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# **Overcoming liabilities in a psychic distant market**

**The case of Swedish SMEs in Singapore**

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## ABSTRACT

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More and more SMEs are taking the step to become global- However, their internationalisation processes are said to be more challenging than MNE. Not only do they suffer from liability of foreignness but also from liability of smallness and newness when entering a foreign market. Early research tried to explain smaller firms' expansion through the traditional MNE theory due to the belief that SMEs behaved similar to MNEs. It was not a successful approach as it was later showed that SMEs do not follow a traditional international process. Although, SMEs internationalise and succeed in a foreign market without large resources and a well-known brand. How do they handle the challenges?

The purpose of this study was to examine how SMEs perceive the liability of newness, foreignness and smallness in a psychic distant market and what factors support the firm to overcome these liabilities. By conducting a multiple-case study including four case companies the question could be studied through a real-life context. The result showed that SMEs use their network for overcome the constrains. Nevertheless, the network support is nothing if not the entrepreneur act. It is the entrepreneur who manages the requirement, maintain relationships with partners and clients and develop the company for future challenges. Finally, through understand the foreign market and the company's competitive advantages in the specific country the firm will create a sustainable establishment in the new country.

**Keywords:** *SMEs, Newness, Smallness, Foreignness, Singapore, Psychic distant market, Born Global, International New Venture, International Entrepreneurship*

## ABBREVIATIONS

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BG	Born Global
IE	International Entrepreneurship
INV	International New Venture
MNE	Multinational Enterprise
SME	Small- and Medium-sized Enterprise
VP	Vice President

## DEFINATIONS

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Liability of foreignness	The inherent disadvantage that foreign firms experience in host countries because of their non-native status
Liability of newness	The challenges of being new in a foreign market, when trying to find workers, capital, customer and simultaneously seeking for legitimacy
Psychic distant	The distance between the home market and a foreign market, resulting from the perception of both cultural and business differences
Liability of smallness	Restricted resources and capabilities due to the firm's size makes it more exposed for environmental fluctuation

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# 1. INTRODUCTION

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*This chapter provides a background of earlier studies in SMEs internationalisation theory. The background section is followed by a problem discussion which guides the reader to the purpose and research question of this study. In the end of the chapter an outline of the thesis is presented.*

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## 1.1 BACKGROUND

Small and medium size enterprises (SMEs) have taken a bigger share in the global market (Brouthers and Nakos, 2004; Oviatt and McDougall, 1994). Their internationalisation process has questioned the traditional internationalisation theory which describes multinational enterprises (MNEs) as large and mature firms with a strong position in the domestic market. These MNEs expand to new markets through a stepwise process which is both slow and resource heavy (Johanson and Vahlne, 2009). Contrary, SMEs sometimes also called Born Global (BG) and International New Ventures (INV), enter foreign markets fast and close after their foundation even though they lack big resources and experience (Oviatt and McDougall, 1994; Crick, 2009; Coviello and Munro, 1995; Jones, Coviello and Tang, 2011). These companies have shown that any firm, no matter of resources, ages, experience and size may become global rapidly (Knight and Liesch, 2016).

Research about SMEs' internationalisation is a quite new field. The area had not received much of attention until Oviatt and McDougall (1994) constructed a conceptual framework for INV, which later became known as international entrepreneurship (IE) theory (Oviatt and McDougall, 2005; Jones et al, 2011). They showed the importance of integrating international business with entrepreneurship and strategic management theory (Oviatt and McDougall, 1994). Early research tried to explain smaller firms' expansion through the traditional MNE theory due to the belief that SMEs behaved similar to MNEs. However, it was not a successful method (Knight, 2015; Oviatt and McDougall, 1994; Aspelund, Madsen and Moen, 2007). By assimilate the individual, the entrepreneur, in the theoretical framework the researchers could better explain the company's international strategy (Oviatt and McDougall, 2005, Andersson, 2000, Allen 2016). The entrepreneur was found to be a significant resource and a strong reason why firms internationalise rapidly due to its prior knowledge in foreign sale, global network, strong learning orientation and innovative and opportunity seeking character (Oviatt and

McDougall, 2005; Acedo and Jones, 2007; Knight, 2015; Rialp, Rialp, and Knight, 2005). Thus, IE theory changed the focus to the individual rather than the company view, which the traditional theory had stressed (Oviatt and McDougall, 2005; Allen, 2016).

An issue for SMEs is that they suffer from liability of smallness and newness. Smallness because firms have restricted resources and capabilities which make them more exposed for environmental fluctuations (Lu and Beamish, 2006). Gassman and Keupp (2007) argue that the only important resource SMEs need is knowledge. Thus, the intangible resource becomes a significant factor for the SME. Moreover, the firm faces liability of newness due to being new in the local market. As a new company, the enterprise is required to find workers, capital, customer when simultaneously try to become accepted in the market (Lu and Beamish, 2006). Autio, Sapienza and Almedia (2000) applied knowledge-based and learning theory to explain SMEs global expansion. In contrary to previous studies, they found benefits for a company to be new and establish quick in a foreign market. Further research confirms this learning advantage for new firms and conclude knowledge and learning orientation to be two important factors in SMEs speed of internationalising (Carayannopoulos, 2009; Hilmersson Johanson, Lundberg and Papaioannou, 2016).

In addition to liability of smallness and newness, every firm that enter a foreign market suffers from liability of foreignness (Lu and Beamish, 2006, Johanson and Vahlne, 1977; 2009; Schweizer, 2013; Hilmersson and Jansson, 2012). The liability of foreignness increases with larger psychic distance and to overcome the liability, the firm needs to become an insider in a network (Johanson and Vahlne, 2009; Schweizer, 2013; Hilmersson and Jansson 2012). By developing and maintaining business relationships, including increasing the knowledge of the new market, the company changes its position and over time establishes an insider position in the network (Johanson and Vahlne, 2009; Schweizer, 2013; Hilmersson and Jansson, 2012). The network theory has therefore been a central part of SMEs internationalisation theory (Knight, 2015).

## 1.2 PROBLEM DISCUSSION

By reviewing the literature of SMEs internationalisation, the liability of smallness, foreignness and newness are discussed in many studies (Johanson and Vahlne, 2009; Lu and Beamish, 2006; Oviatt and McDougall, 2005; Lee, Kelley, Lee and Lee, 2012; Carayannopoulos, 2009; Nagy,

Blair, and Lohrke, 2014; Gorostidi-Martinez and Zhao, 2017). To suffer from liability of foreignness, is an issue all companies need to handle when entering a foreign market while smallness and newness are rather specific for SMEs (Gorostidi-Martinez and Zhao, 2017; (Vanninen, Kuivalainen and Ciravegna, 2017). Thus, SMEs are exposed of more challenges in the internationalisation process than MNEs due to their size, resource constraints and lack of legitimacy in the global market (Lee et al., 2012; Lu and Beamish, 2006). Several studies have determined the problem, and have tried to explain SMEs internationalisation challenges through testing different factors. According to the academic research, features such as knowledge and learning orientation (Autio et al., 2000; Gassman and Keupp, 2007), network (Zhou, Wu and Lou, 2007; Agndal and Chetty, 2007), and the entrepreneur (Oviatt and McDougall, 2005; Acedo and Jones, 2007) is of high importance for SME's entry to a foreign market. However, these factors have been studied as single theories rather than from an integrated approach (Oviatt and McDougall, 2005). The literature reviews of Rialp et al. (2005) and Knight (2015) determined that studies of SMEs' internationalisation were seldom connected with a theoretical framework as most of the studies made until today have had an exploratory approach. Instead, the attention in the research has been on specific industries or destinations (Rialp et al., 2005). For example, high-tech firms or companies that are operating in a niche area has explained why SMEs internationalise rapidly (Hennart, 2014; Lindstrom et al., 2011). Thus, it is the firms' characteristics that has determine a successful internationalisation rather than the influence of different factors.

Hence, previous studies have failed to develop a full-bodied theoretical framework for SMEs internationalisation (Allen, 2016; Knight, 2015). By examine three liabilities; smallness, foreignness and newness, the main challenges, which SMEs are exposed of when enter a foreign market, will recognized. Multiplied theories will be used to fill the gap that a single theory had problem to solve. By reviewing several areas within internationalisation theory, important factors will be identified. A psychic distant market, which are said to increase the liability of foreignness (Johanson and Vahlne, 2009; Pangarkar, 2008) is chosen for extend the possibility to find all factors which influence SMEs internationalisation. Other aspects which are typical for SMEs internationalisation process, according to theory, will be included such as the entrepreneur, network and knowledge and learning process. Hence, in this study the author seeks to look narrow but at the same time broad to find the answer to the research question. This will contribute to the field of study and answer to Knight (2015) and Rialp et al. (2005)

request of more theoretical studies. The focus will be on Swedish SMEs and their observation of being a young and new firm in the international market, in this case, the Singapore market. By identifying how SMEs perceive different liabilities and connect them with factors that supported the firm's success in the new market, more SMEs may find the strength and opportunity to become global. The research may also be interesting for organisations supporting SME to internationalise, especially in a psychic distant market.

### 1.3 PURPOSE AND RESEARCH QUESTIONS

This study will contribute to the SMEs field of International Business (IB) by identifying factors that support the SMEs in the challenges of overcoming the liabilities in a far distant market. Through conducting a multiple-case study with four companies which have entered a specific location, the author seeks to increase the understanding of SMEs internationalisation. Thus, the purpose of this study is to examine how SMEs perceive the liability of newness, foreignness and smallness in a far distant market and what factors support the firm to overcome these liabilities. The problem discussion resulted in the following research question:

*\* How do SMEs entering a psychic distant market perceive the liability of smallness, newness and foreignness and what factors facilitate overcoming these liabilities?*

### 1.4 DELIMITATIONS

This study has chosen to examine SMEs challenges of being new, small and unfamiliar with a foreign market. Several delimitations are therefore identified. The size of the firm has limited the selection of companies as the research only included SMEs. By targeting a psychic distant market, some markets have been crossed of the list to be selected. Further, only one market was studied for SMEs establishment, hence, the entry rather than the internationalisation process was examined. Finally, by choosing four firms the real-life context could be studied, however, the small sample might be bias.

### 1.5 OUTLINE OF STUDY

This study consists of six chapter excluding the references list and appendix. In chapter one, the background information is presented together with the problem discussion and the research questions. The theoretical framework is in chapter two and there are three internationalisation theories presented with the focus on SMEs. Chapter three contains the methodology where the research method, research design and quality of the research is discussed. Further in chapter,

the reader will find the cases companies and the location of study presented. Chapter four is the empirical section, the findings from the interviews with the case companies and the market experts including other source of evidence, is outlined. The analysis is in chapter five, where the findings from the data collection and the theoretical framework is discussed. Chapter six, the conclusion, answers the research questions and determines limitations and further studies. The reference list follows in chapter seven. Last in this thesis the appendix with appendix 1, the interview questions, are found.

## 2. THEORETICAL FRAMEWORK

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*The theoretical framework is built on internationalisation theory with focus on network theory, international entrepreneurship theory. Each subsection starts with a definition of the theory, the main characteristic of the area and finishes with a sub headline with special attention on SME role in the theory. The aim for reviewing the three theories was to identify factors which influence the liability of smallness, newness and foreignness. Thus, in the summary section these liabilities are further discussed together with the factors.*

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### 2.1 INTERNATIONALISATION THEORY

The definition of internationalisation has been widely discussed, nevertheless the theory of internationalisation. Global trade goes back far in the human history and has therefore been a subject for discourse for scientists in many years. Thus, there are many descriptions of the meaning of the word internationalisation. Welch and Luostarinen (1988, p.36) chose a broad explanation: “*The process of increasing involvement in international operations*”. It is also where most research has been done, in the broader perspective and more often does the study start from when the firm enter the first foreign country. The path to become a global player is neglected in the traditional approach (Aspelund et al., 2007).

#### 2.1.1 Traditional

The modern traditional internationalisation theory is built on “stages model” where the Uppsala internationalisation model of Johanson and Vahlne (1977) is the most cited. According to the model, firms follow a step wise process when expanding abroad. Potential international companies are firms which are mature and well established in the home country. Their position in their home market is strong (Johanson and Vahlne, 1977). These companies are large to size, with big resources (Horst,1972; Johanson and Vahlne, 1977). Gaba et al. (2002) stress the factor that size increase the power and resulted in earlier entrance in the market. Their study showed that bigger firm had the advantage to assembled the right resource, have better product service support and achieved economics of scale (Gaba et al., 2002). Furthermore, the internationalisation process is risky and a company must be prepared for failure (Johansson and Vahlne, 1977). The enterprise will suffer of liability of foreignness, the additional cost a foreign company experience compares to a local firm for not knowing the market. For lower the risk, firms chose a market close to its home market as the first foreign expansion. Not only geographical but also cultural aspects matter as well as the labour market and political event

may affect the entry process negatively. Furthermore, the entry mode is also following a path, first the company begin with unregular export but as the commitment and learning grow, the firm invest more resources in the new market and the entry mode change (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988).

Kaynak et al. (1987) argue a firm's export experience is significant for the company's further expansion. It can be the difference if an enterprise sees the internationalisation opportunities or not. Johanson and Vahlne (1977) had the similar reasoning, a company internationalise is slow due to not enough experience from foreign markets. Companies increase their experience through internationalisation, thus learning by doing. However, as the strategy is one country perspective the internationalisation process is long. The firm must also feel comfortable in the new market, which it shows through further investment and commitment in the market. When the company have reaches a suitable level, it will be ready to take the next step (Johanson and Vahlne, 1977). A MNE will not choose a market random even though internationalise experience would be high. Psychic distance, in other words difference in language, culture, education etc. constrains the internationalisation process (Pangarkar, 2008; Johanson and Vahlne, 1977). Some markets are therefore more risky and difficult to enter (Johanson and Vahlne, 1977; Aspelund et al., 2007). Another important factor when selecting a new foreign market is the growth potential. Market size, growth rate and level of competition is of high significance. Hence, the host market should fulfil many factors for attract the company (Gaba et al., 2002).

Internationalisation decision making is made through earlier experience of the global expansion (Johansson and Vahlne, 1977). A stable circle of family and friends may be part of the decision making, however, the important is experience, especially from similar markets (Aspelund et al., 2007). The first internationalisation decision is although, often reactive (Kaynak et al., 1987). The firm become contacted by a client and asked to export to a new market. Hence, the customer finds the company instead of the other way around. Another common reason is that the home market is declining and the company is forced to find a new market. The internationalisation decision to expand abroad is therefore either based on push or pull factors (Kaynak et al., 1987).

### *2.1.2 SMEs in the traditional internationalisation theory*

SMEs role in the internationalisation theory is small. Important to notice, when the traditional internationalisation theory discuss small firms, they are seen as small MNEs (Buckley, 1988, Knight and Liesch, 2016). Hence, SMEs act as the large companies, however, with fewer resources. Some authors like Buckley (1988) calls small enterprises unconventional multinationals, firms which do not follow the traditional pattern of a MNE. The strange movement of these companies is explained by their ownership advantages. Many are in a niche market with low competition (Buckley, 1988). Ownership- specific advantage are part of Dunning eclectic paradigm (1985) and the two other advantages are location and internalisation. The model is most famous under the name OLI and it trying to explain international production. Thus, why some companies produce abroad and others do not. A firm has an ownership advantage if the production, technique and/or trademark is in the firm's favour. (Dunning, 1985). SMEs and MNEs were seen as one group and even if research could not see the same pattern in SMEs internationalisation strategy, SMES were treated as exceptions rather than a separate area. However, Dunning (1985) mention that the entrepreneur skills and experience has a central role in the advantages for a firm's globalisation. Thus, Dunning was early for its time to discuss the role of the entrepreneur in the internationalisation process.

## 2.2 NETWORK THEORY

The network theory is an extension of the traditional internationalisation theory with a network perspective. By integrating the importance of the network, SMEs entered the discussion as a specific group of firms (Coviello and Munro, 1997).

### *2.2.1 Background*

In the earlier research of network theory in internationalisation, emphasis was to connect it to previous studies in international theory. Johanson and Vahlne (2009) revisited Uppsala model together with other researchers could show that the firm's internationalisation process was effected by its network, however, the process was still incremental. Hence, internationalising take time if the company wants to be successful (Coviello and Munro, 1997; Lindstrand et al., 2011). Later studies have shown that a new firm do not start from the scratch in the terms of network (Lindstrand et al., 2011, Laurell, Achtenhagen, Andersson, 2015) The founder or other co-workers brings its network to the company which increase the speed of the internationalisation process. Thus, the globalisation speed of a company is influence of the



founder's previous network (Lindstrand et al., 2011). Previous network may also affect the international marketing strategy. A market may be new for the company, however, not for the entrepreneur (Laurell, 2015; Knight and Liesch, 2016). If the relationship is already established, the entry process including when and how, the establishment increases in speed. Hence, one country focus is therefore not necessarily as less resource is needed for each entry (Knight and Liesch, 2016).

The traditional internationalisation theory describes the foreign market as risky and uncertain, while the network theory sees it in a different perspective, full of opportunities (Knight and Liesch, 2016). However, without a network it would be difficult to identify the business prospects (Zhou et al., 2007). The network affects the company both prior the entry and after the establishment in the foreign market, thus throughout the whole entry process. By using the network, a firm can create competitive advantages, specific for the local market. A network may consist of suppliers, customer as well as friends and family. Important networks can both be the local network in the home market as well as the local network in the foreign market. In a study of social networks, Zhou et al. (2007), discuss benefits of having a home-based network. The network will share news about foreign market openings, recommendation of suppliers and customers and guidelines and learning of the new market. These will help the SMEs to overcome its resource limitations. In addition, instead of entering a foreign market unknown, the network can create legitimacy and credibility in the new market for the firm (Zhou et al., 2007). Nevertheless, a local network such as agents, customer and supplier may also create legitimacy and new relations. However, the most important contribution of the local network in a new market is their specific market knowledge such as political environment and labour market, market regulations (Carlos, 2015).

It is not only vital to be part of a network, the position in the group matter as well. If a firm has a strong position, an insider position, it will decrease the risk of uncertainty in the new market (Johanson and Vahlne, 2009; Schweizer, 2013; Hilmersson and Jansson, 2012). However, an insider position is not easy to obtain. Johanson and Vahlne (2009) stress the importance of maintaining the relationship, with trust and commitment to develop the insider position. Schweizer (2013) develops the network position assumption by discussing the path a firm experience when it goes from being an outsider to an insider within the network. The path, which is divided in four phases, starts with the firm's understanding of its own position in the

network. Thus, it is an outsider. For changing its position, the company decide to react and begin to evaluate its networks, resources and capabilities. By re-bundles its resource and capabilities the firm enter the third phase. In the last phase, the enterprise has reach an insider position. The benefits of being an insider is shown through further networks establishment and the ability to see business opportunities (Schweizer, 2013).

Research states the type of relationships, formal or informal, may have different influence over the firm international process. Agndal and Chetty (2006) discuss the networks impact on a company's internationalisation strategy. They found that a business relationship, especially direct relationship, had higher effect on the firm entry mode changes in the host market than a social relationship. A similar study of Lindstrand et al. (2011) showed that social capital (the network and the resources within the network) support firm's internationalisation speed, in other words the entry process. If the company beforehand received market specific knowledge such as growth rate, market size and level of competition, the firm will be able to plan the market establishment more carefully. The network may also help to understand the labour market, trade regulation and political decision (Lindstrand et al., 2011). Moreover, a competitor in the industry might be part of the firm's network. Dias and Lopes (2014) argue that a large partner supported the small firm with market-specific knowledge and new opportunities in the foreign market. While Nakos et al. (2014) compared non-competitor alliances with competitor alliances and found that the first type of alliance was better suited for SMEs. Non-competitor supported the firm in the internationalisation with specific market knowledge and additional resources. Competitor alliances may assist the firm in the process, however, the relationship was often more complex as monitoring and control was common. The internationalisation performance was therefore hamper due to resource was spend on controlling the alliance instead of being creative and innovate (Nakos et al., 2014).

The differences in language and culture affects the firm's internationalisation decision as it may constrain potential market entries. Networks may therefore have a positive impact on psychic distance as relationship in the foreign market take away the insecurity. The entry process become less risky and the firm can easier adapt to the new environment (Johanson and Vahlne, 2009). In their revisited version of the Uppsala model, Johanson and Vahlne (2009) have change focus from liability of foreignness to liability of outsidership. Hence, the internationalisation decision is made through the firm's network experience and knowledge. Divided markets after

countries border is therefore less important instead it is the network which create the boundaries (Johanson and Vahlne, 2009). Another study made by Hilmersson and Jansson (2012) talk about different types of experiential knowledge and its influence for decreasing uncertainty. They found that market knowledge from a mature market in most case did not reduce the uncertainty in an emerging market. Hence, institutional differences may affect the entry process even though the firm has previous experience from global trade (Hilmersson and Jansson, 2012). This challenge Johanson and Vahlne (2009) conclusion that liability of foreignness, difference in culture, language etc., in a country specific perspective, is not of important anymore if you are inside a network.

### *2.2.2 SMEs in network theory*

Most of the research within network theory can be applied to SMEs. SMEs have been part of the network theory since the inception, although, the research was in the beginning relatively general. Several studies confirmed the importance of a well-established network for small companies and one of the reason SMEs dared to take the step out and internationalise (Coviello and Munro, 1995). Later research tries to explain the characteristic of SMEs with the network theory. For example, Bonaccorsi (1992) found that small companies network could help to penetrate the foreign market as the firm got access to external resources through its relations. Thus, an issue for the SME is the limitation of financial and tangible resources which create constrains for a global expansion. With a network, the firm can exchange resource with others and do not need to own it by itself (Lindstrom et al., 2011). Moreover, the SMEs are sometimes forced to have a partner or agent in the foreign market due to the legitimacy and credibility (Zhou et al., 2007). MNEs have it easier as they are known in the new market or they can spend great money for marketing the product. The agent is also common as most SMEs select a low commitment entry mode (Vanninen et al, 2017). The entry mode chose may have several reasons, however, the SMEs' internationalisation strategic, is multiplied country focus (Knight, 2015).

## **2.3 INTERNATIONAL ENTREPRENEURSHIP THEORY**

The theory of international entrepreneurship consists normally of four areas; rapid internationalisation, born globals (BGs), international new ventures (INVs) and general models of international entrepreneurship (Allen, 2016). In this thesis, the attention is on BGs and INVs.

### *2.3.1 Definition of the concepts BG and INV*

These two expressions, BG and INV are occasionally used interchangeably in studies and sometimes as two different concepts (Crick, 2009). BG and INV are built under the assumption that they internationalise rapidly. Crick (2009) argue the main difference is the internationalisation strategy. BGs have the attention on the global market while INVs have a more regional focus. The author concluded in his paper that, except for the market strategy, there are small differences in BG and INV performance in the international trade. Other researchers discuss the different mindset of the entrepreneur as the large variation between the two groups (Knight and Liesch, 2016). The entrepreneur of BGs focuses on to become global, it is so important that the firms do not care about potential opportunities at the home market. As they internationalise directly, the establishment of the firm is the point in time they become global. INVs have a bit longer way to their expansion abroad, they let the firm be launched in the home market, although, they do not need to grow strong in the local market before they enter a foreign market (Knight and Liesch, 2016). Even though BG and INV had experience much attention the last decades no main definition of the two concepts has been successfully accepted and therefore are the findings of BG and INV theory vague (Crick, 2009). In this thesis, the author has chosen to not exclude any definition, thus, both concepts are important to discuss. However, hereinafter BG and INV will be defined as identical and to make the structure clear, the paper is only going to use one name, BG.

### *2.3.2 Background*

Oviatt & McDougall (1994) was one of the first to develop a framework for BG. They define BG as: *“a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”* (Oviatt and McDougall, 1994, p. 49). Hence, the contrast between traditional internationalisation and BG theory is highly visible. BGs have an international strategy from the beginning. Their internationalisation market strategy varies from the traditional approach as they see the world as one market, thus, they have no problem to enter several markets at the same time. Market knowledge is not obtained through learning by doing. Instead it is the network of the company and its employees that guides the firm in the decision making. This creates more opportunities for the single company. Furthermore, the characteristics of the firm such as size is irrelevant as well as their position in their home market. Instead, the theory emphasises the role of the entrepreneur or market development manager. The entrepreneur does not need the support of the

home market as the global network can confirm the demand of the product or the service. The lack of big financial and tangible resources is not an issue as the network support the company also in this matter. However, relationships both old and new are important and, in many aspects the most important resource for BGs (Knight, 2015). For BGs companies the internationalisation process starts in the founding process as the world is their market (Oviatt and McDougall, 2005; Rialp et al., 2005). The founder probably has prior international experience due to exchanges studies during the university years or previous worked abroad. The entrepreneur has also a risk-seeking behaviour and inspirational leadership as well as good eye for finding new opportunities in the foreign market (Oviatt and McDougall, 2005; Nummela, Saarenketo and Puumalainen, 2004; Oviatt and McDougall, 1994; Rialp et al., 2005).

BGs are experts in adapt to a new environment (Knight, 2015). A study by Autio et al. (2000) found that entrepreneur firms which enter the foreign market early had an advantage in the learning and knowledge process. When enter a new environment the company must both learn about the local market but also “unlearn” its old behaviours of their previous market. In the study, the researchers developed a concept, learning advantage of newness (LAN) which Hilmersson et al. (2016) and Carayannopoulos (2009) confirmed to be an important factor of SME internationalisation speed. As a young firm, it is easy to absorb new knowledge and it adapt quicker to the market then an older enterprise which has settled standards how it handles new operations (Autio et al., 2000). These finding fits to Johanson and Vahlne (1977; 2009) view, the internationalisation process is incremental as unlearning and learning is time consuming. Hence, the model describes a mature firm and that is why Johanson and Vahlne have been criticised by several studies especially researcher investigating BGs. They consider all enterprises to be the same. However, that is not true and it can therefore be argued if the Uppsala Model can be applied on SMEs as they often following a different path (Rasmussen, Koed Madsen, Evangelista, 2001; Hennart, 2014; Oviatt and McDougall, 1994; Chetty and Campbell-Hunt, 2004).

BGs enter the market with low commitment and entry modes such as agents, export or joint venture are common (Knight, 2015). This have numerous reasons, it is their own strategic decision, they are forced due to resource or market constrains or their product allow them to have little commitment. However, this is not the only truth. Some researchers argue it is the

entrepreneur previous knowledge and experience which control the choice of entry mode (Knight, 2015). Hence, it is rather the previous knowledge of the foreign environment which determined the entry mode. Furthermore, as firms enter with low commitment they do not control the resources in many cases (Knight and Liesch, 2016). Instead of seeing it as a disadvantage, SMEs benefits with this strategic chose as they can show their flexibility. Their strength is instead that they could be present in several markets which lower the risk of bankruptcy. Consequently, the firms resource or product do not put constrains on how to enter (Knight and Liesch, 2016). Moreover, BGs does not have the constraints when seeking new markets, psychic distance is almost irrelevant as new ways of communicating and travel have transformed significantly during the last decades (Chetty and Campbell-Hunt, 2004; Knight, 2015). The internal process in a BG cannot be only explained by technology and the entrepreneur although these factors play a key role in BG early internationalisation. Other capabilities for the firm to succeed is being innovate, constantly seeking new knowledge and high performance in the global market (Knight, 2015).

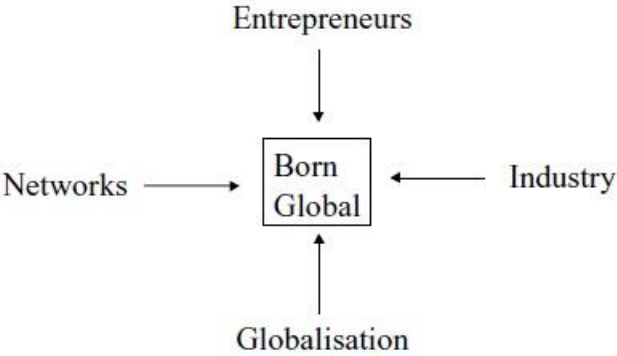


Figure 1, Born Globals (Andersson and Wictor, 2003 p.254)

By reviewing the latest on BGs, Andersson and Wictor (2003) conduct a conceptual framework through combining entrepreneurship and network theory, seen in figure 1. They argue that four main factors influence a BG company; globalisation, entrepreneurs, network and industry. In each area, there are several factors that affect the firms. First, globalisation, the

trend with improved communication technology, lower transportations cost and fewer trade barriers, has made international trade easier even for smaller firms. Second, entrepreneurs and its knowledge is one of the most important aspect for a BG firm. The entrepreneur contributes with its network, experience and international behaviour. Third, network which may be both informal and formal. The BG most important resource is its network due to the power it gives the firm in the internationalise journey. Fourth, industry, BGs have mostly been found in high-technology industries and niche markets. However, the industry could also affect BG firms to globalise if a large part of competitors and customers were international (Anderson and Wictor,

2003). This conceptual framework summaries the BG theory well as it shows clearly that these companies influence of many factors.

### 2.3.3 SMEs in Born globals

Many researchers have agreed that BG theory fits SMEs in a large extend as they normal have a rapidly internationalisation process. Thus, new definition for BG has occur which include SMEs in a more definitely way. Knight and Cavusgil (1996, p.11) describe BG like: “*small, technology-oriented companies that operates in international market from the earliest days of their establishment*”. Notice, most studies of SMEs and BGs have been made on high technology companies which expand to niche markets (Knight, 2015) even though some studies have concluded that these theories may be applied on SMEs from all sector (Hilmersson et al., 2016; Autio et al., 2000). However, few researchers have tested this assumption.

Lu and Beamish (2006) discuss three weakness of being a SME. Instead of only suffer from liability of foreignness, SMEs also must face liability of smallness and newness. Environmental variations effect SMEs harder as they have limited resources and capabilities due to their small size. Newness concerns the SMEs entry into a foreign market and issues regarding recruitment, relationship between clients and suppliers, legitimacy and financing (Nagy et al, 2014; Lu and Beamish, 2006). Lu and Beamish (2006) found that collaborate with a local partner in the foreign country lower the risk of smallness and newness. The partnership may take different shapes such as joint venture with a large company, local agent or strategic alliances (Lu and Beamish, 2006). As mention before, Autio et al. (2000) discussed the benefit of being small and new in a foreign market. SMEs learning process, in other words adoption to the new market, are faster than MNEs due to their flexibility and assimilation of knowledge. Consequently, SMEs might be called BG as most of them indeed have a global mindset from the inception, an international entrepreneur, and a broad network. However, like the network theory, BG concept attempt to describe characteristic of SMEs, and therefore exclude some SMEs because they do not fit the model.

## 2.4 SUMMARY OF THE THEORETICAL FRAMEWORK

The theoretical framework discussed the internationalisation from three perspectives; traditional, network and international entrepreneurship theory. This theoretical framework has identified 10 factors which influence the firm’s entry in a foreign market. In table 1, an overview

of the factors which are effected by the different liabilities are created. However, first follows a clarification how the factors, divided in internal and external, related to each liability.

### *Smallness*

The internal factors which are connected with liability of smallness are; experience, entrepreneur, network, knowledge and learning process, international marketing strategy and entry mode. With a constrained experience from the international market the firm has difficult to answer to variations in the market. Network and the entrepreneur might decrease the liability by increase the knowledge about the foreign market prior or during the entry process. Due to the limited resources the international marketing strategy might force the firm to choose a destination and an entry mode which is not resource heavy. The external factors; industry factors, foreign market and foreign market environment are influenced of the liability of smallness as limited resources and capabilities makes the SME more vulnerable for external fluctuations. Specific industries might require larger resources and it creates obstacles the for SME. Furthermore, a larger psychic distance from the home market, will make the foreign market riskier. Due to its size, the SME does not want or cannot take an uncertain road.

### *Newness*

The internal factors which are related to liability of newness are: experience, entrepreneur, network, knowledge and learning process. The obstacle of being unknown for its new potential customers makes the entry process more difficult. A network, specially within the new market will support the SME to find clients and employees. The network might also rapidly the knowledge and learning process as it can give valuable insight about the new country. Moreover, the entrepreneurs previous experience from the market will facilitate the entry. The external factors are; industry factors, foreign market and foreign market environment. Specific requirement within the industry or foreign market might hamper the SME's entry. However, the most crucial weakness for the SME when establish on a new market is the legitimacy. If not the company become accepted in the foreign market, the chance of succeed in the market is small.

### *Foreignness*

The internal factors connected with liability of foreignness are: International decision making, experience, entrepreneur, network, knowledge and learning process, international market



strategy and entry mode. While the external factors are foreign market and foreign market environment. Thus, liability of foreignness, can be related to all factors, except for industry factor, as it concerns the uncertainty of not knowing the foreign market. The common denominator is knowledge, and to lower the risk of foreignness the entrepreneur and the network are a source to succeed. However, some markets, especially psychic distance market, are more difficult for the firm to understand as previous international knowledge might help. Hence, the learning process, in other terms, how a firm adopt to a market is therefore crucial.

<b>FACTOR/LIABILITEIS</b>	<b>SMALLNESS</b>	<b>NEWNESS</b>	<b>FOREIGNNESS</b>
<b><u>INTERNAL</u></b>			
<i>International decision making</i>			X
<i>Experience</i>	X	X	X
<i>Entrepreneur</i>	X	X	X
<i>Network</i>	X	X	X
<i>Knowledge and learning process</i>	X	X	X
<i>Internationalisation market strategy</i>	X		X
<i>Entry mode</i>	X		X
<b><u>EXTERNAL</u></b>			
<i>Industry factor</i>	X	X	
<i>Foreign market</i>	X	X	X
<i>Foreign market environment</i>	X	X	X

Table 1, Factors related to the liability of smallness, newness and foreignness

### 3. METHODOLOGY

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*In this chapter, the author discusses the research method including research design, selection of case companies, collection of data, data analysis and quality of the research method. The location of the study as well as the case companies are presented for the first time in this section.*

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#### 3.1 ABDUCTIVE RESEARCH APPROACH

In this thesis, an abductive research approach was selected as the author wanted to develop internationalisation theory for SMEs. Abductive reasoning is used when the scientist seeks to determine new factors such as other relationships and variables (Dubois and Gadde, 2002). By reviewing the latest studies within internationalisation with focus on SMEs and collection data from case companies, new factors have been identified for SMEs' internationalisation. The study started with following a deductive approach. A literature review was made of the existing theory in the area of internationalisation. The ABS academic journal guide was applied to assure, the latest and most valuable research were studied. Articles from several journals were chosen and created the base of the research. Factors which influence SMEs' entry to a psychic distant market with focus on the liability of smallness, newness and foreignness were recognised and assisted the author in the progress of conducting interview questions. After the data collection, the author began to analyse the findings and identified new factors which affected the case companies journey. These factors were added to the theoretical chapter to broaden the view of SMEs' entry to a foreign market. Through using the same factors, divided in internal and external, from the theoretical framework, in the empirical chapter the reader will be guided easily throughout the project.

#### 3.2 QUALITATIVE RESEARCH METHOD

A qualitative research method was chosen for this thesis. The choice of research method comes from the type of research question the study is going to answer (Yin, 2014; Eriksson and Kovalainen, 2008). The type of the research question; "what", "how" or "why" guides the researcher to which method to select (Eriksson and Kovalainen, 2008). These three types are all common in quality business research. "What" questions focus on exploring and describing situations, process and states, thus, they are descriptive. "How" and "why" questions seek to answer or explain something in qualitative terms. Hence, they focus on causes and consequences (Eriksson and Kovalainen, 2008). The question in this study is a two-parted where the first part is a "how" question which aim to explain how SMEs perceive the liabilities

in a psychic distant market. The second part is a “what” question where the aim is to identify what factors that support the firms to overcome the liabilities. Thus, it fits well with a qualitative research method.

### 3.3 RESEARCH DESIGN

The research method such as a qualitative method is the technique for gathering data while the research design facilitates the framework for the collection and analysis of the data (Bryman and Bell, 2015). The design for this paper is a multiple-case study where the case consists of four companies. A case study was chosen due to that the author wants to test theories on several cases to be able to identify the most important factors. By choosing a multiple-case study, the author could study the similarities and differences between the firms in a real-life context (Dul and Hak, 2008). One advantage of a multiple-case study compared to a single-case study is that the study is seen as more full-bodied as the data cover many aspects. Moreover, in this research replication logic is used as the sampling design which is common in multiple-case studies (Yin (2014)). The author has used the same interview questions to all case companies, to ensure that equivalent areas have been covered during the interviews.

A further reason for choosing a case study is due to the number of sources of evidence (Yin, 2014). In case studies interviews, documentation and observations are common methods. Multiple methods are one approach for strengthening the quality of the thesis. Further information about sources of evidence used in this thesis is found in section 3.5. A second benefit with a case study is the approach of being able to study something closely but at the same time keep the holistic perspective (Yin, 2014). The author aims to find the answer to how SMEs perceive the liabilities of smallness and newness when entering a psychic distant market. Thus, the question has a holistic approach, however, to be able to study the subject, case companies and a location is required to be selected.

### 3.4 SELECTING LOCATION, MARKET EXPERTS AND CASE COMPANIES

#### 3.4.1 *Selecting location*

The city-state Singapore was chosen as the location for this study. There are several reasons why the country is an interesting choice. Firstly, due to the research question the foreign market had to be a psychic distant market compared to the case companies' home market. In this case, the SMEs are all of Swedish origin, thus their domestic market is Sweden. The differences in

language, culture and political system between the nations are clear. Secondly, there are approximately 8000 SMEs and MNEs operating in the country (Business Sweden, 2017a) and 300 out of them are Swedish companies (Sveriges Ambassad, 2017). In this regard, providing the author a wide selection of potential case companies. Thirdly, the country has experience a fast and remarkable journey from being an underdeveloped nation lacking natural resources to a developed country with a yearly GDP growth between 2-4%, in less than 50 years (Sveriges Ambassad, 2017). Hence, it is a young country which has become a true international hub. Fourthly, Singapore has been voted as the best country in the world to do business with 2015 as well as 2016 according to the yearly publication of World bank (2016). Singapore has therefore obtained much attention, however, few studies have been made within the area of internationalisation.

### 3.4.2 Selecting cases companies

The firms including the case study have been selected through several steps. First, sampling was conducting by choosing to include only Swedish firms. Second, to decrease the sample, the size of the company was chosen and the result was to use SMEs. In this thesis, EU's definition of SME, shown in table 2, decided which enterprises that made the list.

<b>Company category</b>	<b>Staff headcount</b>	<b>Turnover</b>	or	<b>Balance sheet total</b>
Medium	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 2, Definition of SMEs (CSES, 2012).

Third, one location of the firms' international expansion was defined, the small and open high-income country Singapore. Fourth, by contacting the Embassy of Sweden in Singapore and other organisations the final companies were identified. As the establishment in the foreign market is study, in other terms pre-entry but also post-entry factors, the requirement was that each single company had been active in the country for at least 5 years. By that time, the companies would have had time to reflect over the establishment and experience different business cycles in the country. The chosen firms were contacted and out of them four replied they were interested to be part of the study. Part from the case companies, the author has interviewed, in this study called, market experts for increase the knowledge of the case location.

As they are located in Singapore, the market experts possess important local knowledge which would have been impossible to find through secondary data. The participated market experts are the Embassy of Sweden, Business Sweden and a consulting firm named Apples & Spears.

The case firms have both similarities and difference. First, as mention earlier, they are all Swedish companies. Selecting companies from one country strengthens the validity of the study as the researcher do not need to test country specific factors such as how the income-level affect the firm entry process for each case. Second, to study SMEs specifically is part of the research question reasoning. To many studies are made on or for large MNEs which have been the dominated player in the international trade in the past. Nowadays, SMEs have taken more and more international ground but the research has not followed. Sweden has approximately 99% SMEs of all total companies (Eurostat, 2015) which makes it once again interesting to study in an internationalisation perspective because even though the SMEs are the majority group, few are still taken the step to become global (Regeringskansliet, 2015). Third, all companies are operating in a niche market. It tests the assumption that they are BGs companies as most research in BG theory have been done in high-tech or niche industries (Knight and Liesch, 2016). Moreover, there are also some difference between the firms. Three of the case companies are operating in the transport sector, however, in different areas within airport and the marine industry. The last company are in the service sector and is also the largest company in the study. Thus, the size is another difference where the range varies from 11 up to 200 employees.

### *3.4.3 Presentation of market experts and case companies*

#### **MARKET EXPERTS**

The Embassy of Sweden in Singapore, Business Sweden and Apples & Spears are the market experts. The Embassy of Sweden in Singapore has a long experience to build relationship between Sweden and Singapore, both through promoting Swedish business and be a supporting institution for Swedish citizens living abroad (Sveriges Ambassad, 2017). Business Sweden, the Swedish trade and invest council assists Swedish companies, especially SMEs, in their internationalisation process. They offer companies consultation in the areas of market and industry insights, identify business opportunities and partner search (Business Sweden, 2017b). In many countries, like Singapore the Embassy of Sweden and Business Sweden work close together to strengthen the picture of Sweden and promote and inform about business opportunities (Business Sweden, 2017b). Apples & Spears is a relative new consulting firm in

Singapore, specialised to support Scandinavian SMEs and Start-ups (Apple & Spears, 2017). They opened their office in 2013, however, both the owner Sandra Appelqvist and Agneta Spjuth have long experience of working and living in Southeast Asia. The company offer their clients assistant to identify business opportunities in Southeast Asia region (Apple & Spears, 2017).

#### *COMPANY X<sup>1</sup>*

Company X was established 1985 in southern Sweden by the same person which is still the owner of the company today. The company is operating within the marine equipment sector. At the headquarter in Sweden, there are around 20 employees. The company belongs to a business group together with three other sister companies. One of firms is located in Singapore and has around 10 employees. They entered Singapore in 2002, however, already in 1995, the enterprise began to do project in Singapore through a partner firm. The interview was conducted with Anonymous 1<sup>2</sup> country manager, at their office in Singapore

#### *LOIPART*

Loipart is a family-owned business located in Alingsås, with around 140 employees in five countries. There are in the manufacturing business for galley and laundry equipment and their main customers are the shipping industry. The company was established 1977, today the younger generation have taken over with Juha Jokinen as the CEO and owner, and Teea Flygare as Vice President (VP) and owner. The office in Singapore was founded in 2009 and it has 7 employees. The interview was conducted with Anonymous 2<sup>3</sup> and Anonymous 3<sup>4</sup> at the office in Singapore as well as with Teea Flygare, VP and owner, in Gothenburg.

#### *SARSYS*

Sarsys, Scandinavian airport and road systems AB, is specialised in road safety system such as frictions testers. Their main client is airports all over the world as they are represented in over 100 countries. The firm was founded in Trelleborg, 1998 and today they have 11 employees. In Singapore, they have an agent, Indeco, which has been a long-term partner to the company. Two interviews were held with first the representative from Indeco, Ho Su Swee, manager in

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<sup>1</sup> See section 3.5.2 for further explanation

<sup>2</sup> See section 3.5.2 for further explanation

<sup>3</sup> See section 3.5.2 for further explanation

<sup>4</sup> See section 3.5.2 for further explanation

special project and business development at Indeco's office in Singapore. Second with Christian Lienau Svensson, vice president, over the phone in Sweden.

### *UNIVERSUM*

Universum is a service company in the area of Employer Branding and it was established in Stockholm, 1988. The enterprise has over 200 employees however, it still has offices in 46 countries. After having the regional Asian office in China for many year, the company opened an office in Singapore 2011. At the same time, the Singaporean office became the regional Asian Pacific headquarter and Joakim Ström took over the leading position. Today, there are approximately 20 employees in Singapore which makes it one of the biggest office within the firm. The interview was conducted with Joakim Ström, CEO in APAC (Asian Pacific) at their office in Singapore.

## 3.5 COLLECTING CASE STUDY EVIDENCE

A case study research offers several research methods or source of evidence (Yin, 2014). The most common methods are interviews, observations, documents and surveys (Bryman and Bell, 2015). In order to increase the quality of the study, it is recommended to use multiple sources of evidence. Further, it is the research question that guide the researcher what type of method may be use in the case study (Yin, 2014; Bryman and Bell, 2015). The question in this thesis is of a descriptive nature which favour interviews as a source of evidence (Yin, 2014). The author has also chosen to use audio recording during the interviews and documentation such as annual reports, company brochure and country reports. Documentation is a useful method as it gives the researcher value information about the case company before and after the interview. For example, support the researcher in understanding different definitions used under the interview. Important is therefore to assure credible data is collected (Yin, 2014). Further discussion about how the interviews were prepared is found in the next section.

### *3.5.1 Interview and question design*

The interviews are the most important data collected during this study. The author has chosen a semi-structured approach due to the choice of doing a multiple-case study. The semi-structured interview allowed the interviewer to have flexibility as well as a structured approach to be certain that all areas is covered (Bryman and Bell, 2015). The questions were designed through identifying keywords in the theory. Each factor became a topic and questions were then conducted within the area. The interview guide is found in appendix 1. The interviews were

audio recorded and then transcribed. All interviews except for two was held in Singapore and the meeting took place at the case company’s office. The two remaining was completed in Sweden, one via telephone and the other at a café in Gothenburg.

### 3.5.2 Firm interviews

Below in table 3 and table 4 are the market experts and case companies presented which were interviewed during this study. In the tables, there are information about the name of the company, interview person, location and date. One company, here called Company X, including the interviewed person wanted to be anonymous as well as two employees at Loipart. In the tables, the interviewees are named anonymous 1-3. However, in the empirical, analysis as well in the concluding chapter fictitious names including a fictitious name on the company X are used for a better flow in the text. The coded names are presented in the footnotes at respective name.

<b>Market expert</b>	<b>Interview person</b>	<b>Interview location and date</b>
Appels and Spears	Sandra Appelqvist, Founder and Go-to-market Strategist	Singapore, 22/3 (Face to face)
Business Sweden	Emil Akander, Trade Commissioner	Singapore, 27/3 (Face to face)
The Swedish Embassy	Hema Selva, Commercial Officer	Singapore, 27/3 (Face to face)

Table 3, Market experts

<b>Case company</b>	<b>Interview person</b>	<b>Interview location and date</b>
Company X <sup>5</sup>	Anonymous 1 <sup>6</sup> , Country manager	Singapore, 15/3 (Face to face)
Loipart	Teea Flygare, Owner and VP	Gothenburg, 10/4 (Face to face)
	Anonymous 2 <sup>7</sup> , Financial department	Singapore, 13/3 (Face to face)
	Anonymous 3 <sup>8</sup> , Business Developer	Singapore, 13/3 (Face to face)
Sarsys	Ho Su Swee (Indeco), Agent	Singapore, 21/3 (Face to face)
	Christian Lienau Svensson, VP	Sweden, 20/4 (Phone)
Universum	Joakim Ström, CEO - APAC	Singapore, 14/3 (Face to face)

Table 4, Case companies

<sup>5</sup> Company X is named Maritime technology

<sup>6</sup> Anonymous 1 is named Anders Andersson

<sup>7</sup> Anonymous 2 is named Rachel Chong

<sup>8</sup> Anonymous 3 is named Ryan Chan



### 3.6 DATA ANALYSIS

The data analysis is one of the most important chapters in the book as it combines the theory with empirical result, later generating an answer to the research question (Yin, 2014). Thus, the author together with the supervisor discussed the structure of the analysis early in the process. The structure to use in this thesis is called pattern-matching logic, which compare prior studies with the new research findings through a specific pattern (Yin, 2014). In this case, the factors which were identified in the theoretical framework and empirical findings have been used as a base for the study. These factors guide the reader from the theoretical framework via the findings to the analysis chapter. The data was analysis divided after the research question. The first section discussed how the cases companies perceive the liability of newness and smallness in a psychic distant market. The second section present the factors which supported the case firms to overcome the liabilities.

### 3.7 QUALITY OF RESEARCH

A few criteria need to be covered, to be certain the research hold a high quality. The criteria for a case study are commonly validity and reliability (Yin, 2014). Within validity there are three subareas; construct validity, internal validity and external validity (Yin, 2014). Each of the criteria are present below with the perspective of a case study research and the research study itself.

#### *3.7.1 Construct validity*

Construct validity or measurement validity focus on, the concept which is being studied match the concept which it is supposed to represent (Bryman and Bell, 2015). This criterion is related to reliability, which is discussed below (ibid.) Constructed validity is associated with the data collection and structure (Yin, 2014). Firstly, to increase the construct validity in the study, multiplied sources of evidence were used (ibid.) The data was collected from several case companies and market experts in the country of study. By interviewing both companies and market experts the study collected evidence from both sides, the company perspective and the market perspective. All interviews were recorded and the audio sound was saved. During the interviews, the interviewer wrote down notes for later compare to the recorded audio. Secondary data such as company brochure, customer lists, website information and country reports was also collected for fill the gap in the findings. Within this study is therefore three different sources used; interviews, documentation and audio recording.

Secondly, a good way to structure the thesis is to connect all different chapters with each other, establish a chain of evidence from research question to conclusion as well as the other way around (Yin, 2014). This thesis has structured the paper through factors or areas. In the theoretical framework, the factors were identified and supported the author to conduct questions for the case companies and market experts. In the empirical chapter, the factors were used for structuring the findings and identify new areas and finally in the analysis and conclusion the factors built the discussion. Thirdly, a few people both from the case companies as well as people in the author's close circle have had the assignment to read through parts of the thesis as well as the final draft before the thesis was confirmed and published. It has been a key issue to solve for the author as it is always a risk to write a thesis alone. For recommendations and monitoring, the author has been part of seminars held of the supervisor. During these seminars, each thesis has been discussed and the participants have been able to give criticism of the ongoing project. The sessions have been very valuable both for the author herself as well as the quality of the thesis.

### *3.7.2 Internal validity*

Internal validity measures the causality and is therefore connected to the chapter of analysis in a study (Bryman and Bell, 2015). A big risk with an exploratory case study is saying that x and y has a causal relationship without being certain it is not z that causes it (Bryman and Bell, 2015). Another issue within the internal validity is the inferences (Yin, 2014). Researcher tend to do inferences quite often due to the problem of not being able to study the cases in real time. To fill the gap, the scientist assumes for example that an event prior has triggered the company's actions of today. These assumptions are based on evidence from interviews, observation or other data which should be a correct clarification but could also be an interpretation mistaken of the author. To rise the internal validity in this study several sources of evidence are used, as it better reflects the real occasion. In addition, the technique pattern matching has been used. By finding a similar pattern in earlier studies before collecting the data, in this case the identified factors in the area, the research quality increases.

### *3.7.3 External validity*

External validity considers the issue of generalisation of research findings. A study has high external validity if the result can be used in another study context (Bryman and Bell, 2015). To overcome the quality risk, it is common in a case study that the researcher "...seeking to achieve

*a degree of theoretical generalizability...*” (Bryman and Bell, 2015, p.69). This thesis is built on factors obtained from the theoretical framework and empirical findings. These factors have then both created the interview questions for the case companies as well as the analysis structure of the findings. The factors may be easily adapted to several case firms as well as locations as they are not market specific. Thus, the generalisation context is well considered.

#### *3.7.4 Reliability*

Reliability covering the issue of a measure and if the variable is stable to use as a measure (Bryman and Bell, 2015). However, as it is also a question about being able to test the case (do the same case study and get the same result) it is an important criterion to discuss. To be able to repeat a research, the study needs to be documented (Yin, 2014). This research consists of a case study where specific factors have been identified. To prove quality all factors is stated clear for each theory. By finding a standard description of each factor for each theory the risk for low quality is decreased. The interview questions have been the same for all cases companies as well as for the market expert except for not all questions have been asked. Nevertheless, all areas have been covered and the questions are to be found in the appendix. When it comes to the data collection, the author has recorded all interviews to be able to listen to the whole conversations repeatedly. All the interviews have also been transcribed into written text. Thus, this lower the risk of misunderstanding made during the interviews. Recording the interviews was also necessarily for overcome the disadvantage of only being one interviewer.

## 4. EMPIRICAL FINDINGS

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*In this section, the findings of the data collection are presented. First part covers a description of the market experts as well as the location. Second part is about the case companies; Loipart, Maritime technology, Sarsys and Universum. Each company is presented individually.*

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### 4.1 PRESENTATION OF THE MARKET EXPERTS AND LOCATION

#### 4.1.1 Market experts

The author interviewed three different market experts in Singapore which are all connected with the Swedish market. The first interview was with Sandra Appelqvist at the consultant firm Apples & Spears. Appelqvist is the co-founder of the company together with Agneta Spjuth. The company was established in 2014 and supports Scandinavian SMEs internationalisation process in southeast Asia. The main market is Singapore as both founders are located there but also because the nation is a good opening market for companies. The interview was conducted at the Hub, a co-working space in Singapore, where Apples & Spears office is located. The second interview were with Business Sweden and the Embassy of Sweden at Business Sweden office in the centre of Singapore. Business Sweden is the Swedish trade and investment council and they have had an office in the country since 2008. The government- and industry- (Näringslivet) owned company assists Swedish companies to reach their full global potential abroad. Business Sweden is locally present in over 50 countries around the world. The Embassy of Sweden in Singapore is located in the same building as Business Sweden. Their main task is to improve the relationship between Singapore and Sweden. In addition, they promote Swedish business and participate at events and fair together with Business Sweden for example. Emil Akander from Business Sweden and Hema Selva from the Embassy of Sweden were interviewed for this study.

#### 4.1.2 Presentation of the location

Singapore is a city-state in Southeast Asia, the smallest nation in the region. It cannot be compared with any of its neighbouring countries as none of them have succeeded to reach the same level of economic growth. Thus, it stands out from its region and Asia overall. From being a poor ex-colonial nation to become one of the leading countries in the world within areas such as health care, education and research. This journey was made in less than two generations and the reasons behind their achievements are many. Akander points out a few:

*“It has primary been facilitated through good business environment and infrastructure for FDI, but also the strategic location in terms of trade and FDI” (Akander, 2017).*

Akander continues to stress Singapore’s location. The country is part of an emerging region, it is situated in a crossroad of Asia and Europe when it comes to ports and airports. Another reason Singapore attracts many international companies are due to its transparencies believes Appelqvist. It has low corruption especially compared to other nations in the region. Singapore is true business hub with over 8000 MNEs, around 300 of them are of Swedish origin. Business Sweden and the Embassy believe it is a yearly increase of 10% for Swedish firms. Within the 10% they only counting legal entity, thus, firm which exports to Singapore or has only a partner here is not included.

For understand how Singapore decided to adopt a western world approach, their history should be known. Singapore is a young country, it has only been independent for 52 years. The country was under British flag from 1819 when Stamford Raffles founded the colonial Singapore until 1942 when the Japanese occupied the nation. The occupation lasted three year and then the country became British again. After that it would take 17 years until Singapore became a self-governing state. However, before the country started its own remarkable journey, it had a short union with Malaysia between 1963-1965. Thus, the British influence has been strong and is still present in today’s Singapore. Moreover, when Lee Kuan Yew, the founding father, became the premier minister, the country was poor. It is lacking natural resources and the population was low-skilled. Thus, instead of looking at its neighbouring countries, Yew, who had study in Great Britain saw the opportunities to make Singapore a business nation. The development of the country then follows a clear strategy to attract foreign FDI, by lower trade barriers and tax for business. The state made it easy to open a business and obtain local high-skilled employees. Consequently, education was something Singapore understood was important for the country’s growth and today it is one of the best in the world. When they reached the top, it could be easy to believe they were satisfied, although, the country has continued to develop.

*“Even though it is a small country, the economy is going very strong. It is a country which always fighting for being in the front row in development of technology, research and innovation” (Appelqvist, 2017).*

Singapore is a safe country when it comes to business, with low corruption and well-structure and regulated market where the firm can get support and financial aid. Nevertheless, the private safety is also high. Criminality is low, Singapore do not have any natural disasters and the citizens have a friendly approach to foreigner and different culture. Various of ethnic groups are living side by side within the small nation. The largest group is Chinese, they account for 74% while Malay and Indian account for 13% respective 9% of the population (Sverige Ambassad, 2016). Moreover, for an SME to enter Singapore, there are both obstacles and benefits. Many MNEs have already entered the market which has created a strongly competitive environment. Akander raises two negative aspects with the market:

*“The main challenge is probably the cost of doing business, which is rather high for a SME. Another thing is that the workforce environment is very competitive, it is difficult to find staff if you are not willing to pay a certain amount or have other things in the compensation package”*

To survive, the company need to have patient and believe in its product/service. The start-up phase might be short, an office can be up and running after 2-3 months, however, the difficult part is to find customers. Another common hinder for a foreign company is to find right employees. Singapore has a high-skilled workforce but many firms have experience the problem to find managerial competence among locals. Consequently, many SMEs are afraid to expand their business too far from the home country. They believe a neighbouring country will be an easier and safer place to start its internationalisation process. However, all entry process takes time if it is not done correctly. Appelqvist suggests her clients to make a plan early in the internationalisation phase.

*“It is important that there is a plan how to become global, to establish contacts and build relationship in advance. Even if the process will not start until years later”* (Appelqvist, 2017).

However, planning years before the actual establishment is not common. Instead, many firms have a manager or someone who is the management team that has experience from abroad. The

person has either worked internationally or entered a foreign market with another company. Managers international approach and leadership is crucial for a smoother entry process. A support for the SME might be larger firms which are already established in the market. Instead of seeing them as a competitor, SMEs can benefit from their local knowledge and network in the foreign country. There are many ways how to find a local partner. However, most of the companies think the hard part is to find the agent. Thus, many enterprises first mistake is not investigating their partner enough prior signing a deal.

*“I feel that many Swedish or foreign companies in general do not do the due diligence enough when it comes to partner evaluation” (Akander, 2017).*

A great local partner might be the different of success or failure in the new market. Second common mistake is to not keep a close dialog with the partner. A relation is a dynamic process which require care and maintains. The new technology has increase the ways to communicate, although, Akander, Selva and Appelqvist argue, it is vital to personally visit its partner for time to time to increase the relation. Local firms like to do business with people they know, consequently by not having a local connection may constrains the foreign firm’s business opportunities. Appelqvist continues to discuss the benefit with a local partner.

*“It is important with local knowledge, as the culture within the region is very much collectivistic and therefore built on strong relations” (Appelqvist, 2017).*

General companies have low knowledge about Singapore. Business Sweden, the Embassy as well as Apple & Spears have all find it very difficult to promote the country as an attractive market. It might be because of the distance, cost, culture difference or the old picture of China being the only business centre in Asia. Thus, one of the challenges is to develop the firms view about Asia as still many have their attention on China.

*“When firms look at Asia, they look primarily at China as it is the biggest market. It has also been growing a lot the latest years so everyone hoping to get a piece of the market” (Akander, 2017).*

One market which has received much attention due to the concentration around China is Hong Kong. The city could be called Singapore's sister as they have many features in common. They are the same size, business friendly climate, international hub, mix of foreign people and has a past as British colonial states. However, Singapore became independent in 1960s and Hong Kong is today part of China. This has been clearly stated the last years as China increase its control over Hong Kong. Hence, the business climate in Asia is changing and Appelqvist, Akander and Selva is convinced that Singapore and Southeast Asia will be the leading region in the future.

*“As the global shift has moved to Asia, you need to be here, you need to be part of this value chain and you need to be in Asia for Asia. The next decades of growth will not be in Europe or USA” (Akander, 2017).*

For Swedish and other companies, the opportunities are also many. Consumer products is one industry which both Akander and Selva agree have great potential in Singapore. Especially, Swedish design in the area of fashion and furniture. For increase number of Swedish companies in the market, Business Sweden and the Embassy organise events around Sweden. More companies should open their eyes for Singapore's potential as a growing region instead of looking at it as one small market, says Akander. A great news for Singapore and EU is that the trade agreement between the two parts are finally confirmed.

*“The trade agreement with EU and Singapore will be finalised and signed this summer. It is the first agreement with Southeast Asia and EU” (Selva, 2017).*

This trade agreement will eliminate or lower trade barriers within the sectors of financial service and industry. It will make trade easier between the regions and create new opportunities for Swedish and European firms in Southeast Asia.



## 4.2 FINDINGS FROM THE COMPANIES

### 4.2.1 Loipart

The original Loipart was founded in Finland 1977. In 2003, Loipart acquires Electrolux Professional Marine Division, and creates Loipart AB, a subsidiary in Sweden. Eight years later, Teea Flygare, vice president and two others in the management team decide to do a management buyout and Loipart group was founded. Today, Loipart Group consists of six subsidiaries in South Korea, Singapore, Croatia, Finland and two in USA. In Croatia and one subsidiary in USA are inactive. The parent company and the headquarter is situated in Alingsås, Sweden. The firm is producing marine galley and laundry solutions for the marine sector and has around 180 employees split on all the offices. Most people are located in Finland where the production and installation occupy approximately 100 workers. The author interviewed Teea Flygare, vice president, business operations and owner, at a café in Gothenburg. In addition, Rachel Chong<sup>9</sup> and Ryan Chan<sup>10</sup> were interviewed at the Singapore office in Singapore.

#### *Internal factors*

Teea Flygare started her journey in Loipart at the Swedish subsidiary. In the beginning of 2000s Electrolux, a Swedish company, decided to outsource all its sales department to external companies and they started to sell the maritime department. Loipart made the decision to acquire it in 2003 and named the subsidiary Loipart AB. Flygare received the offer to become the manager and accepted the proposal. Hence, here started the story of the Swedish unit of the firm which later became its own company. From the inception, the businesses were going better than expected, partly due to four factors. First, at the purchases, 26 employees from Electrolux came over to Loipart. They were used to manage their own department and the organisation was very structured and self-driven. Second, the shipyard industry went very well. Third, Loipart obtained clients from Electrolux which continued to purchase products from the new company. Fourth, Loipart gained the solid right for Electrolux marine products in the whole world. All Electrolux customer within the maritime area were now forced to go through Loipart. This created a monopolistic power for the company internationally.

Loipart AB first expansion abroad went to USA in 2003 where it started a joint venture with an old agent from Electrolux. The Singapore office was opened in 2009, however, Loipart had

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<sup>9</sup> Fictitious name

<sup>10</sup> Fictitious name

prior been reseller for Electrolux in the country. The idea to establish an office came from an employee at Electrolux, Wenston Yap, as he and another co-worker were searching for new opportunities and contacted Loipart for discuss their idea. When the decision was made, a few employees for example, the initiator, were hired at the new office. Loipart Singapore started with five employees and has today extended to seven. Rachel Chong joined in 2010 and is original from Electrolux financial department and Ryan Chan has worked for the firm since 2014. The recruitment processes in Singapore have been quite unproblematic due to Yap the general manager, which has a long experience from the business. He has had the right contacts and capabilities to find competent and skilled local people. Previous experience from the industry has been an important factor when hired. Thus, many employees are former Electrolux employees.

*“Most of the people we have hired actually have a background from Electrolux. The latest one was a senior which we employed for the position service engineer”*  
(Chong, 2017).

The international market strategy has not been a straight line. It has been the situation in each country which has guided Loipart rather than follow a structured path. USA, which was the first foreign market to enter with a subsidiary, was establish due to a dispute. A few months before Loipart bought the marine unit of Electrolux, Electrolux had made a deal with a partner in USA. When Loipart purchases went through, Electrolux partner was not allowed to sell their products as Loipart had bought the solid rights.

*“As we had received the exclusive right, Electrolux partner was not allowed to sell the supply he just bought. A dispute started between the partner and Electrolux and ended with we became a part of the solution. We thought it was a win-win situation as it gave us a shortcut to open an office in the USA”* (Flygare, 2017).

Another case was Croatia where the company more or less was forced to open a local office. The deal just required a signature when Loipart got the question if they had a domestic firm. It turned out that a Croatian company was needed for win the project. In Singapore, as mention before, it was the present general manager which came up with the idea. Thus, none of the

establishment has looked the same. Nevertheless, a local partner has always been involved in the entry process. For example, Business Sweden supported the establishment in Singapore and Croatia. Flygare stress the importance of having a local partner, when the company open an office but also later for expanding to other parts in the region.

A culture difference Loipart has experience is the Asian approach to always deliver a positive rapport. Hence, there are both advantage and disadvantage depending on the situation. The good thing is that they always try to find a solution by themselves to solve the problem. The negative aspect is that it sometimes delays a project or it might even make the issue worse as they do not tell the management. The communication is therefore not straight forward. Nevertheless, this is not a case for the Singaporean office and Yap is a big part of the good relationship. For increasing the communication and relation between all subsidiaries, Loipart is working on tie the offices closer to the headquarter but at the same time releases the monitory control over daily activities. Flygare discussed a few ways how to proceed the process. The company wishes to adopt a standardised system at all office, it will save time and all variables could more easily be transferred between the countries. By introducing more frequently video conference calls, weekly or monthly, the headquarter will receives updates faster. However, the most important factor for the firm to run smoothly is to find the right people for the leading positions. The different offices are supposed to support not compete against each other as well as the subsidiaries need to feel that they have assistance from the headquarter. Thus, finding the right balance between monitoring and trusting is difficult.

Loipart's business network insist of many different partners. In one deal, it can be as many as six actors including the company; the client (which order the equipment) the shipyard, the owner, the operator and the supplier/s. Their real customer is the shipyard, as the firm sell its equipment to them, however, the end customer could be both the chief, the operator or the owner. It is a real puzzle and it does not help that all actor might be located in different nation around the world.

*“Many partners are involved in the sales process and sometime can all of them be located in different countries. Still, it is important for us to have contact with all of them”* (Flygare, 2017).

Building a sustainable relationship with all different actors is difficult. Nevertheless, it is something Flygare want to improve due to each actor vital part in the decision making. The aftersales market is crucial for the firm. First, to sell spare parts and other equipment to existent customer is a significant part of the revenue. Second, a good service and support is a great way to show the customer they chose the right company. If a customer is not happy with the service or support, it might create issues for the future. Thus, once again are the relations with different actors in the industry vital and it is important for the company to be well-known among their clients as the end customer often suggests which suppliers they want the shipyard to collaborate with.

*“Often when the client orders a ship, a so called “makers list” is written prior. In that list, they have written down which supplier they prefer to work with” (Flygare, 2017).*

Consequently, the sale process begins already before the first meeting with the shipyard and it do not end when the ship is built. Instead, the hard work starts with try to make the customer satisfied.

#### *External factors*

The maritime sector is large and Loipart is working in four areas; Cargo, passenger ships, offshore and others. The four different areas are steady legs to stand on, because the areas do not follow the same cycles. Nevertheless, the industry has gone through many changes the last ten years. It started in 2008- 2009 when the financial crisis began. Many shipyards went bankrupt because they had problem to find financial aid for their business. Prior, the monetarily aspect was not an issue as there were always orders in the pipeline. However, to build a boat requires large resource, therefore, when the credit crash was a fact, many shipyards were standing without security. For Loipart’s, the cargo and passenger ships areas were strongest effected. Prior, the market had been very stable, especially in the home market where the company had always project planned.

*“During the best times in Sweden 2007-2008, we had a backlog of order worth 500 million SEK for three years onwards” (Flygare, 2017).*

Sweden is still the largest market in terms of revenue, however, 98% of all sales are export. The biggest market in sales is Finland which accounts for approximate 25% of the total market sales. Thus, Finland taken a large part of the industry. For example, one of Loipart clients in Finland is a shipyard which building big passenger ferries. Therefore, open a factory there was a good solution to get closer to a growing market.

It is easy to start a business in Singapore due to its business-friendly environment and the fact that they speak very good English. Not talking the same language can be a huge obstacle says Flygare. Instead, the company can now look back and agree that the process to establish in Singapore went much easier. For local companies in Singapore there are several aids and supports which they can apply for from the government. In the case of Singapore, Yap the country manager owns 15% of the subsidiary while the foreign share (Loipart AB) is 85%. Consequently, Loipart has not been able to apply for any government aid. Moreover, Singapore has the second largest port in the world, thus, for a company in the shipping industry it is an important market.

*“That is one of the benefits of having an office here in Singapore. It is easy to find customer due to the high frequency of ships” (Chan, 2017).*

The largest division in Singapore was the Offshore section, when the company entered. However, the offshore cycle follows the oil price, it goes well when the oil price is high but when it drops, the industry falls. At the time for the credit crash in 2008, the oil priced remained high which generated in investors invested in the Offshore business. Therefore, the market looked bright when Loipart entered even though the financial crisis had just begun. However, some years later the oil price dropped which affect the offshore market directly.

*“Now the oil price is down which effect the oil rigs. They stop drill for oil because the oil price is too low. The oil vessel demand slows down too which mean that it is less demand for our products. Hence, everything is a chain (Chan, 2017).*

The market growth in Singapore is still slow due to the low oil price. Like the Swedish market, shipyards also had to close down in the hard times. Hence, the market has not recovered yet.

Due to the crisis, clients have become more price sensitive and as Loipart products are in the premium section, the competition from low-price firms have increased. Exit the market or lower the quality is not an option, Flygare, Chan and Chong are confident that the market will recover. To survive, some arrangement such as cutting variable costs has been made. However, firing staffs is something they want to avoid. Flygare continues to stress the key success factors for surviving a downturn, competent employees as well as see new opportunities in the challenging period. For this to work, it is important that the parent company shows its support to the subsidiary.

*“We want to keep the key persons. We don’t want to lose employees, instead we want to show our support. You have to have some gut feeling and dare also when the numbers are red” (Flygare, 2017).*

#### 4.2.2 Maritime Technology<sup>11</sup>

Maritime Technology is a manufacturing and service company within the marine sector. The firm was established 1985 in south of Sweden by the still active owner Carl Carlsson<sup>12</sup>, who is the CEO of the company. Today, it is part of a business group and has three sister companies. One of them is their agent with local office in Singapore. At the headquarter in Sweden they have 20 employees. The sister company opened the office in Singapore 2002 and has around 10 employees including the country manager. The office is located in an industry area with other Swedish and European enterprises. The author interviewed, Anders Andersson<sup>13</sup> country manager at the office in Singapore.

#### *Internal factors*

Maritime technology is a private owned company and the enterprise’s history goes back 30 years. Even though the company has grown and expand abroad, it has kept it small size. It has been an important strategy due to the structure of the industry. Carl Carlsson, the CEO has a background from the marine sector as well as from the Swedish Navy. An experience, which has been valuable especially for the network he brought into the company. Anders Andersson has been part of the firm since 1997 and started as a technician. Prior Maritime technology,

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<sup>11</sup> Fictitious name

<sup>12</sup> Fictitious name

<sup>13</sup> Fictitious name

Andersson did his military service in the navy. The firm began its international process by working together with large partners abroad. Then, they outsourced employees to the diverse project, while all administrative tasks as well as the sale unit etc. was handled from the headquarter in Sweden. The Swedish office is still working as the key unit. Many projects are sold in to the domestic office, although, employees from all offices are allocated within the project. Hence, in a small company all resources are essential.

Maritime technology became familiar with the Singapore market much earlier than 2002. Together with their partner in the sector, a collaboration started in 1995 for a project in Singapore. At that point, the project was only in the planning phase and it would take almost 5 years before the first workforce from Maritime technology flew down to Singapore. Generally, project of these kind normal stretches over a long time period. Once in the country, the firm began to explore the market for other business opportunities and realised soon their service and product they offer was in demand. With the big project still running, the company signed new deals. Projects continued to increase and in 2002, the firm establish a sister company in Singapore, although, mostly on paper. The administrative task such as payments was easier to handle through establish a firm within the country. Nevertheless, the company continued to send down employees from Sweden until 2007, when the first physical office opened. Anders Andersson, the future country manager was part of the establishment, however, he did not become the manager of the office until 2009. The first two year, the office was run by a local manager which had long experience from the marine industry. He had a broad network in the country and the management thought he would expand the business in Singapore. It turned out that it was not so simple, even though he fulfilled all requirements.

*“Everyone loved him and everyone was a good friend with him, however, it caused problems. Nobody wanted to do business with him due to the fear of being accused for bribe crime”* (Andersson, 2017).

Thus, the well-known manager had reverse effect for the company and after a common decision, the local manager quit and Anders Andersson took over his position. At that time, Andersson had been located in Singapore since 2005 and had increase the local knowledge and business structure of the market. Therefore, it was an easy decision for the management and Andersson to take the role.

The company was offered the partnership with their large competitor in Singapore due to for example the specialist knowledge Maritime technology hold. Thus, when the firm arrived in Singapore it took advantage of that information. They could quick identify the absence of expert knowledge among the actors in the project which also were big players in the market. The largest issue was the non-existed capability to integrate different partner in a project. Projects which required many different actors.

*“It is many large enterprises and many specialists, therefore, it is common that many things fall through the cracks” (Andersson, 2017)*

Though take the role as the negotiator, Maritime technology saw it chance to expand in the market of Singapore. Moreover, the network in Singapore as well in Sweden is well-connected with their large partners and the clients in the sector. As Maritime technology is a small company, many projects are not offered directly to them instead their partners invite them to cooperate. Therefore, it is of high significant for the company to have a good relationship with both the partners and the clients. Andersson, believe it is important to be visible otherwise they might lose business opportunities. Due to the company’s long experience within the sector and the owners background in the marine sector, the firm did not have problem to build their network. However, it has experience some issues with having competitors as close partners.

*“Our two largest partners but also competitors decided in 2009 to create a joint venture in Singapore (Andersson, 2017).*

The joint venture lasted for three years and during this time the competitors tried to take all project by themselves. In the end, they still needed to involve Maritime technology in projects due to lack of specialist knowledge. It was a hard period for the company, however, the owner believed in the market and it turned out that he made the right decision. This event started a discussion about finding new partners and area as they could see the danger in having a too small network. This is still an ongoing process which shows once again things takes time.

Adopting to the local market has both been easy and difficult for the company. There are many regulations to follow within the sector. Some of them have been easy to identify such as the



technicians requires a specific training and certification to work onboard. This was discovered within the first year, Maritime technology worked in Singapore. It turned out to be a very important advantage for the firm to educate its staff in this system as few other had completed the training. It later became one of the most important capabilities in the competition for projects in Singapore. Furthermore, other aspect such as finding and hiring the right employees has been more difficult to predict. Except for the unluckily event with the first general manager, another issue has been to keep employees over a longer time. Singapore is a small country with a small but skilled workforce. It has created the opportunity for example engineers as there are more job opportunities than engineers. Andersson has interviewed many job seekers which have quiet their old work prior searching for a new position. Hence, they were not afraid to be unemployed for a short period as they known they could find another job relatively easy. For preventing these drop outs, Maritime technology search for people with a background in the navy or marine sector. Prior knowledge in the industry is an advantage as the products and services are knowledge-based and it increase the chance the person is genuine interested in the area.

### *External factors*

One of Maritime technology advantage is their size. First, to be able to compete in the Singaporean market the firm need to be either large with big resource and a well-known name or a small company with specialist knowledge. A SME could not directly compete with the big enterprises as most of the projects require large resource which is not likely a SME has. Hence, instead of being the competitor, the firm benefit with become the partner. Maritime technology's understanding and flexibility to approach a problem in a project has created several business opportunities. Their strategy is to be visible both in the discussion and onboard the ships. Second, customers in Singapore prefer to buy service and products locally. Maritime technology opened their office in 2002 without any large issue due to the business-friendly environment in Singapore and the fact that they already had an established network within the country. In additionally, due to the company's size the competitor within the market did not see Maritime technology as a threat. Instead, it benefited both the firm and the companies they were supplier for as they now become seen as a local enterprise. Furthermore, Singapore with its small and open economy is affected easily of the global events. However, this is a minor problem for the sector where Maritime technology operating as decisions are taken with great time frame. Indeed, there are other external factors which cause trouble and the oil price is one.

On the one hand, the competition has decrease because of the oil crisis. But on the other hand, it is less large projects planned.

Singapore is famous for western- world similarities, however, there are still culture differences. The largest matter for Maritime technology is the work process. This specific industry has many regulations due to security issues which result in a quite formal approach to projects. In Singapore, there is no difference in regulation compare to most other market especially in Europe. However, how to solve a problem various which make every project process unique in a negative way. For example, in Sweden a project follows a determined process and if it emerges a problem, the issue is discussed openly which result in a quicker solution. In Singapore, they do love processes, although, if a problem occur they do not report it to manager. Instead they try to solve it by themselves without any notice. When the management find out, the problem has normally increased in size and are more difficult to handle.

The foreign market has been going up and down since the inception. The biggest reason is the long sales process, which itself is not unique for Singapore. Some project takes as long time as 10 years to be confirmed.

*“In 2006, we started the sale process for a project which has just been confirmed now. Luckily the owner is persistent” (Andersson, 2017).*

Hence, the sale cycles are difficult to control, therefore, it is important for the company to always have projects in the pipeline. However, there is one benefit with the long sales cycles, a confirmation of a project normal comes months or even years before the work starts. It has been a safety net many times when the company had problem with the demand, to at least be insured revenue in the future.

#### *4.2.3 Sarsys*

Sarsys (Scandinavian Airport and Road Systems) main product is friction measure equipment for airport runways. The company was established as a family business in Trelleborg in 1998, but the product comes original from LFV (Luftfartsverket) and SAAB which developed the measure system in the 1970s. Its key customers are airports all over the world. Sarsys entered the Singaporean market through an agent and has continued to sell the products through its

partner. Today, the company has 11 employees and present in over 100 countries. It recently got listed on Nordic MTF stock exchange market and the first trade day was the 2<sup>nd</sup> of March 2017. The author interviewed Christian Lienau Svensson, original owner and vice president for the company. In addition, an interview with Ho Su Swee at Indeco, the agent for Sarsys products in Singapore, was conducted at Indeco's office in Singapore.

### *Internal factors*

Lienau Svensson has been part of the company from inception. From 1998 to 2008 the company was owned by Lienau Svensson, his father and a few others. The son and father have both a background in the aircraft industry. Experiences from the industry are important due to the technic heavy products the firm is selling. After his father death in 2008, Lienau Svensson took over as the CEO and decided to make some changes for developing the company and the products. Hence, the structure of the firm changed, especially in the shareholder perspective as the firm went from private owned to public owned in September 2016.

Sarsys is developing and manufacturing technical equipment and software to measure the friction. The production take place in Trelleborg, Sweden, except from the manufacturing of the vehicles. This is handle of their partners, currently they have a collaboration with Volkswagen, Volvo and Opel. A close relation with the vehicle suppliers give Sarsys the opportunity to customise its products for the clients in a more efficient way. Furthermore, their main product comes from SAAB and LFV. By taking over an already developed measure system, the company was given more than a product. Existent customers as well as international agent continued their relationship with Sarsys. It supported the firms international process as clients were already familiar with the product and agents known the markets. Hence, the decision of expand abroad was never needed to be taken as the global market had always been important, especially at present time when most of the sales are exported.

*“90% of all service and products which we produce are going for export”*

*(Lienau Svensson, 2017).*

Nevertheless, the home market is important as Sarsys only office is located here. It is also where LFV and SAAB original from. SAAB and Sarsys had collaboration the first years, until SAAB went bankrupt in 2011. The co-operation with a local company supported Sarsys, in the

inception to find new and maintain relationship in the industry. Without a well-working network of agents and other key people the firm wouldn't have grown as the home market was and is too small for their products. Instead, it has been vital to build and develop relations for continue the global journey.

In Singapore, they are collaborating with Indeco, a large maintenance and service company. The co-operations started prior Sarsys, as Indeco was SAAB and LVF agent. When Sarsys overtook the product, the relation continued and has worked well all these years. Indeco has a good relationship with key persons in the market such as Changi airport which is Sarsys final customer. To have an agent between the supplier and the customer is necessarily in Singapore due to the owner structure. The owner of Changi airport is the Singapore government and they prefer to do only business with large and well-known companies. They have these requirements as they want to be sure there are service available around the clock. An airport could never stand still. Another obligation to fulfil is to be a local company as the promoting domestic purchases. This is easily solved through having a local partner. In additional, the paper work may be quite heavy, especially for a small company in a niche segment. Sarsys partner Indeco assist the company with the administrative tasks as well as holding the contact with different local authorises.

*“We are handling all kind of registrations and paper works for our partners. It is a lot of paper work for one customer as many authorities are involved”* (Swee, 2017).

The market in Singapore not big and the growth potential small. Luckily, the Singapore client, the airport, has been a returning customer for several years. The first vehicle was bought 2008 of Sarsys, although previously purchases had been made for other products. Nevertheless, the life cycle of a vehicle is around 5-10 years which make aftermarket including service and support crucial for the company. Maintain a good relationship with the clients is therefore another vital task as it is more likely that customers will come back

Most of the agents are new and have been found through project or contacted Sarsys directly, others are agents which Sarsys overtook from SAAB and LVF such as Indeco in Singapore. When Lienau Svensson became the CEO in 2008, the company started to go through all agents and some were replaced, as they had not succeeded to deliver. Prior, when Sarsys was

expanding to new markets the agents were not examine very well as the attention was on the sale potential in the market. However, as 70-75% of all customer is returning clients it is very vital to have an agent which can represent the company in long terms, says Lienau Svensson. Therefore, nowadays the process to find a good agent takes longer time due to a more stricter procedure. In Singapore, Indeco only collaborate with Sarsys within the airport safety industry. However, they are agent for other firms within special vehicles. Swee has worked for Indeco for over 17 years and took over the role as Sarsys contact person in 2003. Thus, he knows the company well and has also been in Sweden to visit the headquarter. Indeed, the relationship has developed through trust and commitment from both the partners.

Sarsys has continue the internationalisation process and is today present in over 100 countries worldwide. Its vision is to become the world leading company in its segment.

*“To become world leading, we need to listen to our customer. What they want, not develop what we think is important” (Lienau Svensson, 2017).*

One idea to get closer to their mission is to develop complementary products for increase the market shares. Moreover, to be able to handle more project simultaneously, the company is going to move to a new office in Sweden in the end of this year. The production site will have double capacity compare to today. On the sales side, entering new markets is always on the agenda. Its strategy has been to penetrate markets to find a partner/agent which can act as their sales represent in the local market. Hence, prior knowledge of the market has not been a factor which has matter when entered new markets. Instead, they have looked at the sales potential and the interest of their product is growing.

#### *External factors*

The main customers are airport operators and airports therefore, the most common client is a government as they are often the owner of the country’s airport. Three other groups are: municipality owned airports, private owned airports and service companies which offer their service to airports. Due to the type of clients, it is normally a public procurement for the project and these can look very different, from country to country. Within in the EU the process is easier and more regulated, however, in other part of the world it various. Hence, if not the company has much knowledge about local public procurement process, it is forced to have a

domestic partner. Otherwise, the firm would need large resource which a small firm normal not has. However, this has not constrained Sarsys to enter a foreign market. Instead, a market will be scan first and then the company will try to find the best solution to enter. Sarsys has experience drawbacks due to its size but not because of the public procurement processes. A common reason is when the quantity has been too high for its capacity or when it has been required higher financial resources. Other times, it has been forced to turn down offers as it could be very risky with only having one customer to produce for. Each project requires to be valuated prior the deal is signed. For increase the capacity the company have built a new production site.

*“Before we developed our production capacity, we had problem as small company. However, now we have increased the capacity and made it more efficient”*

(Lienau Svensson, 2017).

Lienau Svensson says that in the future the company want to grow in size. However, the important is that the company grows sustainable for preserve the standard in products and service. Therefore, it is vital to have competent employees which have time to develop within the company. When it comes to the Singapore market, it is an open economy which is easy to do business with. Swee stress the fact that Singapore do not have any natural disasters, the political climate is stable and their social background is not very different from western Europe. The reason behind that is Singapore’s history as old colony to Great Britain and their notifiable journey after their independency. Many compare Singapore to Hong Kong because they have several similarities. However, in the end the territories are quite different.

*“If you want to compare Singapore to any country in the world, Hong Kong is the closest. Both have been a British colony, largest ethnic groups are Chinese and they are international cities with many foreign workers. However, we are an independent nation while Hong Kong is part of China”* (Swee, 2017).

Thus, Singapore is one of a kind. They have been able to go from an undeveloped nation to a well-developed in less than 50 years. Therefore, Singapore is a good start market for foreign companies’ due to similarity to the Western world. However, a disadvantage for SMEs is the

high fixed cost within the country such as rent and vehicles. It makes it difficult for companies with small resources specially within Sarsys industry which is in a niche sector. Open an office in Singapore was never an option due to the large cost, luckily other possibilities were available. Further, the airport safety business is special due to its influence over several areas.

*“Tourism, export and import goes through airports so the country need to have a well operated airport. If you do not have a safe airport, you cannot expect people to visit and that hurt business” (Swee, 2017).*

The clients prefer therefore a product which is well known, proven with a strong agency represented in Singapore. The price is always an issue, but due to the safety risk, the quality cannot be ignored. Moreover, technical and backup support is also very important. The customers want good value for the money. Swee believes European, especially Scandinavian, products are competitive in Asia due to its high standard. The European standard is famous all around the world and Scandinavian countries are also known for their technology know-how which Asian companies often lack.

Due to the small number of products sold to each client and market, the overall strategy has always been to be active in many markets. It could be seen as a problem, however, the company has used its knowledge and experience to continue to penetrate new markets. As their product is unique there are few competitors. There are around 10 international enterprises operating globally which producing friction measurement system. Locally, there are normal a few competitors producing similar products in each country. In Singapore, the competing firms are MNEs as it very difficult to survive as a small firm in this niche industry in a small country.

#### *4.2.4 Universum*

Universum was founded in 1988, in Stockholm of Lars-Henrik Friis Molin. The company is in the service sector, and its main areas are employer branding, communication and consulting. Universum has around 200 employees and is established in 35 countries all over the world. Its research and surveys is done in over 60 nations. Today, Lars-Henrik is not the CEO any longer, instead Petter Nylander which has worked for several large companies like MTG and Unibet, has been the CEO since 2011. The author interviewed Joakim Ström, which is the regional CEO

for APAC. The company office in Singapore is located in one of the vibrant streets of Chinatown in the centre of the city.

### *Internal factors*

The newly graduated student, Lars-Henrik Friis Molin, from the Stockholm School of Economics established Universum in the 1980s. The company began its international journey in the neighbouring countries in Scandinavia and continued soon to open offices in Europe as well. Asia was one of the last region to enter and the main reason was that the firm saw a pattern. Mature markets such as USA and western Europe were interested in their service while areas like eastern Europe and Asia did not see the beneficial aspect of the service. In the end, employer branding is a niche market and many companies see it as unnecessary cost.

*“It cost quite a lot to build a brand, not all companies have the resource to invest in their branding or it is not prioritised by the firm” (Ström, 2017).*

Thus, it was easier to expand to psychic close market due to the higher growth potential. The first Asian office was opened in Shanghai, China for approximately 15 years ago. Universum chose Shanghai because a large number of European and American enterprises had started to produce in Asia. Many had problem with finding the right employees and how to brand themselves in the Chinese market. The main clients were MNEs original from Europe and America. In that case, the type of customer was not unique for the region as Universum international marketing strategy has been to follow its clients. Thus, the problem was not that the customers were not there, instead it was rather a misunderstanding of the market. When it was time for a management shift in Asia, Joakim Ström was chosen to take over the regional office in Asia. Ström started as an CEO trainee in Stockholm 2011 but already one year later he received the offer to take over the role as regional manager in Asia. Rapidly after the management shift, the decision was taken to move the regional office to Singapore. Ström's previous experiences from Singapore gave a new change for Universum in Asia as he both had a large local knowledge as well as a personal network. Therefore, with his previous knowledge of the country and the fact that another colleague to-be already worked for a sister company in Singapore, the decision was easy to make.



*“When the company is small, personal experience does matter in the decision making”* (Ström, 2017).

Indeed, other factors such as it was easy to establish a business in the country and the huge number of MNEs which were located in the country, affected the decision. From the beginning, it was decided that Ström would spend half his time in China and half in Singapore. That changed rather quickly to only 25% in China as the Singapore became the most important market in Asia due to the high number of MNEs’ regional offices for example. Around the time of entry, management decided to change the firm’s organisation strategy, from centralised to decentralised. Prior, the company had a traditional structure where most of the decisions were taken at the headquarter in Stockholm. This wanted the new CEO, Petter Nylander change. The large modification resulted that market manager received more power and could take part of the decision making in their local region. At the same time, the company became digitalised. Nylander had previous worked with media and he saw the positive trend and how a firm could use it for expand to new areas. Ström had during his time as a CEO trainee worked closed with Nylander and when Ström moved down to Singapore he obtained the opportunity to try something new for change the negative trend in the region.

*“Go and listen to the market, Petter told me. Prior, we had turned down project which we did not do in Sweden. But through listen to the market we could build and extend our business portfolio”* (Ström, 2017).

Listen to the market turned out to be an excellent strategy and the sales in Singapore increased steadily. Besides the new strategy, the structure for the offices was replaced with a mini-version of the headquarter. Hence, Ström hired all keyperson for the local offices, both in Singapore and China. It was a successful process and gave the new regional office a grand start. Today, five years after the establishment, Singapore is one of the three biggest offices for Universum. The other two is New York and the headquarter in Stockholm. The Swedish market is still the largest in terms of sales as it accounts for 30% of the total revenue. Universum has the majority share of the Swedish market and customer are municipalities, schools, large and small companies. For only three years ago Sweden counted for 50% of the revenues, however, the firm saw a risk with having a large share of the sales in one country. Thus, the focus changed to developed the other markets and it went successful. For example, only 1-2% of the total

revenue was from Asia in 2012, today the same market represents 15-20 %. Moreover, Universum chose to enter Singapore with a subsidiary, thus, that is what they have decided to do in all the countries where they are active.

### *External factors*

For a service company, it may be very difficult to enter a foreign market as a service could be bought anywhere from anyone. Nevertheless, Universum has succeeded in many regions. The secret behind the achievement is according to Ström their surveys. They are conducted in over 60 countries and the firm works closely with universities and research companies. For example, the firm's collaboration generated in around 1,5 million answers from over 2000 universities all over the world. That is quite a powerful information to give to a CEO during a sales meeting. Moreover, one of biggest reason for moving the regional headquarter to Singapore was the high amount of international firm's regional headquarter. There are 8000 MNEs in Singapore and the majority have their regional office located in the city. This has created large opportunities for Universum.

*“If you are efficient, you can easily have five meetings one day with people who is in charge of over 10 markets. It means you can discuss 50 markets in only one day”*

(Ström, 2017).

However, it took some time before Singapore and the Asian market mature. When Universum enter the Asian market, their main customers were European and American companies. It was very difficult to sell their service to local firms. After it opened in Singapore, it has become easier to also attract the Asian companies. Joakim believes one of the reason is that Asia has changed from beginning a production continent to become a new place for innovation and technology. Therefore, the requirement for employees has also changed. Before, companies were looking for low-skilled workers, today the same firm need an engineer. Thus, the demand for right skilled employees has increase in favour for Universum service. Especially in Singapore, the local companies became more interested in Employer Branding because of the growth of international competition. Now large global firms as Google and Facebook have arrived in Asia and they attract employees differently compare to the domestic firms. Nevertheless, Ström see only opportunities for the Asia companies. Now, they have all possibilities to do right from the start as they can look at other companies in the same sector for

best practise. Singapore stand out from its neighbouring countries and open an office in Thailand or Malaysia is not prioritised. Instead, Universum has found another strategy to expand to new markets.

*“The neighbouring states are still not mature. It is better and easier to sell to companies in Singapore which has a regional responsibility and through that selling other projects to the neighbouring countries” (Ström, 2017).*

Hence, from Singapore the firm can reach out to several regions. Singapore might be a small nation but many international companies see the benefits. The country is an easy market to open a business, and to do business in. Everyone speaks English, the public transport is well developed as well as the infrastructure. The main airport is located not far from the centre which result in a fast access to the airport wherever a company has its office. Administrative tasks as open a bank account in the country is also easy. When it comes to hiring staff, Universum has chosen to have a multinational approach. At the office in Singapore, they have employees from eight different countries. They have not had problem to find good worker as the workforce in the country is skilled, however, managerial skills among the citizens are harder to discover. The competition in the market coming from different areas as Universum portfolio is wide. The company is working in three main areas; consultant, marketing and researching. Hence, no specific company is operating in all the three categories, however, instead competition arrives from different directions. It could be consulting firms, social media agenises and research firms, in Singapore they are both local and international. Ström admit it has both its pro and cons. An advantage because they can offer the customer a unique service but a disadvantage as they cannot measure themselves to anyone directly.

#### 4.3 SUMMARY OF THE EMPERICAL FINDINGS

Below in table 5, the factors which have affected the case companies' establishment in Singapore are presented. A few factors are the same for all the firms, however, most of them are unique for one or two companies. For example, the owner/entrepreneur have all had an active role during the entry process. Whereas culture differences have been issue for some while others have not experience the variance so strong. Further discussion follows in the next chapter.

	<b>LOIPART</b>	<b>MARITIME TECHNOLOGY</b>	<b>SARSYS</b>	<b>UNIVERSUM</b>
<i>Internal factors</i>	<ul style="list-style-type: none"> <li>*Competent staff</li> <li>* Active owners</li> <li>*Local partner</li> <li>* Broad network</li> <li>*BG</li> <li>* Valuable learning process under internationalisation</li> </ul>	<ul style="list-style-type: none"> <li>* Possesses expert knowledge with in the sector</li> <li>* Active owner</li> <li>* Collaboration with large partner</li> <li>* Important network</li> </ul>	<ul style="list-style-type: none"> <li>* Collaboration with large partner</li> <li>* Unique product</li> <li>* Active entrepreneur</li> <li>* BG</li> <li>*Only agents</li> </ul>	<ul style="list-style-type: none"> <li>* Active entrepreneur</li> <li>* Network through clients and entrepreneur</li> <li>* Valuable learning process</li> <li>* Traditional internationalisation process</li> </ul>
<i>External factors</i>	<ul style="list-style-type: none"> <li>*Fluctuations in the market</li> <li>* Culture difference</li> <li>* Easy recruitment process</li> <li>* Hard competition</li> </ul>	<ul style="list-style-type: none"> <li>* Difficult to recruit</li> <li>* Culture issues</li> <li>* Hard competition</li> <li>* Competitive advantage due its small size</li> </ul>	<ul style="list-style-type: none"> <li>* Sales potential not market growth potential</li> <li>* Returning clients</li> <li>*Public procurement</li> </ul>	<ul style="list-style-type: none"> <li>* Market knowledge through the entrepreneur</li> <li>* Great market growth</li> <li>*Local and foreign clients</li> </ul>

Table 5, Summary of the case companies

## 5. ANALYSIS

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*The analysis brings together the data collection with the theoretical framework. In this chapter, the internationalisation theories are discussed together with the empirical findings. The analysis is built on the research question and aim to discuss, firstly, how the firms perceive the liability of smallness, newness and foreignness in Singapore. Secondly, it points out what factors have supported the SMEs to overcome these challenges. In the end of the chapter, the result is summarised and a table is presented.*

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### 5.1 PERCEPTION OF THE LIABILITIES

#### 5.1.1 Internal factors

A firm starts its internationalisation process prior its establishment. It is the entrepreneur's network, experience and risk-averse behaviour which settle the global possibilities (Oviatt and McDougall, 1994; Nummela et al, 2004). The founders in the case companies have had a significant part in the internationalisation. Everyone saw the opportunity to expand global for increase the sales. Sarsys and to some extent also Loipart are true BG companies. Sarsys had entered the international market prior its establishment due to their main product. Loipart made a management buyout and became its own company in 2011. Hence, their product and service was already introduced to the global market. Maritime technology and Universum internationalised rapidly, however, they established on the domestic market first. This might have to do with the companies' product/service as they are all rather specialised in their sector. Hence, the home market is too small for them push them to find new opportunities.

Further, if the market entry to Singapore is studied throughout an entrepreneurial perspective, all companies except from Universum had experience from the Singaporean market prior entry. Sarsys and Loipart had their products already presented at the market due to previous companies and Maritime technology had though collaboration done project within the nation. Nevertheless, the entrepreneur or the country manager to-be at Loipart and Universum had a large impact why they companies open a business in the country. Yap and Ström's earlier experience from the country had a large impact on the decision making. While Sarsys and Maritime technology had partners, which supported them to increase their commitment in the market. Hence, an entrepreneur behaviour, experience and network influences the establishment although, does not need to be the founder or an employee. It might be the firm's

local partner. As a small firm, all resources are valuable and by take advantage of employees earlier experience and knowledge the company can compensate for the liability of smallness.

The local partner or knowledge of the new market comes from the company's network according to Johanson and Vahlne (2009). With an already established network in the market, the entry process increases in speed but only if the firm has an insider position in the market as it will lower the risk of uncertainty (Knight and Liesch, 2016). By showing trust and commitment to its network the firm will develop its position (Johanson and Vahlne, 2009; Hilmersson and Jansson, 2012). The market experts emphasise the importance to have a local partner when a firm establishes in Singapore. Even though it is very easy to open a business; to find employees and clients and understand the culture, a local knowledge is crucial. It is because of the liability of newness and the issue of lacking legitimacy in the new market (Lu and Beamish, 2006). A small firm which do not have a familiar brand, will have large troubles with entering Singapore due to the high competitive market. Loipart, Sarsys and Maritime technology used their local partner when they entered the market, through them the companies became accepted in Singapore more rapidly. Universum most vital players within the network in Singapore is its clients. Many European and American companies have their regional Asian office in Singapore. Hence, Universum had worked with several of them before. By being a familiar name in a new market had proven advantages for the company, but it was not until Universum changed their market strategy, the domestic firms became customer. Thus, even though Universum was a known company among the clients in Singapore, it had problem with attract the domestic firms. It shows that firms need to adopt to each market as each country's market is unique.

Collaboration with a large partner in the foreign market is shown to be a source of market-specific knowledge and opportunities (Dias and Lopes, 2014). However, it might also cause issues due to the uneven power balance (Nakos et al., 2014). Business Sweden agrees partnership is a good solution for SMEs, especially with a large company which has long experience from the market. The big firm can support the SME in the up-starting phase and provide it with local knowledge. However, Maritime technology has experience the negative side of a partnership. Their partners but also their largest competitors tried to lower the dependence of Maritime technology, by establishing a joint venture. The company which did not have any other large player in its network had a difficult time during the period of the joint

venture as only smaller project was signed. This is an issue for small companies as they often are forced to collaborate. However, it is rather a poor partner evaluation than the partnership itself which is the key to the problem. Akander stated that foreign companies in general are less successful to make a good partner evaluation. The focus is on the market instead of finding the right partner. Companies forgot that a bad partnership can fail their investment. Network can hamper the company's entry process or result in new sales deal. In Singapore, to stand without a local network is very difficult in most of the sectors, therefore, doing a proper due diligence is a requirement for success.

For enter the global market, the company should be big with large resource due to the risks in a foreign market, traditional international theory determined (Johanson and Vahlne, 1977). SMEs that entering a foreign market suffer of liability of smallness which constrain the opportunities in the country (Lu and Beamish, 2006; Lee et al., 2012) Nevertheless, network and IE theory argue that any firm no matter of size and resource can expand abroad (Knight, 2015). The market experts have seen a trend where SMEs normal selected a nearby market for its first expansion abroad. Companies believe it is less resource heavy and risky. Indeed, none of the case companies entered Singapore as the first market. Instead, all except from Universum was pulled to the market. Loipart through earlier relationship and businesses in the market, Maritime technology began with low commitment together with its larger partner and Sarsys was already established in the market through its agent. Universum was the only company which active chose Singapore. Ström's previous experience of the country and the large sales potential due to the big amount of MNE was determined for the decision. Therefore, the market choice is often based one external aspects rather than a strategic decision.

The cases companies size or resource have not been a problem when entered Singapore and other markets. It is rather how they have established on the market which could be linked to their limited resources and what internationalisation strategy they elected to adopt. Maritime technology chose to enter Singapore through collaboration with a partner. By sending down employees from Sweden, the company kept the costs down. It worked well until they realised they might increase sales in the country if they were local presented. Sarsys expansion abroad to over 100 countries have worked due to their strategy to find a local partner in each market. Therefore, the resources required for being present in each country has been low. Loipart as both local offices and agents around the world. Opening an office is not the priority when

entering a country however, it could be necessary due to the after-sales potential. However, Singapore with its large port and therefore, many foreign customer, is representing a typical market where Loipart need to be local present, as the customer requires fast service and support. Universum has the positive result of being local present and therefore focused on open, often small, offices globally. Indeed, the limited resources have required them to choose a specific path. However, instead of seeing small resource as a constrain the case companies has turn it to a part of their internationalisation strategy. They see opportunities not obstacles.

Traditional international theory argues that a firm enter a market with a low commitment and later as knowledge about the market increase, the entry mode change (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988). Research from IE theory and network theory have shown that low commitment is common for SMEs companies, however, IE stresses the role of the entrepreneur. Her/his network and previous experience of the new market might affect the final decision of the entry mode (Knight, 2015). All companies differ in their approach to entry mode decision. Loipart and Maritime technology as well as the market expert experience from their clients confirmed the theory. Loipart and Maritime technology started to sell their product/service through export and partnership at the market of Singapore. Both later increased their commitment trough open an office in the country. According to Agndal and Chetty (2006) firm's decision to change the entry mode is often build on business relationship in the host country. This theory is confirmed with Loipart whose local representative had a large impact on the decision due to Yap local knowledge and network in Singapore. However, for Maritime technology, it was important to grow its own knowledge about the market before they increased their commitment.

Contrary, Universum and Sarsys have elaborated an entry mode strategy which is similar in all markets. Indeed, Sarsys has entered with a low commitment, however, even though they are present in over 100 countries they have not increased their investment in any foreign markets. The company targeting of a broad number of markets is related to the company's niche products as each market is relative small and due to limited resource enter all these countries would not be possible. Universum has entered their foreign markets with a subsidiary, often are the offices small but the investment is still high. The firm has seen a growth in the countries where they are located locally. Hence, the entrepreneur has been the driving force in some decision, although, product/service might influence the final decision.



### *5.1.2 External factors*

Firms which commonly internationalise is large mature and stable enterprises (Johanson and Vahlne, 1977; Horst, 1972). Small firms are only an exception as they had ownership advantages (Buckley, 1988). Nevertheless, later studies showed that SMEs which expand abroad are often part of a niche market (Knight, 2015). This study confirmed the later theory as all interviewed companies operates in a small section of their industry. However, it is not because their products are only unique, it is the SMEs capability to see opportunities. Instead of seeing the market in growth potential they have entered due to sales optional, each sold item or service counts. In terms of differences between the home and foreign market, psychic distance is an issue. It constrains the internationalisation process, as variances in language, culture and education level makes the firm to reconsider some market before entering (Johanson and Vahlne, 1977; Aspelund et al., 2007). For decrease the uncertainty for a new market, the firm's network is vital as it provide the company with knowledge prior enter (Johanson and Vahlne, 2009). However, knowledge about one market do not automatically results in understanding another as institutional difference might affect the outcome (Hilmersson and Jansson, 2012). Even though most part of the population in Singapore speaks English and has adopt a western business approach the cultures difference are plenty. Maritime technology has experienced communication problem between its employees. Local workers tend to not discuss issues open with the management, instead they try to fix them by themselves. This is probably a result of Singapore hierarchical organisation system versus Swedish flatter organisational system. Local workers are not used to discuss and solve a task together with its manager.

Johanson and Vahlne (1977) states that companies learn by doing. Thus, firms own experience increase the knowledge of international trade. Autio et al. (2000) confirm it as one of SMEs strength in a foreign market as they are flexible and absorb new knowledge fast. The market experts' opinion is that a company requires to be in Singapore for a longer time before it understand the market and win business contracts. According to Apples & Spears, it is common that a concept in the home market do not applies in the host market. Thus, the company need time for adopt its project to the market. Maritime technology entered Singapore through a partnership with a larger company in the industry. While the project was on going Maritime tried to identify new deals within the market. It soon realised that the smaller projects were often found at the source, the ships. By being visible during another work onboard and shows interest in the client's problems, the company was assigned new contracts. Thus, the customer

appreciated fast service of someone who was already familiar with the equipment. Similar, Universum had problem with understanding the Asian market with Employer branding but after they changed the market approach and started to analyse the market, the revenue began to increase. Consequently, the firms saw the opportunities in the market and understood they needed to adopt to the local market for increase number of projects. Understanding the host market is one of the most significant aspect during a firm's establishment. Loipart and Sarsys had an easier adoption to the market as their products were already known in the market but also because their partners had a broad local network within each firm's respective industry. Thus, the local network may simplify the adoption to the new market. Nevertheless, another factor which as simplified the adoption to Singapore is the beneficial business climate. The low corruption and stable political environment support the firms. Hence, they do not need to worry about suddenly changes in the market.

SMEs suffer from liability of newness as financing, recruitment and legitimacy in the market might be difficult for a new firm. Collaboration with a local partner or create a joint venture decrease the risk (Lu and Beamish, 2006, Lee et al., 2012). When it comes to the recruitment process Loipart has been very pleased that it was able to hire staff from their partner Electrolux. It has been a valuable resource during the entry process. Further, Maritime technology and Universum have had a more difficult time to find the right employees. The market experts confirm that most companies have issues during the recruitment process. The firms have had no problem to find competence workers, the Singaporean citizen are well-educated. However, Maritime technology has experience competent staff have resigned because they have found a better job at a competitor. Universum has find it difficult to fulfil all positions with local employees. Finding staff is one of the factors in the establishment which cannot be test prior entry of the new market. Even if the labour market is skilled, there is no assurance the process will be easier as it depends on each market. Singaporeans prefer to work with companies which are known in the market. Nevertheless, a local partner might lower the uncertainty for a firm.

## 5.2 FACTORS FACILITATE OVERCOMING THE LIABILITIES

### 5.2.1 *The entrepreneur*

The entrepreneur at the company play an important role in the entry process. She/he finds business opportunities, recruit employees, maintain relationships, build new relations and develop local market knowledge. The entrepreneur also dares to stay in a market, when the

revenues decrease. Both, Loipart and Maritime technology have experience a downturn in Singapore, however, due to their owners the companies have chosen to stay in the market. Universum changed regional office to Singapore due to the entrepreneur's previous knowledge about Singapore. Sarsys, strong management team as led the company to expand to over 100 countries.

*Market knowledge* – For increase the chances to succeed in a market, prior knowledge of the country is a benefit. Either through the entrepreneur, like Universum or through its local partner such as Loipart, Sarsys and Maritime technology. It is very difficult to be an outsider in a new foreign market, especially for a new and unknown company. By entering the market with previous knowledge, the entry process will most likely be more smooth and successful.

### 5.2.2 Network

For succeed in Singapore or market similar, a firm need to have a network. The network may consist of customers, partners, competitors or family and friends. Hence, there are no standard assembling of a typical foreign network. The network seals the gaps which a SME might a difficult to fill by itself such as local knowledge, resource boundaries and market opportunities. All cases companies value their different network which all consistent of various of players, as the network strengthen their activity in the market.

*Local contact* – Establish a network is one thing, however, having a local partner increase the changes to succeed. The domestic contact in the new market, support the firm during all stages of the entry process, pre-entry, at entry point and post-entry through their local knowledge and competence. Sarsys and Maritime technology collaborate with big players in Singapore and through that been able to gain legitimacy in the new market. Universum, local contact was Ström and his colleague which showed the management team, Asia was a valued market. Loipart increased their commitment in the market due to their local contact which saw the business opportunities.

*Collaboration* – The firms need to find its place in the market and through that understand what they require to succeed. Maritime technology and Sarsys collaborate with large partner, as penetrating the market themselves would probably have been impossible due to the industry's structure. Loipart bought the sole right for the Electrolux marine equipment, however,

continued to have a close partnership with the company. Universum is in this factor an outsider as they have not collaborated with specific companies. Their strength are their multinational clients which is already familiar with Universum service. The SMEs might have limited resources but through collaboration with other companies it increases the opportunities in a new market. Although, evaluate the partner prior signing deals is vital as partnership may result in downsides as well.

### *5.2.3 Learning process*

Prior entering a new market a firm have most likely identified sales potential, however, that will only help the company in the beginning. For succeed in the foreign market the SMEs require to find their competitive advantage. Loipart products are in the premium section and even though the market has changed and the clients have become more price sensitive, the firm has continued with their market strategy. The have seen that is their strength among its competitor. Universum succeeded to reach the local companies through listen to the market, hence they need to modify their service after the foreign market. Maritime technology found the gap in the industry and took advantage of that to increase their market share in Singapore. Sarsys competitive advantage is to collaborate with larger partner and through them penetrate the market.

*Size* – Contrary, what Johanson and Vahlne (1977) argued about a firm need to be large for internationalise, this study has found several evidences that the small size has been a competitive advantage in the new market. The companies' strength is their specialisation in their industry. Sarsys, Maritime technology and Loipart selling products and provide service in a small part of the sector. Universum offer a broad service in a small industry. Therefore, the companies may be small in their size however, big player in their industries.

*Long term* – For succeed in a foreign market the companies need to think in long terms. Singapore is a very competitive market which all cases companies have experienced. However, by learning and understanding the new market the company can develop. Having a too short time frame might affect the firm's performance negative and end up with an unnecessary exit from the market. When Universum entered Singapore, they were successful to attract the foreign companies, although the local firms were not interested. It changes when they reformed their strategy and portfolio. Maritime technology and Loipart experienced a downturn in their

respective sector a few years after the enter, however, by seen beyond the negative development at present, new opportunities have arisen in the future.

*Requirement* – Even if all companies have entered the same market, there are market or industry requirements which is specific for each firm. Therefore, when a firm scan a new market, specific knowledge about its industry within the country is the most important information. Thus, it increases the requirements of the local partner or entrepreneur which possess the knowledge about the market. But it only confirmed Business Sweden’s advice why it is important to investigate its partner.

**5.3 SUMMARY OF THE ANALYSIS**

All the case companies have experience liability of smallness, newness and foreignness when entered the market of Singapore. However, they have overcome the challenges through three many factors; entrepreneur, network and learning process. Each of them could be linked to one of the liabilities. The entrepreneur previous experience and knowledge, actions and risk-taking mindset facilitated the SMEs to overcome the liability of smallness. The network with local or larger partners removed the challenges of being new in the market. Thus, the learning process and adoption to the market supported the SMEs to overcome the liability of foreignness. Below in table 6, the factors which facilitated the SMEs overcoming the liabilities are gathered, divided after the main factor as well as sub factors.

	<b>SMALLNESS</b>	<b>NEWNESS</b>	<b>FOREIGNNESS</b>
<i>Main factor</i>	* Entrepreneur	* Network	* Learning process
<i>Sub factors</i>	* Market knowledge	* Collaboration * Local contact	* Size * Long term * Requirements

Table 6, Factors which facilitate overcoming the liabilities

## 6. CONCLUSIONS AND FURTHER STUDIES

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*In the final chapter, the conclusions of the study are presented, followed by limitations of the research, suggestions for further studies and implications of the thesis. As the research questions could be a two-parted question, the answer to the question will be divided in two sections like in the analysis.*

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### 6.1 CONCLUSIONS

The purpose of this study was to examine how SMEs perceive the liability of newness, foreignness and smallness in a far distant market and what factors support the firm to overcome these liabilities. Through conducting a multiple-case study with four companies which have entered a specific location, the author has increased the understanding of SMEs internationalisation. With this research, the author has answered the following question:

*\* How do SMEs entering a psychic distant market perceive the liability of smallness, newness and foreignness and what factors facilitate overcoming these liabilities?*

Starting with answer the first section of the question, *how do SMEs entering a psychic distant market perceive the liability of smallness, newness and foreignness*, the study has acknowledged several aspects which have been positive and negative for the firms' establishment. The liability of smallness, newness, foreignness in a new market is supposed to constrain SMEs. However, the size of the companies was showed to be a competitive advantage as they possess specialist knowledge within its industry. Resource constrains have been solved through collaborations with local partners. Hence, the choice of market has neither been a question of financial constrain nor a psychic distant issue, instead it has depended on the sales potential. The network has helped in the issue of newness. The agent, local partner, customer or supplier has supported with local knowledge, legitimacy and adoption to the market. Furthermore, when it comes to the industry factors, in other words the external influences, aspects regarding employment, culture, foreign market environment and industry factors affected the establishment for the firms. To find the right employees has been the most difficult for the case companies and it is also the area where the network has been least helpful. Issues like keep the employees, communication problem and lack of managerial skills are among the most common. The culture difference is also part of the recruitment problems as the local employees are used to a hierarchy structure. Hence, all cases companies have suffered of

liability of foreignness, however, by entirely adopt to the market the firms have been able to identify the issues and overcome them. Moreover, the foreign market environment has only positive aspects even though the Singapore market is small. The case companies and market expert confirm how easy it is to do business in the country. The market is transparent, low corruption with stable political environment. Due to its location and business-friendly climate it became a true international hub with benefit the case companies as all of them are in the business to business sector.

The second part of the research question was to identify *what factors facilitate overcoming these liabilities*. Some of the factors supporting the firms' challenges in the foreign market are earlier acknowledged in the theory such as entrepreneur, network and fast learning process. The risk-seeking, prior international experienced and inspirational entrepreneur is found in all the firm's. They are persistent, identify business opportunities and have a global mindset. The network is the other crucial factor and consists of both formal and informal relations. The network has supported the companies to overcome uncertainty in the foreign market by provide them with local knowledge and advise in the recruitment process and customer and supplier search. The local partner is one part of the network and been crucial for Sarsys, Maritime technology and Loipart for legitimacy in the market. For Sarsys and Maritime technology, collaboration with a large partner has been essential as the industry requires large resources.

These are the three main factors, however, looking deeper into each one there are several aspects which matter for the establishment in the foreign market. The entrepreneur starts the entry process through its network or previous knowledge. Nevertheless, it is also the entrepreneur which continues the journey when the market changes. Closer together with the entrepreneur is a team which are competent in the sector and trust and support the journey. The network consists of various of actors and each firm should define which are need within their circle. Evaluation is crucial as some partners might decrease the chance to succeed in the market. A local partner in the network has been identified as almost necessary as it provides the company with market knowledge, validity, business opportunities and a good collaboration companion if required. Furthermore, the learning process and the capability to adopt easy to the market is one of SME competitive advantages, hence the size makes difference.

To sum, SMEs are said to have resource constrains and therefore not be suitable for the global market (Johanson and Vahlne, 1977). They are exposed of liability of foreignness which makes

the foreign establishment risky and research heavy. They also suffer from liability of smallness and newness which make them more vulnerable for environmental fluctuations and they might have trouble to be accepted in the new market (Lu and Beamish, 2006) However, this study has showed SMEs use their network for overcome the constrains. The network support them; pre-entry with market knowledge, at entry point with legitimacy, customer and supplier and post-entry with new business opportunities. Nevertheless, the network support is nothing if not the entrepreneur act. It is the entrepreneur which manages the requirement, maintain relationships with partners and clients and develop the company for future challenges. Finally, through understand the foreign market and the company's competitive advantages in that specific country the firms will create a sustainable establishment in the new market. To conclude, earlier studies had failed to show how different factors facilities SMEs to overcome liabilities when establish in a psychic distance market. This research confirms that several theories are needed to find the answer, nevertheless, new theory requires to be develop. Matching one theory with SMEs internationalisation is not possible.

## 6.2 LIMITATIONS AND FUTHER STUDIES

### 6.2.1 *Limitations*

There are some limitations with the research conducted. First, the study includes a limited number of cases companies for one nation. The firms used within the case study could potentially be special cases and the factors influencing the entry process might be different in another company. Second, the cases firms are operating in different industries, however, all are providing services or products in the business to business sector. The location of study might therefore benefit this kind of companies. Third, the country chosen for the location might be biased and give a different picture of the general global market. Fourth, the factors which were identified through the theoretical framework and the empirical findings may be wrongly interpreted by the author.

### 6.2.2 *Future studies*

For future studies, there are many interested areas within SMEs establishment in a foreign market. First, conduct a study with another location preferable in a market closer to the home market. Second, use other theories which relates to SMEs internationalisation process for find new factors. Third, use a certain kind of companies, industry specific or only BG firms to test



the reliability. Finally, compare the MNEs entry against the SMEs for identify similarities and differences.

### 6.3 IMPLICATIONS

This study has shown how SMEs overcome liability of smallness, newness and foreignness in a psychic distant market by identifying important factors. Thus, it contributed to the research area by increases the understanding of SMEs internationalisation and establishment in a foreign market. Further, SMEs which consider become global or extend its global present can use this study for advice how to succeed in the foreign market. Nevertheless, these findings are also useful for semi-governmental and other organisation supporting SMEs internationalisation process.

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# APPENDIX

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## APPENDIX 1 - INTERVIEW QUESTIONS

Semi-structured interview questions for the case companies and market experts.

### **The founding processes**

- Tell me about the company
- When was the company founded?
- What is the background of the founders?

### **The entrepreneur**

- Tell me a bit about you.
- What is your roll in the company?
- How long have you been part of this company?
- What is your educational and professional background? (in firms, organizations, universities, etc.)
- What has your (the founder, key person) part been in the internationalisation?

### **Foreign market, Singapore**

- What events/ factors has influence the market in Singapore? Can you describe the entering process for the company?
- Which (if any) obstacles/problems did the firm encountered in its entry process?
- How is Singapore market environment in the terms of competition, market size and growth rate?
- What factors influenced the firm pre-entry, at the entry point and post-entry?
- Looking back at the entry process, what would you have made differently?
- Has it been easy to find right workers?
- Singapore is ranked as number one in doing business (world bank) would you say it is easy to do business in the country?
- How big is the sales in Singapore compare to the total sales?

### **Entry mode**

- What entry mode did you chose when entering Singapore?
- Was it different for the first foreign market? Why?
- Has the entry mode change during the company's international process?

### **International decision making**

- What is the primary factors which effect the decision making of the internationalisation process?
- Is flexibility and improvisation important in the decision making or systematic and plans prior?

- Have the company followed the same structure when you have entered other countries?
- Has it been important to have previous experience or/and knowledge about the country when taking the decision to enter?
- Does your network such as suppliers, customer, competitors, family and friends have a large impact on the firm's decision making?

### **Psychic distance**

- Has culture, geographical distance and language effect your internationalisation decisions? Why?
- Is Singapore the first country to enter? Why, why not?
- How do you support firms to overcome market risk like exchange risk for operating in a foreign country, firm unfamiliarity of the foreign market (liability of foreignness)?

### **Home market**

- How big is your sales in the home market versus foreign sales?
- Is the home market important for the company?
- Has the company entered market similar to Sweden?

### **International marketing strategy**

- After how many years did the company internationalise and how did the company do? Which entry mode, one country focus?
- In how many countries are the firm engaged in business activities today?
- When was the firm's first entry into a foreign market?
- Has the entry to Singapore open up for expand to neighbouring countries such as Thailand, Malaysia and Indonesia?

### **Experience**

- Did the company had international experience before enter Singapore?
- Did the people in the decision making had international experience before and /or education from abroad?
- Was experience for previous expansion valued when entered Singapore?

### **Industry factors**

- How is the competition in Singapore?
- Which are the biggest competitors in your industry?
- Are they local or foreign companies?
- Has it change over the years?
- How has the process to find local suppliers and customer been?
- Has it been any support from the local market to open a business in this specific industry?
- Is it difficult to find skilled employees?
- Has the company experience any problems due to its size?

**Knowledge and learning**

- Was it difficult to understand the market of Singapore?
- Was it easy to adopt to the market of Singapore?
- Did the knowledge obtain in Singapore helped to expand to another foreign market?
- Has it been easy to adapt the business to the market in Singapore?
- How is the business climate? Flat organisations or pyramid structure?

**Network**

- With which actors do you cooperate with in the other countries where the firm operates?
- Is the company part of any industry based network/ associations in Singapore?
- How is the relation between competitors in Singapore?
- Was it difficult to enter a network?
- Is your network local or home-based?