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Master Degree Project in International Business and Trade

**Internal Change in Internationalizing SMEs**  
**The Challenges of Going Local to Global: A Human**  
**Resource Perspective**

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## Abstract

The internal internationalization of SMEs is a growing research area, but there is a lack of research regarding how SMEs develop internal resources when internationalizing and how this change facilitates firms' internationalization. This case study examines five Swedish SMEs in trying to understand how these types of firms have developed their human resources when internationalizing and how they overcome challenges associated with this. Theoretical results acknowledge the significance of firms' capacity to change internally during internationalization, due to dynamic capabilities. Thus, the theoretical framework demonstrates the importance of having the right mix of human resources that can change and adapt during internationalization. Empirical results indicate that firms need to develop/acquire new knowledge and capabilities to drive internationalization successfully. Challenges in doing this were found in the transition of going from local to global mind-sets and competencies. To meet this challenge firms require managers and employees who can develop firms' dynamic capabilities and drive change forward. Therefore, this study contributes by investigating, from a managerial perspective, how the human resources develop in the context of internal change during internationalization of SMEs.

**Keywords:** SME internationalization, dynamic capabilities, internal change, human resources, internal internationalization, global mind-set, resource management, human competence

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## **Abbreviations**

BG(s)	Born Global(s)
DC	Dynamic Capabilities
HC	Human Capital
HR(s)	Human Resource(s)
HQ	Headquarter
IE	International Entrepreneurship
INV(s)	International New Venture(s)
SC	Social Capital
SME(s)	Small and Medium Enterprise(s)

## 1. Introduction

*This chapter aims to provide a background to the main theoretical aspects of the research area, which then will lead to the purpose of the thesis and consequently the research question.*

### 1.1 Background

Internationalization process theory is often associated with Johanson and Vahlne (1977) who analysed expansion process, of large Swedish firms, to foreign markets. This study showed that firms progressively intensify the commitment to the foreign market depending on the market knowledge. The firm's market knowledge is a direct result of the learning process of the firm where also the geographical and psychic distance (culture, political system and language etc.) is essential when determining the current knowledge of the host market (Johanson and Vahlne, 1977). The model has been revised and adapted to the increasing speed of business, changes in technology and importance of networks (Johanson and Vahlne, 2009).

However, Oviatt and McDougall (1994) write about a different kind of firm coined as born global (BG) typically characterised as small and medium enterprises (SMEs) which do not seem to follow this incremental internationalization process. But that actually demonstrate a fast internationalization, with high commitment to the foreign market, soon after inception. A potential explanation behind this is argued to be; that management has a different collection of resources, developed from past experiences, which make them engage in foreign market seeking behaviour quicker (McDougall, Shane and Oviatt, 1994). These managers are posited to have had a global vision from the firm's inception (Oviatt and McDougall, 1994). Further on, Oviatt and McDougall (2005) stress the importance of the managers and their capability to find, analyse and exploit business opportunities in foreign markets.

It is emphasized that the performance of SMEs in the international markets is dependent on the capabilities and resources within the organization (Lu and Beamish, 2001; Melin, 1992; Nummela, 2004). Therefore it is highly relevant to analyse how these capabilities and resources actually are adapted and changed in order to facilitate the internationalization process: How does the SMEs internal journey look like when

internationalizing? First we need to define the difference on external and internal changes. Nummela (2004) asserts that external changes can be seen from outside the firm and are mostly connected to changes in market strategy, while internal changes are related to the organizational structure, finance and personnel.

Despite growing literature in internationalization of SMEs there is still an inappropriate lack of research into the internal environment and how change in resources can facilitate internationalization, specifically change at the human resource (HR) level, during the process of SME internationalization (Nummela, 2004; Nummela, Loane and Bell, 2006). Looking at internal internationalization, from an earlier perspective, one inevitably must take into deliberation Welch and Luostarinen (1988). Although not specifically applying their concept to SMEs, their work has clearly influenced Nummela (2004) whose framework in SME change is an adaptation of their "*Dimensions of Internationalization*". Welch and Luostarinen (1988) highlight that; the firm's internal structure must be adapted accordingly, when engaged in foreign market activities, failing to do so would make it difficult to manage international operations.

Undoubtedly, a pioneer of internal internationalization of SMEs, Nummela's (2004) seminal study of three Finnish SMEs, demarcated at various levels of internationalization (e.g. INVs, BGs and Traditional) provided a generalized, multidimensional analysis of internal changes, in relation to the firm's internationalization. Soon after, Nummela and Hurmerinta-Peltomäki, in their 2004 research, further discussed the importance and impact of various external services on internal changes. Finally, this discourse was further enhanced by Nummela et al. in 2006, whereby the authors focused on change in Irish high-tech SMEs. The studies define three degrees of change (Alpha, Beta and Gamma) corresponding to an increased level of financial, structural and personnel change from a short/long/permanent perspective.

Findings, from the above studies, provide a vital springboard for further research into the internal changes, which take place in SMEs to accommodate successful internationalization. As mentioned above, despite the elucidating value of past studies, there exist significant shortcomings in terms of what kind of internal



resources are needed in order for the internationalization process to be successful. In trying to highlight the importance of internal changes, during SMEs internationalization, Nummela (2004) and Nummela et al. (2006) focused on three types of internal resources (finance, structure and personnel). Since (and even before) the publication, of the above studies, there have been plenty of studies focusing on the role of finance in SME internationalization (European Commission, 2007; Lindstrand and Lindberg, 2009; Maeseneire and Claeys, 2012; OECD, 2009; Wagenvoort, 2003). Further, we believe that the first thing that needs to change in a firm before anything else can be successfully changed and implemented is the HRs within the firm, which refers to both managers and employees and the competence and mind-set they embody. Thus, we argue that it is necessary to change and develop the HRs before any financial resource change can facilitate internationalization. Therefore, our interest is not to investigate the effects of this resource any further. It is the HRs that is in control of financial resources and therefore it is vital to first understand development in the firm's core resources - the employees and leaders.

In regard to organizational structure as an internal resource, we find this to be of an ambiguous nature, thus we implicitly convey that structure is not in itself a resource, but rather a systematic constellation of the various internal resources and their relationship to one another, which enables the creation of value. Thus, the focus of this paper is specifically upon the importance of change and development in the HRs identified as personnel (Nummela, 2004) during the internationalization of SMEs, and the underlying challenges of executing these changes in SMEs.

The above background discussion leads us to the purpose and research question of this thesis.

## **1.2 Purpose and research question**

The purpose of this thesis is to explore how HRs develop and change within SMEs in order to meet the challenges of internationalization. We want to investigate how firms cope with these challenges and why these challenges arise. This is done in order to contribute to academia in terms of deepening the literature surrounding internal change of resources in internationalizing SMEs. In extension, this research aims to also provide managers of such firms with practical insights into the importance of

managing HR development during the internationalization process. The purpose leads to the following research question:

*- How do SMEs develop their Human Resources in order to change internally to facilitate the internationalization process and what are the challenges related to these internal changes?*

### 1.3 Thesis disposition

This thesis begins with an *Introduction*, chapter **one**, where the background and problem is discussed in order for the reader to understand the importance of the subject. The purpose and research question is outlined in this chapter as well.

The **second** chapter is the *Methodology* chapter, which describes how the study has been carried out and how the empirical data has been gathered and analysed. Further, we will outline the criteria for case selection and also discuss the quality of the research.

The **third** chapter is the *Theoretical Framework* where an overview of the relevant theories is presented. This framework is then used to develop a conceptual model, which is presented in the end of the chapter.

This is followed by chapter **four** where the *Empirical findings* are presented. These have been gathered through a number of interviews. The case firms are presented individually and every case starts with a firm background followed by the external- and internal internationalization journey of the firm.

Chapter **five** is where the *Analysis* is presented. Here we connect theory to the empirical findings and discuss how the empirical data and theory correspond to each other. This chapter is the groundwork for the conclusions in the following chapter.

Chapter **six** presents the *Conclusions*, at this point the study is summarized and the research question is answered. Finally, our contributions to academia and managers are discussed, which is then followed by suggestions for potential areas of further research.

Chapters **seven** and **eight** will be *References* and *Appendices* respectively.

#### **1.4 Limitations**

This study has been focused upon SMEs in the high-tech industry, which constitutes a limitation since SMEs in other type of industries might experience different change and challenges within their internal internationalization. Moreover, the study could benefit by interviewing key employees and other managers in order to incorporate their perspective and thus strengthen the empirical results.

## 2. Methodology

*This chapter will explain how the research has been carried out and why the chosen methods have been used for this study. Furthermore, this chapter describes the process of gathering and analysing the data.*

### 2.1 Research approach

The purpose of this thesis is, as previously mentioned, to explore *how SMEs develop their human resources in order to change internally to facilitate the internationalization process and what challenges are related to these internal changes?* A case study was chosen to be the most suitable research approach. According to Yin (1994), case studies are appropriate when the purpose is to explore a phenomenon in its real life environment. This coincides with our study since it is focused on examining firms' changes in HRs during internationalization. It is also stressed that case studies are of particular use when "how" and "why" questions are prominent (Yin, 1994). Ghauri and Grønhaug (2005) confirm that case studies should be used when it is hard to study a phenomenon outside its natural environment and when the data is problematic to quantify. This type of research is also fitting when the existing theory seems inadequate and the area of research is rather new (ibid). The internal internationalization has been studied upon, but there is a lack of knowledge regarding *how* firms change and develop HRs, which consequently is rather hard to quantify. However, the previous studies within this topic provide a vital springboard to start from and a possibility to confront the empirical data. Gummesson (1988) confirms that case studies give the researchers the chance to confront their experience and knowledge towards already existing models and theories.

According to Bryman and Bell (2011) a case study is characterized by a bounded system. This system or situation can be a manager, organization, department, single process or location. This study is bounded by the respective firms and their internationalization processes in particular. Following the thoughts of Bryman and Bell (2011), a multiple-case approach was chosen because it enables us to compare the findings from each single case, which also helps to define what is unique and to identify what seems to be common amongst the chosen cases. This also helps researchers to reflect on the existing theory (Bryman and Bell, 2011) allowing the researcher not only to test existing theory, but also to shape new theories (Ghauri,

2004). The firms were chosen after how interesting they were for our study based on certain characteristics described in the following paragraph.

## 2.2 Case selection

We started to discuss what type of firms might be suitable for the study and began searching for possible case firms on the web. We set some criteria for the firms in order for the research to become more focused and to answer the research question in a suitable way. These criteria are described in the following.

The study was focused on international SMEs and the internal changes related to internationalization; therefore this study is based on interviews with CEOs in firms that had experienced internationalization and have offices abroad. Since the study was focused on SMEs, the chosen firms should have less than 250 employees (European commission, 2003). We set our criteria between 50 and 250 employees; since we thought that larger SMEs (i.e. medium-sized enterprises) would exhibit internal changes as well as challenges more prominently than smaller ones. Firms in the high-tech sector have often been a basis for research into internationalization of SMEs, since firms within this industry tend to enter international markets faster than firms in traditional industries (e.g. Bell, 1995). Therefore, we chose to search within the high-tech industry when trying to find relevant case firms. Since firms in this industry tend to enter international markets fast, it could be argued that they are so called BGs, meaning that these firms are created to fit international markets from inception (McDougall et al., 1994) and consequently might not experience major internal or external changes. However, Nummela et al. (2006) argue that BG firms in their study actually underwent significant internal changes. Therefore, we did not distinguish between whether the case firms were BGs or not. Furthermore, we tried to find high-tech firms that produce actual products and firms that are more focused upon IT-services. In this way we could identify differences and similarities between the two industry sectors. The high-tech sectors that were chosen were medical technology and information technology (software services/products).

This selection process was accompanied by convenience sampling (Merriam, 1998), since this study requires in-depth interviews with the firms' CEOs it was necessary to choose firms and respondents that were willing to participate in these interviews.

This selection process ended up in five case firms, three of the firms were within the IT-industry and two within the medical technology industry. A further description of the chosen cases is found in the *Results*, chapter four. Below follows an explanation of how we collected the empirical data.

### **2.3 Data collection**

The data was collected through both primary and secondary sources. Primary data was collected predominantly from various peer-reviewed research articles and studies. Furthermore, primary empirical data consists of the interviews, which were conducted in a semi-structured manner. This form of interview suited this study best since it allowed the researchers to start off with pre-determined questions but carry out the interview in a flexible form in order to give the respondents the possibility to fill in with comments. This type of interview gives the researchers the chance to get unexpected responses that give a broader picture of the topic (Bryman and Bell, 2011). An interview guide was developed in order to follow some general topics that needed to be explored. The interview guide was formed after our pre-understanding of the research problem with help of the extensive literature readings done before conducting the interviews and previous knowledge about the topic (see Appendix 8.1).

The interviews were conducted in Sweden during February and March 2013. Each interview lasted approximately one hour and was recorded and then transcribed soon after the interview, which resulted in 45 pages of transcript material. The respondents were CEOs and/or founders. We were of strong belief that these people are most likely to be able to answer our questions and also come with other insightful information that could be vital for this study, since the CEOs often are the heart of the change process (Nummela, 2006). The interviews took place at the respondents' offices in all cases except for one (we had to conduct a telephone interview with Firm B). Also, most interviews (except with Firm B) were conducted in English because one of the authors' first language is English and because it also reduced ambiguity since the majority of transcripts did not have to be translated (Bryman and Bell, 2011).

The interview with Firm B was conducted in Swedish due to the CEO's own language preference. Furthermore, the respondents desired for anonymity in our thesis due to the sensitive nature of their business, which is why the firms and respondents will not be named. Table 1 below presents an overview of the interviews and their settings.

Firm	Respondent	Type	Language	Results approved by CEO	Follow-up interview
<b>Firm A</b>	CEO	Face-to-face	English	Yes, and revised	Email
<b>Firm B</b>	CEO	Telephone	Swedish	Yes, and revised	Email and telephone
<b>Firm C</b>	CEO	Face-to-face	English	Yes	No
<b>Firm D</b>	CEO (Founder)	Face-to-face	English	Yes	No
<b>Firm E</b>	CEO	Face-to-face	English	Yes	No

**Table 1:** Overview of interviews

Secondary empirical data is data that someone else has written (Bryman and Bell, 2011); the secondary empirical data used in this thesis was the firms' web pages. Before every interview we searched the web for relevant information about the firms in order to increase our understanding about the firm and the market they are acting in. This helped to deliver accurate questions and saved time during the interviews, since we already had certain firm specific knowledge, more time could be focused upon the relevant area of study.

## 2.4 Research analysis

The start-up phase of this thesis project was a mixture of finding the relevant cases, which would answer the research question, and to read research regarding the relevant topic, in order to enhance our understanding of the problem. However, we have encountered this type of research during our studies and thus already had some familiarity with the topic. Therefore, the interviews were conducted rather early in the process and the data was analysed simultaneously, which also allowed us to develop the theory alongside the data collection. This is in line with Ghauri (2004) who states that the combination of analysis and data collection from the first interview is the best way to conduct a case study, since it helps the researchers to define or redefine the research problem, which then hints at new questions and new data collection. The

early interviews and continuous analysis helped to define the research question and also led us towards the relevant theoretical framework.

The interview transcriptions were analysed and structured after external and internal changes that occurred within the firms, which follows the thoughts of Ghauri (2004), who claims that the above type of coding is a way to sort data according to concepts and themes, which helps to analyse and link the empirical data to the questions.

After the coding, case studies were written for the five firms, along with a summary of the main findings. These main findings, which were regarding the internal changes, were then compared with each other and the theory in order for a thorough analysis to be possible.

## **2.5 Quality of research**

From the start of this thesis project, we have continuously throughout the process tried to think of how to enhance the quality of the research. Here will we provide an outline of the various factors effecting the study. To begin with, the language during the interviews was English in four out of five cases. This was vital in order to minimize misunderstandings, translation is often a cause of misunderstanding (Bryman and Bell, 2011) and since the empirical data are presented in English we chose to conduct the interviews in the same language.

Another factor, to take in consideration, is the fact that we increased our knowledge about the topic progressively and therefore also developed our interviewing skills from the very first to the last interview. This is obviously something that effects the results. However, follow-up interviews were conducted with Firm A and B, after all the other interviews were done and thus improved the results and made it even more comparable with the other cases.

All the respondents were CEOs (Firm D's respondent was also the founder), which provided an arguably equivalent level of depth, insights and knowledge regarding the firms' internationalization process and the changes related to that. However, since this study is reliant on the CEOs' ability to remember changes that occurred due to internationalization, we were very careful in choosing case firms that are



internationalizing at the moment, thus enhancing the probability for the CEOs to recall relevant factors and changes due to their internationalization.

### **2.5.1 Validity**

Bryman and Bell (2011) state; validity explains whether the method used to conduct the study, actually measures what it is supposed to measure. Merriam (1998) claims that external validity is when the findings can be applied to other situations; however, this study's aim is not to generalize, but rather to understand the selected cases in depth. We argue that the validity in this study is high due to several reasons outlined below:

- The respondents are CEOs and have been part of the internationalization process and have insights regarding the internal changes that have occurred within the firm.
- The research question is clearly formulated and answered.
- The data and our interpretations were summarized and sent back to the respondents in order to ask if the results are reasonable (see Table 1), which is recommended by Merriam (1998) as a strategy to increase internal validity.
- As the findings emerged they were discussed with peers as well as our supervisor, also as suggested by Merriam (1998).
- Data triangulation was used in order to complement the interviews. This was done by collecting secondary data, i.e. annual reports, brochures, firms' websites and newspaper articles.

### **2.5.2 Reliability**

Reliability refers to whether the research findings can be repeated, this is however difficult to accomplish in social science since human behaviour is diverse. Therefore, a vital part for this study is to ensure that the findings are coherent with the data collected (Merriam, 1998). In order to make this study reliable, we developed a well-structured explanation of the theory, described the case selection process and how the data was collected. Therefore, we believe that there is a suitable reliability and high possibility that other researchers would get comparable results if they were to replicate this study.

### **3. Theoretical Framework**

*In this chapter an overview of the relevant theories will be presented and in the end we will introduce our conceptual model.*

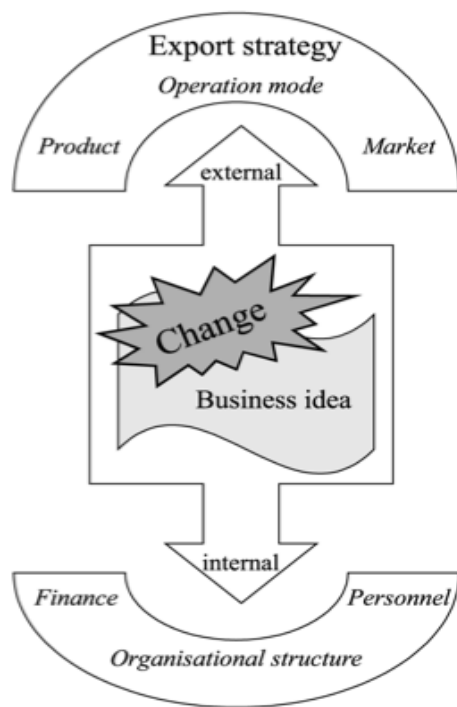
The first part of the theoretical framework will be an introduction of one of the main researchers within the topic of internal internationalization, which is critical to recognize since it is the backbone of this field of research and thus will lead us into our specific theory. In order to understand internal changes we need to define and understand what actually changes within firms. Defining resources and capabilities is therefore the second step to establish a theoretical framework for this area of research. In order for this change to occur a firm needs to have the capacity of change, which is why dynamic capabilities (DC) are essential to understand. These discussions will be crucial in order to go deeper into the specific resource changes within internationalizing SMEs. After discussing resources, capabilities and DC within internationalizing SMEs, the following parts of the chapter will be structured under the HRs, defined later in the chapter. It is important to note that some of this theory was examined before the study was done. However, a large part of the theory was provoked by the empirical studies and this chapter is a summary of all of these theories.

#### **3.1 Nummela's internal internationalization framework**

For the purpose of this thesis, the studies of Nummela (2004) and Nummela et al. (2006) are a vital springboard. These studies examined the content of change, in other words what changes actually transpire in an SME when internationalizing. These studies are of an exploratory note, and the findings are based on three cases in Finland and three in Ireland. Both studies show that the level of change due to internationalization varies significantly and that the different types of change are related to each other.

In her novel work Nummela (2004), defined change for the purpose of her study as; the difference in *form*, *quality* or *state*, over a certain time period within a firm. Although changes may be studied on different organizational levels, it is argued in the studies that the greatest emphasis should be on the owner-manager in SMEs, because they are found at the heart of the change processes (Nummela, 2004; Nummela et al.,

2006). Nummela's Finish study (2004) attempted to fill the gap that earlier research had left by overlooking the problems SMEs face when changing internal resources due to internationalization. The study by Nummela et al. (2006) repeated Nummela's (2004) original framework in the Irish context building upon it and reinforcing its validity, thus claiming that it is a suitable framework for analysing these changes.



**Figure 1:** Framework for Studying Change in the Internationalizing Small Firm  
**Source:** Nummela (2004: 408)

According to the original framework (Nummela, 2004) firm level change related to internationalization is observable internally and externally. The upper part of Figure 1 describes the external changes due to internationalization, which are the firm's export strategy and can be seen from outside of the firm. Whereas in regard to internal changes, Nummela (2004) identifies three specific factors that change, namely finance, organizational structure and personnel (see Figure 1).

Both of the above studies argue that SMEs may have to reassess and change these internal factors in order to acquire the skills and resources needed for the internationalization process to be successful. Welch and Luostarinen (1988) also argue for the importance of adjusting internal factors to support the firm in its internationalization. Moreover, Lam and White (1999) claim that change is expressed in a firm's internal arrangements. Thus, the authors argue, even if a specific organizational structure may be sufficient for the home market or to manage an international network of distributors, sometimes more significant structural changes are needed when trying to enter new markets (Lam and White, 1999). Internal change was therefore, classified into different types by Nummela et al. (2006). The study first distinguished between first and second order changes, which signify incremental and fundamental internal changes in a firm. These changes were further divided into alpha and beta (first-order changes) followed by gamma (second-

order) changes, corresponding to an increased level of financial, structural and personnel change from a short/long/permanent perspective (Nummela et al., 2006).

With the above in mind, it would be reasonable to believe that BG firms are experiencing less change due to internationalization, since it is argued by McDougall et al. (1994) that these firms are created for international markets from inception. However, Nummela et al. (2006) claim that these types of firms actually experienced substantial internal changes due to internationalization. Furthermore, change and development according to Nummela et al. (2006) can be in the form of adding knowledge and experience, through training existing employees and/or bringing in expertise and new knowledge from outside the firm. Therefore, the studies (Nummela, 2004; Nummela et al., 2006) suggest that the personnel of an SME will most likely undergo changes due to internationalization.

However, as mentioned in the background, the aim of this thesis is to understand how the HRs changes during internationalization. In order to adequately examine the underlying challenges of the change process within HRs during internationalization, it is first necessary to formulate a general overview of what internal resources a firm has. We will distinguish the specific elements that constitute HRs; we find this paramount in order to understand the important inter-relationship between the various internal resources. This will then be supplemented by a literature review, describing the possible permutations, of the various constituents that we believe best fit the requirements of facilitating internationalization in SMEs.

### **3.2 Defining resources and capabilities**

Grant (1991) claims that internal resources and capabilities are the groundwork of firms' strategies and thus also the reason for a firm's success or failure. We start by defining what resources and capabilities are. Grant (1991: 118) defines resources as "*the input in the production process*" and suggests six different resource classifications: Financial Resources, Physical Resources, Human Resources, Technological Resources, Reputation, and Organizational Resources. This corresponds well with Barney (1991) where he also discusses Physical-, Human- and Organizational Resources but does not mention the Financial-, Technological- and Reputation resources that Grant (1991) describes.

Barney (1991) argues that Physical Capital resources constitute the technology within the firm, facilities and equipment, location and raw materials. Human Capital (HC) resources are the training, experience, intelligence and networks of the managers and employees within a firm. Organizational Capital resources are the structure of reporting, planning, controlling and the coordination of systems within the firm (Barney, 1991). We can see that the Technological and Reputational Resources that Grant (1991) reviews seem to fall under the umbrella of Barney's (1991) three described resources. Wright, McMahan and McWilliams (1994) state that HRs is the pool of HC, which is under a firm's control, meaning the employees. Moreover, Wright et al. (1994) claim that HRs are the knowledge, skill and ability of an individual within a firm.

As this thesis seeks to understand how SMEs develop HRs in order to facilitate internationalization, there is a need to present our definition of HRs. We argue that Wright et al.'s (1994) and Barney's (1991) definitions are somewhat mutually inclusive. Training, experience and intelligence (Barney, 1991) constitutes knowledge, skills and abilities (Wright et al., 1994). Furthermore, we have, during the literature review, identified that mind-sets are important in internationalizing SMEs. Therefore, when HRs is mentioned from now on, the definition will be knowledge, skills, abilities, networks and mind-set. Moreover, the first four factors will be classified under the umbrella of *human competencies* while *mind-sets* will be kept separate.

It is important to note that the discussed resources are not productive by themselves; there needs to be certain cooperation between the resources. The capability is what actually makes these different resources accomplish a task, meaning that it is the capabilities that constitute the competitive advantage (Grant, 1991).

Barney (1991) states that firms' resources need to stay valuable, rare, inimitable and non-substitutable in order to stay competitive, and this is managed by adapting to the industry environment. This adaptation and change of resources when a firm is experiencing a changing environment is what Teece, Pisano and Shuen (1997) defines as DC. Teece et al. (1997) argue that DC are the firms' capabilities to take in new

resources build up new resources from start as well as restructure the existing resources and capabilities in order to adapt to the changing environment. Thus, we define DC as the factor that changes/develops the internal resources into capabilities when the current resources are not considered competitive anymore due to change in market environment.

Important to bear in mind, resources in themselves are not productive without coordination and DC, in order to meet the challenges of changing environments. We draw these two factors back to Nummela (2004) and Nummela et al. (2006), where the authors claimed managers are at the heart of the change process. The above suggests that this is well-grounded, because it is the managers who hold the executive powers necessary to arrange resources as they see fit. Thus, it is indisputable that the managers' dynamic ability and resource management style is of significant effect upon the entire internal change process during internationalization. Therefore, the next chapter will discuss resource management, which will then be followed by a chapter where DC in internationalizing SMEs will be discussed.

### **3.3 Managing firm resources**

Sirmon, Hitt and Ireland (2007: 273) defined resource management to be the process of *“bundling resources to build capabilities; and leveraging capabilities to provide value to customers, gain a competitive advantage, and create wealth for owners”*. Therefore, Sirmon et al. (2007) and Sirmon, Gove and Hitt (2008) argue that managers should screen and select the subset of firm resources which enable the creation of capabilities that in extension give the firm an opportunity to compete effectively in its target markets. Even though, Sirmon et al. (2008) argue that owning or having access to valuable and rare resources no doubt contribute to competitive advantage, they also convey that these factors alone are not enough. According to Sirmon et al. (2008) management must effectively bundle and deploy the firm's resources for potential advantages to be realized. Thus, the study brings to bare the significance of the leader's resource management actions, in achieving and sustaining competitive advantage with disposable resources (tangible and/or intangible). The study takes this a step further by claiming that when rivals resources are similar, then resource management is of more importance than the actual resources. Furthermore, the flexibility of resources is considered, it is argued in their results that this affects

the manager's ability to bundle and deploy resources according to the extant competitive environment (Sirmon et al., 2008). The results of this interesting study were found from a sample of major league baseball organizations, which the authors innovatively adapt and generalize toward the behaviour of firms, which they argue operate under similarly competitive structures.

*“Bundling refers to the processes used to integrate resources in order to create capabilities. Leveraging involves the set of processes used to configure and deploy capabilities specific to a particular market context (Sirmon et al., 2008: 922).”*

The results from Sirmon et al. (2008) demonstrate managers' influence upon capability-based performance by investigating the resources they bundle, how they bundle them, and how they are deployed. Examining this, the study concludes that the bundling and deployment of available resources, produce certain outcomes and any difference in these outcomes must therefore be due to the specific managers' effectiveness, or by way of the managers' influence through *“asset orchestration”* (Sirmon et al., 2008; Sirmon and Hitt, 2009). Asset orchestration as defined by Sirmon and Hitt (2009) is the interdependent performance effect of two important dimensions: resource investment and resource deployment, the study demonstrates that the relationship between these two dimensions is important for firm performance. Investing to acquire or develop (existing) HC is beneficial for the firm only if it is combined with deployment decisions that successfully make use of that investment (Sirmon and Hitt, 2009). Therefore Sirmon and Hitt (2009) claim that how managers orchestrate the firm's assets, meaning how they acquire and develop resources (through investment) and how they bundle and leverage those resources (through deployment), has a substantial effect on a firm's success.

However, Sirmon et al. (2008) also recognize that there are certain restrictions in regard to managers' ability to bundle and deploy resources as they see fit. For example, in terms of HC where various skill sets are embodied in individual employees, the manager cannot merely bundle and deploy one desired skill set, but must bundle and deploy the employees who hold numerous skills, of varying proficiency (Sirmon et al., 2008). Thus, the individual employee's HC along with the effects of managers' bundling and deployment actions should be carefully balanced

with other resources in order to achieve optimal outcomes (Sirmon et al., 2008). Finally, this relationship should be modified in accordance with firm goals (Sirmon et al., 2008) as different strategies require diverse firm-level and individual-level capabilities.

By extension, Sirmon and Hitt's (2009) study also suggests that resource investments alone do not generate good performance; therefore managers need to balance investments to fit the needs of the firm. Having skilful employees and applicable physical capital is important, however the investments into those resources are arguably unjustified if not deployed effectively (Sirmon and Hitt, 2009).

### **3.4 Internationalizing SMEs and dynamic capabilities**

Although this study is focused generally on internationalizing SMEs in Sweden, the recent wave of research into so-called International New Ventures (INVs) is highly relevant for our purpose, as there are many similarities between the SMEs in our sample and INVs, for example the firms seek to have international sales from inception (Oviatt and McDougall, 1994).

Recent research demonstrates that there are a number of SMEs which are able to quickly enter international markets (Knight and Cavusgil, 1996 and 2004; Oviatt and McDougall, 2005; Madsen and Servais, 1997). In regard to this, there has been a growing interest among researchers as to the factors/elements which allows these small, resource-constrained enterprises to overcome their numerous liabilities of foreignness (Lu and Beamish 2001) and successfully internationalize. A popular perspective, which has been rising to prominence recently, is that of DC defined above. The DC perspective is complex, with a myriad of factors attempting to explain the relationship between the many internal (and external) resources of the firm. Thus, it is an expansive challenge to apply this perspective to the field of SME internationalization. As will be shown in the following, many researchers have attempted to bridge this expanse and provide a decent backbone on which to build a theoretical framework elucidating the importance of DC to SME internationalization and thus INVs.



Weerawardena, Sullivan-Mort, Liesch and Knight (2007) suggest that the founders or managers of INVs have some dynamic attributes that enable them to create the capability to develop competitive advantages, which is a core premise of the DC perspective. Similarly, Evers (2011) argues that the capabilities entrepreneurs have are in fact owed to the knowledge they have acquired over the course of years, which therefore allows them to easily find, cultivate and integrate various internal and external resources when looking for sources of competitive advantage. Zucchella, Denicolai and Scabini (2005) likewise argue the DC perspective as an explanation for the competitive advantage of INVs. This is very much in line with the findings of Knight and Cavusgil (1996) and McDougall et al. (1994) whose studies demonstrated how entrepreneurs' capabilities are significant in facilitating the internationalization of SMEs. Further evidence of the entrepreneurs/leaders significance is given by Pinho (2011) who argues that SMEs need to make use of their network relationships to access new information and opportunities outside the firm, in order to build different capabilities.

In order to fully appreciate the depth of DC and its importance for resource-constrained INVs' internationalization process, it is necessary to identify some of the major and integral capabilities, which constitute a *dynamic capability*. In terms of the entrepreneur/leader, it is broadly acknowledged that their networks (valuable relationships and the ability to create them) are highly influential upon the internationalization performance (Knight and Cavusgil, 2004; Oviatt and McDougal, 2005). Therefore, the ability to create, sustain and use networks can be identified as a DC for INVs (Sullivan-Mort and Weerawardena, 2006; Pinho 2011). Also, of equal importance, is the widely recognized significance of the entrepreneurs'/leaders' mindset (Gupta and Govindarajan 2002; Harveston, Kedia and Davis, 2000; Knight, 1997). Thus, it is no surprise that Evers (2011) identifies the manager's ability to learn-unlearn-relearn in response to various market stimuli as an additional means for developing DC in the firm, or as Weerawardena et al. (2007: 300) proposes a "*market-focused learning capability*".

In extension to this, Evers (2011) argues that firms that can adapt and renew themselves in international markets have an internal adaptability. This is defined as the firm's ability to adapt, integrate, and re-configure (internal and external) resources

in order to develop competitive advantage in response to market change (Pierce, Boerner and Teece, 2001). Therefore Evers (2011) argues that this form of adaptability can be regarded as another DC for the firm, which by extension highlights the importance of managing firm resources (Sirmon et al., 2008; Sirmon and Hitt, 2009) correctly, in order for the firm to be able to develop this DC. This is further expounded by, Pinho (2011) who argues that for SMEs to be able to recognize and capture international opportunities they need to continuously reconfigure their existing resources (tangible and intangible) and create new knowledge and resources from outside sources.

However, there is some wariness among researchers, for example Zahara, Sapienza and Davidsson (2006) posit the reality that DC does not always guarantee greater performance. But still hold that, if the development of DC change and reconfigure routines in the way envisioned by the firm's management, it will more likely facilitate a smoother transition (Pinho, 2011).

As previously mentioned, the focus of this thesis lies specifically within changes in HRs. The following part of the theoretical framework will be structured under the previously mentioned definition of HRs, which constitutes knowledge, skills, abilities, networks and mind-set. However, these resources are interconnected with each other in most studies on internationalizing SMEs, therefore we have structured subsequent parts under a broader concept (mind-set and human competencies). We will begin to discuss mind-set and human competencies, which will then be followed by a discussion regarding the proponents that actually embody the above resources, namely the employees and managers.

## **3.5 Human resources**

### **3.5.1 From local to global mind-set**

There have been a substantial amount of studies over the last couple of decades regarding SMEs that are global from inception. The rise of these BGs is according to Madsen and Servais (1997) characterized by new market conditions, technological developments in different areas and people's capabilities. There is plenty of research connecting the manager's characteristics and the international success of these firms.

Most of these studies emphasise that the global mind-set of the manager is essential for early internationalization (Harveston et al., 2000; Harveston, Osborne and Kedia, 2002; Knight, 2001). The research also highlights the role of the top manager and how this effects the speed of internationalization (Knight, 2001; Harveston et al., 2000). However, there are several different concepts on the global mind-set of managers and firms. Most of these concepts are named differently depending on the study. Nummela et al. (2004) give a good overview of the different concepts similar to global mind-set, which they claim are overlapping each other in many cases. This overlapping of different concepts will be discussed briefly below where we gain more understanding of how a firm transits from a local to global mind-set.

To start with, Gupta and Govindarajan (2002) discuss global mind-set in organizations in general and define it as a concept that includes openness and awareness of the diversity of cultures and markets where this diversity also is integrated. Nummela et al. (2004) state that the concept of global mind-set is under development and that various studies interpret this concept differently, making the various concepts contradictory in many cases. The reason behind the many different interpretations can be the fact that researchers are discussing global mind-set in different contexts, i.e. different type of firms.

Another concept often used, which fits with the nature of our research, is Moen and Servais (2002) work on global orientation within BGs and “gradual globals” where they describe it as the manager’s international commitment, international vision and pro-activeness, international customer-orientation and responsiveness, as well as the international marketing competence. Knight (1997) states that BGs often rely on advanced communication technologies to successfully internationalize. The above-mentioned global orientation is by far the broadest concept in use (Nummela et al., 2004).

Moreover, Knight (2001) states that the managers’ international entrepreneurial orientation is a key driver of the international success of a firm. The most important factors are internationalization preparedness, strategic competence and technology acquisition. The international entrepreneurial orientation is something that resides

within the firm culture and the top-management need to develop their middle managers and encourage this type of orientation (Knight, 2001).

The above-mentioned international entrepreneurial orientation concerns the actual international strategies. However, accompanied with the international attitude discussed by Dichtl, Leibold, Köglmayr and Muller (1984) this conveys the picture of the importance of global mind-set. Dichtl et al. (1984) discuss how the attitudinal characteristics of the managers are effecting internationalization and mentions international orientation, foreign market orientation and motivation for foreign involvement as key factors. They have found that international orientation includes both psychosocial and demographical mechanisms. Their study further claims that internationally oriented managers are low in psychic distance to the foreign market, have good education, speak foreign languages and have foreign experience, while they also are less risk-averse and have a generally positive attitude towards exporting (Dichtl et al., 1984).

Even though there are differences in the definitions of the concept of the above-mentioned mind-sets, researchers still agree that there is a relationship between the mind-set and the speed of internationalization (Harveston et al., 2000; Knight, 1997). This discussion gives a good overview of different scholars' opinions about the importance of Global Mind-set, what it is and what value it brings. Nevertheless, there is a need to examine how change of mind-set occurs. The most prominent scholars in this regard are Gupta and Govindarajan (2002). They discuss global mind-set in organizations in general and state that it can never be fully achieved since it is a continuous and endless journey. A global mind-set twenty years ago was relatively limited compared to a global mind-set now (Gupta and Govindarajan 2002).

Gupta and Govindarajan (2002) discuss different ways of how any individual or organization can develop a global mind-set. We therefore argue that this is highly applicable to the firms in this study. One influencing factor is the curiosity and openness to the world, which is claimed to be formed in early childhood and hard to change at a later stage. Therefore, it is vital for the firm to select this type of employees from start, since it will be hard to cultivate this desired state of mind. Our mind-sets form how we interpret the world around us, these interpretations in turn

effect whether or not our mind-sets change. To facilitate this type of learning process there is a need to develop a self-consciousness regarding our own mind-set and in turn understand that our view of the world is just one of many different interpretations of what reality really is. This understanding increases the possibility of new learning (cf. Gupta and Govindarajan, 2002).

Gupta and Govindarajan (2002) further claim that firms can also increase openness to other cultures and markets by facilitating this type of knowledge development on individual level and try to increase the diversity of employees within the firm. Both methods are vital and complement each other by creating diversity within the mind-set of individuals and gathering diverse knowledge in terms of new employees. These different diverse knowledge bases are vital for an international firm; however it will only contribute if the diverse perceptions can be integrated into one coherent vision, decision and action. If this integration fails it will constitute an environment that increases possibility of conflicts and frustration. Nevertheless, for this integration to succeed the firm need to make sure that the employees find the integration to be a satisfying effort and that the employees will be given the opportunity to participate in such integration as a part of their job responsibilities (cf. Gupta and Govindarajan 2002).

This chapter showed the importance of a global mind-set and what effect it has upon a firm's international growth. However, the global mind-set cannot by itself facilitate internationalization without knowledge and competence about the foreign market. Therefore, it is reasonable to discuss how a firm goes from being local to global in terms of the market knowledge/competencies which it possesses through HRs. The following part will discuss this concept and explore how the employees' and managers' competence facilitates the international expansion.

### **3.5.2 From local to global competencies**

Previous research has contested that human competence and industry knowledge is a resource that significantly influences a firm's survival and growth, as well as its potential to generate increased revenues for the organization (Brush, Greene and Hart, 2001; Cooper, Gimeno-Gascon and Woo, 1994). The human competence and industry knowledge could be connected to what Hohenthal (2001) calls a firm's system of knowing.

Hohenthal (2001) defines internationalization as an extension of a firm's system of knowing into a new culture. This extension can arguably be facilitated, if the firm has adopted a global mind-set as previously discussed. The system of knowing is the knowledge about the markets where the firm operates and is developed by doing business. New international business relationships between firms can satisfy the customer needs through the existing system of knowing within the network or by developing the needed knowledge with the firm's resources (Hohenthal, 2001). This goes in line with the DC discussion above and confirms that the firm's need to develop the knowledge with their resources. However, what Hohenthal (2001) calls resources in this context is what Teece et al. (1997) defined as DC. Hohenthal (2001) claims that the more the existing system of knowing is used the easier will the internationalization process be and only when engaging in the new business relationship does the firm know whether they have to develop new knowledge. A firm's experience is created by imitating, reflecting and learning by doing which is then stored in the system of knowing or the collective memory of the firm and its network of business relationships. It is easier to do business that requires usage of the existing collective memory than doing business that requires changes in the collective memory. Individuals in the firm make up this collective memory and the individuals thus also implement the changes (Hohenthal, 2001).

A firm's internationalization process mostly requires changes in the collective memory, but since SMEs' resources are limited their performance is, also in addition, often reliant on their international business relationships' collective memory. Nevertheless, performance in the long run is reliant on the firm's capacity to change and develop the collective memory. The balance between having useful knowledge within the firm's international business network and actually being able to create knowledge if needed is vital (Hohenthal, 2001).

The above discussion about the relationship between the firm's network and system of knowing is something that has been emphasised by other researchers as well. Oviatt and McDougall (2005) for instance, found that SMEs can through the entrepreneurs' network identify international opportunities, which expedite the

creation of foreign partnerships. This goes in line with Zhou, Wu and Luo (2007) who, in their study on BG SMEs, claim that social networks play an important role in the firm's international performance, because the social network provides knowledge about the foreign market opportunities, gives advice and experience at the same time as it increases trust and solidarity.

Furthermore, Lu and Beamish (2001) also highlight the importance of networks in order to overcome the liability of foreignness and newness, which means the lack of knowledge of the foreign market, as well as the resources and capabilities to perform successfully there. This is also expounded by Oviatt and McDougall (2005) who similarly argue networks can facilitate internationalization, through providing entrepreneurs with access to a large source of market knowledge and competence. As discussed above, knowledge and networks are embodied within the firm, through the people who work in it. These individuals hold the competencies which are critical for the firm's internationalization. Therefore, there is a need for a discussion regarding the transition of local to global, in terms of the firm's employees and managers.

### **3.5.3 From local to global employees**

Research has been focused upon the importance of managers and entrepreneurs of internationalizing SMEs (Reuber and Fisher, 1997; Madsen and Servais, 1997). Consequently, this has marginalized the significance of rank and file, as well as, other key employees' role during this local-to-global process, which has received little attention from researchers; see for example Halldin (2010). However, more recent research has begun to show interest in the significance of these employees on SME internationalization. Onkelinx, Manolova and Edelman (2012) shifted the focus from the managers to the employees' HC, in terms education and training, where they found that the employees' education is very much related to the degree of internationalization of the SME, while training did not significantly increase degree of internationalization. Horn, Nickels, Van Olffen and Heijltjes (2010) argue that in resource-constrained SMEs, employees often have unclear job responsibilities and are required to perform multiple roles, thus considered their collective HC an important source of competitive advantage for SMEs, since international SMEs face the same type of resource constraints we find this to be highly relevant.

An important resource dimension in employees is their social capital (SC) as identified by Brush et al. (2001) in a study of start-up ventures in the United States. The authors show that more senior (experienced) employees bring with them a *rich resource legacy*, developed in their previous roles, to a new venture. This legacy in turn can influence the strategy of the new venture. It is therefore argued, that by hiring more senior employees in key positions an internationalizing SME can benefit from their extensive knowledge-based resources (Brush et al., 2001). This, in turn can facilitate the development of appropriate systems and routines within the new venture, enabling faster growth and possibly internationalization rate. A part of this resource legacy, is the SC, which is vital, as it allows key employees to build important partnerships (e.g. with suppliers, customers, etc.). Moreover, it is posited that SC can also be used to obtain other tangible or intangible resources, such as finance and/or trust in the business network (Brush et al., 2001).

Furthermore, due to limited resources, SMEs face substantial challenges in recruiting as well as training the employees currently working for them (Banks, Bures and Champion, 1987; Williamson, 2000). Onkelinx et al. (2012) confirms that SMEs that are engaged in internationalization have difficulties developing organizational capabilities in-house and therefore need to enhance these by recruiting experienced and skilled personnel. Therefore, recruitment of talented employees is a critical factor of consideration for internationalizing SMEs as educated and skilled employees are arguably correlated with a successful or less/unsuccessful internationalization strategy (Onkelinx et al., 2012). This is reinforced by Halldin (2010), his results showed some evidence that the level of education of firms' employees can have a positive effect on the firms' survival, especially in high-tech firms. The fact that Onkelinx et al. (2012) did not find that training is positively correlated with level of internationalization might suggest that training is expensive for the firms and time-consuming for the employees who are busy doing their work within these rapidly internationalizing firms (Onkelinx et al. 2012). Onkelinx et al. (2012) further claimed that this is vital in not only new ventures or BGs, but in any internationalizing SME. On the other hand, Halldin's (2010) results show that in the Swedish context, employee characteristics are of little significance on survival for BGs in the strict definition. This finding sheds some more light as to why previous research has placed so little focus on general



employees. Despite this, when Halldin (2010) extended his sample of firms to include general SMEs at varying degrees of internationalization, stronger evidence began to emerge suggesting that having a correct mix of employees is in fact important for firm survival.

An interesting aspect brought forward in Onkelinx et al.'s (2012) study shows that there is an optimal level of HC growth when further investments do not contribute to internationalization anymore. Therefore, investments in HC cannot drive internationalization indefinitely; adding to this will only contribute to increasing the firm's overhead. Thus, the importance of correctly managing the HRs, and in extension the capital they embody, is paramount (Sirmon et al., 2008; Sirmon and Hitt, 2009). Therefore, the following paragraph will discuss the leaders' importance in internationalizing SMEs.

#### **3.5.4 From local to global leaders**

In light of the emergence of fast internationalizing SMEs there has been an increasing amount of interest focused on the importance of decision makers within these firms. Extensive literature identifies, among other characteristics, the international orientation of the owner-manager or other key decision makers in SMEs as a key determinant of its internationalization (Knight and Cavusgil, 2004; Oviatt and McDougall's, 2005; Madsen and Servais, 1997; Reuber and Fisher, 1997; Nummela, 2004; Nummela et al, 2006).

As discussed previously, the manager's resource orchestration is an important concept as Sirmon et al. (2008) as well as Sirmon and Hitt (2009) demonstrated in their studies. It has been argued that among the various dimensions within HC, some of the most influential in regard to the success of new venture and SME internationalization are managerial skills and perceptions of the market (Manolova, Brush, Edelman and Greene, 2002). The aforementioned managerial skills and perceptions can be linked to entrepreneurial competencies. This can be defined as the dynamic constellation of knowledge, skills and abilities that allow entrepreneurs to perform their roles (Man, Lau and Chan, 2002; Muzychenko, 2008). Therefore the concept of resource management (Sirmon et al., 2008; Sirmon and Hitt, 2009) is an interesting avenue to develop upon for the case of internationalizing SMEs, as understanding what type of

managers these firms require in order to bundle and deploy resources optimally is vital to the outcome of SME internationalization.

Knight and Cavusgil (2004) find that the characteristic of international entrepreneurship (IE) is an integral part of the organizational culture. The authors associate IE with innovativeness, managerial vision and proactive competitive posturing. Additionally, Oviatt and McDougall's (2005) study provides a reformulated definition of IE as; "*the discovery, enactment, evaluation and exploitation of opportunities, across national borders*"(Oviatt and McDougall, 2005: 540). This international orientation of the entrepreneur or other key employees is arguably dependent on their exposure to various influences. Lloyd-Reason, Damyanov, Nicolescu and Wall (2004) identified some of these to be; the knowledge of foreign cultures, competitors, languages and international relationships as well as education. Consequently, without a strong leadership commitment to internationalization, SMEs are less likely to pursue internationalization. As evidenced in a recent paper studying the high technology cluster in Cambridge by Myint, Vyakarnam and New (2005) in which their study confirmed the importance of the role of entrepreneurial individuals as drivers of growth, in the case of their research, within clusters.

Furthermore, Madsen and Servais (1997) find the increasingly elaborate capabilities of people, in terms of the attitudes and mental maps, especially in terms of the entrepreneur, to be significant when trying to understand the internationalization patterns of firms such as BGs and INVs. This corresponds with Reuber and Fisher (1997) whose study of internationalizing SMEs suggests that managers with international experience clearly exhibit behaviours, such as the use of strategic partners in foreign markets, which facilitate the internationalization of SMEs, more so than those with a lack of international experience. Finally, the above reinforces the argument that the greatest emphasis in SMEs' internationalization should be on the owner-manager, because they are the common denominator, at the heart of the change processes (Nummela, 2004; Nummela et al, 2006).

### 3.6 Summary of theory and conceptual model

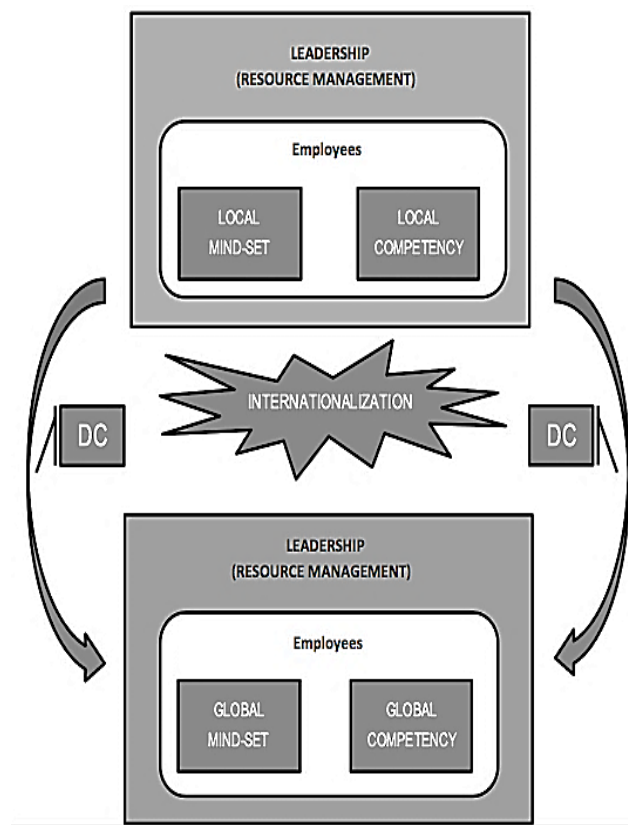
The theory has given us an understanding of the previous research upon internal change in SMEs during internationalization and has shown us the complexity of changes that actually occur (Nummela, 2004; Nummela et al., 2006). However, this previous research does not take into consideration *how* this change occurs within the HRs specifically. To be able to understand how HRs change in order to facilitate internationalization, the first necessary step was to identify firm resources in general, and to further narrow this down to define which specific elements constitute HR. There are several definitions of what HR constitutes. However, the literature review helped us form our own interpretation of what HR is in the context of internationalizing SMEs. We have defined it as the knowledge, skills, abilities, networks and mind-sets. After the extensive literature examination within the field of internationalizing SMEs, we find that all of these attributes are interrelated and thus can be defined under two succinct concepts, namely the mind-set and competencies of the leaders and employees.

Nevertheless, a firm's resources do not entail competitive advantage when isolated; therefore they need to be managed. This brought interest towards the resource management theories, which identified the need for understanding how bundling and deployment of resources must be orchestrated correctly in order to meet the demands of the changing environment (Sirmon et al., 2007; 2008; Sirmon and Hitt, 2009). However, Sirmon et al. (2008) as well as Sirmon and Hitt (2009) also demonstrated that the bundling and deployment of existing resources is not always sufficient, bundling needs to be accompanied with investments to acquire or develop new resources. Especially in conjunction with internationalization, studies have shown there is a need to actually change the existing resources in order to stay competitive (Evers, 2011). The DC framework was therefore adopted to shine some light on the process by which the above resources can be re-configured, adapted and integrated to meet the firm's new market conditions (Pierce et al., 2011).

The above provided the necessary theoretical framework needed, in order to analyse how mind-sets and competencies change from being local to global within the firm. This in turn elucidates the significance of having HRs, in terms of leaders and

employees, with global mind-sets and competencies, in internally facilitating the firms' internationalization. The internal internationalization process, within the context of HR, is a narrow focus on one of many internal resources which change during a firms internationalization.

However, HR is in itself a broad concept, with many (interrelated) elements and factors that need to be considered. Therefore, in order to take into account as many of the relevant elements and factors as possible, it has been necessary to bundle them under headings of common themes. These common themes were partially identified during the empirical studies, which acted as a conceptual filter. The major themes identified were the following; leaderships management of firm resources, DC, changing mind-sets and competencies.



**Figure 2:** Change in Human Resources during Internationalization. First Conceptual Model. **Source:** Authors own.

The above is conceptualized in Figure 2. The upper part of Figure 2, constitutes the leaders and employees when they have “local” competence and mind-set. This could for instance be due to the SME being in the start-up phase or just prior to its first international venture. The leaders and employees are put in different boxes to distinguish that the leader is a driving force behind the employees’ development and also the one that manages the employees, which is why resource management is placed within parentheses under the leader. The driving force for the leader to develop/change can be, for

instance, new market conditions (i.e. international market). However, if the leader is unable to adapt to the new market, then there is a possibility for a new leader or key

employee to take the reins of the SMEs internationalization. The leader should be the first to develop/change from local to global competence and mind-set in order to meet the new market requirements. This will in turn enable the leader to develop the vision and strategy necessary to drive this same change into the employees. Consequently, helping the entire firm to develop DC, meaning the firm's ability to renew, adapt and reconfigure in order to facilitate internationalization; this is represented in the bottom part of Figure 2.

## 4. Empirical Findings: Internal changes due to internationalization in five Swedish SMEs

*This chapter will show the empirical findings. The findings from each case will be presented and structured by describing the firm's background, external- and finally internal internationalization journey in order to provide a comprehensive view of the results, which the analysis will be based on.*

### 4.1 Key characteristics

Table 2 below demonstrates some key characteristic of the case firms. These characteristics are described in order to more easily understand and follow the firms' internationalization journey.

Case	Industry	Year Established	First Foreign Sub	% Of Foreign Sales 2012	No. Of Employees	Offices
A	Health/Medtech	1997	1999/2000	75%	150	Sweden, UK, Germany, US, China
B	Health/Medtech	1994	2001	99%	70	Sweden, UK, Canada, Japan, China
C	IT/Hardware	2001	2009	70%	115	Sweden, Denmark, Norway, Germany, France, Spain
D	IT	2002	2009	50%	72	Sweden, Norway, Denmark, Germany
E	IT	1997	2007	70%	102	Sweden, UK, Germany, Denmark, Netherlands, Hong Kong, US

**Table 2:** Key Characteristics of Firms

### 4.2 Case A

#### 4.2.1 Firm background

Founded in 1997, the firm markets a specific biomarker globally. It is marketed as a highly reliable and effective tool to assist in the diagnosis and control of airway diseases (e.g. inflammations, asthma). Today Firm A has 150 employees with headquarters (HQ) in Sweden and sales offices in the US, Germany and the UK, and also a recently opened representative office through Business Sweden in China. However, its product reach is global through strategic partnerships with distributors. The current CEO joined Firm A in 2011 and has over 20 years experience within healthcare and pharmaceutical consulting. He has extensive international experience

and was Head of European mid-markets for a larger European pharmaceutical before joining Firm A.

#### 4.2.2 External internationalization

When the CEO joined Firm A the firm was predominantly European. Firm A had only a few people in its key European markets (Sweden, the UK and Germany) and a few in the U.S. The CEO describes the structure especially in terms of sales as having been unorganized: *“When this product launched in the US, I wouldn’t say it launched, it escaped”*. He attributes this situation primarily to the old management who were all Swedish, with little to no experience of running or driving an international business.

It was vital for Firm A to internationalize due to the limited size of the Swedish market. When internationalizing, Firm A is significantly dependent on gaining regulatory approval from the various national and international institutions. These institutions can be the FDA in the US to the EMA in EU and SFDA in China. In light of this, the CEO finds the best strategic approach in entering new markets is to *“get approval by applying to one central place, then you’re licensed to sell within that group of countries”*. When deciding on which markets to enter he uses a very structured and investigative approach. The first step is to look at some of the things about those economies such as market size, corruption, infrastructure and presence of distributors. Firm A’s first step into markets outside Sweden was by entering the UK and setting up offices there. The CEO does not really know why this original decision was made. After the UK they entered Germany, which made more sense to him *“because it was a big market, it seemed very attractive and they’ve done well in Germany”*. Today, although the CEO believes Europe is still an attractive healthcare market, he is more focused on Asia and the US. This is because, like many CEOs, he considers countries in these areas to be key growth markets for Firm A due to their population size, market need and economic power of their consumers.

With their most recent entry into China, Firm A has chosen to develop this market in close relation to Business Sweden and a large distribution partner. In facilitating entry, the CEO finds the cultural knowledge and networks of those local consultants which Business Sweden employees have in their regional markets as a valuable resource for Firm A. However, the CEO also highlights the importance of due

diligence, in their partnership with the Business Sweden and distributors, because they are ultimately responsible for everything to be accurate, correct and legal. Consequently, communication is considered vital in regard to Firm A's external relationships: *"When you extend your relationships communication is so key (...) I work with Business Sweden, they work with subcontractors and subcontractors work with a distributor. I am like four points of separation from my product to the customer, which gets dangerous for a small firm"*.

Therefore when building a network, trust and communication is something Firm A spends a lot of time on. To accomplish this, the CEO maintains that the firm need people to train their distributors. Because when internationalizing, through the use of distributors, as Firm A has done requires a careful process of filtering and selection of potential partners: *"You have to pick them very carefully because if you get subprime one they will represent you, they can really mess up a market for you if you're not careful"*. The CEO believes the lack of due diligence in their early attempts into the Chinese market was not very successful precisely due to this. *"In China that's why we had to change our distributor, get rid of them and get a new one"*. The firm predominantly operates through distributors in most of its markets. Only in the UK, Germany and Sweden does Firm A have its own operations for the European market, as well as one office in the US.

#### **4.2.3 Internal internationalization**

As Firm A began to internationalize initially, they had a Swedish sales force with three people. When venturing into the US market the firm did not put enough resources into finding out about the market: *"They pretty much said we have got to be in the US, and when I look back they just put people in and figured they would automatically start selling the product"*. The outcome of this was that there was a team of sales representatives in the US trying to sell something that did not have proper reimbursement from government or private insurance institutions; the CEO thinks that this was primarily due to *"a lack of knowledge"*. He compares this to their entry into Japan, under his steer, where they started selling the product early (before they were legal) for research purposes, which is permitted. This same approach is now being used in China through their local partner, which has led them to gain some reimbursement and approval there already.



This internal journey of change took off when the CEO set a course in motion to become a more commercially focused firm. In order to do this he defined a clear outline of what must be done and performance goals. This he argues brought on a big philosophical change within Firm A: *“It changed a firm that was talking about interesting science to really selling a product”*. Previously, the firm’s sales reps and management were focused on talking about the value of their biomarker, which the CEO considered a mistake because the market was asking: *“How can this interesting biomarker help my patients and help me as a doctor?”* This way of doing things was a part of Firm A’s administrative heritage, which the CEO refers to as: *“Tribal knowledge about the old firm”*. In order to respond to this, he essentially overhauled the existing sales structure and process: *“We have kind of morphed it into a new firm and we’ve made mistakes and we’ve had success and people have learned from both”*. He explains that previously employees were composed mostly of engineers; they knew how the machine worked, but could not advise on treatment. Therefore, in order to respond to the above market demand, the CEO needed very different people in sales, specifically people with a medical background.

Thereby, in the past the firm was focused on trying to sell the actual machines and make money off that. The CEO’s idea, which he has been driving into the mentality of the older employees, is to actually give away the machines at a discount and make their margins on selling the tests instead. *“I had to convince the older employees to give this machine to the doctors, as many as you can! We want them to use that! Because the margin is very good, give them the razor so they will buy your razor blades”*. This was an extension of the philosophical change the CEO was making to Firm A. It went from a firm that had mostly Swedish employees, spoke Swedish, had documentation in Swedish and were used to dealing with a very structured nationality, to one with a global mind-set.

Today there is a crucial difference from the above in Firm A. Especially in regard to its internal and external communications capabilities. The CEO illustrates this change by way of the types of meetings or work processes that are ongoing in the organization presently: *“You’ve got a Portuguese guy sitting next to a bunch of Swedish women, an American doctor and a Swiss doctor and they’re talking about*

*launching the product into the Spanish market*". This kind of cooperation, the CEO claims, was not at all possible in Firm A just a year and a half ago. They did not have the right kind of people or knowledge. To further facilitate communication between subsidiaries, Firm A has under his leadership introduced sophisticated face-to-face desktop videoconferences.

Also, a kind of share-point system of document management has been adopted, allowing information to be shared openly between colleagues in various offices. However, the most critical change that has enabled the above increase in communication efficiency, according to the CEO, is the introduction of the Lync software (from Microsoft). This new system was introduced roughly six to eight months ago and the CEO believes that it is only recently finally becoming standard practice in the firm. However, even though the corporate language is now English, the CEO is still painfully aware that due to cultural and linguistic differences in the various nationalities of his employees they must remain vigilant to avoid misunderstandings. Additionally, they started to deal with places which were not as efficient as Sweden; also the volumes they deal with are different. Thus, the two-man team Firm A had in finance was no longer sufficient, they could not respond to all of the inquires, as a result, the CEO had to hire more people in the finance department.

Another major change from the past, according to the CEO, is that Firm A understands global economies better than in the past. The firm has a better awareness of the various factors that can influence market entry: *"You have to understand that market, the differences in customers, consumers and regulations"*. For example, he realized quickly that in order to sell in the various markets, at commercial volumes, Firm A needed to reinforce its knowledge of regulatory affairs. As the business started to spread out he needed to find people who were used to working with the FDA, with the Chinese regulatory agencies and other national regulatory bodies and getting people who wanted to do that. Today, Firm A has two regulatory people here and two in the US, one of which is the head of worldwide regulatory affairs and the head of US regulatory affairs which is one year old. Just a year ago it was one person who was in charge. Also today, Firm A has its own in-house software engineers working side by side with their regulatory people. Three years ago Firm A did not have any software engineers, this function was outsourced: *"Now we have our own*

*people, who have the right tribal knowledge and can stand in the same room and discuss, you don't waste as much time, you don't make as many mistakes*". Another challenge for the CEO was to change the business culture of Firm A. He describes the habit of Swedish people going on vacation and not taking their cell phones with them. This practice was not sustainable in his view when working for a medical device firm. He explains it as follows: *"When you're a medical device firm this device is somewhere around the world working and if there is a problem with it they are going to try and call somebody"*. Therefore, he needed people who would answer the phones 24/7. This was a big change for Firm A; it was not just doing business in the Central European time zone. The CEO dealt with this by repositioning Firm A; it was no longer just a Swedish firm, but a Swedish firm tackling a global disease. By doing so he wanted to minimize potential cultural clashes: *"It wasn't about your Swedish culture vs. my American culture vs. our colleagues in China and Japan, asthma is multinational"*. Generally, the CEO demonstrates a great sensitivity towards how national cultural differences can strain a small firm.

In terms of its personnel, the CEO has placed a greater emphasis on the individual's experience and capabilities. Even when hiring locally, potential employees must possess an impressive array of talents; be it languages, regulatory affairs and quality assurance. Employees should have a wide range of skills, without necessarily being experts in each field. *"I can't afford three people, I can afford one good one, that's important when you recruit people you really have to look at what they've done, they may not be experts on all of them but they have touched them"*. As an example he describes Firm A's head of regulatory affairs; she understands European medical affairs, she has lived and done a lot of work in Asia, originally Australian by birth, but she is now a Swedish citizen. The CEO also highlights that his people must *"not be afraid to learn things they don't know about, that risk tolerance, that willingness to try to reach"*.

Strategic functions in Firm A are only semi-centralized, while most of the heads of respective departments are based in Sweden, some are based abroad and many of them move around a lot. The CEO argues that this type of semi-centralized structure is important for cost efficiency, and is only made possible because of the advanced communications systems that have been implemented within Firm A: *"For a small*

*firm, if you didn't want to do it in a more virtual sense you would have to pick people up and move them, and relocation I can tell you is incredibly expensive". As an example, the US subsidiary headed by its President describes during a video call: "We have gotten pretty adept at sharing content while you have the video feeds and audio feeds running as well so it's like employee X is in the room with us".*

When asked how the above changes took place, whether they were directly due to internationalization or proactive measures, the CEO's response is that most of the changes he made were proactive, with some taking longer than others: *"The medical piece I saw right away, the expertise to deal with insurance companies both foreign and domestic I saw that right away, we just didn't have the people to do that, that was really important".* Therefore, changes in roles, adding new personnel to acquire needed knowledge and capabilities were a rather straightforward process. On the other hand, the extent of cultural and philosophical changes that was necessary was uncovered as internationalization progressed: *"Some of the sales reps have been here longer, they were not used to selling very much and we sort of set these very high goals that some of them didn't like".* The CEO connected this to the mind-set of sales representatives, which he felt was due to the culture of maybe not wanting to work that hard.

In summary, it is clear that Firm A has undergone significant changes, both internally and externally, since the arrival of the CEO in 2011. Internal changes were done both proactively, in preparation for internationalization, and also unfolded as a result of internationalization in some cases. Additionally, the internal changes seem to have been a necessary development in order for Firm A to improve (therefore change) its internationalization strategy.

## **4.3 Case B**

### **4.3.1 Firm background**

Firm B is active within the healthcare industry and provides products for automatic blood cell analysis. The customers are typically hospital laboratories but also commercial laboratories. The products are automatizing the traditional laboratory work, usually done by using microscopes. Firm B's products are using digital image

analysis which increases efficiency in terms of time and result. The firm was founded in 1994 in Lund, Sweden, where the HQ still is located. Today they have 68 employees and subsidiaries in the US, Canada, Japan and China. The current CEO has held this position at the firm since 1998. Before she joined Firm B she worked in the US and has predominantly worked in international firms.

#### **4.3.2 External internationalization**

The firm internationalized from day one since they knew that the Swedish market was too small for the type of niche product they had. During the initial stages the firm focused on the European market and sold through distributors. They did not want to start selling outside of Europe the first years since the products were complex and if something went wrong it would cost too much to repair or take home the product. During the firm's European expansion they got FDA approval in the US and in 2001 the firm acquired an American competitor. They bought this firm to learn the American market and got customer connections at the same time. They hired four of the acquired firm's employees. The CEO emphasises that *"the knowledge and customer connections they got through the acquisition were vital for their expansion"*. In 2007 the firm set up a subsidiary in Canada since the Canadian health care system was rather similar to the Swedish one and it was not possible to have the US employees covering that market as well. Firm B is always aiming to sell their products through distributors and the subsidiaries are seen as facilitators who are there to support distributors. They also make sure that the distributors have the right product knowledge. Firm B's largest distributor is a Japanese firm, but this firm did not want to take over distribution in Japan at first. Therefore Firm B needed to open up their own subsidiary. The CEO states: *"Now this has changed and they are our distributors here as well. However, we still think that we need our own people in our key markets where we know we can get volume. Therefore we need people in place that give support to the distributors"*. Firm B is present in China since 2012 where they have two employees sitting at the Business Sweden's office. This is however not a legal entity. Firm B is working through distributors all over the world except in the Nordic countries and Canada. The CEO claims: *"There are five big players, and four of these are our distributors. Our product is part of a package that is sold to a blood lab. The other equipment in this package is sold mainly by these five big players and this gives us an easy way in"*.

### 4.3.3 Internal internationalization

As Firm B increased their international presence they standardized their products to be practically identical in all markets. They did not want to have any customer or market adaptation since this would complicate their business. However, the CEO claims that it is still important to adapt to the market in terms of which type of selling points and arguments they use. In Europe it is very important with quality, while the customers in the US are more cost-aware and therefore the firm need to push on different selling arguments in order to drive their business. As the CEO puts it: *“We need to know how to convince the market”*. They also needed to establish a logistics department as their internationalization intensified. Consequently, they also hired more people to the market department since they needed more market and customer knowledge as the volumes increased. The firm produced all the products in-house during the first couple of years. The product is completely different today and the production is now outsourced. At first, they outsourced to a firm in Switzerland because they had high-quality production capabilities. This was however found to be too expensive and Firm B changed production partner to a medical technology firm located in Sweden. The outsourcing is explained with knowledge, the CEO states: *“It is all about knowledge, we have the innovation knowledge, but we do not have the production knowledge. We could build up that knowledge, but that means a new part of the firm, different type of employees, more unions”*. All of this would provide Firm B with more administration but the CEO points out that this might be a way to go in the future.

During Firm B’s initial phase they worked through smaller independent distributors that did not have the possibility to sell the other complementary equipment needed in a blood lab. These distributors sold it as a stand-alone instrument. They realized that they needed to partner up with larger distributors that could sell their products as a complete package deal to blood labs. In this way Firm B could be a part of the five to seven year cycles when a lab is replaced. The CEO states: *“It took a while to understand this market mechanism and that it was good to work with the big players. At first we were a bit afraid of the big players, we thought they would take larger margins and we wanted to be more independent”*.

The CEO also points out that communication is important for the firm. Since they are rather small and spread out in the world, they need to be able to share knowledge effectively between the different offices. They are currently improving their internal communication technology and the software will be adapted to all the different markets that Firm B are present in.

In summary, the internal changes in Firm B were rather prominent. The firm had to establish a logistics department in order to be able to form a suitable distribution strategy. The firm also needed to develop international market knowledge, which helped them understand the market needs and how to be successful globally.

## **4.4 Case C**

### **4.4.1 Firm background**

Firm C is one of the leading suppliers of mobile IT solutions for the trucking industry in Europe. Their products are used in more than 30 000 vehicles today and the product is simplifying the connection between the back office and vehicle by facilitating driver management, transport management and vehicle management. The firm was founded in 2001 at a Swedish Technological University and today they have 115 employees worldwide with HQ in Gothenburg. They have offices in Denmark, Norway, Germany, France and Spain. The current CEO was recruited in 2009 in order to internationalize the firm further. The CEO has a lot of international experience from global firms and has held sales and marketing positions where he has been a part of the internationalization of these firms.

### **4.4.2 External internationalization**

When the respondent CEO came into the picture, Firm C had two ways they could grow. Either they could widen their customer segment or go abroad. They chose to stay in the same segment and go international. The firm already had some customers abroad, but the foreign sales were not growing. The CEO identified the problem early on – the product was not adapted to the specific market requirements. In Denmark, for instance, they missed analysing the customers and the management just assumed that the trucking industry was the same in Denmark as in Sweden. But this was completely wrong. The desired functions for each market differed a lot, in Denmark it was important to have certain control of the driver and truck, whilst in Sweden the driver's

freedom was more emphasised. Another reason for the slow growth was that there already was a big player in Denmark. The CEO realized that it is too hard to enter a market alone and gain market share because the customers have contracts running up to five years and then they change the existing system. Therefore it was rather clear that in order to have a successful internationalization Firm C needed to enter through acquisitions. They acquired the Danish firm in 2009 and this firm already had a foothold in Germany, which was the leading step into the German market.

Firm C then started to scan the European markets and found that the French market had good potential and there was a player that had a stable market share, so this firm was acquired in 2011. Firm C was present in Spain through a dealer and they had five customers there. This dealer had some financial problems so they were acquired as well, in order to keep the customers. No further effort is done to gain market share in Spain. The operations there are on hold because of the bad Spanish economy and they are just more or less keeping the customers.

Firm C had sales in Norway through a dealer, but they realized that this was not the right way to do business in this market. It is simply too complicated to train the dealers. So they opened an office in 2011 and hired a sales person, then the sales really took off in Norway. There is only one competitor on the Norwegian market and they were not able to acquire this competitor so therefore they opened up a sales office. The firm have used Business Sweden in France, Poland and Finland to help them analyse the market and find firms to acquire.

#### **4.4.3 Internal internationalization**

The CEO points out that they really wanted to create a European firm. Due to the different mergers they had to restructure. They centralized R&D, operations, supply and finance. They are still in the process of centralizing these functions fully and the CEO thinks that when this is done there will be a lot of cost savings. He has also made sure that there is one person responsible for each function. The CEO believes that there is no point in having copy organizations at all locations. They are also in the process of merging the product with the French firm's product. Previously they had country managers in each location, but they changed this structure in December last year by creating a European organization where the sales managers are reporting



directly to the CEO. All of these changes are a part of getting synergies within the internationalization. The CEO also points out that everything does not have to be centralized in Gothenburg. It might be that the R&D function is stronger in France, the point is that there should be one person responsible for each function but it does not really matter where.

To merge the French and Swedish product the CEO hired a new Global Product Manager, because neither the French or Swedish Product Manager were active in the merging of the products and were not happy to do compromises because they were protecting their own product and market. The recruitment of the new Global Product Manager was a step towards a more European mind-set. The CEO states: *“It is important to vitalize the organization by bringing in new people”*.

The most important factor that has changed within the firm is the peoples’ mind-set. When the new CEO came in to the picture he had to widen the employees perspective. The employees were only thinking about how to grow in Sweden. The CEO made a vision that the firm should become one of the strongest players in Europe. This resulted in small changes such as languages, how to do support and project management in different countries, how to adapt the products etc. The CEO states: *“You have to have the mind-set that you should be a European player instead of a Swedish player”*. The CEO also recruited a lot of new people. Since the firm was a spin-off from the University; the employees did not have too much international experience and no experience from other firms. This was very important according to the CEO: *“So we brought in people from different companies that had seen the world outside Gothenburg”*. The CEO also states that he needed to open up the culture and implement a European perspective. To find the right people with the right mind-set is vital according to the CEO. He also states: *“We have to find people that like traveling and like culture and find that exciting, if you only have been doing your summer vacation in a sailing boat in the Gothenburg area then you are not the right person to be part of an internationalization of a firm, because it will be too strange for you”*.

Before the new CEO came into the picture the firm tried to internationalize through dealers. This was not successful, and as previously mentioned the CEO changed the preferred entry mode to acquisitions. The CEO states that this was due to

inexperience from previous management where the managing director did not have any international experience. The board of directors did not have any international experience either so there was a change of the board as well. There is a need to change the entire culture and the mind-set needs to go all the way, according to the CEO.

Firm C's products are produced in Taiwan and the acquired French firm produce their products in France. Firm C is now looking for a new production site where the two products will merge. They are also merging the whole platform and converting it from Windows Mobile and Java to Android instead, in order to utilize the tablet market. The CEO thinks that the entire industry will change and that Firm C will end up having an "app-store" where the customers can buy various applications. Before the CEO entered the firm they were only selling mobile devices that were bought from Motorola. When they saw that the Danish customers actually required fixed equipment they started to look for other suppliers. The CEO had some connections in Taiwan from his previous job and they ended up producing the fixed equipment there.

The CEO ends by saying: *"We could have been more proactive in realizing in product needs, we should have done it better before, to analyse exactly the recruitments in the different markets. During all these 4 years we have been missing a good product manager that has a good overview of recruitments for various markets"*.

In summary, Firm C has experienced several internal changes connected to the firm's mind-set. The firm has internationalized through acquisitions to gain the relevant market knowledge and the CEO emphasises the importance of bringing in new internationally experienced people.

## **4.5 Case D**

### **4.5.1 Firm background**

Firm D provides advanced online surveys to firms in order to meet the external and internal communication/feedback needs. The firm started as a traditional IT consultancy firm in 2002, the firm's core product started as a consequence of a client

asking for a new intranet and survey service in 2003/2004. Two years later in 2006 others heard of the product and asked for the same service, this is when the CEO (and founder) started Firm D and packaging its product. The firm opened its first international office in Germany in 2009 and is now also present in Denmark and Norway with HQ in Stockholm and covering 72 employees in total. His first international experience was during his time working with design of computer games, through which he travelled to Silicon Valley. After that, as CTO for another firm, he travelled extensively within Europe.

#### 4.5.2 External internationalization

The CEO knew early on that the firm would be international because many of their customers were global. Today the product is available in 56 languages and used worldwide. The CEO explains: *“Electrolux for example has subsidiaries almost everywhere and they did their global consumer panel and employee satisfaction survey with us”*. Therefore, it is enough for Firm D to have some local sales offices in major cities, once the product is sold to various HQs the product is then distributed globally to its subsidiaries. Besides the firm’s international offices they also have sales representatives in Austria, Switzerland and France. The CEO believes that the most important driver for becoming international is to be daring, which he does not necessarily equate with risk taking: *“It’s a matter of not being so scared”*. As the CEO takes all major decisions, especially regarding expansion, the responsibilities rest solely on his shoulders: *“There is an invisible sign behind my desk that says it all ends here”*. The first market Firm D entered was Germany, in 2009, this was mainly because of the size of the market: *“Germany is the biggest market in Europe; it has ten times the number of companies compared to Sweden”*. The German market was entered carefully, and incrementally, it started with two individuals who were previously known by the founder. Sales were originally made from their kitchen; it took roughly one and a half year before real operations were set up, he referred to this as *“guerilla tactics”*. After Germany the CEO decided the next market should be Norway. Unlike the previous decision, this was not due to market-based considerations. The major reason was simply because he wanted to be close to their biggest competitor, *“It’s not that Norway is a fantastic market, but our main competitor is based in Oslo”*. The entry mode for Norway was quite the opposite, here he immediately set up operations: *“We did everything at once, hired office space*

*and employed four people*”, which he deemed to be a “*more traditional approach*”. However, he found that this entry mode was not more effective: “*we didn’t save much time doing that*”. In the third phase of expansion, he opted to try something different, seeing that Poland lacked any firms doing something similar, a sales office was opened there because it is the strongest Eastern European country. However, for various reasons this was not a successful venture for Firm D, “*local Polish companies don’t have the resources to buy the licenses we offer*”. The firm therefore closed down their Warsaw office. Finally, the next step for Firm D will be to open a sales subsidiary in the UK. In this, the CEO has decided to try a new strategy, by first employing a native English speaker to start sales for the UK market from HQ, and only when a “*critical mass of roughly 50 customers*” is reached will they open a sales office in London and move him there to act as country manager and set up the business locally. In summary, the firm seems to have used a trial and error approach to find the best mode of entry.

#### **4.5.3 Internal internationalization**

As Firm D began to internationalize everything of strategic importance, such as marketing, finance and development have been actively maintained to remain centralized. The role of subsidiaries has been limited specifically to sales. This is largely due to the CEO’s past experience in another firm, he explains: “*They were creating fully functioning companies in each country and that ate a lot of resources*”. The reason for this according to the CEO was because the firm was too worried about cultural differences when it comes to marketing, among other activities. The CEO is of another mind-set, he believes that: “*What unites us is more than what separates us, so when people say that you can’t do this in Germany, I say if it works in Sweden it works in Germany, the US and so on, it’s pretty simple*”. Basically, centralization is pursued in order to achieve cost efficiency. This is a strategy that has been adopted from inception and maintained throughout internationalization, with no significant changes. In a minor instance of diversion, the CEO allowed for one local tech support to be hired in a subsidiary. In terms of acquiring new capabilities, the founder has placed emphasise on always trying to learn and do it yourself, he explains: “*I have this philosophy when building a firm; you should never outsource anything unless you’re forced to do it. I know in some management theory they say that you should focus on your core business, let others do what they do better. I am of the opposite*

*opinion, I think you should do everything you can do yourself and, only when it's absolutely impossible for you to do it, than you should take outside help".* Regarding recruitment of employees, this is always done locally in each subsidiary. In order to properly train and evaluate new employees, Firm D's Academy was created four years ago. Although they do not look for bilingual individuals specifically, it is considered positive if an additional language is known, to facilitate inter-firm transfer of know-how.

In summary, no significant internal changes have occurred within Firm D as a direct result of internationalization. On the other hand, it is clear that the firm has had a roller coaster of strategies when internationalizing. Therefore most of the significant changes are found in external internationalization.

## **4.6 Case E**

### **4.6.1 Firm background**

Firm E provides products within licence management and helps firms take control of their software assets and maximize the value of the firm's software and hardware assets. This is done through Software Asset Management solutions, which improves usage efficiency, and minimizes administration by controlling licences. Firm E was founded in 1997 with HQ located in Stockholm, Sweden. Today the firm has 102 employees and is planning to grow to 140 by the end of 2013. They have offices in the UK, Germany, the Netherlands, Denmark, the US and Hong Kong. The current CEO took the role in 2009 and has been within the firm since 2000.

### **4.6.2 External internationalization**

Firm E is in a specific niche industry and the CEO points out that they needed to enter new markets in order to grow. The firm's first international office was opened in London in 2007. The reason behind this was that the firm already had a good partner network in place and was known in the market. This made it easier for them to recruit the right people. The CEO states several more reasons behind entering London; the proximity, size of the market, similar culture and language. This market was mature in the UK at this time and there were a lot of competitors, however the CEO argues that this gives a lot of possibilities as well. He points out that this shows that there is

an existing customer base and therefore there are possibilities in exchanging customers as well as recruiting competitive people.

The sales models are different depending on which market they enter. Some markets and customers prefer to have long-term partner networks that provide them with the needed software. Trust is very important in these markets and customers want to buy from an existing partner. In this case Firm E tries to partner up with these distributors and sell through them. In other markets the situation could be the opposite; customers are happy with buying directly from an unknown firm as long as the product is good. The CEO points out: *“We have to understand if the market is reliant on a partner network or not”*. Firm E always has its own *“direct touch”* as the CEO describes it. This means that they do not rely on someone else to drive their business and they always recruit their own sales teams in all markets. The firm adapts the product when needed, the CEO states: *“Adaptation is the key”*. It is important to identify what is different in the specific markets. In Germany for instance, functionality is important while in other markets it is more important to know how to sell and conduct business. Firm E is prepared to adapt the product and the way of doing business as long as it does not interfere with their general road map.

Firm E entered Germany in 2009 solely because of its size. The CEO explains: *“It is such a big market so we cannot leave it out”*. Further on, Firm E entered the Netherlands in 2010 where they already had an existing partner network and customers. Another factor as to why they opened an office in the Netherlands was that they found a guy that they believed in. In March 2012 Firm E opened up an office in Austin, Texas, and in early 2013 they opened up the latest office in Hong Kong. All of these subsidiaries are providing sales, first line support and services. These internationalizations have certainly required change within Firm E, this will be discussed in the following paragraph.

#### **4.6.3 Internal internationalization**

The CEO early on points out that the cultural differences are important to be aware of when internationalizing. They have to know how to manage the different subsidiaries and the local employees but also how the chain of command works in the respective markets. Communication and languages are very important at many levels, both

internally within the firm and towards the customers through support and services. The firm has its own team that are managing the internationalization and since they have done it a couple of times they have learned a lot of things along the way. Firm E has recruited people that have been in internationalizing firms before, because these people already had networks and previous partners which they could make use of. The CEO points out: *“The biggest challenge for us is to find local management”*. Firm E is very reliant on this type of key employee since he or she needs to have the capabilities to find the right people for their office and build their own team. The firm wants to keep all business local. In the start-up phase they obviously give support to the subsidiary and local manager but at the end of the day the local managing director need to be the one taking the final decisions. Structure wise, the administrative and financial control is kept within the HQ. This structure was an important decision according to the CEO: *“Because the people we are recruiting in the beginning are entrepreneurs and good sales people. The downside with them is often that the administrative part is not so good”*. This type of structure also speeds up the internationalization. Firm E always maintains a local service provider in the new markets that help with local laws, salaries and taxes. It is very important that none of this administrative work affects the country managers. All the country managers should do is focus on sales. Firm E’s distribution model is rather simple to copy and this obviously constitutes a risk for the firm. Therefore the CEO argues that they need to run fast.

In summary, Firm E did not experience any radical internal changes. The firm had to take in internationally experienced people to meet the needs of the firm’s internationalization. The CEO emphasises that they needed to learn the different market requirements and to adapt the product when needed.

## 5. Analysis

*This chapter starts with a table summarizing the findings on a descriptive level. We then present a comparative analysis of how the change of mind-set and competence occurred within the firms, which then will be followed by a more in-depth analysis of why these changes transpired and how challenges related to this were overcome.*

### 5.1 Comparative analysis

Case	Mind-set	Competence	Leadership
A	Change	Change	Change
B	No Change	Change	Change
C	Change	Change	Change
D	No Change	Change	No Change
E	No Change	Change	Change

**Table 3:** Summary of findings

Since the study uses a sample of five Swedish SMEs, all within the high-tech sector, there are some identifiable similarities across all of the cases. However, the sample of firms can be further dissected and analysed, because our case sample includes two firms operating in the medical technology market, two firms in software market and finally one firm operating within hardware and software. This similar yet diverse sample, gives us the unique opportunity to cross-analyse and investigate the diversity in challenges they

face not only in a broad sense, but also due to their specific market niches. Table 3 presents a

summary of the findings, for all five case firms, which is used as a reference for the descriptive analysis. The table presents mind-set and competence because these are elements embodied by both the employees and leaders. Therefore, in analyzing these we essentially analyse change and development in employees/leaders. However, we have also presented leaders on a separate column; this is because they have been identified as a major driver to change and development within the firms' human resources. It is therefore essential to show which firms actually changed leaders during their internationalization.

#### 5.1.1 From Swedish to global mind-set

One of the most substantial changes that have been observed within these case studies is Firm A's and C's change towards a global mind-set. Both firms' CEOs emphasize the importance of changing the firm's and its employees' vision and goals towards becoming international players. Firm A's CEO claimed that the problem lay in the



fact that; even though the firm was acting on the international arena, its organizational culture was very nationally oriented. This was not viable for a firm with customers and distributors around the globe. A similar problem was identified in Firm C, where the people within the firm were focused upon growth within Sweden. Firm C's CEO states that it is extremely important to have people within the firm that have international experience and have seen "*the world outside Gothenburg*" in order to open up the culture and implement an international perspective, which goes in line with Gupta and Govindarajan (2002) who states that individuals' curiosity and openness towards the world is an influencing factor in developing a global mind-set. Furthermore, this also corresponds with researchers (Harveston et al., 2000; Knight, 1997; Myint et al., 2005) claiming that a globally orientated leader within the firm is of significant effect upon its international performance. This is clearly true for Firm A's and C's CEOs as their international goal orientation enabled them to identify the above problem and begin to implement a global mind-set within the firms so that the culture, and hence the way-of-doing business of the employees can support the firm's internationalization process internally.

In Firm B the results do not implicitly suggest that there was a change of mind-set from local to global within the organization. The CEO is adamant that Firm B had a global mind-set from day one. However, the CEO of Firm B does admit that there was a certain learning process for her and the firms' other employees, regarding how they do business internationally. This learning can be linked to developing from local to global mind-sets, as was explained by Gupta and Govindarajan (2002); an organization's global mind-set is akin to a continuous learning process, which Firm B has arguably been doing since its foundation. Firm E had a different approach, the CEO claimed that global mind-set on an organization wide level is important, however it is specifically necessary for a handful of key employees in Firm E to be engaged in the internationalization of the firm, who have past international experience or have been involved and learned during Firm E's international journey. This approach corresponds well with Sirmon et al. (2008) and Sirmon and Hitt (2009) in terms of resource management and with Brush et al. (2001) considering resource legacy; the CEO in Firm E has clearly chosen to bundle certain types of key/senior employees who have the right experience, knowledge, skills and access to networks (resource legacy) and deploy them for the specific purpose of internationalization. In

stark contrast, Firm D is a rather extreme case, the CEO flatly denies that cultural differences pose a threat against internationalization for his firm; therefore developing a global mind-set was not considered an issue.

### **5.1.2 Challenges in developing global mind-set**

As discussed above, Firm A and C needed to implement a global mind-set as this was perceived as a critical step towards further internationalization. However, Firm B, D and E did not experience the same need to develop their global mind-set. The reasons why some of the firms changed while others did not, requires a more in-depth exploration of the firms from the perspective of their individual HR and DC endowments. The natural starting point for this is to discuss the differences and similarities of the CEOs, due to their role as the central driving force for change as posited in Nummela et al. (2006) and which has now been corroborated in the empirical results of this study. For example, results demonstrate that in Firm A and C, where new external CEOs joined in order to help the firms internationalize, there were radical changes in mind-set. A possible conclusion to draw from this is that the previous CEOs did not have the necessary global mind-set, or if they did, they lacked the dynamic ability to tackle the challenge of changing the firm's mind-set, delineated as the ability to adapt to changing demands of their roles (Man et al., 2002; Muzychenko, 2008; Weerawardena et al., 2007).

Further, it is possible to identify several challenges related to Firm A's and C's change in mind-set. The firms had challenges in widening the employees' perspective and the CEOs state that this was one of their important initiatives. The reason behind this being a challenge could be associated to Gupta and Govindarajan (2002) where they highlight the various elements that can make it difficult for individuals to develop a global mind-set, and by extension for this change to take root in the firm. A good example of this is Firm A's 'tribal knowledge', which the CEO regarded as the most serious obstacle to developing a new global mind-set. To meet this challenge, the results suggest that Firm A and C brought in new internationally experienced employees. This arguably, positively influences employees' receptiveness to a new mind-set and thereby, facilitates firm's transition to a global mind-set by increasing the diversity of employees within the firms (Gupta and Govindarajan, 2002).

As mentioned above, in Firm B, D and E, there were no radical changes in mind-set, which can be explained by the fact that these firms actually incorporated a global mind-set from day one. This corresponds to the BG discussion by McDougall et al. (1994), stating that these firms are created for international markets from inception. Another possible reason, that this change was not perceived by the CEOs, might be that the firms have had the dynamic capability to continuously renew, adapt and reconfigure (Weerawardena et al., 2007; Evers, 2011) in order to adapt to the market and stay competitive. Therefore, making it difficult for the CEOs to pinpoint a dramatic change in mind-set, since this change arguably has been an on-going gradual shift within the firms.

Moreover, as identified in Firm A, C and E, it is vital to select employees with a global-mind set from start since it can prove challenging to cultivate at a later stage (Gupta and Govindarajan, 2002). Firm C's CEO agrees with these thoughts, claiming that there is a need to find employees that find culture and travelling exciting. Furthermore, Firm A's CEO highlights for example, the importance of having employees who have awareness of time zone differences, and thus are willing to be reachable any time of the day, which the CEO states is a must in a global SME. In the case of Firm D, explaining the CEO's denial of cultural differences and hence approach to mind-sets can be related to his broad previous international experiences. This has arguably made him very open-minded in regard to different cultures, to the degree that in his perception of reality; there are more similarities between people than differences. This follows the thoughts of Gupta and Govindarajan (2002), who claim that people have different interpretations of reality, which in turn influence the firm's mind-set.

The above demonstrates the global mind-set of leaders and its relation to employees' mind-sets. Therefore, the global mind-set of the leaders clearly influences the employees and thus the entire firm. Moreover, for the leader, developing this global mind-set is of extra significance due to his/her role in managing the firm's resources. Having a global mind-set arguably alters the leaders perception, allowing for a more appropriate appreciation of what competencies are needed when entering international markets.

### 5.1.3 Developing global competencies

All firms in the study demonstrated change and development within their HRs and the competence within. This was perceived in different ways and forms within the firms. Firm C's CEO claims the firm had major problems in identifying specific market requirements for each market, thus underestimating the product adaptation needed. The CEO stated that they needed to enter markets through acquisitions in order to gain market share. These acquisitions gave the firm the necessary market knowledge to adapt and develop its product. Firm B underwent similar internationalization, acquiring an American competitor in order to gain relevant market knowledge as well as customer connections. The above, corresponds well with Hohenthal (2001) who also states that firms' business relationships help satisfy the customer needs through the existing system of knowing, within the network. The same can be identified in Firms D and E where the CEOs' and managers' social networks helped find the right connections through employees with relevant experience, in order to open subsidiaries and later give support to these (Zhou et al., 2007). Access to networks was also found to be important for Firm A, which the CEO explained, through the knowledge the firm gains about local markets by hiring local consultants. In all of the above, the value of employees' networks for the firms in not only identifying international opportunities, but also developing upon them as a means of internationalization is quite evident, which clearly corroborates research on networks and international performance (Lu and Beamish, 2001; Oviatt and McDougall, 2005). As Hohenthal (2002) also argues, when the knowledge or as he calls it, *system of knowing*, within a firm's business network lacks the necessary factors needed to internationalize, the firm needs to have the capacity to change and develop the current knowledge. Moreover, since the case firms are SMEs and therefore somewhat resource constrained (Oviatt and McDougall, 1994; Knight, 2001) the above discussed importance of networks and business relationships are a critical source of the firm's competency (Brush et al., 2001; Oviatt and McDougall, 2005; Hohenthal, 2001).

Considering the above method of developing global competence within the firm, recruitment and training of employees is paramount. This is demonstrated in all firms, where results indicate that it was a matter of not only developing current employees, but especially recruiting new ones. Therefore, during this phase the CEOs brought in new employees, with international backgrounds who had a wealth of experience and

capabilities. This is in line with Onkelinx et al.'s (2012) discussion regarding the importance for internationalizing SMEs to recruit experienced and skilled employees, which in extension provides the firms with more comprehensive knowledge of international markets and business. This is substantiated by Brush et al.'s (2001) study where it was shown that experienced employees embody knowledge that can facilitate internationalization. For example, the CEO of Firm A therefore regarded it vital that the employees recruited into Firm A have the capability to perform in multiple roles, which is in line with the findings of Onkelinx et al. (2012) and also corroborates Horn et al.'s (2010) argument regarding the importance of collective HC. Furthermore, similar to Firm A, Firm C's CEO claims that bringing in experienced people vitalizes the organization. In general the new CEOs of Firm A and C recruited new personnel (where knowledge and capabilities were lacking) and also changed the roles of existing personnel (to better use their HC) which clearly demonstrates the significance of these CEOs' ability to orchestrate their firms' resources as outlined by Sirmon et al. (2008) and Sirmon and Hitt (2009) in order to fit the needs of the firm's changing environment.

#### **5.1.4 Challenges in developing global competencies**

The above analysis provides an overview of how the firms changed their human competencies and developed it towards more global competencies. Further interest is focused upon the challenges the firms experienced when trying to manage this transition. The dynamic capability framework, in the context of SME and internationalization, discusses the leader's ability to learn, unlearn and relearn in order to adapt to the changing market environment (Evers, 2011). This learning is of obvious significance to leaders, enabling them to actually adapt resource management in consideration to the environmental changes. As mentioned in the mind-set analysis, the change in leadership in Firm A and C and the radical changes that occurred due to this change, may imply that the previous CEOs did not have the ability to change, meaning the ability to learn, unlearn and relearn in order to develop global competencies within the firms during the internationalization process. Thus, when the new CEOs took the helm of their respective firms, they initiated a period of organizational change with a focus on human competencies. Sirmon et al. (2008) and Sirmon and Hitt (2009) discusses the ability to acquire and/or develop HC, in order to develop competitive advantage. Therefore, this seems to be in line with the DC

discussion, where it is claimed that a firm needs to be able to take in new resources (Teece et al., 1997) and integrate them within the firm in order to adapt to a changing environment. One way of taking in new knowledge is by using the firm's network (Zhou et al., 2007) and system of knowing (Hohenthal, 2002) which is challenging, as this is highly dependent upon the leaders' and employees' ability to create, sustain and use networks (Sullivan-Mort and Weerawardena, 2006; Pinho 2011).

Moving on, the empirical results show that Firms D and E did not undergo the same amount of recruitment and investment in HRs as Firm A, B and C did. This can be explained by the fact that Firm D and E already had the needed competence within their HRs, meaning that the CEOs could facilitate the firms' internationalization through the existing resources within the firm. However, this is dependent on the resource management theory by Sirmon et al. (2008) and Sirmon and Hitt (2009) suggesting that leaders need to have the ability to bundle and deploy HRs effectively in order to gain competitive advantage, and if the relevant resources are not at hand, there is a need to develop or acquire new resources. Finally, it could therefore be argued, that how leaders orchestrate these resources must also change in regards to the operating environment of the firm, which demonstrates a clear link/need for the managerial ability to learn/unlearn/relearn according to the environment, in order to enable the leader to adapt and orchestrate resources appropriately, thus effecting the whole firm's DC.

Since the CEOs in Firm A, B and C needed to make more changes in the HR base, it seems plausible that Firm D and E already had the necessary HRs needed to support their degree of internationalization. Therefore the firms only needed to bundle and deploy the existing resources, as conceptualized by Sirmon et al. (2008) and Sirmon and Hitt (2009), effectively in order to internationalize. Upon further analysis, this does not imply that Firm D and E had better resources for internationalization or more effective management. On the contrary, these firms' HRs maybe did not need to have the same amount of international experience, competence or global mind-set. The empirical data show that Firm D and E did not to the same extent, as especially Firm A and C did, stress the importance of these factors. Therefore, in actuality the results may suggest that this difference is due to the nature of the products of the firms. Firm D and E are purely software firms, therefore do not require the same level of

sophisticated distributions models compared to Firm A, B and C. Thus this implies that whether the firm has the relevant HRs (or lack thereof) for internationalization, a form of dynamic resource management (i.e. bundling and deployment of resources) will enable the leader to make use of the existing HRs in the best way possible, while also investing in new HRs (when lacking), in order to stay competitive in changing markets.

Furthermore, for the above to be possible for the case firms, it could be argued that the first step for changing and developing a firm's competence in order to internationalize, is that someone has to perceive what resources the firm is lacking and moreover have the ability to either create (internally) or find (externally) those resources to fill the gap. Corroborating the thoughts of Manolova et al. (2002) managerial skills and perceptions of market are key influences on international success of SMEs. Therefore, the challenge clearly lies within the leaders' ability to perceive the needed change; this is challenging because it requires a certain knowledge and experience. As argued by Reuber and Fisher (1997) the leaders experience is highly vital for a firm's international success, seeing as experience is related to the resource legacy which leaders embody, which in turn provide them with the ability to identify, find and integrate the missing resources through their extensive networks (Brush et al., 2001). Gupta and Govindarajan (2002) argue, in their discussion on mind-sets that by understanding that there are different interpretations of reality, an individual can increase possibility of new learning. Therefore, it could be argued that these internationally experienced leaders have openness to different interpretations and thus are more capable to learn and change.

## 6. Conclusion

*This chapter will present a discussion of how our analysis has answered our original research question. This will be done by first summarizing the analysis, which in turn will lead to our revised conceptual model. The chapter will then end with a discussion regarding our contributions and implications for future studies and research.*

Our analysis elucidates the importance of SMEs capability to internally develop HRs, in order to facilitate its internationalization, while also revealing some of the challenges connected to this internal change process. Thus, answering the initial research question and purpose:

***“How do SMEs develop their Human Resources in order to change internally to facilitate the internationalization process and what are the challenges related to these internal changes?”***

As highlighted by many researchers, a firm needs DC to change its resources in order to become competitive in new markets. However, as identified in the theoretical framework and compounded by our analysis, the very first step for an internationalizing SME to change, is to understand that change is needed by perceiving market challenges. Therefore global mind-set has been identified to be of major importance for the ability to perceive needed changes. In developing this, our study demonstrates that it is the leaders' initiative to change the mind-sets of the SMEs employees. The development of a firm's global mind-set is found to be a major challenge and the prospect to overcome this challenge is shown to be dependent on the leaders. This study also shows that employees are of importance during a firm's internationalization in terms of their ability to develop global mind-sets and in extension global competencies. The second step is to learn/unlearn/relearn in response to various market competency demands, for the employees but especially for leaders. The first two steps are what we call the dynamic attributes. When the leader have gone through this process, the third step is to make use of the existing and acquire/develop new resources (as needed) in order to efficiently operate on the international arena. This is done through resource management (orchestration), which allows the leader to bundle and deploy resources in an effective manner for the firm to



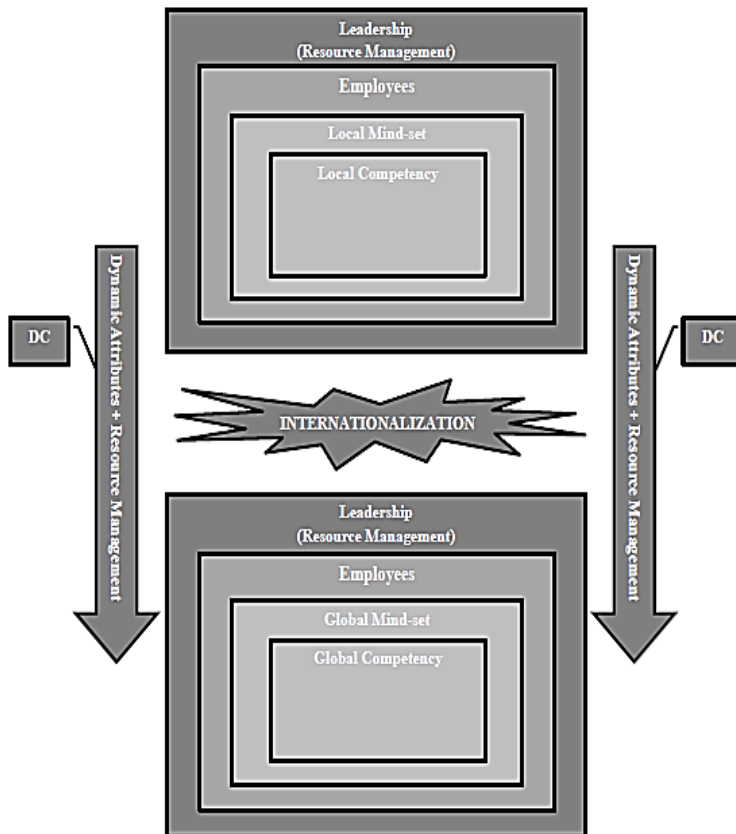
be competitive. This provides some additional comprehension into, how internationalizing SMEs change their HRs by applying the DC framework to resource management in the context of internationalizing SMEs. The analysis identified three distinctive steps which can constitute a SME's process of change and development within its HRs. The first being, perception of necessary change, secondly to learn/unlearn/relearn, and finally to bundle, deploy and invest to acquire/develop new HRs. Accomplishing these three steps is thereby how SMEs develop their HRs and change internally to facilitate internationalization, moreover the challenges associated with this are found to lie within and between going through each step. This internal change process is therefore combining the leader's dynamic attributes with resource management capabilities leading us to the Dynamic Resource Management model, which describes each step of this process.



**Figure 3:** Dynamic Resource Management. **Source:** Authors own

The conclusion together with the Dynamic Resource Management model (see Figure 3) has helped us revise our initial conceptual model.

## 6.1 Revised conceptual model



**Figure 4:** Change in Human Resources during Internationalization. Revised Conceptual Model. **Source:** Authors own.

As discussed above, to be able to perceive needed change the leader need to embody a global mind-set, therefore it is now argued that mind-set and competence are related. In the conceptual model (Figure 2) competence and mind-set were presented as separate resources within HRs and therefore displayed in separate boxes. However, the analysis has shown that the two resources are more interlinked than we first imagined. We now clearly

can see that the needed competence cannot be developed or acquired, without a global mind-set, which is a contributing factor to perceive the need for change. Therefore, mind-set is now displayed in a larger box, which in turn constitutes the competence in Figure 4. Further, the leader's ability to learn/unlearn/relearn is necessary to actually understand how to manage the change. These two attributes, the perception of change and the ability to learn how to manage it, is what we call the dynamic attributes of the leader. Nevertheless, this is not enough, after this learning process the leader need to act. Now resource management (i.e. bundling, deployment and investments to acquire/develop new resources) comes into the picture, this is needed to complete the change towards the firm becoming global in terms of mind-set and competence. The change process in the first conceptual model (Figure 2) was displayed as the firm's DC. The analysis has helped us understand what actually develops the firm's DC. The combination of dynamic attributes and resource management is what we call dynamic resource management, which is a vital contributing factor to the firm's DC. Finally,

the revised conceptual model (Figure 4) displays what really is the core of a firm, which naturally is the competence. However, a firm will not have global competence without the global mind-set. Furthermore, it is the employees and leaders that embody the mind-set and competence. The employees and leaders are the ones that need to develop and change, and it is the leaders that are the driving factor behind the change. These insights were developed through the analysis and resulted in the new final conceptual model (Figure 4) displayed above.

## **6.2 Contributions and areas for future research**

We believe our study has successfully accomplished the objectives of our research, which was to expand literature on SMEs internal internationalization. More specifically this study's objective was to contribute to literature by investigating how a previously understudied firm resource, namely HRs, develop and change during the firms' internationalization journey, and what challenges need to be overcome in order to facilitate said phenomena. By analysing the results of our research, which is grounded on relevant theory and empirical data, we have been able to identify and combine the different elements (mind-set, competence, DC and resource management) within SMEs HRs that facilitate internationalization, which in turn has resulted in our conceptual model. Therefore, we argue that our final conceptual model is a good contribution in explaining the role of HRs during the change process in internationalizing SMEs. This model can be used and expanded upon by academics to gain further insights in the topic of SMEs internal internationalization.

It would be interesting to, for example, apply this model to SMEs in more traditional industries to see if they experience similar needs and changes in HRs when internationalizing. Furthermore, scholars can test the model in different national contexts; this would enhance the model by incorporating a cultural dimension and thus bring to light its possible influences to HRs change and development in internationalizing SMEs. Additionally, since our case firms had between 70 and 150 employees, it would be interesting to investigate how the model would apply to smaller firms. Future studies can also expand on our study, by conducting more wide-ranging interviews, not focusing on just the managerial perspective, but also incorporating the perspective of other employees.

From a practical point, the findings of our study enable leaders to better understand the change process within the HRs in internationalizing SMEs. Therefore, from a managerial perspective, this will help leaders to manage their firms HRs more appropriately during internationalization, thus facilitating the expansion into foreign markets. It is also possible for leaders to see differences between the case firms and make connections to their own business. This will help leaders to draw their own conclusions in how effectively his/her firm can internationalize using existing resources. By extension, our study provides leaders, with an outline of what needs to be changed and developed within HRs if existing resources are insufficient and how this can be accomplished.

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## 8. Appendix

### 8.1 Interview Guide

1. Why did you internationalise in the first place?
  - a) Can you describe the process of your internationalisation?
    - Different entry modes in different markets?
  - a. Why did you choose to go to these markets?
  - b. From your first internationalisation venture to the latest, how have processes changed?
  
2. Given this process, how would you say that the internal journey has looked like?
  - a. Structure?
    - HQ
    - Subsidiary
    - How does the firm control its foreign activities?
  - b. Capabilities?
    - Top management? New Roles? New managers? New knowledge?
    - Personnel? New Roles? New personnel? New knowledge?
  - c. What is the major difference within the company now compared to when you began internationalising?
    - Why has this changed?
    - What did change before you internationalized?
    - What changed after?
  
3. Can you describe the influence of internal factors on the internationalization process?
  - a. How have the internal changes facilitated your international success?
  - b. Were you proactive when doing these changes or did it happen as an effect of your internationalization?
  - c. How have you used networks?
  
4. Can you tell us about your background?