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INTERNATIONALIZATION OF SMES

– Case Forssan LVI-Valmiste Ltd



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CASE FORSSAN LVI-VALMISTE LTD.

Internationalization is a big challenge for small and medium sized businesses in Finland. The object of this thesis is to analyze the different entry modes to foreign markets when internationalizing and especially to determine what entry mode would be the most appropriate for the case company, Forssan LVI-Valmiste Ltd. to use.

The study hopes to answer the question what are the prerequisites companies need according to internationalization and what is the form of entry used on the new market. The research is assigned by Forssan LVI-Valmiste Ltd., which is a SME located in the southern part of Finland.

The study is divided in to two parts; theoretical and empirical. The theoretical research conducted for this thesis combines theories of several authors specialized in internationalization and marketing. The empirical part of the thesis was conducted by doing an in-depth interview with the case company managing director, Mika Lehtonen. This case study gives examples about the internationalization process of SMEs in the metal industry. The study focuses on the factors affecting the international pathway decision, factors such as international experience, logistical costs and organization cultures.

The results of this study show that there are several different entry modes for companies to choose from and also other important factors affecting the entry choice to different markets. At the end of the study there are four alternatives presented for the case company.

KEYWORDS:

SME, internationalization, international business, market entry mode,

Tekijä: Gisela von Porat

SUOMALAISYRITYSTEN KANSAINVÄLISTYMINEN

CASE FORSSAN LVI-VALMISTE OY

Tutkimuksen tavoite on selvittää kuinka suomalaisten pienten ja keski suurten yritysten tulisi valita kansainvälistymistapansa ja kuinka eritoten case yrityksen, Forssan LVI-valmiste Oy:n tulisi edetä kansainvälistymissuunnitelmassaan. Tutkimuksen toimeksiantajana on Forssan LVI-valmiste Oy, joka on suomalainen pk-yritys eteläsuomessa.

Tämän työn tarkoituksena on siis esittää pk-yritysten kansainvälistymisprosessi niiden matkalla kansainvälistymiseen. Työ toivoo vastaavansa kysymykseen mitkä ovat ne kansainvälistymisen kriteerit kansainvälistymiseen ja minkälaisen toimintamuodon yritys valitsee uusille markkinoille.

Työ on jaettu kahteen osuuteen; teoriaan ja empiiriseen osuuteen. Opinnäytetyön teoreettinen osuus koostuu eri kansainvälistymiseen ja markkinointiin erikoistuneiden asiantuntijoiden teorioista. Tutkimuksen empiiristä osiota varten case yrityksen toimitusjohtajaa, Mika Lehtosta, haastateltiin. Työ huomioi niitä tekijöitä, jotka vaikuttavat metodin valintaan, kuten kansainvälinen kokemus, toimituskustannukset sekä yrityskulttuuri.

Opinnäytetyön tulokset näyttävät, että yrityksillä on monta eri vaihtoa kansainvälistymiseen. Valintaan vaikuttavat myös useat muut tekijät kuin vain kansainvälistymistapa. Työn lopussa case yritykselle esitellään neljä eri vaihtoehtoa kansainvälistymisprosessina.

ASIASANAT:

Pk-yritys, kansainvälistyminen, kansainvälinen liiketoiminta

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1. INTRODUCTION

1.1 Background

Internationalization can be thought of as a process, end result or also as a way of thinking. A firm becomes increasingly internationalized as it becomes more involved in and committed to serving markets outside from its home country. (Albaum, 1998)

There are several different answers to the question what internationalization really is;

The concept of internationalization has evolved in the past decades. Johanson & Vahlne(1977)defined internationalization as a process in which the firms gradually increase their international involvement. They claimed that internationalization is the product of a series of incremental decisions. According to Luostarinen & Welch (1997), “it is very difficult to discuss the theory of internationalization because even the term itself has not been clearly defined. Although widely used term “internationalization” needs clarification. It tends to be used roughly to describe outward movement in an individual company’s or larger grouping’s international operations. As s starting point this common usage could be broadened further to give the following definition: the process of increasing involvement in international operations.

According to Albaum, Strandskov & Duerr (1998) selling abroad helps to gain economy in production at home, this possibly means lower prices to consumers of domestic products. For an individual firm, a lowering of product cost tends to improve its competitive position both at home and abroad and also helps to diversify the risk inherent in conducting business.

There are several ways by which companies can choose to internationalize their operations; some options that suit one may not be optimal for another company. In the case of SMEs, international expansion provides potentially new and potentially more profitable markets, helps increase the company’s competitiveness and also may facilitate to new product ideas, manufacturing innovations and the latest technology. (Hollensen, 1998)

The research is assigned by the case company Forssan LVI-Valmiste Ltd. which is a company with little experience in international activities but a strong urge to expand abroad.

1.2 Objectives of the Research

Small and medium sized enterprises (SMEs) have always been big creators of wealth and also employment in domestic economies. They are, however, usually less a less powerful force outside their home territory because of their limited resources. (Doole & Lowe, 2004)

Traditionally SMEs internationalize through exporting, in which products are manufactured in one country and transferred to customers in others, but nowadays several SMEs are also involved in a broader range of international marketing activity.

According to Hollensen (2011) the SMEs internationalization is unlikely to come off successful unless the firm prepares in advance. The advance planning is regarded as the most important action to the success of new ventures. Such planning is especially important in international ventures, in which the business environment can be considerably more complex than at home.

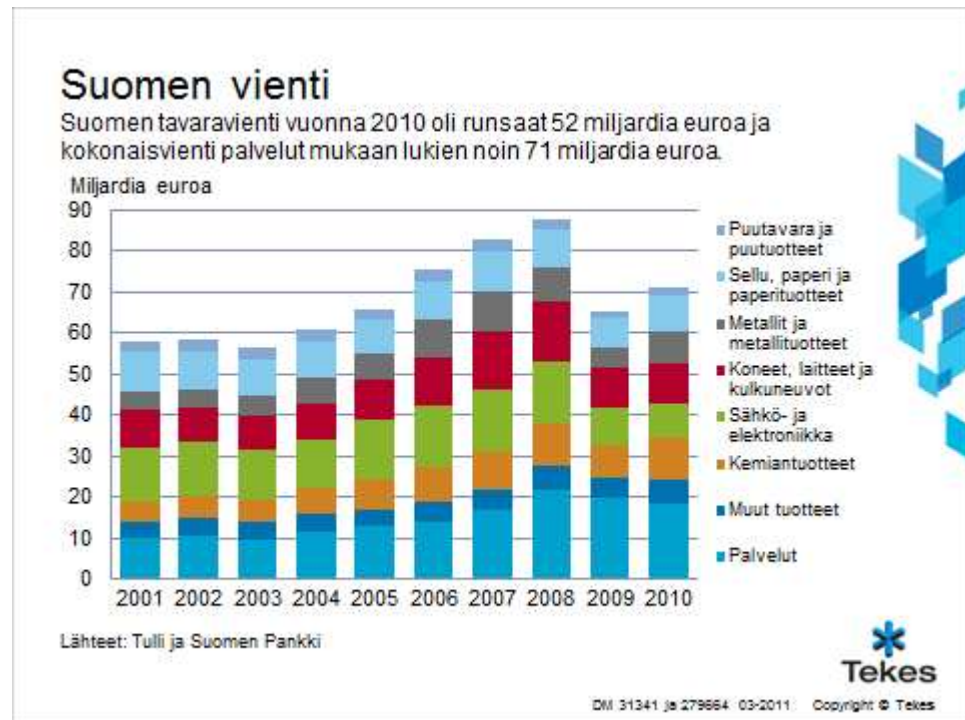
There are several SMEs that never go international. The reasons for not exporting are numerous. The largest barrier to internationalization is fear by companies that their products are not marketable overseas, and they consequently become preoccupied with the domestic market. It should therefore be remembered, that internationalization needs long-term commitment (Saarenketo,2003) Also the right mindset for commitment to international expansion plays a vital role in the process. (Doole&Lowe, 2001)

According to Pehkonen (2000) Exporting in Finland has been growing rapidly during the past decades. It has a significant status in the Finnish market, as Finland is a small market economy that depends on its imports and exports.

However, the biggest part of the Finnish export business is driven by a few major companies and Heikkinen (Kauppalehti 2010) claims in his article that Finnish SMEs should get more involved in internationalization in order to help the market growth.

The table below shows the Exports of goods in Finland in 2010, which was 52 billion euros and including services 71 billion euros. It includes timber, paper, metal products, machinery and vehicles, electronics and electricity, chemistry products and services.

Table 1. Exports in Finland in 2010.(Tekes, 2011)



The purpose of this thesis is to analyze different ways there are for Finnish small and medium sized enterprises and especially for a case company Forssan LVI-Valmiste Ltd. to internationalize. Thus, the research questions for this thesis are:

Q1. How should a company choose the foreign market entry mode?

Q2. What modes of entry would be most appropriate for the case company Forssan LVI-Valmiste Ltd. to use?

The case company of this study belongs to the SME sector and is thus an excellent example for the purpose of this study.

Forssan LVI-Valmiste Ltd. is a contract manufacturing HPAC (heating, plumbing and air-conditioning) company created in 1970, which specializes in thin plate manufacturing and contracting. The company delivers components to the customers own production as well as ready products directly to the end-customers. The current operations mainly take place in the southern parts of Finland.

The company is located in Forssa, which is a very central city in southern Finland and has very good networks and connections distribution wise.

Forssan LVI-Valmiste Ltd. mainly targets businesses in the SME-sector. The company does not want to be tied to one specific industry only; its potential customers could be reached also in the field of electronics, electricity, automation or any industry that uses thin plate products.

The following table shows the development in exports of building products in the years 1998-2007.

Table 2. The development of exports of building materials in 1998-2007.(Tekes, 2011)



The table shows, that in the past decade the exports have grown from four billion euros to over six billion euros with more rapid growth in the last years of the decade.

In the following table the building products exported are separated by product type, into timber, stone and cement, sawn timber, plastic and metal products, which is the largest product type in the table.

Table 3. The exports of building products by product type in 2007(Tekes, 2011)



These table above gives a good overall picture of the Finnish exports divided into sectors and it is also clearly to be seen that the exporting is constantly growing. The definition of small and medium sized enterprises (SME) is different depending on the country and the region. However, the most frequently used classification is based in the number of workers in a company, 10-49 employees is a small enterprise and 50, 249 employees is a medium sized enterprise.

2. INTERNATIONALIZATION OF COMPANIES

According to Hollensen (2011) the fundamental reason for exporting and internationalization, in most companies, is to make money. Rarely, however, as in most business activities, one factor alone accounts for any given action. There are two different types of motives that stimulate internationalization, i.e. proactive and reactive motives.

The proactive motives represent the stimuli to attempt strategy change, based on the company's interest in exploiting unique competences or market possibilities. Reactive motives on the other hand indicate that the company reacts to pressure or threats in its home market or in foreign markets and adjusts passively to them by changing its activities over time. Below is shown a table of the major motives for starting export.

Table 4. The major motives for starting export.

Proactive motives	Reactive motives
<ul style="list-style-type: none"> - Profit and growth goals - Managerial urge - Technology competence/Unique product - Foreign market opportunities - Economies of scale - Tax benefits 	<ul style="list-style-type: none"> - Competitive pressures - Small and saturated domestic market - overproduction - excess capacity - extend sales to seasonal products - proximity to international customers

2.1 Modes of Entry

Internationalization occurs when companies expand its production, R&D, selling and also other business activities into international market (Hollensen, 1998). He claims that especially for SMEs, internationalization is mostly a very discrete process, in which management regards each internationalization venture as distinct and individual. Many SMEs are pushed into exporting due to small home

market potential and the domestic markets are unable to sustain economies of scale and these companies then automatically include export markets into their market entry strategy. They want to gain better economic growth opportunities. Economies of scale means the increase in efficiency of production as the number of goods being produced increases. A company that achieves economies of scale lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods. (<http://www.investopedia.com/terms/e/economiesofscale.asp#ixzz1eLdc4STQ>)

An international entry mode is an arrangement necessary for the entry of a company's technology, product, human or financial capital into a foreign market. To a company internationalizing different entry modes represent the different levels of commitment, involvement, control and risk.

There are several different entry mode options for companies going abroad.

2.2 Factors Influencing Choice of Entry Mode

According to Hollensen (2011) a firm's choice of entry mode for its products is the result of several forces. The need to anticipate these forces makes the entry mode decision a complex process. Therefore the choice of entry mode should be based on the expected contribution to profit. There are several factors influencing the entry mode decision, these factors are as follows:

2.2.1 Internal Factors

The internal factors include such things as firm size, international experience and the product itself. Size is actually an indicator of the firm's resource availability, i.e. increased resource availability provides the basis for increased international involvement over time.

Another significant factor influencing the entry mode choice is the international experience of the managers and thus also the firm. International experience lowers the cost and also the uncertainty of serving a market. The fear of starting a new internationalization process is much lower when the management of the company has some prior positive experience in foreign business.

According to Albaum&Al.(1998) the nature of the product itself also affects the mode selection as products vary so much in their characteristics, e.g. unit value, weight and bulk, technical complexity and perishability. Also the selling job may

differ markedly. So if a company exports a relatively unknown product, it might be more suitable to use wholesalers and agents than try to export directly.

2.2.2 External Factors

The external factors influencing the choice of entry mode are such as the sociocultural distance between the home and the host country, the country risk uncertainty and also market size and growth. (Hollensen 2011)

Socioculturally similar countries mean those countries with similar business and industrial practices, common language, comparable educational level and also comparable cultural characteristics. Sociocultural differences between a company's home country and the host country might create internal uncertainty for the company, which naturally influences the choice of mode of entry. According to Doole and Lowe(2004) social and cultural factors influence all aspects of consumer and buyer behavior. The differences in the sociocultural environment are usually a central consideration in developing and implementing international marketing strategies.

Hollensen (2011) states that the country risk uncertainty means that foreign markets are usually thought of as more risky than the domestic market. When entering a new market a company has to do a risk analysis of both the market and also its method of entry.

The rate of market growth and the country size are key parameters in selecting the mode of entry. The larger the market and the higher the rate of growth is, the more likely management will be to commit resources to its development and also to consider a wholly owned sales subsidiary. On the other hand small markets that might be geographically isolated from its neighboring countries may not warrant significant attention or resources. These small markets may best be supplied via exporting or a licensing agreement. A small target market enables a company to enter the market with minimal resource commitment and therefore frees resources for potentially more lucrative markets.

2.3 Selecting the Entry Mode

For SMEs, export operations are the first step towards internationalization. Several SMEs practice the traditional method of first manufacturing the goods in the home market and then ship them to the foreign customers. The companies might also practice business-to business activities as a part of a supply chain of a multinational enterprise (MNE) or they can practice international niche marketing, which means that the enterprise targets a narrow and specialized market segment across a number of countries.(Doole&Lowe, 2001)

A company can be involved in either direct or indirect exporting. These two different ways of exporting are explained below.

2.3.1 Indirect Exporting

According to Hollensen(1998) indirect export occurs when the exporter uses independent organizations located in the producer's country. Actually it is very similar to domestic sale, as the company is not actually engaging in global marketing, as its products are carried abroad by others. Indirect exporting is therefore one good way to internationalize for companies with limited international expansion objectives. The most common indirect export modes are presented below.

Export management companies are companies set up to act as the export department for a range of companies. They help small and medium sized companies to initiate, develop and maintain their international sales by taking orders by clients and also by providing access to international market information and contacts. (Doole&Lowe, 2004) As they offer ranges of products from various companies they provide a more attractive sales package to foreign buyers. By doing this, they can spread the selling and administration costs over more products and companies, and thus reduces transportation costs. The use of EMCs allows individual companies to gain far wider exposure to their products in foreign markets at a lower overall cost than they could achieve on their own (Hollensen, 1998). As EMCs deal with the necessary documentation and their knowhow of local purchasing practices and government regulations they are especially useful in countries which markets are difficult to penetrate. However, as the EMCs deal

with a range of companies it might be argued that as they carry too many product ranges, it might be that the manufacturer's product might not be given the necessary attention from the sales people.

Piggyback marketing happens when a foreign distributor sell another company's products alongside its own. The domestic manufacturer is able to ride on the back of the foreign distributors existing reputation, contracts and administration with little investment themselves (Doole& Lowe, 2004). The "rider" is often an export-inexperienced SME, which deals with a larger company that already operates in the desirable markets.

2.3.2 Direct Exporting

As exporters grow more confident in their operations they may decide to start their own exporting activity. This involves many steps, such as building overseas contacts, undertaking marketing research, handling documentation and transportation and designing different marketing strategies (Hollensen, 1998). Direct export occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market. According to Kotabe and Helsen (1998), there is, however, much more to consider in direct exporting than in indirect exporting. As all the responsibility of the exporting task is in the hands of the company itself, the demands on resources – human and financial – are much more intense.

Agents provide the most common form of low cost direct involvement in foreign markets and are either independent individuals or firms, contracted to act on behalf of the exporters to obtain orders on a commission basis. The advantage with using agents is that they have knowledge on the local market and customs and they often have already existing business contacts (Doole&Lowe, 2004).

According to Ghauri& Cateora (2006) licensing means establishing a foothold in foreign markets without large capital outlays. Patent rights, trademark rights and the rights to use technological processes are granted in foreign licensing. So licensing is a contractual transaction where the company, i.e. the licensor, offers some proprietary assets to a foreign company, i.e. the licensee, in exchange for royalty fees (Kotabe & Helsen, 1998). It is often used by small and medium sized companies. Licensing is often used supplementary to exporting; it is rarely the only means of entry into foreign markets. This mode of entry is often used when capital is scarce or when some import restrictions forbid other means of entry.

Direct marketing does not depend on face-to-face contact but include ways as mail order, telephone marketing, television marketing, direct mail and e-commerce. In the rapidly developing information technology, these means all have large growth potential. (Doole&Lowe, 2004) Direct marketing is also often used alongside traditional entry modes by providing sales leads, maintaining contact or by providing a more improved customer service. Hence customer satisfaction is easier to achieve.

Franchising is a form of licensing in which the franchiser provides a standard package of products, systems and management services, and the franchisee provides market knowledge, capital and personal involvement in management. (Ghauri & Cateora, 2006) In other words, it is a means of marketing goods and services in which the franchiser grants the legal right to use branding, trademarks and products, and the method of operation is transferred to a third party – the franchisee – in return for a franchise fee. (Doole & Lowe, 2004)

The low startup cost of franchising makes it an attractive option, as well as the quick access to the market that comes with it. There can, however, come up some hidden costs in the process, as in cases where training and guidance is necessary.

2.4 Market Research

The following chapter explains different features that are important when a company analyzes the markets when internationalizing. It includes both socio-cultural aspects and also political and legal aspects. This chapter is relevant to the study as the impact of the socio-cultural and the political and legal environment affect the decision making process of selecting the internationalization entry mode.

2.4.1 Socio-Cultural Environment

One of the probably best known definitions of culture is Hofstede's; "culture is the collective programming of the mind which distinguishes the members of one human group from another...Culture, in this sense, includes systems of values; and values are among the building blocks of culture".

Cultural understanding to the international marketer is very important. Some cultural differences are easier to manage than others. Mostly the greatest problem

is to understand the underlying attitudes and values of buyers in different countries (Hollensen, 2011).

According to Kotabe&Helsen(2000) Consumer needs and buying behavior are mostly driven by cultural norms. This means that managers wanting to internationalize are going to interact with people from different cultural environments. Global business is nowadays dealing with consumers, distributors, strategic partners and also competitors with different cultural mindsets.

An international manager might find it difficult to obtain a comprehensive knowledge of a particular culture; a familiarity with the most pervasive cultural “differentiators” can provide useful information for the corporate strategy development (Hollensen, 2011). Hofstede(1983) provides an approach to identifying these fundamental differences between cultures. Dr. Geert Hofstede conducted perhaps the most comprehensive study of how values in the workplace are influenced by culture. From 1967 to 1973, while working at IBM as a psychologist, he collected and analyzed data from over 100,000 individuals from forty countries. From those results, and later additions, Hofstede developed a model that identifies four primary dimensions to differentiate cultures. (<http://www.cyborlink.com/besite/hofstede.htm>) According to him, the way that people in different countries perceive their world varies along four dimensions: power distance, uncertainty avoidance, individualism and masculinity.

Power Distance Index (PDI) that is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that 'all societies are unequal, but some are more unequal than others'.

Individualism (IDV) on the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, we find societies in which people from birth onwards are

integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in exchange for unquestioning loyalty. The word 'collectivism' in this sense has no political meaning: it refers to the group, not to the state. Again, the issue addressed by this dimension is an extremely fundamental one, regarding all societies in the world.

Masculinity (MAS) versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The IBM studies revealed that (a) women's values differ less among societies than men's values; (b) men's values from one country to another contains a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other. The assertive pole has been called 'masculine' and the modest, caring pole 'feminine'. The women in feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values.

Uncertainty Avoidance Index (UAI) deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, and different from usual. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy. The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow many currents to flow side by side. People within these cultures are more phlegmatic and contemplative, and not expected by their environment to express emotions. (Cyborlink, 2011)

This study, however, assumes that national territory and the limits of the culture correspond. Cultural homogeneity cannot be taken for granted in such countries that include a range of culture groups.

So when a company wants to internationalize, it is very important to understand the customers' personal values and accepted norms of behavior in order to market them properly. The marketer must also search for groups with shared views of the marketer's offerings. This is because many of the cultural differences are reflected in the type of communication used. This is a significant factor that influences the market entry mode choice as the cultural barriers to some countries might affect the decision of going to that market or with a specific entry mode.

2.4.2 Political/Legal Environment

Governments affect almost every factor of everyday business life in a country. National politics affects businesses directly, for example by changes in policies, regulations or laws. The governments also determines labor regulations, property laws, which industries will receive protection and which will face open competition. They also determine fiscal and monetary policies, which then affects investments and returns. So these regulations directly affect the international business environment in a country.

When a company wants to internationalize and do business across national boundaries, it has to face the regulations of both the home and the host country. Therefore, international marketing managers should be concerned about the host country's policies and their possible changes in the future, as well as their home government's political climate. (Kotabe & Helsen, 2000)

According to Albaum et al. (2004) the extent to which a government becomes involved in international marketing depends partially upon the type of economic system in the country (e.g. capitalism, socialism or communism), the type of government (e.g. monarchy, republic or dictatorship) and also the type of legal system (code law or common law). Several of the government derived impediments to international marketing and exporting especially are mostly in the form of restrictions and controls. Such controls directly affect both the amounts and types of products that can be exported or imported. Usually the export controls are intended to restrict the shipment of defense products, protect the domestic economy from a drain of scarce materials and also enhance national security.

One way in which some countries regulate their trading relationships is by requiring that licenses be obtained before goods may be exported or imported. If there is a product the government tries to restrict, licenses are not granted or only granted for a specific amount.

Another way of restricting trade is by setting tariffs, i.e. a tax on imports and is either stated as a percentage of value or on a per unit basis. These tariffs are usually relatively high, as they are designed to protect the domestic industry. The purpose of the tariff might also be to bring the price level of the imported product to the same level with the domestic substitute.

3. RESEARCH METHODS

At the beginning of a research, it must be decided which sources to use for the wanted information. These sources can be divided as primary, secondary and tertiary sources. These categories, however, overlap in reality (Saunders, Lewis & Thornhill, 2009). When information flows from primary to secondary to tertiary sources it becomes less detailed and authoritative but more easily accessible.

Primary sources include reports, theses, emails, conference proceedings, company reports and some government publications. Secondary sources include journals, books and newspapers. Tertiary sources include indexes, abstracts, catalogues, encyclopedias, dictionaries and bibliographies.

The different ways of information gathering can roughly be divided into three categories. According to Saunders et al. (2009) they are exploratory, descriptive or explanatory studies. Exploratory research builds on prior information and seeks to update it. It is particularly useful if one wishes to clarify one's understanding of a problem, such as if one is unsure of the precise nature of the problem. There are three principal ways of doing exploratory research:

- a search of the literature
- Interviewing experts in the subject;
- Conducting focus group interviews.

The object of descriptive research is to portray an accurate profile of persons, events or situations. It is necessary to have a clear picture of the phenomena prior to the collection of the data.

Studies that establish casual relationships between variables are termed explanatory studies. The key here is on studying a situation or a problem in order to explain the relationships between variables.

There are also different research strategies that may be employed when doing research. All these strategies can be used for the above mentioned methods. In this study the case study strategy was used. According to Robson (2002) a case study is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Yin (2003) describes the case study as a method of choice when the phenomenon under study is not readily distinguishable from its context. It enables to look at a specific case, collect data, analyze and interpret findings within their context and to report results (Easton et Al. 1997). The purpose is to deliberately isolate one particular case to demonstrate the handled subject. The theoretical proportions of a case study are to limit scope, point attention and suggest links between phenomena (Yin, 2003).

The company selected for this study, Forssan LVI-Valmiste Ltd., is justified for this research because of its current situation, being suitable to draw conclusions on the topic of this study. In this particular case study the research method enables real life happenings to be used to give a deeper understanding about the internationalization of the company in order to create a plan of action for it. The resource of the data includes an in-depth interview with the manager as well as company reports.

This study method gives the possibility for the author to go to places where it would be otherwise impossible to go to. The case study method also provides enriched experiences of totally unique situations.

Another methodology used in this study was the interview with the managing director of the case study company. The main reason behind this decision is based on the possible different perspectives gotten from the interviewee as well as his background, experience and viewpoints of the problem area, enriching the analysis of the data and offering a better understanding and more meaningful findings. The interview was conducted in an informal, conversational way, however with

predetermined questions. This was done in order to remain as open and adaptable as possible to the interviewee's nature and priorities.

An interview can secure data that is not necessarily available in performance records or observations and the interviewer might receive some unexpected answers throughout the interview (Marshall&Rossmann, 1995)). Also interviewing face-to-face allows interaction between interviewer and the interviewee, which may also help to obtain data.

4. EMPIRICAL ANALYSIS

The purpose of this thesis was to analyze what different modes there are for Finnish SMEs to internationalize and how to choose the best suitable option. The Case Company Forssan LVI-Valmiste wanted to find a way to expand its operations across the Finnish borders and thus increase the annual sales.

The methods conducted in this research are choosing a case company and adapt the findings of the thesis to the company's needs. The information was gathered by using already existing knowledge from books but the most crucial information for this thesis was gathered by interviewing the case company managing director, Mika Lehtonen, which gave a clear insight of what this company in particular desires.

4.1 Case Company Presentation

Forssan LVI-Valmiste Ltd. is a contract manufacturing HPAC (heating, plumbing and air-conditioning) company based in 1970, which specializes in thin plate manufacturing and contracting. The company delivers components to the customers own production as well as ready products directly to the end-customers. The current operations mainly take place in the southern parts of Finland.

The company is located in Forssa, which is a very central city in southern Finland and therefore allows for excellent networks and connections distribution wise.

Forssan LVI-Valmiste Ltd. mainly targets businesses in the SME-sector. The company does not want to be tied to one specific industry only; its potential

customers could be reached also in the field of electronics, electricity, automation or any industry that uses thin plate products. the company's production include:

Light gauge sheet metal work

Welding

General mechanics engineering

Steel structures

Stainless steel metal work

Bending, curving and edge pressing of sheet metal

Industrial contract manufacturing

Acid-proof sheet metal work

Thin plate manufacturing

As the company is at the moment heavily dependent on the home markets, it feels strongly the need to internationalize. Their biggest customers at the moment are among others; the city of Forssa, Kesko, OK Hämeenmaa, HK-Ruokatalo and MTT Jokioinen. They have also been in the process of building several grocery shops, ABC service stations, schools and elderly houses.

The choice to cooperate with this specific company was very natural, as it has been the employer of the author for the past two years. The author of this thesis completed her practical training for the degree also at the company. A considerable part of the information gathered for this study is from the authors own working experience in the company.

This case study will analyze and examine the factors that influence Forssan LVI-Valmiste Ltd.'s choice in its internationalization process.

4.2 Interview with Managing Director

Interview Questions

Q1. How would you describe your company's position in domestic market now before going international? Is it important for internationalization?

The current position of the company in the domestic market is now that the clientele is very small and the products mainly go to building industry. We are a quite small player in the domestic market, with clients mainly in southern Finland. We are very dependent on the construction industry, which means that the seasonal change of the construction business affects us very much. As our main customer is very big, we feel that we depend too heavily on this particular customer and hence want to find new customers abroad.

Q2. What is the main reason why your company wants to go international?

Larger clientele and we don't want to be so dependent on one branch only. We want to develop products for our international customers that are not so dependent on the seasons. These are the main reasons we want to go international.

Q3. What is the wish of the percentage of total annual sales coming from international sales?

Our goal is to receive half of our annual sales from international customers. However, we understand that it is a long process and these goals are not possible to achieve on a short-term basis.

Q4. Do you have any previous experience in internationalization or international business activities?

Yes, we have currently material suppliers in Sweden and in the Baltic countries and also have had small scale exporting to Sweden and Norway. This is only direct exporting.

Q5. What challenges or opportunities will internationalization bring to your company?

We wish for clients from as many different industry areas as possible, to even out the changes in the economic trends and seasonal changes. The economic situation in Sweden is at the moment much better than in other countries and there we try to find new opportunities.

The challenges will be to find the right kind of customers and to start business with them. As we have only a little experience in foreign trade we find it hard to create a larger network in foreign countries with little or no experience of.

Q6. What are the strength and weaknesses of your company in the international market?

We use the latest technology in our machinery, so we competitive even though the labor costs are high. We also have high autonomy in the use of the machinery which allows for around-the-clock manufacturing. As the company organization is quite small, we are very flexible in fulfilling the customers' wishes. Finland is a very stable country to be a manufacturer in even though the numerous strikes.

One other weakness is that we don't have a separate sales unit in our company. As our company is small, we don't have a significant marketing budget or a marketing unit. Also the language skills are not always on the level they should be.

Q7. What is the desirable speed of your firm's internationalization process?

We have the wish that within a few months we would have started operating with new international customers.

Q8. Does the nature of the products affect the choices of the market and the entry mode?

Yes, we want to find customers in countries with similar business culture as in Finland and also want to find the customers geographically relatively close in order to keep the shipping costs as low as possible and thus stay competitive.

Q9. Which mode of entry would best suit your company as the internationalization process?

Direct Exporting

Yes, this would be one of the best solutions for us, as middlemen cause more costs to us. This is the type of exporting we already have been dealing with on a quite small scale. However, to find the customers is the bigger issue.

Indirect Exporting

We don't think this type of exporting would be a solution for us. We try to avoid all extra costs.

Agents

This might be a solution for us, because they would already have a ready network and also knowledge of the markets.

Direct marketing

We are not interested in direct marketing, because we don't have the knowhow or the resources to do it.

EMC's

They have ready clientele and the market knowhow and as they most probably have a very large client range, they would be able to find many suitable customers for us. However, the company wants to handle the order taking itself so we are not confident that this option would be the most suitable for us.

Piggybacking

As our products vary so quickly based on the customers' orders and wishes I don't think it would be possible for another company to sell our products.

Licensing

This might also be a suitable option for our company, even though I feel that agents or EMC's would be closer to the idea of what we look for.

Franchising

Franchising is also not excluded as an idea, but as already said, agents and EMC's would be more suitable for our company.

Q10. What are your target countries/markets?

At first only Sweden and Norway as they are both geographically close and also have the same, or atleast similar business culture to us. In the future perhaps also other countries but for now only Scandinavia, especially Sweden and Norway interests us.

Q11. What are the reasons for choosing this/these particular country/countries?

The both countries have a very similar business culture to ours. The logistics is relatively simple to handle. The general cost level and the labor costs are at the same level as in Finland. There are greater market opportunities for our products than in Finland.

Q12. Please say a few words regarding the strategy and methods that you are going to use:

We would like to find a consulting agency with ready contacts in the new market and already previous experience of the market segment. The agents would find us

interesting customers to start up our exporting activities. The company should have great experience in similar kind of projects.

5. RESEARCH ANALYSIS

5.1 Case Analysis

The economic situation today is very challenging for the SMEs in Finland and for several of them, the way to survive in the future is to internationalize. Forssan LVI-Valmiste Ltd. sees internationalization as a gateway to make more business and to expand their operations.

The company already has some prior experience in doing business internationally and hence they do not fear to take the next step towards internationalization. As the managing director stated, the company is also very flexible with its production and timelines and thus would be a lucrative supplier for international firms. The company also updates its machinery to meet the needs of the clients; they offer the latest technology and this can also be seen very interesting for the foreign customers. Due to the fact that the company lacks earlier experience in international operations, they want to start doing business in countries with similar business culture as in Finland. At first the company only wants to do business in Scandinavia, especially in Sweden and in Norway. At the moment the company had no interest in expanding to any other countries.

The challenges for the company when going international is, that they do not have a large budget for the internationalization plan. As they also lack an own sales unit and a marketing unit, it is very difficult on their own to find new customers abroad and to start business with them.

The goals of the company are to slowly start operating with international companies, so that within a few months they would have started the first

operations. The aim is to step by step achieve the foreign sales to become half of the company's annual sales. The company should concentrate on increasing the cooperation between itself and some service providers.

To conclude this chapter, there is a SWOT analysis made of the company's current situation. Before going international, a company has to analyze their own strengths, weaknesses, opportunities and threats, which are a so called SWOT. The analysis uses both internal and external environments of the company.

Table 6. a SWOT analysis of the case company Forssan LVI-Valmiste Ltd.

<p>Strengths</p> <ul style="list-style-type: none"> - Technology up-to-date - Strong position in the Finnish market - Size of the firm permits flexibility - Existing references - Strong managerial urge 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Lack of international experience - Lack of resources - No sales or marketing unit
<p>Opportunities</p> <ul style="list-style-type: none"> - High growth opportunities - Lucrative customer - International referneces - Expanding business sector 	<p>Threats</p> <ul style="list-style-type: none"> - International competition - Partnership selection - Too high costs - Cultural and political barriers

The table above shows the main strengths, weaknesses, opportunities and threats of the case company. These factors can be further used to analyze the entry mode choice of the company.

5.2 Analysis of the Market Environment

The meaning of culture is for the marketer very important; some cultural differences may affect many things in business life. The international manager might find it difficult to obtain a comprehensive knowledge of a particular culture. As earlier stated in chapter 2.4, Hofstede (1983) provides an approach to identifying these fundamental differences between cultures.

The case company of this study stated that it is at the moment only interested in going international to Sweden and to Norway. Below there are shown how these two countries and also Scandinavia in general how, according to Hofstede's model, perceive their world along the four dimensions: power distance, uncertainty avoidance, individualism and masculinity.

Table 5. Geert Hofstede's cultural dimensions for the Scandinavian Countries.

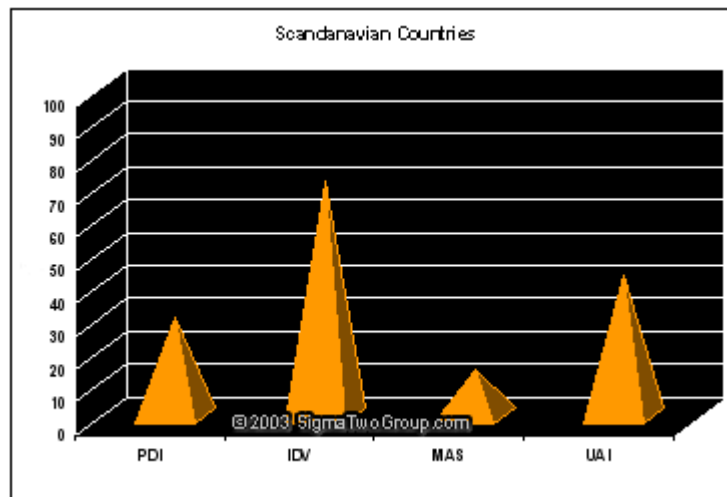


Table 7. Geert Hofstede's cultural dimensions for Sweden.

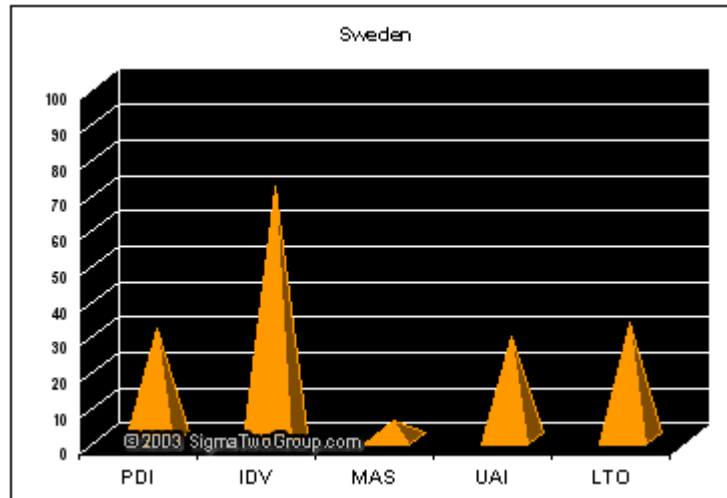
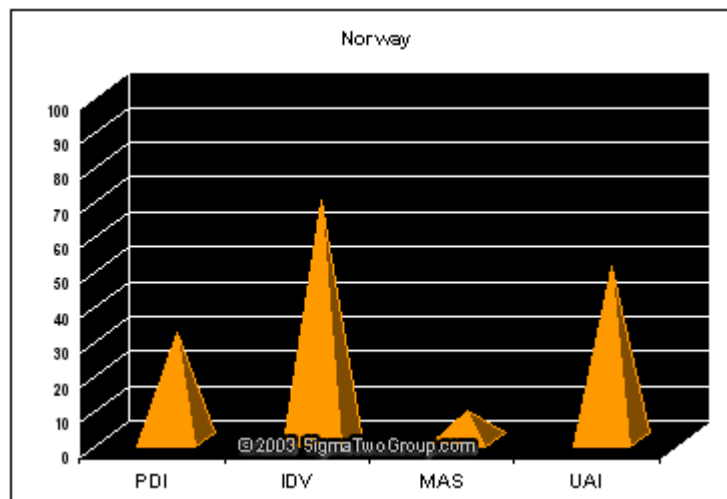
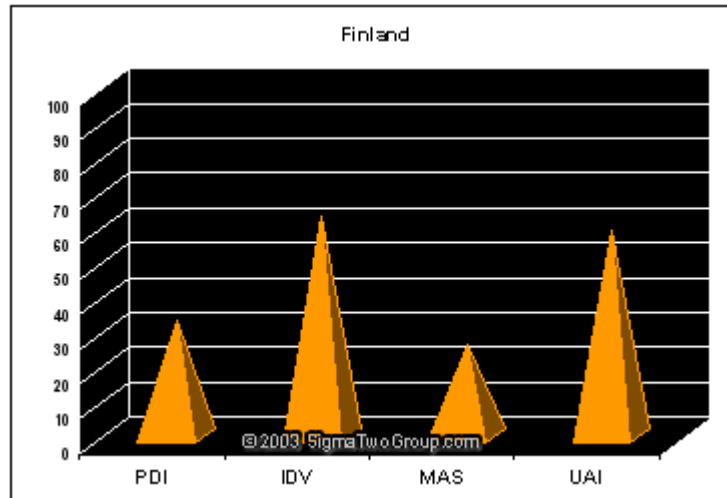


Table 8 . Geert Hofstede's cultural dimensions for Norway.



As a comparison for these tables below there are the cultural dimensions also for Finland, where it can be clearly seen that they are extremely close to each other. So the choice of countries of the case company is well justified as it can be seen that the countries are culturally very similar to each other.

Table 9. Geert Hofstede's cultural dimensions for Finland.



If only the cultural aspects of market research are to be considered, the Scandinavian countries are very suitable exporting countries for the case company. Also the geographical distance is very small, and thus the transportation cost can also be kept as low as possible.

5.3 Alternative Selection and Recommendation

After identifying the problems and the opportunities arisen and after examining the situation and the issues related to it, the analysis offers several alternatives to be taken into account when deciding on the most suitable alternative. Based on the facts dealt with and analyzed in previous sections, alternative for consideration are presented:

5.3.1 Alternative A

As the case company already has previous experience in direct exporting, it would be one possibility to continue this type of actions also in the future. But probably it would be suitable to practice direct exporting alongside with other modes of entry, as the capacities of the company are so low and the existing contacts so few in number. However, the demands on human and financial resources are much more intense for the company as it has to handle all the steps in direct exporting, such as building contacts, undertaking marketing research, handling documentation and transportation and designing different marketing strategies. So before the

company has the need and desire to start up a separate selling and marketing unit, it might be very demanding to solely be involved in direct exporting.

5.3.2 Alternative B

The case company showed some interest in hiring an agent for building up overseas contacts and finding them customers, so therefore it would also be an interesting option for them. This alternative would provide the most common form of low cost direct involvement in foreign markets. As the agents mostly have already existing contacts and also ready networks for finding new customers, it would be a very suitable option for the case company.

5.3.3 Alternative C

Export management companies help small and medium sized companies to initiate, develop and maintain their international sales by taking orders by clients and also by providing access to international market information and contacts. The case company wants, however, to maintain in charge of the order taking, so the solution of using an EMC is not perfect for them. This option has many advantages to consider as the EMCs offer ranges of products from various companies and so provide a more attractive sales package to foreign buyers. By doing this, they spread the selling and administrations costs and thus reduce transportation costs. As the EMCs have such a wide range of customers, it would also be possible for the case company to find new customers from different industry areas.

5.3.4 Alternative D

The final possible alternative for the case company would be licensing or franchising. Also using this solution, there would be a company with all the market know-how and existing contacts for the case company to benefit from. The attractiveness of this solution is the low startup costs and also the quick access to the new markets. Networks and partnerships provide the company with knowledge that improves the access to markets and new business opportunities.

6. CONCLUSIONS AND DISCUSSIONS

In this chapter the main findings and conclusions based on the study are presented. The purposes of these conclusions are to answer the research questions. Also the implications and recommendations for further research are presented in this chapter.

To satisfy the purpose of this study, the following research questions were addressed:

RQ1: How should a company choose the foreign market entry mode?

RQ2: What modes of entry would be most appropriate for the case company Forssan LVI-Valmiste Ltd. to use??

Data collected on the case company, Forssan LVI-Valmiste Ltd. that was analyzed against existing theories using secondary data and also by conducting an in-depth interview, brought certain conclusions that are presented below.

The main constraints that SMEs face in their process of going international is the lack of economies of scale, the lack of resources and fear of taking risks. However, internationalization comes with several benefits, such as new and profitable markets, it increases the competitiveness and it also might facilitate new product ideas.

As the case company lacks experience in foreign trade and also has very few existing contacts, it would be very difficult for them to expand the foreign operation based only on direct exporting. It is evident, that the help of an outside agent or company would benefit the case company in its internationalization process. They already have little prior experience in direct exporting and thus this method could be also in the future be used alongside other modes of entry.

In the previous chapter the different options for the case company were presented. The case company should consider using one or more of these options to achieve its goal in the future.

As they already use the Alternative A, they could continue with it and additionally take Alternative B or C to complement the process. As the first alternative, i.e.

direct export puts such great demands on both human and financial resources it would be best if it was used as an additional mode of entry. Alternative B and C, i.e. hiring an agent or an export management company would be more suitable for the company as it would offer a more low cost form of entry and also require less resources of the company itself. Fewer resources are required because the company would not have to handle all the steps of internationalization alone, such as building contacts, doing marketing research, handling the documentation and designing different marketing strategies. Alternative D would also be on possibility, but was not found as attractive to the company management as the earlier two alternatives.

So the answer to the first research question is that a company should choose the foreign market entry mode after analyzing its reasons for internationalization and the expectations of the internationalization process. It should also decide the target country, which highly affects what the business culture and the legal and political situation in the cooperation would be. After setting the goal of the internationalization and choosing the possible target markets the company should decide which market entry mode to use which brings the study to the answer of research question two.

As the company is very flexible, has the newest technology and has a high adaptability, it is a very lucrative client in the foreign market, not depending on the export mode chosen. They could also increase cooperation that are often used by Finnish companies that want to internationalize, e.g. Finpro and Finnvera. Finpro is a network of global experts established by Finnish companies.

The organizations purpose is to promote competitiveness and growth of Finnish companies through internationalization. The organization offers access to internationalization services around the world. The employees of the organization act as consultants and specialists especially for growing companies (<http://www.finpro.fi/web/english-pages/services>). Finnvera is a company that provides financing for the start, growth and internationalization of enterprises and guarantees against risks arising from exports. Finnvera strengthens the operating potential and competitiveness of Finnish enterprises by offering domestic guarantees, loans, venture capital investments, export credit guarantees and other services dealing with the financing of exports (<http://www.finnvera.fi/eng/>).

As the company was only interested in internationalizing in Scandinavia, The sociocultural differences that might be an issue when considering other countries does not exist as the Scandinavian countries are so close culturally to each other. The business culture, the language and also the educational levels are very similar and as seen in chapter 5.2, also according to Dr. Hofstede's study they are very close to one another.

The political and legal environment of the target country is normally also a very important matter to consider when internationalizing, but for the case company and its' target market selection also this factor is of minor importance as the countries are also politically and legally so close to each other. If the company would have chosen another target market from a different cultural viewpoint or that would be politically different from the home country, the study might have given some different and interesting results. However, the company management was due to the lack of resources and also due to personal feelings only interested in the Scandinavian markets, these two factors studied are not of high importance.

Undoubtedly, the future will bring several new challenges to the case company when entering a new business world and trying to reach the goals of its internationalization process. However, the alternatives presented for the company in this thesis give a strong start and definitely adds value to the former way of doing business abroad. In the next chapter some implications and recommendations for further study are presented, which are very useful and interesting viewpoints when considering future research work.

6.1 Implications and Recommendations for Further Research

The earlier part of this study presented the conclusions found from the study. In the following section, the implications and recommendations for further research will be discussed, based on the analysis and findings reached in this study.

The purpose of this study was to describe and understand a phenomenon in a special area of research. Previous research has provided the theory for the study, which was used to shape the research objectives.

This study has given insights to a field of study where there remain several areas in which additional research could be conducted. As a single case study does not allow for generalization, the following areas could be of interest for further studies: To make the same study on a larger samples of companies to investigate deeper the choices of market entry modes. The same study could also be made on a company from a different industry or another location for giving another perspective on the research problem. These are some alternatives worth pursuing and thus complementing the thesis.

Also one interesting point to study to give more perspectives to the research problem would be to find out how networking and other forms of cooperation could be used to help the internationalization process of small and medium-sized companies.

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