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The Internationalization Process of Ostrobothnian SMEs through an Export Network

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ABSTRAKT

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Lärdomsprovets titel	Internationalisering Processen av Österbottniska Små och Medelstora Företag genom Export Nätverk
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Syftet med denna avhandling är att diskutera internationaliserings processen genom export nätverk. Genom denna avhandling studerar vi vilka resurser företag i ett export nätverk använder under hela internationaliserings processen. Avhandlingen gjordes som en del av ett internationaliserings projekt i samband med Team Finland. Projektet var att utforska den Indonesiska marknaden och möjligheter för små och medelstora företag från Österbotten att exportera produkter eller service till Indonesien.

Den teoretiska delen av avhandlingen består av en beskrivning av internationaliserings processen, vilket inkluderar orsaker, internationaliserings modeller, och utmaningar inom internationaliseringen. Den viktigaste modellen i undersökningen var export nätverk sedd genom resurser. Kvalitativa intervjuer gjordes för att få fram material till forskningen i den empiriska delen av export nätverk. Sekundärdata forskning gjordes av den Indonesiska marknaden.

Den empiriska forskningen resulterade i tre möjliga marknader i Indonesien. Dessa var utbildning, infrastruktur och förnybar energi. Resurser som används i internationaliserings processen är finansiella, organisatoriska, lednings och relations resurser. Den främsta anledningen till internationalisering var önskad ökning av försäljning och lågkonjunkturer i Finland, vilket hör till de finansiella resurserna. Det viktigaste resurserna som användes under export nätverket var finansiella och stats-resurser, attityden av ledningen, relationen till export agenten, produkt och pris anpassning, marknadsföringen och säljs kanaler. De största utmaningarna inom export nätverk och internationalisering är språket, att export agenten inte klarar av jobbet, för lite tid för agenten att lära känna produkterna, och lågkonjunktur.

Nyckelord: Internationalisering, Internationaliserings orsaker, Internationaliserings process, Internationaliserings utmaningar, Export Nätverk, Små och Medelstora Företag, Indonesien

ABSTRACT

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This research was made to discuss the process of internationalization through an export network model, as not much research has been done in the subject. Through this research the aim was to find out what kind of resources companies use in an export network internationalization model. Together with the research of the internationalization process there is a market research of possibilities in the Indonesian market for SMEs from Ostrobothnia. This research was made as a part of an internationalization project in cooperation with Team Finland.

The theoretical study of the research is a study of the internationalization process, which includes reasons, models of internationalization, and challenges in internationalization. The most important model of internationalization in this research is the export network through a resource-based view. The research was made through qualitative interviews to get material for the empirical study of an export networks. A secondary data research was made for the market research of Indonesia.

As a result from the empirical research three possible markets in Indonesia were found. These are education, infrastructure, and renewable energy. The resources used in an export network internationalization model were categorized into four groups, physical, organizational, managerial and relational resources. The main result from the internationalization process reasons was a hoped increase in sales and avoiding the recession in Finland, both belonging to the physical resources. The main resources used during the internationalization process were financial and governmental resources, attitude of management and relation to the export agent, product and price adaption, marketing, and distribution channels. The main challenges of internationalization were the language, fear that the export agent could not do the work, too little time for the agent to get to know the products, as well as the current recession.

Keywords: Internationalization, Internationalization reasons, Internationalization Process, Internationalization Challenges, Export Network, SMEs, Indonesia

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1 INTRODUCTION

The aim of this thesis is to explore the internationalization process and specifically the Export Network model that exists in Finland and how companies through an export network would get internationalized and the challenges in it. Furthermore the thesis will explore the Indonesian market and possibilities there.

In Finland it is mainly big companies that are exporting and 80% of Finland's export comes from these. In Ostrobothnia 72% of all manufactured goods that go to export, compared to Helsinki area where 47% goes to export. The export is still growing. This means that Finland is a very cyclically sensitive country when it is the international market that decides. (Forss, 2015 (2))

The outcome of this thesis is expected to help Team Finland to decide what kind of companies that could have a possibility to enter the Indonesian market through an export network.

1.1 Literature Review

Small and medium sized enterprises has not always been interested in the global market, but SMEs today needs to internationalize if they want to survive or expand their business. The countries themselves have contributed to the boost of the SMEs too in order to boost the economy of the country (Ruzzier, Hisrich & Antoncic, 2006).

All over the world export is a trait for countries to survive in today's economy and therefore, different export networks exists in the world. However, Finland has a quite special one. Finland has made a way for the small and medium sized companies to have an international business. As Virtanen says, alone we are rarely strong - cooperation through an export network is needed. The export network works as a group of companies to be able to reach an international market better than when trying alone. (Virtanen, 2009) The export networks, however, are not the only one that exists. There are also export consortiums that are a

“Voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint actions” (UNIDO, 2009)

These consortiums, for example, can be found in Africa and South America. Furthermore UNIDO (United Nations Industrial Development Organization) have projects of this kind in India. (Antoldi, Cerrato & Depperu, 2013)

With the export consortiums and the export networks Firms can overcome barriers to internationalization. (UNIDO, 2009) The networks and consortiums can reduce cost as the companies in the network share the expenses. (Virtanen, 2009) The participating Firms can pool their resources together and become more flexible to the international market. This is why export networks and consortiums are suitable for SMEs, which internationalize for the first time or firms that want to increase their internationalization. (UNIDO, 2009)

Export networks in Finland and internationally has not been researched significantly. According to Virtanen (2008) the export network in Finland differs from those in other countries and has, therefore, not been researched significantly. Export networks or consortiums exist all over the world and some research studies have been made in Africa, Europe, South America and Australia. These explain how the networks are born and the results of their actions. (Ferreira, 2003; Wilkinson, Young, Welch & Welch 1998; Antoldi et al. 2013) There are only a few researches who are based on the export network's resources and the influence it has on the networks. Resources are the main objects a firm needs to be able to start an internationalization process and in an export network this is possible for SMEs. (Antoldi et al. 2013; UNIDO 2009) This research was made to find out how important resources are, and above all which resources are important to the companies when entering a new market through an export network organized in Finland.

1.2 Objectives & Research Question

The objectives of this thesis are to explore the internationalization process of SMEs and how Export Networks are used in this matter. Through the research the aim to find out what kind of resources are used in the internationalization process of an export network. In addition to the export network model, the possibilities of Ostrobothnian companies entering the Indonesian market through an export network will be discussed. The reasons and challenges of the internationalization process are as important as the internationalization itself. Therefore, this will be discussed in the theoretical part of this thesis.

Different internationalization models will be presented to give the internationalization a clearer view and to compare it to the model of export network. The models are meant to give a wider view of the internationalization and how big of a field it really is. Through the export network model and resources used in this process the empirical study will be discussed.

Through the export network model, Team Finland wants to explore the Indonesian market and possibilities for companies from Ostrobothnia to reach a market share there. The Indonesian market will be researched and discussed to give the reader a view of what kind of a market it is and the opportunities that exist there. Further the empirical study will discuss the process of internationalization through an export network.

This research is limited to the internationalization unit Viexpo's CEO, the director of the subsidiary company ELY-Centre and three companies in Ostrobothnia. As this research is made for an export network in Ostrobothnia, these interviewees are considered to be the most important. The interviews are with companies that have been or are in an export network at the moment.

1.3 Methodology

The term Export Network is the official name used, by Viexpo, a Finnish organization that enhances the export and internationalization of Finnish SMEs. (Viexpo.fi, 2015) As this thesis is made in cooperation with Viexpo, which is a part of

Team Finland, this name is to be used in order not to cause any misunderstandings.

The choice of qualitative research is made in this thesis. There are not many export agencies that offer services as such in Ostrobothnia. The interviews were therefore conducted with ELY-Centre's Director and Viexpo's CEO. Furthermore, three interviews were held with companies that have been or are a part of an export network. These companies are Weekend House, Nimetech and SpaDealers.

1.4 Outline of Thesis

This thesis includes a theoretical study and an empirical study. The theoretical part of this thesis will focus on reasons and challenges of internationalization and different models of internationalization for SMEs. The main focus in the thesis will be on export network. The Export Network model will be studied further in the empirical part of the thesis.

The empirical study will show how an Export Network works through resources according to the interviewed companies. Furthermore, the empirical study of the thesis will explore the Indonesian market. Team Finland had chosen this as a target market for a possible Export Network to be organized to find out what kind of possibilities Finnish companies would have in the Indonesian market.

The first chapter, the introduction, focuses on to give the reader an idea of what this thesis is about, what methods have been used and some definitions that the reader needs to know. The objectives and limitations of the thesis are presented in the first chapter.

The second chapter of this thesis will focus on the main subject of the study, internationalization process. This includes the reasons why companies should do and why they do international business, internationalization models that exist today, and challenges facing companies that want to or are internationalizing. The main subject of the internationalization is the Export Network seen from a resource-based view. The Finnish governmental and other subsidiaries will also be taken into account in this chapter. All this will be focused on the SMEs level.

The third chapter will focus on the empirical study of this thesis. The empirical study consists of the research of the Indonesian market and what kinds of possibilities exist there. This research will make it easier for the case company to decide what companies they would be interested in doing the Export Network with to Indonesia. The study includes qualitative interviews with Viexpo's manager and the director of ELY-Centre in Ostrobothnia, and three companies from Ostrobothnia, which will give a clearer view of the Export Network model discussed in the theoretical part of this thesis.

In the last chapter, chapter 4, the results of the study will be discussed. The thesis will here show if the theory and study cohere or if there are notable differences in the Export Network model when carrying it out in practice. This chapter will also discuss if further studies should be made in this field or similar fields.

1.5 Definitions

The following definitions will help the readers understand the context of this thesis as a whole so that misunderstandings will not occur.

1.5.1 Small and medium sized enterprises (SMEs)

Small and medium sized enterprises are defined in different ways according to different countries and sources. Finland, which is a part of the European Union (EU), has the definition set by EU. The Commission Recommendation was applied in 2003 for the definition of SMEs. Companies implemented these definitions well according to the Commission. (EC, 2016)

Enterprises will fulfil the requirement for micro-, small-, and medium-sized enterprises as the following table, table 1. Companies need to have the personnel, and the turnover or balance sheet total, to fulfil one of the enterprise requirements. A micro enterprise has personnel of a maximum of ten people and a turnover of maximum 2 million Euros. A small enterprise has maximum 50 employees, and a turnover of maximum 10 million Euros. The last group, medium sized enterprise, has a personnel of maximum 250 people and a turnover of 50 million Euros. In

2009, when the report was made, EU had about 23 million enterprises that fell under these three definitions. (EC, 2016)

Table 1 SME definitions by the EU Commission (EC, 2016)

SME Definition				
Enterprise category	Ceilings			
	Staff Headcount (number of persons expressed in annual work units)	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

This thesis will contain information about the Indonesian market as well as the Finnish one. As said before the SME definition varies in different countries, especially between the European and the Asian market.

The requirements for the Indonesian micro, small and medium sized enterprises consist of assets and sales volume per year of the company. The volumes are shown in Table 2 below. The amount of personnel in the company has no effect on the definitions in the Indonesian market. The micro enterprises have to have maximum 50 million Indonesian Rupiahs, which is about 3 020 Euros. The micro enterprise need to have a sales volume of maximum 300 million Rupiahs per year, or about 18 000 Euros. The small enterprises need assets up to 500 million Rupiahs and 2,5 billion Rupiahs in sales volume, which amounts to 30 200 and 150 600 Euros. The medium sized enterprises need to have a maximum of 10 billion Rupiahs in assets and maximum 50 billion Rupiahs in sales volume per year. This amounts to 603 000 and 3,02 million Euros. (SMRJ, 2008) All the amounts mentioned were converted by XE currency converter (XE.com, 2015).

Table 2 SME definition in Indonesia (SMRJ, 2008)

Segment	Asset	Sales Volume/Year
Medium	Max IDR 10 Billion	Max IDR 50 Billion
Small	Max IDR 500 Million	Max IDR 2,5 Billion
Micro	Max IDR 50 Million	Max IDR 300 Million

Though the tables show micro, small and medium sized enterprises, the focus in this thesis is only the small and medium sized enterprises. The differences between the European definition and the Indonesian definition of SMEs are significant. This may need to be taken into consideration if the companies want to start their own company in Indonesia.

1.5.2 Internationalization

Internationalization is a broad subject and researchers have defined it in their own way as they write. Therefore, there are a lot of definitions on Internationalization. In a wide definition internationalization is when companies increase their international activities and are involved in operations outside of their nation. (Lam & White, 1999)

Internationalization is done gradually and might happen even if the company does not aim at to becoming international, through an order form a foreign market. The company then exports directly to the foreign market, but can choose to do it through an agent or a distributor. If the company decides to continue its export abroad they might consider starting a subsidiary or a joint venture abroad to be able to reach the demand that there is in the foreign market. When doing this, the company often chooses a market close to the domestic market in order to understand the market more, as it is likely to be more similar to the domestic market (Hamilton & Webster, 2015, 129-131)

1.5.3 Export Network

An export network is rare and valued and does not exist all around the world. Some research on these networks has been made in Portugal (Ferreira, 2003), and Australia (Wilkinson, Young, Welch & Welch, 1998). Research has shown that SMEs do not cooperate highly with each other and therefore governments have implemented instruments to enhance the cooperation. (Ferreira, 2003)

Export network are significant to Finland's exports and a way to ease the cooperation between small and medium sized enterprises. (Virtanen, 2009) Cooperation is the key word in an export network. With cooperation a company can be more profitable at a lower risk and it is for certain the fastest way to internationalize. (Virtanen, 2008) As a group the visibility is also greater when entering a market than if a company would enter by itself. (Ferreira, 2003)

The Finnish concept of an export network is a group of four to six companies, usually small and medium sized enterprises (SMEs), within the same business area or products that are connected to each other somehow. Virtanen states that the companies should be in the same line of business, but not competitors. The companies cannot be too far away from each other geographically either to be able to get the right effect from the network. The initiative to start an export network is often taken by the companies. (Virtanen, 2009)

The companies within the export network divide the costs for an export agent or agency that provides the export experience and work. The network can also be a joint venture with companies from one country and companies from the targeted market and they divide the costs of the agency or manager. The network is often conducted as projects and can be funded by local, national or even international financiers. The main financier of the export network projects in Finland is the Government and the projects might last from one to three years. (Virtanen, 2008)

The network works as a group of companies to be able to reach an international market better than when trying alone. Networks can work in several different ways. First of all the export network can be organized so that the companies ex-

port to a market with different customers. This is the most common way of exporting. The second option for the network is to export to a certain customer in one or several markets. E.g. the companies in the export network might have different parts of a product that one company need and therefore the export is made to this company only. (Virtanen, 2009)

In an export network an agency or agent help the companies in starting the export process and to connect them to customers in the foreign market (Virtanen, 2009). This can also be know as the “dance party” by Wilkinson et al (1998), were the party thrower gathers participants and helps them connect with partners on the dance floor. This agent should be an outside person that takes part in the export activities, as difficulties might occur if the agent is from one of the companies involved. (Ferreira, 2003)

The success of the network is higher if the network has been made spontaneously. (Virtanen, 2009) Factors associated with a higher chance of success in the export network is e.g. financial situation of the company, the product, the bond in the group, and the situation of the target market. The risk of the export network decreases the more companies that are a part of it, as the shared cost of it. Bonding in the group is also important for the network to work properly as the companies will be working together for a longer time. (Nummela & Pukkinen, 2004) Companies in a network learn a lot from each other and might improve their business with help from the other companies through increased knowledge. (Wilkinson et al. 1998)

A network does not usually exist without some negative traits. It can be that some of the companies might feel that the cooperation does not work and it might not be as they have expected. The compatibility of the different firms, products and interests was sometimes seen as a weakness. (Virtanen, 2009) The most common problem in an export network is when the parties of the network do not participate in the activities or the export agent has not been working, as s/he should be. (Nummela & Pukkinen, 2004)

2 INTERNATIONALIZATION PROCESS

Internationalization has been described by an endlessly amount of research in the subject. Khojastehpour & Johns (2014) define internationalization as,

“Entering an international market through the adaption of the organization’s processes, transfer of knowledge and opportunities to reach a new market.”

The term Internationalization was used first in the 1920s when companies started interacting over boarders with different markets (Ruzzier, Hisrich & Antoncic, 2006). In the 50s and 60s the internationalization process was researched only on large multinational companies that had activities in other countries. It presented new theory and empirical data from these research studies (Khojastehpour & Johns, 2014).

The process grew larger and after the Second World War in the 1970s a new phenomena of globalization appeared. Globalization is then referred to as when companies are working on a global scale. Today the market is growing very rapidly and because of this the SMEs has to operate faster. New opportunities open up for them, but also challenges show themselves to SMEs. Especially in the Nordic countries the internationalization of SMEs has been understood as a process of many stages and a gradual process (Ruzzier et al. 2006).

Often companies need to establish a stable business in the domestic market before going abroad. It is much simpler to do business in the domestic market with someone who understands your language and culture rather than going abroad to something unknown. (Hamilton & Webster, 2015, 129) That is one reason why companies fear to expand their business abroad, but a company that is successful with a product or service in their domestic market should consider developing an export business. (Westwood, 2012, 3-4)

SMEs have a great opportunity today to expand their markets and increase their profits (Westwood, 2012, 3-4). An international expansion helps to increase the competitiveness of the company and access new ideas, innovations and the newest technology. The internationalization of industries gives large opportunities to

SMEs and their performance and operations. Most companies want to create a sustainable business, with limited resources and innovative practices, and the international business might be a significant part of reaching that process (Hollensen, 2011, 84-85).

Internationalization might happen as a part of the value chain or as a part of the business process. For SMEs internationalization may first occur when transactions are made with organizations and individuals outside the company (Hollensen, 2011, 86). SMEs have traditionally been active in only the local market or inside the national borders, but in at least the last decade SMEs have been operating in more than one other market (Ruzzier et al. 2006).

When a company wants to internationalize it is important that it is ready for it (Westwood, 2012). The internationalization process might not be something that is done over night, but it might definitely be worth the time spent on it. By looking through the reasons of internationalizing and making a thorough plan there is a greater chance of success.

2.1 Reasons to Internationalize

According to Gardó, García & Descals (2015) some reasons for internationalization might be that the domestic market competition level is increasing and the retail has a high concentration. Internationalization, therefore, becomes necessary for success. It is not only a decrease in sales in the domestic market that drives companies to export (Gardó, Gracia & Descals, 2015). Company might feel that they have to internationalize because their competitors are doing so. Another reason might be to show that they are successful and the company is progressing (Lam & White, 1999).

The international environment has changed a lot in the recent years and has contributed to a growth in exports. These changes are e.g. Easing of trade barriers, technological breakthroughs and geopolitical restructuring. By going international the companies get more competitive advantage and unique knowledge of another market. (Gardó et al. 2015)

The biggest advantages in internationalization is that the company improve its productivity; by selling more outside the domestic market they increase their revenue and profit as such, they get to grow in a whole new way when going abroad, and the lifespan of the products increase. (Westwood, 2012, 4-5)

The Indonesian market is a promising market and is expecting to growth within the new few years to one of the biggest in the world. Reasons for going to Indonesia might be that the country has low labour costs and is a cheap country in itself. (Griffin & Pustay, 2015, 67)

There are factors that both push and pull firms into international business. These can be divided into proactive, internal, and reactive, external reasons of internationalization, shown in table 3. (Czinkota & Ronkainen, 2010, 278)

Table 3 Motives of Internationalization (Czinkota & Ronkainen, 2010, 279-281, Hollensen, 2011, 51-55)

Proactive Stimuli	Reactive Stimuli
Profit advantage & growth goals	
Unique Product	Competitive pressures
Technology advantage	Overproduction
Managerial urge	Declining domestic sales
Exclusive information	Saturated domestic markets
Economies of scale	Unsolicited foreign orders
Market size	Proximity to customers and ports
Tax benefits	

2.1.1 Proactive Reasons

The proactive reasons are the ones that make the firm want to go international. The main pullers in the proactive motivations are the profit, growth, unique product, and technological advantage. The profitability and growth is a motivation for

the management, even if the result might not be as profitable as expected. However, the uniqueness of a product or a technology might give a great competitive advantage to going international and could lead to a big market. The chance might also be that the company receives orders from abroad even before thinking about going international because of their unique products. (Czinkota & Ronkainen, 2010, 279-280, Hollensen, 2011, 51-52)

Managerial urge is when the management of the firm feels the drive of the foreign market and are interested in internationalizing. This is mostly of the urge to grow more and to get more profit. The urge might also come from the management socialization, if they were born or have experience of another country. (Hollensen, 2011, 51)

When a firm has exclusive information of a foreign market it may result in internationalization. This information might be knowledge of customers or the market situation in a foreign market. This kind of information is suitable when the firm wants to start to internationalize. (Czinkota & Ronkainen, 2010, 280) The size of the international market is large and with an increased production for the international market the firm can decrease the cost of production in the domestic market. This makes the firm more competitive in the domestic market as well. (Hollensen, 2011, 52)

Tax benefits are closely tied to the profit as well. Going to a foreign country may have an advantage of lower taxes in that country. The result of that is that the firm can offer their products at a lower price or to get more profit while having the same price as in the domestic market. (Hollensen, 2011, 53) Opposite to the proactive reasons why a company wants to internationalize is the reactive reasons.

2.1.2 Reactive Reasons

The reactive reasons are then the ones that make that the firm have to change and there is pressure in the business that makes the company need to go international. (Czinkota & Ronkainen, 2010, 280)

The firm might fear losing domestic market share to competitors or lose the foreign market to new competitors in the competitive pressure. This might result in the firm making a quick decisions to entering wrong markets. (Czinkota & Ronkainen, 2010, 280) Knowing that the competitors are internationalizing gives a strong motivation to the firm to internationalize. (Hollensen, 2011, 53) Overproduction in the domestic market makes a lot of firms enter a foreign market to do production or to keep inventory. The production in the foreign market may then later be terminated or reduced when the domestic market is down or on a more normal level. (Czinkota & Ronkainen, 2010, 280)

When the firm's sales in the domestic market are stable or decreasing the firm might want to prolong the life of their product. In this case the firm expands to foreign markets. The same is with the saturated domestic market reason. The domestic market is saturated and the firm needs to prolong the life of the product by entering a foreign market. (Czinkota & Ronkainen, 2010, 280, Hollensen, 2011, 54)

Many firms have internationalized because of unsolicited orders from foreign markets. Customers from the foreign markets might have seen an advertisement somewhere or came into contact with the product through an exhibition. (Hollensen, 2011, 54)

The physical closeness to another market may encourage the firm to go international. For example in Europe the countries are very close to each other, which makes the firms go over the boarder to the neighbouring countries. The psychological distance also plays a role in the proximity to a port and customers. A firm might choose the neighbour countries instead of countries far away because of similar norms, language and other factors. (Czinkota & Ronkainen, 2010, 281)

Successful international firms are more motivated by the proactive factors rather than the reactive ones. Internationalization is mostly based on the management and their strengths and weaknesses. (Hollensen, 2011, 55) When a firm decides to internationalize there are different models that have been researched. These models are suggestions on how firms internationalize.

2.2 Internationalization Models

There have been several models for how internationalization works and how the activities help the business. The following models of internationalization will focus on the process of SMEs. These models will help in identifying how SMEs internationalize and give a better view for the reader what internationalization means. All the models that will be introduced in this chapter have a link to the main model that this thesis is focusing on, the Network Export Model.

2.2.1 The Uppsala Model

The Uppsala model intends that the companies start their operations in very nearby markets first, typically by exporting through an agent to later finding a subsidiary and then starting production in the host company (Hollensen, 2011, 74). Sales subsidiaries are preceded in almost all cases through a sales agent. Similarly the local production is also done by sales subsidiaries. According to the companies that Johanson and Vahlne examined, the companies did not start production in a country without selling in the country through an agency or sales subsidiary first. This means that the companies go through a lot of steps before selling internationally (Johanson & Vahlne, 1977).

Basically the Uppsala Model explains the process of a firm with no exporting, exporting, owning a subsidiary, to full establishment of production abroad. The model implies that companies usually enter countries that are more alike than different in things like culture, language and education (Lam & White, 1999).

Johanson and Vahlne's model assumes that firms strive to increase their long-term profit, the growth of the company and want to keep the risk taking at a sufficiently low level. The Uppsala model estimates that internationalization affects the opportunities and risks and then also the decisions and the activities of the companies. (Johanson & Vahlne, 1977)

In Johanson and Vahlne's model there are market knowledge and market commitment that affects the decisions of a company. As shown in Figure 1, the state aspect is the knowledge they have about the foreign market and the resource

commitment. The change aspect is the current activities of the company and their commitment to decisions on the resources. The commitment is, for example, higher if more resources are integrated in the company activities. One decision can then influence the whole company or process. (Johanson & Vahlne, 1977)

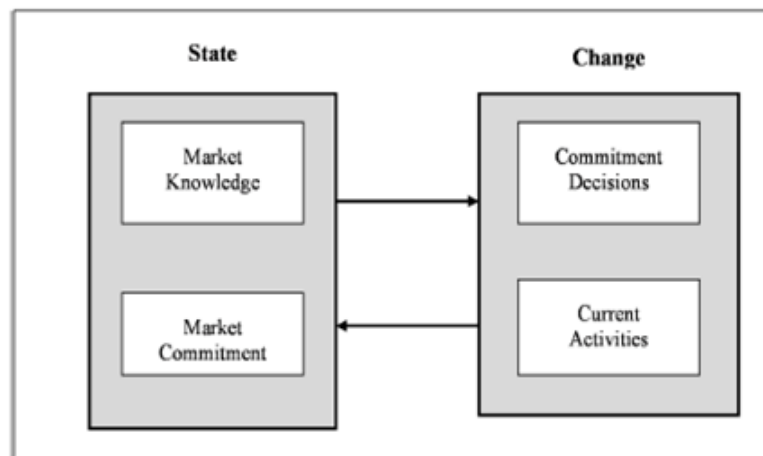


Figure 1 The Basic Mechanism of Internationalization – State and Change Aspects (Johanson & Vahlne, 1977)

There has been certain criticism against the Uppsala model. According to Holtenen, studies have shown that the Uppsala model does not work for the service industry. In the service industry the foreign commitment is lacking. The Uppsala model has also been more criticised when recent studies have shown that companies enter into distant markets at a much earlier stage than this model shows. The process itself seems to be speeding up. This might be because in today's business world there is a lot of knowledge how to do business abroad. There are more schools and training in companies in the internationalization area than there was before. Though the criticism of the Uppsala model is strong, it confirms that businesses' need to commitment and experience in their international business. (Holtenen, 2011, 75-77) The innovation-related model is a continuing model on the Uppsala Model and focuses on development.

2.2.2 Innovation-Related Model

The innovation-related model is explained as adopting innovations in the internationalization process (Lam & White, 1999). The focus is especially on the export

development process and is a stage model as is the Uppsala model with several stages (Ruzzier et al. 2006). Compared to the Uppsala model the Innovation-related model addresses the source of the internationalization decision (Lam & White, 1999). Otherwise these two models are fairly similar, there are only a few terms and the number of stages that differ in them (Ruzzier et al. 2006).

Both the Uppsala model and the innovation-related model do not state how the internationalization process should progress or how a company should start their internationalization. However the stage models, Uppsala and Innovation-Related model see the internationalization process as revolutionary and as a learning process (Lam & White, 1999). These two models have been used in researches in both small and large companies over time (Ruzzier et al. 2006).

2.2.3 The Product Life Cycle Model

The earliest internationalization model is the product life cycle model (Lam & White, 1999). According to Danciu there is an internationalization model that is based on the life cycle of the product. This model suggests that a product, which is produced in a developed country, will grow in production to later be mass-produced in a developing country. This means, as the product gets older and goes further in the life cycle, the internationalization on the production increases, because the costs are more significant. (Danciu, 2012)

There are three stages of the product life cycle; the new product, the mature product, and the standardized product. The new product is, as said before, produced in the developed country and marketed domestically there. Slowly the product is also being exported to other developed countries. The competition gets more intensive in the mature product stage and to give customers the most competitive price of the product, the production is started in a foreign country. In the standardized stage of the product, the product is now mature and declining. The production that is located in a foreign market might now be moved back to the developed country. (Danciu, 2012)

The product life cycle model has two advantages when moving along the stages; knowledge and cost reduction. It is obvious that the cost gap is a big difference between the developed and the developing countries and it will always be. The knowledge gap, however, between these countries has become smaller and the developed countries do not have that much more knowledge than the developing countries. Though there are many companies from the developed countries that use entry modes such as licensing or franchising to emerge themselves in the new countries, no matter on which development level the country is. (Danciu, 2012) Critics have also commented that this model is more of a trade theory than an internationalization model (Lam & White, 1999).

Another internationalization model that takes the cost seriously is the transaction cost analysis model. According to this model companies internalize, that is integrate with an external company, to reduce the transaction costs. Companies apply this model when they internally cannot complete the activities at a lower cost. SMEs often lack the knowledge and resources to work with an agent or distributor, and therefore have to rely on governmental systems of investments and skills. (Hollensen, 2011, 77-80) If companies do not want to integrate with another company they can be a part of a network. By being a part of a network might make the process of internationalization easier and the partners in the network might have more experience of this.

2.2.4 Network Approach

In the past two decades a great deal of focus has been put on the internationalization, and especially doing it in networks (Hollensen, 2011, 72). According to Hollensen (2011) the network model is when companies have relations with each other instead of working independently. The network between the companies is only according to their own will to be involved. These networks are also freer, and companies may build new or break the old networks as they like. Though there are usually the old relationships that have the most transactions in the network (Johanson & Mattson, 1988). The network might be of big advantages in fields where there are large and rapid changes in the market. This might mean that busi-

nesses emerge in networks that give them the most advantage, i.e. the most exchange relationship. (Hollensen, 2011, 80-81)

A business network is not an easy thing to be observed by an outsider, or someone who wants to enter it. The different actors in a network can be tied together by a large number of different reasons, e.g. economical, legal, technical or social reasons. According to Hollensen the network model is assumed that companies are connected through the resources (Hollensen, 2011, 81). The actors in the network become more dependent on the others because of the resources (Danciu, 2012). Through the resource demand from other actors there might be outside actors that need to join the network of the one actor to be able to give the other actors the resources they demand (Hollensen, 2011, 81). This makes the relationship in the networks to develop and possibly change the relationship either to the better or worse (Johanson & Mattsson, 1988).

The network might not only be inside one country border, referring to a national net (Johanson & Mattsson, 1988), but can extend to other countries (Hollensen, 2011, 81). According to Ruzzier, Hisrich & Antoncic, that because of the relationships in a network, firms can become international if the other firms in the network does so (Ruzzier et al, 2006). Companies might also demand that the suppliers in the network follow the company abroad, if they want to keep some business in the domestic market too (Hollensen, 2011, 81). This means that the actors in a network are primarily engaged in the domestic market and then further develop into other markets, by connecting to new networks or developing the existing ones. (Ruzzier et al. 2006)

The internationalization of a company inside a network depends on the position it has. The strength will also increase greatly with relationships on the international level (Johanson & Mattsson, 1988). There are four different situations that explain the degree of internationalization of companies in a network (Figure 2) (Danciu, 2012).

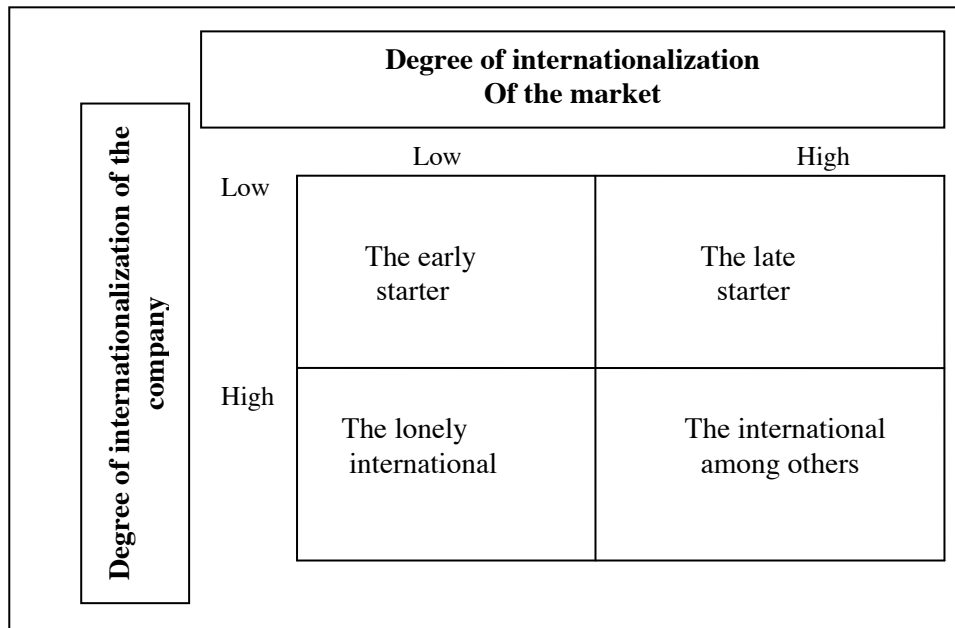


Figure 2 Internationalization and the network mode: the situations to be analysed (Johanson & Mattsson, 1988)

In the early starter stage the company has no important relationship with international actors and has very little knowledge about the foreign market (Johanson & Mattsson, 1988). In this stage the company gets involved slowly in the international business through an agent, which then leads to a sales subsidiary, and production subsidiary (Hollensen, 2011, 82). The further the company gets in the internationalization it changes to the lonely international situation (Johanson & Mattson, 1988).

The lonely international have here experience with other actors in the foreign market (Johanson & Mattsson, 1988). At this stage the company has more knowledge about international business than in the early starter situation (Hollensen, 2011, 83). The competitors, suppliers, and customers are less internation-

alized here, which might lead to the company establishing new relationships to deepen the ones who exist (Danciu, 2012).

The late starters are still very focused on the domestic market compared to other companies in the network that have long-term relationships with international markets (Danciu, 2012). If we compare the late starters with the early starter, the late starter find it difficult to find good relationships as the competitors already have the best distributors in their hands. Here the timing is shown to be very important in the global market, if a company wants to succeed (Hollensen, 2011, 83). With less knowledge and late in entering a foreign market the competitors might make it hard for the late starter with higher prices and better customer adaptation (Johanson & Mattsson, 1988).

In the last situation in the figure, the international among others, the company can build a bridge from one network to another. E.g. production in one market might make it possible for sales in another market (Johanson & Mattsson, 1988). International knowledge in this situation is very high and therefore the need to use different markets is stronger (Hollensen, 2011, 83-84).

When companies are a part of a network there is a large number of advantages and disadvantages. Being in a long-term relationship with another company gives a lot of knowledge from the other that might impact on the company's internationalization. Being in a relationship is not always easy, it requires a lot of trust, resources, control, and interdependency between the companies in the relationship. A network might give companies the connection to the international business, but there is a growing model of a resource approach, that also needs to be studied. (Ruzzier et al. 2006)

An individual firm might be dependent on other individuals in the network to get the resources they need for production (Johanson & Mattsson, 1988). Through this statement the thesis will continue on an approach that is a part of the network model, the resource-based approach.

2.2.5 Resource-Based Approach

The network model and the resource based model work hand in hand. In order to get resources the firm have to use their network. The firm can work vertically, with the product flow from raw material to a finished product, and horizontally, with competitors to join in a network. (Ruzzier et al. 2006) This might mean that the firm has to enter a market to search for available resources or to enhance the existing ones. (Kamakura et al, 2012).

The resource-based model does not look outwards, but inwards, towards the intangible and tangible resources of the firm. These might be assets, knowledge, and skills of management, which will lead the firm to be competitive. (Kamakura, Ramón-Jerónimo & Vecino, 2012) In a network the companies become dependent on each other's assets. Therefore, also the usage of the firms' assets will depend on the other firms' usage in the network. (Johanson & Mattsson, 1988)

There are three groups that a firm's resources can be put in; the physical capital resources, human capital resources and the organizational capital resources. The physical resources are the ones that are used in the firm, such as equipment or raw materials, tangible assets. The human capital includes the individual workers experience, intelligent and training, and the organizational capital resources are then the planning, controlling and coordinating systems that a firm use, intangible assets. The organizational capital also includes the relations inside and outside of the firm. (Barney, 1991)

Barney's research (1991) shows that every firm is unique and that this uniqueness comes from the resources that the company has, and how they distribute the resources in the firm. To be able to have competitive advantages in a unique situation firms cannot have the same resources. (Barney, 1991) Intangible assets are the most important ones when it comes to competitive advantage either in the domestic or the international market (Ruzzier et al. 2006). If a firm does not realise that it has a competitive advantage it is at the same place as if it did not have and advantage at all (Barney, 1991). This theory also applies to network of businesses, as in the next chapter there will be a closer look on export networks.

2.2.6 Export Network through a Resource-Based View

The earlier discussed models are all connected to each other in some way. The Uppsala model being the most used model with its stages towards internationalization. The Innovation model and the product life cycle are both models adapted to the Uppsala model. The network approach and the resources based approach are also connected to the Uppsala model as networks are found everywhere in the market and a business could not work without a network of suppliers and customers. A further model born from the Network and Resource based approaches is the Export Network model. In this model the main focus will be the resources used in the model.

The export network model, as introduced in the introduction, is connected to the network and resource-based approaches in cooperation with other companies. In a network companies work both horizontally and vertically to increase the internationalization of SMEs (Virtanen, 2008). The export network works mostly in the horizontal line and wants to develop a long-term cooperation through the network. (Ferreira, 2003) Håkansson and Johanson (1992) present the network as a triangle of actors, activities and resources, Figure 3. They suggest that a network is defined by these components, either separately or combined. From this model the focus is on the network of resources, as well as from the resource-based approach, and discuss the export network model accordingly.

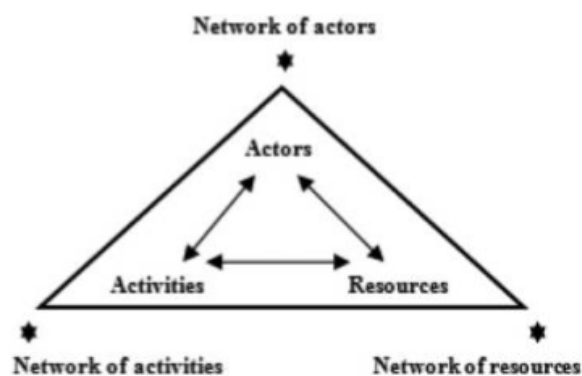


Figure 3 ARA (Actors, Resources & Activities) Model (Håkansson & Johanson, 1992)

According to Wright, McMahan & McWilliams (1994) a resource is anything that could be a strength or a weakness of a firm. The resources of a firm are the main reason how the firm succeed in their export performance. However the resources and the activities of firms are closely connected and by changing activities the resources might be changed as well. (Håkansson, 1992) The firms must deal with both internal and external resources when entering into an export network. (Ibeh & Wheeler, 2005) As mentioned in the resource-based approach theory the resources are organizational, human capital and physical capital resources. (Barney, 1991) To further develop these resources we call the human capital resources for managerial resources. (Ibeh & Wheeler, 2005) Managerial resources refer to the experience and the attitude of the managers to start export business, but also the employees' knowledge, training, and not to say the least relationships within the firm (Barney, 1991). The organizational resources are planning, marketing resources and orientation of the company's activities. Physical resources are then the finance, size, equipment and location of the firm. (Ibeh & Wheeler, 2005) The physical resources are the ones that can be imitated or replaced and are therefore less important in a competitive advantage. (Antoldi et al. 2013) However, all the resources have an effect on the degree of internationalisation and the performance the firm makes in export business as well as in the network. (Dhanaraj & Beamish, 2003)

The network is developed by the resources the firms already have. During time the network is made stronger by these resources or with resources that are being redesigned or changed during the network. However, the managerial resources, that are the managers and employees, must realise the organizational and physical resources they have and work with the other companies in the network. (Håkansson, 1992) An export network and the firms inside this network aim to have heterogeneous resources/products that complement each other rather than homogeneous resources, usually on one target market. (Virtanen, 2008) However there are both strengths and weaknesses with heterogeneity. The resources might change over the time of the network and have both effects on the firms taking part in it. This because of connection with other networks outside the export network. Changes within a firm can happen whenever as the economy changes and mana-

gerial ideas change. Therefore, it is impossible to avoid changes also within an export network over time. (Håkansson, 1992) According to Håkansson & Johanson (1992), the changes within the network must be accepted by majority of the network in order to work as closely as possible. In an ordinary network this might be true, but according to UNIDO (2009) an export network or a consortium it is looser and the firms have more freedom to decide their own changes to their business.

The managerial or human resources are the most important resource in the resource-based view when reaching the wanted export performance. The attitude and the expectations of the entrepreneurs and managers are significant (Antoldi et al. 2013) and the managers are the main reason why companies internationalize (Hollensen, 2011, 51). It is the top managements responsibility to keep the firm in place and guide it in the right direction (Wright et al, 1994). This is why the managers make the main decision in entering an export network. They decide if they want to ‘dance on the dance floor with other firms or decide to leave the party’. (Wilkinson et al. 1998) Although it is the top management that decides the direction of the firm there are employees underneath them than engage and make the strategy happen. (Wright et al. 1994) The knowledge and experience of the managerial resources and activities in organizational resources gives the firm a possibility to combine their resources to increase their performance and their competitive advantage over other networks. (Håkansson & Johanson, 1992) It is the development, the transfer of knowledge and the distribution of resource within the export network or consortium that makes it a success. (Antoldi et al. 2013)

The internal resources of the firms, as well as the external resources will determine the export performance of the export network. Though the internal resources are very important the external resources, which is relational resources, play a big part in the export business. (Ibeh & Wheeler, 2005) It is the export agents or the external actor that arrange the so called dance party, a metaphor by Wilkinson et al (1998), to gather the managers from different firms for a meeting. The export agents will help the export network with various applications to the government for funds and other subsidies to help the network reach its targets.

2.3 Finnish Governmental Subsidies

In Finland there are several organizations that support with subsidies and guidance to companies that want to internationalize. For guidance the companies can get help from e.g. Finpro and Viexpo, and for funding of projects from e.g. ELY-Centres. It is important for companies that are planning to internationalize that there are domestic programmes or companies that supports the company in the process. These programmes might help the companies to become more competitive in the international market and bring improvements to the internationalization outcomes. (Gardó et al. 2015) The subsidies gives grants, loans or tax relief to companies that want to export. It is not only rich countries that give these kinds of grants to companies, but also often developing countries give to the domestic manufacturers. (Hamilton & Webster, 2015, 251-252)

Finpro is a government owned organization, which helps SMEs in Finland with export, and encourage investment in Finland and promotes the Finnish tourism (Finpro.fi). The ELY-Centres, The Centre for Economic Development, Transport and the Environment, are responsible for the regional developments and other tasks given by the central government. There are 15 ELY-Centres in Finland and as the name applies they are responsible for three different areas in the regions, economic development, with business and industry, culture and labour, transportation and infrastructure, and environment and natural resources (ELY-Keskus.fi).

Viexpo is a company that offers SMEs guidance and service when companies want to export (Viexpo.fi). They want to give companies advice on their strategies and market knowledge to help firms have a successful future in the international market. Viexpo is a company that works as the Ostrobothnian ELY-Centre's internationalization unit and works as a coach in market orientation to foreign countries. Viexpo wants to educate firms in today's market, in areas such as sales, marketing and help with knowledge about exporting. Firms have often no clue how to sell in a foreign market and might even have difficulties in the domestic market, with finding the right person in the company to sell to. Viexpo also want

to support firms in making a good strategy for exporting products. (Forss, 2015 (2))

Viexpo's focus is on SMEs and support for them and not large enterprises. Viexpo has a good network and are cooperating with the local operators in Ostrobothnia, such as Vasek, which help the development of the Vaasa region, and the national operator ELY-Centre, Tekes, Finnvera and Finpro. A part of Viexpo's network is also ambassadors and ministers in Finland and abroad. This gives Viexpo a better chance to get in touch with the foreign market and possible business partners. (Forss, 2015 (2)) This helps Viexpo to connect companies in Finland to companies and customers in other markets. (Forss, 2015)

ELY-Centre, Viexpo, Finpro and many more companies are a part of Team Finland, as the Ministry of Education & Culture, Ministry of Employment & the Economy, and Ministry for Foreign Affairs. Team Finland is a network that promotes companies' interest abroad and work locally with several teams. (Team.Finland.fi, 2015) Finding resources for the projects might be a challenge that the export network discovers in the pre-export phase, but challenges are also found during the entire process of internationalization.

2.4 Internationalization Challenges

The main objectives of the firms are to maximize their profits when internationalizing. According to Morgan companies usually choose to remain in the domestic market when being confronted. It is not only during the internationalization process that companies face barriers, but also from the pre-export and in the further stages of the export process. The barriers make the activities of going international more difficult than in the domestic market. (Morgan, 1997)

The internationalization process is very complex and might bring difficulties and barriers that the companies must face. The main difficulties when exporting is the competition in the foreign compared with the domestic market. Lack of knowledge and understanding is one of the main reasons firms face when they go

abroad. It is a challenge for companies to find the target in a market according to Fillis. (Fillis, 2002)

Fillis (2002) also suggests that managers who are more oriented towards the domestic market find more difficulties in going abroad than managers who are oriented towards the international market. Gardó et al. (2015) describe barriers in the internationalization of SMEs as internal and external.

2.4.1 External Challenges

Gardó et al. has divided the challenges in going international into two, external barriers and internal barriers. These can also be found in table 3 below. External barriers could be adaptation to the foreign culture, social norms, language and legislation. (Gardó et al. 2015) There are also the cost of the logistics and the competitive environment that are compelling barriers in the internationalization. (Hollensen, 2011, 64)

The main external reasons for not exporting in firms are that the firm already have sufficient business in the domestic market, have a lack of foreign orders or there are complicated foreign regulations and procedures. (Fillis, 2002)

The firm might have difficulties in finding resources abroad to have a successful internationalization. This process could include not finding the right agent or distributor. (Morgan, 1997) Firms that already have are engaged in exporting business have difficulties matching the competitors prices and promoting their products according to Fillis (2002) study.

Law and regulations are a big challenge for businesses. Domestic regulations might be easier to apply to the product to than the international or a foreign regulation. There are different regulations, for example, on production techniques, packaging, and labeling. Then there are also regulations about the workers, marketing, and competition that vary a lot in the domestic or the international market. When a business has activities abroad it is also important to know which law system the country uses. Finland uses the Civil Law, which is based on written laws,

compared to common law that is based on previous court decisions by the judges and used, for example, in the UK. (Hamilton & Webster, 2015, 265-273)

Table 4 Barriers in Internationalization (Gardó et al., 2015, Hollensen, 2011, 61-65)

External Barriers	<ul style="list-style-type: none"> - Adaption to Culture and social norms - Legislation and Regulations - Domestic market conditions - Language differences - Competitive environment - Logistics cost
Internal Barriers	
Company	<ul style="list-style-type: none"> - Company size - Lack of brand - Inexperienced - Resources
Management	<ul style="list-style-type: none"> - Lack of knowledge on markets and procedures - Passive attitude towards Internationalization - Risk aversion - Conflicts in relationship - Difficulties in transferring concept abroad

2.4.2 Internal Challenges

The internal barriers Gardó et al. have divided into two subheadings, company and management. The barriers influence both big and small businesses the same, but there are a slight difference. The barriers might have a bigger impact on small businesses than bigger businesses. Smaller businesses might lack capital and experience for going international. (Fillis, 2002)

Management could be a great barrier for the company. The management might have a passive attitude towards the idea of internationalization and might not take the risk. (Gardó et al. 2015) The management might have an urge to stay focused

on the domestic market and satisfy that first before moving to the international market (Morgan, 1997). Fillis (2002) researched the major reasons for not exporting is having too little production, the business is too small or there is no time for market research.

There are also barriers such as adapting the products to the foreign market, because of lack of knowledge about the market and their procedures. (Gardó et al. 2015)

For the smaller firms challenges might occur more than in the bigger firms. Though studies have shown that it is completely based on the owners or the managements' behavior and motivation that more difficulties exists for the smaller firms. The most common thing in the export development process is motivation, growth, experience and firm type. (Fillis, 2002)

Removing the barriers gives businesses possibilities of growth and profitability in new markets. Opportunities to more and cheaper resources open up and businesses access new customers easily. (Hamilton & Webster, 2015, 30)

2.5 Conclusion of theory

Internationalization is a widely studied subject with significant number of theories and models of the internationalization process. The process of internationalization consists of three areas, the reasons of internationalization, the process of the actual internationalization, and the challenges facing internationalization. These three areas have been discussed in the theoretical framework of this thesis.

From the theories discussed in the theoretical study of the thesis the empirical framework will focus on export network through resources. This theory is a mix between the resource-based view model and the network model of internationalization. The export network model is specific to Finland and applies to SMEs specifically. The model discussed is looking at the resources used during the pre-stage and during the internationalization process. The after stage of the process can be discussed as challenges that the companies face during the internationaliza-

tion process. The resources in the different stages are categorized to managerial, organizational, physical and relational resources.

From the network model companies in the export network can be early starters, lonely international companies, or late starters. This means the companies those not have a high degree of internationalization from earlier in the early starters, and have a medium degree of internationalization in the lonely international. In some case the late starter, the one who are focused on the domestic market is also a part of an export network. The ones who already have a high degree of internationalization are usually not a part of an export network because of already existing knowledge of the international market.

In the first stage of the internationalization process is the pre-stage. In this stage companies decides that they want to internationalize or needs to internationalize. There are both proactive, pull factors, and reactive, push factors, reasons for internationalization in a company. Already in this stage companies are using different resources to decide what to do.

Later in the internationalization process is the actual process of the internationalization. In the export network model this is the stage were everything happens. In this stage companies goes from researching the new market, visiting the market, and to finding retailers and customers in the new market. This stage is were the companies uses the most of their resources.

In the internationalization process there are also a few challenges and problems that companies might have to face. There are two different kinds of challenges, internal and external challenges. During these challenges a company uses different resources to deal with the challenges. These resources might also be connected to the other stages of the internationalization process. Through the export network model based on a resource-based view qualitative interviews will be held to find out what kind of resources are used during the stages of the export network internationalization process.

3 EXPORT NETWORK

This study is done in cooperation with Team Finland, mostly ELY-Centre and Viexpo. The project started in February 2015, as two organizations decided to research the Indonesian market a little more to find possibilities for Ostrobothnian SMEs.

In the empirical study Indonesia will be researched and what kind of market it has and will have. Further on the export network and the resources used during the process will be discussed. An analysis will be made from the interviews with three companies that have been a part or are a part of an export network. Furthermore, the result from the interviews could be applied if setting up an export network to Indonesia, will be discussed.

3.1 Methodology

In the theoretical study of the thesis different internationalization models were used. In the empirical framework it was decided to use the export network model. This model is a variation from the network approach and the resource-based view. The empirical framework discusses the different resources that companies use during different stages in the export network internationalization process, pre-stage, during, and after. The pre-stage is the reasons of internationalization, during the actual process of internationalization, and after is the challenges faced during the stages of internationalization. These stages will be discussed through the resources, which are the managerial, organizational, physical, and relational resources.

In order to understand the different resources used during the internationalization process a qualitative study is made. Three companies, that are a part or have been a part of an export network, are interviewed with semi-structured questions. This method is used to get a more significant understanding of the process, as the interviewees could add answers and discuss openly after the questions asked. To get a thorough view of the export network process the CEO of Viexpo and the Director of ELY-Centre in Ostrobothnia are also interviewed with semi-structured

questions. All the interviews are held in Swedish to avoid misunderstandings, as Swedish is the mother tongue of the participants. Questions are asked according to the structure of the theoretical part of the thesis, and are found in appendix 1 and 2.

The market research of Indonesia will be made mainly on secondary data sources, such as websites, online articles and publications. A discussion/interview is held with a student who has been on practical training in Indonesia for three months to understand the Indonesian working environment. The industry in Indonesia will first be looked at to see what kind of possible markets there are for Finnish companies there. The chosen industries will then be looked at through a macro environment analysis, consisting of the demographical, economical, and political environments.

The data gathered in a research needs to be authentic. Therefore, there are two kinds of credibility theories. Reliability measures the research precision and the repeatability of the research. With good reliability the research will give the same result if it is repeated. To get a good result we can make the research several times to see if we get the same result. A good reliability can provide a good validity. (Kjellberg & Sörqvist, 2011, 86-92)

Validity is a measurement that if high it should measure the thing we want to measure. For example, we stand on a scale to measure ourselves. The scale can show the same result every time, that means good reliability, but is it our actual weight or is the scale wrong, which means that the validity is questionable. (Kjellberg & Sörqvist, 2011, 86-92)

The reliability of this research is divided in two. The research of the export network process is good, as the answers from the interviews would be much the same if research were repeated in the future. In this case the good reliability also gives high validity, as it is the resources that we want to research and got answers from the interviewed companies accordingly. The research made on Indonesia has a little lower reliability as much data was collected from websites and online articles. However, during the research the same data could be collected from multiple

sources if needed. The validity of the research is high as the results of the research was to discover the market environment of Indonesia.

In researches made about export networks in Finland the word export ring has been used. In theories and researches around the world the expression export networks or export consortia has been used. In this research export network is used as the thesis is made in cooperation with Viexpo and they use it as an official name in their service.

3.1.1 Export Network through Team Finland

Team Finland in Ostrobothnia consists of e.g. ELY-Centre, Vasek, Tekes, Viexpo, and Finnvera. (Vasaregionen. 2016) Team Finland has several projects in Ostrobothnia to enhance the internationalization and export of Finnish companies. With Team Finland, especially ELY-Centre and Viexpo, in Ostrobothnia the Indonesian market has been researched for possible companies to export products or services. (Forss, 2015 (2))

The main area of interest of this study is Ostrobothnia. However, it is not always possible to find companies that match together in a network just in Ostrobothnia. Therefore companies from all over Finland are also being considered when setting up an export network, as this is what the Finnish state wants from the networks. (Forss, 2015 (2))

3.1.2 Chosen Case Companies

The requirement for the company interviews is that the companies either have been in or are at the moment a part of an export network. Another criteria for the companies are that they are from Ostrobothnia as the research includes the exports of Ostrobothnian companies. The area of the business or industry did not affect the selection of companies. With these criteria through Viexpo's database of companies three out of eleven companies were selected for face-to-face semi-structured interviews. These three companies were chosen as they were geographically close to the author, which made it easier to visit for interviews.

The first company is SpaDealers, which is located in Korsnäs in Ostrobothnia. SpaDealers have been in business since 2005 with products in the spa and sauna industry. Their product line consists of different kinds and sizes of hot tubs, baths and saunas. (Sten, 2016)



Figure 4 SpaDealers Logo (SpaDealers.fi)

SpaDealers manufacture all the components themselves for the tubs and saunas, such as the heating system and the bubble system that is placed in some tubs. SpaDealers export 60% of their products and focus mainly on Sweden as well as Germany. They have been a part of an export network that focused on Germany, Switzerland and Austria, and they are currently a part of an export network taking place in the Benelux countries as well as in northern France. (Sten, 2016)

The second company that is interviewed is Nimetech, located in Malax, Ostrobothnia. Nimetech has been active since 1993 in the metal industry and is a supplier to a lot of companies in the metal industry in Ostrobothnia. (Sandqvist, 2016)



Figure 5 Nimetech Logo (Nimetech.fi)

Nimetech produce a lot of parts for working machines, but also complete machines to end customers. They are specialized in, for example, welding, milling and test pressuring, and focus mainly on part mounting. Nimetech as SpaDealers have been a part of two different export networks. The first network in Sweden

and the second in Poland, Germany and the Czech Republic, both being a three-year project each. (Sandqvist, 2016)

The last company interviewed is Weekend House, found in Petalax, Ostrobothnia. Weekend House was founded in 1974 in Petalax and it manufactures log houses. The current owners bought it in 2008. (Veittola, 2016)



Figure 6 Weekend House Logo (Weekendhouse.com)

Weekend House focuses mostly on summer cottages and saunas, but manufacture houses from time to time. The houses are mostly sold according to customers' wishes and needs. Their export is mostly to Spain and Sweden at the moment, but they have earlier exported significant numbers of log houses to Japan. Weekend House has been a part of a two-year export network to France. (Veittola, 2016)

Through these three companies it is possible to receive information about the research question, about how the export network internationalization process is done through a resource-based view. The interview questionnaire can be found in appendix 2. The companies answer to a range of questions about why they chose to be a part of an export network, what resources were used during the network process, and challenges that they have faced. There were seven to eight interview questions but the interviews were open and included follow up questions and discussion. Along with the answers from the companies are also answers from interviews with the Director of ELY Centre in Ostrobothnia and the CEO of Viexpo about export networks. The questionnaire is found in Appendix 1. The interviews here held in Swedish so no misunderstanding would occur.

3.2 Analysis of Interviews

The analyses of the interviews are divided into three different sections, as the theoretical study in the thesis is. These sections are the reasons of internationalization, the export network internationalization process, and the challenges of internationalization. Furthermore, these parts are divided into the resources that the companies used throughout the stages of the internationalization process. The analysis will, therefore, not be divided company wise, but topic wise. The result from the interviews with the Director of ELY Centre and the CEO of Viexpo will also be discussed through these section.

3.2.1 Reasons of Internationalization

The CEO of Viexpo, Håkan Forss, and the Director of ELY Centre in Ostrobothnia, Kaj Suomela, explained that there are many reasons for why a company would want to internationalise. The domestic market might seem small and the business is not growing, as they would like to. (Forss, 2015 (2); Suomela, 2015)) In Ostrobothnia we have a lot of companies that are exporting, but also companies that are working only on the domestic market. Companies today face more and more competition in Ostrobothnia than before. There are companies coming from abroad to challenge their market. For example a local sport store My Sport recently closed in Ostrobothnia because the major sport chain Stadium came to the market. Also the food store Lidl is taking more and more customers from the Finnish stores. (Suomela, 2015) If companies want to survive they need to expand, because the Finnish market might not be big enough. (Forss, 2015 (2))

As mentioned earlier in the case company overview all three companies have been exporting before. This means that according to the network model they are the lonely international, which have experience from international business, but produce and manufacture in the domestic market. During the first stage, the pre-stage, of internationalization the companies used a significant amount of similar resources to define why they wanted or needed to internationalize their company. The resources were mainly from the managerial, physical, and relational resource groups.

The physical resource, one of the most important reasons, was the same in all three case companies. Nimetech wanted to increase their production and sales of their product through internationalising. Whether it was in an export network or not did not matter. (Sandqvist, 2016) The main reason for SpaDealers was also the increase sales. (Sten, 2016) Furthermore, Weekend House wanted to increase its production. A physical reason for carrying out internationalization through an export network was the shared cost of it, as it would be cheaper doing it in a network than alone. (Veittola, 2016)

One of the most important resources that were used in the pre-stage of internationalization was the managerial resource. According to Sandqvist (2016) the commitment to internationalization is mainly the attitude of the managers. They need to focus on where they want the company to go in the future. (Sandqvist, 2016; Sten, 2016) Another managerial reason for wanting to internationalize in an export network is the time of the management. The managers might have the attitude of wanting to internationalize, but not the time to do it. This is why an export network is a great option. (Veittola, 2016)

The last resource used in the pre-stage of internationalization is the relational resources. According to Veittola (2016) Weekend House has a significant number of larger competitors in the Finnish market. The situation in the market is not good and Finland has been in a recession for a while. This is the main reason why Weekend House chose to be a part of an export network. (Veittola, 2016) All of the interviewed companies wanted to be a part of an export network to get new retailers, or other distribution channels, of their products onto a new market. It seemed that it would be easier to get new contacts through a network than alone. (Sandqvist, 2016; Sten, 2016; Veittola, 2016)

After the companies has realised they want of need to internationalize the ideal practice is that companies would get together to realise the exporting. These companies would then appoint an export agent to help them. (Forss, 2015(2)) However, in the interviewed companies the relation started with the agent contacting the companies. (Sten, 2016; Veittola, 2016) When the agent contacts the companies

the actual internationalization process begins. This means that other resources are used and companies start the export network process.

3.2.2 The Export Network Internationalization Process

After the pre-stage in the internationalization process is the “during-stage” of the internationalization process. During this stage a significant amount of resources are used from the four resource groups. All the resource groups, organizational, managerial, physical, and relational, have their impact on the export network internationalization process.

According to Viexpo’s CEO the goal is to follow certain steps in the export network internationalization process. He explains it as a bridge going from the company’s own market over to the other market. This is shown in Viexpo’s own material below, shown in Figure 7. (Forss, 2015)

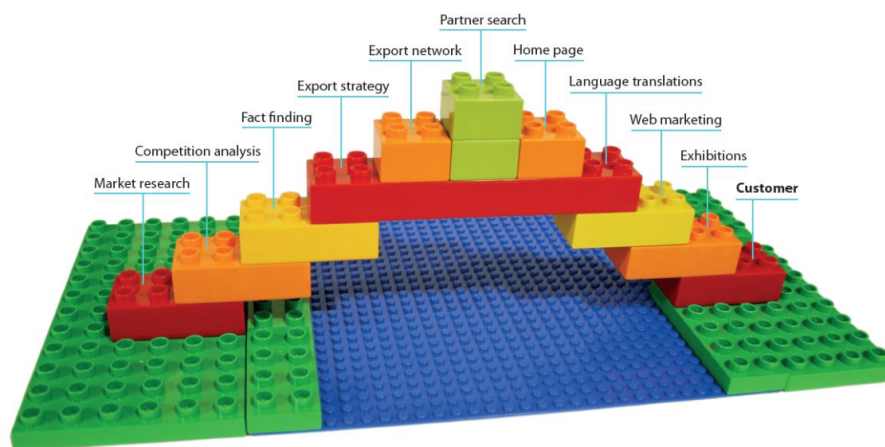


Figure 7 Internationalization Process according to Viexpo (Forss, 2015)

This process starts with a market research to see what possible markets there are for the companies, and to find a specific one that will be analysed more. In this research a competitor analysis is also made. Ideally the companies should have done some research before contacting the agent. However, when the companies are contacted by the agent this is not the case. After the research market visits are made, which leads to finding distribution channels in the new market, which then leads to finding new customers. (Forss, 2015(2))

The goal of an export network is to sell the products to one customer, e.g. complementary product into one complete product to sell to a customer. (Forss, 2015 (2)) This is very difficult for a network if the products are not totally complementary. Customers can, however, be interested in more than one product from the network. This would be more realistic than if a customer would be interested in the whole network's products. (Sten, 2016; Veittola, 2016)

The companies in the network of the interviewed companies were all non-competitive companies, as it should be in a network. The companies should not have to compete with each other in the new market. (Sandqvist, 2016; Sten, 2016, Veittola, 2016) However, very similar resources were used in these three different companies.

The physical resources are important when entering in an export network internationalization process. The main physical resource is the financial resource. This includes both the companies' own financial resources and the governmental resources. The governmental resources are a significant resource in the export network and the budget, therefore, is important to get right. (Sten, 2016) The governmental resource is applied for either through Finpro or ELY Centre for the companies. The interviewed companies acted differently when applying for governmental resources. SpaDealers applied themselves for the resources, and Nime-tech and Weekend House had their export agents apply for the resources for the network. (Sandqvist, 2016; Sten, 2016; Veittola, 2016) In both situations, the government will support the companies with over 50-60% of their budget. The support from the government is used to build the ground of the network, the first steps on the bridge, the market research and fact-finding trips. (Forss, 2015 (2)) The companies will also get separately support for traveling costs, such as visiting fairs, expos, and retailers with the export agent. However, if this is not used it will be given as a benefit. The rest of the cost is then divided evenly and paid from the companies' own financial resources. (Sten, 2016; Veittola, 2016) However the bigger the company that is in the network, the bigger their share of the budget is. Therefore, it is more even to have small companies in one network (Sten, 2016)

The managerial resources in this stage are the same as in the pre-stage of the process. The attitude of the managers is here the most important element in the internationalization process. (Sandqvist, 2016; Sten, 2016) Organizational resources, however, are a few more than the managerial resources. A significant organisational resource in the beginning of a network is the export strategy of the companies. The companies each have their own export strategy that they want to achieve in the export network and have these as goals when entering an export network. (Sandqvist, 2016; Sten, 2016).

To the organizational resources belong product adaptation and development, and price adaption and competitiveness. These should all be considered when entering a new market. The products that the customers are interested in might have to be adapted a little to fit the new market and to achieve a better result. (Forss, 2015 (2); Sandqvist, 2016; Sten, 2016; Veittola, 2016) As Weekend House products are based on customers' own wishes the adaption and prices were made as the customers ordered. However, they had their products slightly cheaper when first entering the market. (Veittola, 2016) SpaDealers changed their prices according to the current competition on the market; this was usually discussed with the retailers. Their products did not change much as customers can also change the product to their needs. (Sten, 2016) Nimetech developed their products more when they were a part of the network and there were also totally new products developed during the network. (Sandqvist, 2016)

As a network consists of several parties the relational resources are here the most important ones. The most important relational resource is the export agent. Export agents can be provided from Viexpo, but also from other companies or the export agents privately contacts the companies in matter to have an export network. (Sten, 2016) In the network that Weekend House was a part of Viexpo provided the export agent with an office for the research made for the companies. (Veittola, 2016) However, the companies are not always from Ostrobothnia, even if one company in the network is. Therefore, the agent can be located in another area of Finland. (Sten, 2016) The agent should have a close relationship with the companies and above all give them information in time about the new market, when

there is something positive or negative about the market that they need to know or if a partner in the new market appears. (Sten, 2016) Viexpo can also be a part of the relational resources in some of the steps in the bridge e.g. to give companies their services of knowledge in going to an exhibition. (Forss, 2015) However Viexpo is not always used as a source of help in an export network. (Sten, 2016)

Among the relational resources the relationship to the other companies in the network and the export agent are important. The interviewed companies did not have close contact with the other companies in the network except for Nimetech, which shared ideas about product development with the other companies. The companies in Nimetechs network had a good relationship with each other. (Sandqvist, 2016; Sten, 2016; Veittola, 2016) Weekend House did not have a very close connection with the other companies as they felt they had too different products. (Veittola, 2016) SpaDealers did not have a very close relationship to the other companies either and shared minimal information with them in fear of not getting anything back. (Sten, 2016) However the companies met at meetings with the agent for different decisions that had to be made. (Sten, 2016; Veittola, 2016)

It is the agent's job to do the market research, along with the companies, and to create contacts in the new market. It is not, however, the agent's job to sell the products of the network to customers. The agent is recommended to be an outsider of the companies. It is not good if the agent is already a part of one's company export business. (Forss, 2015 (2)) The agent, however, must know enough about the products to be able to sell them to the retailers and agents in the new market. Therefore, it is important that the agent has a good relation with the companies and this way the companies will get new retailers or agents to help sell their products to the customers in the end market. (Sandqvist, 2016; Sten, 2016) The agent or the retailer could help with translations and give advice of the culture and business in the new market. Viexpo offers translations services if needed, but mostly the export agent is familiar with the language. (Forss, 2015 (2))

A relational resource that is significant to the customers is the marketing of products. The export agent in SpaDealers case had a webpage about the export net-

work, but in this case it did not help. The customer wants to see prices and products and therefore companies' own webpage were best in this case. (Sandqvist, 2016; Sten, 2016) It is both the export agent and the companies that do the marketing of the products in the network. This can be done through a webpage or going to exhibitions. They want to attract as many retailers and agents as possible from the new markets, to be able to sell more to the end customers. (Sten, 2016; Veittola, 2016) The result of these networks was that the companies got new retailers in the market that could sell their products. (Sandqvist, 2016; Sten, 2016; Veittola, 2016) Furthermore this process is not entirely without challenges towards the companies and export agent.

3.2.3 Challenges of Internationalization

In an export network you can minimize risks that may occur during the process, as there are several companies that are involved. These risks in physical resources are finance, and high cost. In a network the cost is divided and therefore not such a big risk. (Sten, 2016) However, an export network takes time and money and all the companies might not have that. Companies that have a bad economy should consider not being a part of an export network, as they do not have enough finances to continue a process for a longer time even if the costs are shared. (Forss, 2015 (2)) Furthermore, there might be additional costs or more expensive alternatives when going through a company when visiting exhibitions. It was e.g. more expensive to go through Tekes to get a stand at an exhibition. Then it would have been cheaper to do the export by themselves and not go through Team Finland. (Sten, 2016)

According to the interviewed companies there were not any challenges affecting the organizational and the managerial resources in the export network internationalization process. However, most challenges can be found in the relational resources. That is the relation to the agent and his/hers work, the relation with the other companies, and other external challenges.

A main challenge in a network is that the companies are being overoptimistic about the results that they are going to get. This might get them to pull out of the

network when they do not get the result wanted. In order to get better results the companies in the network should work with the agent and not leave him to work alone. The agent is there to help with market research and finding partners in the new market, not to sell the products and do the marketing. (Forss, 2015 (2)) When using an export agent you are using a person who already knows how exporting should be done and has experience of it. This makes the job easier for the network as they have someone to rely on who knows how the reality works. (Suomela, 2015)

However, it is the agent's work to find partners or retailers to the companies in the network. Therefore, the agent must be a driven person and know the products the network is selling to be able to sell them to future partners and dealers in the new markets. This was a huge challenge in most of the networks because the agent had only a few days to get to know the products that the companies were selling and the companies did not find this helpful. It would have been more effective to do it by themselves, because of all the different things the agent had to focus on. (Sten, 2016; Sandqvist, 2016)

Because of the minimal time the agent had to get to know the products, Nimetech felt that being a part of an export network did not give anything extra. It would have been more effective if there were only two companies to work with. (Sandqvist, 2016) However, the agent that worked with Weekend House had earlier been employed at another log house company and was familiar with their products from earlier. (Veittola, 2016)

Furthermore, the agent should master the language of the future market to be able to get as much as possible out of the situation. Though English works in most situations, the language might be a significant challenge for the export agent. (Sten, 2016) In this case Weekend House was also lucky as their agent was a fluent speaker of French, which was needed in the network. (Veittola, 2016) Another challenge with the export agent is to get the information in time from the target market to be able to e.g. adjust the product or other important things. Likewise it is significant for the companies to cooperate with the retailers. SpaDealers felt

that choosing the agent themselves would have given better results as they could chose someone who fits to the new market they are trying to reach. (Sten, 2016)

Furthermore, external challenges might occur in an export network. According to Forss, 2015 (2), e.g. our neighbour country Russia has closed their market for the time for certain products and it has been hard on some industries. Therefore, new markets should be targeted instead of Russia. Another uncertainty is the Internet, which is constantly changing. The companies should keep up with the Internet, as there is now so much that can be done online, instead of e.g. newspapers and printed media. (Forss, 2015 (2))

A challenge that Weekend House faced during their export network was the recession in Europe. When they started their network to France the economy of the country was good but the recession came and the retailers were no longer that interested in a partnership. Again the competitions from other markets are a challenge. Companies from countries with lower labour cost might sell their products at a much cheaper price, even if they have the same products. (Veittola, 2016)

Another important factor to consider in an export network is laws and regulations. The domestic market might have a total in different law system and regulations than the market the company is about to enter or the international market. The company needs to be sure that their products fulfil the requirements in the new market so no problems will arise. (Forss, 2015 (2))

3.3 Market Environment Indonesia

A market environment analysis can be divided into two environments, the micro and the macro environment. The micro environment is about the company itself and their strengths and weaknesses. The macro environment consists of bigger forces coming from around the company, such as political or natural forces. In total there are six different forces that can be considered when analysing the market through the macro environment. However, when researching Indonesia and analysing what kind of forces might be significant to Finnish companies in starting exporting there, only three of these will be looked at. The research will take a

closer look at the demographical, economical, and the political forces that might cause difficulties. (Young & Pagoso, 2008)

Before getting into the macro environment analysis a main view of Indonesia's industry will be presented. From this industry view a discussion of market possibilities will be made to choose more specifically which industries there would be a possibility of starting an export network process in.

3.3.1 Industry

The main industrial sectors in Indonesia is mining and manufacturing. These two have contributed to a big part onto the nation's economy since the 1970s. The industrial growth has been about 4-5% annually since 2010. The main manufacturing and mining products are: oil, coal, gold, footwear, textile products, paper products, furniture, automobile and electronics. (Indonesia Investment, 2015)

Agriculture plays a big role in the Indonesian economy, as shown in Table 5. In Indonesia large plantations and produce palm oil, rubber, cocoa, coffee, tea, cassava, rice and tropical spices. Palm oil production is the biggest in the world and it still continues to grow. Indonesia is the 3rd biggest country in rice production, but still needs to import rice to maintain the demand of the nation. The commodities over all stand for 60% of the total export of Indonesia and the highest share of export compared to the rest of the world is palm oil and geothermal energy, which originates from the volcano belt that Indonesia is standing on. (Indonesia Investments, 2015)

Table 5 Distributions of SMEs in Various Industries by 2000 (SMRJ, 2008)

Industry	No. of Companies	No. of Workers %
Agriculture	23,516,865	60,24
Mining	155,504	0,40
Manufacturing	2,627,122	6,73

Electrical/Gas/Water	4,423	0,01
Construction	136,423	0,35
Trade/Hotels/Food & Beverage	9,139,645	23,41
Transportation/Communication	1,872,892	4,80
Financial/Real Estate	19,440	0,05
Service Industry	1,512,938	3,86
TOTAL	38,985,072	99,85

Indonesia has, therefore, a big potential in the renewable energy industry as they have access to water, wind, sun and subterranean heat. In the recent years Indonesia has increased significantly its production of renewable energy, as shown in figure 3, and the country is continuing to increase it. Indonesia currently has a plan of increasing the share of renewable energy even more. (IEA, 2008)

Total Production of Renewables (Mtoe)

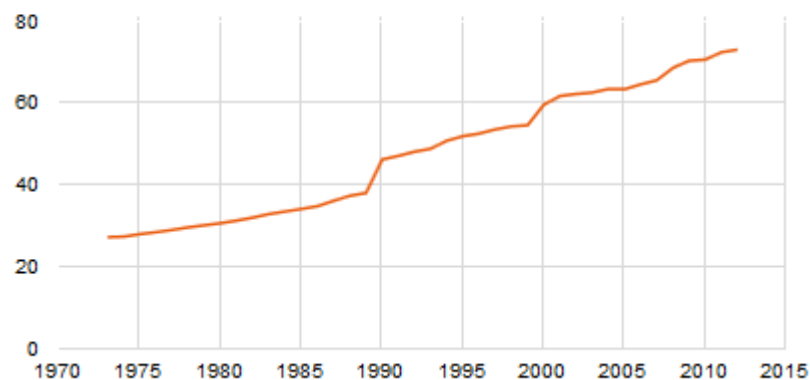


Figure 8 Total Productions of Renewables (IEA, 2008)

The wind energy potential is not great because of the low wind speeds ranging from only 3-6 m/sec. However, hydropower and biomass potentials are significant

in Indonesia. Furthermore, the country sits on the volcano belt, therefore geothermal potential is great and currently Indonesia has around 40% of the global geothermal reserves (Tsagas, 2015). Indonesia is hoping to develop its geothermal reserves even more. According to the International Energy Agency, 2008, Indonesia wants to reach a target of 9 500 MW of geothermal energy by the year 2025.

3.3.2 Market Possibilities

Indonesia has a large potential in the renewable energy business, with a huge supply of hydropower, geothermal energy, biomass energy and wind energy. The potential in each industry varies from 75GW in hydropower, 27,5GW geothermal power, 50GW biomass energy and 9GW wind energy potential. The Indonesian government has set up two goals for the renewable energy industry. First they want to have a halfway goal of 19% renewable energy by 2019 and a goal of 25% by 2025, of the whole energy supply of Indonesia. (Mittal, 2015)

The current percentage of renewable energy in Indonesia is on 4%, 2014, which means there is a demand on a 15% raise to meet the halfway goal that has been set. UNDP states that Indonesia needs to build at least 42 100MW power plants to be able to meet this goal by 2019. To make this possible UNDP suggests that Indonesia needs to attract more private investment because the government has limited funds in this matter and is not able to build on their own. (UNDP, 2015) This makes it a huge opportunity for companies also outside of Indonesia to invest in the renewable energy industry.

Currently there is a joint venture between an American and Indonesian company building a large wind energy plant. The Indonesian government have also said to have a project of 4-5GW of geothermal energy that is going to be operational 2015. (Mittal, 2015) General Electric has also signed a deal of four infrastructure projects worth 1 billion dollar. Three of these projects will together generate 3GW, the last project is to help boost the transportation services. (Power Technology, 2015)

According to the Oxford Business Group (2015) the Minister of Energy and Mineral Resources said that it would help with foreign investments in Indonesia if the import tariffs were eliminated, especially for the import of goods used in developing renewable energy. (Oxford Business Group, 2015) President Niinistö has been to Indonesia now in November to discuss cooperation in issues regarding the energy and infrastructure industry. (Persson, 2015)

According to Kuncinas (2016) Indonesia needs, in order to be in line with middle-income benchmarks, 2 650km road, 1000km toll roads, 15 airports, 24 seaports and over 3000km railroads. President of Indonesia, Joko Widodo, has high ambitions when it comes to infrastructure. He wants to spend 20 billion dollars 2015 on new roads, ports and other projects. (CNBC, 2015) Through this the government wants to build power plants that gives 20 000 megawatts electricity and a railroad which amounts to 1 095 kilometres long. The government wants to build in six areas above all. These are: Sumatra, Java, Sulawesi, Kalimantan, Bali-Nusa Tenggara, and Papua-Maluku. Spread over five years this would be a 150 billion dollar project. The government only have enough to invest in 30 per cent of the amount needed. (IFC, 2015) As in 2016 state budget they have allocated 24 billion dollars to infrastructure projects. (Indonesia-Investment, 2016) The private sector has only invested 15 per cent so far in the infrastructure development. (Indonesia Investment, 2015) That is why foreign investment in Indonesia is very important for them in this industry. (IFC, 2015)

A lot of countries and companies have started to invest and fund different projects in Indonesia. In September 2015 China Railway Construction Corporation signed an agreement to invest in a 30-kilometre long railway between the islands of Sumatra and Java. A Japanese company is also going to build a power plant, which will give power to 8 million people in 2016. (IFC, 2015) Canada's Prime Minister Trudeau made the most recent announcement, that Canada will be investing a bit over 14 million dollars. They are partnering with the World Bank to fund infrastructure development in Indonesia and reduce the poverty in the country by making new jobs through construction. (Trudeau, 2015)

The education system in Indonesia is one of the worst in the world. There are three main reasons of this. The teachers who teach the students do not have the qualifications that it takes to be a teacher and also work outside school to be able to improve their income. There are only one third of the students in Indonesia who completes the basic education. Though the main reason is corruption, such as parents have to pay bribes to get their child through examination. Even the funding's for schools are being taken from them before it reaches the classroom. There are very few schools in Indonesia that are clean from bribery. (101 East, 2013)

The Ministry of Education and Culture and the Finnish National Board of Education have both confirmed that universities and universities of applied sciences should use the already given finances to international activity, but schools on the secondary level could get extra support from the state for international activities. Secondary level schools could cooperate with universities and universities of applied sciences to improve the international activities as they have more knowledge of exchange students. (Ministry of Education and Culture, 2015) However, the Finland University, which is a company specializing in transnational education has made a deal with a school in Indonesia, a contract on 1,1 million euros for a master's degree in teaching. The degree is mainly taking place in Indonesia, but courses are going to be offered in Tampere University for the students to visit. (Winqvist, 2015) These three industries, renewable energy, infrastructure, and education, has high potential of foreign investment in Indonesia. Therefore researching the environment of these three will continue.

3.3.3 Demographical Environment

The demographical environment relates to the people in the country, and a little of the country itself. The Republic of Indonesia is a group of several thousands of islands in Southeast Asia between Malaysia and Australia. Indonesia has the biggest economy in the Southeast Asia, the Muslim population is the world's largest, 87,2% of Indonesia's population (OECD & ADB, 2015), and there are over 300 local languages spoken (BBC, 2015). According to the central bank of Indonesia the population in 2014 was 252 million (Bank Indonesia, 2014).

According to Tsagas (2015) out of the Indonesian population of 250 million there are 82 million people (around a 33% of the population) that do not have access to electricity and 124 million (around a 50% of the population) rely on the traditional use of biomass for cooking. Furthermore, there are about 28 million people who have been defined as poor in Indonesia. (OECD & ADB, 2015) This tells us that Indonesia is still a developing country with a lot of development. Still, Indonesia is the 10th largest economy in the world. (Rubiyana, 2015)

Education, as stated earlier, is one of the world's worst education systems. As 43% of Indonesia's population is under 25 years old education cannot be more important for the future of Indonesia, as shown in table 6. A PISA result shows that over 50% of all fifteen-year olds in Indonesia do not know the basics of reading. It is, therefore, important to improve the educational environment in Indonesia. Currently Indonesia spends 20% of government outgoings on education, but needs to increase the efficiency. (OECD & ADB, 2015)

Table 6 Age Composition Indonesia 2014 (OECD & ADB, 2015)

Age group	0-14 years	15-25 years	25-54 years	55-64 years	65 years and over
Percentage in each age group	27.6	17.2	42.8	7.2	5.3

3.3.4 Economical Environment

The economical environment relates to factors such as unemployment, import/export, inflation, and other economical factors. Indonesia is a growing economy and in 2014 the unemployment rate was down at 5,9% of the total labor force, youth between 15-24 being the main unemployed people. People who graduate from universities had the most difficulties in finding jobs, as the ones with primary school degree have jobs. (Indonesia Investments, 2016) As shown earlier the table of workers per industry the conclusion could be drawn that the youth with only a primary school diploma usually ends up in the agricultural industry as this industry has 60% of Indonesia's workforce. This might be because parents cannot afford to send their children to school to get a good education, therefore

workers may not be qualified even if they are working in the field. (SMRJ, 2008) The inflation rate 2015 was at 3,35% compared to 2014 when the rate was at 8,36%. The inflation after two months in 2016 is at 0,42%. This means that the value of the money has increased and products and services are a little cheaper compared to in 2014. (Indonesia Investments, 2016)

Even though Indonesia is an exotic land and has a lot of agriculture, the country still need to import goods. By 2013 the biggest percentage imported goods to Indonesia was petroleum. The import of different types of petroleum amounts up to almost 24% of the total import in Indonesia. The second largest products imported are machines, such as computers and telephones and other engines. (OEC, 2015)

Indonesia was dealing with an economical crisis in 1997-98. This took a hard hit on the export of primary products and from the 60s and 70s with an export of 100% it fell to only 50% in the 90s. The manufactured products exports rose instead by 50%. This means that manufacturing was crucial to Indonesia's economy. The imports still held a steady line from the 1970-2000. (Hayashi, 2003)

Indonesia is a part of several Free Trade Agreements. The Free trade agreements are: ASEAN (Association of Southeast Asian Nations, Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar and Vietnam), ASEAN Japan (AJCEP, between ASEAN and Japan), ASEAN Korea (AKFTA), ASEAN-Australia-New Zealand (AANZFTA), ASEAN-China (ACFTA) and ASEAN-India (AIFTA). (IE Singapore, 2015) Companies can also export to these countries if established in Indonesia, which means bigger opportunities and better economy for both companies and country. Indonesia's export for the SMEs consists of 30% handicraft, 29% fashion and accessories, 27% of furniture, 10% food and beverage, and 4% of health and beauty products. (Baziad, 2015)

3.3.5 Political Environment

In Indonesia, as in many other countries, there are a significant amount of regulations to take into consideration. One of these regulations is called Local Content Requirement, which means that Indonesia wants to increase the components from

local manufacturers. A certain number of products must therefore be of local origin, this is calculated from the material, labour and manufacturing equipment. This has been a policy since 2009 in the energy service when Indonesia required 35% of the production of a product to be of local origin. In 2011 Indonesia increase the level of required local content to be a minimum of 51%. In the oil and gas business they intend to increase the percentage of local content from 2016. The drilling which is at the moment 35% both on land and sea will increase to 45% at sea and 70% on land. (GBG Indonesia, 2014) Indonesia wants to get companies to invest in Indonesia to develop domestic production, therefore the local content requirement law. (WTO, 2015) The Minister of Information Technology and Communications has signed a decree that says that 4G phones have to use 30 per cent local content by January 2017. (Deal Street Asia, 2015) This might be a challenge for companies not located in Indonesia, which only export there.

A new export regulation for crude palm oil, a renewable energy, and export was decided in the end of March 2015. It was decided that a 50\$ export levy would be paid per metric ton for crude palm oil shipments. A 30\$ export levy would be paid per metric ton for processed palm oil products. The funds received by this policy will be used to fund biodiesel subsidies, replanting and research in the palm oil industry. (Indonesia-Investment, 2015) Another regulation about energy was passed in 2014 about the use of energy. This regulation is designed to decrease the use of existing fuel and energy subsidies and increase the renewable energy usage. (Johnson, 2014)

To make it a little easier for foreign investments in infrastructure in Indonesia, there is a land right law that gives the government the right to purchase land from private persons by paying them what the land is worth. However, in reality locals might refuse to sell their land. When the government own this land foreign companies might be allowed to use the land or build on it. (Indonesia Investment, 2015)

Indonesia encourages foreign universities to take part in dual degree programmes and partnerships, but some rules limit the institutions from setting up on commer-

cial basis in Indonesia. The Indonesian law allows foreign units to invest in education. However, they must follow the local educational regulations. For e.g. the institutions must provide civil and religious education to Indonesians. The higher education also brings some limitations to foreign institutions in Indonesia, such as employment of local staff and faculty. Companies should also keep in mind that when investing in education in Indonesia foreign companies are only allowed to own 49% of an institution. (GBG Indonesia)

3.3.6 Challenges

There are a few challenges when it comes to Indonesia. Corruption is a big part of the business life in Indonesia. As bribery is a norm in some countries in the world businesses rarely want to get in business with these countries as they can get prosecuted in their home country. (Hamilton & Webster, 2015, 28) In Indonesia corruption also shows in the daily life and in business life. People pay the parking guards to get a good parking spot, they pay the police to get a police escort to avoid traffic and even the phone operators are paid to get an easier phone number to remember. (Brokvist, 2015) As shown in figure 5 SMEs in Indonesia are more likely to pay bribes than large companies. (Mourougane, 2012) An extreme example of corruption is the port in Jakarta. To be able just to enter the port in Jakarta with goods you are forced to pay a fee. (Suomela, 2015)

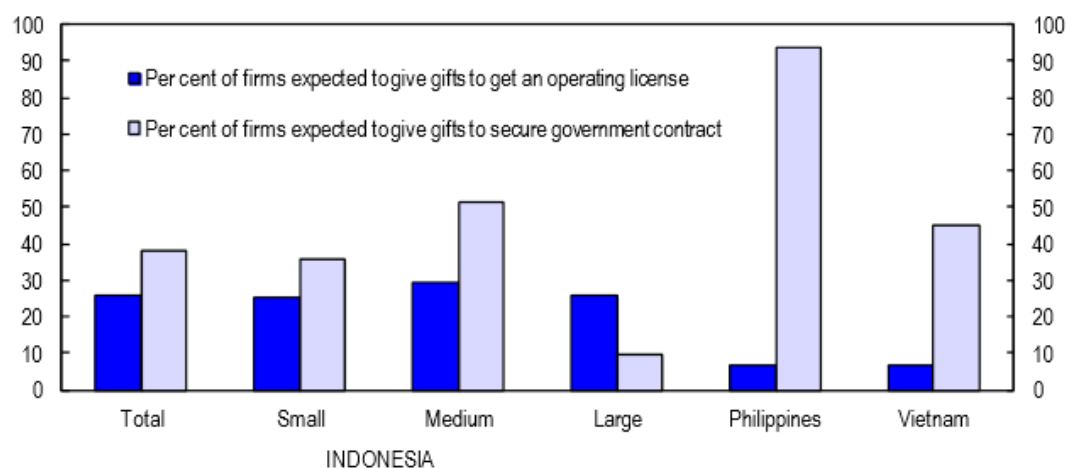


Figure 9 Indicators of Corruption in Selected Economies, 2009 (Mourougane, 2012)

As stated earlier the corruption exists also in the education system. This means that children who probably are good in school will fail because their parents cannot afford to pay the teacher what s/he wants in order to pass the child in e.g. a test. (101 East, 2013) Furthermore, in infrastructure the economy is not so strong at the moment in Indonesia. As there are few railways and port in Jakarta is corrupted. Therefore, the transportation cost is very high because of the limited distribution channels. This means that the business environment is very unhealthy in Indonesia. (SMRJ, 2008) This might be a challenge for companies that needs to transport their products longer ways.

As said before Indonesia is laying on a volcano belt, which make the country at a high risk of force majeure. Erupting volcanoes and earthquakes might be a high risk in the Indonesian market. (Hamilton & Webster, 2015, 152) Indonesia is a two seasons country, rain season and dry season. In the rain season there are a big chance that there will be floods that might interrupt business and cause major cost for companies in the exposed area. (Brokvist, 2015, Hamilton & Webster, 2015, 153) During the dry season a problem can be that there is a limited amount of water supplies. The tap water in Indonesia is not drinkable but can be used as a resource in businesses. If there is a lack of water, especially outside cities the business can slow down rapidly during the dry season. (Brokvist, 2015) Natural forces like these can slow down the infrastructure, such as transport of goods. (Indonesia Investment, 2016)

3.4 Indonesia & Export Network

It is Viexpo's job to have a close look on all the markets that are growing to be able to give information to companies who might be interested. Therefore Indonesia has not been chosen as a market that is only being studied at the moment. However, there are, of course, different priorities on different markets in the world. Currently the Nordic countries are very much in focus with fact-finding trips and exhibitions in Norway. (Forss, 2015 (2)) E.g. When Russia closed their market there are other markets that are being researched more that could be supplementary to that market. (Suomela, 2015) The Indonesian Embassy and their

employees have shown interest in Finland and their industry that could have a good impact in Indonesia. (Forss, 2015 (2))

However, if an export network would be made to Indonesia, there are certain things that need to be considered according to the research made. The analysis of the company interviews show the different resources used in the export network internationalization process. The physical resources might here be a very important factor when going to the Indonesian market. As Indonesia is almost half a globe away from Finland the traveling cost of the agent and company representatives is much higher than going to the European market. Therefore, the companies should be those that have a good economy in the domestic market and might be willing to give a little extra even though they get governmental support.

From the managerial resources the most important factor is the manager's attitude and commitment to a project like this. As Indonesia might be a very unknown country and economy for most Finnish companies, it is important that the managers know what they want to achieve and can strive in getting it in the new market. Organizational resources play a big role in Indonesia too. They have a different currency, and with 1 euro you get a lot more in Indonesia than in Finland. This means that the prices might have to be adapted to their economy and competitors. Furthermore the marketing of the products have to be done. Indonesia is a very big country with different religions and language, which can make marketing more challenging. However, this is where the relational resource steps in.

The most important relational resource is the export agent. As the case companies suggested the export agent must be someone that masters the foreign market language to be able to work with it. This gives a significant advantage when dealing with new retailers and other companies in the new market. Furthermore according to the companies the agent needs time with each company in the export network to learn and understand the products that are being sold. The export agent needs to be able to market the network's products properly.

However, if we take a look at the market environment research made and the three different market possibilities there are a few things to consider if setting up an ex-

port network to Indonesia. In all the three market possibilities, in education, infrastructure, and renewable energy, the most important factor is the legal issues. The laws and regulations are important to examine before considering the new market. There might be laws that stop a company from entering the market.

When going to Indonesia, which is a tropical country, the natural forces are important to look at. As the infrastructure is not that great from before, earthquakes and rain might make it more difficult to transport goods. Not to mention the long distance from Finland to Indonesia, that might have obstacles too. Natural forces can also play a part in education, as schools on the countryside or in exposed areas might have to endure heavy rain seasons and earthquakes too. Even though Indonesia is a rising world economy, there are risks also.

3.5 Financing & The Future

The governmental support the companies get plays a big role in the internationalization process, but the government Finland has at the moment is very centralization oriented and want to cut expenses. By being centralized they want to take smaller institutions and make them into big central ones. According to Forss, 2015 (2), this is not so good. The support the companies get needs to continue on a local level in order to get projects like export networks to work. Forss implies that Finland's economy is largely based on the export and by taking away finances there might arise big problems. Therefore, the government should continue to give support also to the SMEs that want to internationalize. (Forss, 2015 (2))

A new project of exporting has also begun in Finland, a growth program that wants Finnish businesses to export, but also investments from the outside to be made in Finland. This program might take over the smaller export networks and become larger networks or clusters. This way the Finnish government want more SMEs to join the international market. However, there might be a chance that large enterprises' join as well. This works in the way that companies pay a fee to be a part of a cluster or network and in return the state will support the networks and clusters in things such as fact-finding trips. (Forss, 2015 (2))

Clusters and networks are very good in bigger projects. When carrying out big project companies rarely use small firms to do a small part of the project. They want companies that are big and can complete a large project. A cluster or a network is good, thus a lot of small firms can gather and complete a large project. This is a great way to pass obstacles in a market. E.g. a lonely small firm have difficulties entering a market by itself, but as a cluster there is a better possibility of succeeding as they are bigger with more visibility and thus get more awareness. (Forss, 2015 (2))

There are already certain areas of interest in these clusters and networks. These are the cleantech industry, food industry, education, and life (health) industry. (Forss, 2015 (2)) An interest in the food industry has recently been established. Russia has allocated a lot of money to the food industry and this is a huge opportunity for Finnish firms. (Finpro.fi)

4 CONCLUSION

The last part of the research is the conclusion of the research, the findings and recommendation for future studies.

4.1 Summary and Findings

The aim of this research was to introduce and discuss the process of the Export Network model and what resources within the managerial, physical, organizational, and relational resources, are used throughout the process. To understand the model some other internationalization models were introduced. From the theoretical research of reasons, models, and challenges of internationalization the empirical framework was made.

The empirical research was made on qualitative research methods. Interviews were made with Viexpo, the internationalization unit of ELY Centre, CEO and the Director of ELY Centre in Ostrobothnia. Three companies that have been or are a part of an export network were also interviewed in semi-structured interviews. Together with the research of the export network model was a secondary data research of the Indonesian market and the possibility to start an export network to Indonesia.

From the research of the case companies' it was found out that the most common reason for internationalization was to increase sales in the companies. Other reasons, according to the interviewed companies, were the recession in Finland and to get new retailers in the researched market. These reasons can all be found in Czinkota & Ronkainen (2010) and Hollensen (2011) motives of internationalization.

In the research of the export network resources the findings were many. The financial resources of the companies' were important, as they needed to pay their share from the budget, as well as the governmental resources to support them. However, the most important resources according to the interviewed companies were the attitude and commitment of the manager in the process and the work that

the export agent did, such as getting new distribution channels and promoting the products. These are both organizational and relational resources. Resources that were mentioned in the research but did not have a huge impact were price and product adaption when entering the market, and the relation to the other companies in the export network. These resources are quite closely the same as mentioned in Ibeh and Wheelers' (2005) publication of a resource centred export performance.

Challenges found in the research study were mostly in the relational resources. The export agent was doing a great job in the entire network, however the companies felt that there was too little time for the agent to learn to know the products of the companies. The language was a barrier in some of the networks, as the agent did not have knowledge of a specific language when going to a country, which is explained in the barriers of internationalization table by Gardó et al. (2015) in the theoretical section of the thesis. Furthermore, there was the external challenge of recession in the targeted market that made a barrier in one of the networks.

The result of the research study did not differ from the theory on the matter. The resource-based view gives a clear view of resources in a company and the results from the company interview can be put into the theory of a resources-based view in an export network. One thing to point out was that in the theory of export network the companies should realise internationalization and gather partners and then choose an agent that would fit their needs. However, in practise the agent contacted the companies. If companies would have done as described in the export network theory there might have been fewer challenges during the internationalization process.

The research findings from the Indonesian market research imply that there are three possible markets in Indonesia that might be interesting for the Finnish companies. These three are infrastructure, renewable energy, and education. However, Indonesia is still a developing country and the challenges and risk might be great when entering the market.

The biggest factors to think about when entering the Indonesian market are the legal and the economical factors. The economical factors are the inflation and economy overall in the country and the legal factors included the law and regulations of the market. Some challenges in the Indonesian market might be natural forces as Indonesia is a tropical country and stands on a volcano belt, which gives a lot of earthquakes and possible eruptions. Another challenge might be the lack of educated workers. Therefore, it is important to study the market more before considering starting an export network internationalization process to Indonesia.

4.2 Future Studies

Even though the export network has not been researched that much in Finland it has been in other parts of the world. In future studies more different theories about export network or export consortia could be studied. As this research was made from a resource-based view a study from the actor or activities point of view could be made.

If export networks were to be researched more in an empirical way, it could be with more companies from different parts of Finland to get a more covering view. However, the Finnish government has started a new internationalization project that consists of clusters instead of networks.

A cluster is much bigger than a network and consists of much more companies. Clusters could make it more difficult for SMEs to be a part of as clusters usually carry out bigger projects and SMEs might not have that kind of resources. Clusters in Finland would, therefore, be an interesting choice for future studies, both theoretically and empirically. Future studies could make this research and see if SMEs succeed in a cluster and how the government plans these projects.

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APPENDIX 1

Questionnaire for Subsidiary Companies

- 1. Why do companies internationalize?**
- 2. How did you choose the Indonesian market?**
- 3. Explain how the export process works in Practice for Export Network?**
- 4. Why are Export Networks the best entry mode?**
- 5. What kind of challenges are there in Export Network**
- 6. Are there finances now when the new government is holding back money?**
- 7. The future of Export Networks.**

APPENDIX 2

Questionnaire for Companies

- 1. Why internationalize?**
- 2. Why did you choose to work in an Export Network and not alone?**
- 3. Were you competitors with the companies involved in the same network?**
- 4. Most important resources during the network, organizational, managerial and physical. Which were used during the process of the network?**
- 5. Changing resources over the time of the network? Why? How?**
- 6. Relation to the other participants?**
- 7. The external resource (the export manager/government) good? Something to change?**
- 8. Challenges/Problems before, during or after the Export Network, something you would do differently?**