Bachelor’s thesis

Degree Programme in International Business

2023

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INTERNATIONALIZATION BARRIERS OF FINNISH MANUFACTURING SMES

TURKU AMK

TURKU UNIVERSITY OF APPLIED SCIENCES

BACHELOR’S THESIS | ABSTRACT

TURKU UNIVERSITY OF APPLIED SCIENCES

Degree programme in International Business

2023 | 44 pages, 1 page of appendices

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Finnish small and medium-sized enterprises (SMEs) are less international than their European counterparts. Existing literature on internationalization describes several avenues and pathways to internationalization, from the gradual outward expansion of the Uppsala model to the internationalization through deepening contacts of the network model, and the most recent phenomenon of companies that are born international, the born globals. These models describe different internationalization paths, which face different barriers to internationalization. These barriers can be internal barriers that are created by lack of resources, such as lack of knowledge, personnel shortages and lack of production capacity, or external barriers such as lack of government support, difficulties collecting payments, and unfavorable rules and regulations. Based on existing literature, it was hypothesized that Finnish SME’s face primarily knowledge barriers, and that companies are not always aware of support services available to them, and thus perceive some barriers as more difficult. In addition, it was hypothesized that SME’s who are not internationalized are less likely to have decision makers with experience in the international market. Based on these hypotheses, semi-structured interviews were conducted on four Turku area manufacturing SMEs. The findings indicate that knowledge barriers, such as lack of information on the target markets and opportunities, in addition to lack of qualified personnel, are most common barriers for the interviewed companies. However, the companies were aware of the support services that were available to them, and companies with no significant international market experience were looking to internationalize. Several companies had existing links to international trade as parts of subcontracting networks of larger clients, and this, as well as its effect on planned or future internationalization, could provide avenues for further research in the future.

KEYWORDS:

SMEs, internationalization, barriers, manufacturing sector

OPINNÄYTETYÖ (AMK) | TIIVISTELMÄ

TURUN AMMATTIKORKEAKOULU

Degree Programme in International Business

2023 | 44 sivua, 1 liitesivu

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SUOMALAISEN TEOLLISUUDEN PK-YRITYSTEN KANSAINVÄLISTYMISESTEET

Suomalaiset pienet ja keskisuuret yritykset (PK-yritykset) eivät kansainvälisty yhtä vahvasti kuin eurooppalaiset PK-yritykset. Kansainvälistymistä koskeva kirjallisuus kuvaa useita tapoja kansainvälistymiseen, aina Uppsala-mallin vaiheittaisesta laajentumisesta verkostointimallin syvenevien suhteiden kautta tapahtuvaan kansainvälistymiseen sekä viimeisimpään kansainvälistymisen ilmiöön, globaaleiksi syntyneisiin yrityksiin. Nämä mallit kuvaavat kansainvälistymispolkuja, jonka varrella yritykset kohtaavat erilaisia kansainvälistymisen esteitä. Näitä voivat olla sisäiset esteet, jotka johtuvat resurssien puutteesta, kuten henkilöstövajeesta, tiedon ja tuotantokapasiteetin puutteesta, tai ulkoiset esteet, kuten viranomaisten tuen puute, maksuvälitysongelmat ja epäedulliset lait ja säädökset. Aiheen kirjallisuuden perusteelta kehitettiin kolme hypoteesia: suomalaiset PK-yritykset kohtaavat lähinnä tiedon puutteeseen liittyviä esteitä, yritykset eivät aina ole tietoisia käytettävissä olevista tukipalveluista, ja tämän myötä mieltävät esteet todellisuutta vaikeammiksi, ja yrityksillä, jotka eivät ole kansainvälistä kauppa, on todennäköisemmin johtajia, joilla ei ole kokemusta kansainvälisestä kaupasta. Näiden hypoteesien perusteella järjestettiin teemahaastatteluja neljälle Turun alueen PK-teollisuusyritykselle. Havainnot viittasivat siihen, että tiedonpuutteen aiheuttamat esteet, kuten markkinatiedon ja kansainvälistymismahdollisuuksien tiedon puute sekä henkilöstöpula olivat suurimpia esteitä. Yritykset olivat kuitenkin tietoisia tukipalveluista, ja yritykset, joilla ei ollut kokemusta kansainvälisestä kaupasta, halusivat kansainvälistyä. Monella yrityksellä oli yhteyksiä kansainväliseen kauppaan osana suurempien asiakkaiden alihankintaketjuja, ja tämä sekä sen vaikutus suunnitteilla olevaan tai tulevaan kansainvälistymiseen voivat tarjota uusia tutkimusmahdollisuuksia tulevaisuudessa.

ASIASANAT:

PK-yritykset, kansainvälistyminen, esteet, teollisuusyritykset

CONTENT

APPENDICES

LIST OF ABBREVIATIONS

B2B	Business-to-Business
BG	Born Globals (see also INV)
CEO	Chief Executive Officer
EU	European Union
INV	International New Ventures (see also BG)
NM	Network Model
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
ROI	Return of interest
SBA	Small Business Act
SD	Sales director
SMEs	Small and medium-sized enterprises
UK	United Kingdom
UM	Uppsala Model

1 INTRODUCTION

According to Finland's Chamber of Commerce, Finnish small and medium-size enterprises (SMEs) make up only 14% of Finland's exports, when in Sweden SMEs make up 20% of the exports, and 60% in Germany (Kauppakamari), and only 22 of Finnish SMEs have exports or other operations abroad (Suomen Yrittäjät 2022, 25). This is also noted by the European Union: according to the EU SBA report of 2019, despite scoring highly on border agency cooperation and trade community involvement and having introduced several policy measures in recent years, Finnish SMEs are behind other countries in terms of internationalization (2019, 13). Usually, small and saturated domestic market in addition to competitive pressure are market forces that push for internationalization (Hollensen 2020, 56), and small domestic market seems to encourage internationalization (F.R. Cahen et al. 2016, 1974), so why is it that in Finland, with its domestic market of five and a half million inhabitants and annual GDP of 240 billion euros in 2019 (Tilastokeskus), SMEs are only making up 14% of the exports?

Internationalization theory and existing literature point to several potential internationalization pathways and barriers, which in turn point to several potential reasons why an SME would struggle in its internationalization process. The objective of this study is to analyse these factors and test the resulting hypotheses by conducting a semi-structured research interviews of Finnish SMEs in the Turku region.

2 INTERNATIONALIZATION THEORIES

According to the Cambridge English Dictionary, the definition of the word internationalization is “the process or act of making something become international”, i.e. involving more than one nation or country. However, in the current global economic landscape with global logistics chains and digital services, this definition is too broad to allow any meaningful distinctions to be made. Welch and Luostarinen define internationalization as “the process of increasing involvement in international operations” (1988, 36). Hollensen offers similarly broad definition of internationalization: according to him, internationalization occurs when a company or business expands its business activities into international markets (2020, 53). Both of these definitions focus on the processes of internationalization: internationalization could be described as a process that a company undertakes.

While multiple internationalization theories describing this process exists, the most commonly recognized ones are the Uppsala Model (UM), the network model (NM), and the relatively new phenomenon of Born Globals (BG).

2.1 The Uppsala Model

The Uppsala Model, originally established by researchers at the University of Uppsala, Sweden, was formulated based on four case studies involving Swedish businesses (Johanson and Vahlne 1977). According to the UM, the internationalization process of a company is a gradual process that goes through four different stages: regular export activities, export via independent representatives, sales subsidiary, and production/manufacturing (Johanson and Wiedersheim-Paul 1975, 306–307). According to Johanson and Vahlne, two prominent researchers of the UM, the internationalization of a business depends on four aspects: internationalization aspects, which are market commitment and knowledge of the foreign markets, and the change aspects, which include current business activities and commitment decisions (1977, 27–28). In the UM, these aspects work together to create an internationalization process where increased knowledge of the market leads to commitment decision, which in turn leads to even further increase in knowledge of the market via current business activities, which in turn leads to market commitment (Johanson and Vahlne 1977, 26). Moreover, according to the UM, when internationalization first takes place, it starts from markets which have relatively small psychic distance to their domestic market, meaning that businesses tend to first enter markets which are similar in terms of culture, language, education, business practices etc. (Johanson and Vahlne 1977, 24). To summarize, increased knowledge of the market leads to more commitment, leading to more information and so on, slowly increasing the businesses level of internationalization through the introduction of new business commitments in the new markets.

The Uppsala Model has also been criticized. According to Otto Andersen, it fails to take into account that larger companies with more resources can commit larger resources in their steps to internationalize, and the process can be less gradual (Andersen 1993, 211). The theory has also been criticized for emphasizing the importance of experiential knowledge and not taking into account other methods of organizational learning, such as imitative learning, where the business learns by observing other businesses, or learning through acquired knowledge, such as, for example, by hiring personnel with the relevant knowledge (Forsgen, 2001, 8). This is a critique that the original authors of the seminal paper have acknowledged, and have in a later work concluded that other types of organizational knowledge are also relevant (Johanson and Vahlne 2009, 1461).

In addition, the Uppsala Model relies heavily on the assumption that increased internationalization translates to further and further investments to production capital, which might arguably not be an accurate projection in case of service industry companies. For example, in case of service industry actors, internationalization can manifest not as production capital investments, but as increased international cooperation and outsourcing of research and development, motivated by gaining access to foreign production and distribution networks and search for better qualified personnel (Castellacci 2010, 512). The emergence of Born Globals has, likewise, raised questions about the validity of the Uppsala Model in the modern international stage (see 2.3 below).

2.2 Network Model

Another viewpoint of internationalization is the network model (NM), which gives business networks a more central position in the process of internationalization. According to the network model, businesses are engaged in a network of other businesses through their operations, and these domestic networks can be used as bridges to enter new markets (Hollensen 2020, 86–87). In practice, the theory proposes that business connections to foreign markets through, for example, foreign suppliers, can serve as steps towards future internationalization. According to Johanson and Mattson, the networks are both stable and in flux: While companies make efforts to maintain and develop interorganizational relationships, and new relationships are established and existing ones may be disrupted, most actions take place within the existing network of relationships (Johanson and Mattsson 1988, 292). The extent of internationalization depends on how extensive their presence in these foreign networks is, and if the company wishes to increase its level of internationalization, this usually means changes in the network, through establishment of new positions in new networks, or deepening the relationships in existing ones (Johanson and Mattsson 1988, 296).

The network approach divides companies into four categories: the Early Starter, the Late Starter, the Lonely International, and the International Among Others. The Early Starter is a domestic company which does not have significant international relationships, but neither do its suppliers or competitors. Consequently, it does not have knowledge of international markets or relationships. Because internationalization requires resources and knowledge investment, usually Early Starters' internationalization is initiated by the company's users, clients, or distributors in the foreign market. (Johanson and Mattsson 1988, 297.) The Late Starter is a domestic company with no significant international relationships operating in a more internationalized competitive environment. In this case, the company may be pushed to internationalization via its domestic relationships but may have to look for market share further away than companies that started internationalizing earlier, if the competitors have already established a strong presence in more nearby markets. (Johanson and Mattsson 1988, 302–303.)

The Lonely International is a company which has a network of international relationships, but the national level networks, such as suppliers, customers etc., are not internationalized. As such, as a company that has internationalized early, it enjoys an advantage over its competitors, and there is less need to coordinate. (Johanson and Mattsson 1988, 301–302.) The International among others is an international company functioning in a market that is highly internationalized. As such, further internationalization processes are marginal. However, internationalization integration processes can lead to significant changes. Moreover, international domestic networks can mean increased access for external resources and consequently increasing productivity by, for example, externalizing component purchases and sub-assembly to contractors, decreasing production needs. (Johanson and Mattsson 1988, 304–305.)

2.3 Born Globals

Both the Uppsala model and the network model see internationalization as an incremental process which progresses gradually from one stage to the next. However, the invention and development of new, low-cost communication technology has provided new opportunities to small and new companies, which were unable to invest in the requires expensive information infrastructure that the large vertically integrated firms were able to (Hollensen 2020, 90). The term “born global” (BG) was coined by Michael Rennie who noted that new and young international companies were competing against more established firms by using new technologies, which made it possible to conduct and manage business in a way that was impossible only decades prior, and which were demonstrating significant potential for SME’s role for national export growth (1993, 45). The phenomenon was also noted by Benjamin Oviatt and Patricia McDougall, who used the term “International New Ventures” (INV) to describe companies that “from [their] inception, seek to derive significant competitive advantage from the use of recourses and the sale of outputs in multiple countries” (1994, 49), which changing economic, technological and social conditions, such as improved communication and transportation infrastructure, have facilitated (1994, 51).

Knight and Cavusgil argue that another important factors in the modern phenomenon of born global companies are their organizational capabilities: They are general more flexible and encourage innovation, and have entrepreneurial and innovative approach to business, and use these intangible capabilities to leverage their position internationally, in contrast to the tangible resources older companies typically rely on (2004, 127). The lack of tangible resources often means they cannot take a multidomestic approach available for larger firms, meaning they often focus on ventures with homogenous products and minimal need to alter the marketing mix from market to market (Hollensen 2020, 92; Hennart 2014, 126). As noted above, born globals also leverage low-cost means of communication and transportation, avoiding the need to invest time and resources to selling and manufacturing operations and logistics in foreign markets (Hennart 2014, 126), making it possible to expand more rapidly. Another important aspect of born global companies are their technological competences and ability to leverage the knowledge required to produce their products in a manner that is efficient and cost-effective, as well as knowledge of information technologies and ability to use this in their advantage to interact with customers (Knight and Cavusgil 2004, 130).

As the born globals phenomenon represents a rather new field of research (Hollensen 2020, 93), the use and development internationalization processes regarding born globals is lacking (Paul and Rosado-Serrano 2019, 842), and the literature is more focused on analyzing the similarities and aspects of born globals instead. The emergence of born globals has cast some doubt over the traditional internationalization models, particularly the Uppsala Model, according to which internationalization process is incremental, time-consuming and risk-adverse, which does not seem to apply to the BGs/INV's (Oviatt and McDougall 1994, 50–51). However, others argue that the theory is compatible with born globals when expected value is taken into account (for example, the expected realized value of high cost of research and development, which will turn profit only if the company becomes international), and where the incremental approach is not the best approach if (and when) the low cost of internationalization is the low-risk option (Wadeson 2020, 456–457).

2.4 Internationalization theories and barriers to internationalization

Different internationalization theories offer different potential explanations for not only how and why internationalization occurs, but based on their theories potential barriers can be identified. Based on the Uppsala Model, it can be extrapolated that potential barriers for internationalization include lack or inability to increase market commitment, such as tangible and intangible resources to embark on internationalization (for example, lack of available capital to hire knowledgeable and experienced personnel, insufficient knowledge of most opportune target markets within the closest psychic distance, etc.). From the point of new of the Network Model, a significant barrier to internationalization can be non-existent or underdeveloped network or networks that are in markets where further development of the existing network or establishment of new networks are difficult or high-risk. Based on characteristics of born globals, barriers can include the lack of appropriate logistics and information infrastructure that makes their competitive strategy untenable in the market, limiting their options. The existing literature examining these possible barriers to internationalization is analyzed in the next chapter.

3 LITERATURE REVIEW

Changes in global business environment have created favorable climate for internationalization in the past decades. According to Warren Keegan, this process has been driven by multiple factors that have happened in recent decades. Technological factors, such as improvements in transportation and communication, the development of technology, and the increase of product development and R&D costs, which incentivize companies to move to global markets to achieve better ROI, have made the conditions favorable for internationalization. Moreover, political changes such as the emergence of regional economic and political agreements, have also made this process easier. In addition, this process is facilitated by factors such as world economic trends that see global market growth, which in turn creates market opportunities which are more favorable to those available in domestic markets. Finally, globalized companies have inherent leverage in terms of economics of scale, resource utilization and other aspects. (Keegan 2014, 41–45.) However, taking advantage of these new opportunities requires facing new challenges. These barriers to internationalization are numerous and complex. This literature analysis will be examining the existing studies on the topic by using a classification system to analyze these findings. A wide range of studies from different parts of the world were selected, with the objective of achieving as wide a scope of literature as possible.

3.1 Barriers to internationalization

When companies expand their operations outside their domestic market, the process is hardly ever free of complications. Critical problems can include factors such as lack of sufficient knowledge and resources, including finances and lack of production capacity (Hollensen 2020, 66) and more. These are called internationalization barriers, and they can be described as “all those factors – external or internal – that serve to dissuade a firm from exporting, or which hinder its actual export activity” (Suárez-Ortega 2003, 403). Although internationalization barriers can affect any company or operation, small and medium enterprises are more vulnerable to these factors because of their size (Fliess and Busquets 2006, 3), and, in general, they have less resources to dedicate to solving the problems than larger enterprises.

To better study these obstacles, these barriers can be categorized into different groups. According to Ramaswami and Yang, internationalization barriers can be categorized into four groups: export knowledge, internal resource constraints, procedural barriers and exogenous barriers. Export knowledge barriers are barriers related to market knowledge, difficulties finding foreign opportunities and markets, and market planning and tactics, such as knowledge of competition, available export assistance, etc. (Ramaswami and Yang 1990, 188). Internal resource constraints comprise of financial and workforce constraints, which are required to generate and capitalize on market opportunities (Ramaswami and Yang 1990, 189). Barriers related to practical problems that arise from international trade, from language differences and cultural problems to required documentation and shipping procedures; Ramswami and Yang classify these as procedural barriers (1990, 190). Finally, barriers caused by other market participants, such as competition from other market actors, are classified as exogenous barriers (Ramaswami and Yang 1990, 190). Other methods of categorization also exist: Leonidas Leonidou identified 39 export barriers by analysing 32 empirical studies from 1960 to 2000 (2004). In this study, different barriers are classified into internal (organizational) and external (home and host environment dependent) barriers (281), which are further classified into informational, functional and marketing barriers (internal), and procedural, governmental, task, and environmental barriers (external), which are divided further into more specific subgroups (Leonidou 2004, 283). Due to its comprehensive nature and wide dataset, this classification will be used in this work to analyse the existing literature. However, the barriers identified by Leonidou do not include managerial and strategic barriers, which are also present in the literature; these are also included in the analysis.

3.2 Internal barriers

According to Leonidou, internal barriers are those associated with organizational resources and capabilities and their approach to exporting, and they can be further divided into informational, functional, and marketing barriers (2004, 281).

3.2.1 Informational barriers

Information barriers are problems with identifying and engaging with the international markets due to lack of information (Leonidou 2004, 285). These are further itemized as limited information to locate or analyze modern markets; outdated, incorrect or otherwise problematic market data; difficulties identifying foreign business opportunities; and inability to contact overseas customers (Leonidou 2004, 286-7). According to Leonidou, in aggregate, studies suggest that limited information present the most serious exporting problem (2000, 123), but in his study of 100 Cyprus-based exporters, the effect was estimated as moderate (136).

According to a study of 286 exporting and non-exporting Spanish wine industry firms, lack of knowledge of best potential markets and general lack of knowledge on how to export were mentioned in the top six export barriers (Suárez-Ortega 2003, 408), although it is also mentioned that non-exporting firms that were looking to export considered knowledge barriers relatively more important, suggesting that the barriers vary depending on the firm's export experience (413). Similar findings were made in a study of 2159 Turkish SMEs: non-exporters perceived the information barriers about attractive markets as difficult, and actively involved exporters consider identifying foreign market opportunities as the most important barrier, but this is not the case with pre-exporters and experimental exporters or firms who have further committed to foreign markets (Uner et al. 2013, 805). European Union report on SMEs has similar findings: over 57% of respondents rated not knowing where to find information about foreign markets as important or very important (2018, 100).

Literature on the effects of inability to contact overseas customers is less clear, and some studies indicate that customers contact the companies directly or through existing contacts. In a comparative study of 24 Canadian an UK high-tech SMEs, although most market entry strategies employed agents and distributors, requiring financial resources, some firms received unsolicited orders overseas, or were able to gain new customers due to reputation gained in their domestic market (Spence and Crick 2006, 532). A study of 95 New Zealand firms made a similar discovery: 27% of firms obtained unsolicited export orders from existing markets, and 28% of firms received unsolicited orders from new markets (Dean et al. 2000, 469-470). A similar find was made in a study of 30 UK firms, which discovered that gaining new clients through existing contacts ("client fellowship") was an important factor in market selection, and, in addition, influenced further internationalization decisions (Bell et al. 2004, 40). In these cases, the barrier has been overcome through customer action, although in some cases, technological investment (i.e., a website/online presence) was the channel through which the new clients were acquired (Spence and Crick 2006, 532).

3.2.2 Functional barriers

Functional barriers refer to inefficiencies in the operation of the business, and include limited managerial time to deal with exports, inadequate or untrained export personnel, lack of production capacity for exports and shortage of working capital (Leonidou 2004, 287).

In a study of 95 New Zealand exporters, lack of export marketing commitment was identified as a significant barrier, although managerial focus on domestic markets was less significant (Dean et al. 2000, 470). Similarly, in a study of SME retail companies in the UK, managerial lack of vision and desire to control business operations had an effect on companies' decision to internationalize (Hutchinson et al. 2009, 552–553). In another study, the lack of managerial time was reported as a barrier by 54% of the respondents, and particularly by companies with small staff size (Leonidou 1994, 14–15). Interestingly, the effect of managerial time can also be inverted: In a study of UK and Canada high technology companies, Spence and Crick discovered that some small companies adopted a "ready to sell" strategy, because long hours caused social costs through strain on relationships, and in some cases this strategy included move to foreign markets (2006, 534), though further research on this phenomenon appears to be limited.

In a study of 129 New Zealand exporting firms, lack of production capacity was noted as a significant barrier to both conventional enterprises and international new ventures (INVs), however, personnel problems were not mentioned in top ten (Kahiya 2013, 17). In another study comprised of 138 Portuguese SMEs from manufacturing, retailing and services sectors, lack of qualified export personnel was found to be a barrier to internationalization for non-exporting firms, but not exporting ones (Pinho and Martins 2010, 262). These findings were similar to the findings of Cahen et al. who reported that high cost of manufacturing and lack of adequate human capital to deal with international exports were cited as barriers in their study of Brazilian high technology companies (2016, 1976-1977). Yet another study found that inadequate or untrained export staff was among the least inhibiting barriers (Leonidou 2000, 133), and that, despite expectations, the results did not indicate that the number of employees had a serious impact on the company's resource constrains (139). However, according to the 2018 European Union's annual report on SMEs, 63% of responding SMEs ranked lack of specialised staff to deal with exports as "important" or "very important" (2018, 101). Mixed findings could indicate that the barrier affects only certain type of companies or companies in certain locations or only in certain stages of internationalization – or that the barrier is either a perceived barrier that dissipates when the internationalization process progresses, or becomes less significant as the company becomes more experienced in international trade.

According to the OECD 2009 report on SME internationalization barriers, shortage of working capital is one of the main barriers to internationalization among the OECD member nations (OECD report 2009, 10). This finding is supported by study by Bell et al., which found that cash injections, either through venture capital or from funding agencies, could lead to a change in the company's strategy, leading possibly to internationalization (2004, 33). This finding is similar to the results reported in the findings of the 2018 EU's annual report, where an average of 59% per cent of responding SMEs ranked too high cost of investment required to serve foreign markets as "important" or "very important" (2018, 101). Similarly, Indian SMEs report liability to access capital from financial institutions to finance international business activity, and the longer lead times for payment realization decrease the working capital available (Roy et al. 2016, 529). A study of New-Zealand companies found that limited financial resources and limited access to capital were among top three most important barriers to potential exporters and exporters, but not for non-exporters, who however ranked limited financial resources in their top ten (Shawn and Darroch 2004, 336). Somewhat conversely, the results of the study by Pinho and Martins indicated that lack of financial assistance was reported as a barrier by non-exporting SMEs, but not by exporters (2010, 268). Similarly, in Uner et al. study of Turkish companies, lack of working capital was the least important of all functional barriers among all companies, apart from companies who are very committed to exports, because they need capital to make foreign investments (2013, 805). However, the researchers point out that the reason for this is that companies in earlier stages of internationalization can rely on domestic markets to make a profit (Uner et al. 2013, 805).

3.2.3 Marketing barriers

According to Leonidou, marketing barriers consist of altogether 16 items which are subject to pressure from international markets, and the largest problem area for an exporting company (2004, 288). Leonidou divides the category further into five subcategories: product, price, distribution, logistics and promotion related barriers.

Marketing barriers include problems such as adapting export products, meeting quality standards and packaging and labeling requirements, pricing and price matching competitors, distribution channels and foreign representation, supplying inventory, lack of warehousing and prohibitive transport and insurance costs, and creating a suitable marketing mix. (Leonidou 2004, 288–292.)

OCDE policy paper on trade barriers mentions health and safety and environmental regulation as a significant non-tariff barrier to SMEs (Fliess and Busquets 2006, 7). Moreover, according to a study on non-tariff barriers on imports, public procurement and localization policies have a potential to significantly reduce imports – however, free trade agreements partially offset the effect (Kinzius et al. 2018, 26). In the study by Bell et al., new product development was often a requisite for internationalization, and, in some cases, strong commitment to product innovation resulted in rapid internationalization (2004, 36). In case of others, more traditional or domestic focused companies, they sought to adapt their products for international markets (Bell et al. 2004, 37). Interestingly, in the study by Uner et al. of Turkish companies, while non-exporters considered development of new products for international markets as not important, in exporting companies this was reported as difficult (2013, 806), which would indicate that when company begins exporting, the need to develop new products to export becomes necessary.

In a study of New Zealand companies, both conventional enterprises and INVs highlighted product related barriers as problematic: for conventional enterprises these are cost of market development and product usage differences, and for INVs these are pricing and promotion, need to adapt products, and providing after-sales services (Kahiya 2013, 17). Similar findings were made by Uner et al., where meeting packaging and labelling requirements appeared to be the most critical marketing barrier. In addition, born globals and companies with significant exports report offering technical support or after sales services as difficult. (Uner et al. 2013, 806.) Strong foreign competition was also highlighted as a significant barrier in a study of Spanish wine-producing firms (Suárez-Ortega 2003, 408). According to Uner et al., non-exporting Turkish companies perceived inability to offer competitive prices as a barrier, whereas companies with at least some level of exports found this to be less important (2013, 806).

These findings differ from the findings of the 2018 EU annual report, which found that only a small number of SMEs reported product related barriers, namely non-competitiveness of their product or lack of product export potential (28% and 15% of respondents, respectively) as a reason for not exporting (2018, 101). However, taking into account different geographical and political factors of the European Economic Area could explain the different findings. Different products and markets may also affect the level of competition in the market.

Barriers caused by logistics and distribution problems have been reported in the literature as well. Locating distributors was reported as a barrier by INVs, but not by conventional enterprises (Kahiya 2013, 17). Difficulty securing reliable suppliers was also mentioned as a barrier to internationalization in a multiple case study of UK retail companies (Hutchinson et al. 2009, 557). Uner et al. reported that non-exporters perceive inability to access foreign distribution channels and lack of reliable representation as a barrier. Interestingly, companies that are committed exporters consider these to be a barrier as well; the authors suppose that this is because committed exporters look to increase their export volume. (Uner et al. 2013, 807). In another study, non-exporters did not express warehousing and product flow control as major concern, unlike exporters (Pinho and Martins 2010, 268). EU annual report found that while approximately 53% of respondents found identifying business partners abroad to be difficult, only approximately 28% reported high delivery costs as a barrier (2018, 100), and no mention of warehousing or other logistical barriers was made in the report.

3.3 External barriers

Leonidou defines external barriers as problems arising from external environments where the company operates, either domestically or in the foreign markets (1995, 19). He divides them into procedural, governmental, task and environmental barriers (Leonidou 2004, 281).

3.3.1 Procedural barriers

Procedural barriers are factors that stem from operating transactions with foreign customers, and include unfamiliarity with techniques and procedures, communication problems and slow collection of payments. According to Leonidou, these barriers have moderate to high obstructing effect. (Leonidou 2004, 292.)

According to the 2018 European union annual report, lack of understanding of regulatory and legal environment of foreign markets is among most important reasons for not exporting (2018, 103), and almost 70 per cent of SMEs report that, even if they have a broad understanding of foreign markets, they find the administrative procedures too complicated (2018, 100). Export documentation was also mentioned as a significant barrier to Indian SMEs, despite government assistance (Roy et al. 2016, 529). According to Uner et. al., companies in all stages of exports, from non-exporters to dedicated exporters, see documentation and export procedures as challenging (2013, 808). In another study, export documentation was mentioned as a barrier, but other barriers were regarded as more significant (Suárez-Ortega 2013, 408). However, another study found that export bureaucracy and legislation, such as difficulties with export documentation and procedures, had the lowest impact (Leonidou 2000, 135). In fact, OECD report argues that documentation and payment problems are essentially a matter of perception and psychology, and that they dissipate as companies gain more experience in international markets (2009, 11). Uner et al. reported that communication problems were one of the main barriers to the surveyed companies (2013, 810).

Literature on the effect of problems regarding collection of payments are contradictory: While Uner et al. found that all companies found this barrier to be less important (2013, 808), in the study by Roy et al. this is highlighted as a significant risk for Indian SMEs, creating difficulties with cash flow and necessitating the use of middlemen (2016, 529). One could assume these problems would be less prominent in areas with more intertwined cross-country trade infrastructure, the European Union annual report on SMEs found that almost 58% of respondents considered resolving cross-border disputes and complaints too expensive, although it did not specifically examine the question of payment collection (2018, 100). This could indicate that existence of the common market and the common currency among the Eurozone countries does not eliminate this barrier, at least completely.

3.3.2 Governmental barriers

Governmental barriers are barriers caused by the actions or lack of action by the domestic government and include issues such as lack of government assistance and incentives to export, and unfavourable rules and regulations, such as export controls (Leonidou 2004, 292–293).

In a study of New-Zealand companies, lack of government incentives was reported in top five most significant barriers for likely exporters and exporters, but it was not mentioned in non-exporters' top ten (Shawn and Darroch 2004, 336). According to Pinho and Martins, lack of financial assistance was a significant predictor between exporters and non-exporters (2010, 269). In another study, non-exporters regarded unfavorable home country rules and regulations as a barrier, but not lack of governmental assistance, and the study suggested that need for government assistance increases as companies progress in their internationalization process (Uner et al. 2013, 808).

3.3.3 Task barriers

Task barriers are barriers caused by different foreign customer habits and attitudes and competition in overseas markets (Leonidou 2004, 239). A study of Cyprus based exporters found that the strongest obstructive impact to export were competitive pressures, such as competition abroad and inability to offer satisfactory prices (Leonidou 2000, 136). In the study by Uner et al., competition in foreign markets was seen as a critical barrier by non-exporters, and by companies who were active or committed exporters – the authors speculate that, in the case of non-exporters, the companies lack competitive advantage, and in the case of companies that are further in their internationalization, the barrier is based on their experience in the foreign markets (2013, 809). Similarly, Pinho and Martins found that perceived competitive pressures were the most significant potential predictor for non-exporters, and it had a strong effect on non-exporting, but it was not a reason for exporters (2010, 268), which could suggest either lack of competitive advantage, as speculated by Uner et al., or that the barrier is perceived rather than based on data and research. Market competitiveness and ability to compete were ranked low on the study by Shaw and Darroch (2004, 335), as was different customer habits and attitudes (2004, 334).

3.3.4 Environmental barriers

Environmental barriers are problems caused by political, legal, and socio-cultural environment in foreign markets and these include the local economic conditions, currency exchange risk, political instability, rules and regulations, tariff and non-tariff barriers, and unfamiliar foreign business practices (Leonidou 2004, 294).

According to a study on Swiss managers, cultural and geographic distance significantly affect the perceived risk when assessing business risk of foreign market entry, and markets of spatially distant countries and countries that scored highly on cultural differences were perceived as riskier, in a study by Kraus et al. (2015, 1504). Economic and political distances also had significant negative effects. However, 2018 EU report found that only a minority of companies considered lack of rule of law or corruption as barriers (2018, 100). Similarly, in a study of New-Zealand companies, political instability ranked low in the list of barriers (Shawn and Darroch 2004, 335), and it did not feature in the top ten most significant barriers for non-exporters, potential exporters or exporters (336).

Some studies suggest that the effect of tariff and non-tariff barriers as experienced by companies are low or not seen as a critical barrier (Shaw and Darroch 2004, Pinho and Martins 2010). However, the EU mentions in its 2018 report that it considers free trade agreements to be effective policy tools in SME internationalization, and as such, it pursues a policy of negotiating and implementing free trade agreements (2018, 105). This is in line with an earlier OCDE report, according to which trade barriers, unfavourable foreign rules and regulations, high-tariff barriers and inadequate property rights protections are significant trade barriers to companies (Bliess and Busquets 2006, 6). When it comes to non-trade barriers, their adoption and affected markets are not universal, and some countries are more affected than others (Kinzius et al. 2018, 16). In addition, the effect is not symmetric and varies by sector: for example, iron and steel are more affected than some other products and services (Kinzius et al. 2018, 16), and the presence of free-trade agreements between the potential importer and exporter lessens the effect of non-trade barriers on trade (22).

Currency fluctuations are highlighted as a significant barrier by Indian companies, and particularly when the company has to trade in several currencies; lack of knowledge makes the issue more difficult, and the companies are often left to bear the exchange losses (Roy et al. 2016, 529). Similarly, both conventional enterprises and INVs mention the strong New Zealand dollar and minimisation of exchange risk as barriers to international trade (Kahiya 2014, 17). In another study based on a survey of 557 New Zealand companies, exporters report fluctuating exchange values in their top ten barriers (Shaw and Darroch 2004, 336). Currency exchange is also mentioned as a problem by some companies in the UK, mentioning the effect of weak dollar on pricing for the North American customers, the need to operate multiple bank accounts for different currencies, and the need to use dual currencies in labels (2009, 556–557). Logically, similar problems should be reported by European SMEs operating in markets outside the Eurozone, yet the author was unable to find studies where similar findings were found. Conversely, in the study of Portuguese SMEs, currency fluctuations were not found to be significant in the survey data (Martins and Pinho 2010, 263), however, the study does not specify what markets (Eurozone or otherwise) the surveyed exporters were exporting to. This could be explained by multiple factors, such as the protective or stabilizing effect of the Eurozone, lack of research on the topic, or simply difficulty finding relevant studies.

Language barrier was mentioned as a significant problem in a study of Indian SMEs, and it was remarked that lack of language skills made it more difficult for the companies to engage effectively in foreign trade, communicate with customers and understand local business processes (Roy et al. 2016, 529). According to the EU's annual report, 55% of surveyed companies ranked lack of language skills as important or very important reason for not exporting (2018, 101). Likewise, language was mentioned as a barrier by UK retail companies (Hutchinson et al. 2009, 557). Cahen et al. also found that language barriers, particularly knowledge of English, was perceived as a barrier by the companies in the study; however, further analysis suggested they were not the most challenging barrier (2015, 1977). Conversely, in Suárez-Ortega (2003) and Leonidou (2000), culture and language barriers were ranked as least important barriers, and they also ranked fairly low in the list of barriers in a study of New Zealand companies (Shaw and Darroch 2004, 335), although in the latter case, the proximity of large English-speaking markets (e.g., Australia, the United States) could explain this finding.

3.4 Strategy and management factors

The classification presented by Leonidou only includes managerial factors pertaining to managerial time to deal with exporting operations. However, the literature finds management and strategy important to the internationalization process, and this is why they have been included in the analysis.

Spence and Drick found that in both Canada and the UK, internationalization decisions were made based on the managers' existing knowledge of potential markets, gained either through previous employment or through research (2006, 533). The same study also found that, in most cases, internationalization occurred as a planned strategic decision (532). The importance of an enterprise strategy to internationalization was also observed by Kalantaridis, who found that 40% of small enterprises reported being occupied by day-to-day management and reported being unable or unwilling to implement an enterprise strategy (2004, 251) whereas approximately 70% of medium and large enterprises had adopted a strategy (2004, 253).

Bell et al. found that change of ownership or management often lead to a reprisal of strategies, partly including internationalization (2004, 33). The authors also found that family-owned and traditional companies were less likely to pursue internationalization strategy, citing fearing the loss of control of the business to outside investors as the reason (Bell et al. 2004, 36). The study by Kontinen and Ojala, which replicated the study with family-owned Finnish firms, found that family-owned SMEs were more likely to internationalize more gradually and along traditional pathways (2012, 505). These were unlikely to face radical change if the ownership model remained shared between multiple individuals, but of if the management transferred in its entirety to a new owner, more radical changes in the internationalization strategies changed significantly (Kontinen and Ojala 2012, 510). Another study discovered links between managers' international orientation and their tolerance of ambiguity, lower perception of risk, and increased knowledge intensity (Saghebi et al. 2019, 13–14). The authors conclude that internationally oriented managers with positive attitude towards international markets, together with adequate market data, can accelerate the speed of internationalization, due to having a high tolerance for ambiguity and risk (Saghebi et al. 2019, 16).

3.5 Conclusion

To conclude, the existing literature that has been reviewed in this chapter includes studies conducted in different countries, over a period of multiple years, comprising different companies, products and services and as such, draws different, sometimes contradictory, conclusions, possibly based on these differences. However, many, if not all of them, have arrived at similar conclusions on a few points. These are the following:

1. In most cases, knowledge barriers are more significant than external barriers;
2. There are differences with barriers experienced by non-exporters and exporters, or: the actual barriers to internationalization and perceived barriers to internationalization are not always the same; and
3. Managerial interest and strategy can affect the internationalization process.

Based on these conclusions, we can formulate the following hypotheses:

H1. Finnish SMEs who wish to internationalize fail to do so mostly due to knowledge barriers, such as lack of information on international markets, and ability to exploit international opportunities;

H2. Some barriers are often perceived to be more significant than they are, and the decision makers are not always aware of factors that lessen these barriers (for example government support); and

H3. The decision makers of Finnish SMEs who operate exclusively in the domestic market and are not interesting in internationalization are less likely to have experience in the international markets, and are less likely to view internationalization positively.

To test these hypotheses, a semi-structured research interview was devised.

4 METHODOLOGY AND DATA COLLECTION

4.1 Interview questions and methodology

Based on the hypotheses drawn from the review of existing literature, a selection of research questions were designed to test these hypotheses. These were the following:

Q1: Has your company had any operations abroad? Clarification: "operations abroad" in this context means providing (buying or selling) products or services outside Finland directly or through intermediaries, such as partners abroad, or setting up a foreign subsidiary.

- *Is this something your company would wish to pursue or has your company pursued this possibility in the past?*
- *Why or why not?*

Q2. Has your company used any internationalization support services for businesses (counselling, market research, networking services)? If yes, what, how, and when? How would you describe your experience? If no, is there a reason why you did not seek external support?

Q3. What, in your opinion, are the most significant obstacles for pursuing operations abroad for your company in particular. Clarification: in this context, "most significant obstacles" mean any factors that make pursuing international trade difficult or non-profitable for your business at this moment.

Q4. At this time, in your estimation, would you describe the current market conditions as 1) favourable, 2) neutral, or 3) hostile for any internationalization efforts. Why?

The research was carried out using semi-structured interviews. This method of research was chosen due to the researcher's ability to affect the quality of information collected by, for example, giving context to the research questions and by clarifying misunderstood questions, and due to a more favourable expected response rate, as people are usually more eager to talk than to write (Krishnaswami and Satyaprasad 2010, 100). Moreover, using a semi-structured interview, where questions are more open-ended, allow the participants to provide new perspectives, while being, at the same time, sufficiently structured to address the specific topics being studied (Galletta and Cross 2013, 24).

The questions were formatted based on the hypotheses formulated at the end of chapter 3. An additional question to gauge the possible effect of the recent changes in the sociopolitical and economical climate was added to address the possible effects this could have on the participants' responses.

Although qualitative research methods, such as interviews, do not involve random sampling in a statistical sense (Galletta and Cross 2013, 33), the author chose to use a modified simple sampling method. This was done by randomly choosing a number of Turku area SMEs in Southwestern Finland from a SME business listing in the field of manufacturing that had no or only partial English language translation of their website or contact information – signalling, for the researcher, that the company was less likely to engage in international trade. The decision to recruit companies with no or limited international trade was made to focus on the perceived and actual barriers facing a SME in the beginning of their internationalization process, which could be argued to be the most crucial point of determining the company's future internationalization status. The field of manufacturing was chosen due to a relatively high number of manufacturing SMEs engaging in international trade, according to a report by a Finnish SME advocacy group: While around 22% of Finnish SMEs overall engage in international trade, around 50% of manufacturing SMEs do so (Suomen Yrittäjät 2022, 25), and, as such, the barriers to internationalization of such companies could be expected to be lower when compared to other sectors.

Simple sampling was chosen due to its ease of application and suitability, as all in all the Turku area manufacturing SMEs are a fairly small and homogenous group, making them suitable for simple random sampling method (Krishnaswami and Satyaprasad 2010, 59). The disadvantage of simple random sampling is that the lack of proportional representation and, in this case, limited sample size due to the scope of the study, can affect its representativeness (Krishnaswami and Satyaprasad 2010, 60). As such, the findings might not be applicable in part or at all in SMEs operating in different industries or geographical areas, and this must be taken into account when analysing the results.

4.2 Interviewed companies

Company Z is a family business that has been operating in the field of machinery and metalworking for 50 years. It had net sales of 5.3 million euros in 2022 and a staff of 7. Company Y is a former family business that has been in operation for almost 40 years. Company Y manufactures construction materials, and it had net sales of 16.3 million euros in 2022. The staffing level of the company has been in flux recently, being somewhere between 20 to 50 people, and they were recently acquired by a foreign owner. Company X has been operating in the field of mechanical engineering and metal industry for over 30 years. It had net sales of 10.5 million euros in 2022 and a staff of about 50 employees. The company was recently acquired by a foreign owner. Company Q is a company that has been operating for 9 years in the field of metal frame and parts manufacturing. In 2022, it had net sales of 7 million euros and a staff of 15.

5 INTERVIEW RESULTS AND ANALYSIS

5.1 Interviews

The interviews were conducted via Teams meetings and lasted between 15 to 30 minutes. All interviewed individuals received a list of questions beforehand and were able to prepare their answers in advance if they wished to do so. Three out of four interviewed individuals were in the position of CEO or equivalent in their respective companies; one respondent was a sales director.

5.1.1 Internationalization

All companies reported having international imports, and most reported having some level of international sales, but these were categorized as minor or sporadic. In the case of company X, these exports had a domestic connection, as the customer was a subsidiary of its larger Finnish customer, but in the cases of companies Z and Y, international sales were initiated by foreign customer contact.

On the topic of future internationalization, companies Z and Q are in early or very early state of internationalization planning, company Y has hopes of internationalizing in the future but saw significant obstacles for doing so, and company X has no wish to internationalize in the near of distant future. Company Z is actively looking to expand in the nearby Nordic countries. The Nordic market was chosen due to having a similar business environment and because current customers have operations in this market. The company has reached its domestic growth potential and believes it has a competitive advantage due to having a specialized product and customer segment. Company Q sees potential in nearby Nordic and Baltic markets and has made investments in manufacturing equipment that it considers to be advantageous for its internationalization efforts in the future. Company Q also mentions that they see their know-how and the ongoing green energy transfer as a potential competitive advantage in their internationalization efforts in the future.

Conversely, companies Y and X have no immediate or long-term plans to internationalize in the future. Company Y wishes to grow and expand its customer base abroad but is unable to do so at the moment. Company X, on the other hand, has considered internationalization in the past, but has come to the conclusion that the domestic market retains good opportunity for growth, and as such, it sees internationalization as a potential complication and competition for resources that are better used to win domestic markets. As such, they saw internationalization as unnecessary.

5.1.2 Use of consultation and support services

Three out of four companies had used some support services or outside consultation, either formal or informal, to gain insight or information on potential international markets, and their experiences were mostly positive.

Company Z had utilized publicly funded internationalization services. The company was contacted by representatives of a consulting service, and together with the company, potential internationalization opportunities in the Nordic countries were examined. The project was externally funded, and it ended when consult funding ran out. Company Z described the overall experience as positive, but mentioned that the focus was more on planning and less on creating concrete internationalization plans, as the funding ran out before the development plan stage.

Company Y had used networking services approximately a decade ago, and described the experience as insightful, but they felt that lacking language skills still prevent them from establishing themselves in the target market. However, they would be interested in using similar service in the future, and see networking, establishing professional relationships and customer acquisition as the most important aspects.

Company X had not used received any support services through official channels, but through a personal contact the CEO had in the target market. They came to the conclusion that they do not have the capacity to enter the market with the required sales to make the endeavor profitable. Similarly, they do not plan to use any support services in the future: “Why would we leave over there when we have enough work over here?” (Company X CEO).

Company Q has never used any internationalization support services, but it is interested in exploring this option as its internationalization process deepens in the future. The company is most interested in networking services and help finding new customers in the target markets, although they also mention that their current customers also have international contacts that they can exploit.

5.1.3 Greatest barriers to internationalization

Lack of trained staff, knowledge of foreign markets and experience in international trade were mentioned by two interviewed companies as significant barriers. Company Z reports their most significant barriers are lack of resources, such as knowledgeable staff and funding, and insufficient information on target markets and customers. They report that they are looking into solving these factors, but issues such as shortage of staff with the relevant skills are difficult to resolve quickly. Company Q reported facing similar issues regarding shortage of staff with relevant skills and described their greatest barriers as lack of knowledge of international trade and language barriers, although they did not see these problems as insurmountable.

Language barriers were mentioned by company Y as a barrier, but in their particular case, the greatest barrier to internationalization is the nature of the company's product, over half of whose price consists of material costs that have a stable market price in the international markets. This means that the product's profit margin is heavily reliant on minimizing delivery costs, which makes profitable exports difficult to achieve. The company is currently looking into streamlining logistical challenges and researching new products to achieve competitive advantage through product innovation to address these issues, but at present, these factors are a significant barrier to internationalization for the company.

Interestingly, company X, which does not seek to internationalize in the near future, also mentioned lack of resources as the most significant obstacle to internationalization. Company X sees that, in their situation, they can gain better returns for the resources they do have by investing them into the domestic market. The company was also concerned by possible extra costs, labor, and logistical issues caused by possible international reclamations processes, and said they would rather not take the risk. Although these barriers were not seen as insurmountable, from the company X's point of view, the resources that could be invested into resolving these issues are better used to gain new customers and market share in the domestic markets. However, company X also cited cultural differences and different business culture as a barrier. This seemed to originate from the company's past negative experiences when importing production machinery from abroad, such as missed delivery deadlines and difficulties with achieving favorable contract terms for the company from foreign sellers.

5.1.4 View on market conditions

Perhaps unsurprisingly, companies Z and Q, which were in early or very early stages of internationalization, described market conditions as positive or neutral for their internationalization efforts, whereas companies Y and X, which faced either significant internationalization barriers or were not interested in internationalizing, described the market conditions as negative.

Company Z's perspective is that although the market situation can potentially be unfavorable at the moment, they can use the situation to their advantage in their internationalization efforts. For example, they can use the decline in construction industry and other adjacent fields to their advantage, if these conditions disrupt current foreign market operators. Similarly, company Q referred to the current downturn in the manufacturing industry in the Baltic, and mentioned that it is facing competitive pressure now that their competitive advantage in labor costs and prices of raw materials is closing. Conversely, Finland's position has improved as it holds competitive advantage in terms of know-how and modern production machinery. Company Q believes that, with their current standing in the domestic market being secure and with the current market conditions eroding the competitive advantage of other actors in the international markets, they have resources to spare to invest in internationalization. As such, they described the market conditions as positive for their internationalization efforts.

Similar points about the overall development of the European manufacturing sector and the competitive advantages of the Finnish manufacturing sector were made by company X. However, they described the market conditions as unfavorable for any internationalization efforts. They reiterated that they see no need to internationalize when they can compete in the domestic markets and are able to expand. Company Z as well described the market conditions as unfavorable for internationalization efforts, citing decline in the construction industry, mounting competitive pressures, difficulties finding customers, and declining sales margins.

5.2 Analyzing the interview findings based on the existing literature

The interviewed companies did not directly mention limited information to analyze modern markets and lack of market data as barriers, but this was mentioned by company Z CEO in the form of lack of staff with experience of the target market as important: "[…] if we're going into [country] for example, we need to have someone with some experience of the markets and the customers". Company Z also mentioned that the external support they used in the past included marketing research. This would indicate support for the findings of Suárez-Ortega (2006), Uner et al. (2013), and the report by the European Union (2018), which indicated lack of information as a significant barrier. It should also be mentioned that, out of all the companies interviewed, company Z expressed explicitly that they were actively looking into internationalization and were the furthest along in the process. Conversely, company Q did not see need for marketing research as such, and companies Y and X did not mention this aspect at all, and as such, the findings are somewhat mixed.

Difficulty identifying foreign business opportunities was not reported at all – in fact, the companies were very aware of foreign business opportunities and market conditions in foreign markets even in the early stages of internationalization. As such, the interviews do not support the findings of Suárez-Ortega (2006) and Uner et al. (2013) when it comes to the topic of knowledge of potential markets as a barrier. On the topic of inability to contact overseas customers, the interview findings are mixed: companies Z and Y reported either some level of interest in networking services or need of personnel with knowledge of potential partners, however almost all companies reported having sporadic or incidental foreign exports. The incidental exports were similar to the unsolicited contacts reported in Spence and Crick (2006), and Dean et al. (2000), and the relationship between company X and its sporadic exports to its domestic customer's foreign subsidiary is a representation of the "client fellowship" phenomenon mentioned by Bell et al. (2004).

On the topic of functional barriers faced by the interviewed companies, the results are again somewhat mixed. None of the companies reported limited managerial time to deal with exports, contradicting the findings of Leonidou (1994). Lack of export marketing commitment or lack of managerial vision could be argued in the case of company X, which would support the findings of Dean et al. (2000) and Hutchinson et al. (2009), but it could also be argued that in the case of company X, the decision not to pursue internationalization is due to focusing on domestic markets, which somewhat contradicts the findings of Dean et al. (2006). The CEO also reports that the topic has been brought up within the company many times in the past, but the decision not to pursue internationalization has always been made in the end, which would indicate that the decision stems less from lack of vision and more from strategic factors, which would again contradict the findings of Hutchinson et al. (2009). Lack of production capacity could be argued in the case of company Q, because the company SD mentioned that incoming new machinery is one factor that will make exports possible and one reason the company is looking into internationalization. This would support the findings in the study by Kahiya (2013). When it comes to personnel as a barrier, the results of the literature review were mixed, but in the interviews, this was one of the most common barriers mentioned. However, separating this barrier from other barriers, such as market knowledge barrier or language barrier, is somewhat difficult due to the fact that, as mentioned above, sometimes lack of personnel with the relevant knowledge is seen as a barrier, and as such, the two barriers are somewhat congruent in the interview data. When it comes to lack of working capital, only company Z mentioned lack of funding explicitly, but company X also alluded to lack of resources that they can better invest in the domestic markets as a barrier. This would partially support the findings of Uner et al. (2013). Also, as mentioned in chapter 3, Uner et al. pointed out that companies in early stages of internationalization can rely on domestic markets for revenue (2013, 805), which is similar to rationalization behind company Q's decision to pursue internationalization: the domestic markets are secure, and as such, they can capitalise on their competitive advantage and pursue internationalization.

In case of company Y, marketing barriers related to product were present, and this would be in the line of the findings of Bell et al. regarding need of product innovation (2004, 36), although company Y CEO expressed during the interview that they were not looking into product innovation solely for the purpose of internationalization, but rather from general competitive pressure in their field of business, and they were not looking to, for example, adapt existing products for foreign markets, as Bell et al. reported (2004, 36). The experience of company Y differs from the findings of the European EU's annual report (2018, 101), but as speculated in the chapter 3, this could be due to the specific nature of company Y's product and the market conditions faced by the manufacturing industry.

Logistics was mentioned as a complication or a barrier by three out of four interviewed companies, companies Y, X and Q. None of the interviewed companies had significant exporting operations, however these companies nevertheless mentioned logistics as a barrier. This contradicts the findings of Pinho and Martins, since according to their findings, logistics was not mentioned as a barrier by non-exporters (2010, 268). One could argue that Finland's geological location could be a factor in explaining this difference, but as the study by Pinho and Martins comprised of SMEs mainly from the northern regions of Portugal (2010, 261), one could also argue that the challenges posed by both geological locations are at least somewhat similar, and as such, cannot explain the differences. Difficulties identifying business partners was not mentioned as a barrier as such in the interviews, but it could be argued that company X's negative experiences with previous foreign partners is an example of such a problem. This is somewhat similar to the findings of Uner et al., whose study found that non-exporters perceived lack of reliable representation as a barrier (2013, 807) – although company X's experience was not with representation as much as suppliers, reliability specifically was seen as the issue by company X. This is also in line with the findings of Hutchinson et al. with regards to difficulty finding reliable suppliers (2009, 557), although in the case of Hutchinson et al., the subjects of the study were UK retail companies, and as such, comparing their results with the experiences of a Finnish manufacturing company is somewhat difficult.

Problems with regulatory and legal environment were not mentioned directly in the interviews. However, company Q SD mentioned indirectly that these could be a barrier, and viewed as a personnel question: “We need the sort of personnel with experience and we need to tackle all the other challenges and clauses of international trade” (company Q SD). This could indicate that this is seen as a problem or barrier that having properly trained staff or personnel with experience with international trade will fix, and it is possible that this barrier is viewed as congruent with lack of trained staff. Nevertheless, regulatory problems or similar issues are not mentioned in the interview material enough to support the findings of the EU 2018 report, which found lack of understanding of regulations and legal environment of foreign markets as being among the most important external barriers to internationalization (2018, 103). Although collection of payments was not mentioned as a barrier by any interviewed companies, company Z specifically mentioned difficulties resolving cross-border disputes and complaints as a reason not to export, which would support the findings of the European Union report (2018, 100).

None of the interviewed companies mentioned governmental barriers such as lack of assistance, incentives, or unfavorable regulations as a barrier. To the contrary, two of the interviewed companies had used the services in the past and were mostly happy with the service, although company Z CEO mentioned that the support services they received were focused more on the planning and less on the practical aspects of internationalization, although it must be mentioned that the process was somewhat interrupted by project financing running out. In terms of competitive advantage, the findings of Uner et al. seem relevant, as the writers of the study speculated that in case of non-exporting companies, lack of competitive advantage is a factor (2013, 809), which is exactly the problem company Y CEO reported currently having, and improving competitiveness with product innovation and improving logistics is the issue they are currently working on. Conversely, companies Z and Q see a competitive advantage, even in tumultuous markets, and as such, are more ready to exploit the internationalization opportunities these bring, further underscoring the point.

Local economic conditions were mentioned by company Z, however not as much as a barrier, but as an opportunity for new actors, and they had similar views on current currency differences: for company Z, these were factors that made the market more, not less, viable in this moment in time. This differs from Roy et al. who found that difficulties caused by currency fluctuations were a significant barrier (2016, 529). However it should be noted that the study in question comprised of Indian SMEs and trading in several currencies, which is a very different situation to company Z, but it demonstrates that currency considerations are still relevant in the time of the EU and the Eurozone. Socio-cultural environment and foreign business practices were cited by company X as a reason not to internationalize, and this would somewhat support the findings of Kraus et al. (2015, 1504), as the countries mentioned by the company X CEO were in Eastern Europe and the Mediterranean, countries Finland has traditionally not had close cultural ties with. Tariff or non-trade tariffs were not mentioned by any of the interviewed companies, however the companies mentioned exclusively Nordic or EU member countries when talking about possible internationalization efforts. These results are similar to the findings of the Finnish SME advocacy group, whose survey found that the most usual markets for Finnish SMEs to operate in are the Nordics and other EU countries (Suomen Yrittäjät 2022, 26). This could be interpreted as indication that the lack of tariff and non-tariff barriers is a factor, as the common market has lowered them significantly, and these barriers are identified as significant to internationalization by OCDE (Bliess and Busquets 2006, 6).

Although none of the interviewed CEO’s reported having existing knowledge or experience in international markets, it could be argued that the companies have access to institutional or indirect knowledge through their customers that engage in international trade in larger scale as a part of their wider network, which could be argued to support the findings by Spence and Drick, who found that managers’ existing knowledge of potential markets was a factor in internationalization decisions (2006, 533). However, it could also be argued that the opposite is true in the case of company X, where, arguably, knowledge of potential markets and international market conditions has influenced their strategy to focus on the domestic market. The findings of Bell et al. that change of ownership leads to changes in strategies, including possible internationalization (2004, 33) was not supported in the case of company X – it has recently been acquired by a foreign owner, and despite this, there has been no pressure to internationalize. It could be argued that perception of risk is a factor, particularly in the case of company X. Positive attitude towards international markets was present in the interviews of the CEO’s with the most active internationalization plans, companies Z and Q, which supports the findings of Saghebi et al. on internationally oriented leaders with positive outlook on international markets (2019, 16).

5.3 Emerging themes and other findings

During the interviews, some other reoccurring themes and similarities rose from the interviews, which warrant further discussion. These are different interpretations of similar observations, domestic companies participating indirectly in internationalization through larger companies (termed “indirect internationalization” from now on), and the training needs of companies which have plans to internationalize.

5.3.1 Differing reactions to perceived market conditions

Companies X and Q gave very similar descriptions of the state of manufacturing sector in Finland compared to the Baltic or Eastern European manufacturing sectors, which, according to both companies, held the competitive advantage until recently, and described a shift in procurement culture which is favorable to Finnish companies and creates competitive advantage for Finnish manufacturing businesses. They describe a general favorable shift in their respective manufacturing fields, and both mentioned that, in the recent past, manufacturing in Finland was viewed as a “sunsetting industry” (company Q SD), and that “10 to 15 years ago I was told […] that the metal industry in Finland will stop and everyone will move to Estonia and Poland and all over” (company X CEO). However, according to both CEO’s, the trend has been the opposite, with Finnish manufacturing sector achieving competitive advantage through better know-how and product quality, and better level of automation.

Despite these similar outlooks, only company Q describes the market conditions as positive, whereas company X describes the market conditions as negative with regards to internationalization, despite describing almost identical market conditions as company Q. Company X does not see the need to internationalize and sees that the company’s resources are better used domestically. As mentioned above, company X also described past negative experiences with international trade, which could affect their risk assessment and view of market conditions for internationalization. Company Q’s stand is completely different: as their “backyard is secure” (company Q SD), they feel more secure pursuing possibilities outside the domestic markets. This indicates that companies are on the surface in quite similar situations can come to opposite conclusion based on the same information, and plan their respective strategies accordingly.

5.3.2 Indirect internationalization

Several companies reported having occasional or sporadic international sales, but companies X and Q both describe selling parts and products to customers which engage in international trade, and company Z mentions current clients that operate in the Nordic countries. As such, they are a part of the international network of larger internationalized companies. Moreover, company X was recently acquired by a foreign owner, as was company Y, complicating the definition of “internationalized company” even further. This begs the question of whether classifying only companies that have direct foreign sales is entirely accurate or meaningful, particularly in the case of companies operating chiefly in the B2B environment.

From the point of view of SMEs in particular, this option to engage in indirect international trade would seem to be a safer, less risky option than direct foreign sales, where the company is required to invest resources into facing the internationalization barriers itself. When they work as a part of a subcontracting chain of a client company that engages in foreign exports, the barriers are handled by the presumably larger client company with existing experience and skilled staff in a mutually beneficial arrangement. Moreover, at the same time, the SMEs can leverage the network later, if they decide to internationalize further down the line, as companies Z and Q expressed planning to do.

5.3.3 Staffing and training needs

Lack of trained staff or staff with experience in international trade was the most common barrier mentioned during the interviews, and correcting this problem through recruitment or training is “a long road” (company Z CEO). This could indicate that there is a shortage of either individuals with training in international trade and foreign trade experience, or lack of suitable support services and training opportunities to help current staff reach the skills and experience required for internationalization, or both. This would indicate that there could be demand for in-service training programs that focus on these barriers. As mentioned earlier, interviewed companies seemed to associate problems such as lack of market knowledge, language proficiency, or regulatory problems associated with internationalization as staffing or personnel issues. In other words, companies are not only looking for intangible assets or knowledge, but personnel with the skills to overcome these barriers, and facilitating the acquisition of these skills for existing staff could be an additional avenue in addition to recruitment.

6 CONCLUSIONS

Based on the review of exiting literature, the following hypotheses were made in chapter 3:

H1. Finnish SMEs who wish to internationalize fail to do so mostly due to knowledge barriers, such as lack of information on international markets, and ability to exploit international opportunities;

H2. Some barriers are often perceived to be more significant than they are, and the decision makers are not always aware of factors that lessen these barriers (for example government support); and

H3. The decision makers of Finnish SMEs operating exclusively in the domestic market and are not interesting in internationalization are less likely to have experience in the international market, and less likely to view internationalization positively.

Based on the interviews conducted, hypothesis 1 is somewhat supported by the interview responses: Although lack of trained staff was the most often cited reason within the interviewees, lack of knowledge of the target markets and opportunities was also mentioned, and this was also the most common subject of external support that the company received. Also lack of staff with the relevant knowledge was often mentioned in connection with lack of knowledge of markets and opportunities, indicating that the two factors are linked. Lack of ability to exploit international opportunities was mostly due to other factors, such as product and logistics related factors in the case of company Y, whereas other companies were planning on leveraging their international opportunities, such as companies Z and Q, who recognized their opportunity to use their existing international networks and were planning on capitalizing on those networks during their internationalization process in the future.

Hypothesis 2 is mostly unsupported by the interview results: Many companies were aware of available support services and had even used them in some cases. If perhaps could be argued that the language barrier some companies mentioned could be classified as a perceived barrier, as this can be alleviated with internationalization strategies such as looking for local partners with fluency in both local language and either Finnish or a lingua franca the company is willing to use in international trade, such as English, but, as company X CEO pointed out during the interview, cultural differences can have deeper effects on international trade, for example in terms of contract terms and negotiations. Furthermore, this barrier is also connected to the issue of knowledge of target markets, as without knowledge of the target market language, marketing research and other fact-finding projects become more difficult.

Hypothesis 3 is mostly unsupported by the interview results. Company X, with no plans to internationalize, reported that negative experiences with international trade in the past were at least a partial reason for lack of interest in pursuing an internationalization strategy. Conversely, companies that were either actively looking to internationalize or wished to do so did not report any specific knowledge of or experiences with internationalization or international trade. It could be argued that the companies that are exposed to internationalization through intermediaries have experience in international trade as a part of their internationalized clients' subcontracting networks, but none of the interviewed CEO's, with the exception of company X, reported any in-depth knowledge or experience in international trade. When asked, the incentives for internationalization were highly practical, such as wishing to increase market share to ensure growth or improve profitability as domestic markets and competition increases.

Interestingly, the interview results suggest that both network model and the Uppsala model are applicable models in the case of these companies. Although the interviewed companies had not leveraged their existing connections, they recognized them as a possible avenue for internationalization, and networking services were mentioned as something the companies would maybe in the future wish to seek help with. Whereas the companies' interest in expanding into nearby markets, as Sweden and the Nordics were mentioned often during several interviews, would imply that the Uppsala model is applicable in this case as well. However, the companies cited reasons beyond "psychic distance", such as logistics and product related reasons, although cultural reasons were mentioned as well. It could however be argued that Finnish companies see language as an obstacle even when expanding into nearby markets due to the relatively linguistic closeness of the other Nordic countries and their languages, which is not the case with Finnish, as it is not part of the North Germanic language family, unlike Swedish, Norwegian, and Danish, but part of the Finno-Ugric language family.

None of the companies fit the definition of a Born Global or International New Venture. This is partly explained by the fact that only one of the interviewed companies had been in operation for less than 10 years, and moreover, two out of four interviewed companies had either started out as or still were family businesses. Nevertheless, the companies interviewed have adopted some of the competitive strategies of BGs, such as leveraging their know-how and cost-effective production strategies to gain competitive advantage. Company X CEO mentioned specifically investing in automatization and development of Finnish industry know-how, and company Q SD saw green technologies and their company's competencies in this field as a competitive edge that they can leverage and as something that will be on demand in the future. It is difficult to say if these intangible assets make it possible for them to adopt the internationalization strategy of BGs, mainly rapid internationalization to capitalise on the R&D investment as soon as possible. It is also possible that aspects of the BGs that were previously seen as exceptional or out of the ordinary, such as rapid capitalization on R&D investments and leveraging information technologies to connect with customers, has become a normal part of doing business, and as such, characteristics that were once representative of BGs have been adopted by traditional industries as well.

When analysing the results, the limitations of the study must be taken into account. The scope of the study was fairly small, comprising of only four companies, and it was limited to SMEs in the manufacturing industry in the Southwestern Finland. However, despite this, the results do indicate some new avenues for future research. One of such avenues could be a larger study to examine how prevalent large Finnish companies that produce products mainly for exports are as a client base of Finnish SMEs and how these subcontractors see internationalization, that is to say, how prevalent indirect internationalization is among Finnish SMEs. Another potential avenue for future research is a longitudinal study following companies going through the internationalization process to see how barriers manifest throughout the internationalization process.

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Appendix – Original interview questions

Kysymys 1. Onko yrityksellänne ollut toimintaa ulkomailla. Tarkennus: Tässä yhteydessä ”toiminta ulkomailla” tarkoittaa palveluiden tai tuotteiden ostoa tai myyntiä Suomen ulkopuolella suoraan tai välittäjien, kuten ulkomaalaisten yhteistyökumppanien kautta, tai ulkomaalaista tytäryhtiötä.

- Onko tämä sellaista toimintaa, johon yrityksenne haluaisi tulevaisuudessa pyrkiä, tai onko yrityksenne pyrkinyt tähän aikaisemmin?
- Miksi/miksi ei?

Kysymys 2. Onko yrityksenne käyttänyt yrityksille suunnattuja kansainvälistymisen tukipalveluja (neuvonta, markkinointitutkimus, verkostoitumispalvelut)? Jos kyllä, mitä, miten ja koska? Miten kuvailisit yrityksenne kokemuksen? Jos ei, onko syitä, miksi ette ole hakenut ulkoista tukea?

Kysymys 3. Mitkä ovat omasta mielestänne merkittävimmät esteet oman yrityksenne kohdalla toiminnalle ulkomailla? Tarkennus: tässä kontekstissa ”merkittävimmät esteet” tarkoittavat mitä tahansa tekijöitä, jotka tekevät toiminnasta ulkomailla (ks. aikaisempi määritelmä) vaikeaa tai kannattamatonta yrityksellenne tällä hetkellä.

Kysymys 4. Tällä hetkellä, luonnehtisitteko tämänhetkisen markkinatilanteen 1) suotuisaksi, 2) neutraaliksi, vai 3) epäsuotuisaksi kansainvälistymispyrkimyksiä ajatellen. Miksi?