



**UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW**

Master Degree Project in International Business and Trade

**Adaptation of Business Practices  
in Swedish Software-Exporting SMEs.**

**An Institution-Based View of Internationalization.**

**A case study of SoftWeb AB.**

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## **DISCLAIMER**

At the request of the company names of firms, industries, individuals and brands have been anonymized where applicable.

## **Abstract**

*Previous research has acknowledged the importance of software SMEs by emphasizing their ability to compete in the international arena despite their smaller size. Further, the internationalization of software SMEs have been emphasized as an interesting phenomenon as they have not followed classic incremental internationalization paths, meaning the establishing a subsidiary in a foreign country of operations, but instead software SMEs favor direct exports. Prior studies attribute this to the increasing availability of facilitating technological means, as well as to a lack of financial and human resources. However, despite the increasing trend towards exports, no studies that have researched how institutional factors of foreign markets may affect Software-Exporting SMEs business practices and therefore what adaptations may be necessary in their internationalization process were identified. In order to fill the existing gap in theory, the authors have conducted a single case study of SoftWeb AB, an SME in the software industry. The study included eight interviews with the company representatives in possessing adequate knowledge of SoftWeb AB's international operations and resulted in the following main findings: Firstly, software SMEs such as SoftWeb adapt their business practices to institutional environments of foreign markets through a process of efficiency-seeking. Secondly, the foreign institutional aspect that majorly affects Software-Exporting SMEs international operations is of an informal normative nature. Lastly, the thesis affirms that the extent to which Software-Exporting SMEs must adapt their practices is positively related to the degree of institutional distance between the SME and export-receiving customer.*

## **Keywords**

Institutional impact, Formal institutions, Informal institutions, Institutional distance, SMEs internationalization, Software industry, Software-Exporting SMEs, Networks, Network interactions, Business practices

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## **List of abbreviations**

AUD	Australian Dollar, Australia's Currency
B2B	Business-to-Business
CEO	Chief Executive Officer
EC	European Commission
EEA	European Economic Area
EU	European Union
EUR	Euro, Euro Zone Currency
GDPR	General Data Protection Regulation
ISK	Icelandic Króna, Iceland's Currency
KPI	Key Performance Indicator
MNC	Multinational Corporation
PPL	Public Procurement Law
SaaS	Software as a Service
SAoP	System, Application or Platform
SEK	Swedish Króna, Sweden's Currency
SME	Small and Medium-sized Enterprises
SW	SoftWeb
TL	Tax Law
PPL	Public Procurement Law

## **Definition of concepts**

*Business Practices:* By the authors defined as any method, process, procedure, rule or routine through which the firm attempts to achieve their business objectives, including business *interactions* such as customer interactions that may be subject to adaptation due to the influence of institutions.

*Software-Exporting SME:* A small or medium-sized software enterprise focusing on direct exports rather than establishing a subsidiary in a foreign country of operation.

*Formal Institutions:* Refer to laws and regulation which the customer must adhere to.

*Informal Institutions:* Refer to norms, beliefs, social phenomena such as taboos, customs and traditions.

*Internet:* A massive network of networks; a networking infrastructure that connects millions of computers together globally, forming a network in which any computer can communicate with any other computer as long as they are both connected to the Internet.

*Networks:* Networks refer to the interconnectedness and interdependence of organizations and/or individuals. A business network contact may refer to company stakeholders such as suppliers and clients. A personal network contact may refer to the acquaintance of individuals in a non- or semi-business related context. Networks (business and non-business) may also include connections to facilitating contacts such as trade facilitating organizations.

*Software as a Service:* A model of software delivery where the software is licensed through a subscription and centrally hosted.

*System, Application or Platform (SAoP):* An abbreviation of the types of software products delivered by software companies. “Systems” refer to a group of software components working together, “applications” refers to individual computer programs, and “platforms” refers to the frameworks in which applications are executed (such as an operating system).

*Strategic Goals of the Firm:* The planned objectives that an organization strives to achieve.

## Table of Contents

<b>1. Introduction</b> .....	<b>1</b>
1.1 Background.....	1
1.2 Problem Discussion.....	2
1.3 Purpose and Research Question.....	5
1.4 Delimitations.....	6
1.5 Research Outline.....	6
<b>2. Literature Review and Conceptual Framework</b> .....	<b>8</b>
2.1 Internationalization.....	8
2.1.1 Internationalization of SMEs.....	8
2.1.2 Internationalization of SMEs in the Software Industry.....	9
2.2 Institutional Theory.....	11
2.2.1 Institutions in the International Business Context.....	12
2.2.2 Institutional Distance.....	12
2.2.3 Adaptation.....	13
2.2.4 Relevance of Business Practices.....	14
2.3 Conceptual Framework.....	15
<b>3. Method</b> .....	<b>18</b>
3.1 Research Approach.....	18
3.1.1 Abductive Approach.....	19
3.2 Research Unit and Design.....	20
3.2.1 Data Collection and Sampling.....	21
3.2.2 Interview Process.....	23
3.3 Organizing Data for Analytical Process.....	24
3.4 Research Quality and Ethical Considerations.....	25
<b>4. Empirical findings</b> .....	<b>28</b>
4.1 Introduction to SoftWeb AB.....	28

4.1.1 SoftWeb’s Business Functions .....	30
4.1.2 SoftWeb’s Organizational Structure .....	31
4.2 Operations in Sweden and Impact of Domestic Institutions.....	32
4.2.1 Role of Formal Institutions .....	34
4.2.2 Role of Informal Institutions.....	37
4.3 Internationalization Process .....	39
4.4 The Impact of Institutions on Business in Australia.....	41
4.4.1 Role of Formal Institutions .....	41
4.4.2 Role of Informal Institutions.....	43
4.5 The Impact of Institutions on Business in Island.....	47
4.5.1. Role of Formal Institutions .....	48
4.5.2 Role of Informal Institutions.....	50
4.6 Summary of Main Empirical Findings .....	52
<b>5. Analysis .....</b>	<b>55</b>
5.1 Foreign Institutions and Adaptation of Business Practices.....	55
5.1.1 Definition of SoftWeb’s Business Practices .....	56
5.1.2 How Business Practice are Affected in Australia.....	57
5.1.2.1 Software Design Outline & Configuration .....	57
5.1.2.2 Service Offering.....	58
5.1.2.3 Customer Relationship Management.....	60
5.1.2.4 Market Monitoring.....	61
5.1.2.5 Operational Control .....	62
5.1.3 How Business Practices are Affected in Iceland .....	63
5.1.3.1 Software Design Outline & Configuration .....	63
5.1.3.2 Service Offering.....	65
5.1.3.3 Customer Relationship Management.....	66
5.1.3.4 Market Monitoring.....	68

5.1.3.5 Operational Control .....	69
5.1.4 Institutional Distance .....	70
5.1.4.1 Comparison of Australia and Iceland .....	71
5.1.4.2 Comparison with Sweden .....	72
5.2 The Role of Network Interactions in Internationalization Process .....	72
5.4 Revised Conceptual Framework .....	74
<b>6. Discussion and Conclusion .....</b>	<b>77</b>
6.1 Findings and Theoretical Contributions.....	77
<b>References .....</b>	<b>83</b>
<b>Appendix 1 .....</b>	<b>88</b>
Attachment 1. Interview Guide.....	88
Attachment 2. Institutional Impact and Adaptation in International Markets. ....	91



## List of Figures

Figure 1. Research Outline .....	7
Figure 2. Conceptual Framework .....	15
Figure 3. Organizational structure of SoftWeb AB .....	32
Figure 4. Revised Conceptual Framework.....	75

## List of Tables

Table 1. Interview Sessions Overview.....	23
Table 2. Software Design Outline & Configuration - Australia .....	58
Table 3. Service Offering - Australia.....	59
Table 4. Customer Relationship Management - Australia.....	60
Table 5. Market Monitoring - Australia.....	61
Table 6. Operational Control - Australia .....	62
Table 7. Software Design Outline & Configuration - Iceland.....	64
Table 8. Service Offering - Iceland.....	66
Table 9. Customer Relationship Management - Iceland.....	67
Table 10. Market Monitoring - Iceland.....	68
Table 11. Operational Control - Iceland .....	69

## 1. Introduction

*The following section regards the introduction to the subject of interest for this study by providing a background of the industry in question, which subsequently leads to problem discussion and identification of research gaps. Further, based on the determined gaps, the research question is defined and purpose of the study is explained. Finally, delimitations to the present assignment are acknowledged and the research outline is described.*

### 1.1 Background

In the globalized business world companies have always had a pressure to adapt to their local environment. Multinational corporations (MNC) have for long employed strategies which emphasize local responsiveness, either in its entirety or as a part of a transnational solution (Bartlett & Ghosal, 1989). Firms have also had to use knowledge gained in host-country markets to improve their internationalization processes (Johansson & Vahlne, 1977). As research on international business became more faceted new factors of consideration regarding strategic influence came to the forefront, such as institutional components of host-country markets. This arose beside the classical industry- and resource-based view, which argued that it was the industry conditions and firm-specific resources that affected strategy respectively (Peng et al. 2008). Institutions, both formal and informal, have influenced coordination between parent companies and their subsidiary by affecting practice adoption and application across borders, and a firm's embeddedness in the national institutional environment have affected the shape of practices in local markets. Institutions have in many cases been singled out as the main influencer of international business performance and choice of activities (Kostova & Roth, 2002; Gooderham et al. 1999).

Alongside these developments, the global software industry has grown considerably, making international markets increasingly more attractive. Developments in information technology have also enabled Small- and Medium-sized Enterprises (SME) to pursue these markets at a low cost, and thus a growth in software SME internationalization has occurred (Bell, 1995; Galimberti & Wazlawick, 2015) at the point where their increased power and importance in the international business arena could no longer be neglected (McDougall & Oviatt, 2000). This can be derived from the shift to services from manufacturing, making the tertiary sector

dominant in both GDP and employment around the world. This shift has occurred due to increased globalization, increased flexibility in production and institutional changes amongst others. This is especially true for the information and communications technology (ICT) sector, much with the support of the internet which is the global network infrastructure that connects millions of computers and their respective networks together (Wentrup, 2017). Further, the software industry has, over the last few years, begun to adopt and implement what is known as “agile practices” in their way of working (Inland Software, 2017). These practices have their basis in what is called the Manifesto for Agile Software Development. This statement of intent prioritizes adaptive behavior such as welcoming changing requirements, customer collaboration, individuals and interactions, as well as being responsive to change (Agile Manifesto, 2017). Firms producing software has thus moved closer towards being responsive towards customer needs with this strategic shift.

The internationalization of software SMEs have proven to be an interesting phenomenon as they have not followed the classic incremental internationalization paths, meaning establishing the subsidiary in a foreign country of operations, but instead software SMEs favored direct export (Bell, 1995). This was due to the availability of facilitating technological means, as well as to a lack of financial and human resources, even though non-software SMEs have started looking at more innovative ways of internationalizing beyond exports (Bell, 1995; Schulz et al. 2009; Moen et al. 2004). Software SMEs close relationship with their customers have been emphasized, and as a part the aforementioned technological development the Internet has had a significant impact on the ability of these firms to efficiently and effectively connect with clients without going through the traditional route of the value-chain, circumventing distributors and retailers as intermediaries (Moen et al. 2004).

## **1.2 Problem Discussion**

The three conclusions that can be drawn from the above-mentioned developments are that institutions play an important role in firms’ international operations, software SMEs have entered the global arena with the help of steady technological development, and that software firms have taken an adaptive approach through agile practices. In other words, in order for software SMEs to fully leverage these lower barriers to internationalization brought forth by technological development, as well as being responsive towards customers in international

markets, they must also have a good understanding of how the institutional influences in foreign markets affect their business. It is not hard to imagine how this can become a blind spot for firms who internationalize through exports, perhaps expecting to only have to interact in a simple transactional way with these markets. One of the central topics of this paper thus becomes to put the influence of institutions into focus so that Software-Exporting SMEs can gain a foundational understanding for how to contend with these factors as they begin their internationalization.

Such an understanding can prove vital for firms in this industry, due to its unique developments in agile strategy. On a practical level, the software industry delivers products and solutions that are malleable. Altering software seldom forces such invasive consequences that can be seen in, for example, the manufacturing industry. Production lines does not need to be modified, supply chains does not require alteration, and most often the new or updated product does not have to make its way through the entire value-chain of distributors and retailers. This has opened up for a more customer-focused approach, where feedback can quickly be integrated in the next iteration of software. On the other end of the spectrum the software industry is set apart from pure services as well. On a technical level pure services are the most malleable of all, essentially only requiring the lending or transfer of knowledge. However, software requires something more akin to traditional production. While development of services certainly isn't effortless, development of software is even less so. It is this in-between classification that makes the study of institutions especially interesting to software firms. Institutional influence presents a higher barrier than it would for services, but software firms are more apt to respond to these influences than manufacturing firms, which can be shown through their strategic development. Thus, being able to navigate the institutional influences opens up more international markets to firms in this industry.

The relevance of this study is especially high in the Swedish context. Due to tax laws and an organizational trust culture incentivizing innovation, as well as a high degree of technological readiness Sweden has become a greenhouse for tech startups. The country also has a high output of firms that have grown to the status of "Unicorns" (companies with a market value exceeding 1 billion US dollars), second only to Silicon Valley in the USA. Many of these firms have since moved outside of the Swedish market. In addition to this, Sweden has surpassed the USA, with young firms accounting for 55% of the country's businesses

(McKenna, 2017). Successful internationalization plays an integral role to the success of these firms and as the trend of starting technological and software SMEs increases, they stand to gain considerable advantage by having a beforehand understanding of how they can - and sometimes must - adapt to foreign institutions in order to be successful.

However, what has been noted by the authors of this thesis is the lack of connection between the role of institutional factors in international business and the international operations of software firms, SMEs in particular.

Firstly, the study of the impact of institutional factors on firms have traditionally been carried out without an industry focus or on manufacturing firms (Kostova & Roth, 2002; Hung & Tseng, 2017; Gaur & Lu, 2007) and when service firms have been studied the focus have been on traditional services, such as human resources (Gooderham et al 1999). Peng et al. (2008) does mix differing industry focuses in their paper examining the institution-based view on firms but the inclusion of an IT firm only serve to build on general conclusions regarding the importance of institutions, and thus fail to give specific focus (Peng et al. 2008). The research that has focused on software SMEs have mainly examined their internationalization process. A large effort have been made to put a light on the SME internationalization path, contending the classification of born globals and international entrepreneurship are well fitting for rapidly expanding SMEs (Bell, 1995; Schulz et al. 2009; Moen et al. 2004). However, little effort has been made to examine how, and in relation to which factors software SMEs have had to adapt their organization and their practices to.

Secondly, when studying institutions and their effects on firms, there appears to be a strong bias towards subsidiary coordination and headquarter (HQ) - subsidiary relations. Kostova & Roth (2002) examines the effects of the institutional profile in host-countries on the practice adoption of subsidiaries, Gaur & Lu (2007) reviews how subsidiaries can leverage favourable institutional environments that differ between countries, and Gooderham et al. (1999) explores how service firms might be affected by institutional environments and how legal structures may inhibit new management practices being adopted by subsidiaries, causing cross-national differences in firms while giving rise to isomorphism nationally. While research such as this can prove to be a solid foundation for studies on the relationship between a purely exporting firm and the institutional environment of its customers, it makes

no attempt to directly study the subject. The authors of this thesis posit that national institutional environments have an influence on the operations of exporting firms, such as software SMEs, across borders, and will thus set out to fill this gap in theory.

It is of course hard to determine why research is lacking on this particular subject. One possible explanation could be that as research has focused on other areas, such as practice adoption in host-country subsidiaries, it has simply not caught up to these more niched subjects yet. Due to software SMEs focusing more on exports, they have not been caught in the current net of research on institutional influences. Another possible explanation could be that researchers have indeed examined the subject, but found that software SMEs are not affected by institutional factors to an extent that warrants further in-depth research. This might indeed be due to the nature of the firms' chosen mode: exports. Regardless, if these findings exist they are not documented and thus leaves these questions open. This thesis hopes to lay them to rest.

To clarify, two research gaps have been identified and will therefore lay the foundation for the focus of this thesis: (1) The export-receiving customer's institutional aspects on exporting firms and (2), how software SMEs must adapt their business practices in accordance with these institutional influences.

### **1.3 Purpose and Research Question**

Based on the discussion above the focus on software SMEs can therefore be justified by their increasing involvement in international markets, by the lowering of barriers and the consequent growth of power and importance of software SMEs. Given these characteristics, it becomes relevant to increase the understanding regarding the role of institutional factors in this context. The purpose of the study therefore becomes to explore how institutional factors may affect Software-Exporting SMEs operations and therefore what adaptation is implemented when serving a foreign customer. Thus, the following research question is proposed:

*How does Software-Exporting SMEs adapt their business practices to the institutional environment of their foreign customers?*

In order to answer the research question aspects regarding what type of institutional influences from export-receiving customers that affect the business practices of the focal firm will be explored. In addition, the thesis will also explain which business practices are affected and how these are subsequently adapted to the export-receiving customer.

To clarify, the authors choose to define “business practices” as any method, process, procedure, rule or routine through which the firm attempts to achieve their business objectives. However, the authors also reserve the possibility to include business *interactions* such as customer interactions that may be subject to adaptation due to the influence of institutions.

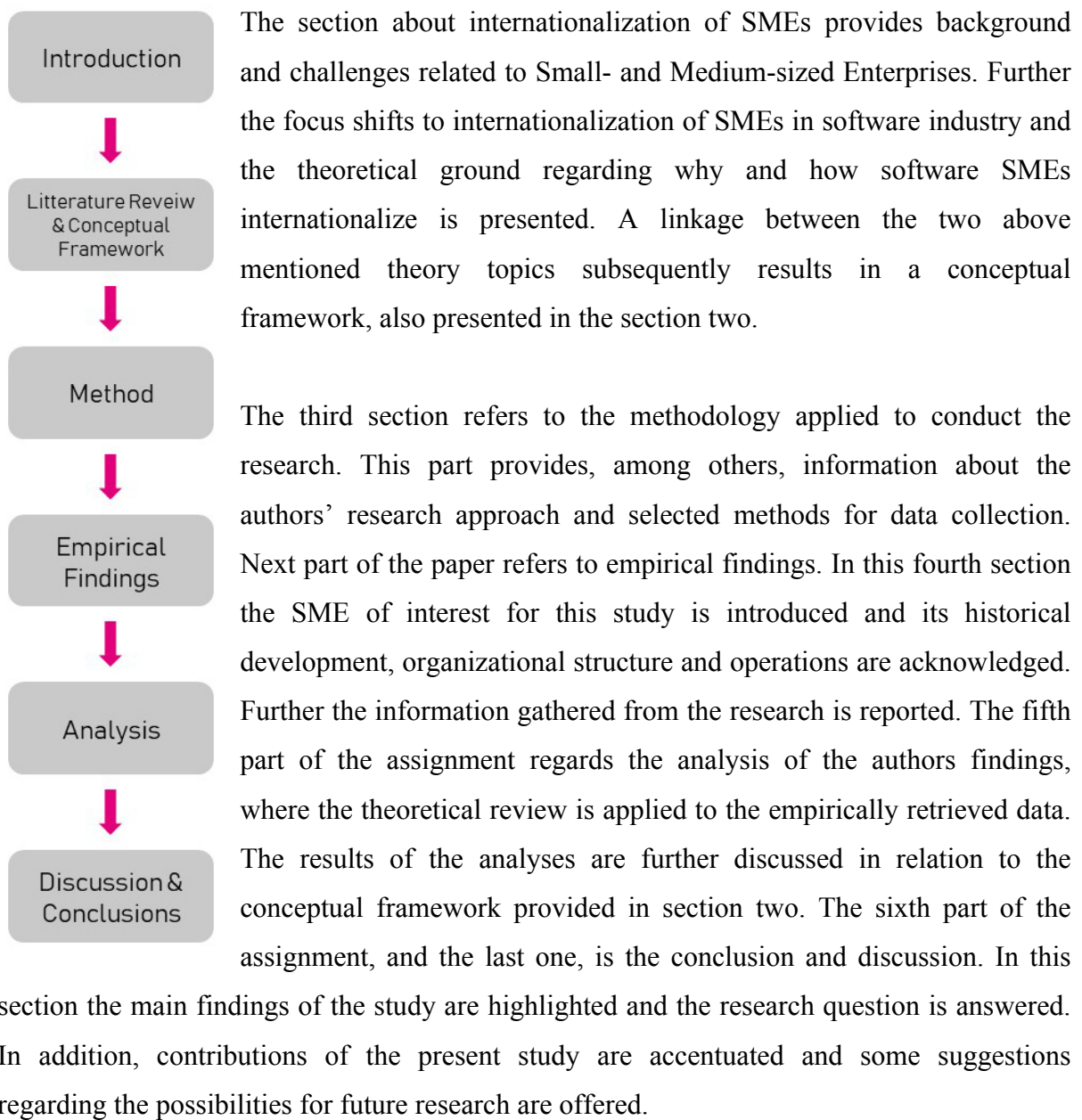
#### **1.4 Delimitations**

The research method selected for the present study will be described in detail in section 3 of this thesis, however some delimitations to the chosen approach will be disclosed already in this part as these may subsequently affect reliability and validity of the research. To begin with, the first delimitation refers to the case firm SoftWeb AB, in the sense that this company is the only one analyzed in the study. Another delimitation to the study is the timeframe characterizing the research process, meaning that due to the time constraints only the most significant aspects are included in the study, which is based on the authors’ evaluation obtained during the time limited contact with the company.

#### **1.5 Research Outline**

As can be seen in Figure 1 below, the current study is composed of six different sections. The first section regards the introduction, containing problem formulation and background information of relevance for the present research. In the introducing section the purpose of the study is also explained and the research question is defined. Further, limitations regarding the study are mentioned. Proceeding further is a theoretical framework build on the literature pillars about institutional theory and internationalization of SMEs. The content of institutional theory focuses on delineating the differences between formal and informal institutions and their influence on firm's operations in an international business context.

Figure 1. Research Outline. Compiled by authors.





## 2. Literature Review and Conceptual Framework

*In the following section the theoretical background and conceptual framework of interest for the assignment are provided. To begin with, theory regarding internationalization is outlined, with a focus on internationalization of small and medium-sized enterprises overall but also in the software industry. Further, significant aspects of institutional theory are presented and the theoretical overview regarding institutions in the international business context is discussed. Finally, a conceptual framework inspired by the literature review is constructed, where relevant institutional theory and internationalization aspects for the purpose of the thesis are selected and linked together.*

### **2.1 Internationalization**

The research regarding internationalization is a prominent field of study as a result of the constantly increasing globalization. The focus is on understanding when, why and how companies internationalize into foreign markets. Previously the focal point of the research was large enterprises, however over the years studies regarding internationalization of small and medium-sized firms gained significant importance. (Dunning, 2008; Laghzaoui, 2011; McDougall & Oviatt, 2000)

In order to determine if an enterprise falls under the category of small or medium-sized enterprises (SMEs) the main factors to evaluate according to European Commission (EC) (2017) are staff headcount and either annual turnover or balance sheet total. From EC (2017) definition it results that a company, in order to be classified as an SME, should have a staff headcount of less than 250 people, have an annual turnover lower than EUR 50 million and/or balance sheet total inferior to EUR 43 million. The European Commission's definition of SMEs is applied by the authors when defining the company of interest for this study. (European Commission, 2017)

#### **2.1.1 Internationalization of SMEs**

Overall, the internationalization process of SMEs was not particularly in the focus of academic research until four decades ago, but with the increased globalization and entrance of smaller actors in international markets, the interest to study small enterprises surged (Bell,

1995; Galimberti & Wazlawick, 2015). As McDougall & Oviatt (2000) argue international researchers could not ignore the growing power of SMEs in the international context any longer. The increasing global importance of SMEs was a result of the more efficient use of communication technologies and transportation as well as decreased protectionist policies by governments (McDougall & Oviatt, 2000). Furthermore, technological development was constantly improving, which lead to decreased costs in terms of information access for the companies (Mtigwe, 2006). Another important factor contributing to SMEs internationalization was the elevated cultural awareness, i.e lower barriers with regards to cultural aspects, which contributed to render the previously considered culturally distant markets gradually accessible (Morrow, 1988). All these aspects therefore were important in supporting SMEs initiative to internationalize, but an interesting condition is that many times internationalization of small companies may occur in an unplanned manner, as argued by Cavusgil et al. (2012). Kalinic et al. (2014) define unplanned internationalization as the process that permits to a firm to efficiently engage in international operations even if there were no explicit plans to do so. Crick & Spence (2005) claim that these phenomenon occurs predominantly as a result of network interactions.

Further, internationalization of SMEs, being traditionally defined as a stepwise involvement in activities on the international market (Moen, Gavlen & Endresen, 2004), presents some challenges as well. As Buckley (1989) argues, even if SMEs tend to access the international market stepwise there are still high risks associated with the lacking international experience when performing certain business practices for the first time in an international context. Further, besides the lack of international experience, the previous research regarding internationalization of SMEs mentions other problematic factors, such as constrained resources in terms of financials but also limited human resources as a factor of concern (Buckley, 1989; McDougall & Oviatt, 2000; Lu & Beamish, 2001).

### **2.1.2 Internationalization of SMEs in the Software Industry**

During the 1990s the software industry exhibited an extensive growth and internationalization, which contributed to turning the industry in to one of the most important and influential worldwide. Firms operating in the software industry may be classified as service providers as their operations lead to creation of numeral software service solutions for

institutions and companies, such as tailored software systems and platforms. (Alajoutsijärvi et al, 2000; Moen et al, 2004)

The obtained power of the software industry can be in great part attributed to increasing usage of information technology, i.e. the Internet, over the years. Internet development facilitated the creation of borderless virtual platforms where suppliers, producers and customers have the possibility to interact freely and directly, avoiding intermediaries in such a manner. It is argued that this solution contributed significantly to the establishment of business-to-business (B2B) type commerce. (Moen et al, 2004; Benjamin & Wigand, 1995) Further, the prominence of the Internet is of particular importance for the internationalization of SMEs in the software industry due to their often scarce resources and consequently seeking of solutions where the entry barriers are not high (O'Keefe et al, 1998; Bhide, 1994; Poon & Jevons, 1997; Stephenson & Duncan, 1993). It is argued that the adequate usage of the Internet can potentially enable SMEs to internationalize at a low cost and also to withstand other challenges to internationalization, mentioned previously in this section (Moen, 2002; Quelch & Klein, 1996; Hamill, 1997).

Regarding the software SMEs activity in the international context, the process of internationalization is characterized by direct exports rather than establishing subsidiaries in a foreign country of operation. Further, as the international experience grew, the engagement in direct exports increased. (Bell, 1995) According to Alajoutsijärvi et al (2000) one explanation for the increase in this type of internationalization is found in the fact that close relationships with clients are of crucial importance for small software firms and their business, given their size, which therefore leads to establishing direct relationships rather than entrust this role to a third party. Another explanation regarding the way SMEs in the software industry internationalize can be retrieved from the relevance of business networks (Bell, 1995; Coviello & Munro, 1997). Previous research claims that firm's network relations are of great significance in internationalization of small software firms and are determining factor in SMEs decision regarding how to enter a new market, which can also be connected to what is mentioned with regards to SMEs preferences for close customer relationships (Coviello & Munro, 1997; Lindqvist, 1991). In the process of network broadening the Internet is viewed as the main tool for seeking partners and developing relationships (Poon & Jevons, 1997; Moen et al, 2004).

## 2.2 Institutional Theory

Institutions constitute the structures and incentives in politics, law, and society that constrains human activities and interactions in order implement order and reduce uncertainty in transactions and exchanges. These structures are made necessary due to the lack of perfect information in these transactions and exchanges (North, 1991; Dunning, 2008, Peng et al. 2008). North (1991) explains this necessity in terms of game theory, where players are incentivized to cooperate with other players in scenarios that are repeated as long as they have perfect information about their partners' past performance, with the condition that the number of players is small. However, if these conditions are not met, as is the case with any real-world scenario, institutions are necessary to outweigh the associated uncertainty in cooperating with other players, where an individual or organization does not have perfect information about their past performance. This implies that there are transaction costs associated with various forms of exchange (for example, economic and informational exchange) as any unstructured transaction without perfect information would demand a vast amount of resources to be formulated. By bringing order and reducing uncertainty institutions can thus both increase the benefits of cooperation, as well as lower the transaction costs related to them (North, 1991).

There is a distinction made between *formal* and *informal* institutions. On a formal level, human activity and interaction is constrained, among others, by laws, regulations, constitutions and property rights (North, 1991; Dunning, 2008; Kostova & Roth, 2002). Formal institutions have been shown to have a significant effect on economic growth, outweighing geographic and trade factors, however there are no conclusions being drawn in regards to which legal frameworks or regimes are best suited or have the greatest effect (Dunning, 2008).

On an informal level these activities are guided by the norms and beliefs in a society and thus constrained by social phenomena such as taboos, customs and traditions (North, 1991). These are further specified as cognitive and normative components (Gaur & Lu, 2007; Kostova & Roth, 2002). The cognitive component are comprised of shared social knowledge and cognitive categories, which drive how phenomena and information are interpreted and categorized by individuals. The normative component instead is comprised of values and beliefs apart from norms held by individuals in a given country (Kostova & Roth, 2002).

These components can be ascribed to what is commonly called “culture”. While culture is a more abstract concept, it is viewed in some parts of theory as an underpinning factor to informal institutions, from which they derive their special qualities (Peng et al. 2008).

### **2.2.1 Institutions in the International Business Context**

Institutions have been recognized as an important factor in international business, for example in terms of firms needing to know “the rules of the game” when engaging in any type internationalization. Peng et al. (2008) especially point out the differing practices, in institutional terms, between developing and developed countries. What would be seen as healthy, free-market competition in one type of country, would be considered as violations of antitrust laws in the other. Therefore an awareness of institutional factors, and their differences between countries, should take an equal priority by the side of more traditional considerations such as industry and resource characteristics (Peng et al. 2008). Evidence for institutional differences is documented in studies such as Gooderham et al. (1999), where the authors found that application of human resource practices was especially responsive to the external institutional environments of host-countries. This suggest cross-national differences due to differences in countries’ legal and political structures (Gooderham et al. 1999).

Hung & Tseng (2017) further builds on the importance of institutions in international business by connecting institutional systems to the traditionally resource-based LLL-framework (Linkage, Leverage and Learning). The authors suggest that businesses can leverage their linkages to cultural, political and technological institutions as a way of acquiring necessary resources used for expansion and internationalization. Businesses can then capitalize on the learnings from these processes by institutionalizing new learned behaviors and practices into the own organization which promotes new linkages with which the firm can repeat the process. (Hung & Tseng, 2017)

### **2.2.2 Institutional Distance**

Beside the importance of institutions it is also critical to recognize in which ways they affect the international operations of firms. Theory in this field is abundant and to an extent focused on management processes between home-country headquarters and host-country subsidiary

activities. The literature also attempt to explain the effects of differences between the institutional systems of countries.

In their study on subsidiary adoption of headquarter practices, Kostova & Roth (2002) contends that host-country alignment of informal institutions with the home-country headquarters has the most favorable effect on subsidiary practice adoption, as cognitive and normative institutions govern how well employees understand and accept new practices. Formal institutions can, on the other hand, inhibit practice adoption in subsidiaries due to the risk of being seen as a form of coercion (Kostova & Roth, 2002). Gaur & Lu (2007) suggest that a difference, or distance, between home and host-country institutions, with an emphasis on formal institutions, can be mitigated by a larger share of parent ownership, and thus increase subsidiary survival rate. This implies that institutionally distant markets should be entered through wholly-owned initiatives or with large equity positions in joint ventures. These larger shares of ownership serve to exert control over operations, speed up decision-making and reduce conflict (Gaur & Lu, 2007). This is supported in earlier works by Kostova (1996) where institutional distance at the organizational level, across borders, is negatively associated with successful practice adoption over both regulatory and cognitive, as well as normative institutions (Kostova, 1996).

### **2.2.3 Adaptation**

Connected to the theory above, Bartlet & Goshal (1987) present a discussion related to the need for responsiveness in adapting to preferences and legal frameworks of different local markets that they serve. The authors argue also about the necessity to utilize information gained in different markets, and disseminate the subsequent knowledge-gains globally, as a further means to adapt technology to local markets. Therefore, in order to operate efficiently firms must adapt and differentiate, as well as leverage knowledge to serve local customers and their needs in combination with adapting to the local institutions as a whole. (Bartlet & Goshal, 1987)

#### *Adaptation in Software Firms*

The idea of being adaptive and flexible has spread through the software industry over recent decades. Firms engaged in software development have begun to adopt “agile methods” in

their way of working. These methods are subsequently aimed at fast-paced development in market environments that are characterized by a rapid change in solution requirements. Responding to this rapid change involve aspects of prototyping the software and delivering testable iterations to customers frequently. Further customers are encouraged to close client collaboration and emphasize a welcoming of changing requirements. Recommendations lead to the idea that teams should be small, development should be test-driven, as well as improvement and integration being continuous. Finally, agile methods and agile development tend to steer away from comprehensive documentation, and instead focuses on managing knowledge tacitly through interpersonal communication. (Greer & Hamon, 2011)

#### **2.2.4 Relevance of Business Practices**

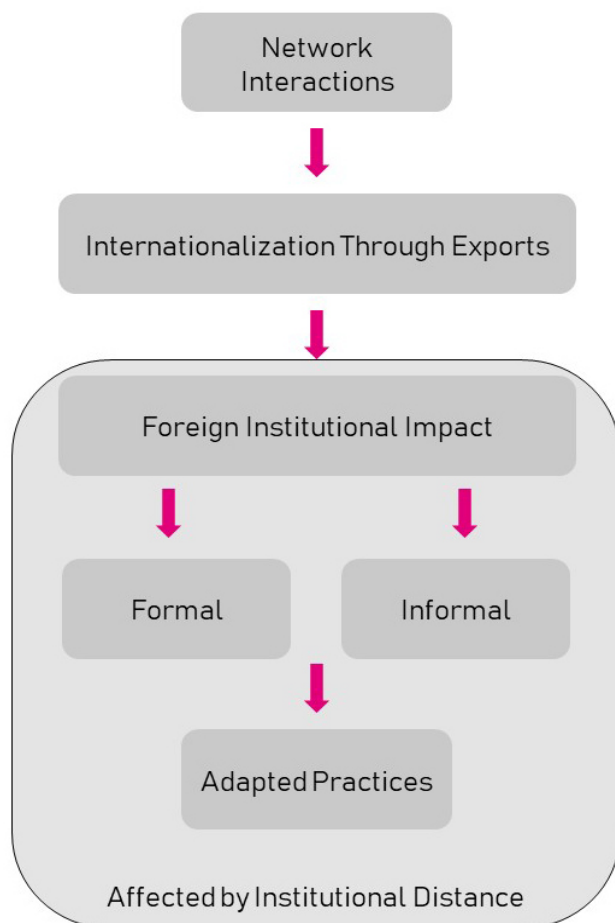
Organizational or Business practices themselves are also characterized by institutional underpinning. Kostova (1996) builds her definition of organizational practices on a number of different influences such as efficiency, norms, legitimacy and uncertainty avoidance of individual action. These influences build up practices, procedures and rules regarding how certain business functions are to be carried out. For example, how the Human Resources function is supposed to post announcements of job openings, but also goes beyond the actual technical requirements and become normative attitude promotions. Kostova thus defines these practices as institutions that have developed over time as established ways of conducting organizational functions. They are a combination of knowledge and competence housed within the organization, they have meaning beyond technical efficiency to organizational members and they are at the very least legitimate to the individuals in the organization; if not also legitimate to the organization's external environment. (Kostova, 1996)

When this thesis speaks about the author definition of business practices as “any method, process, procedure, rule or routine through which the firm attempts to achieve their business objectives” these should be understood as having the same institutional basis as defined above.

### 2.3 Conceptual Framework

The following section sets out to explain the conceptual framework that underlines the empirical research performed for this study. Based on gathered theory, Software-Exporting SMEs engage with international markets through different types of network interactions. These interactions subsequently lead to de facto internationalization efforts with more formalized interactions with potential customers. Through these customer interactions the Software-Exporting SME is exposed to the institutions of the foreign market and customer, which ultimately lead to the SME adapting certain practices to better fit these institutions. This process is outlined in Figure 2, seen below.

Figure 2. Conceptual Framework. Compiled by authors.



The initial contact with international markets, based on theory of software SME internationalization, is assumed to be network interactions. As explained in the thesis' theoretical framework software SMEs seek close relationships with customers and partners, due in part to their limited international experience for which they attempt to make up for through these interactions. But also to be able to act more responsively towards their clients due to frequent changing requirements, as suggested by theory regarding agile methods.

Further, as these interactions enable contacts with potential customers the Software-Exporting SME starts to engage in their sales process and negotiation with these customers. Through the internationalization process the SME is assumed to come in to contact with the customers institutional aspects. It can also be assumed that individuals in software SMEs, to an extent, gather knowledge



regarding international markets – and by extension, institutions – through their personal and private networks.

The institutions of the customer home-country is divided into formal and informal institutions. Formal institutions refer to laws and regulation which the customer must adhere to. This might in turn affect the customers', or indeed the national institutional organizations', demand on system functionality and design, for example in the realm of handling personal and financial information. The definition of informal institutions refers to norms, beliefs, social phenomena such as taboos, customs and traditions and, as in theory, is divided into cognitive and normative components. In this conceptual framework and in the context of software SMEs the cognitive component is understood as individuals' ability to understand the use and functionality of the System, Application or Platform (SAoP) on an operative level. Put simply, do individuals residing in the customer organization understand the software well enough to use it properly, based on institutional differences? The normative component is understood as the norms and preferences of individuals residing in the customer organization. This can create customer demands on design without any cognitive conflict. That is, individuals may very well be able to understand and use the SAoP properly, but demand different design outputs because they prefer different functionality or will want to align the system with the design or functionality of other systems in use within the organization.

After becoming aware of institutional factors originating from the customers', the software SME can be prompted (both implicitly and explicitly) to modify their business practices, which was defined in previous sections as any process, procedure, method, routine or rule that helps the firm achieve their strategic goals. Thus, based on presented theory on adaptation the conceptual framework is constructed on the logic that the firms have to adapt to the institutions of their foreign customers. The way business practices align and interact with institutional factors must at this stage be evaluated throughout the organization, meaning that adaptation can occur in any part of the organization, as it is proven relevant. The firm could for example adapt how it's SAoP is designed and functions, how the firm interacts with customers or how it markets its offering. What business practices are affected and the way these are subsequently adapted is assumed to vary between different foreign environments where the software SME exports. As such, the framework also follows the logic of earlier

presented theoretical contributions in that there will be a higher need for practice adaptation where the institutional environments of the software SME and its customer are more distant.

To conclude, the result of this process are business practices that are specifically adapted to certain factors originating from the institutional factors of a customer. These adaptations might be made purely due to necessity, or to simply pursue strategic goals more efficiently.

### 3. Method

*In the following section the authors present and explain the choice of methodology approach applied in this study. Firstly, the reason for choosing the selected research design will be provided. Secondly, the research approach itself will be presented, followed by the motivation regarding author's choice to perform a single case study and the designated case unit. Furthermore, methods applied for collecting data are outlined. Lastly, some ethical considerations that emerged during the writing of the thesis are discussed.*

#### **3.1 Research Approach**

The present thesis attempts to obtain answers regarding what types of institutions that possibly affect Software-Exporting SMEs' business practices when operating in the international arena. Further, the intent is to collect information about which business practices are affected and consequently how Software-Exporting SMEs have to adapt to their foreign customers in cases where institutional factors affect their operating processes. In this context, the term "exporting", as mentioned previously, means that software SME in question does not have a subsidiary in a foreign country of operation but instead it exports their services by acting directly from their headquarter situated in the home country. Further, as explained above, the authors define business practices as any method, process, procedure, rule or routine through which the firm attempts to achieve their business objectives, including business *interactions* such as customer interactions that may be subject to adaptation due to the influence of institutions. Given the discussion presented, the chosen unit of examination for the present research is an SME operating in the software industry. Further the company of interest exports their services to foreign customers, which is also in line with the study. As mentioned earlier, small software firms exporting their services are growing in number and gaining more relevance in international context. Therefore, given the setting where there is an evident gap in theory regarding institutional impact on business practices of this type of SMEs, the authors were inspired to perform the present study and contribute with new findings to the theory.

Furthermore, it is argued that the selection of research approach is a result of the path that authors chose to proceed with in order to answer the research question adequately. With this

in mind, authors have built a theoretical framework on theory, based on the selection of data considered for them of relevance for the thesis. Further, the focus is on words rather than numbers and quantitative sampling. What more, the focus is on understanding the social world in which the participants of the study operate and subsequently obtain information regarding how they perceive their social reality. All the mentioned factors are typical of a qualitative method, which is why this research methodology is considered the most appropriate for this study. (Bryman & Bell, 2011; Merriam, 2009)

As the thesis attempts to increase the knowledge and understanding with regards to the research question of “*How does Software-Exporting SMEs adapt their business practices to the institutional environment of their foreign customers?*”, a case study design is especially appropriate since it concerns research questions containing *How* and *Why* (Yin, 2014). Further, the study is characterized by accurate analyses of one single firm, which is also typical of a case study design, which focuses on a single case unit where the authors tend to provide an in-depth clarification of it (Bryman & Bell, 2011). Authors believe that in order to obtain more detailed information, a single case study is the most appropriate to proceed with given the limited time frame that characterizes this study. Given the time prerequisite, analyzes of more than one company may compromise quality and extent of the study, which is also argued by Yin (2014). In order to collect in-depth information and be able to provide as detailed narrative of the present study as possible a qualitative case study was therefore conducted. The founders of Softweb AB were interviewed as well as managers responsible for the company's business activities and in possession of knowledge crucial for software exporting operations in international context.

To conclude, according to Yin (2014) this study is of an exploratory type as it is motivated by the fact that there is a gap in theory, which in this case refers to lack of documented academic data regarding institutional impact on business practices of Software-Exporting SMEs.

### **3.1.1 Abductive Approach**

To begin with, this study is grounded on theory regarding institutions and internationalization of software SMEs, which is also applied in the phase of creation of the initial conceptual framework. The choice of theory and subsequent creation of conceptual framework represent

guidelines for the research in terms of formulation of interview questions and subsequently the collection of empirical data and analyzes. As the research is based on ideas deriving from theory and initially guides the empirical findings, it can be representative of what Bryman & Bell (2011) define as deductive method. However, the theory selected for the study also fulfills the purpose of controlling, comparing and critically assessing the empirical information obtained from the interviews. This means that the method process does not only follow the deductive protocol, rather it is characterized by back and forth movement between existing theory and data in attempt to contribute with new theory (Awuzie & McDermott, 2017).

The movement between theory and empirical data is enabled by the fact that all content included in the literature framework was covered when interview questions were formulated and subsequently adjusted in cases where the relevant empirical aspects emerged but the theory in literature review was lacking. This process leans towards another research path, that of an inductive method (Bryman & Bell, 2011). Given the discussion presented, it can be concluded that this study is based on the mixture of deductive and inductive methods, which is characteristic of an abductive approach, a more recent form of research methodology which has grown in significance among researchers in view of its peculiarity when it comes to providing an effective link between theory and research (Ali & Birley, 1999; Awuzie & McDermott, 2017).

Abductive approach is particularly appropriate for this study also because it stands for theory development as a result of confrontation with reality, as argued by Dubois & Gadde (2002). This is in line with the thesis, as it attempts to fill the current gap in theory regarding institutional impact on business practices of Software-Exporting SMEs through a case study, and in such a manner contribute to discover new information and expand the existing theory.

### **3.2 Research Unit and Design**

The research unit for this case study is considered by the authors to be a good representation of an Software-Exporting SME, in that it sells its software solution abroad without any subsidiary or branch office. All operations stem, and are controlled from the firm's home-

country. As mentioned in the disclaimer of this thesis, the company wishes to remain anonymous and has thus been given the name SoftWeb AB.

Apart from the firm being representative of Software-Exporting SMEs, its choice of international markets presents an opportunity for interesting comparative research. Disregarding side-operations such as providing resources to research projects, the firm's two current international markets are Australia and Iceland. It is rare to find two countries that are so geographically distant, and being main international markets for an SME of any sort. With this geographical distance it is not a stretch to assume that a comparison of these two countries will present stark contrasts in both formal and informal institutions. This case study thus has the potential opportunity to study two extremes in this regard. Given that SoftWeb is a Swedish firm, it is possible that it is more institutionally proximate to Iceland, and quite distant from Australia. Therefore, the authors assume that SoftWeb will have to adapt a lower amount of their business practices to customers situated in Iceland. These potential relative distances add even more dimensions of interest to examine through this case study.

### **3.2.1 Data Collection and Sampling**

The data collected for this qualitative study is of a primary type, i.e. information presented in empirical findings was obtained through in-depth semi-structured interviews (Bryman & Bell, 2011). Explanation for choosing this type of approach for collecting data can be found in its flexibility, which is important aspect for the researchers when trying to obtain more detailed information, understand it and subsequently explain different patterns and social world of the unit of the case study (Bryman & Bell, 2011). This was enabled by asking additional questions besides those prepared on the existing interview guide and therefore engaging in more accurate conversations regarding topics that were particularly important to answer the research question (Bryman & Bell, 2011). All the interviewees were given the opportunity to answer freely. In cases where further clarification was necessary regarding particular interview content, this was complemented with e-mail and telephone contact with SoftWeb. No data of secondary type, i.e. data collected by third parties such as data retrieved from company reports or website (Bryman & Bell, 2011), was included in the study. Information about the company currently provided on the firm's website is not complete for the scope of the present thesis and therefore the author's decision to not include it.

Continuing with the primary data collection, the persons interviewed on several occasions were the CEO and Marketing Manager, both active full-time in the company and its founders as well. It became clear during the introductory session with SoftWeb that they had the best insight in to the internationalization process of the company and therefore which business practices were affected by institutional factors. Most importantly it was evident that they were able to provide information regarding what adaptation was needed in these situations. Therefore two interviews were held with the CEO and five with the Marketing Manager in order to cover all the interview questions in detail (See Appendix 1 - Attachment 1. "Interview Guide") and also obtain data from different perspectives and be able to compare it. An additional interview was performed with a member of the Support team, also employed full-time, with regards to informal institutional factors concerning customers understanding of the software provided but also their preferences regarding the outline and various functions.

The authors are aware of the low number of informants involved in this study. However, due to the limited size of the selected SME and respective distribution of responsibility within the company, the information of interest for the present research could not reliably be obtained from any other SoftWeb employees than those included. Therefore, the process resulted in five interviews with the Marketing Manager, as mentioned above. Although, as the company prefers to remain anonymous the authors do not see any viable reason as to why the informants would augment their answers in a biased manner. This argument is derived from the fact that informants were willing to share extensive and detailed information with the authors so that they could obtain the best possible understanding of the company and its operations, to later on only flag what information should not be used in the thesis text explicitly, because if disclosed it may compromise the company's anonymity. The information that has been excluded had no bearing on the results of the present study.

Diverse interview sessions are presented in *Table 1* below, containing the area of responsibility of the person interviewed, the type of interview and date as well as location and length when interview was performed. In order to gather as detailed empirical findings as possible all the interviews were held face-to-face with the informants. This choice is motivated by the fact that the authors were able to obtain a more extensive account of the empirical data as non-verbal communication, such as body language, facial expressions and gesticulating, could be considered in the context as well (Bryman & Bell, 2011).

Table 1. Interview Sessions Overview. Compiled by authors.

<i>Interview</i>	<i>Informant's area of responsibility</i>	<i>Type of interview</i>	<i>Date</i>	<i>Location</i>	<i>Length</i>
1	Marketing Manager, Interview 1	Face-to-face	28-02-2018	SoftWeb, Office	60 min
2	CEO, Interview 1	Face-to-face	28-02-2018	SoftWeb, Office	30 min
3	Marketing Manager, Interview 2	Face-to-face	02-03-2018	Gothenburg	90 min
4	CEO, Interview 2	Face-to-face	05-03-2018	SoftWeb, Office	60 min
5	Marketing Manager, Interview 3	Face-to-face	05-03-2018	SoftWeb, Office	40 min
6	Marketing Manager, Interview 4	Face-to-face	09-03-2018	Gothenburg	120 min
7	Marketing Manager, Interview 5	Face-to-face	15-03-2018	SoftWeb, Office	70 min
8	Support Employee, Interview 1	Face-to-face	15-03-2018	SoftWeb, Office	30 min

### 3.2.2 Interview Process

As explained above, semi-structured interviews were used as the means to collect data. This choice is appropriate when also taking in to consideration the abductive method chosen to perform this study. The authors continually moved between literature framework and empirical findings obtained from the interviews in order to review the conceptual framework. As the empirical findings together with theoretical framework represent the base necessary to perform the analyses, the authors decided to transcribe all the interview material obtained from the informants. This process was executed with highest transparency in order to ensure the trustworthiness of the material collected. In this regard, with the permission of the interviewees, all the interview sessions were recorded, which is motivated by Bryman & Bell (2011), who argue that the procedure is crucial as it assures that the informants' answers are



apprehended in their own terms. Further, it allows also a more detailed examination of the interviewees' answers (Heritage, 1984). As the interview sessions were held in Swedish the recordings were an effective tool to be able to translate the information in English more efficiently. Lastly, have the interview recordings help to counter eventual allegations that the study might have been affected by researchers subjective values or biases (Heritage, 1984).

Furthermore interview questions were divided in four topics, which are introduction to the company, operations in Sweden and two sections regarding international operations. Structure interview questions in this way enabled authors to focus session with the informant on a certain theme and therefore be able to retrieve more accurate and detailed information, which is crucial when performing in-depth analysis required in qualitative research (Bryman & Bell, 2011).

### **3.3 Organizing Data for Analytical Process**

As mentioned in interview process above, all the interview sections were recorded in order to avoid potential data misplacement. The recordings also enabled authors to listen the obtained information several times where necessary and ensure that the content was not misinterpreted. After every recorded interview section the data retrieved was transcribed and labelled with purpose to provide as correct order and information as possible. Label contained the name and company role of the person interviewed, interview topic, date and time, place and also length of the interview. During transcription process there was continuous movement between interview findings and theory in order to ensure that there is a fit between obtained empirical information and concepts in literature review, a step pointed out to be significant when controlling the connections between concept and indicators, i.e. empirical findings (Bryman & Bell, 2011). Further, as same questions were asked to several individuals, a control between various interview replays was executed as well with the aim to compare the different answers. This process was beneficial in the sense that it enabled authors to identify a variety of common factors considered important with regards to institutional and internationalization aspects affecting Software-Exporting SMEs business practices. Subsequently, a significant contribution was also provided for the purposes of revising the conceptual framework. Based on this accurate analyzes the new version of conceptual framework evolved, which also supports the selection of abductive research

approach for this study. Finally, complete data from empirical findings was always considered in all steps of the study analysis to ensure that no important information was neglected. This step is considered crucial for improving case study's integrity and minimizing the loss of relevant data when classifying empirical findings (Bryman & Bell, 2011).

### **3.4 Research Quality and Ethical Considerations**

Related to validity and reliability, Guba & Lincoln (1994) propose four alternative criteria considered appropriate to evaluate qualitative studies. Purpose with these criteria is to ensure that research findings exhibit adequate quality and trustworthiness (Guba & Lincoln, 1994; Bryman & Bell, 2011), which is why these were thoroughly taken in to consideration in the process of performing this case study.

#### *Credibility*

First criteria is that of *credibility*. Related to internal validity, meaning with this criteria is to put in perspective researchers observations and subsequent theory that they develop, and therefore evaluate in what degree findings affirm the reality of what is being inquired. A common way to grant a higher credibility in a study is through respondent validation, a technique consisting of submission of research findings to the participants of the study for confirmation that the researchers have correctly interpreted their social world. (Bryman & Bell, 2011; Guba & Lincoln, 1994; Collis & Hussey, 2009) In regard of what is written above, all the findings in this study were submitted to the participants for validation and approval. From the very beginning, all transcribed interviews were sent to the respective informants in order to ensure that no information was misinterpreted, and therefore to offer them the possibility to make modifications. Respondent validation was also particularly important in the process due to the need to translate interviews from Swedish (mother tongue of the participants) to English and therefore to ensure that translations correspond to what informants disclosed during interview sessions.

An additional approach utilized with the scope to increase study's credibility is *triangulation*, a process consisting of crosschecking of data obtained from different sources or informants with regards to certain social phenomenon (Bryman & Bell, 2011). In this aspect, the data

collected from different interviewees in this study was crosschecked and compared in order to decrease possible bias among informants.

### *Transferability*

The second criteria, *transferability*, is related to external validity, which refers to the degree to which study findings can be generalized in different social environments (Guba & Lincoln, 1994; Bryman & Bell, 2011). Regarding this aspect, it is necessary to recall delimitations of the study presented in section 1.4, particularly that the study is limited to the context of one single case unit, i.e. SoftWeb AB. However, Collis & Hussey (2009) also argue that the findings related to one single case company can be generalized and thus effectively transferred if researchers have a good understanding of the unit that is examined and the context in which it is positioned. In order to obtain in depth knowledge about the company, interview questions were thoughtfully elaborated and more than one informant was interviewed on the topic, which was crucial in understanding in the highest detail possible the case unit and the social world surrounding it and therefore secure greater transferability.

### *Dependability*

The third criteria is that of, *dependability*, also paralleled to reliability (Guba & Lincoln, 1994). Here the measure of trustworthiness rests in the extent to which a certain study may be replicated in the case it was performed at a later stage and in what degree the findings would reflect those presented in the original study (Guba & Lincoln, 1994; Bryman & Bell, 2011; Yin, 2014). With this in mind, complete records of data collected throughout the study, such as interview transcriptions and other procedures mentioned in methodology section, were preserved with the intent to ensure study's dependability (Guba & Lincoln, 1994; Bryman & Bell, 2011), beside the cases where information was too specific and there was a risk to compromise the company's anonymity.

### *Confirmability*

Finally, the fourth criteria is that of *confirmability*, which parallels to the objectivity characterizing the researchers (Guba & Lincoln, 1994). Therefore the aim with this criteria is to assure that findings are not biased by researchers subjective peculiarities (Bryman & Bell, 2011). Ultimately, the authors' stand during the research process was to act completely in good faith and avoid that their personal values affect the conduct of the study (Bryman & Bell, 2011). As a part of the authors acting in good faith, a crucial aspect in ensuring the

objectivity for this study was the respondent validation of the gathered data which allowed the informants to review information transcribed by the authors and therefore point out eventual incongruities due to subjective values of the researchers.

## 4. Empirical findings

*The current section regards the presentation of empirical findings retrieved from this study. To begin with, a detailed presentation of the company, SoftWeb AB, will be provided, including the firm's history, business functions and organizational structure. Secondly, operations in Sweden and impact of Swedish institutions will be outlined. Thirdly, introduction to internationalization aspects will be disclosed. Further, institutional factors affecting SoftWeb's business practices in international context will be presented. To conclude, for a clearer overview, a summary of main empirical findings will be provided.*

### **4.1 Introduction to SoftWeb AB**

SoftWeb AB is a Swedish software company positioned in a region situated in Western Sweden. The company was founded in 2012, based on a merger of people that already worked in the industry. The aim with the merger was to unite resources, knowledge and competencies, but also the customer bases, which subsequently would have contributed to increased revenues for all parties. The customer base was initially only formed by Swedish customers, but the founding of the company led to further development and subsequently also provided the means for international expansion (CEO, 2018-02-28; Marketing Manager, 2018-02-28)

SoftWeb AB sells web-based services, with a Software as a Service (SaaS) approach, consisting of a system created primarily with a focus on research-related customers – that is, customers that in some way work with research, for example foundations that grant money for research or conduct research by themselves. The system provided consists of three well established services. The first service regards a concrete system for sending and receiving applications for research grants, which is a crucial step to be able to conduct studies. The second service is the one that regards the evaluation of researchers and their research projects. In other words, the system has an important function both for a researchers individual career but also on single research projects and what these have led to and what added value they have had, both for the organization where the researcher is active but also for society in general. The third service is a pure data service that delivers bibliometric measures. The aim with the service is to register researchers' career and influence of their

work in the system, which also is a crucial aspect to consider for the organizations that grant money for research purposes in their process of evaluation regarding whom should receive monetary funds. For example, researchers whose academic papers have had more influence and therefore more significance in the sense that they were applied in practice or that their articles were quoted many times by other researchers, will receive higher score in the system when applying for money to conduct further research. (Marketing Manager, 2018-02-28)

Currently SoftWeb is working on the launch of a fourth service, which is not research specific like the previous three. There are in fact other foundations and other funders that grant money to different projects rather than research, for example it is possible to apply for grants from local bank foundations to carry out culture projects, and to sport associations. Over the years the company came in contact with this type of associations and therefore discovered the potential to apply their system in this area as well. (Marketing Manager, 2018-02-28)

The system is accessed by the customer by logging in through a web-link that SoftWeb provides for them via mail. Besides the initial training section provided for the client directly in their office, where different functions of the system are explained, the communication regarding further system functionalities and it's maintenance are performed online, without the need for SoftWeb to leave their office. (Marketing Manager, 2018-02-28; Marketing Manager, 2018-03-05) This process is outlined by the Marketing Manager (2018-03-02):

*“We do everything online on a technical basis, so there is no hardware that needs to be moved. But we visit customers in other aspects, like customer care and things like that. So often you want an initial training in system, which usually takes half a day. That you most often do on-site, even if it sometimes is made online. But it is generally appreciated.”*

Further, Sweden is SoftWeb's main market of operations, but the company exports it's services as well. International expansion was initiated in 2013, when SoftWeb acquired their first client in Australia, currently their main international market. In 2017 the company also started exporting to Iceland. The dominant part of SoftWeb's revenues comes from the operations performed in the domestic market, i.e. Sweden. International operations account for approximately 10% of total revenues. Today SoftWeb's system is applied by 55

organizations and in total accounts for approximately 20 000 end users active in 80 different countries, which shows that the system is used more broadly than where SoftWeb has their end-customers. Over the years the usage of the system as well as the company's revenues have had a gradual and consistent increase and the future prospects look bright too. An important factor that contributed to SoftWeb's success was the limited competition displayed both in the public and private sector. (CEO, 2018-03-05; Marketing Manager, 2018-03-05)

#### **4.1.1 SoftWeb's Business Functions**

SoftWeb's operations are founded on four different business functions, which are crucial for the activities performed both in Sweden and international markets. These functions are Development, Marketing & Sales, Support and Administration. (CEO, 2018-03-05; Marketing Manager, 2018-03-02)

The Development function regards the making and improvement of software. The first activity that this function comprises is that of pure coding and includes the creation of new functionalities within the system but also the maintenance and update of the existing one based on, for example, customers suggestions. The second practice refers to an ad-hoc R&D function. The difference between this activity and the usual coding, even if it can also comprise some coding, is that it doesn't have the same clear customer focus, it is more trial-and-error based, for example testing the compilation of data for different statistical analyses within the system. (Marketing Manager, 2018-03-02)

Further there is the Marketing & Sales function. Activities comprised in this function are not particularly elaborated, in fact the company does not have a sales representative and do not focuses on direct sales. The customers are obtained mainly through network contacts. In terms of marketing, some visits to fairs have been done over the years. (Marketing Manager, 2018-03-02)

The Support function is highly prioritized by SoftWeb given their ambition to service their existing customers in the best way possible, i.e. offer maximum flexibility, quick responses and solutions. The function includes processes such as technical requests, for example when customers need help with finding certain information or function in the system, but also

consult requests, i.e. create different reports for the customer and send them to other organizations. (CEO, 2018-03-05; Marketing Manager, 2018-03-02; Support Employee, 2018-03-15)

The Administrative function comprises activities such as management and everyday administrative work, for example establishing contracts and purchasing office material. However, main processes included in this function comprise management of SoftWeb's economy and finances, as well as the monitoring of the external environment in order to make sure that SoftWeb's operations are consistent with political decisions that may affect the software industry. (CEO, 2018-02-28; CEO, 2018-03-05; Marketing Manager, 2018-03-05)

Regarding the importance of different functions, it is the Development and Support functions that are considered as the most significant ones and where the most working hours go to over the week. (Marketing Manager, 2018-03-02)

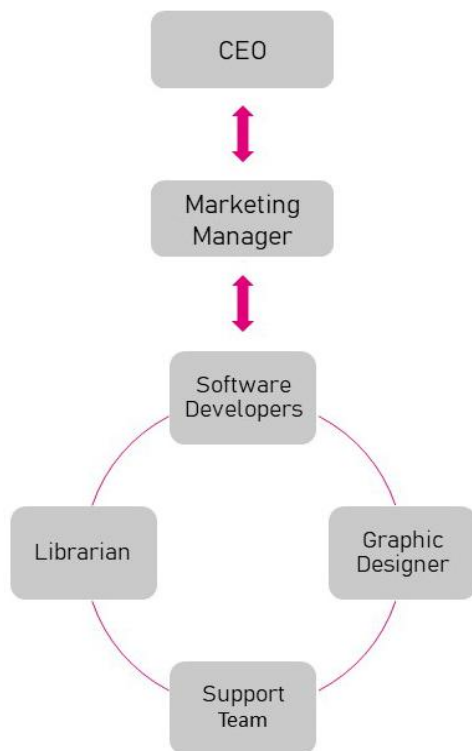
#### **4.1.2 SoftWeb's Organizational Structure**

SoftWeb presently employs eleven people, wherein six work full-time while the remaining five are freelancers who offer their services occasionally. For example some software developers are contracted as freelancers as they work only when it is necessary to update the system or when new functions have to be added. All the employees are located in Sweden and, as mentioned previously, an important share of employees have been present in the software industry for a long time and have extensive experience in the field in which they operate. (CEO, 2018-03-05; Marketing Manager, 2018-02-28)

As resulting from the Figure 3 below, situated at the top of the organization there is the Chief Executive Officer. The CEO is responsible for company's Administrative function and everyday operations, coordination of all the employees, and focuses on economy and finances, as mentioned previously. The CEO also has the last word in terms of decision making, for example larger material purchases or the signing of contracts. However, it results that decisions are happening all the time, smaller as well bigger, and these are also taken by other members of the company, the CEO is only notified when this happens. (CEO, 2018-03-05)



Figure 3. Organizational structure of SoftWeb AB. Compiled by authors.



Further down in the organizational structure, which can also be seen in Figure 3, there is the Marketing Manager who has the responsibility for occasional direct sales and to promote the company but also to assist the support team and report to CEO when necessary. Marketing Manager is also answerable to translate and deliver incoming customer requests to software developers, whose duty regards system maintenance and to add updates to the system. Further there is a graphic designer responsible for design of SoftWeb’s own web-page and for the system that the company sells. Then there is the support team, answerable to solve customer requests and queries in order to help them to use system more efficiently.

Support team also performs the initial training for customers regarding the use of the system. Finally there is the librarian whose role is, among others, to monitor the environment in order to keep SoftWeb in line with different political decisions that may influence the industry and make sure that the company follows relevant market trends. However, even if the employees have some defined responsibilities, they are not that strict. In fact, as SoftWeb is an SME characterized by reduced number of employees several tasks are often shared between the personnel. The company’s view is that a connected organizational structure is beneficial as it contributes to increased communication streams and exchange of ideas between different functions, which is more productive in a small company such as SoftWeb. (CEO, 2018-03-05; Marketing Manager, 2018-03-05; Support Employee, 2018-03-15)

#### 4.2 Operations in Sweden and Impact of Domestic Institutions

As mentioned earlier, about 90% of SoftWeb’s revenues comes from its operations in its domestic market, i.e. Sweden. The company's main clients are organizations that grant money for research, and more recently focus was also on acquiring different foundations as customers, through the integration of the fourth service in their software system, previously mentioned in the section regarding the company introduction. First customers were obtained

by network connections that company founders had through their earlier involvement in the software industry. Subsequently, a great majority of current clients was acquired through pure word-of-mouth, and only in minor scale by direct sales, which have been performed when there was available time. (CEO, 2018-03-05; Marketing Manager, 2018-03-02; 2018-03-05)

Therefore, the company currently does not have a definite sales function and neither an employee with a function of a sales representative, instead it is Marketing Manager who has had the responsibility for sales over the years. The explanation for this is that SoftWeb has very long lead times in their sales process, in fact it is not uncommon that the lead time for a sales process is more than a year, and sometimes even several years. It is a large undertaking to find a new customer, explain the complexity of the offering and service the customer until the system is up and running. As explained by the Marketing Manager, this has led them to rethink their service offering and sales function (Marketing Manager, 2018-03-02):

*“That is also what has been the basis of this new, stripped service that we have launched now [referring to the introduction of the fourth service in the software system]. The purpose of that is that it is supposed to be easier to sell, the lead times should be shorter, it should also be easier to get in new people to sell it that might not have that much experience regarding our complete service offering, which is complex and takes more time to learn. So then you should have an easier time to recruit and be a bit more flexible with who sells. So the ambition is to have a more concrete sales function in the future.”*

The long lead times depend mostly on the application of SoftWeb’s system at the customers. The clients predominantly have worked with manual paper handling when it comes to different applications, so the challenge is to make a change from an analog process to a digital process. This can be derived both from generational differences and the customers organizational heritage (Marketing Manager, 2018-03-02):

*“And it’s just not one person at the customer side that is involved, but maybe 20 people. It’s a generational issue also with these people being older and perhaps not computer literate and so on, but prefer to get the application on paper. And then there is of course always an adjustment of practical routine, concrete routines in reality, that when you enter a new system needs to be adjusted in some way, and that is something to take into account.”*

Customers therefore take long time to choose the system they want to use, and subsequently to learn how to use it while also making significant internal organizational and generational changes, which means that they seldom change system once they have applied it. (Marketing Manager, 2018-03-02)

Furthermore, a part the complexity to learn how to use SoftWeb's system, another factor contributing to system's stickiness is the difficulty that clients have in calculating the costs of changing the system once it is applied. This is mainly due to the scalability of costs that come with the change of systems (Marketing Manager, 2018-03-02):

*“Even if you have 15-20 administrative persons that are involved in handling and evaluation of applications you might have 200 persons that seek grants from them. So it has far-reaching consequences. An increase in administrative burden of five minutes is five times 200 on the other side, so there are a lot of those kinds of things to take into account, you could say.”*

#### **4.2.1 Role of Formal Institutions**

In the process with the customer described above, SoftWeb has to take in consideration different laws and regulations affecting their operations, therefore political decisions are monitored regularly in order to make sure that the company is in line with Swedish and European legal requirements. (Marketing Manager 2018-03-05)

The first important law that SoftWeb has to take in consideration is PUL (Personuppgiftslagen). PUL is a Swedish law that regulates the treatment of personal information and whose purpose it is to protect individuals and prevent that their personal data is mistreated. Therefore companies in Sweden are not allowed to store information regarding persons' sexuality, ethnicity, religion or if they are member of a union. This type of data is considered very sensitive.

However, there is another aspect in this law, which permits companies to store the data with consumers consent. For example, when registering to a webpage, customers are requested to accept terms and conditions regarding the storage of their personal information and by doing so consent to be a part of company's personal information registry. (Marketing Manager, 2018-03-02)

PUL law will remain active until the 25<sup>th</sup> of May 2018, when it will be substituted by a new, more advanced law that makes personal data treatment even more strict and transparent in different systems. The law in question is GDPR (General Data Protection Regulation) and it is a European Union directive that will be applied in all the countries of the European Union, therefore Sweden included. GDPR is put in place mainly to regulate large companies that over the years have abused and sold personal data in a way that is not considered ethical anymore (CEO, 2018-03-05; Marketing Manager, 2018-03-02). According to the CEO (2018-03-05) this is considered as a positive development:

*“The law is made to put some pressure on large companies such as Facebook, but we fall under the same industry. But it is good; the way to process personal data should be always safe, in every company.”*

The law defines improved rules in terms of what is considered as personal information and therefore administers more rigorously, among others, the content of the consent that the customers accept when registering on various websites. As explained by the Marketing Manager (2018-03-02), these new rules are defined in conjunction with recent technological development:

*“For example, previously a picture or an audio file or other things like that weren’t considered personal information, but it does now with facial recognition and these new technologies.”*

In view of the nearing implementation of GDPR, SoftWeb is working on adjusting their system where necessary. The company had a good basis regarding personal data treatment so the technical modifications in the system are not particularly extensive in that sense. It is more the usage of the information in the system from the side of administrators that currently handle the system, and have right to perform certain operations regarding customer’s personal information, that will be affected. Therefore limits will be set and some information will not be visible anymore without the customers consent. On the technical side, for example, it is the modules for consent that needs to be adapted in the system. (CEO, 2018-03-05; Marketing Manager, 2018-03-02)

Further, GDPR sets higher requirements on SoftWeb to be able to document in front of an authority what type of information regarding system users the company stores, and how and why the information is stored. For example if an authority contacts SoftWeb for a control, there is a need to find data about certain system user, so the process with regards to this procedure needs to be clear and safe. Currently SoftWeb has a massive volume of personal data in their system so it is a very extensive work to reorganize it and adapt it to the GDPR requirements. Besides having a safe process regarding the retrieving of personal data, SoftWeb also has the duty to inform every user about the personal data that is stored and that the company do not save information that is not strictly necessary. (CEO, 2018-03-05)

Another crucial characteristic of GDPR law is that a user can request to be removed and anonymized from the service completely. This aspect causes substantial challenges for companies such as SoftWeb, because normally a company has a database for information storage, and once the client is removed there the procedure was concluded. The fact is however that in practice personal information is stored everywhere, at all times, so it is necessary to remove information about the client everywhere and not only in the database, according to GDPR directives. One such challenge is further exemplified by the Marketing Manager (2018-03-02):

*“And that also regards information that has been exported from the system, so if you have taken a table from the system and put it in Excel for example, then we as system owners are responsible for making sure that it is removed in the Excel sheet as well.”*

This last aspect affects Soft Web’s operations enormously, as the company needs to find the way regarding how to make this process possible, and therefore have good overview of where information about each customer is moved and stored. Further, as SoftWeb owns the system where information is stored, the process also includes additional legal and administrative requirements, such as creating updated contracts regarding new terms with all the customers and all the users that register in the system. In this aspect, the GDPR law is considered by the company to be a very tough law, as it incurs very severe penalties where the law is disregarded. (CEO, 2018-03-05; Marketing Manager, 2018-03-02)

Further, another crucial law that SoftWeb has to take in consideration is the Public Procurement Law (Lagen om Offentlig Upphandling - LOU), based on European Union directive from 2004, as it significantly affects their customers but also SoftWeb itself in the process of acquiring new clients and stipulating contracts when operating in the Swedish public sector. If the cost of a procurement exceeds the direct procurement limit of 580 000 SEK the company must go through a full public procurement process, which means that a public organizations ordering the service must write a public procurement statement where they explain that they need to acquire a new service, as well as explain its characteristics and invite relevant industry actors to bid on supplying the service. Unless the organization can prove significant lack of quality they have to procure the service from the company that has the cheapest offering. However, if the cost of a procurement does not exceed this amount the public organization can proceed in stipulating the contract directly with SoftWeb, if so wanted, without being subject to inviting other companies to leave tender offers. Therefore, based on the discussion above, SoftWeb has to be aware of the eventual changes concerning Public Procurement Law so that they are coherent in their operations and follow directives of the Swedish Competition Authority, the authority that regulates the law. (CEO, 2018-03-05)

#### **4.2.2 Role of Informal Institutions**

Regarding the customers' cognitive understanding of the system provided by SoftWeb, it results that this is overall satisfactory. How the system is perceived depends mainly on the type of customer SoftWeb works with. On one hand, certain organizations, usually the more recent ones, are completely autonomous in applying system functionalities after the initial training session. On the other hand, older organizations, with strong organizational culture and therefore with more routine processes and procedures may have difficulties to adapt. For example, the type of personnel is important in this case. Younger employees tend to easily understand the technical aspects and functionalities of the system, while elderly users, used to handle applications in paper form consider the process more challenging. Often this depends on their difficulties connected to general computer use, rather than system functionality. (CEO, 2018-03-05; Marketing Manager, 2018-03-02)

Further, when taking in consideration Swedish customers' preferences in terms of design and functionality of Soft Web's service offering, the outcome is that every organization is

different and is characterized by processes that are specific to it, so as a consequence there are always some changes that needs to be performed on the system in order to align it with single customers preferences and demands. Especially in the case of large organizations that have had their processes in a very long time and that are strongly merged in the company it can be challenging for SoftWeb to expect that the company will change these (CEO, 2018-03-05; Marketing Manager, 2018-03-02). The difference in these adaptations is specified by the CEO (2018-03-05):

*“It is always us that have to adapt the system a little bit to fit company's specific needs. In the majority of the cases this adaptation is not problematic, but then there are these more complicated and larger companies where we need to create also completely new functions in the system to satisfy them, not only adapt the existing one and this is more challenging.”*

Therefore, type of preferences and requests regarding various adjustments in the system depends mainly on the size of organization in question, but also on the personal characteristic of the individual that represents that organization and that collaborates with SoftWeb throughout the process of system implementation. Some representatives are more open to adapt certain processes to the system and to take SoftWeb's suggestions in to consideration, while others are more controlling and demanding, which subsequently affects the way SoftWeb has to operate. Further, organizational culture is another aspect that influences customers' normative preferences. Certain customers persist to operate exactly as they did before, even in cases where other more simplified approaches and functionalities could be adopted, which indicate a strong organizational culture within the company. Within Sweden, cultural influence is said to also vary on a regional level in the sense that customers can be more or less demanding but also express their requests in distinct manner, depending on where the company is geographically situated. (CEO, 2018-03-05; Marketing Manager, 2018-03-02) This is also confirmed by the interviewed Support Employee (2018-03-15):

*“Customers from bigger cities... it feels that they have higher requirements, for example that things are fixed within a certain timeframe and they are more direct in their way to communicate. Customers in smaller cities are generally not in a rush as much...it is only different culture I think.”*

### **4.3 Internationalization Process**

As discussed previously, the mode of entry selected by SoftWeb in the process of internationalization is that of direct exports. Other entry modes, such as setting up a subsidiary in a foreign country were considered as well, but the alternative that prevailed was still that of exporting the system and the services it comprises. Explanation provided by SoftWeb is found principally in two aspects, i.e. financial and human resources. Financial costs associated with establishment of office overseas are substantial and therefore the expectation is that an office abroad at least can carry its own costs, which in SoftWeb's situation would not be attainable given the low number of end-customers both in Australia and Iceland, 2 respectively 1 client, so far. Further, lack of human resources is considered the main issue. Given the low number of employees it would negatively affect operations performed in Sweden if some members of personnel would have to leave, even if temporarily, because then that competence would be missing in the home office. Further, the combination between low number of employees and a complex service offering, which makes the learning process for new employees long, is not ideal. Therefore this is why direct exports, also in this case, is the best alternative for SoftWeb. (Marketing Manager, 2018-03-05)

However, even if exporting services may be an advantageous alternative in some aspects compared to setting up a subsidiary it has some less effective characteristics as well connected to the fact that communication is handled mostly via email. It results that it may be difficult to understand customers' requests when only formulated in writing, which leads to more emails and therefore may become time-consuming. Further challenge is to evaluate how urgent a request may be for the customer if this is not specifically accentuated, which presents sometimes difficulties for SoftWeb in choosing which errand to solve first. (Marketing Manager, 2018-03-09; 2018-03-15)

Continuing, in practice, exporting the service does not differ from how Swedish customers are on-boarded to the system. The user receives a web-link to the system where he or she can log in via a web browser. The system itself is completely hosted by SoftWeb, meaning that there is no requirement for the download and installing of any software abroad. Support representatives educate the customers about the main functionalities of the system in the occasion of training sessions performed in the customer's office, therefore overseas. The



support team also assists SoftWeb's clients in the phase of implementation of the system in order to make sure that everything proceeds as planned. From there the relationship then continues through online communication, mostly by email, as mentioned above. (Marketing Manager, 2018-03-05)

SoftWeb's entering in to a foreign market is generally preceded by market research. This research always departs from customer needs and the ability to meet demands. For example, location specific technical barriers, such as firewalls on the customer level, are important to consider in terms of client viability, as exemplified by the Marketing Manager (2018-03-15):

*“These customers often have firewalls in their networks. We had an issue in Australia where one specific building at this university we sold to couldn't access the system. Everything else worked fine, except in that building. So it took a lot of time to sort that out. So we had to change our configuration in Sweden so that their firewall would let us through.”*

Therefore the company's reasoning is that there is no need to explore other requirements, for example legal, if the certainty that SoftWeb can provide the service to the customer is not established (Marketing Manager, 2018-03-15).

As mentioned previously, in addition to their activity in the Swedish market, SoftWeb is currently undertaking international operations in Australia and Iceland. The ambition to go abroad was grounded in the fact that most of the company's customers are based in the public sector, which made them sensitive to political risks in the form changing legal and regulatory landscapes. Internationalization was thus a way of diversifying this risk. However, even though SoftWeb had the goal of entering international markets due to this risk, the plan to enter Australia and Iceland were not internally develop strategies. Initial interaction with both of these markets were via word-of-mouth and unplanned. (Marketing Manager, 2018-03-05; 2018-03-09; 2018-03-15).

In both cases individuals based in Australia and Iceland, that had used the application system in connection with SoftWeb's Swedish customers, took the initial contact with the company. Their Australian customer was established in 2013, while they started their Icelandic customer onboarding in 2017. The initial customer in Australia could then be used as a

reference in order to market the company and subsequently gain a second customer. (Marketing Manager, 2018-03-05)

#### **4.4 The Impact of Institutions on Business in Australia**

SoftWeb's first interaction with the Australian market was through an earlier contact that had previously used the system and later moved to the country. This prompted a more extensive initiative to research the feasibility of the Australian customer base, and also what resources it would take to establish an Australian subsidiary, should the need arise. The company further utilized subsidized services for SMEs from Business Sweden where the organization acted as a contact point between SoftWeb and potential customers, as well conducting market research and direct sales. Business Sweden also acted as a source of information regarding business culture in the country, which SoftWeb states provided confidence in terms of how to approach cultural norms when going in to actual customer interactions. This led to three occasions where Business Sweden booked a number of initial sales meetings in Australia. While none of the Business Sweden initiatives led to any realization of customers these interactions proved to be an important learning process for how customer organizations in Australia functioned, as well as how to sell to that particular market. Currently SoftWeb has two customers in Australia. (Marketing Manager, 2018-03-05; 2018-03-09)

##### **4.4.1 Role of Formal Institutions**

###### *Data Protection Regulation*

The most salient Australian law affecting SoftWeb is the country's Data Protection Law. This law has many similar elements with the EU's GDPR, and most importantly regulate that companies must store personal information about Australian users in Australia. Though it's not completely clear to the company how this affects a service like theirs, they have been prompted to rethink how they store data. This involves running parallel data centers and controlling where different user data is stored. The law has prompted the company to rebuild their server communication architecture as the older version of the system could not support the functions necessary to handle this type of communication. The development of the new architecture was already in the company's pipeline, as the rebuilding of the architecture is expected to benefit other functions in the system, as well as serve demands from other

potential markets regarding the physical storage of data. However, the Australian law made this development more urgent. (Marketing Manager, 2018-03-09)

The impending shift to GDPR have also had direct influences on SoftWeb's operations in Australia. Previously, administrators in Australia could create and hand out new passwords to users that had issues with logging into the system. However, given the significant standards set by GDPR SoftWeb felt that it was important to have full control over that process. This meant limiting these possibilities of administrators and instead implementing support seven days a week in order to quickly mitigate user account issues, especially close to deadlines where many users attempt to log in at once. This is especially challenging for companies that use the same system model as SoftWeb, where the same system instance is used for all geographical markets. According to SoftWeb, other companies usually have separate instances - one for each country - and when there is a need to adapt to a specific market, the specific instance is adapted. SoftWeb, on the other hand, has to find an adaptation solution that fits all geographical markets with their respective formal institutions, since all markets use the same instance of the system. (Marketing Manager, 2018-03-09)

### *Public Procurement*

Further, procurement procedure for public organizations in Australia is described as quite different. While the Swedish law of Public Procurement is described as strict, Australian organizations have more freedom in how they choose a final offering. Companies are invited to a "tender process", for which there are different levels, such as "direct procurement" and "expression of interest". These procurements require more documentation than the process in Sweden does and the documentation involved is confidential, i.e. there is no need to present all as a public record like in Sweden and other European countries regulated by EUs Public Procurement Law. Also, unlike how the Swedish process is concluded, an Australian organization is not required to choose the cheapest offer that fulfills the tender requirements. They can instead choose the system that they judge fit the organization best. In this regard, there is therefore no regulation that limits the organization's choice based on an offering exceeding the direct procurement limits. (Marketing Manager, 2018-03-09)

### *Environmental Uncertainties*

Continuing, given that SoftWeb's customers are mainly public organizations the company

faces a certain risk in terms of change in regulation due to political shifts. A change in Australian government has had a significant impact on procurement in the country which in turn affects their prospective customers' ability to purchase their services. Even if these changes haven't been directly linked to the failure of selling the system to a specific client the Marketing Manager (2018-03-09) exemplifies one such occasion:

*“...after that meeting they changed government and at the next call we were told that the new government had put a stop to procurements and had made pretty drastic cuts to their budget. So when I talked to one of our contacts they said that they weren't allowed to buy anything at all. And you can't say that there would have been a sale otherwise, but it was at least outside of our control.”*

As uncertainty and risk like the ones exemplified above can have a considerable effect on the economy of the country of operations SoftWeb has also set up accounts to handle any eventual currency risk. In practice this means establishing an account in Sweden that handles Australian Dollars, from which SoftWeb can exchange money when the exchange rate is most favorable. In spite of this mitigation, there are still some transaction costs related to invoicing Australian customers. Regarding taxes, there has been no political implications as of yet. Firms that export to Australia but do not have an established subsidiary currently doesn't pay VAT. This leads to different invoicing procedures for SoftWeb's administrative function. (Marketing Manager, 2018-03-09)

#### **4.4.2 Role of Informal Institutions**

##### *Control Through Hosting*

While SoftWeb has faced few considerable differences in cognition regarding understanding of the system, the preferences of potential customers prompted certain adaptations in different functions of the company. One of the most prominent preferences were that potential customers in Australia want to have a high degree of control when it comes to utilizing an administrative system. Rather than the service being hosted by SoftWeb, Australian customers wants to host their own instance of the system and be able to make changes to the system itself in order to – by their reasoning – be flexible and agile in how they work. However this also means that customers will perform more tasks manually. Not

being able to handle the hosting themselves was an attribute of the system that Australian customers found illogical. (Marketing Manager, 2018-03-09)

### *Characteristics of the Customer Evaluation Process*

The need for control is deeply rooted in both organizational culture as well as formal procedures regarding how the Australian government fund certain public organizations. Generally, funding amounts is built upon an evaluation regarding what the organization has produced. This is performed by review of both quantitative and qualitative measurements, which amount to about 60 different parameters in total. The data from qualitative and quantitative measurements needs to be gathered, processed and packaged, and the Australian customers prefer this to be done in a single system. The demand for an administrative system like the one that SoftWeb supplies is then to test certain scenarios of presenting data that is to be evaluated. This is done to maximize the chance to receive as much funds as possible from evaluations. The ramifications of these formal procedures are emphasized by the Marketing Manager (2018-03-09):

*“In basically all of these evaluations you can be tactical... And tactics are decisive for how much money you receive”*

What imposed these preferences by Australian customers on SoftWeb’s offering was in part that they marketed their service very broadly as an overarching administrative system that could handle all of the customers’ functions. However handling of the customers’ day-to-day administration and the need to simulate data for evaluations involved several departments from the customer organization, most of which were not even going to be active users of the system. Participating departments could range from financials to IT. So when attempting to sell the broader offering SoftWeb’s representatives would sometimes have meetings with up to 20 people. This form of collective decision-making in Australian customer organizations stemmed from the fact that the entire organization’s funding could be affected by the acquisition of a system, and is as such characteristic of the institutional factors of Australian customers. The scope of the project therefore grew too big for what SoftWeb judged that they could handle. The company answered tender offers but did not succeed in becoming the target of procurement, and found it hard to evaluate how close they had come to win a contract. (Marketing Manager, 2018-03-09)

### *Informative Meetings*

When asked to consider similarities and differences between Australian and Swedish customers, SoftWeb emphasizes the commonality of “informative meetings” and the large focus on administration in Australia. Firstly, The Marketing Manager mentions that Swedes generally don’t arrange a meeting unless a decision will definitely be made. However, Australian customers are more explorative when it comes to engaging with suppliers, often arranging meetings just to inform themselves of different options when it comes to offerings. The meetings themselves are not a guarantee that a purchase will be made, or that the process will continue beyond the meeting itself. (Marketing Manager, 2018-03-09)

### *Administrative Burden*

As mentioned above, this focus has grown out of the formal procedures through which their customers accrue funds from the government. While their Swedish customers also have certain hierarchies and bureaucracies they are generally adverse to implementing deeper administration. The opposite is true for Australia, where SoftWeb describes their current and potential customers as not being afraid to spend considerable amounts of money on, amongst other things, administrative systems. This builds up large administrative functions, employing a large amount of people, which creates a conflict within customer organizations. This also creates conflicts between SoftWeb and the customer, as the system itself is aimed at lessening the administrative burden of these customers. The organization as a whole wants a user-friendly and easy system, but this has the effect of automating or in other ways lessening the administrative burden. As administrators can be seen as one of the gatekeepers in system acquisition, they have an incentives to block systems that lessen their workload as this also negates the justification for their place in the organization. SoftWeb attributes this to a rising trend of New Public Management, whereby public organizations measure performance more and more like private organizations do, by using Key Performance Indicators (KPIs). The Marketing Manager witnesses that this has, to some degree, started to take hold in Sweden as well where the government is looking more and more towards performance-based distribution models of funding for Swedish public organizations. However, many within SoftWeb’s Swedish customer-base are now turning against this trend, due to them being more administratively averse. The differences between Sweden and Australia, as explained by the Marketing Manager (2018-03-09), are quite significant:

*“People experienced that as an unmanageable administrative burden here in Sweden, but it is perhaps 5% of what they do in Australia every year. And we make that evaluation every fourth year because we think it’s too much.”*

An attempt to adapt to the overwhelming requirements on SoftWeb’s system was to rebrand their system in to a more niched offering, focusing on a single area in the customer organization. For one of the customers this meant branding the system as a program administration system at a university which was to be used as a means of handling student applications, keeping track of student performance, matching students with supervisors etc. SoftWeb credits the fact that they have customers in Australia today to this narrower focus. Instead of selling a more general system that would require a large effort in development and configuration, the company narrowed the scope to a degree that there was no need to develop further functions. However, SoftWeb realized that they had inadvertently sold to Swedish customers in the same manner. Swedish customers had often started by buying a very narrow functionality and later expanded. (Marketing Manager, 2018-03-09)

#### *Language Influences*

Further, at the outset there was no multilingual support in the system, such as a translation to English, which then needed to be created, as requested from the Australian customers. A cultural factor at play in the translation was also the need to make the language more formal to better fit the expectations of Australian customers. This also extended to general communication with customers, for which SoftWeb found Business Sweden to be a good support. This also involved minor details such as the system being able to translate the European date format into the format used in Australia. However, a more stark difference came with the differences in professional titles between Swedish and Australian users. In Sweden there is, for example a clear succession from being an undergraduate to becoming a professor. It is not possible to skip one step in that process and claim a higher title. However, anyone with a bachelor degree can be hired under the title of professor at a university. This created conflicts in the system when Australian users filled out their information but didn’t follow the career development that is mandatory in Sweden. The same issue arose with fields of degrees from education. In Sweden there is a limited number of fields of study, while in Australia universities can create and administer degrees in any field they wish. For this reason Australian customers found the system to be illogical as they didn’t understand the

predefined career ladder implemented in Sweden. This conflict could not be resolved as these differences could not coexist in the system. This had the added effect of Swedish users needing to input information multiple times. (Marketing Manager, 2018-03-09)

#### *Evaluation Methods*

Furthermore, a more intricate need was to have the system rate experts who evaluate applications. The expert evaluation methodology differed significantly from that in Sweden. In Sweden experts are formally hired to evaluate applications, a process that can take several months. Australian customers, however, made relatively loose commitments with experts that are situated internationally, with a lack of communication, meaning that these experts could sometimes shirk their responsibilities. In an effort to mitigate this behavior while also enabling their customers to utilize this part of the system more efficiently, SoftWeb implemented an automated rating system for experts which displayed how well they fulfilled their commitments. In relation to hiring international experts customers found it to be positive that SoftWeb hosted the system themselves. This meant that the international evaluators could access the system outside of the customers firewall. (Marketing Manager, 2018-03-09)

#### *Geographical Distance*

Further there was the necessity to extend support team availability in response to the difference in time zones. Extending the support function was crucial as deadlines in Australia could conflict with office hours in Sweden. In practice, this meant having support staff on call over weekends to be able to resolve any issues before the following Monday. (Marketing Manager, 2018-03-09)

### **4.5 The Impact of Institutions on Business in Island**

The initial contact with the Icelandic market was through an earlier reference, as already mentioned above. An expert based in Iceland had used the system for evaluating applications with one of SoftWeb's customers in Sweden and thereof the interest to also implement the system in the organization where the expert was active in Iceland arose. The expert was put in contact with SoftWeb through this Swedish customer and subsequently proceeded to consult directly with the company for the system procurement. This resulted in meetings with relevant representatives at the customer side with a lead time of circa eight months, which is



a sales process that SoftWeb describes as relatively short. The sales course as such, as well as the implementation, revolved largely around checking client feasibility and defining a relevant process for the customer that could be integrated into the system. Further several institutional factors were scrutinized in order to ascertain that operations performed were in line with national requirements, both formal and informal. Currently SoftWeb has one customer organization in Iceland. (Marketing Manager, 2018-03-05; 2018-03-15)

#### **4.5.1. Role of Formal Institutions**

##### *Data Protection Regulation*

Regarding the impact of laws and regulations from Iceland's formal institutions it resulted that Iceland, being a member of the European Economic Area (EEA), align their legal framework with that of the European Union to a large extent. Also, being a small country in close collaboration with the rest of Europe, it is not in the country's interest to greatly differ from the legal framework of one of their largest trade partners. Due to this fact, even the software systems applied in organizations in Iceland has to conform to the directives of the EU and therefore be adapted to GDPR. The General Data Protection Regulation was thereof a first formal aspect that SoftWeb had to take into account when implementing the system in Iceland. The changes to the system due to GDPR are to be applied in the Swedish market regardless, which makes the adaptation in Iceland easier in the sense that the system has to incorporate the same set of conditions and functions in terms of personal data treatment and data storage, mentioned previously in discussion about relevant formal institutional aspect in SoftWeb's domestic market. However, the administrators of the system in Iceland have to be instructed about the new aspects concerning the system, so that they can assist Icelandic users in case questions arise. The procedure is considered as an extensive errand for SoftWeb, to the point where the company had to activate customer support seven days a week during this transition period concerning the implementation of GDPR in May 2018. (Marketing Manager, 2018-03-09; 2018-03-15)

##### *Public Procurement*

Additional legal aspects affecting SoftWeb's operations in Iceland is the Public Procurement Law. This law is based on European Union directives and therefore SoftWeb assumes that as a member of EEA Iceland created regulations that are in line with EU directives. Therefore,

as Iceland follows up the same procedure set up by the EU, in case where the law may change, for example public procurement limit varies, SoftWeb should have to adapt their offering and contract practices on the Icelandic market as well. Currently the contracts that the company have on Icelandic market are relatively small and therefore potential minor variations would not affect company's business practices in Iceland, but still it results a relevant law to monitor in view of the future operations. (Marketing Manager, 2018-03-15)

### *Tax Regulations*

Further, another pertinent law currently affecting SoftWeb's operations in Iceland is the Tax Law. The Law states, among others, that if a foreign firm incurs revenues exceeding 2 million Icelandic Króna (ISK) the company must register an administrative entity within the country. The registration of the administrative entity occurs through a VAT registration process and subsequently comprises the regular payment of certain national fees. The VAT itself does not affect SoftWeb in practice due to EUs invoice VAT exemptions, but this increases SoftWeb's administration costs and as a consequence their export costs would be higher as well. In order to obtain information regarding the peculiarities of the Tax Law and invoicing in Iceland SoftWeb relied on Business Sweden and local accountants. (Marketing Manager, 2018-03-05; 2018-03-09; 2018-03-15)

### *Environmental Influences*

Furthermore, two other formal aspects that SoftWeb has to monitor when it comes to operations in Iceland are currency volatility and political directives, as both the factors have been characterized by fluctuation over the last couple of years. In order to decrease risks related to currency volatility in Iceland SoftWeb has also established a bank account in Sweden that handles Euro, from which SoftWeb can exchange money when the exchange rate is most favorable. In spite of this mitigation, some transaction costs occur when invoicing their Icelandic customer. Political regulations are considered as further important formal aspect to monitor, especially due to the fact that Iceland has frequently changed their government in recent history. The changes in government affect both the currency volatility and associated risks but also the purchasing power of SoftWeb's potential customers, which is why it is significant aspect to take into account. (Marketing Manager, 2018-03-05; 2018-03-09; 2018-03-15)

#### **4.5.2 Role of Informal Institutions**

Continuing with informal institutional aspects, with focus on cognitive understanding of the system, SoftWeb has perceived that generally administrators and users in Iceland to exhibit a good degree of understanding for the system and the respective functionalities, which suggests that the cognitive component of the Icelandic customer do not differ significantly from the Swedish clients. However, when it comes to the practicality of using the system, there has been multiple demands regarding how the service is designed in order for the client to feel that it is simpler to manage. Therefore, in terms of preferences with regards to normative institutions SoftWeb has identified some differences from practices on the Swedish market, even though general perception is that the Icelandic customer have preferences more in line with the Swedish market, compared to Australia. Some aspects were seen as crucial for the Icelandic customer to be performed at their own terms, which according to SoftWeb depends on tradition. (Marketing Manager, 2018-03-05; 2018-03-09; 2018-03-15)

##### *Language Influences*

The first important informal aspect that SoftWeb encountered with their Icelandic customer was the absolute requirement to translate the system to Icelandic. This was initially surprising since SoftWeb judge Icelandic inhabitants to be proficient in English. The company attributes this preference to the preservation of cultural aspects such as the Icelandic language, given that Iceland is a small country with a small population that is constantly influenced by its external environment. According to SoftWeb, the language aspect can also be connected to the fact that users in Iceland are composed of an older generation. The company believes that if the target group was of a younger generation the translation issue would not be that relevant for the Icelandic customer. In order to facilitate this translation SoftWeb had to develop a separate module, a tool for translation in their system and provide them access to that so that it could be used by the Icelandic customer to translate the text in the parts of the system that they use. In fact, the translation aspect was so important for the customer at the point where they sustained the costs related to the translation process by themselves. (Marketing Manager, 2018-03-15)

### *Evaluation Method*

Furthermore, the Icelandic customer have, to a higher degree, a qualitative approach to application evaluation compared to Swedish customers who tend to focus on quantitative measures. Generally, the Icelandic customer's practice is that one expert reads an application and gives an evaluation. A quantitative score is then arrived at through consensus discussion. Therefore there was the need to adapt the system through reconfiguration and new development in order to meet customer requirements. SoftWeb is currently conducting studies into these qualitative methods and hopes to find the root cause of why they are used instead of a quantitative methodology, however the initial assessment is that it is based on tradition. This can be derived from that fact that these methods are changed at ambiguous points in time, for example when influential individuals within the organization are replaced. However, the Icelandic customer displays a good degree of cooperation in this view, not only regarding the technical aspects but also regarding the process as such, which for SoftWeb indicates that the client recognizes the knowledge and experience that the company gained over the years. (Marketing Manager, 2018-03-05; 2018-03-09; 2018-03-15)

### *Administrative Aspects*

Additional requirement from the Icelandic customer was to adapt the application deadlines in the system. Normally deadlines are set to 23.59 the day when different applications are to be submitted, but the customer explicitly requested that these should be closed at 18.00 Icelandic time. SoftWeb believes that this is due to habits present at the time before the system, i.e. there was a person waiting at the office for people to come in with their applications on paper. Further the company believes that the phenomenon can also be attributed to a work-life balance aspect, which can be a reflection of characteristics underlying the Icelandic culture. Currently this procedure has to be performed manually from SoftWeb's office in Sweden. In case whereas this procedure should be automatized, development of additional modules in the system would be necessary, which is both time-consuming and costly. SoftWeb hopes that the Icelandic customer will eventually adapt to the overall deadline, at midnight, as applied by Swedish customers. (Marketing Manager, 2018-03-15)

### *Potential Cultural Influences*

Another aspect describing the Icelandic normative component's characteristics is the customer's low need for control, contrary to the customers present in Australia. The Icelandic

customer does not have an own IT-department, instead they prefer that SoftWeb manages and controls the system online directly from Sweden. SoftWeb attributes this phenomenon to the fact that Iceland is closer to Europe than their Australian counterpart and therefore shares more cultural similarities with Sweden. The company considers cultural similarities to be an important enabler to easier exchange and establishment of trust in the relationship between SoftWeb and their Icelandic customer, as there are numerous personnel exchanges between Sweden and Iceland when it comes to the customers' industry setting. One example of cultural aspect in this regard is that the Icelandic customer has a more Swedish approach when setting demands, i.e. generally more relaxed approach meaning that it may not be as important that the request is immediately met. Rather the process is characterized by open reciprocal communication and cooperation. (Marketing Manager, 2018-03-15)

Lastly, SoftWeb noticed certain influences from American culture as well during their operations with the client on Iceland, which is seen as plausible by the company given the fact that Iceland is situated about the same distance between Europe and United States (US). SoftWeb describes this phenomenon as person-specific. These influences affected the way the preferences regarding the system were formulated and expressed. For instance, individuals affected by American culture were much more straight forward in their communication and their acceptance when it comes to time span for the demands to be met was considerably lower. (Marketing Manager, 2018-03-15)

#### **4.6 Summary of Main Empirical Findings**

Current section features the most important empirical findings retrieved from interviews with SoftWeb AB. To begin with, it results that SoftWeb's operations are founded on four different business functions, which are important for the operations performed both in Sweden and international markets, i.e. Australia and Iceland. These functions are Development, Marketing & Sales, Support and Administration; the functions consist of numerous activities that have been adapted to different markets and clients, which requires a high degree of flexibility on SoftWeb's behalf. Further, it results that SoftWeb has acquired their customers, both in national and international markets principally through word-of-mouth, which indicates that network contacts have an important role in SoftWeb's operations. Further, the internationalization process was also a result of network interactions and

occurred in an unplanned manner. Furthermore, it results that formal and informal institutions affect SoftWeb's operations in domestic market as well as abroad, where as a consequence they have to act differently than they do in Sweden and therefore adapt certain business practices.

Formally, data protection regulations affect the company both in Australia and Iceland, as well as the need to register a corporate entity in Iceland. The funding procedure for public sector customers have also been highlighted in Australia as a formal institution, even if these formal requirements does not directly impact SoftWeb's business. This instead has an influence on their business through customers' preferences and requirements on SoftWeb's service offering. Further, SoftWeb has also faced differences in Public Procurement Law between different countries. While Iceland is expected to be similar to Sweden in this regard, Australia's procedures offer some differences regarding how public procurement is conducted, which led to adaptation of their offering in respective international markets. Similarly, both Iceland and Australia present certain risks regarding political change and currency fluctuation, which SoftWeb must mitigate. Further, SoftWeb has had an ongoing process of adapting their handling of personal information in accordance with the impending introduction of GDPR, a framework that Iceland will adopt. Similar regulations in Australia has caused SoftWeb to rebuild their server architecture to support the offshoring of data storage. The introduction of GDPR means that SoftWeb had to extend their support working hours in both the international markets.

Informally, both Icelandic and Australian customers required the system to be translated in to their national languages, and in case of Australia even a significant shift in time zones meant that Australian customers necessitated extended support access. Australian customers also expressed a preference for having overarching control of the system, ideally wanting to host their own instance of the system run on their local servers, while the Icelandic customer did not require as much control but rather entrusted system maintenance entirely to SoftWeb. Australian need for control is connected to the customers wanting to gain a competitive advantage in their funding procedures compared to their peers. They further expressed a need for rating their expert evaluators in order to assure the quality of their process. Funding procedures for Australian customers and their resulting requirements on system control made SoftWeb rebrand their offering towards Australian customers as a more niched service. This

was in order to circumvent more excessive adaptation of the entire system in order for it to fit these demands.

The evaluation process in Australia is of both qualitative and quantitative nature, while the Icelandic customer prefer qualitative evaluations, which means that there was the need to adapt the system in order to support these differences. To better serve their Icelandic customer and their qualitative processes SoftWeb has also begun to conduct research in order to evaluate the effectiveness of their qualitative process and learn how the system can be applied to it.

For detailed list over the main institutional factors and subsequent adaptational requirements consult Attachment 2. “Institutional Impact and Adaptation in International Markets” in Appendix 1.

## 5. Analysis

*The aim of this section is to analyze and confer the research question formulated for the purpose of this thesis; “How does Software-Exporting SMEs adapt their business practices to the institutional environment of their foreign customers?”. In order to provide an answer to the research question, factors such as institutions affecting business practices in international markets, type of affected business practices and eventual adaptations performed will be discussed. Internationalization process and the role of networks will be analyzed as well. The discussion will be grounded on the contributions from the theoretical framework, where applicable. The section will be concluded by presenting a reviewed version of the conceptual framework resulting from the findings presented in empirical section.*

### **5.1 Foreign Institutions and Adaptation of Business Practices**

Due to the lack of in-depth contributions in theory regarding institutional impact on business practices of exporting SMEs in the software industry, but also definition of business practices in terms of international operations, the authors will rely on the definition specifically provided for this thesis; any method, process, procedure, rule or routine through which the firm attempts to achieve their business objectives. The authors will utilize the table in Attachment 2 “Institutional Impact and Adaptation in International Markets” which list the total number of institutional influences and consequent adaptations, to group these adaptations performed by the company in response to formal and informal institutional impact from Iceland and Australia. The intent is to delineate specific business practices that these adaptations affected and also analyze which business functions are involved. Given their size, SoftWeb currently doesn’t have any formalized business practices, therefore the authors will construe these according to their logical reasoning based on the empirical findings. Where possible, the authors will also connect the analysis to the theoretical framework.

Further, when the practices have been defined and analyzed in regard to their institutional connection, similarities and differences between Iceland and Australia will be discussed. Discussion will also be based around how the two countries relate to Sweden in terms of aspects concerning institutional distance.



### **5.1.1 Definition of SoftWeb's Business Practices**

Based on the information retrieved from the empirical study of SoftWeb regarding how they operationally attempt to achieve the objectives of their business functions through certain practical activities, five types of business practices can be identified. As mentioned in the introduction these dimensions have been constructed by the authors, as SoftWeb lack formalization of many of their business practices. Thus, the practices outlined below have been logically derived by analyzing the aforementioned activities presented in the empirical findings of this thesis, in conjunction with the definition of business practices as a way of conducting organizational functions explained in theory:

*Software Design Outline & Configuration:* A practice that regards design choices for SoftWeb's various software solutions, both in how they are developed and configured, when it comes to different functionalities incorporated in the system. These functionalities can be either in the front-end (what is seen and utilized by the customer) or in the back-end (reserved for SoftWeb alone and the system architecture).

*Service Offering:* The practice refers to how a service is packaged and branded. In other words, "Service Offering" refers to what the actual service contains. An exemplified service offering in the case of SoftWeb would be the package offered to Swedish customers, which is comprised of an application system for research grants in combination with continued customer support.

*Customer Relationship Management:* This practice relates to how SoftWeb communicates with their prospective and current customers, with an emphasis on customer care. This is especially related to support, but can also be related to interaction during sales and marketing process.

*Market Monitoring:* The Market Monitoring practice refers to how SoftWeb examines external environment changes, such as currency fluctuations and transformations in the political landscape of their international markets. For example, these types of transformation can lead to legal modifications that affects SoftWeb's contractual proceedings.

*Operational Control*: This practice regards how SoftWeb handles practical administrative processes and routines, for example, currency accounts and tax proceedings as a consequence of involvement in international operations.

### **5.1.2 How Business Practice are Affected in Australia**

As the title suggests, this section provides an analysis regarding how above defined business practices are affected in the context of SW's international operations in Australia.

#### **5.1.2.1 Software Design Outline & Configuration**

When it comes to the practice regarding how the software is designed and configured for the Australian market and its customers there is a clear division. Formal institutional aspects primarily affect the system back-end and informal aspects mainly affect the front-end that the users see. Even though most adaptations in the Development function are comprised of both configuration and new development in terms of creating new functionality, overall the adaptations for Australia are more weighted towards the development of additional functions. Table 2. "Software Design Outline & Configuration - Australia" outlines all relevant institutional aspects and related adaptations. Further, the formal aspect of data regulation can be regarded as a more overarching institutional influence that affects all businesses that handle personal information, while informal aspects such as use of international experts are tied to the institutions within the customer industry. However, no institution or adaptation can be specifically related to an individual customer. In other words, the practice of *Software Design Outline & Configuration* faces two levels of institutions in the case of Australia; national and industry.

These national and industry level institutions can be related to theory regarding the constraining of behavior and mitigation of transaction costs in informational exchange (North, 1991; Dunning, 2008, Peng et al. 2008). The data protection regulation constraints behavior regarding how businesses handle personal information, and must thus be very general in its inclusion of who it applies to. Compliance with this formal institutional aspect can thus be regarded as a requirement for market entry. This generality is, in essence, what turns this into a national level institution. However, the informal aspects are more focused towards aligning the system with what customers find logical and what functionality they

prefer with regards to their operations. This is exemplified in Table 2 by the use of international experts which SoftWeb adapted to by implementing the automatic rating function. In other words, adaptations towards these informal, industry level aspects is aimed towards making information exchange between the system and its users more efficient.

Table 2. Software Design Outline & Configuration - Australia.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Data protection regulation	▷ Development of new system architecture	▷ Text translation	▷ In-house translation
		▷ Different date format	▷ Implementing date format translation
		▷ Use of international experts	▷ Automated expert rating function
Affected Business Practice : <i>Software Design Outline &amp; Configuration</i> Affected Function: <i>Development</i>			

In conclusion, the practice of *Software Design Outline & Configuration* must be adapted to several levels of Australian customers' institutional characteristics as a result of SoftWeb's international expansion to the country. Adaptation to the national level formal institution of data protection can be regarded as overcoming an entry barrier to the market by developing back-end functionality. Adaptations to the industry level informal institutions can, on the other hand, be connected to customer feasibility as the focus is on being able to provide an efficient interaction between the system and customers, on the front-end. If those adaptations cannot be made SoftWeb cannot feasibly serve the Australian customers.

### 5.1.2.2 Service Offering

As mentioned in the definitions, *Service Offering* refers to how SoftWeb package their product towards customers. Institutional factors have distinct effects at different stages of

SoftWeb’s sales process (institutional aspects and adaptations are specified in Table 3. “Service Offering - Australia” below). The formal aspect of Australia’s PPL has prompted SoftWeb to rethink how they approach tender processes compared to how they would act in a Swedish case. While the Australian process requires more documentation, affecting the contractual proceedings, it provides more freedom for SoftWeb in how they approach tender offerings. An example of this is the lack of a direct procurement limit and its implications of having to engage in public processes, as well as having to specify prices for certain parts of the tender offer. While it is harder to gather feedback on the outcome of winning or losing a procurement SoftWeb prefers this process.

Table 3. Service Offering - Australia. Compiled by authors.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Public Procurement Law (PPL)	▷ Contractual and offering changes due to PPL	▷ Demand for customer hosting ▷ Configuration and source code access ▷ Administrative burden ▷ Qualitative & quantitative evaluation	▷ Rebranding to niche service
Affected Business Practice : <i>Service Offering</i> Affected Function: <i>Sales &amp; Marketing</i>			

These findings can be related to Kostova & Roths’ (2002) discussion on how different types of institutions affect successful practice adoption in subsidiaries. As previously explained in the theoretical framework, alignment of informal institutions have a positive effect while formal institutions can be seen as coercion (Kostova & Roth, 2002). While Australia’s tender processes are seen as more demanding in certain aspects it is still preferred, as opposed to being seen as restrictive or coercive. This could possibly been seen as a prioritization of efficiency rather than being beholden to an organizational culture, as explained by Kostova (1996) in her definition of business practices. Efficiency in this regard, as understood by the empirical findings, could be seen more as pertaining to the flexibility that the process provides. SoftWeb sacrifices efficiency in the workload, to gain efficiency in other parts of the process.

The informal aspects present a choice of adaptational focus on the part of SoftWeb. Rather than adapting to Australian customers’ administrative culture and preferences for control by significantly extending their system functionality, they instead adapt their offering to only selling a smaller part of the system as its own offering, as can be seen in Table 3 with the adaptation of rebranding to a niche service. Therefore, all informal institutional influences led to one single adaptation. This niche branding again indicates a focus on efficiency. Choosing to adapt to customer preferences for more control could open up to more customer-specific adaptation in the future, while rebranding instead adapts to the way the market functions. This leaves more control to SoftWeb, while demanding less work in the adaptation.

### 5.1.2.3 Customer Relationship Management

Adaptation directed towards customer care and relationship management have been, most notably, practically carried out through the support function, as can be seen in Table 4 below. “Customer Relationship Management - Australia”. Both formal and informal institutions in this regard have arisen due to factors that can, in part, be seen as external to Australian customers’ institutional environment. Seven day support was implemented to mitigate the adverse effects of compliance with GDPR. In the context of SoftWeb, this is a rare example of cross-national institutional influence in way of practice adaptation being made in one market due to a formal institution in another market.

Table 4. Customer Relationship Management - Australia. Compiled by authors.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ User account restriction due to GDPR	▷ Increased support (seven days a week) function due to GDPR	▷ Preference for extended support access	▷ Extension of support working hours
Affected Business Practice : <i>Customer Relationship Management</i> Affected Function: <i>Support</i>			

The preference for extended support access can be derived from the fact that Australia is placed in a different time zone, and thus has no element of arising from wanting to constrict certain behavior or efficiency in exchange, in an institutional sense. However, it still falls

under the umbrella of informal institutions since it is preferential and not simply a practical requirement to conduct support in the country.

The need to make these adaptations can also be derived from SoftWeb’s chosen entry mode of exports. Had SoftWeb established a subsidiary in Australia, the workload of accommodating both GDPR and the time zone difference, in terms of support, could be delegated to this entity.

#### 5.1.2.4 Market Monitoring

What can be noted from Table 5. “Market Monitoring - Australia” is that Australia’s PPL also have an effect on SoftWeb’s administrative function in the form of adaptations to the *Market Monitoring* practice. The institutions affecting this practice are solely formal. Firstly, available tendering offers in Australia needs to be monitored, in addition to processes in other markets. Secondly, the specificities of these tender processes affects how SoftWeb monitors them, in order to be able to formulate offerings and contracts in a way that is conducive to the Australian market.

Table 5. Market Monitoring - Australia. Compiled by authors.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Public Procurement Law (PPL)	▷ Contractual and offering changes due to PPL	▷ N/A	▷ N/A
▷ Political regulations	▷ Increased monitoring due to currency och political risks		
▷ Currency volatility			
Affected Business Practice : <i>Market Monitoring</i> Affected Function: <i>Administration</i>			

Monitoring must also be adapted in order to follow political developments in Australia that could potentially affect SoftWeb’s operations towards the country. This involves learning the distinctiveness of Australian politics, in order to make satisfactory prediction which SoftWeb

can react to. Finally, in dealing with AUD SoftWeb must monitor developments in exchanges rates in order to make correct decisions, for example for when to exchange to SEK.

### 5.1.2.5 Operational Control

Adaptations in *Operational Control*, which refers to practical operational routines and procedures, is also conducted exclusively in response to formal institutions. As Table 6. “Operational Control - Australia” shows, both the formal aspects and the consequent adaptations have a practical nature. While VAT exemption doesn’t pose an explicit requirement it still incurs adaptations in how invoices are formulated towards Australian customers. Volatility in the exchange rate further has SoftWeb adapting financial routines by establishing accounts that can isolate revenues in AUD until the company determines it is favorable to exchange them, based on market monitoring.

Practical adaptations of *Operational Control* is not unique to Software-Exporting SMEs, but are instead faced by any company that engages in international operations. However, the establishment of a subsidiary could potentially mitigate adaptations in handling currency volatility, as the subsidiary would be expected to carry its on costs and revenues. The need for direct and immediate control of currency exchange would thus not be as large as when engaging in direct exports.

Table 6. *Operational Control - Australia. Compiled by authors.*

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Currency volatility	▷ Separate account for AUD	▷ N/A	▷ N/A
▷ VAT exemption	▷ Adapted invoicing process		
Affected Business Practice : <i>Operational Control</i> Affected Function: <i>Administration</i>			

### **5.1.3 How Business Practices are Affected in Iceland**

The present section focuses on analyses regarding how previously constructed and defined business practices are affected in the context of SW's international operations in Iceland.

#### **5.1.3.1 Software Design Outline & Configuration**

As defined above this business practice regards procedures and routines connected to software configuration or development of new modules in the system that SoftWeb provides for their customers. Therefore, aspects underlying this business practice primarily affect SoftWebs Development function and therefore the operations of developers employed in the company. When it comes to Iceland, from empirical findings, it can be noted that no formal institutional aspects affect SoftWebs *Software Design Outline & Configuration* practice. The explanation for this phenomenon can be attributed to the fact that Iceland, being a member of EEA, has aligned its legal framework to that applied by the countries of the European Union, as EU is Iceland's closest market, so it is in the country's interest to follow the same regulations and directives in order to facilitate the trade exchange. Therefore, in terms of formal institutional aspects no adaptation on behalf of Software was necessary in this aspect.

Further, empirical findings suggest that SoftWeb had to create new functionalities in the front-end of the system exclusively due to informal institutional aspects connected to the normative component of their customer, i.e. based on traditional values and culture preservation, which is in line with Kostova & Roth (2002) and North (1991) who argue that cultural aspects, such as traditions and norms, affect individual preferences and therefore reflect their behavior even in a business context, where individuals with different national background collaborate. Because of these properties cultural aspects results to be a determining factor in adapting SoftWeb's *Software Design Outline & Configuration* practice, as can be viewed in Table 7. "Software Design Outline & Configuration - Iceland" below.

Continuing, the first cultural influence that affected *Software Design Outline & Configuration* practice, can be related to the Icelandic customer's preference to translate the system to Icelandic. As outlined in Table 7. below, due to this specific request SoftWeb had to develop a new module in the system that could support the translation process. Further informal requests by the Icelandic customer was related to adaptation of the system in order



to fit their qualitative evaluation process, traditionally applied in Iceland when the applications were submitted in paper form. Adaptations necessary, as seen in Table 7. consisted in configuration and new development of the system as originally the system was constructed to fit quantitative evaluations, normally practiced in Sweden.

Table 7. Software Design Outline & Configuration - Iceland. Compiled by authors.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ N/A	▷ N/A	▷ System translation in Icelandic	▷ Development of translation module
		▷ Qualitative process and evaluation support	▷ System configuration and new development due to differences in evaluation process
Affected Business Practice : <i>Software Design Outline &amp; Configuration</i> Affected Function: <i>Development</i>			

Therefore, the changes due to informal aspects, implied both configuration, i.e. modification of existing functionalities, and new development, which varies from the basic process usually applied in the phase of system implementation for Swedish customers. As presented in empirical findings, Swedish clients often do not require new development, however some type of configuration of the system is necessary as well depending on, for example, size of the organization. A conclusion that can be drawn from the empirical section is that SW is prepared to perform some adjustments to the system when approaching new customers and is very flexible in this regard, however adding of new functions to the system, as in the case of the Icelandic client, is both time consuming and costly for SoftWeb. Further, changes like these are not only temporary but system adjustment will be necessary in the future as well as long SoftWeb collaborates with the customer, i.e. for example if the Icelandic customer requests additional system services there will be the need to utilize modules in the system to permit translation in Icelandic of these as well.

### 5.1.3.2 Service Offering

As formulated earlier, this practice concerns the content of the actual service that SoftWeb provides and how this is packaged and branded when the offering is presented to the final customer. From empirical findings it resulted that SoftWeb has their base *Service Offering* practice, consisting of their software system and the associated services and functions, that the company always present to a new customer and from there the customer can select what services they need. There are seldom changes that has to be implemented to SoftWeb's initial service packaging in the Swedish market and if some adjustments are necessary then this happens at a later stage, under the negotiation process. Due to informal aspects such as generational influences, certain Swedish customers requested to adapt the service offering more to their specific organization and the way they traditionally operated, making these changes often individually based and, and further depending on the age of the person responsible for system implementation and in contact with SoftWeb.

This situation can be related to the Icelandic customer as well, where, because of the older generation of the target group, the company needs to adjust the method applied in terms of sales to better fit traditional working routines of their future Icelandic clients. As the first Icelandic customer displayed a preference for qualitative evaluation process, SoftWeb had to focus on research concerning this traditional process and therefore understand how to incorporate it to their initial *Service Offering* practice towards future customers in Iceland. The process is still ongoing, and it is a demonstration that social phenomena, such as work methods based on tradition, can significantly affect company's business practices when operating in an international context, which is also in line with North (1991). Aspects concerning influence of informal factors and necessary adjustments regarding *Sales & Marketing* practice are listed in Table 8. "Service Offering - Iceland" presented below.

Lastly, SoftWeb did not encounter any formal aspects affecting their *Sales & Marketing* practice when approaching the Icelandic customer, as in the case of the *Software Design Outline & Configuration* practice, which can be once again attributed to the fact that Iceland's laws and regulations are in line with EU and therefore no particular requirements are set on Software-Exporting SME's, such as SoftWeb, when operating in the country.

Table 8. *Service Offering - Iceland. Compiled by authors.*

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ N/A	▷ N/A	▷ Generational influences in conjunction with qualitative evaluation process	▷ Qualitative evaluation process research
Affected Business Practice : <i>Service Offering</i> Affected Function: <i>Sales &amp; Marketing</i>			

### 5.1.3.3 Customer Relationship Management

The practice of *Customer Relationship Management* relates to how SoftWeb communicates with their customers and therefore mainly involves SoftWeb’s Support function and their operations, but can also be related to how sales are conducted in terms of interaction, for example during the negotiation process. In case of Iceland, *Customer Relationship Management* practice was affected both by formal and informal institutional aspects, as outlined in Table 9. “Customer Relationship Management - Iceland” presented further on. When referring to formal institutional aspects, empirical findings suggest the introduction of GDPR as a formal aspect affecting SW’s customer care operations. As empirical findings show, GDPR introduction comprises a series of new regulations regarding data protection and storage of data in the system that has to be taken in consideration in the Swedish market, but that also have to be passed to the system administrators in Iceland, as the law applies equally in both the countries.

The process of educating the Icelandic customer in this regard is both demanding and time consuming, as the communication is handled via email, which means that response is not immediate but also that misunderstandings can occur, which in some cases can lead to further increase in communication. The fact that the introduction of a law affected communication routines between SW’s support and the Icelandic customer confirms discussion portrayed by North (1991), Dunning (2008) and Kostova & Roth (2002), all claiming that human interaction is altered in several aspects by formal institutions such as introduction of new laws and regulations. As a consequence, SW’s support team working hours routines were affected as support function was extended to the weekends as well following the increased communication demand, as outlined below in Table 9.

Table 9. Customer Relationship Management - Iceland. Compiled by authors.

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Law regarding General Data Protection(G DPR)	▷ Extension of support working hours	▷ Swedish-Icelandic cultural exchange, cooperative; less need for control willing	▷ Approach adaptation to request fulfillment as a consequence of different cultural influences
		▷ American cultural influences (person-specific)	
		▷ Earlier application deadline	▷ Manual control of applications deadline
Affected Business Practice : <i>Customer Relationship Management</i> Affected Function: <i>Support</i>			

In the process of collaboration with the Icelandic customer, SoftWeb also had to adapt the communication methods based on different cultural influences deriving from Iceland itself, but also American influences present in the country. While communication during the initial negotiations with personnel with Icelandic cultural background resulted more similar to Swedish counterpart, i.e. more collaborative and less control demanding, encounter with individuals influenced by American culture on the other hand was more straightforward and exigent. Due to this cultural diversity SoftWeb had to adapt their interaction approach depending on whom they had contact with so that they could fulfill customers' requests in a best appropriate way, an adaptation presented in Table 9. As a consequence, this affected their *Customer Relationship Management* practice. Therefore, once again customer preferences and their way to communicate was defined by their cultural background, which confirms Peng et al. (2008) and Kostova & Roth (2002) view on cultural influences being an important pillar affecting normative component of informal institutions. Identical cultural influences can also be identified in the relationship between support team and the customers. In fact, empirical findings confirm that support team had to deal on a daily basis with above

mentioned type of communication diversity when communicating with Iceland administrators characterized by diverse cultural background.

Another informal aspect affecting *Customer Relationship Management* practice outlined in Table 9. is the request to close the application deadline earlier than it is programmed in the system. As discussed in empirical findings, this request is also based on traditional working routines, when applications were handled in paper form. In order to fulfill this request SW's support team has to manually control application deadlines and therefore overlook company's regular procedures, which is in line with North (1991) arguing that tradition based social aspects are important informal institutions influencing company's processes.

#### 5.1.3.4 Market Monitoring

*Market Monitoring* practice refers to how SoftWeb examines external environment changes in order to mitigate eventual risks that may affect their operations. As it can be seen from Table 10. "Market Monitoring - Iceland" outlined below, there are several formal institutional factors affecting SW's *Market Monitoring* practice, while no informal institutional aspects were registered.

Table 10. *Market Monitoring - Iceland. Compiled by authors.*

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Public Procurement Law (PPL)	▷ Eventual contractual changes due to PPL	▷ N/A	▷ N/A
▷ Political regulations	▷ Increased monitoring due to currency och political risks		
▷ Currency volatility			
Affected Business Practice : <i>Market Monitoring</i> Affected Function: <i>Administration</i>			

The first formal aspect outlined in Table 10. is the Public Procurement Law, that can eventually have an impact on SW’s Administrative function, i.e. contract formulation towards Icelandic customers in case some aspects of the law change due to political decisions. As resulting from empirical findings, currently PPL In Iceland is in line with EU directives, but often changes of government and respective political regulations in Iceland could still affect the law, and thereof the need to monitor the political decisions, as adaptations stated in Table 10. above. Further, currency fluctuations are another formal aspect presented in Table 10. that has to be followed up. SoftWeb must observe exchange rates in order to be able to change their earnings to SEK when the exchange rate results most favorable. So the fact that SW is active in Iceland now, contributed to further procedures regarding the *Market Monitoring* practice, as the company has to allocate resources to regularly analyzing one additional market in order to keep up with eventual changes that may affect their export operations.

### 5.1.3.5 Operational Control

As defined previously, this practice regards how SoftWeb handles practical administrative processes and routines as a consequence of their international operations. From Table 11. “Operational Control - Iceland” it can be noted that adaptations in the *Operational Control* practice are performed only as a result of formal institutional impact and that both the formal aspects and the respective adaptations are of purely practical type.

Table 11. *Operational Control - Iceland. Compiled by authors.*

<i>Formal aspects</i>	<i>Adaptation</i>	<i>Informal aspects</i>	<i>Adaptation</i>
▷ Entity registration due to Tax Law (TL)	▷ Administrative entity registration when revenues exceed 2 million ISK	▷ N/A	▷ N/A
▷ Currency volatility	▷ Separate account for EUR		
▷ VAT exemption	▷ Adapted invoicing practices		
Affected Business Practice : <i>Operational Control</i> Affected Function: <i>Administration</i>			

The first formal factor, seen in Table 11., is attributed to Icelandic Tax Law. Due to Tax Law regulations, there is the necessity to register an administrative entity in Iceland when company's revenues exceed 2 million ISK in order to be able to pay taxes in the country. This law applies to all foreign companies, regardless industry, operating in Iceland. Registration of the administrative entity, as resulting from empirical findings, leads to increased exports costs for SoftWeb. This is in line with theoretical contributions claiming that formal institutional factors may constrain an entity's behavior (North, 1991; Dunning, 2008; Kostova & Roth, 2002).

Further, due to currency volatility, SoftWeb had to adapt their practices by establishing a bank account that can confine revenues in EUR to mitigate currency related risks, as outlined in Table 11. Another practical adaptation presented in Table 11. is the praxis regarding how invoices are formulated towards their Icelandic customer, due to formal aspect regarding the VAT exemption. For example SW has to adjust their invoices towards the Icelandic customer so that they are free of VAT every time they emit a new invoice.

To conclude, formal aspects discussed in this section can be applied to all companies entering Iceland and conducting business in the country and not exclusively to SoftWeb.

#### **5.1.4 Institutional Distance**

In order to analyze the effects of institutional distance this section will compare differences in adaptations between Australia and Iceland and further compare them with how SoftWeb operates in Sweden to assess to what extent institutional distance is the root cause of the differences in degree of adaptations. As explained in the conceptual framework a larger institutional distance is assumed to incur a larger degree of adaptations. This can either be in the form of a larger amount of adaptations, or a larger degree of invasiveness of performed adaptations irregardless of their absolute number. These differences will be evaluated and argued for based on the logic of the authors in conjunction with facts presented in empirical findings.

#### **5.1.4.1 Comparison of Australia and Iceland**

When it comes to adaptations in the practice of *Software Design Outline & Configuration* the case of Australia is highly dependent on SoftWeb's Australian customers being influenced by their procedures for receiving funds for their organizations as well as other operational needs based on informal institutions. An example of this is the use of international experts in their application evaluations. Adaptation in this regard is also connected to Australia operating in a different, although similar, legal framework in terms of data protection. For Iceland these adaptations can be seen more as being culturally and traditionally influenced, where the customer feel inclined to preserve cultural aspects such as language and operate according to traditional processes. Irregardless of these differences, *Software Design Outline & Configuration* is the practice that is affected to the highest degree by institutional influences in both markets.

Differences in the adaptational nature of *Service Offering* are similar in this regard. SoftWeb is continuously researching the traditional process methodology of their Icelandic customer in order to adapt their offering. However, when it comes to Australian customers, the rebranding of SoftWeb's offering was again in response to informal aspects rooted in practical operations with regards to customers' funding process.

In *Customer Relationship Management* indirect formal influences as well informal factors prompted more invasive adaptation on the part of Australia due to the indirect effect of GDPR and the differences in time zones. However, the need for adaptation towards Icelandic customers was in part mitigated due to cultural exchange between Sweden and Iceland even though support was extended in certain regards, such as with the manual control of deadlines.

Lastly, practices in the Administrative Function (*Market monitoring & Operational control*) was adapted in a comparable fashion, most likely due to the fact that the institutions influencing these adaptations are very general and as such are conceivably influential in most international operations.



#### **5.1.4.2 Comparison with Sweden**

There are a few notable differences between Sweden, Australia and Iceland respectively. Due to informal institutions and consequent adaptations in terms of SoftWeb's system the difference is greatest between Sweden and Australia. A caveat to this is that further inquiry into Iceland's qualitative processes could prompt further system adaptations, but as of yet this isn't the case. Adaptations to Australia's data protection regulation in combination with further additions of functionality due to differences in operations outweighs adaptations for Iceland, since many of those Icelandic adaptations are included in overall development performed towards Swedish customers. This is mainly due to similarities in legal frameworks.

Furthermore, the differences in legal framework prompted more invasive adaptation of *Customer Relationship Management* in terms of support for Australia. This is also in combination with adaptations due time zone differences. Adaptations towards Iceland in this regard are either not as invasive, or in some cases not applicable.

Comparing the *Service Offering* adaptations towards Iceland and Australia with Sweden is not as straightforward. Adapting to the Icelandic process is possibly more invasive in practice. However, even though the rebranding of the *Service Offering* in Australia in practice isn't as demanding and is more in line with the Swedish offering, it has the largest difference from SoftWeb's original strategic intent. In this regard it is hard to determine with adequate certainty that the differences depend mostly on institutional distance.

In conclusion, the facts presented in this analysis taken together speaks to a difference in institutional distance which is larger between Sweden and Australia. The comparison also suggests a positive relationship between institutional distance and the degree of adaptations, which supports the theoretical contributions presented in the conceptual framework.

#### **5.2 The Role of Network Interactions in Internationalization Process**

As it results from empirical findings, the mode of entry selected by SoftWeb in the process of internationalization is that of direct exports, which is in line with literature claiming that software SME's process of internationalization is predominantly characterized by direct

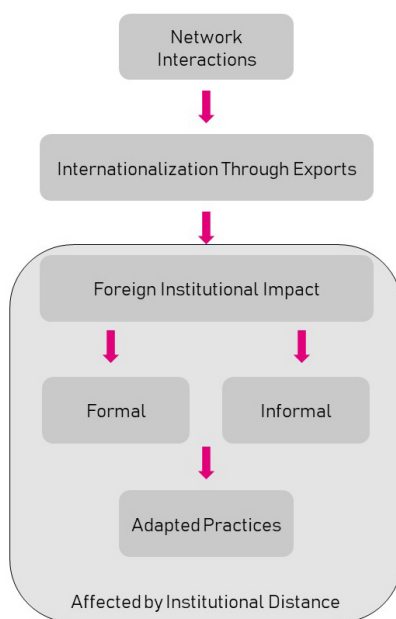
exports rather than establishing subsidiaries in a foreign country of operation (Bell, 1995). Empirical findings suggest that this choice can be attributed to resource availability. This reasoning is conforming to research presented in the literature review suggesting that software SMEs are constrained in terms of financial and human resources (McDougall & Oviatt, 1994; Lu & Beamish, 2001), thereof the direct exports alternative is seen as more viable than for example setting up a subsidiary.

Further, the outcome is that the internationalization step occurred as a result of network contacts' recommendations and therefore in an unplanned manner, in case of both the international markets. The setting presented is in line with theoretical contributions claiming that often SMEs internationalization occurs randomly and by virtue of network interactions (Cavusgil et al., 2012; Crick & Spence, 2005; Kalinic et al., 2014). This is acknowledged by empirical findings as SoftWeb acquired clients both in Australian and Icelandic market thanks to recommendations of individuals that have previously used SoftWeb's system in other contexts. This is in line with contributions from the literature review, claiming that close relationships with clients are of crucial importance for software SMEs business expansion both on national market but also in the context of international expansion (Alajoutsijärvi et al, 2000; Bell, 1995; Coviello & Munro, 1997).

Another important type of network interaction of importance in the international context is that with the consultancy organization Business Sweden. As mentioned in the empirical section, services provided by Business Sweden were particularly useful when it comes to market research and were therefore a valuable source of information regarding business culture in the country as well as to obtain more practical information regarding tax law and business practices regarding invoicing in Australia and Iceland. This is line with the literature review, where network interactions with organizations such as Business Sweden can be determining factor for software SMEs when entering a foreign market as they provide valuable information about market characteristics, such as formal and informal institutional factors (Alajoutsijärvi et al, 2000; Bell, 1995; Coviello & Munro, 1997). However, a new contribution made by this thesis is that the foreign market research in SoftWeb's case always departs from customer feasibility by analyzing the needs and the ability to meet their demands. As a demand for the service is established the company moves on to research institutional factors.

## 5.4 Revised Conceptual Framework

Based on the empirical findings retrieved from SoftWeb and the related analyses performed, new aspects emerged, prompting the authors to modify the conceptual framework presented earlier in section 2.3. The initial conceptual framework, based only on theoretical contributions, suggested principally that Software-Exporting SMEs engage in international operations through network interactions and that these interactions subsequently lead to actual contact with potential customers and exports to international markets. During these interactions SMEs are exposed to the impact of formal and informal institutions of foreign customers', and therefore requiring adaptation of certain practices to better fit the specific foreign market where the software SME aims to export. Additional theoretical contribution is the higher need for practice adaptation where the institutional environments of the Software-Exporting SME and its customer are more distant. For reference, Figure 1. Conceptual Framework, is presented again below.

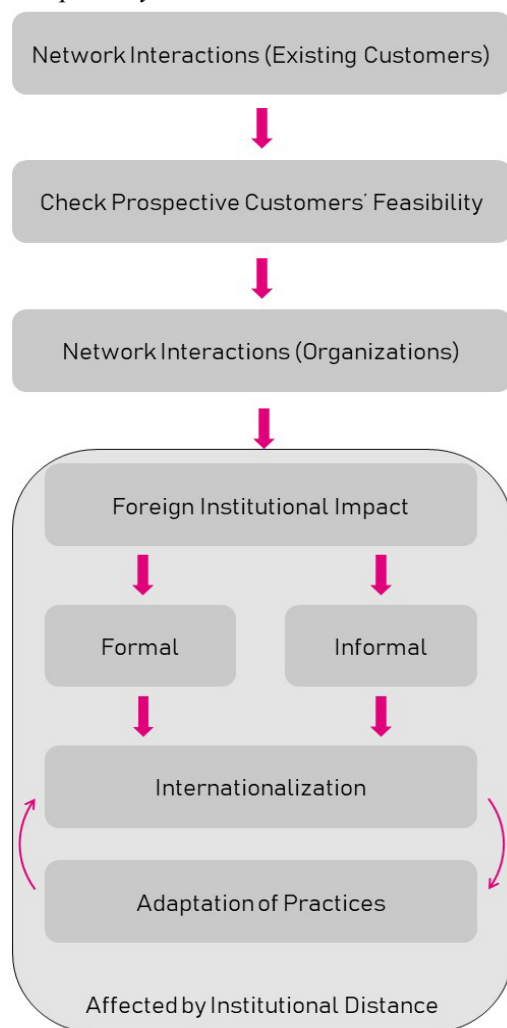


However, as it results from the present thesis, when referring to network interactions there are two different types of networks that have to be specified due to the different functions they reflect. Therefore, networks to take in consideration in the process of internationalization of Software-Exporting SMEs are the existing customers and other organizations. These network interactions are both important for SoftWeb and occur in different stages of the internationalization process. Results highlighted that recommendations from existing customers, in case of SoftWeb, are the main tool that contributes to the initiation of the exports process. On the other hand network interactions in

the form of consultancy agencies and other organizations were important in the phase of market research and contributed to provide valuable information about formal and informal institutional factors that may affect the business practices of software SMEs, such as SoftWeb. But while network interactions correlated to organizations such as consultancy agencies that helped in defining market characteristics, which is significant to consider in the decision regarding certain market entry, another preceding crucial step emerged when evaluating market entry. This is the *Customer Feasibility Check*.

In fact, results suggested that for an Software-Exporting SME like SW it is pointless to research the institutional barriers before checking that a potential customer is viable, i.e. that it can be served. The fact that software SMEs operate with technologically developed and complex systems means that it is necessary to ensure that system provided can support a foreign customer's requirements. Therefore, only when there is the certainty that a customer is feasible, software SMEs move to research regarding formal and informal aspects, in order to be able to adapt their business practices to the foreign market and proceed to internationalize through exports. Further, in case of SoftWeb, it also emerged that the process of internationalization was of an unplanned character, as the random recommendations from existing customers started the entire process. The new process is presented in the revised conceptual framework seen in Figure 4, below.

Figure 4. Revised Conceptual Framework. Compiled by authors.



Regarding the various stages of the conceptual framework, and particularly the institutional impact, authors completed theoretical contributions in regards of various factors affecting Software-Exporting SMEs business practices. Firstly, the institutions affecting these practices were spotted and outlined in detail, and necessary adaptations were presented. Secondly, business practices were constructed and defined, based on theory indications and authors own reasoning grounded on empirical results. Lastly, analysis focused further on how these were adapted to institutional aspects of foreign customers' in order to complete the last step of the conceptual framework, *Adaptation of Practices*. However, once that business practices are adapted to fit the initial market entry, it does not mean that a process of adaptation is definitely finalized; empirical findings suggest that some form of adaptation will always be necessary in the context of international operations. This can be

connected to the initially presented theoretical contributions regarding the adaptation of business practices in software SMEs requiring continuous improvement and responsiveness towards their customer. In this setting, a discourse related to aspects of institutional distance has to be taken into account, although it remains congruent with theoretical contributions suggesting that a higher need for adaptations is necessary between institutionally distant markets.

## 6. Discussion and Conclusion

*Taking in to consideration theoretical and empirical contributions applied in this case study as well as the discussion presented in the analyses above, the aim with this section is to display the conclusion obtained and therefore to answer study's research question "How does Software-Exporting SMEs adapt their business practices to the institutional environment of their foreign customers?". The last part of the section will focus on discussions regarding managerial implications, study limitations and suggestions for future research.*

The present case study has examined how Software-Exporting SMEs are influenced by the institutional environment of their foreign customers in the process of internationalization. The focus has been on analyzing how the case company has adapted certain business practices, connected to its different business functions. Information regarding institutions that affected the case company, and subsequently how the company adapted to these institutions, were obtained through interview sessions with relevant personnel from SoftWeb, as well as specifications of business functions. Further, as SoftWeb had very few formalized business practices, these were constructed based on the empirical findings.

The findings in the present thesis support previous theoretical contributions regarding institutional impact on international operations, as well as the importance of network interactions for software SMEs (Coviello & Munro, 1997; Lindqvist, 1991; Peng et al. 2008; Gooderham et al. 1999; Kostova & Roth, 2002). Further, software SMEs preference for export as entry mode was reinforced in the internationalization process. However, new findings detail the process by revealing the importance of customer feasibility, as well as defining different forms of network interactions that serve different purposes at different stages in the internationalization process. Besides these new findings, the study reveals in detail the different aspects characterizing formal and informal institutions that may affect Software-Exporting SMEs when operating in an international context, as well as how these influences their business practices.

### **6.1 Findings and Theoretical Contributions**

As supported by theory, advances in technological development have facilitated the engagement in SaaS-type service offerings for software firms like SoftWeb and enabled them

to serve international markets more efficiently through exports (Alajoutsijärvi et al, 2000; Moen et al, 2004; Benjamin & Wigand, 1995). This is particularly important as, given their restricted financials and limited number of employees, they would not have been able to engage in international operations by, for example, establishing a foreign subsidiary due to the general lack of resources. Thus, exports as an entry mode has enabled Software-Exporting SMEs, such as SoftWeb, to serve international markets efficiently and at a low cost. As this is contingent on being able to host your own service and conduct business through a SaaS framework, this would generally apply to other Software-Exporting SMEs. In addition to these insights, the study provides the following main contributions:

#### *Main Contribution One*

Firstly, as mentioned in previous sections, business practices specific to SoftWeb were constructed based on institutional influences and consequent adaptation activities, due to a lack of formalization. As these practices were also derived from general business functions, they could viably be generalized to other Software-Exporting SMEs, which contributes to current theory regarding institutional influences on business practices in the international context. While the analytical section specified in detail how SoftWeb adapted their business practices, a general focus of adaptation can be derived in order to answer the thesis research question: “*How does Software-Exporting SMEs adapt their business practices to the institutional environment of their foreign customers?*”. SoftWeb’s operations in Sweden is characterized by flexibility and efficiency-seeking in order to fulfill customer demands, which is transferred to their international operations as well. Adaptations towards customers in Australia and Iceland are therefore mainly focused on efficiency-seeking, i.e. the company is keen to adjustments of their routinized methods and procedures in order to retain and increase their efficiency in international markets. This approach is mainly possible thanks to SoftWeb’s organizational culture characterized by extensive flexibility. In this regard SoftWeb, to some extent, deviates from the presented theory, as presented by Kostova (1996), in that their practices are not closely tied to their organizational culture and internal legitimacy. On the contrary, SoftWeb’s culture has deeper ties to being agile and adaptive, which is indicative of software industry trends. Further, it also results that the most affected business practice by institutional factors in both international markets is *Software Design Outline & Configuration*, in other words, SoftWeb’s method directed towards system configuration and development of new functionality.

### *Main Contribution Two*

Secondly, detailed analyses regarding institutional aspects affecting Software-Exporting SMEs business practices was performed by revealing a set of factors that are important to consider when entering a new foreign market, which has not been discussed in depth in previous theoretical contributions. The number of formal institutions is generally low but has a crucial impact as they cannot be circumvented. These can be seen as barriers to entry regarding operations in the foreign market. Some are more specific to SoftWeb's industry, such as various data protection regulations, while others affect all types of businesses, such as tax law. Informal institutions that affect the company are more numerous, and can be seen as more software industry-specific as they are primarily connected to customers' preferences in terms of SoftWeb's offering and system functionality. In the case of SoftWeb, informal institutional aspects has had the largest impact on their business practices as they have led to a higher degree of adaptation. Prevailing informal institutions can be attributed to normative components, i.e. customer preferences, influenced mostly by traditions derived from national culture in the case of Iceland and organizational culture in the case of Australia.

### *Main Contribution Three*

Thirdly, findings regarding practice adaptations are in line with theoretical contributions regarding institutional distance (Gaur & Lu, 2007; Kostova, 1996), claiming that a higher need for adaptations are connected to countries with a larger institutional distance. In the case of SoftWeb, a higher degree of adaptation was necessary towards Australia compared to Iceland. This is explained by Iceland's membership in EEA, aligning its legal framework with EU member states. In combination with this, cultural exchange in human capital between Sweden and Iceland has also contributed to lowering the institutional distance through alignment of informal institutions.

### *Additional Contributions*

Apart from the main contributions presented above, the study further presents these additional findings:

The first finding contributes to existing theory by revealing an additional step of importance for Software-Exporting SMEs when engaging in international operations, i.e. checking customers feasibility. This step is not widely discussed in the previous research while it is



crucial in the internationalization process in this thesis, as only when the customer is marked as viable the software SMEs like SoftWeb proceed with further market analyses, such as evaluation of institutional factors.

Further, findings regarding network interactions both complement previous research and details the importance of networks, as well as how these are utilized in internationalization by exports. In fact, the study reveals two important network interaction stages. To begin with, there are network interactions connected to recommendations from existing customers, which become a significant first stage towards the acquiring of new customers, both nationally and internationally, and therefore to internationalization in general. Characteristic of SoftWeb AB is that internationalization to both markets occurred in an unplanned manner. Further, other types of network interactions, such as consultancy agencies and local actors in the foreign market, are utilized in the stage of market research in order to acquire knowledge regarding institutional aspects that may affect their operations. The importance of these interactions is to complement the software SMEs lack of resources to engage in this type of market analysis.

In conclusion, it can be argued that the Software-Exporting SME, i.e. SoftWeb, adapt its business practices to institutional influences through a process characterized by efficiency-seeking in their international operations. As this is derived from industry trends regarding agility and flexibility, the authors of this thesis argue that it can be applied to other exporting SMEs in the software industry. The main institutional factors affecting practices are of an informal normative nature. The business practice affected to the highest degree on both international markets is *Software Design Outline & Configuration*. The extent to which Software-Exporting SMEs must adapt their practices is positively related to the degree of institutional distance between the SME and export-receiving customer.

### *Managerial Implications*

Based on the theoretical contributions outlined above, describing how institutional influences affect the case company's business practices in international operations, certain managerial implications are derived. Given that the business practices constructed in this thesis are based on general business functions, managers of Software-Exporting SMEs can use these as an initial blueprint to identify possible institutional aspects that may affect their operations, and also as a guideline of how business practices could potentially be adapted to international customers.

In addition, according to the study, international customers are obtained through word-of-mouth, therefore managers of Software-Exporting SMEs are advised to take advantage of their existing customer network in order to gain access to new potential foreign customers. As it results from the study that customer preferences has the main influence on business practices managers could also utilize insights regarding the importance of specific customer preferences to directly assess the feasibility of serving international clients before engaging further resources in assessing other institutional aspects of a particular market. In this regard, as SMEs often lack access to resources, it could benefit managers to utilize network interactions in the form of consultancy organizations in order to more efficiently obtain information regarding institutional characteristics of international markets.

#### *Limitations and Future Outlook*

Although this thesis' contributions provide an overview regarding how Software-Exporting SMEs adapt their business practices to institutional environment of their foreign customers, it still presents certain delimitations, which have been mentioned previously in section 1.4. However, these delimitations also provide an opportunity to fill research gaps identified by the authors and therefore represent valid arguments for future research. To begin with, the first delimitation refers to the fact that research has been conducted in the form of a single case study. This means that the generalization of results may be limited and not applicable in another context, for instance a software company exporting different types of system solutions or operating in different foreign markets than those covered by SoftWeb AB. Thus, to confirm results obtained in the present thesis, but also to deepen the understanding of the topics presented, a multiple case study of Software-Exporting SMEs is suggested for future research.

To further test the findings of this study research should also be performed on exporting SMEs in other industries. The reason for this is twofold: to examine what unique adaptations applies to different industries, as well as evaluating what adaptations are general for exporting SMEs. Another delimitation to the study is the timeframe characterizing the research process, meaning that due to the time constraints only the most significant and salient aspects have been examined in the study, which is based on authors evaluation obtained during the time-limited contact with the company. A longitudinal study performed on an Exporting-Software SME could give more detailed insight into how institutions of

export-receiving customers influence the company's business practices.

In conclusion, besides the findings that this study has contributed to existing theory regarding institutional influence, it also opens the possibility for deeper studies of this subject. It is therefore the authors' hope that this study is the first in a line of research that can help Exporting-Software SMEs to improve their international operations by knowing the adaptational requirements of international markets.

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## *Appendix 1*

### **Attachment 1. Interview Guide.**

#### ***General questions to the interviewed***

1. When did you start working at SoftWeb?
2. What is your role in the firm?
3. What is your professional background/education?

#### **PART 1**

##### ***Introduction to the company***

1. Could briefly explain the purpose and business of the company?
2. Could you describe the organisational structure (roles/responsibilities) in SoftWeb AB?
3. Could you outline the ownership structure of SoftWeb AB?
4. Could you explain the history of the company up until now?
5. Could you describe your industry?
6. What is your customer segment?
7. Could you describe your main markets?
8. How would you describe your business model?

##### ***Operations in Sweden***

1. Could you describe the different business functions/practices in the company?
2. Could you describe your business process for the Swedish market?
  - a. Software development?
  - b. Sales?
  - c. Implementation?
3. Who is responsible for the different steps in business processes?
4. Are there more steps?
5. What laws, regulations and procedural rules [formal institutions] affect your business in Sweden?
6. How would you describe your customers' understanding of the functionality of your service offering [informal institutions, cognitive]?

7. Would you say that your customers' preferences are in line with the design and functionality of your service offering [informal institutions, normative]?
8. How have these aspects shaped your business functions/practices in Sweden?

## ***PART 2***

### ***International Operations***

- 1) In which international markets do you currently operate?
- 2) When have you started to operate in that markets?
- 3) How did you internationalize? (exports?)
- 4) Why have you chosen that form of internationalization?
- 5) Were any facilitators present in the internationalization process? (networks?)
- 6) What was their role?
- 7) How many customers do you have in each market?  
[Define different types of institutions]
- 8) According to you, what institutions impact the firm's business when operating abroad?
- 9) How did you become aware of those institutions?

### ***Specific Markets (Iceland, Australia)***

1. Does laws, regulations & procedural rules affect your business in country X [formal institutions]?
2. How does this affect certain business functions/practices?
3. Which practices are affected?
4. How would you describe your customers' understanding of the functionality of your service offering [informal institutions, cognitive]?
5. Would you say that your customers' preferences in country X is in line with the design and functionality of your service offering [informal institutions, normative]? If so, how? Explain.
6. Do these aspects affect certain business functions/practices? How?
7. Would you say that general country norms and culture affect your business in country X? Which and how?
8. What similarities/differences, with regards to this subject, do you see between your different national markets?
9. Which business practices have you adapted to country X?
10. How did you adapt this/these practices?

11. Why have you adapted this/these practice?

***Final question***

Is there anything you would like to add to the above discussion?

## Attachment 2. Institutional Impact and Adaptation in International Markets.

<i>Australia</i>		
<b>Formal Institutions</b>	<b>Informal Institutions</b>	<b>Adaptation</b>
<ul style="list-style-type: none"> <li>▷ <i>Data protection regulation</i></li> <li>▷ <i>User account restriction due to GDPR</i></li> <li>▷ <i>Public Procurement Law (PPL)</i></li> <li>▷ <i>Political regulations</i></li> <li>▷ <i>Currency volatility (transaction cost)</i></li> <li>▷ <i>VAT exemption</i></li> <li>▷ <i>Funding procedure for public organizations (indirect)</i></li> </ul>	<ul style="list-style-type: none"> <li>▷ <i>Demand for customer hosting (control)</i></li> <li>▷ <i>Configuration and source code access (control)</i></li> <li>▷ <i>Qualitative/quantitative evaluations</i></li> <li>▷ <i>Interconnectedness of customer departments</i></li> <li>▷ <i>Common with informative meetings</i></li> <li>▷ <i>Administrative burden</i></li> <li>▷ <i>Text translation (System and contracts) and adaptation</i></li> <li>▷ <i>Different date formatting</i></li> <li>▷ <i>User professional title format</i></li> <li>▷ <i>Use of international experts</i></li> <li>▷ <i>Communication differences due to culture</i></li> <li>▷ <i>Technical security</i></li> <li>▷ <i>Preference for extended support access</i></li> </ul>	<ul style="list-style-type: none"> <li>▷ <i>Development of new server architecture</i></li> <li>▷ <i>Increased support function due to GDPR</i></li> <li>▷ <i>Contractual changes due to PPL</i></li> <li>▷ <i>Increased monitoring due to currency and political risks</i></li> <li>▷ <i>Separate account for AUD</i></li> <li>▷ <i>Adapted invoicing process</i></li> <li>▷ <i>Rebranding to niche service</i></li> <li>▷ <i>In-house translation</i></li> <li>▷ <i>Implementing date format translation</i></li> <li>▷ <i>Development of a parallel system that could handle differences in degrees and fields of study</i></li> <li>▷ <i>Automated expert rating function</i></li> <li>▷ <i>Extension of support working hours</i></li> </ul>

<i>Iceland</i>		
<b>Formal Institutions</b>	<b>Informal Institutions</b>	<b>Adaptation</b>
<ul style="list-style-type: none"> <li>▷ <i>GDPR framework</i></li> <li>▷ <i>Public Procurement Law (PPL)</i></li> <li>▷ <i>Entity registration due to Tax Law (TL)</i></li> <li>▷ <i>Currency volatility</i></li> <li>▷ <i>Political directives</i></li> </ul>	<ul style="list-style-type: none"> <li>▷ <i>System translation in Icelandic</i></li> <li>▷ <i>Qualitative process and evaluation support</i></li> <li>▷ <i>Generational influences</i></li> <li>▷ <i>Earlier application deadline</i></li> <li>▷ <i>Less need for control</i></li> <li>▷ <i>Swedish-Icelandic cultural exchange, overall cooperative willing</i></li> <li>▷ <i>American cultural influences (person-specific)</i></li> </ul>	<ul style="list-style-type: none"> <li>▷ <i>Extension of support working hours</i></li> <li>▷ <i>Eventual contractual changes due to PPL</i></li> <li>▷ <i>Administrative entity registration when revenues exceed 2 million ISK due to TL</i></li> <li>▷ <i>Adapted invoicing practices</i></li> <li>▷ <i>Increased monitoring due to currency och political risks</i></li> <li>▷ <i>Separate account for EUR</i></li> <li>▷ <i>Development of translation module</i></li> <li>▷ <i>Qualitative evaluation process research</i></li> <li>▷ <i>System configuration and new development due to differences in evaluation process</i></li> <li>▷ <i>Manual control of applications deadline</i></li> <li>▷ <i>Approach adaptation to request fulfillment as a consequence of cultural influences</i></li> </ul>