Environmental Level Antecedents	Firm Level Antecedents	Managerial Level Antecedents
<ul style="list-style-type: none"> <li>• ?</li> </ul>	<ul style="list-style-type: none"> <li>• ?</li> </ul>	<ul style="list-style-type: none"> <li>• International experience</li> <li>• Commitment</li> <li>• Entrepreneurial orientation (risk-taking ability!)</li> <li>• Global mindset</li> </ul>

## 5.2 Why Estonia?

It is justified to answer the second research question, and the second objective of this study, in a separate chapter, and not incorporate the discussion into the cross-case analysis conducted above, since several antecedents of internationalization, which emerged from the findings of the multiple case study, are clearly linked to Estonia as a target market. In other words, they cannot be directly generalized to other target markets. When these target market related antecedents of internationalization are analysed, especially those factors, which I have discussed previously under host country factors, are of interest. However, the findings of the multiple case study show that certain managerial level and firm level issues can also explain the case companies' expansion into Estonia. Most importantly, both entrepreneurs' and companies' networks, and other contacts in the target market have played a significant role when

internationalization decisions have been made. Again, the cross-case analysis approach is used, when analysing the Finnish mechanical engineering and metals SMEs' internationalization antecedents that are linked to Estonia as a target market.

The existing literature emphasises several factors which motivate SMEs to expand especially into Central and Eastern European countries in the first place. Among other things, close geographic, cultural and historical proximity, as well as minor psychic distance, were mentioned as factors providing favourable preconditions for the SMEs' entry into CEEC. In fact, all of these issues were mentioned also by the interviewees as factors that have affected case companies' internationalization to Estonia. Closeness of the Estonian market has been especially important issue for the case companies, as all of them aimed at opening a production unit, which required considerable investments. Thanks to close geographic and psychic distance, the companies were able to limit the risk related to internationalization.

All interviewees also agreed that Estonia's location has played an important role as an antecedent of internationalization when the final internationalization decisions regarding the target country were made. The case companies saw Estonia's location as logistically convenient, because the country is located between Finland and the Central European markets. Furthermore, Makron's entrepreneur mentioned that Estonia can also be seen as a gate to the Russian market.

Earlier literature underlines also that SMEs, in general, become interested in Central and Eastern European countries as potential target markets for their international operations, because of existing networks in the region. As stated in the literature review of this study, both Musteen et al. (2010) and Mayer and Skak (2002), for example, have noticed that networking is a central success factor when SMEs expand particularly to the CEE countries. Among other things, Mayer and Skak ended up with this conclusion after examining Austrian and Danish SMEs' expansion to CEEC. These countries are similar to Finland in terms of size of population, as well as business structure, with large

numbers of SMEs and therefore, at some degree, the findings can be expected to be valid also in the context of Finnish SMEs.

In fact, existing customer networks in Estonia arose above the other antecedents of internationalization as the case companies' motive to expand particularly into Estonia. In case of Hyrles and Company C, expansion to Estonia was closely tied to the main customers' moves. Both companies recognized the increasing demand for the mechanical engineering and metals industry products in the Estonian market, and therefore, they followed their major customers there. In case of Makron the expansion into Estonia, in particular, was more a result of the entrepreneur's personal contacts than customer networks, as he decided in favour of expansion into Estonia after meeting a business partner with experience from this specific market.

Besides location, distance and networks several other issues related to Estonia as a target country also arose as antecedents of internationalization from the existing SME internationalization literature. In the literature review, especially lower labour and production costs in the market, as well as Estonia's investment-friendly corporate tax system, have been highlighted as factors that pull Finnish companies to Estonia, in particular. These also are issues which have been widely discussed in recent Finnish newspaper articles.

Quite surprisingly, however, none of the case companies highlighted production and labour costs as their main antecedents of internationalization, even though these factors clearly played a supporting role, when the companies made the final internationalization decision. In fact, lower cost level of the Estonian market emerged from the data only as a factor which has helped the companies make the final internationalization decision in favour of expansion into Estonia, in particular. There seem to be two reasons for that. Firstly, the interviewees stressed that the costs of the mechanical engineering and metals industry are largely tied to international raw material prices, and therefore costs savings brought by lower labour and production costs do not play as important role in the overall costs of the company as they may do in some other industry. Secondly, all the

interviewees highlighted that a strategy which focuses solely on minimizing costs, is not sustainable in the industry. On the contrary, the interviewees stated that other business related issues should be more important when the company makes internationalization decisions. Hence, rather than the costs of the target market, the market-seeking behaviour of the case companies, and growing demand in Estonia, seem to explain the case companies' interest towards Estonia as a target country. This is the case especially for Hyrles and Company C. However, as explained by the entrepreneur of Makron, the company is now seeking for further internationalization, and also lower costs from other markets in the CEEC, because the costs in Estonia have increased gradually during the past years. To conclude, it seems that lower costs alone can no longer explain the expansion of the Finnish mechanical engineering and metals industry SMEs into Estonia, but there are also other antecedents of internationalization, such as growing demand in the market, behind their international expansion.

When it comes to Estonia's investment-friendly corporate tax system and other financial benefits for the investing companies provided by the Estonian state, it is clear that the case companies have taken these issues into account when making final internationalization decisions, as well. However, the interviewees emphasized that these issues have not been the main reason for choosing Estonia as a target country; rather these factors have helped the interviewees to make the final decision regarding expansion into the country just like it was the case with Estonia's lower cost. It must also be noted that the Estonian tax system has changed after 1998, when Makron decided to open a subsidiary to Estonia.

Compared to the existing literature, the multiple case study gave also controversial results, when labour availability, and the role of Estonia's European Union membership, and introduction of the Euro, were discussed as potential antecedents of internationalization. The interviewees, both from Hyrles and Company C, said that European Union membership has had only a minor role as an internationalization antecedent. In case of Makron, Estonia was not even a member of the European Union

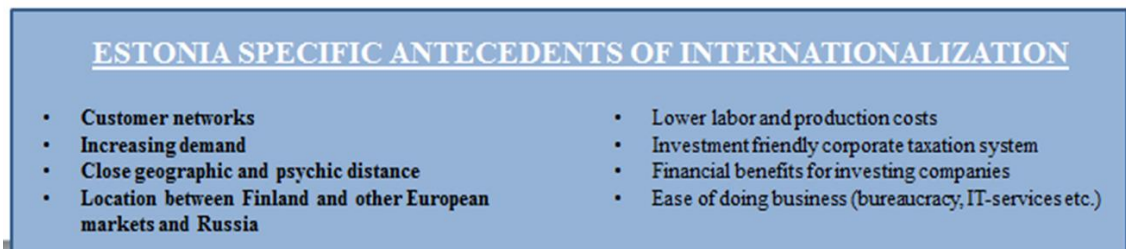
when the company expanded into the market, and therefore other issues should be considered as its motives to expand into the country.

Interestingly, only Makron made the internationalization decision based on the labour availability in the Estonian market, even though the most recent studies note that it is one of the key issues attracting Finnish companies into Estonia. As the interviewees explained, finding skilled labour for the mechanical engineering and metals industry is becoming more and more difficult in Estonia. Both Hyrles and Company C were aware of this challenge before their expansion into the country, and therefore, labour availability cannot be considered as their internationalization antecedent. Thus, generally speaking, labour availability can no longer explain the case industry SMEs' expansion into Estonia.

To conclude, the case companies' views regarding those antecedents of internationalization which seem to be specific to Estonia as a target market for internationalization are surprisingly coherent. Especially Estonia's favourable logistical location and short geographical distance from Finland made the companies' consider the country as a serious option for internationalization. Additionally, existing customer networks and growing demand in the market emerged from the data as the main internationalization antecedents, and reasons to expand into the country. Lower costs and Estonia's corporate tax system, in turn, arose from the data as antecedents of internationalization of secondary importance. Thus the findings somewhat disagree with the findings of the earlier literature which has emphasized lower costs and Estonia's tax system as factors which especially attract SMEs into the market. Finally, the issues which arose from the data, as differences between the case companies' internationalization antecedents in terms of Estonia as a target market, seemed to be linked to the timing of internationalization. As an example, labour availability can no longer explain the Finnish mechanical engineering and metals industry SMEs internationalization into the country.

The findings of this chapter are summarized in the Figure below 10. Those antecedents of internationalization, which aroused as internationalization antecedents of primary importance, are highlighted. Other issues listed in the picture are antecedents of internationalization of secondary importance. In the next section, I will briefly present the conclusions from the cross-case analyses.

**Figure 10** Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization to expand particularly into Estonia



### 5.3 Conclusions from the Cross-case Analyses

The cross-case analysis was set out to examine and compare the three case companies' internationalization antecedents and, based on this analysis, to build generalizations regarding the Finnish mechanical engineering and metals industry SMEs antecedents of internationalization. Additionally, those antecedents of internationalization, which seemed to be tied to Estonia as a target market, were considered. In this chapter, I briefly conclude the main findings of the analysis with the help of the Figure 11 below.

Even though the discussion and analysis revealed several differences between case companies' antecedents of internationalization, even more similarities emerged from the analysis. With some caution, these findings can be expected to be generalizable also to other Finnish mechanical engineering and metals industry SMEs, which have expanded abroad, especially into Estonia, or to those SMEs in the industry, which consider international expansion in the near future. As mentioned, the case companies shared

specifically similar views on those antecedents for internationalization, which are related to Estonia as a target market.

It also seems that the findings of the multiple case study support the findings of the earlier literature for the most part. In other words, several factors which were already discussed in the literature review of this study arose from the case study as antecedents of internationalization for the Finnish mechanical engineering and metals industry SMEs, as well.

At the environmental level, particularly home country related push factors seemed to have a central role as internationalization antecedents. Among other things, location and relatively limited market size of Finland, as well as diminishing industry demand, arose from the data of the multiple case study as internationalization antecedents of primary importance for the Finnish mechanical engineering and metals industry SMEs. These findings are in line with the findings of the earlier research. Interestingly, however, also Finland's image as an expensive country seems to push companies to expand into countries with lower costs.

Regarding host country factors, close geographic and cultural proximity, and location of the target country proved to be issues, which make SMEs in the mechanical engineering and metals industry consider internationalization as a serious option for the company's growth. However, due to the nature of the industry, costs of the target market can be seen only as antecedents of internationalization of secondary importance for the mechanical engineering and metals industry SMEs. This result somewhat challenges the views of the earlier literature

When antecedents of internationalization were analysed at the firm level, customer networks, contacts with people with prior experience in the target market, and subcontracting as a strategy seem to defend their places as the most important antecedents for internationalization. Therefore, the networking approach to internationalization seems to provide the best theoretical background for understanding the Finnish mechanical engineering and metals industry SMEs internationalization, in

general. However, findings of the multiple case study regarding the impact of strategic orientation on case SMEs internationalization were somewhat controversial, and therefore, should be examined further. Despite the fact that earlier literature emphasizes costs as one of the key antecedents of internationalization in terms of Finnish SMEs, the findings of the empirical study did not fully support this view. Two out of three case companies expanded into Estonia because of their major customers, and increasing demand in the market, not because of costs. The cost factor, therefore, seems to play only a secondary role as an antecedent of internationalization in the context of the Finnish mechanical engineering and metals industry SMEs.

The findings of the managerial level analysis, in particular, are in line with the findings of the earlier literature. In the context of the Finnish mechanical engineering and metals industry SMEs, the entrepreneur's prior international experience and commitment to the company's internationalization process, as well as the entrepreneur's entrepreneurial orientation (especially ability to take calculated risks) emerged from the analysis as the most influential antecedents of internationalization. Global mindset of an entrepreneur, in turn, arose from the multiple case study as an internationalization antecedent of secondary importance.

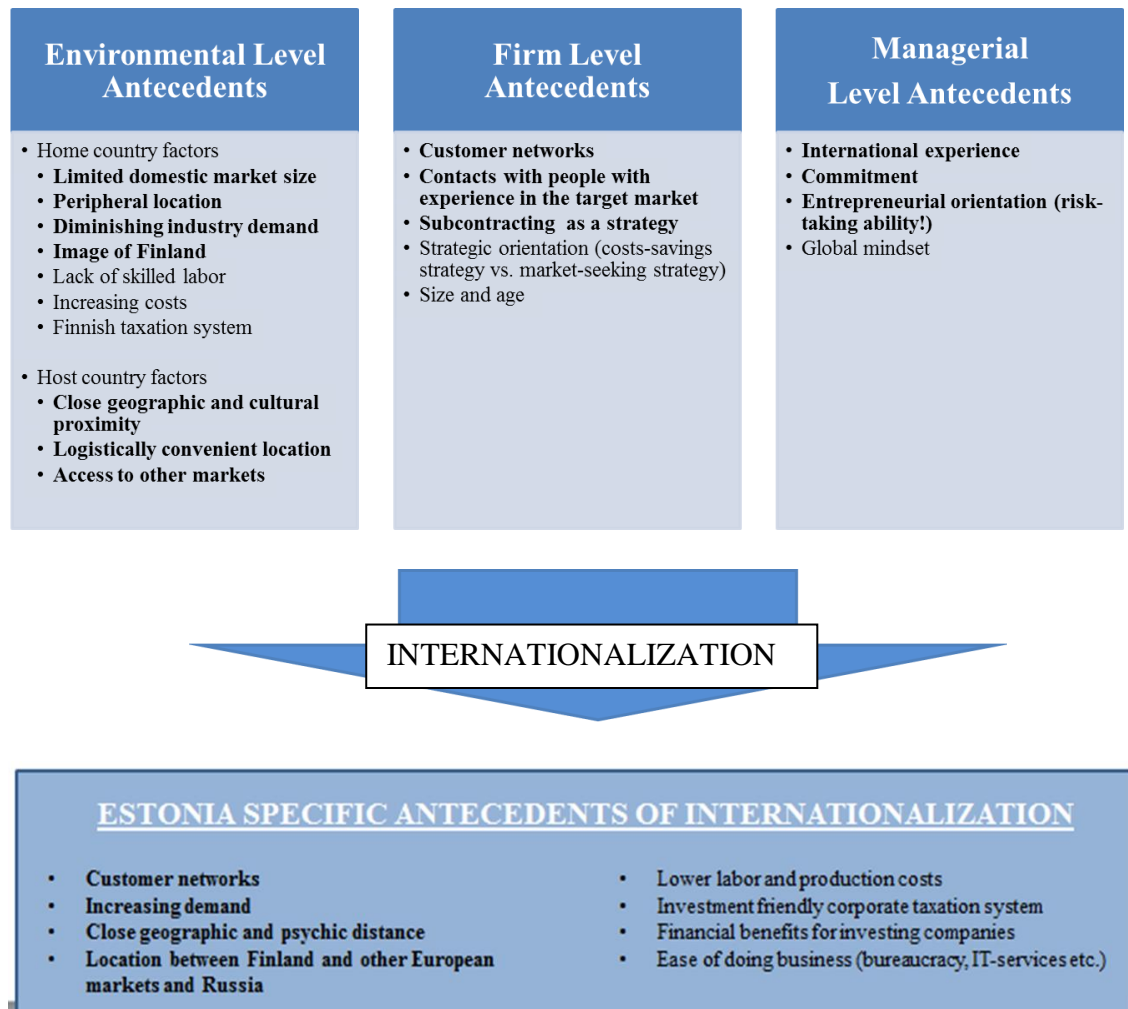
In order to answer to the second objective of this thesis, I also analysed those antecedents of internationalization, which seemed to be clearly tied to Estonia as a target country. Again, the findings of the multiple case study supported the findings of the earlier studies, but only partly. The main differences between the findings emerged, when the roles of Estonia's corporate tax system, costs of production and financial benefits offered by the Estonian government, were evaluated as antecedents or motives of internationalization in the context of the Finnish mechanical engineering and metals industry SMEs. Based on the results of the empirical research, the case companies considered the above mentioned factors as issues which made them to make the final internationalization decision in favour of Estonia. However, they were not seen as a decisive factor when making the internationalization decision. Existing customer networks and increasing demand for the industry products in the Estonian market, as



well as Estonia's convenient location near Finland, in turn, defend their place as primary internationalization antecedents. In fact, it seems that those factors which arose from the multiple case study as antecedents of internationalization of primary importance are also factors, which have helped the case companies to limit their risks regarding internationalization.

Hence, based on the cross-case analysis, it seems that antecedents of internationalization in the context of the Finnish mechanical engineering and metals industry can be divided roughly into two interlinked groups at all three levels of analysis. The first group is formed by antecedents of internationalization, which seem to be of primary importance when Finnish SMEs in the focus industry decide about internationalization. Respectively, the second group is formed by factors which seem to be of secondary importance, and which help case companies to make the final internationalization decision. The boundaries of these two groups, of course, are flexible. Dividing the internationalization antecedents emerged from the multiple case study in this way, answers also the sub-questions of the first research question of this thesis study. In the following figure, I try to summarize the answers to the main research questions and the sub-questions as clearly and logically as possible. In the figure, antecedents of internationalization of primary importance are highlighted.

**Figure 11** Internationalization antecedents of Finnish mechanical engineering and metals industry SMEs in case of Estonia as a target market



## 6. CONCLUSIONS AND IMPLICATIONS

This chapter summarizes the main results of the thesis, and draws together the findings related to the research questions and objectives presented in the first chapter. The final chapter also discusses the theoretical and managerial implications of the study and provides suggestions for future research. Additionally, the limitations of the study are outlined in the very end of this thesis.

## **6.1 Summary**

The purpose of this thesis was twofold. The first objective was to identify and understand the antecedents of SME internationalization in the context of the Finnish mechanical engineering and metals industry SMEs. The second objective of the study was to examine why these SMEs decide to expand their operations particularly into Estonia. To acquaint the reader with the wider theoretical context of the research, and to capture the objectives of the study, I started this paper by reviewing relevant theories and concepts presented in the existing international business literature. After that, the Finnish mechanical engineering and metals industry SMEs' antecedents of internationalization, as well as antecedents related to Estonia as a target country, were investigated through the multiple case study, which included interviews with owners and key executives of the industry SMEs.

I decided to use a framework by Kuivalainen et al. (2012) to classify and structure my thesis. According to the researchers, antecedents of internationalization can be classified and analysed at three levels (environmental level, firm level, and managerial level). The framework worked well for this thesis because, in the analysis and discussion, it became clear that analysis at all three levels is necessary in order to fully understand the Finnish mechanical engineering and metals industry SMEs' internationalization antecedents.

The theoretical framework of this study was formed by taking a look at the earlier literature regarding antecedents of SMEs internationalization. Existing models as well as major internationalization theories, such as stage model, network approach, and international entrepreneurship approach, were discussed in the light of the research questions and objectives of the study. Since there was a relatively limited amount of data regarding Finnish SMEs' internationalization to Estonia available, a broader range of earlier literature was discussed in the literature review. By studying earlier literature, I developed understanding of the possible internationalization antecedents in the context of SMEs.

The empirical research of this thesis was a multiple case study of three case companies. The data from the companies was collected through semi-structured thematic interviews. Altogether five interviews were conducted. Four interviews were conducted face-to face and one interview via phone. Moreover, a second round of interviews was conducted via e-mail in order to receive answers to some supplementary and corrective questions. To complement the data, I also used secondary sources, such as newspaper articles and company websites. The interviewees were the case companies' entrepreneurs and other key executives who have been strategically involved in the companies' internationalization process.

The findings of the multiple case study supported the findings of the earlier literature for the most part, but also differences between the findings emerged. The environmental level analysis showed that both host country related and home country related factors influence in the Finnish mechanical engineering and metals industry SMEs internationalization decisions. At the firm level, in turn, networks and subcontracting as a strategy arose from the data as the main antecedents for the Finnish mechanical engineering and metals industry SMEs to move abroad, which also supports the views of the earlier literature. The main differences emerged from the firm level analysis concerned, for example, the role of strategic orientation and size of the company as antecedents of internationalization. These factors would deserve further analysis, which, however, was not possible in the limited scope of this study. Finally, at the managerial level, the main findings of the multiple case study were in line with the findings of the earlier research

Regarding internationalization antecedents, which are linked to Estonia as a target country, same factors were discussed both in the existing literature and in the empirical research. Customer networks and increasing demand for the mechanical engineering and metals industry products arose from the multiple case study as the most important factors for Finnish industry SMEs to expand into Estonia in particular. Costs of the target market and the Estonian corporate tax system, however, were seen only as factors

of secondary importance when SMEs in the focus industry made internationalization decisions. These findings somewhat challenge the views of the earlier literature.

Based on the analysis conducted, it also became clear that antecedents for internationalization in the context of the Finnish mechanical engineering and metals industry SMEs can be divided into two groups; antecedents of internationalization of primary importance and antecedents of internationalization of secondary importance. A more detailed division of the findings, thus answers to the research questions of this thesis, can be found in the summary Figure 11 on page 118.

## **6.2 Theoretical and Managerial Implications**

The theoretical implications of this thesis are twofold. Firstly, I have evaluated the applicability of existing theories for describing and explaining internationalization antecedents of SMEs. Theories and models selected to the literature review were limited to the main theories and approaches of international business research, which take a stance on possible antecedent of internationalization, as well as to earlier literature, which focuses specifically on SME internationalization in the CEE region. As I was not able to find a single and overall fitting model for the purposes of this thesis, it seemed to be profitable to include several perspectives and earlier theories to the discussion. However, the framework by Kuivalainen et al. (2012) was used in organizing the thesis. The findings also indicate that the earlier literature used in this study provided good grounds for explaining and understanding the antecedents of internationalization in the context of the Finnish mechanical engineering and metals industry SMEs. Secondly, even though this study did not create or test a substantial new theory, it provides plenty of subjects for future studies related to SMEs internationalization both in contexts of Finland and Estonia, as well as in the more specific context of the Finnish mechanical engineering and metals industry.

The managerial implications of this thesis are the following. Firstly, this study shows that it is important for SMEs' owner/ entrepreneur to be aware of the antecedents of

internationalization because they help to evaluate the company's ability to expand abroad. Secondly, even though the purpose of this study was not to evaluate which antecedents of internationalization lead to successful internationalization, some hints from the case studies can be identified. As an example, the interviewees agreed that successful internationalization requires careful planning process and commitment from the management. It became also evident that existing networks in the target country are a must for successful internationalization. Additionally, the study shows that costs cannot anymore be the main reason for internationalization, at least not in case of Estonia. Thus, the third managerial implication concerns Estonia as a target market. The study shows that Estonia is a prominent target market for Finnish metal product and metals industry SMEs because of several factors discussed in the paper (location, distance, etc.). However, the study also pointed out several challenges which must be taken into consideration when a company expands into the Estonian market. As mentioned, for example, production costs are gradually increasing and labour availability is decreasing in the market.

### **6.3 Limitations of the study**

After conducting the study, it can be said that the limitations of this thesis concern particularly the scope of the empirical research and the generalizability of the results. Firstly, five interviews conducted in three case companies is a relatively limited sample even though three of the interviewees also answered some additional questions via e-mail during the second round of interviews. Also, all the case companies have moved into Estonia several years ago, so the information gathered through the interviews relied heavily on the interviewees' memories from the time of expansion. In order to increase the reliability of the results, more interviews in each case company should have been conducted. However, only a limited number of potential interviewees in each case company were available. This is often the case when studying SMEs.

The second limitation concerns the generalizability of the findings. This study was conducted in the context of the Finnish mechanical engineering and metals industry SMEs and Estonia as a target market for their internationalization, and therefore, the results of the study are mainly generalizable only within this framework. However, as stated in Discussion & Analysis, some of the Finnish SMEs' antecedents of internationalization seem to be common to SMEs from other Nordic countries and small and open economies. Thus, with some caution, the findings may be transferable to SMEs from these economies, as well.

The third limitation regarding the study is related to its qualitative nature. This study cannot give explicit answers to the research questions, as quantitative studies generally can, but a wider explanation on the topic. However, it is important to note, that conducting a quantitative study in the context of this study was not possible due to the sources available. A larger pool of interviews, in larger number of companies, may have provided more explicit answers to the questions under research. Nevertheless, finding more companies, which had met the criteria set for the case companies and described in the methodology part, was quite challenging.

Finally, potential biases in the findings must also be taken into account. As the researcher planned, conducted and interpreted the interviews herself, the chance of biases obviously increased. However, secondary sources were tentatively analysed prior to interviews, which reduced the risk of biases to some extent. Additionally, the bias regarding interviewees' responses was already taken into account when conducting the interviews, as explained in the methodology chapter.

#### **6.4 Suggestions for Future Research**

As previously stated in the introductory chapter of this study, SME internationalization research is still in its infancy, and therefore, it provides fruitful grounds for future studies. This study contributes to the discussion by studying SMEs' antecedents of internationalization in the context of the Finnish mechanical engineering and metals

industry, and Estonia as a target market for expansion. Along the way, multiple issues sparked a need for further research.

One important line of research based on the findings would be to further analyses the general trends of the Finnish mechanical engineering and metals industry, as well as the developments of Estonian and Finnish business environments, and their influence on SME internationalization, in more depth. This approach would also help to understand how antecedents of internationalization are related to the timing of internationalization. However, this perspective of research would also require a larger number of interviews and case companies.

The framework by Kuivalainen et al. (2012) selected for the purposes of this research provides a relatively flexible starting point for further studies. Among other things, each level of analysis (managerial, firm and environmental) would alone provide grounds for more extensive studies also within the context of Finnish SMEs.

Another interesting line for future research would be to examine SMEs internationalization antecedents within some other industries and compare the findings with the findings of this study. This approach would provide, for example, a way to determine the industry specific antecedents. Similarly, it would be interesting to study and compare antecedents of SME internationalization in terms of different target markets.

Finally, the results of this thesis study provide a setting for either validation or expansion of the research. As mentioned, the number of interviews and other data sources of this thesis study was relatively limited, and therefore, a study with a larger number of interviewees and case companies could verify the reliability of the findings.



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## **APPENDIX**

### **A. INTERVIEW TEMPLATE WITH EXAMPLE QUESTIONS**

#### **BASIC INFORMATION: INTERVIEWEE**

- name of the interviewee
- position in the company
- education
- work history in general and in the firm
- previous international experience

#### **BASIC INFORMATION: FIRM**

- When and why the company was founded?
- history

- sector
- main products
- In which countries does the company operate?
- number of employees

#### INTERNATIONALIZATION OF THE FIRM

- What kind of international experience the company had prior to expansion into Estonia?
- Does the company have an internationalization strategy? What kind?
- When did the company start its internationalization? Why?
- How did the company collect information regarding potential target markets?
- What were the other market consider? Why these?
- How did the example of other Finnish companies affect the internationalization decision?

#### WHY ESTONIA?

- When and why the company started considering Estonia as a potential target market?
- When and why the final internationalization decision was made in favor of Estonia?
- What were the most important reasons for choosing Estonia as the target market?
- What kind of expectation did the company have in term of the Estonian market?
- What was the role of the company's prior international experience when it decided to expand into Estonia?
- Why did the company choose to expand into Estonia and not to the other markets considered?
- What was the chosen entry mode? Why?
- What kind of networks did the company have in the Estonian market prior to the internationalization decision? What was the role of existing networks in the internationalization process?

- What kind of help did the company receive during the internationalization process? (Trade organizations, Chamber of Commerce etc.)

#### THE ROLE OF THE ENTREPRENEUR

- What was the entrepreneur's role in the internationalization process?
- What were the most important skills for the entrepreneur when thinking about the company's internationalization?
- Who were the key persons in the company's internationalization? What were their roles?

#### AFTER INTERNATIONALIZATION

- Has the Estonian market met the expectations set during the internationalization process?
- What have been the main challenges?

#### EU, EURO AND THE ECONOMIC CRISIS

- How has Estonia's EU membership and the membership of the Euro zone affected the internationalization decision?
- How has the economic crisis of 2008 affected internationalization decision?

#### THE CURRENT SITUATION

- Would you still expand into Estonia? Why?
- How has the Estonian business environment changed during the years the company has been present in the market?
- What is the current situation for the company in Estonia?
- How has the internationalization to Estonia affected the company?
- Why would you recommend Estonia, in particular, as a target country for internationalization?

#### FUTURE

- How does the future of the company in the Estonian market look like?
- What kind of business possibilities does the Estonian market currently provide in terms of mechanical engineering and metals industry? How about in the future?

- How do you see the future internationalization of the company?