



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

# The role of networks in a Swedish medium-sized pharmaceutical firm's internationalization process

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Thank you!

Gothenburg, 2019-05-29



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Lina Nygren



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Greta Lyckenblad

## Abstract

Today pharmaceuticals are the fifth largest export product in Sweden, whereas SMEs are the motor of innovation within the pharmaceutical industry. Pharmaceutical firms face several challenges, as high product development costs, high entry barriers due to institutional legal frameworks and slow return of investments, during their internationalization. However, internationalization is important for SMEs survival, whereas good relations to a network strengthen their network position and ability to internationalize. But how does a medium-sized pharmaceutical firm utilize their networks when they internationalize? The aim of the thesis was to gain an understanding how a Swedish medium-sized pharmaceutical firm utilize its networks when they enter foreign markets. To answer this, the business network internationalization process model by Johanson and Vahlne (2009) was used. How networks are utilized during the internationalization process is divided into two stages; *before* and *after* entering a foreign market. To fulfil the aim of the thesis, a single case study of a medium-sized pharmaceutical firm was conducted, with a qualitative method where eight people were interviewed to answer questions of how they utilize their networks during their internationalization process. In-depth semi-structured and face-to-face interviews contributed to a deeper understanding of the case company's foreign market entry in all units of the business, thus an overall nuanced picture of the expansion decisions. The conclusion was that the case company utilize their networks differently through different phases, hence the use is largest *before* foreign market entry. In this stage, they use their network to gain knowledge about the foreign market and to find potential partners. In the *after* stage they utilize their network (i.e. business partners) to manage their local activities and to utilize their partner's or middlemen's network relations to strengthen their own position within the market and within the network.

**Keywords:** *Internationalization, networks, utilizing networks, pharmaceutical firm, medium-sized company, SME*

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## Key Concepts

**3PL (third party logistics):** A third party logistics is a supplier that perform outsourced services for a firm. It could include services such as warehousing, transportation and distribution (Walker, 2011).

**Business Networks:** “*Complex webs of interdependent exchange relationships among firms and organizations*” (Huang, Lai & Lo 2011, p. 4). According to Johanson and Vahlne (2009) should the foreign market be considered as a business network.

**High tech industry:** According to the definition of different industry groupings in the European Commission annual report on SMEs 2017/2018 are manufacturing of basic pharmaceutical products and pharmaceutical preparations, manufacturing of computer, electronic and optical products defined as high tech industries.

**Internationalization:** “*The process of developing networks of business relationships through (1) establishing networks in the international market (i.e. international expansion); (2) increasing resource commitments in those networks (i.e. market penetration); and (3) increasing coordination between their positions in different national networks (i.e., international integration)*” (Johanson & Vahlne, 1990, p. 20).

**Life-science sector:** Broadly comprises biotechnology, medical technology and pharmaceuticals (Laurell, 2015).

**Networks:** “*The relationship between a firm’s management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities*” (e.g. Johanson & Vahlne, 2009; Zain & Ng, 2006, p. 184).

**Pharmaceutical firm:** A firm that create medical drug products. This include discovering, developing and producing pharmaceuticals, but also marketing and sale of the products (NE, 2019).

**SMEs:** Stands for small and medium-sized enterprises. The European Commission's (2003) definition of an SME is having fewer than 250 employees. Followed by a turnover lower than 50 million EURO or a total balance sheet lower than 43 million EURO.

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

Table 1: *Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC)*. EU recommendation 2003/361.

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# 1. Introduction

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*The introductory chapter begins with an introduction to the pharmaceutical industry and SMEs. Followed by the problem discussion from whereas the research question is developed. Furthermore, the purpose, delimitations and the disposition of the study is presented.*

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## 1.1 Background

According to Dicken (2015), global high-tech industries (i.e. pharmaceutical products and pharmaceutical preparations, manufacturing of computer, electronic and optical products) face several challenges such as global competition, short product life-cycles and rapidly changed customer demands. Research shows that high-tech firms often face different trade barriers when they internationalize. E.g. software industries tend to have low entry barriers (Bell, 1995; Cannone & Ughetto, 2013) with only a few national legal and technical barriers to cope with (Bell, 1997, p. 600). For pharmaceutical firms on the other hand, this is not the case. During an internationalization process, pharmaceutical firms face challenges such as high product development costs, high entry barriers due to institutional legal frameworks and slow return of investments (Laurell, 2015).

According to Deloitte (2019), the industry for life-sciences is expected to reach \$10 trillion by 2022, and with an ever-increasing lifetime expectancy along with continuous technological advancements, the chances of seeing the market expand looks good. Thus, there is a worldwide expanding opportunity for smaller firms to reap the benefits of this market, but with an increased incentive to internationalize, there are accompanying challenges as well. Emerging challenges show a growing digital focus, trade wars and diminishing R&D returns, with returns at their lowest level in nine years for twelve of the largest cap biopharma companies (Deloitte, 2019). According to Deloitte (2019), this is caused by a driving R&D from small niche companies within the life-science field that discovers most new medicine, and consequently, life-science industry is no longer ruled only by the big players.

Looking at this process from a Swedish viewpoint starting in 1990's, Swedish companies were drawn into the process of global restructuring along with the rest of the world. For the fragmented pharmaceutical market, this meant a concern for high research costs, dependence on a few patents and cost pressures in the chemical industry. As a result, there were several



acquisitions and mergers being made such as; the merger of Ciba-Geigy and Sandoz in 1996, which formed the world's largest pharmaceutical company, Novartis. During 1998–99, Astra and Zeneca merged to form the world's second largest pharmaceutical company. As a counterweight to this, there has been a development of many new research-intensive pharmaceutical companies, which all became of great importance (NE, 2019). Representing approximately 99% of all businesses within the EU, SMEs are the motor of innovation for the pharmaceutical industry and play a major role in the development of new medicine (EMA, 2016; European Commission 2019). SMEs normally work on a genetic engineering basis and in close cooperation with the larger companies in terms of marketing. For large companies, the cooperation means that the fixed costs for research departments can be lowered (NE, 2019). SMEs within EU has through internationalization contributed to economic growth. Furthermore, European SMEs exports of goods have increased by 20% since 2012 (European Commission, 2018), where pharmaceuticals are the fifth largest export product in Sweden (LIF, 2017; SCB 2019). Looking at these numbers, we argue that there is a trend of internationalization for SMEs within the pharmaceutical industry (European Commission, 2018; NE, 2019; Andersson, Johansson, Karlsson & Lööf, 2008).

Overall, there seems to be an established business network and close relationships between large companies and SMEs, where they all contribute with different competences and innovation to reap the financial opportunities in the pharmaceutical market and to be competitive. Whereas larger companies can help SMEs with more complementary assets for internationalization and networking (Tripsas, 1997), SMEs in return contribute with more possibilities for innovation within the industry due to less slow processes, bureaucracy and top-down procedures (Crossan & Berdrow, 2003). We have chosen to conduct a case study on a medium-sized Swedish pharmaceutical company and see how it acts in their process of internationalization, and how they manage their relationships to their networks (i.e. other firms, suppliers, partners and customers etc.).

## **1.2 Problem discussion**

Research shows that internationalization is an integral part in the expansion and survival of SMEs. Previous research by Johanson and Vahlne (1977) claims that internationalization is a step by step process emerging over time to countries with low psychic distance. Other researchers criticize this theory, and rather emphasize networks as the primary determinant for internationalization (e.g. Emerson, 1981; Welch & Welch 1996; Johanson & Mattsson 1988;

Andersen 1993; Chetty & Blankenburg-Holm, 2000). Coviello and Munro (1995, 1997) concluded, through an empirical study of software firms, that the selection of foreign markets is impacted by the access to network relationships. Before that, Johanson and Mattsson (1988) claimed to have the answer for internationalization through their “Network Approach Model”, which explained how the market, customers and suppliers all interact in a network, which could be utilized during internationalization. As a response to their previous model, Johanson and Vahlne (2009) developed their model to rather emphasize membership to relevant networks instead of psychic distance. They now explain a firm's possibilities to internationalize as dependent on their liability of outsidership to networks, rather than a liability of being foreign in another country. The ability to internationalize is no longer bounded by culture differences and similar market conditions, but rather by the firm's ability to establish a position in a relevant network.

Several researchers show the importance of networks for SMEs' internationalization (e.g. Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000; Farooqi & Miog, 2012). However, how an SME utilize their network relations during the first to the last stage of their internationalization process is not to be found in previous studies. Hence, it is stated that SMEs establishment of relationships strengthen their network position which moreover leads to their ability to internationalize (Johanson & Vahlne, 2003, 2009). Further on, they need to use their network relations and network position to gain international growth (e.g. Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000; Farooqi & Miog, 2012; Fernandez & Islam Masum, 2008). It is not only relevant to study the importance of networks and which networks are important for SMEs, but also how they utilize their network during the whole internationalization process, from gathering information about a market to manage business activities in a foreign market.

What the previous studies not yet have focused on is how pharmaceutical SMEs acts within their industry regarding internationalization. While there have been studies on larger pharmaceutical companies, for example AstraZeneca (e.g. Harzing, Zhao, Tan, & Papanastassiou, 2018; Andersson et. al. 2008), these larger companies operate in different ways with other possibilities and assets to complement their internationalization process than SMEs do (Crossan & Berdow, 2003; Tripsas, 1997). Furthermore, the studies conducted for SMEs and how they operate to internationalize have been conducted outside the pharmaceutical sphere (e.g. Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000; Farooqi & Miog,

2012; Fernandez & Islam M., 2008) and rather more directed towards high-tech industries like software development (e.g. Coviello & Munro, 1997; Bell, 1997). Andersson et. al. (2008) claims that pharmaceutical companies in Sweden must create networks to access knowledge from universities, pharmaceutical firms as well as biotechnology firms, but bases their assumptions on how to do this from studies of larger pharmaceutical companies.

Thus, there is a scientific gap that can be filled, as to understand how an SME within the pharmaceutical industry with less financial resources than a larger company operate to internationalize. Moreover, how they utilize their networks during their internationalization process. To shed light on this informational gap, we are going to conduct a single case study of a medium-sized Swedish pharmaceutical company by using the theoretical framework of Johanson and Vahlne (2009), business network internationalization process model. The purpose is to analyze how the medium-sized pharmaceutical case company operates within their networks, and how they utilize their networks during foreign market entry. Thus, this thesis can to some extent contribute to an overall understanding of how other pharmaceutical SMEs might use their business networks when they internationalize.

### **1.3 Research question**

This research paper aims to answer the following research question:

*How are networks utilized by a Swedish medium-sized pharmaceutical firm in their internationalization process?*

### **1.4 Purpose of the study**

The aim of the thesis is to gain an in depth understanding of how a medium-sized pharmaceutical firm utilize their networks when they enter foreign markets, and in extend present an understanding of how other small and medium-sized pharmaceutical firms might use their business networks during their internationalization. This research wants to investigate how networks are utilized during the whole process of internationalization and not only the entry-mode, therefore provide an analysis on two stages, *before* and *after* entry in a foreign market. The investigation additionally aims to analyze an in depth interpretation of improvements, challenges and negative aspects that network utilization is associated with. Thus, the purpose is to fill the scientific gap to the dynamics of network utilization, both the advantages and identified drawbacks.

## **1.5 Delimitations**

Since this study is limited in both time and scope, the given choice was to carry out an in-depth case study of a specific company. Which exact company to have as a case object is not specific, apart from the fact that it is a pharmaceutical SME that conduct international trade by exporting their products. In this case, the writers have insight in these facts. The choice of case object could have been any small or medium-sized pharmaceutical company performing international trade, where the choice of this company is about access and time limit of the study. Therefore, this study will not provide a significant generalizability for all other firms. However, some pharmaceutical SMEs might utilize their networks in a similar way as the case company. Therefore, this thesis rather seeks to create an understanding of how the theoretical phenomena, how a medium-sized pharmaceutical company utilize networks in their internationalization process, shown in practice.

## **1.6 Disposition of thesis**

The structure of this thesis is divided into the following chapters: theory, methodology, empirical data, analysis and final discussion/conclusion. The theory chapter presents a relevant theory for the research, regarding networks role during internationalization. In the third chapter, methodological choices for the completed qualitative case study is featured. Followed by gathered empirical data in the fourth chapter. The fifth chapter, analysis, interprets empirical data with the selected theory framework. Finally, the results are summarized and linked to the study's purpose and problematizing to answer the research question in the final chapter.

## 2. Theoretical framework

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*In this chapter, we are describing our theoretical frame. First, studies on SMEs internationalization are presented, to understand characteristics of these firms. Moving forward to Johanson and Vahlne's business network model on firms' internationalization process, which we will use while analyzing and answering our research question.*

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### 2.1 Previous empirical studies of SMEs internationalization

Alserud and Tykesson (2011) argue that the opportunities and threats from globalization are not only viable to large companies but also to SMEs. Due to globalization, SMEs easier move to new and larger markets and take advantage of the technological progress. Other researchers (e.g. Crick & Jones, 2000) state that SMEs internationalization process differ from larger firms. They also found that SMEs often want to internationalize quickly. Beamish and Lu (2001) explain that SMEs have a limited amount of financial resources, whereas they found that having partners with local knowledge can be effective for SMEs to overcome the deficiencies in resources and capabilities that they face when expanding into foreign markets. Further on, the importance of network relationships for SMEs international growth is well documented in past literature (e.g. Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000; Farooqi & Miog, 2012; Fernandez & Islam Masum, 2008). Whereby internationalization is the outcome of SMEs' actions to strengthen their network position by establishing relationships (Johanson & Vahlne, 2003, 2009). For a firm to strengthen its position in new markets it is necessary to have well established network relationships from which they can gain knowledge and information (Johanson & Vahlne, 2009). SMEs as any other firm extend their networks influenced by their business relationship by developing their old positions, increasing the coordination between positions in different networks, or establishing new positions (e.g. Johanson & Mattsson, 1988; Chetty & Blankenburg-Holm, 2000; Agndal & Chetty, 2007).

Other studies on SMEs' internationalization argue the importance of the manager in the internationalization process (Chetty & Blankenburg-Holm, 2000). They mean that managers of SMEs might not obtain knowledge to see the internationalization opportunities, it is rather their network that finds and expose them to opportunities (Chetty & Blankenburg-Holm, 2000). Previous research further states the importance of local knowledge and local relationships for SMEs when wanting to develop their positions in the local market (Hilmersson & Jansson, 2011). To do so, researchers show that SMEs form new relationships in new business networks.

To gain knowledge about the local market and local actors, SMEs use intermediaries in their internationalization process (Chetty & Blankenburg-Holm, 2000). This is seen a valuable resource, as it provides SMEs with information and an understanding about local preferences and thereby help them to solve local problems (Hilmersson & Jansson, 2011). Furthermore, Chetty and Blankenburg-Holm (2000) and Sharma and Johanson (1987) claim that firms can enter new markets by using their current business networks to form a bridge. It is shown in latter research that firms use their relationship with their customers to enter international markets (Chetty & Blankenburg-Holm, 2000).

## **2.2 Overview of internationalization**

### **2.2.1 Development of the internationalization process of the firm**

The first Uppsala internationalization process model that emerged in 1977 claims that firms starts their expansion in a psychologically close market by starting of using low-commitment modes and gradually extend their commitment to the market as they gain experience and knowledge about it (Johanson & Vahlne, 1977). Since 1977, several studies have shown the importance of networks for firms when they internationalize (e.g. Coviello & Munro, 1995, 1997; Martin, Swaminathan & Mitchell, 1998; Welch & Welch, 1996; Chen & Chen, 1998; Ellis, 2000; Chetty & Blankenburg-Holm, 2000; Elango & Pattnaik, 2007; Loane & Bell, 2006). Criticism to the model is that firm behavior has changed during the years, for example, Hedlund and Kverneland (1985) claims that firms do not internationalize accordingly to the establishment chain, rather leapfrog over some stages. Followed by Oviatt and McDougall (1994) who mean that firms internationalize soon after their birth. This implies weakened correlation between the establishment chain and how a firm internationalize. Other researchers, such as Johanson and Mattson (1988) claim in their network theory the importance of having business networks outside the firm's own network. The theory implies that relationships are to be an asset, and therefore firm's networks are important to take into consideration. They mean that firms compete on a network level rather than on an individual level, whereas foreign or domestic suppliers and customers and their business relations are included (Johanson & Mattsson, 1988). With this development in mind, Johanson and Vahlne have discussed business networks role in internationalization for firms throughout the years (1990, 2003, 2006), and developed a new model of firms' internationalization where the network approach is integrated (Johanson & Vahlne, 2009).

### **2.2.2 The business network internationalization process model**

While both the economic and regulatory environment in the world have changed, so has firm behavior. Today, the business network view is essential to understand how internationalizing firms act and what environment they face (e.g. Johanson & Vahlne, 2003, 2006, 2009; Johanson & Mattsson, 1988; Axelsson & Johanson, 1992; Björkman & Forsgren, 2000; Blankenburg, 1995). However, Johanson and Vahlne (2009) still claim that firms cope with uncertainty by learning and strengthening or creating relationships to exploit opportunities.

Johanson and Vahlne (2009) suggest that the firm is included in a business network where they are engaged in several interdependent relationships. The previous assumption was that firms internationalize to improve or protect their position in the market. Now however, firms' internationalization is to be seen an act of strengthening their network position. Which market to enter and which mode to use depends on what opportunities the business relationship can exploit and identify (Johanson & Vahlne, 2003). Being interconnected to a business network is of great importance, since it is within a network the firm can identify and exploit opportunities, build trust, learn as well as develop commitment. A firm that does not enjoy an established network position suffers from a *liability of outsidership*. It is first when you are a network "insider" that knowledge and learning can be created, which is essential to establish and be competitive in a new market. In this way, firms can exchange knowledge, practices and resources among each other (Johanson & Vahlne, 2009). Furthermore, to identify and exploit opportunities; learning and commitment are important (Johanson & Vahlne, 2006). Hence, a firm can build more knowledge by having a strong commitment to their networks. The networks make it possible for a firm to detect and/or create opportunities. Moreover, internationalization is about developing opportunities through network relationships rather than overcoming uncertainties (Johanson & Vahlne, 2009) (i.e. institutional conditions in the foreign market) (Eriksson, Johanson, Majkgård & Sharma, 1997).

As seen in Figure 1 the business network model of internationalization process consists of four stages, which explain how learning and opportunities correlate, and is affected by the current environment of the firm (Johanson & Vahlne, 2009). Opportunities is the most important component of knowledge. Other elements important to gain knowledge are networks, needs, capabilities and strategies. The closer network relationship, the more knowledge firms have about each other. Further on, the internationalization of a firm takes place within a network, where the relationships are characterized by trust, commitment and knowledge. The level and

distribution of these elements between the parties in a network will determine how successful a firm’s internationalization will be (Johanson & Vahlne, 2009). According to Johanson and Vahlne (2009), knowledge and learning are two very important factors, but also trust and commitment building. Trust is created through relationships, and can in many cases be used as a substitute for a firm’s knowledge. An example of this is to trust an agent or a business partner to take care of a business unit where the firm lacks knowledge.

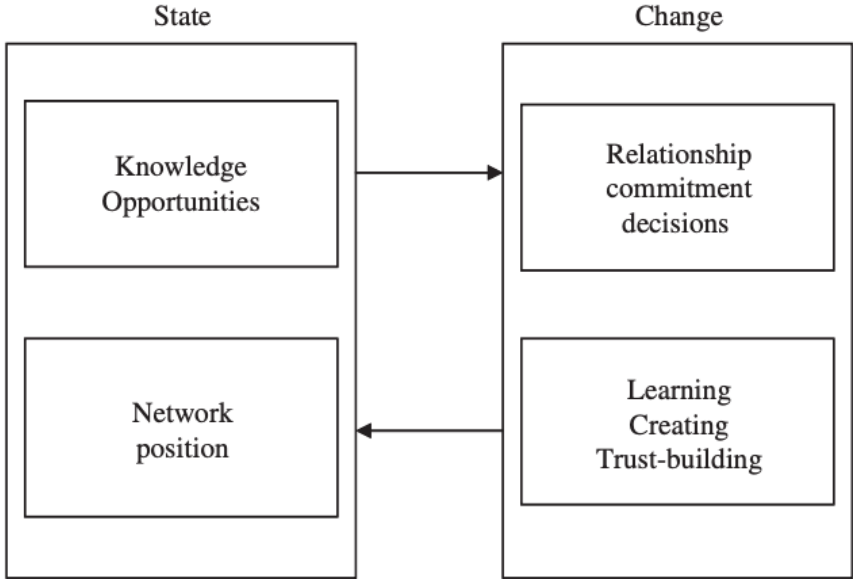


Figure 1: *The business network internationalization process model (the 2009 version)*. Johanson and Vahlne, 2009.

Moreover, Johanson and Vahlne (2009) emphasize experiential learning as crucial for further opportunity creation within relationships, and label it as a knowledge-producing dimension for opportunity generation. They explain how trust and knowledge all have an impact on creating an efficient and creative process, where knowledge and trust can complement each other if there is a shortage of one of them in any certain situation. They are exemplifying this with outsourcing business and control to highly trusted middlemen, due to a lack of market knowledge in that region. Having knowledge and trust is of great importance, as it can reduce uncertainties for further relationship commitments (Johanson & Vahlne, 2009, 1977; Penrose, 1959), which eventually could lead to an enhanced opportunity recognition for further company expansion (Hohenthal, Johanson & Johanson, 2003; Johanson & Vahlne, 2009). Furthermore, they add a third dimension; relation-specific knowledge, as essential as market knowledge and



production knowledge. The firm will, within the network, become more alert in identifying opportunities to further develop their business operations.

In addition to this, the processes and relationships are also influenced by the firm's commitment to a specific network, where the level of commitment depend on their investments in the relationship. Decisions to increase or decrease the level of commitment to any relationship will thus either strengthen or weaken it. Johanson and Vahlne (2009) explain how there are two main reasons for managing commitment, where the first one is to protect and defend a company's current network position, where commitment to a relationship rather becomes a strategy for strategic relationships. The second reason is to expand the current network to gain new networks, thus forming and creating higher levels of commitment to new relationships and networks that may be of strategic importance to fill structural holes in the current network. Looking at it from an internationalization point of view, commitment becomes vital as the different networks will give insights and knowledge for further company development and growth.

Another point of view is that theoretical models do not show an exact reflection of the reality, whereas, according to Johanson and Vahlne (2009) their model should be considered as an explanation tool to components of reality. Hence, their model is general and do not explain different occasions and situations in detail. Furthermore, studies on organizations' learning processes (cf. Argote, 1999; Nelson & Winter, 1982; Cohen & Levinthal 1990) argue that firms not only learn and gain knowledge through their networks. Accumulative and experiential learning is vital as a base of knowledge that later definitely will be complemented with other additional variables (Johanson & Vahlne 2009).

#### **2.2.2.1 Analysis model**

The Uppsala model emphasizes the state and changes variables and their importance during the internationalization process. Hence the research of this study aims to answer how a medium-sized pharmaceutical firm utilizes their networks during the internationalization process. It is seen that some state and change variables are important during different phases of the internationalization process. They still affect each other in each phase, but some variables are more protrusive in some phases than others. To exemplify and easier answer the research question, a model is conducted where the internationalization process is divided into two stages, *before* and *after* foreign market entry. The stages are defined as the following:

*Before foreign market entry* - through the domestic and foreign network, The Company gathers information about the market and decides which market to enter and how to enter that market.

*After foreign market entry* - when the market and entry mode is decided and product launched, The Company allows their networks to manage their foreign business activities. They decide to; increase or decrease their commitment to their business network and therefore also to strengthen or weaken their network position.

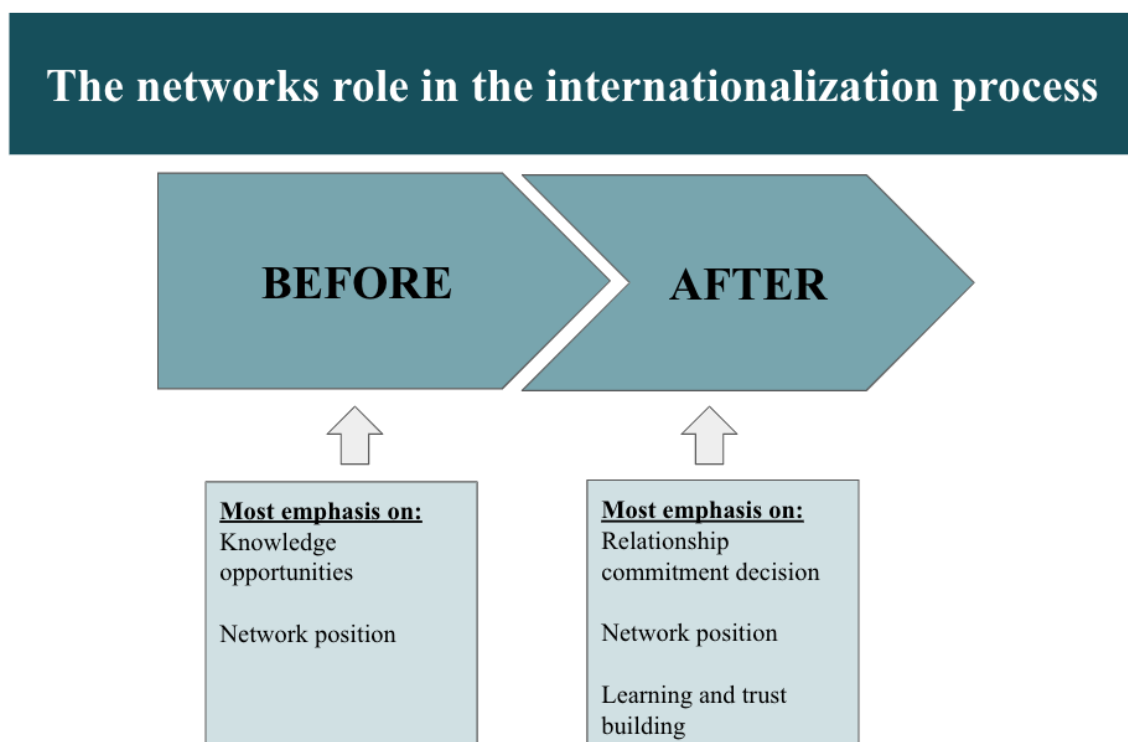


Figure 2: Analysis model constructed by the authors.

The explanation of the revisited Uppsala model's (Johanson & Vahlne, 2009) state and change variables' placement in the authors' own constructed analysis model goes as follows:

Before internationalization, a network helps a firm to find opportunities in foreign markets, due to their knowledge. The firm's decision making regarding which market to enter and which mode to use depends on what opportunities the business relationship can exploit and identify. Further on, the firm's position within a network is important, hence it is when you are a part of

a network you find opportunities. After internationalization on the other hand, the amount of resources and engagement spent on the network, due to opportunity exploiting, will either lower or weaken the firm's commitment to the network. The firm can (1) manage their commitment by protecting and defending their current network position, whereas their commitment to the relationship evolves a special reason for why they want to be a part of that specific relationship. Moreover, the firm can (2) expand their current network into forming new networks. This enables higher levels of commitment to networks and relationships that may be important to fill structural holes in their current network. Nevertheless, commitment to a network is vital hence it allows knowledge for future opportunities.

Furthermore, when a firm has decided which foreign market to enter, they can enter that market by using a trusted middleman who possess local knowledge about the market. These trust and knowledge variables are two vital parts of creating an efficient and creative internationalization process. Moreover, these factors can reduce uncertainties within the firm's relationships and create future commitments to their networks and result in a greater network position followed by enhanced opportunities.

## 3. Methodology

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*The following chapter will describe the research methods used to answer the research question. The methodological choices are important to create a scarlet thread between the research question, choice of method, theoretical framework and the result. A qualitative study has been conducted, where a deductive approach has been applied. The collection of empirical data has primarily been made by in-depth semi-structured interviews.*

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### 3.1 Research approach

#### 3.1.1 Deductive approach

There are three main scientific ways to approach and conduct research: deductive, inductive and abductive studies (e.g. Dubois & Gadde, 2002; Haig, 2005; Järvensivu & Törnroos, 2010). Bryman and Bell (2017) highlights inductive as well as deductive theory as the two most common approaches to linking theory and reality in a study. Induction is interpretive theory building, which implies that the researcher starts with collecting empirical data, without deciding the theory framework (Gioia & Pitre, 1990). While the abductive approach is an intermediate step from deduction and induction, and is described as when “theoretical framework, empirical fieldwork and case analysis evolve simultaneously” (Dubois & Gadde, 2002, p. 554). Deduction on the other hand is to set a theory-based hypothesis (i.e. based on existing theories and models) against reality to see how well they match. The purpose of deduction is to find a conclusion whether a theory agrees with reality or, on the contrary, can be rejected (Bryman & Bell, 2017).

In this study, a deductive research approach is used since this study aims to find out how a pharmaceutical SME utilize its networks when they internationalize. The theory of business network internationalization process and the theories about how SMEs internationalize have led to a hypothesis of whether this applies to the case company’s utilization of network or not. The hypothesis has been compared with the answers from the interviews with the case company, how they use their networks, to determine whether to confirm or reject the hypothesis. Furthermore, this will dispose if their utilization of networks is in line with the theory or not.

### **3.1.2 Qualitative study**

The chosen method is a qualitative single case study, where the empirical material was collected by eight in depth interviews, The Company's website and their annual reports. Important in a qualitative study is the relevance of the study's purpose and how it contributes with useful empirical material, which in this study refers to empirical data regarding a medium-sized pharmaceutical company's internationalization. The researchers are aware that the choice of in depth, semi-structured interviews and a qualitative examination means that the interview to some extent can move towards a different direction depending on what type of answers the respondent give. Hence, the answers will to some extent control the interview (Bryman & Bell, 2017), whereby it is important that the interview guide follows a pre-set structure, so that the information provided by the interviews are appropriate, comparable and analyzable (Lind, 2014). To correctly reproduce and analyze the answers received during the interviews, they were recorded and transcribed. Recording and transcribing are important to avoid misinterpretation and misrepresentation of what was said during the interviews and to ensure that the empirical material is not based on incorrect information (Bryman & Bell 2017). The choice of a qualitative study is based in Lind's (2014) description of an interview as a conversation with a purpose, where the purpose is to understand how a Swedish medium-sized pharmaceutical firm utilize their business networks when they internationalize.

### **3.2 Research process**

The research process for this thesis has been divided into four stages. The different stages have not been written in chronological order, instead several parts have been written and refined simultaneously as new insights were received. The first stage consists of reviewing the literature for the theoretical framework to gain a clearer and deeper understanding of the phenomena of SMEs internationalization and business networks approach on the internationalization process. Organizational information about the case company and facts of their previous internationalization were collected from their website and annual reports. Based on the theory framework and the analysis model, the interview guide was formed and an email with overall information about the interview and the main topics was sent to the interview respondents.

The second stage was to collect empirical data by having one-to-one interviews. Based on new insights gained during the interviews, the theory chapter was expanded with more previous studies and more parts of Johanson and Vahlne's business network internationalization process model (2009) to conduct a deeper analysis. This goes in line with the exploratory method

(Saunders, Lewis, & Thornhill, 2009) used in this thesis; the theoretical framework was extended as the empirical data was gathered. The interviews were transcribed after they were performed and compiled in the chapter of empirical data.

to answer our question. In the third stage the empirical data was analyzed by using the theoretical framework and the researcher's own constructed analysis model (2.2.2.1 Analysis model). First, the theoretical framework was read and thereafter connected to the empirical findings. During the analysis, several previous studies were added to the theoretical framework due to interesting empirical findings that lacked theoretical viewpoints. Further on, some empirical data was deleted hence it was not analyzed to answer our question.

In the fourth and last stage, a conclusion based on the analysis of the theory and the empirical findings was conducted. The conclusion further developed into a discussion regarding implications for theory development and the study's limitations, contributions and suggestions for further research.

### **3.3 Research design**

According to Bryman and Bell (2017) a case study is a way to investigate a specific case more in detail. The authors argue that one can examine the complexity found in a company through a case study-based research. Furthermore, Yin (2003) claims that a single case study is the best choice when wanting to study one thing or a single group. Studying only one company enables a deeper understanding for the chosen research area since it gives possibilities to investigate related units within one corporation. Furthermore, the findings between departments can be investigated and moreover make a cross-case analysis. In a single case study approach the integration of how and why questions in the research are entitled (Yin, 2003). Hence, the reason for a single case study is to enable an in-depth analysis of how networks help the internationalization process for a Swedish medium-sized pharmaceutical firm.

To perform a case study as a research method is suitable when the study is of explanatory or descriptive approach. By this means, having a research question that aims to answer *why*, *what* or *how* something is in a specific way. Hence, the research question of this study is formulated as “*How are networks utilized by a Swedish medium-sized pharmaceutical firm in their internationalization process?*”, a case study is advisable due to the question's explanatory nature (Saunders et al., 2009; Yin, 2003)

### **3.3.1 Case selection**

The case object of this research is chosen partly due to access, but also because one of the researchers has a good insight in the company and its activities. Thus, we have received indications of their internationalization; what the company believes is important or possible obstacles in the case of an expansion abroad. With these indications as a basis, the case study is made on this company. The study object is a privately owned medium sized company, in this thesis referred as The Company. The firm was founded in 1999 and is established in a cluster for life-science firms in the southern part of Sweden. The Company conducts two types of business. The first is service based where they act as consultants to other pharmaceutical firms to, for example, assist in developing pharmaceuticals. The second business is manufacturing and selling their own pharmaceuticals, which is the business this thesis is focused on. Today, The Company has more than 60 employees and the turnover was 112 million SEK in 2018, and is therefore classified as a medium-sized enterprise according to the definition of the European Commission (EU recommendation 2003/361).

The Company has three business units; CRO (Contract Research Organization), Pharma (development of self-owned products) and CMO (Contract Manufacturing Operations). The total expertise is considered a good balance between academic knowledge and industrial experience. The Company have two subsidiaries; both subsidiaries in Europe. Today, their largest self-developed product is approved in 11 countries including Sweden; Denmark, Norway, Finland, Germany, Netherlands, Czech Republic, Italy, Poland, Austria and Switzerland. The product is sold through export, subsidiaries or license partners depending on the markets.

### **3.3.2 Anonymity**

The company and the employees who participate in the study have chosen to be anonymous. Anonymizing the company provides opportunities for the study, as it gives a greater freedom for the interviewees to speak freely and more thoroughly about topics that otherwise could have influenced them negatively. Making the study anonymous applies what Bryman and Bell (2017) highlights as the anonymity requirement, that is, information that can identify individuals or the company itself cannot be used. Based on the empirical material, it should not be possible to discern any connection to a company or the individuals, as Bryman and Bell (2017) describes as complicated but not non-feasible. It is also important to ensure the requirement that Bryman and Bell (2017) emphasizes as essential in a study; that the participants should not be able to

suffer any kind of injury. It includes sensitive information, personal opinions about the company they work at or their career and relationship with the company and its management.

To not use information that can be used to discern who the interview respondents are or which company is being analyzed, each respondent is designated as 'Interviewee #no' and the case object is referred to as 'The Company'. Furthermore, all information that can be interpreted as company-specific has been removed and anonymized to not reveal the identity of the company, and indirectly discern the interviewees. In the beginning of each interview we made the respondents aware of this to not get censored answers. A challenge during the processing of empirics and transcripts has been to ascertain what is considered company-specific information, that it can discern the company or whom the interviewees are. Further challenges during the study regarding anonymity have been to fairly reproduce the image given by the interviewees, without breaking the anonymity regarding the empirical section as well as analysis and conclusion.

### **3.4 Data Collection**

#### **3.4.1 Primary data**

To collect empirical data, interviews have been conducted. An interview is classified according to Patel and Davidson (2011) as a primary source, where information is taken directly from the intended source. A primary source has not been treated by any other person and is thus unfiltered. To be able to access this information and to analyze the answers obtained in the most neutral way possible, eight interviews were conducted. Furthermore, interviews are considered important as the interviewees are given the opportunity to provide more nuanced, broader and in-depth answers, which in turn can contribute to a better understanding of the phenomenon to be studied (Bryman & Bell, 2017). To correctly reproduce and analyze the information received during the interview, they were recorded, and then transcribed (Bryman & Bell, 2017).

#### **3.4.2 Secondary data**

This thesis includes secondary data gathered from electronic and printed sources to elaborate the content of the study. Hence, utilizing secondary data enables a less time consuming work for the researchers (Sreejesh, Mohapatra & Anusree, 2014). Therefore, organizational information about the case object was found by reading The Company's organizational documents, as their annual report from 2018, alongside with their website. Another secondary source is a report provided by The Company containing their key facts from April 2019. The



report included organization chart, financial key numbers, outlook of the pharmaceutical process and their departments. It further contained information about The Company's products; such as market share, forecasts and in which international markets they are present.

## **3.5 Interviews**

### **3.5.1 Sampling of interview respondents**

The selection affects which analysis methods can be used, which conclusions can be drawn and whether the result can be generalized (Field, 2009; Bryman, 2015). In this study, a strategic selection has been made. According to Bryman (2015), a strategic and appropriate selection is preferred during qualitative studies. In this study, it is essential that interviewers have information about the company's internationalization process to provide as accurate information as possible. According to Bryman (2015) the selection of respondents will give different outcomes since they are expected to provide adequate information about what is being investigated. Hence, it has not been of interest to interview anyone else but only members of the management who have some form of responsibility within the field of study. Furthermore, it was essential that all respondents had international experience to be able to answer the questions asked during the interview. This resulted in interview respondents with the following titles: Chief Executive Officer, Chief Scientific Officer, Chief Financial Officer, Vice President R&D, Vice President Operations, Business Unit Director, Director Business Development and Director Regulatory Affairs. The titles are not presented in *Table 2* below due to the anonymity request from The Company.

In total eight interviews were conducted in Swedish with The Company's top management team. Seven interviews were conducted in the office of The Company, where a room was assigned to us to perform interviews in total privacy. With four interviews per day, the schedule was enrolling with a 15 minutes' break between the interviews for preparation, and a lunch break in the middle. In addition, two interviews were conducted over phone since the interview respondents were not in the office during the days of the interviews. One interview was held one week later hence the respondent was not available during the days of the other interviews. Nevertheless, all interview respondents were asked the same questions and all interviews have been recorded and transcribed. All interviews were held and transcribed in Swedish, hence the empirical findings and quotations in this thesis were translated to English by the authors.

| <b>Interviewee #no.</b> | <b>Previous international experience (years)</b> | <b>International experience at The Company (years)</b> | <b>Interview Method</b> | <b>Duration (minutes)</b> | <b>Date</b> |
|-------------------------|--|--|-------------------------|---------------------------|-------------|
| Interviewee #1          | 15   | 15   | Face-to-face            | 40                        | 2 May 2019  |
| Interviewee #2          | 15   | 15   | Telephone               | 40                        | 3 May 2019  |
| Interviewee #3          | 25   | 2  | Face-to-face            | 30                        | 2 May 2019  |
| Interviewee #4          | 20   | 1  | Face-to-face            | 30                        | 3 May 2019  |
| Interviewee #5          | 20   | 2,5  | Face-to-face            | 60                        | 2 May 2019  |
| Interviewee #6          | 17   | 7,5  | Face-to-face            | 50                        | 2 May 2019  |
| Interviewee #7          | 15   | 15   | Face-to-face            | 30                        | 3 May 2019  |
| Interviewee #8          | 3  | 3  | Telephone               | 30                        | 10 May 2019 |

*Table 2. Summary of overall facts from completed interviews. Own compilation.*

### **3.5.2 Semi Structured in-depth interviews**

In the present thesis, individual semi-structured in-depth interviews have been conducted. Choosing in-depth cases are as appropriate for investigating new aspects of a phenomenon as for being able to tell ‘good stories’ (Dyer & Wilkins, 1991; Yin, 2003). A semi-structured interview is explained by Bryman and Bell (2017) as an interview without strictly written questions. The interview form is rather of a character with overall themes in which the interviewee can talk more freely about these themes, and thus possibly share more in-depth knowledge and reflections. The choice to use semi-structured interviews instead of fully structured interviews is as Bryman and Bell (2017) describe favorable since it gives the opportunity to see things from the respondent's position and not from the researcher's interests. The advantage of a semi-structured interview, according to the authors, is that it enables full and detailed answers, where the respondent can move over to other areas that are not possible during a structured interview. The choice to conduct a semi-structured interview over an

unstructured one is because a certain number of themes need to be touched upon, using techniques that enables flexibility and at the same time setting limits for the respondent. The respondents have been asked the same questions (see 3.5.3 for further information on the interview guide). However, supplementary post specific questions have also been asked. The process of reproducing empirical findings is the same for all interviews, even though two were held over phone.

### **3.5.3 Interview guide**

Bryman (2015) states that a semi-structured interview guide should contain the research questions that the study aims to answer. In addition, it is important that the questions are flexible so the researchers get information and an understanding of the interviewees perceive of the topic. Hence, the questions were not very specific to leave room for broader answers. The flexibility that Bryman and Bell (2017) discuss is necessary during the interview to be able to steer back the interviewee on the right track during the interview if it floats out, or highlights irrelevant areas. This is to guide the interviews to be empirically rewarding.

The first question asked of the researchers when forming the interview guide was; What is necessary for us to know to answer our research question. Therefore, the interview guide covered interesting subjects and themes for the study (Bryman, 2015). Hence, this study's theoretical framework was in focus when forming the interview guide. Moreover, this study aims to answer how The Company utilize their networks during their internationalization and therefore questions regarding their use of networks have been asked. To answer this, the interview guide was, as Bryman (2015) suggest, divided into four themes; *Internationalization, Network, Before foreign market entry and After foreign market entry*. These themes were chosen hence they are in line with our research question and what this study intends to examine. They also follow the theoretical framework and our own constructed analysis model. Moreover, all interviews contained general information about the respondent regarding; their position within The Company, how many years they have worked within The Company, followed by their international experience in total and within The Company. Further on, follow-up questions contributed to a deeper insight regarding our research question on how they use networks during their internationalization process. The interview guide has not been reformulated significantly during writing process, but some questions have been removed, added and changed based on the empirical data obtained during the interviews. Since we have only chosen a semi-structured

interview format, there is a possibility for flexibility during the interview, and the questions must therefore not be asked even though they are found in the interview guide.

### **3.6 Quality of the study**

Lincoln and Guba (1985) assume that trustworthiness of a research study is important to evaluate its worth and quality. To establish trustworthiness, the study's confirmability, credibility, transferability and dependability needs to be explained (Riege, 2003; Krefting, 1991; Lincoln & Guba, 1985).

#### **3.6.1 Credibility**

Credibility is the confidence in the 'truth' of research findings, hence people perceive realities in different ways (Riege, 2003). The study shows credibility by only gathering empirical data from primary sources (i.e. interviews). Further on secondary data (i.e. The Company's annual report, report of key facts and website) were used to gain an understanding about the company and to form a "case company presentation" in the methodology chapter. Hence, this information is written and verified by The Company and can be classified as nearly primary data.

The interview respondents have different positions within The Company which improved and deepened the understanding of their internationalization and use of network, hence it gave diverse perspectives and the credibility of the gathered data increased (Eisenhardt & Grabner, 2007). In addition, some interview questions were repeated and reframed to avoid misinterpretation. Furthermore, a few questions included follow-up questions to generate a deeper comprehension of the study (Krefting, 1990). In the fourth chapter (i.e. Empirical Data) the information gathered from the interviews is presented. The chapter include quotes from the interviewees to guarantee the sincerity of the findings (Krefting, 1990; Lincoln & Guba, 1985).

#### **3.6.2 Transferability**

Transferability refers to that the findings can be applied in other contexts, situations or populations. Moreover, transferability in a qualitative research correspond with generalizability (Lincoln & Guba, 1985). Although, it is not the researchers' responsibility to show if the findings will be applicable, hence it is the reader who should make their own judgement. As Lincoln and Guba (1985, p.316) state "It is, in summary, not the naturalist's task to provide an index of transferability, it is his or her responsibility to provide the database that makes transferability judgments possible on the part of potential appliers".

This study has examined the role of networks in a Swedish medium-sized pharmaceutical firm's internationalization process. Hence, the research may not be generalizable to all firms, but deepen the understanding of how other SMEs in the pharmaceutical industry might use their network relationships during foreign market entry. As Lincoln and Guba (1985) describe it, the interview material was collected into a database to enable transferability in the future. By an extensive collection of data from The Company, this was accomplished in chapter four.

### **3.6.3 Dependability**

This thesis has exhibited stability and consistency in its research by describing and presenting the research approach, research process and research design in the methodology chapter's first three subchapters. Followed by data collection, which was divided into two categories; primary data and secondary data. The methodology was sectioned this way to ensure that the reader followed the progress of insight given by the researchers. Furthermore, that the researcher followed and contained an analytical process over the entire thesis (Guba, 1981). Gathered material and information from all phases of the research process, as well as transcripts from the interviews and The Company's annual report, are saved to ensure and confirm the quality of the data and simultaneously of the study (Bryman & Bell, 2015).

### **3.6.4 Confirmability**

Confirmability guarantees that the study's empirical findings only were shaped by the interviewees, and not by the researcher's interest (Bryman & Bell, 2017). To minimize the personal reflection in the empirical data, all interviews were recorded and transcribed. Further on, notes were taken during the interviews to simplify and streamline the latter writing process (Lincoln & Guba, 1985; Riege, 2003). However, misinterpretation can be made in both cases. Hence, how the interviewee answers a question by intonation and hesitation can contain important information (Bryman & Bell, 2017).

## 4. Empirical data

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*This chapter concerns the empirical data gathered from the chosen case company. The gathered data consists of secondary data from The Company, and eight interviews. The chapter includes narratives, citations and experiences described by the interviewees. The following chapter will apply these empirics on the chosen theoretical framework.*

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### 4.1 Introduction

Two days of interviews enabled a full insight of the management team's perspectives of the networking culture within the firm. Several interviewees had a similar viewpoint of the utilization of networks within The Company, where the answers received were similar or identical. The overall perception of the internationalization process and the network utilization from the interviewee objects provided a highly significant and clear foundation to apply the analysis on in the next chapter. The interviews were divided into four parts; Internationalization process, network, before foreign market entry and after foreign market entry. All interviews started with a small chat and coffee followed by the questions of position in the firm, years employed and international experience, leading in to the research field.

### 4.2 The Company's Internationalization process

The first section discussed was The Company's internationalization process, from the beginning where the first products were internationalized to future international expansion plans. All respondents were in consensus of the broadness of the internationalization process; that The Company internationalize with a combination of two different strategies. Both a (1) slow step-by-step procedure to similar markets as the domestic market and (2) enter markets through networks. Interviewee #5 states the combination process as a careful internationalization process and growth in new markets through networks. Interviewee #1 further states the importance of knowing and succeeding primarily in the domestic market, followed by reviewing markets similar and close to the domestic market, such as the Nordic countries. The interviewee further explains that it is a long process to internationalize and even analyze potential markets outside of Europe, hence they launched their product in 2012 in Sweden.

While discussing future expansion and internationalization, there is an agreement within the management team that the strategy has changed from entering markets close to the domestic

markets to countries further away, both geographically, institutionally and culturally. While asking why it changed, the answers differ, but one factor is repeated by several interviewees; *today we have built the experience and knowledge*. Interviewee #1 explains that it today is easier to enter markets further away since they have gained knowledge and experience over time. Further on, the respondents state that they now can move from the domestic market by new developed frameworks, hence how to handle new business environments are a part of their business structure. Interviewee #5 and #7, argue that there is a financial explanation behind the change. Interviewee #7 says that it depends on the pricing systems and if the product will be profitable in the market. Interviewee #5:

*“Well, the markets in Europe are already filled. We are present in the markets that we want to be present in, and are not present in the markets financially unprofitable. The fundamental reason is of course profit, so we must grow to new continents like Asia. But it is depending on maturity, we have competence and financial muscles today and can therefore grow in line with sales revenue.”* (Interviewee #5, 2 May 2019).

Another change is the fact that The Company has changed its strategy in terms of entry mode. The business model has changed from a goal of entering some markets with FDI (foreign direct investment) to enter most markets through licensing partners. Interviewee #3, #5 and #6 confirms that the network of license partners is considered essential. In addition, Interviewee #5 explains:

*“Another change in the strategy is that we in the beginning had more of a vision to enter markets with a subsidiary, with a sales force and our own name. Now it has changed more towards using license partners, a different model. The reason is (1) It is less complex to operate in that way and (2) that the investments and risks are reduced. You no longer need to invest in sales, footprint, registration, VTR and such. The partner already has these departments and the knowledge. This also shorten the time of the return of investment (ROI). The partners know the market dynamic, regulatory issues and how to sell.”*  
(Interviewee #5, 2 May 2019).

## **4.3 Networks**

### **4.3.1 The Company's view of their network utilization**

The overall opinion within The Company is that networks are utilized broadly within the firm, in all different departments and in all stages. The networks are considered very important and while asking if networks are used in the internationalization process, all participants agree, for example:

*“I believe that we use networks during our whole internationalization process, and probably always have historically. Our networks help us to find new partners too. We attend several conferences and fairs to build relations that are relevant for our internationalization.”*

(Interviewee #2, 3 May 2019).

While asking about the engagement in networks, there was a consensus that the firm both focus on developing new relations and building links to new networks, but also protect and support existing network relations. As interviewee #2 states:

*“This is a hard question, it's a little bit of both. We try to protect and maintain our existing network. But the thing is that we cannot use the exact same network in one country and then another. If we are entering Brazil, we cannot use our American network, we must create a new local one. But of course, we are careful with our networks and relations that we are pleased with and who answer our questions or needs, that is very important.”*

(Interviewee #2, 3 May 2019).

### **4.3.2 Challenges with their networks**

Moving on to challenges for handling a network, all participants agree that several challenges exist. One fundamental challenge, stated by all interviewees, is that it is costly and time consuming. Interviewee #1 explains that since they are a medium-sized firm, the costs matter a great deal. They need to enter market to market in a controlling way hence it is expensive to internationalize. Another challenge is stated by interviewee #3:

*“A network is equal to a new point of view. And a broad network gives diversified point of views, which is good. Somehow you choose your own networks, but there are also different networks that could improve business. But you never know what you do not know, and the*



*bias of choosing the same network yourself continuously could be considered a risk.”*

(Interviewee #3, 2 May 2019).

Both interviewee #1, #4 and #5 bring up the social part of a network and how it could become challenging. Interviewee #1 believes that networks are personal based, and the contact that is built up in a relation can be dismissed if the contact moves or quit. So, if a relationship is established and the contact for some reason leaves, it could take the access to other important people with it. A point brought up by interviewee #5 is that networks are dependent on people. In one way, a network means that the firm does not own the capability in-house, and therefore needs it from an external source. In this position, it is harder to affect a partner. As a small player being dependent on a big partner, it could be both challenging to be heard and costly for the firm. Therefore, the interviewee stress the importance of being in a good position with the right partners who listen and gives attention, and have alternatives if a partner do not. Interviewee #4 discuss networks as social events, and not like regular business processes:

*“Networks are social, it is not like a regular business process. It takes time, and contain a lot of soft capabilities to succeed. The social part must work, and it is in the initial state too. It is about people, and sometimes you might think that you find the right people because of social structures, but maybe not from the business point of view.”* (Interviewee #4, 3 May 2019)

Another point is presented by interviewee #6 and #7, who stress the unknown factor. That weeks or even months could be invested in a project, before a partner event for example, without knowing the outcome. They also state that it is usually a lot of work before and after a networking event, with research about the partners and to reach back with information to potential partners afterwards. And sometimes the work effort is not in relation to the outcome.

#### **4.3.3 Potential improvements with their networks**

While discussing potential improvements within the firm and its networking activity, most participants are pleased with today’s networking culture. They state that The Company works with networks probably as much as it is capable of, in terms of costs and resources. But again, this is linked to being an SME:

*“If we had unlimited resources and were bigger, we should have been networking more. But the time effort and costs cannot be afforded as a smaller firm. There must be a balance, what you sell, your partners and your markets. And this balance, as a small firm you will always feel that you would like to do a little bit more. In everything; marketing, sales, internationalization. But that’s the feeling you will always have as a smaller firm. You have to operate after what the cash flow allows.”* (Interviewee #6, 2 May 2019).

Another improvement is brought up by interviewee #4, who states that a possible improvement for The Company is to have a larger sales and marketing function, especially within strategic marketing. The interviewee states that the role would be to understand the local market, its structure, potential rivals and other important actors and too perform business reviews and analysis of markets. The interviewee further states that The Company is not there yet, but believe it is an important factor for the future. Another improvement is brought up by interviewee #8, who believes that a deeper examination of experience, earlier projects and knowledge base is needed while choosing a new partner in a new market. The last improvement is brought up by interviewee #5, who believes that using networks is the right way for The Company, but again stress the importance of operating in a favorable position within the network:

*“We need to identify the critical points and grow the network there. So that we have alternative suppliers or partners, and to balance volume so we are not dependent or in an unfavorable position. Perform risk management of our network and secure our performance there.”* (Interviewee #5, 2 May 2019).

## **4.4 Utilization of networks during the internationalization process**

### **4.4.1 Utilization of networks before foreign market entry**

The first step of internationalization to a new market is to decide which market to enter. The interviews show that this is usually determined in one of two processes; market potential or partner potential. The market potential process is the information gathering, where the market potential is determined and The Company decides to enter or not. The information is usually gathered from an external part in form of market data and market analysis:

*“There are sales statistics provided from firms, as for example how large the market is in America for our type of product. Then we know the market size. Afterwards we contact a*

*partner, one partner we work with frequently is Business Sweden. The local partner is supposed to know the local market so well that they could guide us in all our questions. What firm structure and entry mode should we use, should we have local personnel? There are also tax issues and the juridical part with lawyers and contracts. The partner needs to give us the advice, analysis and competence we need to make the decision if a market is interesting or not.” (Interviewee #1, 2 May 2019).*

Another way to determine if a market is interesting is through partner potential, which is confirmed both from interviewee #1 and #6, where the partner affects the choice of entering a market:

*“Let’s say we want to enter Country A, and we meet a potential license partner that shows a mediocre interest in our product. Then we meet another license partner from Country B, who shows the exact right enthusiasm, market knowledge and firm infrastructure as we want in a partner. Then country B becomes very interesting. Our experience shows that the right partner is crucial for success in a market, and we have even gotten so far today that we could sketch our ideal license partner in every country.” (Interviewee #6, 2 May 2019).*

When The Company has analyzed and decided which market to enter and how to enter the market, Interviewee #1 says that they contact their network within that specific country to find partners, licensees, distributors and other business related partners. Interviewee #5 argues that they face a process where they need to get their product on the market properly. To ease this phase Interviewee #1 speaks of network relations, as if they connect with several companies and organizations who help them gather local knowledge and to get their product on the markets; hence the regulated environment for pharmaceutical products. During the establishment, the network relationships are of importance to enable contact with local expertise. Instead of entering the foreign markets on their own through subsidiaries, Interviewee #4 says that they use partners and licensees to sell their products. Moreover, these partners and licensees are found by The Company’s network relations.

*“The networks help us find potential partners, that is, find several companies that could and would like to sell our product.” (Interviewee #1, 2 May 2019).*

During this stage, Interviewee #1 further explains that focus is on finding the right licensees who have knowledge about the market and relationships to important players within the pharmaceutical industry, for example dermatologists. To do so they use their network contacts in the chosen country, for example by hiring Business Sweden who can use their own business network and competence to find these players. It can be difficult to get the product on the market and reach the consumer since there are a few players controlling the distribution of pharmaceuticals in a market (e.g. doctors and pharmacies). Therefore, they use their network relations to find and develop new relations to these players. Interviewee #3 claims that they use their network mainly to find a partner or partners with whom they can collaborate with, while Interviewee #4 says that they also use their business network during this phase to build relationships to authorities and potential manufacturers. Furthermore, Interviewee #2 explains how they use their networks:

*“When we have decided which foreign market to enter, there is a lot of paperwork to be done; which authority we should contact, to whom should we submit papers regarding our business and so on. So, it is quite a lot of work even when you have determined the market, and then we take help and use our networks as consultants or partners.”*

(Interviewee #2, 2 May 2019).

#### **4.4.1.1 Partnering events**

An important part of the network utilization within The Company is to attend partnering events and fairs. This is linked to when countries or continents are determined as interesting markets, and networking activities in the geographical area scheduled. According to interviewee #6, there are different types of events depending on geographical zones, such as American, Asian or Nordic events. The goal is to find a partner in the area; a license partner, a consultation firm or a middleman to sell the product or provide the firm with important local knowledge. The interviewee explains the importance of these event as if they would not attend, they would probably not have 7-8 license deals as they have today, but rather one or two. During these events, they schedule ‘networking meetings’ with approximately 20 partners, and it is during these meetings they receive an understanding if further discussions should be made.

As above, The Company attends events and fairs to take the opportunity of meeting a potential partner in an early stage. And as both interviewee #6, #8 and #1 confirm, the right partner is the most important part when entering a new market, especially if through a license deal.

Another point brought up by interviewee #7 is the connection between the product department and the service department of the firm. Even if it is two different business units, they have a close connection when it comes to the partner seeking process. Hence, if someone within the product department meet a potential customer for The Company's service department, or vice versa, they exchange the contact information relevant for the parallel department.

#### **4.4.1.2 Resources and capabilities**

Another question asked to the interview respondents was what type of resources and capabilities that a network need to have. The answers differ depending on what type of network that the interviewees are a part of, but the mutual denominator is knowledge. The production network, with its goal of delivering products, need resources like competence and infrastructure such as factories and machinery. They are supposed to be production experts, storage experts, process experts and so on. They are supposed to be better in specific logistic areas, since it is more affordable to outsource these types of services than investing in creating them in-house as an SME:

*“Our network helps us with these services, we are a small company and we have no alternative. Either we do it through our networks or not doing it at all. We cannot build a factory today, but in the future. So, we are dependent on this network to grow right now. And this is what they do best, what do we do best? Are we going to be best in storage or in pharmaceuticals? We need to value our core competence, and I am convinced that our partners in our network do what they do better than us today, and that we do what we do best.”* (Interviewee #5, 2 May 2019).

When it comes to the network created in a partnering event, the resource is the connection between partners with a goal of entering the negotiation table and potentially a license deal. When the contact is established and negotiation table is reached, the partnering event has done its job:

*“When we have reached negotiation, these events are not as important anymore. But going from the strategy to enter a new continent or a country to sit and negotiate with a potential partner; from that point to this point, the network is needed. And setting a time frame from the first meeting with a potential license partner to have the product in the market could be maybe 3-4 years.”* (Interviewee #6, 2 May 2019).

Interviewee #7 further adds the diversity these events contain as an important resource. For example, meeting different disciplines and receiving different angles. The events contain good scientific presentations, which sometimes gives the idea of developing something new in the future in the firm. The interviewee further states that these events are a great opportunity for business, both to meeting new customers and to find out who the competitors are. Hence, they think it is important to attend the same events and be seen in the same arenas as their rivals to obtain a good position within the networks.

Another point brought up by interviewee #2, #3 and #4 is the access to their network's network. Interviewee #2 starts with claiming knowledge as an important resource, but continues with arguing that the network itself can connect The Company to new partners. For example, that a domestic organization creates a map over a country, but also a map of potential license partners for the firm. They book meetings, and provide both their knowledge and their contact base.

*“The networks have in-house competence in the issues, but also their own networks. For example, Business Sweden are not in pharmaceuticals, but they help us to get in contact with experts or potential pharmaceutical partners. They are good to work with since they know the market, have a contact base and provide us with what we need to establish business there.”*

(Interviewee #3, 2 May 2019).

Discussing specifically the license partners in The Company's network, they further provide an important recommendation for the firm. Trust and reliance is important in the pharmaceutical sector, as explained by interviewee #6:

*“One important aspect is that it works like references during an interview for a new job. We want to close a deal in Country A, and they are slightly hesitant. Then we could refer them to an independent third party, a licensee in Country B that we've worked with for 3 years, that gives us its highest recommendations. That's the quality stamp we need in such situations.”*

(Interviewee #6, 2 May 2019).

As the interview respondents state, the network of partners must have knowledge and competencies within different areas. Interviewee #1, #5 and #8 explain that their network help The Company to gain market knowledge (i.e. is the market growing or decreasing, high

volatility and what other factor affects the market). Further on, interviewee #5 and #1 state that they utilize their networks to gain knowledge about the distribution chain (i.e. how it changes, the complexity and what agencies are the biggest players). Interviewee #1, #3, #4 and #8 explain that The Company also utilizes their network and their network's network to solve business issues, such as which entry mode is the best within a specific country, if they should open a subsidiary or use a partner. According to interviewee #1, #2, #5, and #6, this includes pricing of the product; who are the competitors, are there any favor systems etc. Moreover, there are legal issues with forming a contract, confidentiality and negotiation that differ between countries where they use their network to gain an understanding about. In cases where they have entered foreign markets with considerable language differences they have utilized contacts within their network or their network's network to translate. Since The Company is operating within the pharmaceutical industry, interviewee #4, #5, #6 and #8 say that it is important for their business to have knowledge about the regulatory issues such as pharmaceutical requirements and pharmacovigilance. Furthermore, they need to understand the environment of pharmacies and their role in the market. Therefore, the network helps them to gain knowledge if there are a few or many pharmacies, if it is the pharmacies who control the sales of pharmaceuticals or if it is the doctors, followed by potential difficulties to launch new products.

#### **4.4.1.3 Market complexity**

The market complexity is a factor that affects when, how and if The Company decides to enter a market. In this stage, the market analysis that contains market data and market potential is a determining factor, and interviewee#1 claims that The Company has a great ability to do the initial market analysis well. The network is there as the other determining factor to provide the firm with insight or knowledge that the firm didn't have before. If the market analysis provided by the network shows that gaining local knowledge and specific license partners takes time and is a complex process, The Company might put that market aside for a while and focus on another similar market with an easier regulatory process. Another subject discussed with the respondents was whether The Company use their networks in different ways during different market entries, depending on the market. According to all interview respondents who received the question; they do. The explanation is two factors: entry mode and the complexity of the market. As interviewee #1 exemplifies, the firm might be sure of entering one market with a licensee, and to enter another market with a FDI. With the latter option, the need of knowledge provided by the domestic network is larger in all the different areas mentioned above, since a local license partner will not be present. The second reason for using the networks differently

in different markets is referred to market complexity. This is specified as both limited resources within the firm about the market, and partly the market itself.

*“In some markets, we have limited knowledge; about the regulatory issues, local business etc. But in the Nordic countries for example, we have a much better understanding with engaging initiative and our own networks. It is connected to the knowledge about the market in the firm.”* (Interviewee #4, 2 May 2019).

A further explanation about the market complexity is provided by interviewee #3:

*“A more complex market refers to a different use of networks. We used Business Sweden very much in Country X for example. It might look like a similar country as Sweden from the outside, but it is very complex. Everything from the business view, finding partners, legal issues and specifically the language. We were dependent on translator and interpreters in almost any situation.”* (Interviewee #3, 3 May 2019).

#### **4.4.1.4 Crucial before foreign market entry**

One of the questions was when The Company believes that the network is most important; before, during or after the internationalization process. The answers from our participants were mutual; the network is most important before internationalization. This is due to the settling of business structure, need of market knowledge and the partner seeking process. Interviewee #1 and #3 stress the importance of knowing the market to be able to settle the right structure:

*“The network is very important in the beginning of the internationalization process. That’s when we are about to set up a structure that needs to last. It’s very harmful if we choose the wrong entry strategy, so the market analysis is very important. When we already entered the market, and found our partner, the network is not as significant since the process started.”*  
(Interviewee #1, 2 May 2019).

When discussing the partner seeking process, the answers are the same. In line with #1, the citation from interviewee #6 in chapter 4.2.2 argues that the most crucial part is to find a suitable partner in the foreign local market. When going from a strategy to enter a new market to reach any form of negotiation with a potential partner, the network is crucial.



#### **4.4.2 Utilization of networks *after* foreign market entry**

After foreign market entry is defined as the point when the product is launched in the market and forward. A deal with a license partner is usually made and all regulations are met. Even though The Company uses their networks and their network's networks to get more local knowledge about the market and find a suitable partner or licensee, all the respondents say that they utilize their network less after the entry process. However, Interviewee #5 thinks that how to use their network after they have entered a foreign market depends on whether they must create new contacts in the markets or if they already have established relationships. If they do not have an established contact in the chosen market interviewee #5 claims that they use their network to find a partner who they can sign a deal with; it is more of using their network's network to be able to establish their business in the market. Hence, more of a "one-way communication" to establish their business. If, on the other hand, they already have business relations to a factory or a warehouse in the market which they are entering, and they want to grow within the market and/or the relation, Interviewee #5 says that they use their relations to grow in the market and/or within the network, they use their relationships to raise the quantity of products and reducing the price through negotiations. Moreover, interviewee #2 adds that having personnel, or a FDI, opens for a continuous update and support function from the networks even after entry. A product need constant maintenance, authority reviews, pricing and distribution evaluation.

In addition to what Interviewee #5 said in the previous paragraph, Interviewee #3 says that *"...different types of networks penetrate different phases of the internationalization process."* This is further shown in the different utilization of network relations between the interviewees depending on the assignment connected to their title. For example, Interviewee #3 says that their utilization of bank relations is not highly focused until the market is determined and it is time to do business. It is firstly in this stage they contact their bank and receive knowledge from their networks about the local payment flows, how to set up corporate structures and interpret the VAT regulations etc.

Interviewee #4 further argue that how they utilize their business relations in this phase depends on their entry mode. Interviewee #2 develops this reasoning by explaining that it depends on whether they enter the market by setting up an own business unit or if you have a license holder.

*“If it is a licensee, they act as an extended arm to the company and set up business and relations in the market, and we have contact with that licensee. But if we ourselves enter the market, as we have done in the Nordics, we take care of the local network ourselves.”*

(Interviewee #2, 3 May 2019).

If they expand their business to Europe where they lack established business relations they use their networks to find a local licensee who can take care of their business in that market. This licensee has local knowledge and relations to local players. As Interviewee #2 explains, they utilize their partners network instead of establishing a new network. However, when first entering a market, they utilize their network by finding appropriate partners or licensees with a broad network and expertise of the local market who can sell their product in the market by their distributions channels. However, if they have established networks in a specific market, The Company utilize these relationships to expand their business in that market.

#### **4.4.2.1 Maintaining the network relation**

The common outlook of the role of networks is that the communication after entry is mainly operational, which is highlighted from interviewee #4, #5 and #6. This includes operations such as orders, inflows and outflows. The circle is closed in this stage, and the connection is made with a potential partner as the contract is signed. The level of minimum communication with the local network is therefore a part of the contract:

*“We are linked through our contract with the licensees and the minimum communication is therefore stated. For example, the yearly business review meetings, the operational business, reporting level. This is important for both parts to enable sharing best practices, and to give and receive feedback. It is essentially important that we audit the market together, the exchange is very valuable.”* (Interviewee #6, 2 May 2019).

Interviewee #5 highlights the value of constantly reviewing the operational network. To evaluate the efficiency and costs associated with it. This means evaluating prices for production and distribution especially if volume is added from a new market. The goal in this case of adding volume is to lower production costs, distribution costs and price per unit.

#### **4.4.2.2 Future engagement**

The last theme discussed was; in what way, the network increases further engagement in a new market after entry. Starting with the operational production network, interviewee #5 emphasizes capitalization of the channel:

*“...When we create a channel of network, we want to capitalize it. The costs of creating the network of partners are realized, and it is therefore natural to have a goal of using the same chain when launching a new product.”* (Interviewee #5, 2 May 2019).

The same goal is highlighted from interviewee #6. The goal is to continue to grow and develop new pharmaceutical products. And as the respondent explains, strong partners motivate a development of products that fit into the product portfolio of the partners, which enables an ongoing further engaged cooperation. It is highly valued to use the same networks and partners for a new product, instead of starting from zero with a new partner seeking process. Again, the entry costs are realized, commitment is made, and that it saves both time and resources when the relationship with the partners continues.

## 5. Analysis

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*In this chapter, the empirical findings will be interpreted based on the theoretical framework. Based on the theory, this chapter intends to demonstrate similarities and differences. The analysis of the empirical data contributes with a deeper understanding of how The Company uses its networks when they internationalize.*

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### 5.1 The Company's internationalization process

The empirics shows that The Company internationalize through two different strategies, which all interviewees agreed upon. Both by a (1) slow step-by-step procedure to similar markets as the domestic market and by (2) entering markets through networks (e.g. contacts or partners). While connecting this to our theoretical framework, the first strategy is linked to the Uppsala internationalization process from 1977 by Johanson and Vahlne and the second strategy describes the important matter of network relations that the revisited model from 2009 discuss. As we see, The Company uses strategies linked to both process models. In the empirics, the two strategies of entering a market were described as market potential and partner potential.

The process model from Johanson and Vahlne (1977) claims that firms expand to nearby markets with low psychic distance using low-committed entry modes, which goes in line with the strategy that The Company has had so far. This is linked to a market potential form of strategy, where the market itself was the fundamental decision base of entering it. Interviewee #1 explains that the primary goal was to know the domestic market, and then analyze close countries in Europe for expansion. The Company first expanded to the Nordic countries, while now on the other hand, enters markets in Europe and further away. The interviewees explanation to this is that they lacked the frameworks, knowledge and experience to expand further away, which connects to the first model (Johanson & Vahlne, 1977) that commitment increases while experience and knowledge is gained. What goes in line with the network process model (Johanson & Vahlne, 2009) is that The Company have built a local network in every market that they have entered. Being interconnected to a domestic business network is of great importance since the firm increases its position in a market through gained knowledge and learning from the networks (Johanson & Vahlne, 2009), which the respondents confirms. The networks provide The Company with, for example, foreign local regulatory know-how, but also to connect the firm to potential partners such as licensees. The empirics displays a change

in the firm's strategy from a vision to enter markets through FDI, to have more of a license model strategy.

## 5.2 The Company's networks

The authors of this thesis have in this analysis grouped the networks identified from the empirical findings and citations. Four different external international networks used by The Company could be found:

**Network 1:** License partners, organizations and service providers whose function is to pair partners through events and fairs.

**Network 2:** The production network whose goal is to deliver the product. This is contained by factory plants, distributors, storage, transportation, 3PL's (third party logistics) and pharmacies.

**Network 3:** Customers, fair providers and organizations such as industry organizations that are linked to the service part of the firm.

**Network 4:** The financial network. Includes agents in banking, financials and tax regulations

As we see, networks are used in several departments and in different stages of internationalization. Whereas, the empirics show that 'Network 1' and 'Network 3' are mostly used before entering a foreign market, whereas 'Network 2' and 'Network 4' are utilized mostly after entry. To perform a successful foreign market entry, the access to network is of great importance (e.g. Coviello & Munro, 1995, 1997; Martin et al., 1998; Welch & Welch, 1996; Chen & Chen, 1998; Ellis, 2000; Chetty & Blankenburg-Holm, 2000; Elango & Pattnaik, 2007; Loane & Bell, 2006). Furthermore, we see that 'Network 1' and 'Network 2' contain relationships where local knowledge is explicit. Knowledge and learning, together with trust and commitment building are very important aspects (Johanson & Vahlne, 2009), and here we could see the connection to the trust aspect within The Company. As Johanson and Vahlne (2009) state; trust is created through networks, an example of this development is to trust an agent or business partner to take care of a business unit where the firm lacks knowledge. When market complexity is high, investments and commitment levels are higher if subsidiaries are created, and so are the risks. As Interviewee #2 explains, they use their partners' local network instead of establishing an own network. However, when The Company first enter a foreign market they utilize their own network to find appropriate partners or licensees with a broad network and expertise of the local market who can sell their product in the market by their

distributions channels. As Interviewee #5 describes it, the local partners know more about the market dynamics and regulatory issues. Nevertheless, if they have established networks in a specific market, The Company utilizes their own relationships to expand their business in that market. Connecting this to the risk of liability of outsidership (Johanson & Vahlne, 2009), knowledge and learning about a new market is easier if you are a network “insider”. Therefore, the conclusion in this matter is that the strategy might have changed due to an easier exchange of knowledge and business practices through an increased use of domestic business networks.

Another important matter of the revisited internationalization model (Johanson & Vahlne, 2009) is the opportunity development. Thus, which market to enter and how to enter could depend on what opportunities the business relationship can exploit and identify (Johanson & Vahlne, 2003). While discussing the internationalization process of the firm, we find several opportunities in the empirical data brought by the firm’s business networks (see the third paragraph in *Resources, capabilities and opportunities* below). This goes in line with thoughts regarding partners and their influence on foreign market entry described by The Company, where a potential partner could lead the firm to enter a specific market. The example described was where an ideal licensee partner in a market opened for an opportunity to enter another market (i.e. partner potential), confirmed by both interviewee #1 and #6. If The Company meets a potential license partner that shows the right enthusiasm, market knowledge and firm infrastructure, it could lead to entering that specific market hence the right partner and network is identified. In this case, the partner could give the right advice, analysis and competence to enter that market in a successful way to prevent liability of outsidership (Beamish & Lu, 2001; Johanson & Vahlne, 2009).

### **5.3 Utilization of networks before foreign market entry**

#### **The Company’s view of their network utilization**

Johanson and Vahlne (2009) explain two main strategies within the change variable to utilize and strengthening a network position and managing commitment; we could examine that The Company uses both. The first strategy is to protect and defend a company’s current network position and create strategic relationships (Johanson & Vahlne, 2009), and according to interviewee #2 The Company value and maintain their relationships that they are pleased with and that can answer to their needs and questions. As in line with Johanson and Vahlne (2009), The Company’s second strategy is to expand their current network into new networks to form and create higher levels of commitment and building new important relationships. This is an

additional strategy that The Company practices though they cannot use the same network in every new market entry. The same interviewee exemplifies this as; if they enter Brazil, they cannot use their American network. The Company therefore uses both network strategies to obtain a strong network position and fill structural holes, as Johanson and Vahlne (2009) states in their business network internationalization process model.

According to the previous empirical findings, Hilmersson and Jansson (2011) implies that relationships are to be an asset, and therefore firms' networks are important to take into consideration. According to all the interviewees, utilization of networks has always been valuable during the whole internationalization process. Further on, several respondents say that network relations are especially important for them since they are an SME, to gain knowledge and local contacts through intermediaries during the internationalization process (Chetty & Blankenburg-Holm, 2000). As an SME, the valuable resource is to gain information and an understanding of local preferences to solve local problems (Hilmersson & Jansson, 2011), which the network can assist in. According to The Company, the local partners are supposed to have explicit knowledge about the local market so that they could guide them in all questions, and assist in creating the right entry mode and what country to enter. This goes in line with our theoretical framework which claim that a firm strengthens its position in new markets through well-established network relationships and the opportunities they can exploit and identify (Johanson & Vahlne, 2009).

### **Partnering events**

A large part of how The Company utilizes their network before foreign market entry is when they attend partnering events and fairs. The goal is to find a partner; a license partner, a consultation firm or other partner, which extend for new opportunities for the firm (e.g. Johanson & Vahlne, 2009; Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000; Farooqi & Miog, 2012; Fernandez & Islam Masum, 2008). As both interviewee #1 and #6 stress the importance of, the right partner is the largest part of being successful in a new market after market entry, which comply with the statement that opportunities are considered the most important component of knowledge (Johanson & Vahlne, 2009). According to Johanson and Vahlne (2009) the interconnectedness of a business network allows the identification and exploration of new opportunities, and only by attending events and fairs, The Company can meet up to 20 potential partners during a couple of days. These short meetings give an understanding if further discussions should be made, and a good match could lead to an

important license deal and a new market entry. Furthermore, the business network opens for new opportunities for several parts of the firm. An example of this is that the product department and the service department exchange information when they receive contact information relevant for the parallel department. If the Business Unit Director meets a potential customer for the service department while attending a networking fair for the product side, the partner seeking process extends to the service department by connecting the contact to the right person. Thus, The Company has evolved a process strategy to strengthen their network position in both departments through connecting their different networks, which goes in line with previous research by Johanson and Mattsson (1988), Chetty and Blankenburg-Holm (2000) and Agndal and Chetty (2007). This developed relation-specific knowledge is as essential as market knowledge and production knowledge (Johanson & Vahlne, 2009), and is a perfect example of how The Company is more alert in identifying opportunities to further develop their business operations while being interconnected to a business network (Johanson & Vahlne, 2009).

### **Resources, capabilities and opportunities**

Being interconnected to a business network allows an exchange between partners in knowledge, resources, needs, capabilities and strategies (Johanson & Vahlne, 2009). Within The Company, this research have identified the most crucial resources and capabilities that they need from their business networks; The most important component of knowledge gained from their business network is, in line with the theoretical framework, identification and exploration of new opportunities. Through their network, The Company receives the guidance and assistance they need to analyze a potential new market or gain the knowledge needed. According to The Company, local knowledge about a specific foreign market is of most value. Examples of this is knowledge about the foreign market, the local distribution chains, the local pharmaceutical environment, regulatory requirements or pricing systems. The knowledge created from networks have a large impact on how to create efficient and creative business operations and processes to succeed in the foreign market (e.g. Hilmersson & Jansson, 2011; Johanson & Vahlne, 2009), which all the participants within The Company agree upon.

What The Company also acknowledge is that the resources and capabilities needed is different in every new market. As the participants claimed; the pharmaceutical environment and regulations differs greatly between countries. Everything from how the market and systems work, the regulatory and legal issues, the pharmaceutical standards and the language vary. What this research could find is a connection to how complex a market is. The more complex a market



is, the more resource and capabilities are required from local business networks. When The Company was supposed to enter a market that differed in business practices, legal environment or especially the language, they were more dependent on their networks in almost all situations from translating documents or finding partners to analyzing the market. The need of resources, capabilities, strategies and knowledge from their foreign partners were crucial for enabling a strengthening of their network position, thus their position in the foreign market (Johanson & Vahlne, 2009). In line with the Uppsala model (Johanson & Vahlne, 2009) and Chetty and Blankenburg-Holm's (2000) research about SMEs, a middleman could complement with knowledge where it was lacked. Hence, having knowledge and trust through the networks were of great importance as it reduced uncertainties in the complex foreign markets (Johanson & Vahlne, 2009).

Opportunities is considered the most important component of knowledge, and firm's interconnectedness to a business network enables identification and exploration of them (Johanson & Vahlne, 2009). The empirics displays the same statement, and several opportunities have appeared through business networks according to The Company. One aspect of opportunities exhibited through the diversity that the network events comes with. Interviewee #7 explains how new business ideas and problem solutions could occur after attending fairs and lectures, which is in line with the research of Hilmersson and Jansson (2011) and Johanson and Vahlne (2009). Another form of opportunities that comes with insidership in business networks is the connection to the business network's own networks. One example of this is when The Company attends network events to meet potential license partners and reach a negotiation state, which is challenging without these events. Another example is when a local partner, such as Business Sweden, assists in getting contact with local experts or potential license partners. Even if their partner is not in the pharmaceutical industry, they can provide their local contact base and enable opportunities through their own networks. Hence, The Company could through commitment to their network enable new opportunities and business partners through their networks network, which the theory framework show (Johanson & Vahlne, 2009). An additional component is that the closer network relationship, the more knowledge firms have about each other (e.g. Johanson & Vahlne, 2009; Johanson & Mattsson, 1988) This builds trust and commitment between the firms, which can be used for further business, as analyzed from the empirics. As interviewee #6 declared; a license partner that The Company worked with for a couple of years works as a recommendation for further business (Interviewee #6, 2 May 2019, hapter 4.4.1.2). Thus, an established business partner gives its recommendation to a new

potential partner in another market, which opens for new business opportunities for The Company. Therefore, the trust and commitment built up with one network partner allows strengthening of the firm's network position in a new market, in agreement with the theory (Johanson & Vahlne, 2009; Johanson & Mattsson, 1988; Chetty & Blankenburg-Holm, 2000; Agndal & Chetty, 2007).

The last part is linked to the fact that The Company is a medium sized enterprise (SME). Since all their growth need to be in relation to what the cash flows allows, some components of the value chain are still too costly to invest in and keep in-house. Therefore, as Beamish and Lu (2001) state, it is more financially beneficial to outsource some of the operations in the value chain to their business network. Their networks open for the opportunity to produce, distribute and transport their products to new markets during internationalization. The firm allocates their investments to the development of pharmaceuticals, which is their core competence, concluding that the outsourcing is crucial for succeeding.

#### **5.4 Utilization of networks *after* foreign market entry**

From the empirical material, it can be concluded that the utilization of networks plays a crucial role in the process of internationalization. Based on the answers given by the respondents, the actual network seems to be based on a basic line of strategic relationships and contacts, a sort of core network. From this foundation, The Company utilizes its core network to reach out to other networks, thus expanding it to a desired direction of strategic importance or value. Much like Interviewee #5 claims, the extension of a certain network stems from The Company's core network, where the extension of the desired network rather becomes an employed consultant, with a specific purpose for company growth and internationalization. And very much like Johanson and Vahlne (2009) state about strong and weak commitment to a relationship, this seems to be the case where networks rather are hired and incorporated to the existing network for a certain purpose, and then laid off once that purpose is reached.

On the other hand, some networks can be retained even after a purpose has been reached, which is described by Johanson and Vahlne (2009) as the use of agents with a high level of trust. Using agents or middlemen to handle a specific network purpose or commercially important activities becomes a way to benefit from an extended network that goes beyond the reach of the company's direct business relations. The Company does not have to keep a strong tie to that specific network, but rather uses the middlemen to act as their connection to the local network

and lets them handle it for them (e.g. Chetty & Blankenburg-Holm, 2000; Hilmersson & Jansson, 2011). That is, rather than retaining the network themselves, that they borrow the network extension from the middleman, in exchange for letting the middleman handle their business. The use of The Company's middlemen's network is of great importance according to Johanson & Mattsson (1988), hence it is an asset for future commitment. What the middleman offers refers to financial services, logistics, storage, factory plants etc. that The Company do not have to manage, which enables the collection of financials from the outsourced activities. Thereby, The Company's network help them to manage local knowledge performed as distribution chain knowledge. Hence, this goes in line with previous research on the role of local networks (e.g. Johanson & Vahlne, 2003, 2009; Johanson & Mattsson, 1988; Hilmersson & Jansson, 2011; Chetty & Blankenburg-Holm, 2000).

Comparing it to the previous paragraph where The Company itself had to handle the network extension for network growth and by themselves act as the intermediary, using agents becomes a financially beneficial alternative to gain the benefits of a network without having to allocate its own resources to maintain it. This seems to be in line with the conceptual framework (e.g. Beamish and Lu, 2001; Johanson & Vahlne, 2009), where the results also have proven that the use of middlemen is used with caution to strengthen and support The Company's core competencies (i.e. developing pharmaceuticals), rather than outsourcing it. On the other hand, the revisited Uppsala model (Johanson & Vahlne, 2009) does not say that network utilization lowers a firm's cost, but from the empirical data we find that several interviewees state that hiring a middleman or a partner to manage The Company's business activities in the foreign local market is cheaper than setting up an own production unit. Hence, this case study contradicts the revisited Uppsala model (Johanson & Vahlne, 2009) and instead goes in line with Beamish and Lu's (2001) thoughts. The Company, as an SME, have limited financial resources and thereby utilize a partner with local knowledge hence it is less expensive than setting up a subsidiary or extending its own business unit.

As our analysis model and the empirical findings show, commitment to a network relationship (Johanson & Vahlne, 2009) increases after The Company have established operations in the foreign market. Hence, investing in their networks by launching a new product in the foreign market. Interviewee #5 and #6 explain that partners motivate development of new products that fit into their local product portfolio, which enables an ongoing further engaged cooperation. Moreover, the network is not only utilized in the *before* state of internationalization to identify

opportunities, but also *after* they have entered the foreign market by recognizing opportunities (Hohenthal et al. 2003; Johanson & Vahlne, 2009) to develop new pharmaceuticals.

## **5.5 Challenges and potential improvements**

Many of the findings are in line with the business network internationalization process model (Johanson & Vahlne, 2009). But some findings in this research conflict with the model or are not mentioned as criticism of performing network utilization. These findings were conducted while performing questions on challenges, negative aspects and improvements of network utilization within The Company.

One aspect mentioned by all respondents were that network utilization is expensive to perform, thus the interconnectedness of being a part of a business network comes with investments. These could be fees connected to market analyses, event costs or time invested to maintain or create relationships. The firm can identify and exploit opportunities, build trust, learn as well as develop commitment while being interconnected to a business network (Johanson & Vahlne, 2009), but according to our participants; this could sometimes be hard to measure. Therefore, the work effort and investment of being interconnected is not always in relation to the outcome. In contrast, this variable of uncertainty (outcome in relation to the investment) is a part of network utilization, and the successfulness rate is as hard to measure. According to the interviewees, the outcome is hard to measure unconditionally if it is a successful network investment or not. It is easy to measure the cost of investing in the networks, but the outcome could vary considerably. Thus, the gain in exchanged knowledge, new learnings and created opportunities related to the network (e.g. Johanson & Vahlne, 2006, 2009; Coviello & Munro, 1995, 1997; Martin et al., 1998; Welch & Welch, 1996; Chen & Chen, 1998; Ellis, 2000; Chetty & Blankenburg-Holm, 2000; Elango & Pattnaik, 2007; Loane & Bell, 2006) is not always straight lined and measurable. But while discussing this subject, the interviewees agreed that The Company changed more towards entering new markets with the help of networks (e.g. licensee partners) instead of through subsidiaries. The reasons behind the change is that the license model is less complex, needs less investments and comes with lower risks according to the interviewees. This implies that even if the outcome of being interconnected to a business network is difficult to measure and not always in relation to the work effort, the positive effects are bigger (e.g. Beamish & Lu, 2001). Therefore, our analysis is that the outcome of interconnectedness does not always relate to the investment and could be complicated to

measure, but that the gained knowledge, commitment and opportunities linked to the business network is still more beneficial.

According to Johanson and Vahlne (2009), a firm can build more knowledge and exploit new opportunities by having a strong commitment to their networks, but choosing a network also comes with risk. As an interviewee pleaded, different networks could improve business in different ways and levels (e.g. Johanson & Mattsson, 1988). If a firm chooses the same network continually, this could mean an absence in opportunities detected and linked in another business network. This bias of; knowing what you know and not beyond (interviewee #3, 2 May 2019, chapter 4.3.1), and not examining new networks is a potential risk that any firm needs to evaluate. On the other hand, creating new networks means new investments, which need to be a part of the consideration likewise (e.g. Johanson & Vahlne, 2009; Beamish & Lu, 2001). In addition, examining the business network is essential according to interviewee #5, especially if the network consists of distributors or suppliers (e.g. Johanson & Mattsson, 1988). Here, the risk is to not obtain a good position within the network, thus not be heard by the partner. This situation could occur if the relationship is between a small firm and a large firm, where the bargaining power is centered around the larger player, due to their greater resources (Tripsas, 1997). Therefore, The Company examines their position in their business networks to have alternative suppliers and not risking receiving additional costs if, for example, the production prices would increase. In conclusion, a business network is essential to be a part of in many ways, but SMEs need to examine their positions in their networks to not risk ending up with greater costs or lack of attention.

Another challenge while operating within a business network is that a network is personal based. The interviewees discussed this in two ways; The first aspect is that networks are social, and not a regular business practice. Being successful in networking requires soft capabilities and that the social part must work between the firms. If the social structure does not work, it could be more of a challenge to be interconnected to a business network. And the risk of not being able to exchange knowledge, practices or resources among each other could occur, therefore also liability of outsidership (Johanson & Vahlne, 2009). The other challenges connected to the social structures of networks is mentioned by interviewee #1. As Johanson and Vahlne (2009) explain that being interconnected requires an active strengthening of the network position, and investments to connect with foreign partners. If this investment is made by the firm, and a relation is built, there is a risk that this relation can be dismissed if the contact moves

or quits. Thus, the firm might lose a partner or even the partners' network, if The Company does not invest in the relation again. Moreover, this could lead to the same risk of suffering from liability of outsidership or have a harder time to exploit new opportunities in the foreign market (Johanson & Vahlne, 2009). As mentioned by interviewee #2, a potential improvement within The Company would be to invest in several relationships with the same partner firm to avoid these types of risks. This is especially essential for SMEs since they have limited resources to invest in relationships and trust building as opposed to larger firms (e.g. Tripsas, 1997). As stated by Beamish and Lu (2001), resources and growth needs to be in relation with the cash flow during internationalization. Thus, being interconnected to a business network potentially requires more than one or two contacts to lower the risk of losing an important relationship built over a long time.

## 6. Conclusion

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*This chapter aims to pinpoint the critical conclusions drawn in the previous chapter for an overall understanding and summary of the research. The chapter ends with an explanation of the limitations of this research and suggestions for further research in the area.*

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The research question of this thesis was “*How are networks utilized by a Swedish medium-sized pharmaceutical firms in their internationalization process?*” and the aim was to gain an in depth understanding of how a medium-sized pharmaceutical firm utilize their networks when they enter foreign markets. Based on the empirical findings, the answer to this question is that The Company utilizes their network more *before* they enter a foreign market. Furthermore, they utilize their networks differently in the *before* and *after* stages. In the *before* stage they use their network to gain knowledge and make a market analysis about the foreign market and to find potential partners. In the *after* stage they utilize their network’s network relations in the local market and commit to that network. Moreover, their network (i.e. business partners) manage their local activities in the foreign market.

From the analysis, we can conclude that The Company’s internationalization process follows both the pattern of Uppsala model from 1977 and the revisited model from 2009. They use two strategies of entering a market; market potential and partner potential. Market potential meaning that they expand to a nearby psychic distanced market through a step-by-step procedure. However, they also use a partner potential strategy as they enter foreign markets affected by their networks, where a potential partner leads the firm to enter a specific market. Further on, they use different networks during different phases of their internationalization process. Moreover, ‘Network 1’ (license partners, service providers) and ‘Network 3’ (customers, fair providers) are mostly used *before* entering a foreign market, whereas ‘Network 2’ (the production network) and ‘Network 4’ (the financial network) are utilized *after* entry. Furthermore, the theory framework explains two main strategies within the change variable to utilize and strengthen a network position and managing commitment. The first strategy is to protect and defend a company’s current network position, and the second strategy is to expand the current network into new networks to higher the level of commitment. We could establish that The Company uses both. Another factor is that The Company changed their strategy towards using license partners during their internationalization process. Therefore, the

conclusion in this matter is that the strategy might have changed due to an easier exchange of knowledge and business practices through an increased use of domestic business networks.

A large part of how The Company utilizes their network before foreign market entry is to get in contact with new networks, this by attending partnering events and fairs. The right partner is the most important factor for success in a new market within the Company, which comply with the theoretical framework. The interconnectedness of a business network allows the identification and exploration of new opportunities. In addition, the firm has evolved a strategy to strengthen their network position by connecting their departments and exchanging contact information when situations occur. Moreover, The Company is more alert in identifying opportunities while being interconnected to these networks, in line with the theory (Johanson & Vahlne, 2009). Moreover, The Company gains crucial resources, capabilities and knowledge from their business networks. This is especially needed in the pharmaceutical industry since the regulations are high and vary with every market they enter. This research could find a connection between the need for external resources from business networks and how complex a market is. The more complex a market is, the more resources and capabilities are required from local business networks. Furthermore, the most important component of knowledge gained from their business network is, in line with our theoretical framework, identification and exploration of new opportunities. Several opportunities have appeared through business networks, such as diversity in events and the connection to the networks own networks. Thus, in line with the Uppsala model (Johanson & Vahlne, 2009), middlemen within the network could complement with knowledge where it was lacked.

After entering a foreign market, The Company utilizes their partners and middlemen to manage their business activities within the foreign market. Normally these activities consist of transportation, storage and financial services. Moreover, The Company uses their middleman to act as their connection to the local market, hence they borrow the middlemen's network instead of retaining the local network by themselves. As accordance with what Beamish and Lu (2001) states, the analysis shows that using a partner and benefit from their network contacts is less expensive than allocate its own resource to maintain the network relation. In accordance with Johanson and Vahlne (2009), The Company uses middlemen and the middlemen's network in this phase to allocate financial resources to strengthen and support The Company's core competence (i.e. developing pharmaceuticals). However, we criticize the revisited Uppsala model by Johanson and Vahlne (2009), since it does not take costs into account which the



interviewees state is a large part of their internationalization. Hence, lowering costs are of great importance for SMEs regarding how they choose to internationalize due to their limited resources (e.g. Beamish & Lu, 2001). The most important factor to increase the networking position after foreign market entry is commitment, hence they use their partners to modify and develop their product portfolio to the needs of the partner. Further on, after they have entered a foreign market they utilize their partner and middleman to identify opportunities and recognize the need of new pharmaceuticals (Johanson & Vahlne, 2009).

Many of the findings in this research goes in line with the chosen theory, but some findings conflict with the model or not mentioned as criticism to performing network utilization. One finding is that the outcome of interconnectedness does not always relate to the investment (cost) and could be complicated to measure (e.g. Johanson & Vahlne, 2009). Moreover, the gained knowledge, commitment and opportunities linked to the business network is still implied to be more beneficial. Another challenge is that there comes a risk with choosing the same network conditionally, since different networks could improve business in different ways and levels (e.g. Johanson & Mattsson, 1988; Chetty & Blankenburg-Holm, 2000; Agndal & Chetty, 2007). There is also a risk of not having a good position within a network, especially for SMEs that could have a decreased bargaining power towards a larger player (e.g. Crick & Jones, 2000). Thus, it is essential for SMEs to examine the position within the network and create alternatives where it is needed. In addition, SMEs have limited resources to invest in relationships and trust building (e.g. Beamish & Lu, 2001), which is a potential risk since networks are personal based. Thus, one way to lowering the risk of losing an important relationship built up over a long time is to have more than one contact at the same partner firm.

The additional aim of this thesis was to present an understanding of how other small and medium-sized pharmaceutical firms might use their business networks during their internationalization. Business networks are essential to enable internationalization based on this research. Furthermore, the pharmaceutical industry is highly regulated, which further increases the importance of utilizing networks to gain local knowledge due to market complexity and the specific knowledge field. Pharmaceutical SMEs must further examine their position in their business network to ensure a good position, and utilize their network after what their limited resources allows. In conclusion, this study has shown that The Company's utilization of networks has been essential since their strong relations to a network strengthen their network position and their ability to internationalize. Growth needs to be in relation to what the cash

flows allows, and some components of the value chain is still too costly to invest in and keep in-house.

## **6.1 Implications for theory**

Many empirical findings in this research goes in line with the chosen theory, but some findings conflict or are not taken into consideration by the business network internationalization process model (Johanson & Vahlne, 2009). Previous empirical studies show that lowered costs is an important factor for why SMEs choose to utilize network relations (i.e. business partner and middleman) when they enter a foreign market, rather than entering foreign markets by establishing an own business unit. The empirical findings of this study also show that the costs play a major role of how and why the medium-sized case company choose to use their network relations during their internationalization process, hence their limited financial resources. Johanson and Vahlne's business network internationalization process model (2009) do not take the cost perspective, as a reason for why firms utilize networks during their internationalization process, into account. Therefore, the authors imply to develop the business network internationalization process model by Johanson and Vahlne (2009), to bear in mind SMEs limited financial resources. Development of the theory is essential; hence it should take the costs into consideration when talking about how and why SMEs utilize networks when they enter a foreign market. The authors of this study found implications to extend and improve the theory to become equally applicable to SMEs as well as to large companies.

## **6.2 Limitations and suggestions for further research**

Since the present research is a single case study where its findings are based on one company, it is difficult to draw general conclusions by adopting these into other organizations and businesses. However, there might be SMEs who face similar challenges and utilize their networks in a resembling way. Hence, we cannot claim that our findings can be used to describe all SMEs' use of networks. We suggest conducting a research which consist of several companies, thus a cross-case analysis can be made. Furthermore, the empirical data contradicted the revisited Uppsala model, as it showed that utilization of networks could be financially more beneficial than setting up an own production facility in a foreign market due to limited resources. Therefore, it would be interesting to examine the correlation between SMEs utilization of networks and the impact of costs. In addition, another suggestion for further research involves the internationalization speed within the pharmaceutical industry, since this research examined a time span of about 3-4 years from the first meeting with a business partner

to the actual market entry. The overall outlook in the research implies that this could be an effect of the highly-regulated environment connected to pharmaceuticals, which would be meaningful to examine deeper.

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# Appendix 1 - Figures and Tables

## Tables

Table 1: *Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC)*. EU recommendation 2003/361.

Table 2: *Summary of overall facts from completed interviews*. Own compilation

## Figures

Figure 1: *The business network internationalization process model (the 2009 version)*. Johanson and Vahlne, 2009.

Figure 2: Analysis model constructed by the authors. Analysis model of networks role in the internationalization process.

## Appendix 2 - Interview guide

### General information

Position in the company:

Years employed in the company:

International experience (Years):

International experience within the company (Years):

### Internationalization

- Which alternative best describes your internationalization processes:
  - a) Slow step-by-step procedure to similar markets as the domestic market and by
  - b) Entering foreign markets through networks (e.g. contacts or partners)
  - c) Combination of a) and b)
  - d) None of the above
  - e) Other, please explain
- Have your thoughts on how to internationalize changed over time from your first foreign establishment? Please explain!
- How do you think about future foreign establishments?

### Networks

- Describe your duties within the company when internationalizing:
- Have you used networks in the past when entered foreign markets?
  - Which network relationships have been important?
- How do you use your networks today when internationalizing? Describe the role of the networks and the functions they have in establishing in foreign markets.
- Depending on the market, have you used your networks differently?
- Which of the following best describes your engagement in your network:
  - f) Develop **new** relationships and build bridges to new networks to fill gaps
  - g) Protect or support **existing** network relationships
- When going international, how do you use the resources provided by the networks?
- Does the importance of utilization of network relations vary during the internationalization process?
  - If equally important throughout the process, please describe how and why
  - If the role of the networks changes, please describe how
  - Why are the networks more important during the xx phase?
  - Why are the networks less important during the xx phase?
- What are the challenges for managing your network?
- Can you see any negative aspects with your network utilization?
- If you were to change something in your use of networks, what would it be?

### Before foreign market entry

- How do you get access to information about the markets you are about to establish? (Ex. Through networks, through own experiences etc)
- How do you use your networks before you establish yourself on a foreign market (e.g. in decision making when, how, why).
- Does your network impact your choice of market?
- Does your market entry have network bias?

- Are there any other aspects that impact your choice? If so, to what extent?
- When you have chosen a market to enter and how to enter that market: Could you please elaborate and explain how you utilize your network on that process?

**After foreign market entry**

- Once established on a foreign market, how do you utilize your networks? Please provide us with some real-life examples.
- How do you work to maintain the relationships to your networks after you have established business in a foreign market?
- Have your networks increased your knowledge and strengthen your position within the network and on the foreign market where you operate?
  - Have this led to increased engagement in the market and to the network?