# Relationships and the Internationalisation of Finnish Small and Medium-sized Companies

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SMEs have always played a significant role in providing possibilities for employment, innovations, money, variety, self-fulfilment, independence, etc. (e.g. Birch, 1979; Keeble, Potter and Storey, 1990). Not much is known about the international activities of these companies as they do not receive the same kind of attention as large companies do. International activities are, however, not believed to be so common in the small and mid-sized companies as they often seem to make business, survive and grow on the local domestic market. Their fairly limited resources, e.g. financial, managerial, human and information (Buckley, 1989) seem to restrict any moves towards international markets.

The literature on the internationalisation of the firm is based on the observation that the crossing of national boundaries makes a difference in terms of how firms grow (Buckley and Ghauri, 1993). In other words, there are features which seem to be unique to internationalisation, and, therefore, it is of interest to study how companies grow through international expansion. Most empirical work has focused on the question of the operation (market entry) mode used abroad. A large number of studies have analysed the sequence of modes chosen by companies to service foreign markets. A second dimension of internationalisation which has received much attention is the sequence of markets entered. The question has typically been analysed in terms of the cultural (Kogut and Singh, 1988), or 'psychic' distance (Wiedersheim-Paul, 1972) between the home country and the markets entered by the internationalising firm.

Earlier studies concerning internationalisation from a Nordic perspective are mainly based on so-called stage models or on the Uppsala internationalisation model (e.g.

Johanson and Vahlne, 1977, 1990; Johanson and Wiedersheim-Paul, 1975; Luostarinen and Welch, 1990). The stage models have been criticised in different respect, e.g. for being too deterministic (Johanson and Vahlne, 1990), for lacking leapfrogging (Hedlund and Kvarneland, 1993; Bell, 1995), for not including acquisition (Forsgren, 1990), and for putting too much emphasis on psychic distance (Melin, 1992). Christensen and Lindmark (1993) further claim that the present models of the internationalisation process have one thing in common and that is that they are strongly orientated towards problems faced by large-sized firms as well as the managerial process of internationalisation. According to Smith, Gannon, Grimm and Mitchell (1988) the management practices of small firms differ from larger firms. Moreover, these models do not explicitly take into account neither the importance of the network context in which companies are embedded, nor the social network. When it comes to empirical studies Miesenbock (1988) states that the present studies suffer from inconsistencies and that a conclusive theory of small business internationalisation is far from being available.

## The Study and the Conducted Empirical Survey

This study incorporates the impact of the domestic business network on small and mid-sized companies' internationalisation activities. Focus is consequently laid on, e.g. the firms' access to resources, their international operational mode and the firms' social relationships. The theoretical frame, which is used to construct a questionnaire, has been derived from the interaction and network approach. Simultaneously we account for a mail survey conducted among SMEs in the Vasa province in Finland. Finally, we close by discussing the implications from the empirical findings and the need for further research.

SMEs in the Vasa province constitute the population of interest in the empirical study. The database which contained a reliable address register and from which the firms were selected was obtained from the National Statistic Office of Finland. The 312 firms in the sample which were randomly selected were all located in the particular region, had maximum 250 employees and were classified as manufacturing firms. Before the questionnaire was sent out it was tested among a small sample of the SMEs. The pre-test showed that the questionnaire was too long and some questions concerning import activities were removed. Some remaining questions were slightly modified and clarified. The questionnaire and the cover letter were written in Swedish and Finnish in order to correspond to the respondent's language. In order to increase the response rate a follow-up letter was sent to all the selected SMEs one week after the first questionnaire had been sent out. The 312 mail questionnaires were sent out in May, 1995 and 128 companies responded resulting in a response rate of 41 per cent. All returned questionnaires were usable. However, 6 companies were excluded as their number of employees exceeded our sample criteria of 250 employees. The final response rate of the empirical study was thus 39 per cent.

## Background Information on the SMEs

The average age of the firms was 33

years, one-fifth of the first were fifty years or older. The eldest firm was founded in 1872 and the youngest in 1993.

The line of business varied and reflect the typical industries for the region of the Vasa province (e.g. paper/forest, chemical, textile (Ojaharju and Heinonen, 1989)); metal/machinery (47 companies), paper (30 companies), service firms (12 companies), textiles (11 companies), bakery (7 companies), leather (6 companies), and others (6 companies). Two-thirds of the firms state that they manufacture and sell goods and 10 per cent state that they sell services. However, about one-fifth say that they sell both tangibles and intangibles, indicating that they regard their products as complex offerings despite that they were manufacturing firms.

The turnover of the firms shows that the vast majority of them have a turnover of less than $6.9[1] million which makes them small firms, according to the EU classification. The average turnover was $7.6 million, and varied between $420,000 and 37.5 millions. In line with the EU classification, 96 firms were classified as small-sized and the rest, i.e. 26 firms, as mid-sized. The average turnover for the small-sized firms was $2.5 millions and for the mid-sized firms $12.8 millions. The number of employees together with the turnover reflect the size of the firms. The average number of employees in the small-sized firms was 26. In the mid-sized firms the average number of employees was 67. The number of employees varied from 4 to 205 displaying a fairly wide spread in the size of the firms. The number of firms in the Vasa province which can be characterised as small-sized firms is 24,783, medium-sized firms 293, and 42 large firms. The region is known as an entrepreneurial region and is located on the western coast of Finland. The number of inhabitants is about 430,000.

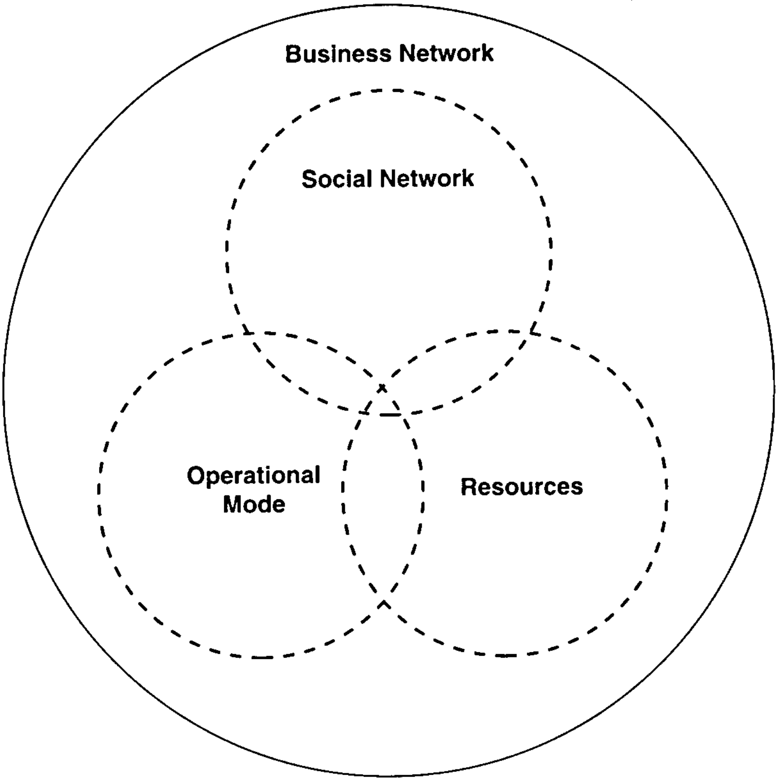
89 firms out of the studied 122 firms (73 per cent) stated that they were involved in international trade. The share of the turnover which is sold abroad among all the firms varied between 1 and 100 per cent, with an average of slightly above 40 per cent. Of the small-sized firms the average per cent of the turnover exported was 37 per cent, and for the mid-sized firms 48 per cent. An interesting notion is that the export ratio is higher for firms registered as using Swedish as their internal language than for firms using Finnish as their internal language; the average per centages were 47 and 37 respectively. The difference of 10 per cent is not significant when using a t-test.

## Internationalisation from a Network Perspective

One way to analyse a firm's internationalisation is to use the network approach as the starting point since this approach provides an appropriate framework for understanding firms as embedded actors in business networks (e.g. Johanson and Mattsson, 1990; Christensen and Lindmark, 1993; Sharma and Keller, 1993; Blankenburg, 1995; Ghauri and Holstius, 1996). It is through established long-term relationships that firms gain access to as well as mobilise external resources. These resources are vital because many SMEs lack resources needed for their international business (Buckley, 1989; Lindmark, 1996).

The individuals in the firm will have a substantial impact on the internationalisation as close social relationships with other individuals impact the interest of going abroad.

## Figure 1
### Factors Affecting a Focal Actor's Internationalisation




Social relationships have been pointed out as extremely important for entrepreneurs (e.g. Aldrich and Zimmer, 1986; Greve, 1985; Johannisson, 1996) and in international business (Björkman and Kock, 1995). The social network is a sub-network within the business network, thus effecting and being effected by the gained resources and the chosen operational mode. In the same way the chosen operational mode can affect and be affected by the present business network as well as the social network.

International activities in small-sized firms often starts with markets which are close in a cultural and/or geographical respect (e.g. Caughey and Chetty, 1994). The stage model focuses on how firms through four successive stages increase their commitments in foreign markets (e.g. Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). Figure 1 depicts the four factors influencing a small and mid-sized firm's internationalisation, i.e. the firm's resources, business network and social network, and the operational mode. In the following sections each of them will be discussed. All factors are very closely integrated and a separation is made only in order to facilitate the discussion. Lindmark (1996) has stressed simililar factors in his research on internationalisation of small-sized firms using local environment, internal resources, external resources and the business leader's skills.

**Business Network**

The internationalisation process can be considered an entrepreneurial process (Imai and Baba, 1989) as the entrepreneur condenses information through the present business network and mobilises new network partners. The importance of the present business network is essential as it is from the present relations that a SME gains many of the needed resources. Coviello and Munro (1995) claim that foreign market entry selection and entry initiatives of small firms are impacted by formal relationships which facilitate and influence international growth patterns. Christensen and Lindmark (1993) state that the present literature does not take into consideration that SMEs are positioned in industrial markets consisting of tight relationships between the actors that function as an international value chain.

The internationalisation of a small firm will thus vary with the location of the firm in this international value chain. A firm may be forced to become international if it wants to defend or maintain its position in a particular business network but also if other firms in the same business network establish relationships to counterparts abroad. Especially many service firms are forced to follow if their major customers enter foreign business networks, e.g. insurance, accounting and advertising companies (Erramilli and Rao, 1990; Edvardsson, Edvinsson and Nyström, 1992; Hellman, 1996). On the other hand, the fact the customers are international or connected to a particular country can also be a means of getting access to international markets. Many SMEs are often dependent on co-operation with other firms, e.g. in order to get external resources, access to customers, product ideas and information (Malecki and Veldhoen, 1993). Business alliances thus can be an effective means of penetrating foreign markets (Buckley and Casson, 1988; Welch, 1992).

Suppliers generally take part indirectly in international competition although they regard themselves domestic and embedded in domestic business networks. Larger global buyers, e.g. ABB, Wartsila, are embedded in business networks without borders. To these kinds of companies it does not matter whether they buy a specific component from a Finnish, German or Polish supplier since they have supplier relationships in all these countries. A Finnish supplier must therefore be prepared to face international competition in a wide sense. In other words, the Finnish sub-supplier is indirectly effected by the buyer's global business network.

**Table 1**
**The Respondents' Co-operative Relationships**

| | *Sub-supplier to a company involved in international business* | | | |
|---|---|---|---|---|
| | *Yes* | *No* | *N/A* | *Total* |
| In Finland | 45 | 49 | 28 | 122 |
| Abroad | 18 | 56 | 48 | 122 |

In the study 45 of the 122 respondents stated that they act as a subcontractor to a Finnsih company which in turn operates in the international markets. 49 SMEs stated that they were not involved in similar relationships. Some of the respondents mentioned Wartsila and ABB as their main buyers. 18 firms were subcontractors to companies abroad, while 56 were not. 11 of the respondents stated that they were subcontractors to both Finnish and foreign buyers. The percentage of the turnover that they deliver to these buyers varied between 0.1 per cent and 100 per cent, the average was 26 per cent.

38 of the firms were engaged in some sort of co-operation with other firms in the region and some of the firms were engaged in more than one co-operative relationship. Despite this the firms did not draw advantage of this possibility to any greater extent. In the cases where they co-operated it was with two or more other firms in order, e.g. to save costs, to be able to offer a broader range of products, to attract new customers and to pool resources. Several of the companies had been involved in the co-operation for a couple of years. However, drawbacks with the co-operative arrangements were: different corporate cultures and goals; slow decision-making, lack of trust and difficulties in achieving results. The companies mainly co-operated in marketing, purchasing and information sharing. Usually they had a person in charge of the joint international activities or had formed a joint venture.

The companies that stated that they did not co-operate motivated this by "we have all the needed resources", "our industry is so special", "no need to co-operate", "no suitable partner is available", "our export is so small", "we have tried to co-operate", or "we have our own brand".

**Social Network**

Another issue of importance when establishing new relationships in an international context is the social network of the involved individuals. Social bonds emerge over time when individuals carry out business exchanges thereby creating a "capital of trust" (Holmlund and Kock, 1995). Social bonds are the outcome of commitments and non-opportunistic behaviour. In some markets, e.g. the Chinese market, social bonds typically precede business bonds (Björkman and Kock, 1995). By creating strong social bonds the firm gets access to vital and necessary business information regarding, e.g. up-coming projects and potential purchases. The social network will also impact the entry mode because sometimes it can be more or less impossible for foreign individuals to enter a network without the suitable social contacts. For entrepreneurs, especially in the establishment process, social networks tend to constitute the base for successful business (e.g. Aldrich and Zimmer, 1986; Greve, 1995).

The effect of the social network on the internationalisation process has so far been more or less neglected. In small and medium-sized companies the personal resources become crucial, since the internationalisation process often centres around one person and his knowledge and experience. According to Beamish and Munro (1987) most small exporters lack a specific export department. The key actor in the internationalisation process of a small business is the decision-maker of the firm (Miesenbock, 1988; Imai and Baba, 1989; Christensen and Lindmark, 1993). A local business network is largely the product of work undertaken by key actors who also act as gatekeepers to outside information and especially important is information oriented towards national and international markets (Malecki and Veldhoen, 1993).

## Table 2
### Factors Influencing on the Internationalisation Process in Small-sized and Mid-sized Firms

*To what extent have your company's internationalisation process been affected by the following factors:*

| *Resource* | *Small-sized Firms* Mean Value | *Mid-sized Firms* Mean Value | Prob. | *SME Total* Mean Value | *Rank* |
|---|---|---|---|---|---|
| –the management's interest | 4.22 | 4.26 | * | 4.24 | *1* |
| –the management's decision | 3.41 | 3.65 | * | 3.53 | *4* |
| –the management's social network in the home country | 3.79 | 3.37 | * | 3.58 | *3* |
| –the management's social network abroad | 3.39 | 3.50 | * | 3.45 | *5* |
| –the management's earlier professional experience | 2.86 | 3.46 | *0.044* | 3.16 | *6* |
| –the largest competitor started with international business | 1.73 | 1.38 | *0.088* | 1.56 | *8* |
| –demand by a co-operation partner | 2.12 | 1.67 | *0.107* | 1.90 | *7* |
| –growth as a goal | 3.70 | 3.63 | * | 3.67 | *2* |
| –ourline of business demands international business | 1.22 | 1.16 | * | 1.19 | *9* |

*(5=very important and 1=not important al all)*
*(The number of small-sized firms is 96 and mid-sized firms 26)*
*Not a statistically significant different $\alpha <= 0.10$.

According to the results the respondents felt that their companies' internationalisation processes have largely been influenced by the management's interest (4.24). The management must commit to international business if the company is going to have a possibility to succeed. Other variables affecting the internationalisation process are: the goal of the SMEs is to grow (3.67), and the management's social network in the home country (3.58). The management's domestic social contacts also receive a high value as affecting the internationalisation. This aspect has not earlier gained much attention. Contacts to non-profit organisations helping to establish international contacts have earlier been indicated as essential for companies going international, a fact that has been pointed out by Christensen and Lindmark (1993) by stating that "the non-commercial organisations are also important actors as intermediaries for SMEs' mobilisation of external resources". Interesting to notice is further that the management's social network abroad comes in fifth place (3.45) and seems to impact on the internationalisation process in the studied firms.

Surprisingly the SMEs stated that they do not engage in international business because of the largest competitor has engaged in international business (1.56). The band wagon effect is something that has been identified in other studies concerning internationalisation in companies. For the small-sized firms the average is 1.73 and for the mid-sized firms 1.38 indicating that the smaller firms are a bit more alert to the movements of their competitors. Neither do they internationalise as a reaction to demands from co-operative partners (1.90). In this case, however, the small-sized firms seem to be a little more responsive to co-operative partners. (2.12) than mid-sized firms (1.67). A very interesting point is that the small-sized firms average when it comes to the management's earlier professional experience is 2.86 and for the mid-sized firms it is 3.46. Obviously , mid-sized firms are more influenced by the management's earlier professional experience in the internationalisation process. Probably depending on the fact that mid-sized firms hire more employees from outside than small-sized firms which are commonly managed by the founders, also in the internationalisation process.

**Operational Mode when Penetrating a Business Network**

The choice of entry mode when entering a new business network is essential from a network perspective as the chosen mode will impact on the position, and the degree of centrality of that position in the foreign network. Centrality affects how the focal actor through his position in the business network gets access to vital information, and how difficult it is to become included or excluded from the network. The position is a structural term defining an actor's place derived from the relationships to other actors in the same business network. There will always be a pressure on an actor's position as the dynamics of the network context imply that new actors penetrate the business network and thereby challenge the actors already embedded in it. An actor must in other words defend and strengthen his position by developing bonds and making adaptations in the relationships to counterparts.

According to the stage model internationalisation of a firm evolves in an interplay between the development of knowledge and operations in foreign markets and the increasing commitment of resources (Johanson and Vahlne, 1977, 1990; Cavusgil, 1984; Rao and Naidu, 1992). During early stages of internationalisation native partners are often used as the firm does not have sufficient knowledge about the local conditions. Later on when the knowledge increases the firm may want to decrease the dependence on the native partners (Barkema, Bell and Pennings, 1996) and may usually be willing to make more extensive commitments and investments, e.g. establish subsidiaries and form joint ventures. The choice of operational mode commonly is steered by the management's attitudes (Calof and Beamish, 1995).

International operations can be divided into non-direct investment operations and direct investment operations (Luostarinen and Welch, 1990). The former group consists of export operations (i.e. indirect export, direct export and own export), management contracts, licensing, franchising, contract manufacturing and project operations. The latter group includes marketing units, warehouse units, service units, sales units, assembly units and manufacturing units.

The SMEs in this survey have followed the same pattern found in earlier studies (cf. Johanson and Vahlne, 1977; Luostarinen, 1979; Rao and Naidu, 1992; Caughey and Chetty, 1994), namely that they started their export to Sweden, Geographically, Sweden is close, but also culturally. Russia (15) and Germany (15) come in secondly followed by Norway (12) and Denmark (10). Noteworthy is that a couple of companies state that they started their export to several countries at the same time, for example, to Sweden, Norway and Denmark.

The exporting pattern was in 51 countries initiated internally, often by the CEO, and in 22 externally, i.e. by an agent or because of an inquiry. Before the respondents started to export 51 firms gathered information about the new market whereas 23 did not. The results show that the firms that acted upon an inquiry very seldom carried out any research about the market. The most common way to receive information was through personal contacts, i.e. social network, or by carrying out market research.

## Table 3
### Exports to the 15 Most Important Markets

| | *Number of SMEs* |
|---|---|
| Sweden | 63 |
| Germany | 45 |
| Norway | 41 |
| Denmark | 29 |
| England | 23 |
| France | 23 |
| Japan | 21 |
| Russia | 21 |
| Holland | 19 |
| USA | 19 |
| Baltic States | 16 |
| Austria | 15 |
| Belgium | 14 |
| Italy | 14 |
| Poland | 10 |

The table depicts a clear tendency to favour both geographically and mentally closely located markets since the Nordic countries are the most frequently mentioned countries to which the SMEs exported in 1994. Moreover, Sweden (63), Norway (41), and Denmark (29) also often accounted for the biggest volume share. The most common share of sales abroad to one or all three of these countries was 50–70 per cent, although 100 per cent was not unusual. The European countries overall accounted for most of the SMEs' exports, but also countries like Japan (21), the USA (19), and the Baltic countries (16) were frequently mentioned. Some countries like New Zealand, Australia, Argentina, Egypt, Iceland and Korea were mentioned as countries with which the SMEs have had sporadic contacts. The spread in the amount and type of export countries shows that the SMEs may not have regarded, for instance language problems, cultural factors as surmountable hinders as in their internationalisation efforts. Naturally, the majority of the SMEs operate in closely related countries which confirms earlier empirical findings (cf. Johanson and Vahlne, 1977). On the other hand, some studies have showed that the smaller the firm the more they export to protected markets (cf. Miesenbock, 1988; Brooks and Rosson, 1982).

The two far most important operational modes abroad are agents and own salesmen. This may be a natural choice for SMEs engaging in international business as they often lack resources to make larger investments in foreign market and may not be willing to take on larger risks. Cheap and easy modes to choose are agents or own salesmen visiting the customers. The benefits of using an agent is that he is already embedded in a business network and that he usually has the needed relationships. Furthermore, by using an agent as intermediary the exporting SME can compensate the lack of resources such as knowledge about foreign markets and capital as well as minimise risk. Risk in the introductory stage can be a significant obstacle for the SME, that generally is not able to absorb risk in the same way as bigger firms are able to do. An agent can be the best solution if the export market is far away. A major drawback, however, is a lack of contact with the customer and end-user. If co-operation problems arise the agent may have all vital information. Using an agent can be seen as a passive way of starting exporting and leading to limited control over the agent. Moreover, the price the end customers have to pay for the products can get too high as the intermediary is entitled to a fee.

## Table 4
### Operational Modes

| | *Number of a Specific Mode* |
|---|---|
| Agent/Commissioner | 50 |
| Own salesmen visiting customers | 43 |
| Together with another Finnish company | 20 |
| Own sales company | 19 |
| Other mode | 14 |
| Joint ventures | 7 |
| Subsidiary abroad | 6 |
| OEM (original equipment manufacturer) | 5 |
| Bought company abroad | 4 |
| License | 2 |
| Franchising | 2 |
| Patent | 1 |

Two other operational modes are joint export with another Finnish company (piggyback) or a sales company abroad. Co-operation with another domestic company indicates that the present business network is important for SMEs when going internationally. This entry mode is also rather cheap. The benefits and drawbacks are, however, similar to those of an agent. To set up a sale company abroad differs from the three most common modes in that a sales company demands resources and a deeper commitment. Moreover, it requires that new relationships are established in the foreign business network. Other entry modes used by the studied firms were: importer, co-operation agreements and parent company.

Problems reported by the studied SMEs in their international activities are not unique as similar problems have been found in earlier corresponding empirical studies (cf. Misenbock, 1988). They were: currency, transportation and cost for transportation, customers, language, finding customers, establishing relationships, quality, high initial costs, entry mode, cultural differences, and geographical distance. No specific problem received a high rating.

### Resources

For small and medium-sized firms going international an important issue concerns the access to resources under (i) direct control, over which the focal actor has hierarchical power; and (ii) indirect control, resource which are obtained through exchanges in long-term relationships. The resources are both tangible and intangible and can be divided into (Kock, 1991; Holmlund and Kock, 1995):

*Personnel resources:* Today, the vast majority of organisations, regardless of whether they produce and sell goods or services, seems to state that their most important resource is their personel. In SMEs the entrepreneur commonly is seen as making the difference between success or failure and generally most of the international business activities are centralised around this person. Medium-sized companies commonly have more financial resources and consequently can afford to hire personnel in order to get access to knowledge and social networks.

*Software resources:* This category includes knowledge about existing technology, manufacturing processes, machinery and marketing as well as knowledge of buyers and suppliers. The background to how these have been developed is also essential. We have chosen to integrate both knowledge of hardware and knowledge of software as every individual actor generates, integrates and develops know-how of many different functions. The knowledge of one department or function can therefore not clearly be separated from the knowledge of the others as joint knowledge necessarily exists. Nelson and Winter (1982) point out that a firm's competence is embedded in its routines.

*Hardware resources:* Hardware assets are: machinery, buildings, equipment, etc. These resources are usually directly controlled by the actor. Different raw materials and input goods are very important in manufacturing industries and usually gained through long-term relationships. Industrial quality can be seen as an important hardware resource if a company has gained a quality certificate, e.g. ISO 9000. In international trade, quality aspects are even more important as the competition is keen and the customers are demanding.

*Organisational resources:* Organisational resources refer to the firm's organisational structure, goals and culture. Organisational structure shows potential interacting partners how customer oriented the firm is, how fast decisions can be made, degree of empowerment, etc. In business networks the actors adapt their organisational structure to each other as mutuality, trust and long-term thinking make this possible and necessary.

*Capital resources:* The possibility to get financial support is often limited in many small firms. Capital resources are of great importance and usually they have to be obtained through long-term relationships since few firms are internally capable to raise substantial amounts of money. The most common providers of capital are stockholders, banks, and governmental development funds.

Most SMEs lack sufficient resources when they want to go international (e.g. Christensen and Lindmark, 1993; Kaufmann, 1994). Limited personal and financial resources (Buckley, 1989), but also limited software and hardware resources are great threats for SMEs when becoming internationalised. Malecki and Veldhoen (1993) state that small firms are "most plagued by a general problem of inadequate expertise and skills at several levels — managerial, supervisory, and production employees". Moreover, the workforce in these firms often are under-educated, under-trained and under-skilled (O'Farrell and Hitchens, 1988; Rönning, 1991).

In the study the firms were asked to rate their resources and point out their strengths and weaknesses. The results show that the firms regard their products, flexible organisation and quality level as their most important resources. Hardware resources in terms of products are regarded as a very valuable and a great asset of theirs — 4.05 on a scale where 5 is the maximum value. This

## Table 5
### Small-sized and Mid-sized Firms' Strong and Weak Resources

| *Resource* | *Small-sized Firms* Mean Value | *Mid-sized Firms* Mean Value | Prob. | *SME Total* Mean Value | *Rank* |
|---|---|---|---|---|---|
| — the personnel's competence in marketing | 3.16 | 3.35 | * | 3.26 | *14* |
| — the personnel's competence in production | 3.95 | 4.00 | * | 3.98 | *4* |
| — the personnel's competence in process development | 3.04 | 3.19 | * | 3.12 | *16* |
| — the personnel's competence of product development | 3.24 | 3.42 | * | 3.33 | *15* |
| — the personnel's competence in design | 2.95 | 2.84 | * | 2.90 | *20* |
| — the personnel's competence in purchasing | 3.60 | 3.58 | * | 3.59 | *10* |
| — the personnel's competence in exporting | 2.75 | 3.50 | *0.005* | 3.13 | *14* |
| — the personnel's competence in importing | 2.76 | 3.08 | * | 2.92 | *18* |
| — financing possibilities | 3.37 | 3.50 | * | 3.44 | *12* |
| — flexible organisation | 4.00 | 4.08 | * | 4.04 | *2* |
| — computer technology | 3.20 | 3.35 | * | 3.28 | *13* |
| — facilities | 3.89 | 3.85 | * | 3.87 | *5* |
| — production equipment | 3.55 | 3.73 | * | 3.64 | *8* |
| — own patents | 1.51 | 2.19 | *0.016* | 1.85 | *21* |
| — licenses from others | 1.42 | 1.57 | * | 1.50 | *22* |
| — knowledge of buyers | 3.72 | 3.85 | * | 3.79 | *7* |
| — knowledge of suppliers | 3.65 | 3.58 | * | 3.62 | *9* |
| — knowledge of competitors | 3.50 | 3.56 | * | 3.53 | *11* |
| — managers' personal contacts | 3.75 | 3.85 | * | 3.80 | *6* |
| — knowledge of foreign markets | 2.87 | 3.31 | *0.028* | 3.09 | *17* |
| — products | 3.98 | 4.12 | * | 4.05 | *1* |
| — quality level | 4.04 | 3.96 | * | 4.00 | *3* |

*(5 represents maximum value and 1 minimum)*
*(The number of small-sized firms is 96 and mid-sized firms 26)*
*Not a statistically significant difference $\alpha <= 0.10$.

certainly helps in their international operations since part of the success abroad depends on how attractive the products are. The quality level (4.00), which also is considered a clear strength by the firms, indicate high quality products that are good and competitive. However, the results may be biased because the buyers' perceptions of the products are unknown. Buyers, and particularly buyers in another country operating in a different environment, and having different quality standards to compare with, can have perceptions that might not run together with those of the manufacturers. The need to adjust products and procedures to new buyers and their needs therefore has to be recognised.

In addition, the firms state that their organisation is flexible (4.04) and that the facilities are good. These are further prerequisites for the firms to be able to operate smoothly and to adapt their business and products according to the market and the buyers.

Other issues which the firms consider as their major strengths are software resources such as the personnel's competence in production (3.98), facilities (3.87), the managers' personal contacts (3.80), as well as a good knowledge of actors on the market, such as buyers, suppliers and competitors. The strengths can be explained partly by the relative long time that the firms have operated on the market, which was on average over thirty years.

Noteworthy is the fact that licenses from other firms do not seem to make much of a difference to the SMEs. As many as 100 of 122 firms answered the question.

Many firms answered the question on what resources they think should be strengthened in their firm. The clearly most significant matter to improve at the moment was marketing in general and export marketing in particular. Marketing, including selling, were mentioned by over half of the studied firms. This indicates an awareness of, and a need to learn selling to buyers. The stated need for more knowledge on domestic and foreign market actors also supports this. Other mentioned issues were the organisation, market surveys, risk capital, logistics, inventory, language skills, production, purchasing, as well as environmental issues.

In general, the differences between small-sized and medium-sized firms were small. The exceptions were the personnel's competence in exporting (2.75 respectively 3.50), own patents (1.51 respectively 2.19), and knowledge of foreign markets (2.87 respectively 3.31). At least the first and the last difference probably can be explained by the differences in the firm size as larger firms tend to have more resources and consequently to be able to hire additional people as well as to penetrate several foreign markets. As mentioned earlier the average per cent exported by the small-sized firms was 37 per cent and for the medium-sized firms 48 per cent. Having own patents can be assumed to be derived from the size of the firm as larger firms have more financial resources to spend on developing new products and later on registering them.

One way to strengthen the resources and the business network and the social network would be to try to get a foreign partner to take part in the business activities by buying a share in the company. 71 companies in the study were willing to sell a share of their companies to a foreign partner and 54 firms would consider selling to a dometic partner. For the majority of these companies it did not matter if the partner was foreign or domestic, but 9 respondents stated that they would not take in a domestic partner and 21 respondents said they refused to accept a foreign partner. 14 respondents were not willing to sell at all. The share that they were willing to sell varied between 1 per cent and 100 per cent with an average of 47 per cent.

In a follow-up question the respondents were aksed what they thought a foreign partner could contribute with. 53 companies answered that a foreign owner would have the knowledge about foreign markets and the ability to secure the demand. A third reason (39 companies) was that a foreign partner would increase the company's solvency.

Another way of strengthening the software resources would be to have an outside member of the boad. Commonly, SMEs do not take advantage of this possibility to the same degree as larger companies do. 36 respondents stated that they have an outside member of the board whereas 75 respondents did not have outside members on the board.

## Conclusions

The chosen operational mode is commonly to have an agent or own salesmen abroad. These modes are rather resource saving which is important as the study also showed that what the firms, especially the small-sized, most frequently lack is knowledge about marketing, production, and capital. By using an agent the exporter does not have to invest too extensively in the export activities since the agent is already embedded in a business network in its home country thereby having the necessary relationships. The second most important mode is to send out own salesmen which is a more demanding mode as the salesmen have to establish relationships with buyers and thereby penetrate a foreign business network. This mode is, however, cheaper than setting up a sales company abroad.

The studied firms seem to be stuck in the first phase of the sequential model (Johanson and Vahlne, 1977; Luostarinen and Welch, 1990) probably owning to the fact that they are too small to continue the internatinalisation process. In other words, the studied firms lack resources needed to continue the internatinalisation process by commiting more resources. The knowledge of the foreign market will thus be limited and the internationalisation will exist of only contacts with the agent or the few buyers abroad. On the other hand, can this pattern most likely be derived to the line of business the companies are in as most of them are to be regarded as industrial firms? A similar internationalisation must, however, be considered as dangerous as studies have shown that the agents are not always trustworthy and doing their best to promote the exporters' product (cf. Hammarkvist, Håkansson and Mattsson, 1982; Rosson, 1987).

The business network has influenced on the internationalisation to the extent that 48 SMEs were acting as sub-suppliers to larger Finnish buyers embedded in international business networks, and 19 firms as sub-suppliers to international buyers. Consequently, these SMEs are involved in international competition though they are not actively engaged in international business activities. Moreover, 38 of the SMEs were involved in co-operation activities with other firms in order to save costs, to achieve co-ordination, and to find new buyers. Only two of the 38 respondents were directly negative to the co-operation they were involved in. A majority of the SMEs in co-operation saw both benefits and drawbacks with the co-operation.

The social network is very important to the managers of the studied SMEs when engaging in international activities. Firstly, the entrepreneur, or someone else within the firm, is often the person initiating the international process. Information is in the start-up stage further commonly gained throught he personal contacts. The social network in the home country will have an significant effect on the internationalisation process.

Many of the resources needed by SMEs are gained through relationships with other actors in their present business network. When engaging in international activities it is important that the access to these resources is secured. The resources that hte SMEs regarded as strong were their products, the quality level, a flexible organisation, and the competence in production and facilities. On the weak resource-side were licenses from others, competence in importing, own patents, competence in design and knowledge about foreign markets. The respondents further stated that their marketing, production equipment and capital could be improved.

The present study has indicated that the business network in which a SME is embedded will impact on the internationalisation process. Firstly, needed information and resources are gained through it. Secondly, the operational mode is often indirect so the exporter will be dependent on another actor in order to access a foreign business network. Thirdly, the entrepreneur in especially small-sized firms relies heavily on his or her social contacts when searching for information. For a business leader in a SME it is therefore essential to create and maintain both strong and weak relationships to other individuals. The concept of strong and weak relationships has been discussed by Granovetter (1973) who claims that different information is received depending on whether the relationships is strong or weak. For a business leader in a SME, weak relationships can be used to receive information about upcoming orders from abroad and strong relationships for getting reliable information when making decisions in questions concerning the internationalisation.

More research is, however, needed in order to more deeply enlighten the importance of the present business network when a SME gets involved in international operations. The results of this study must be regarded as explorative and can only be generalised to SMEs corresponding to the sample criteria, why more extensive surveys — preferable comparative studies — among SMEs should be undertaken in order to be able to generalise the results. Moreover, emphasis must be on the importance of the social network and how knowledge gained from relationships with counterparts, and/or earlier import activities, can be used when engaging in export activities.

## Notes

[1]USD=4.80 FIM

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