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Ira Bhattarai

# INTERNATIONALIZATION OF SMES TO DEVELOPING NATIONS



TURUN AMMATTIKORKEAKOULU  
TURKU UNIVERSITY OF APPLIED SCIENCES

**Author: Ira Bhattarai**

## Internationalization of SMEs to Developing Nations

With the growing integration of the market, it has become necessary for SMEs to go beyond their current market. Due to this, today, the trend of internationalization of SMEs has been increasing and developing nations are being chosen as a target market. With this growing attraction towards developing nations, it is necessary to analyse the barriers faced in these markets. The research investigates the major barriers in the process of expansion to developing nations.

So, considering today's situation, prospects and opportunities available in developing nations is analysed. A case company is used for the analysis. The emphasis is on the importance of network in developing nations and the internationalization theories, Network approach theory and Uppsala model is suggested as the best ways for SMEs to enter and penetrate the market in these nations.

According to the interest of the case company, Nepal is chosen as a representative of developing nations. A research is conducted on the current situation of Nepal and the prospect of biogas production has been the main focus, case companies being the biogas companies. The experience of the case company in Nepal and the barriers faced is analysed and suggestions have been provided on the basis of the drawn conclusions.

### KEYWORDS:

Internationalization, SMEs, Network

Ira Bhattarai

## Pk-yritysten kansainvälistymisen kehitysmaihin

Kanssakasvava markkinoiden yhdentymisen , on tullut tarpeelliseksi pk ylittämään nykyisessä markkinatilanteessa. Tämän takia tänään ,trendi pk-yritysten kansainvälistymistä on kasvanut ja kehitysmaiden ollaan valittukohdemarkkina . Tämän kasvava vetovoima kohti kehitysmaissa , on tarpeen analysoida kohtaamat esteet näillä markkinoilla . Tutkimus tutkiisuuria esteitäprosessin laajentamista kehitysmaihin .

Joten , kun otetaan huomioon nykypäivän tilanne, näkymät ja mahdollisuudet kehitysmaissa analysoidaan . Kohdeyrityksen käytetäänanalyysissä . Pääpaino ontärkeää verkko kehitysmaissa jakansainvälistymisen teorioita , Network lähestymistapa teoria ja Uppsalan malli on ehdotettuparhaita tapoja pk tulla ja tunkeutua markkinoille näiden kansojen keskuudessa .

Mukaanetu oli tässä tapauksessa yritys, Nepal on valittuedustaja kehitysmaissa. Tutkimusta tehdään nykytilanteesta Nepalin jamahdollisuus biokaasun tuotanto on ollutpääpaino tapauksessa yritykset suhtautuivatbiokaasun yrityksiä. Kokemuskohdeyrityksen Nepalissa jakohaamat esteet analysoidaan ja ehdotukset on toimitettu pohjaltatehnyt päätelmät .

### ASIASANAT:

kansainvälistyminen, pk.yritykset, verkko

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## **LIST OF ABBREVIATIONS (OR) SYMBOLS**

SME	Small and Medium Scale Enterprises
CEO	Chief Executive Officer
FDI	Foreign Direct Investment
ISO	International Organization for Standards
KFC	Kentucky Fried Chicken
U- Model	Uppsala Model
BIPPA	Bilateral Investment Protection and Promotion Agreement
DOI	Department of Industries
FITTA	Foreign Investment and Technology Transfer Act

# 1 INTRODUCTION

The process of internationalisation has expanded tremendously with the increasing economic liberalisation and globalisation. This has facilitated the transfer of capital, labor and technology to the places where they are expected to be optimally used (Zhang;Toppinen;& Uusivuori, 2013). SMEs in developed nations are facing huge competition and in order to expand and survive, are compelled to make a move beyond the domestic market seeking for market expansion opportunities. On the other hand, due to lack of required technology, skills and resources, developing nations are not being able to utilise the abundant resources available. Thus, the need of SMEs to internationalise has been rising and the consumption and production capacity of developing nations is also significant. Despite this, there is lack of awareness among SMEs about opportunities available in developing nations and much research has not been done on this issue. This entire scenario motivated to begin with the study exploring the internationalization process and factors hindering the process in developing nations. Many researches have been conducted on the topic of internationalization and network (Coviello & Munro, 1997). Examining the previous researches, studies conducted and theories developed on the topic of internationalization I realized that there is need to conduct a research on internationalization concentrating on developing nations. Thus, on this basis, the major objectives and the research questions that are to be answered through the analysis will be highlighted and also the structure of the thesis will be presented.

## 1.1 Background

With rapid globalization, economies of nations are becoming more open and the market is getting larger. According to (Ruzzier;Hisrich;& Antoncic, 2006), globalization usually refers to a stage in which the firm's operations are managed on a global scale characterized by the worldwide integration of evermore competitive markets and companies facing global competition. Now,

in order to flourish it has become necessary for every business organization to think out of the box and act quickly as per the requirement of rapid growth. The liberalization quest and the concrete reduction of trade and investment barriers lead to the formation of common economic areas in the various regions of this ever more integrating globe. (Plietner;Brunner;& Habersaat, 1998). This has enhanced the significance of international business. The changing business and technology environments are compelling organizations to target larger markets for survival, irrespective of the size of enterprise. Thus, with this need, the scope of international business has widened and the process of internationalization is in its full pace.

Small and medium enterprises (SMEs) are the pillars of the growing economy of Europe.They are Europe's main engine for job creation and economic growth (Watson, 2011). They have been acting as a pivot in the process of internationalization around the globe. At present, SMEs have become like synonym to the word internationalization. The trend of expanding beyond the domestic territory has been increasing particularly among these enterprises.

Like most of the other European nations, SMEs have been playing a vital role in Finland's economy. In Finland, 99,7 percent of the total enterprises are SMEs covering 61,7 percent of the employment which clearly shows how crucial role SMEs have been playing in Finland's economic development (EU, 2012). Though various researches have been conducted in the area of internationalization of SMEs in general, the focus has not been much on developing nations. Thus, realizing the need to analyse the scope of internationalization in this area, the study has been conducted. These companies in Finland are seeking for a wider market scope and what would be better than searching for a niche in the emerging markets of developing nations when there is 'cut throat' competition around.

There are various processes and approaches that can be adapted but the primary focus of the thesis would be to shed some light on the importance of network and market knowledge while heading towards the developing nations. How developing networks and conducting an extensive market research could



make it easier in the process and what would be the impact in the development will be analysed through the thesis. This analysis will be the most important aspect of the thesis as much research has not been done on the role of network and knowledge in internationalization process emphasising Nepal. Going abroad represents an opportunity for companies to reach new customers in a much larger extent, but they also must face challenges like different political and economic scenarios, new competitors, new laws and regulations and different quality demands (Amal;Baffour;Raboch;& Andersson, 2013). Thus, the barriers that could be faced while making an approach to these nations will be discussed and possible solutions will be suggested. Various circumstances created by different economic phenomenon that have been making it necessary for SMEs to search for new market beyond the domestic area will be analysed.

The scope of internationalization to Nepal, one of the developing nations in Asia has been analysed in the study on behalf of an SME which is a biogas company seeking opportunities for market expansion as this thesis is mainly based on the queries of the company. Moreover, the focus of the research has been on providing insights on the appropriate market entry modes to be adapted as well as methods to be chosen during the process of market expansion to foreign country. For this purpose a case company is used which is also a SME in Finland striving to internationalize to Nepal.

## 1.2 Research Objective and Research Questions

The primary objective of this study is to explore various aspects of internationalization discovering of the capacity of network along with market knowledge in the expansion of business in the international market. The difficulties faced by SMEs internationalizing to these markets will be analysed. I believe this study will make some impact on the managers of SMEs to prioritize maybe small but significant factors in the process of expansion to international markets. The other important objective is to suggest appropriate alternatives and ways to the SME in Finland for the development of an effective strategy for successful internationalization to developing nation particularly Nepal. The emphasis will be on the importance of network in these nations and network

approach (Johanson & Mattsson, 1994) and Uppsala model (Vahlne & Johanson, 1977) will be suggested as best way to pass through the barriers faced during the process of internationalization and penetrate the market.

To be specific with the research objectives, it is to explore and answer the following research questions:

- *What are the possible barriers in developing nations?*
- *How does network play an important role in these nations?*

### 1.3 Thesis Structure

#### **Introduction**

This is section 1 of the thesis which begins with the introduction to small and medium scale industries (SMEs) and internationalization as a growing phenomenon. Definitions of internationalization and SMEs by various authors have been presented.

#### **Theoretical Framework**

Under this chapter which is section 2, being focused on the network theories of internationalisation, the Network Approach theory and the Uppsala Model have been explained. Also the different market entry modes suitable for the case companies have been discussed.

#### **Company Profile**

It is the section 3 in the thesis. In this chapter, a brief introduction is provided about the SME in Finland, according to whose requirement study has been conducted and developed into thesis.

#### **Country Profile**

In section 4, the basic information about Nepal has been provided as Nepal has been used as a representing country for developing nations as per the interest of case companies. The current prospect of biogas production in Nepal and the

situation of inability to utilize the available opportunity has been discussed under this heading.

### **Research methodology**

This chapter covers section 5 of the thesis. The method of research used for the thesis will be explained including all the ways and methods used for data collection. Each method of data collection and research will be defined in detail with their limitations.

### **Case Discussion**

In section 6 of the study, the case study will be discussed in detail analysing the barriers the case company has faced. The role of network in the internationalisation process will be highlighted. A discussion will be made on the case applying the theories used for the research.

### **Conclusion**

This is the final or section 7 of the thesis. In this section, on the basis of the analysis done throughout this thesis research, conclusions will be presented and various suggestions will be provided to the case companies in the context of internationalization to developing nations.

## 2. LITERATURE REVIEW

### Introduction

Before proceeding forward with the research, it is important to understand what actually SMEs are. It is necessary to know their importance and also about their situation in Finland. Thus, in this chapter, SMEs will be introduced highlighting their situation in Finland. And also the Uppsala Model of Internationalization and Network Approach will be discussed highlighting their impact and importance on SMEs' expansion process.

### 2.1 Internationalization of SMEs

The term "internationalization" could include inward as well as outward involvement in international business (Chetty & Stangl, 2010). Internationalization refers to either an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad (Wiedershiem-Paul & Johanson, 1975). According to Jason Sumner, senior editor with the economist intelligence unit and project director, "Emerging markets still present risks for European SMEs, but our research shows that the potential to find new customers is causing many to take the plunge." (Archer, 2011)

In the study of internationalization process of firms, different theories and models have been developed. In case of SMEs, the theories emphasizing on networks like Network Approach Theory of internationalization and the Uppsala Model have taken a significant place since their development. It has always been emphasized that networks are very important for successful internationalization in every stage of the firm's lifecycle before establishment, pre-internationalization, post-internationalization and in every step of development through various researches (Coviello N. E., 2006; Arenius & Laitinen, 2011). In order to understand SME's networks, it is important to understand the network ties and their impacts in the internationalization process. Networks maybe formal, informal, weak, strong, etc. Following the common way of distinguishing network ties on the basis of their strength and impact, they can be divided into strong ties and weak ties where strong ties include family, close

friends, etc. and weak ties include acquaintances (Granovetter, 1983). Granovetter (1983) has explained that these ties are the source of information and resources and also the medium of communication and exchanging information. Arenius and Laitinen (2011) also concluded that networks help firms to overcome the liability of newness and competitive pressures. Literatures in entrepreneurial networks have pointed out that strong ties are much important for information and resource access (Arenius & Laitinen, 2011) but according to Granovetter(1983), weak ties also have significant role as they have been regarded as a crucial bridge to the strong ties of those weak ties. Determining the relevance among two network ties in the internationalization process has always been a subject of argument. According to (Ojala & Kontinen, 2011), weak ties are important for the recognition of international opportunities in comparison to strong ties. These are consistent with Johanson and Mattsson's(1994) explanation that network ties act as a bridge to foreign markets. Network ties have been recognized as a source of discovering international opportunities and these tie based opportunities leading to high quality and valuable exchanges (Ellis, 2011).

Realizing the importance of network ties, theories of internationalization will be discussed with emphasis on network perspective and will be further analysed together as a requirement for successful internationalization of SMEs. Secondly, before entering a foreign market it is always necessary for firms to decide the appropriate entry mode and thus, various market entry modes will also be analyzed as it has been clearly mentioned by different researches that network plays a significant role in determination of an entry mode eg. (Coviello & Munro, 1997). Expansion into new geographic markets presents a significant opportunity for firm growth and value creation (Hsua;Chenb;& Chengc, 2013).

Finland with small and open economy has very limited domestic market with the population of 5,262,930 (est. 2012) (Fact, 2013). Despite this, Finland is still lagging behind in international business in comparison to similar countries like Sweden, Switzerland, etc. Thus, due to growing competition in domestic as well as global market and in order to get access to more customers, SMEs in

Finland need to internationalize. Internationalization has become the condition for SMEs to survive in today's greatly competitive environment (europa, 2008). In comparison to larger companies, it is not easy for SMEs to manage resources for the expansion. Thus, the need of Finnish SMEs is the market with high production capacity, minimum cost for resources and adequate demand. Developing nations being the most suitable target meeting this criteria the SMEs need to focus on these nations analysing their capacity before making any decisions on internationalization. In order to enter and penetrate these market it is necessary to have enough market knowledge and strong strategies for which it is important to understand the theories necessary and hence, are described in detail in this study. Here, the objective is to raise awareness among the Finnish SMEs about the available prospect beyond the boundaries of developed nations.

### *2.1.1 Network Approach Theory*

The internationalization of firm means according to the network model that the firm establishes and develops positions in relation to counterparts in foreign markets (Johanson & Mattsson, 2013). Firm internationalization scholars largely agree on the importance of network/interaction/relationship concepts in the internationalization process (Ibeh & Kasem, 2011). Network approach is concerned with several interlinked relationship (Johanson & Mattsson, 1994). Johanson and Vahlne (1994) have defined internationalization as a cumulative process in which relationships are continually established, developed, maintained and dissolved in order to achieve the firm's objectives (Ruzzier;Hisrich;& Antoncic, 2006). According to (Chetty & Holm, 2000) networks can help firms expose themselves to new opportunities, obtain knowledge, learn from experiences, and benefit from the synergistic effect of pooled resources. The activities in the network allow the firm to form relationships, which help it to gain access to resources and markets (Chetty & Holm, 2000). Compared to large enterprises, SMEs are less competitive; for instance, they may not be able to capture business opportunities due to inferior products,

shortages of finance and limited administrative capacity. They often lack the resources necessary to enter foreign markets (Jansson & Sandberg, 2008).

According to Johanson and Mattson (1988), by internationalizing the firm creates and maintains relationships with counterparts in other countries that are new to the firm which is international extension, by increasing commitment in already established foreign networks .i.e. penetration and by integrating their positions in networks in various countries which is international integration (Johanson and Mattsson cited in Chetty & Holm, 2000). The term net has been used in the network theory to specify certain sections of the network like national net for networks in other countries and production net for firm's relationships that revolve around activities in a specific product area (Chetty & Holm, 2000).

Degree of Internationalisation of the Market			
Degree of Internationalisation of the Firm		LOW	HIGH
	LOW	The Early Starter	The Late Starter
	HIGH	The Lonely International	The International Among Others

Table 1 Internationalisation and Network Model *source:* (Johanson & Mattsson, 2013)

In this model four different stages of internationalization have been identified that are Early Starter, Lonely International, Late Starter and International Among Others (Ruzzier;Hisrich;& Antoncic, 2006). The *Early Starter* represents the firm with few international relationships operating in a market with same condition (Overby & Soonhong, 2001). They have little knowledge of foreign market and use agents to acquire this knowledge to enter foreign market (Chetty & Holm, 2000). The *Lonely International* is the one which is internationalized already but the market in which it is operating is limited to the domestic level. It

has an advantage that it can coordinate activities in different national nets and can use integration as the best alternative. The firm will be the one having developed market positions before the competitors and can coordinate activities in different national nets (Johanson & Mattsson, 2013). The *Late Starter* is the firm which is not internationalized itself but the customers, suppliers and competitors of the firm are highly internationalized. Thus through this, the firm has indirect relations with foreign business networks and such relationships lead the firm to internationalize. The fourth stage is the *International Among Others*. The firm is already internationalized and operates also in highly internationalized market environment which is quick with setting sales subsidiaries and developing new networks (Chetty & Holm, 2000). These stages clearly depict the role of network in the internationalization process.

### 2.1.2 Uppsala Model of Internationalization

The idea of this model was developed in 1975 by Jan Johanson and Finn Wiedersheim-Paul according to which the firm first develops in the domestic market and internationalization is the consequence of a series of incremental decisions (Wiedershiem-Paul & Johanson, 1975). The Uppsala model (U-model) was then refined by Jan Johanson and Jan-Erik Vahlne in 1977 through an empirical research Swedish companies in the international market as well as also observing the database of Swedish subsidiaries abroad. The major terms focused on throughout the theory are the psychic distance (factors that make it difficult to understand foreign environment) and the liability of foreignness where larger the psychic distance, larger the liability of foreignness (Johanson & Vahlne, 2009). It explains the characteristics of the internationalization process of the firm (Johanson & Vahlne, 2009). According to this theory, firms approach foreign territory slowly through incremental process. It assumes that firms gradually accumulate international and market knowledge through time and experience (Overby & Soonhong, 2001).

The U-model 1977 primarily focuses on the gradual aquisition, integration and use of knowledge about foreign markets and operations, and on the



incrementally increasing commitments to foreign markets (Vahlne & Johanson, 1977). Through the authors' analysis of Swedish firms they concluded that firms first move to the countries similar to them beginning with agents, intermediaries, etc. with less committed and when they understand the market and gain more knowledge slowly, they move towards other countries with more psychic distance. So, with time, their commitment and learning also increases with decreasing uncertainty and risk. According to the model as experience goes on increasing, the commitment reaches next level and thus, the authors have also called their model dynamic (Johanson & Vahlne, 2009). This has been presented as a continuous process in the following diagram:

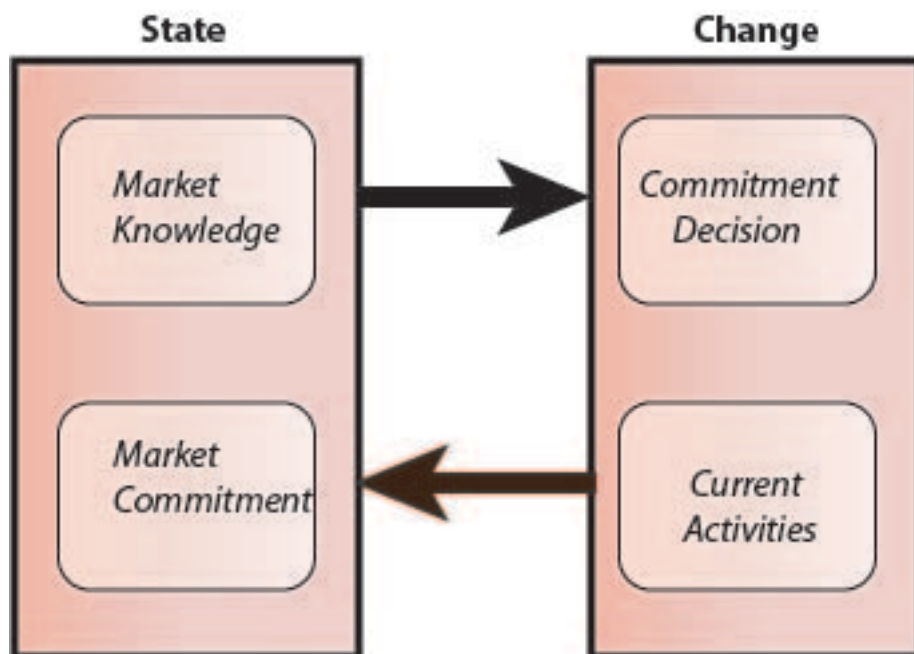


Figure 1 Internationalization Process Model source (Vahlne & Johanson, 1977)

Through the diagram, it is presented that market knowledge and market commitment affect the commitment decision and current activities as well as commitment decision and current activities influence the market knowledge and market commitment.

With the changing scenarios and increasing globalization, the internationalization process have started changing rapidly and the U-model has

been criticized for its shortcomings at present situation. With the rapid expansion of market, network developed as an important factor for successful internationalization. Thus, a new model was created by (Johanson & Vahlne, 2009) which emphasizes on importance of network during the process of internationalization. The new model is presented below:

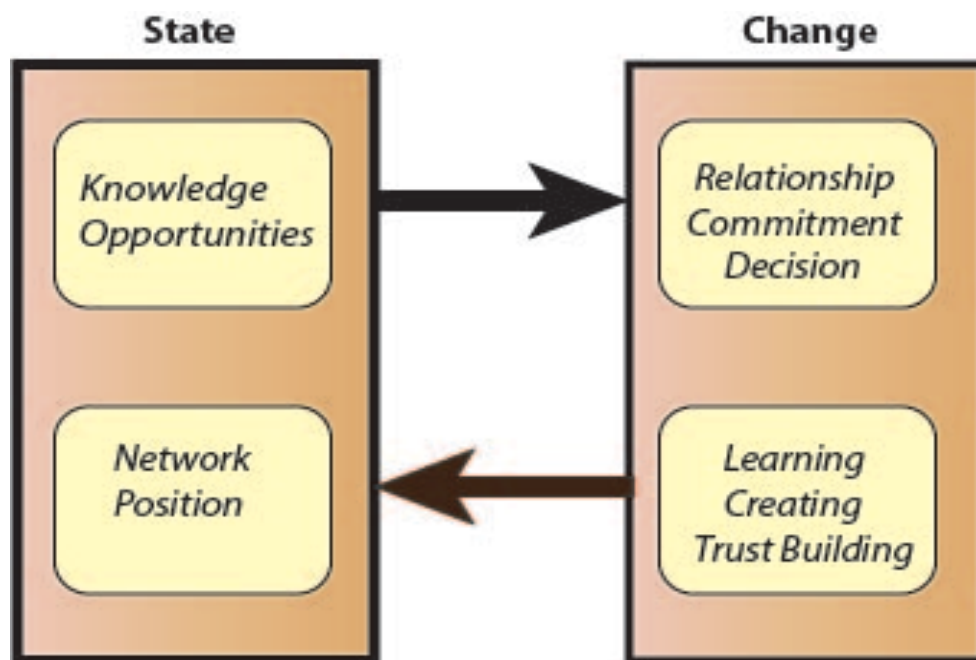


Figure 2 New Internationalization Process Model (Johanson & Vahlne, 2009)

They have emphasized on the importance of network in internationalization with the changing situation of market. In the model the experiential learning-commitment interplay, as the driving mechanism from the old internationalization process, is combined with a similar experiential learning commitment mechanism focusing on business network relationships. Here firms are viewed to learn from relationships, which they utilize to enter foreign markets and to build new relationships, which further create an opportunity to enter totally new market (Gabriel;Desalegn;& Aihie, 2011). The extension of the model involves investments in networks that are new to the firm whereas penetration means developing positions and increasing resource commitments in networks in which the firm already has positions. They see a firm's problems

and opportunities as becoming less a matter of country specificity and increasingly related to relationship specificity and network specificity (Kontinen & Ojala, 2012).

## 2.2 Modes of Foreign Market Entry

Foreign Market entry is an integral part of internationalization process and is a walkout into the unknown (J. & J.E., 1992). An international market entry mode is an institutional arrangement necessary for the entry of company's products, technology and human capital into a foreign country/market (Hollenson S. , 2007). Entry modes are defined as the forms of capital participation in international enterprises (Sun, 1999). For SMEs, foreign market entry represents a critical first step. Some firms enter the foreign market in expectation of more profit and cheap resources. They prefer to internationalize because of the various opportunities they can see in the host market. Some firms are compelled to enter the foreign market because of the continuous pressure from local companies and competitors who create a threat in the market through their highly expanded market. Thus, reason may be anything but it is always necessary for a firm to analyse the market entry modes and analyse their suitability for them to enter the foreign market. It is really important to take the correct decision while choosing the market entry mode as it is one of the major determinants of the success of a project or business. Thus, it is to be considered carefully. So, a company can enter the foreign market through following market entry modes:

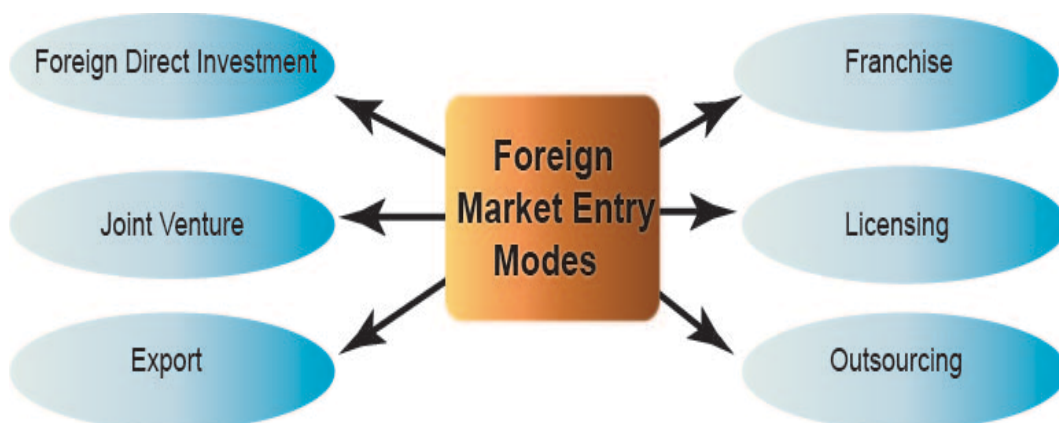


Figure 3 Foreign Market Entry Modes Source: (Hollenson S. , 2008)

All these market entry modes are very important mechanisms for entering a new foreign market but depending on the services and products of the company choice varies. As per the requirement of the case, the relevant market entry modes have been explained below:

### 2.2.1 Foreign Direct Investment (FDI)

The importance of FDI is increasing. Firms are always in search of a profitable area for investment. It is one of the best ways of entering a foreign market. It provides with an opportunity to analyse the foreign market situation, systems, etc. It is regarded as high control entry mode in the form of wholly owned subsidiaries (WOS) (Ulrich;Boyd;& Hollenson, 2012). As defined by World Bank, "Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payment." (Worldbank, 2013). According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise) (Duce, 2003). So, FDI does not only involve earning profits but also includes long term relationships and management of activities in future but has risks with management of resources.

### 2.2.2 Joint Venture

This is other way of entering a new market. Under this mode of market entry, firm join hands together to form a new firm. They share all the expenses, revenues, investments, controls, etc. Typically, the international partner contributes financial resources, technology or products and the local partner provides the skills and knowledge required for managing a business in its country (Hollenson S. , 2008). According to OECD, "A joint venture is an association of firms or individuals formed to undertake a specific business

project (such as producing a specific product or doing research in a specific area.) (OECD, 2002). This way it is safe and easy to sort out matters in the host country and the goodwill of the local company will also be an advantage. The cultural distance can also be overcome and the restrictions of government for foreign companies can also be skipped. However, there is high risk of leakage of knowledge, technology, etc. And the partner may turn into a competitor (FMEM, 2010). It is moreover similar to partnership but unlike partnership it ends with the end of the project.

### 2.2.3 Licensing

It is another way in which the firm can establish a local production in foreign markets without capital investment. Under this, there are two parties, licensor and licensee. Under this, the licensor gives the right to the licensee against payment .e.g. a right to manufacture a certain product based on a patent against some agreed loyalty (Hollenson S. , 2008). Licensor is the parent company or the owner of the product whereas licensee is the company in the host market taking the rights from the owner paying back with royalties. The rights may include using patent covering a product, technical advice and assistance, using trademark or tradename, etc. This is a both way deal as a license also allows the licensor to gain access to the licensee's technology and product to prevent the confidential information of the licensor (Hollenson S. , 2008).

### 3. ENVOR GROUP OY

#### 3.1 Company Profile

Envor Group has been operating since 90s in the environment management sector in Forssa, Finland. It offers varieties of services like waste management, property maintenance, recycling materials like glasses, plastics, etc., industrial cleaning, various trainings for sorting of waste and other many different services. It has been certified by (International Organization for Standardization) ISO9001 for quality management and ISO 14001 for environment management. It is a well recognized biogas company operating at national level in Finland. It comprises of four companies:

##### *Envor Biotech Oy*

It is partly owned by HKScan Oyj and specialises in the processing of both domestic and commercial waste, various by-products from food industry and sewage sludge. The treated biodegradable materials are processed into high quality nutrient and soil products. In 2012, Envor Biotech Oy processed 70,000 tonnes of biodegradable waste (Envor Biotech, 2013).

##### *Envor Processing Oy*

It recycles cardboards, cartons, wastepaper, etc. and is also provides the service of confidential materials destruction (Envor Biotech, 2013).

##### *Envor Recycling Oy*

It produces new raw materials from waste. Envor Recycling Oy is a pioneer in glass recycling and has been a leading company in processing float glass. Its operations can be traced back to 1970s when it began supplying glass to glass wool industry (Envor Biotech, 2013).

### *Envor Palvelut Oy*

Envor Palvelut offers various waste management services to customers. It provides services like property maintenance, industrial cleaning, facility of suction trucks, etc (Envor Biotech, 2013).

The demand for renewable energy is increasing along with the prices of oil and fuels which has increased the pressure and given rise to new competitors in the industry. There are other companies offering waste management services and involved in biogas production and recycling operating in Forssa which has increased the competition. There are companies like J. Syrjänen Oy involved in recycling and waste management, Watrec Oy also involved in the production of biogas, waste water treatment and waste management, Uusioaines Oy involved in glass recycling and Loimi-Hämeen Jätehuolto Oy involved in municipal waste management (Hame, 2012). With the rising competition and pressure, the market is getting smaller which has made it necessary for Envor to expand its market beyond the domestic territory. Aware of the scope of market in developing nations with the increasing consumption of energy, Envor showed its interest to internationalise to these nations beginning with Nepal due to its production capacity and need. Thus, a market research is conducted on behalf of the company analysing the appropriate internationalization mode, methods along with the market challenges and opportunities. Nepal as a particular interest of the company, it will be used as a representative for the developing nations throughout the analysis.

This would be the first attempt of the company to expand the business to international level and the target market is the country which highly differs from Finland in business culture, market pattern, situation, rules, regulations, etc. To understand these aspects, it is necessary to understand the market and the best source of this information would be the local industries in the target market that are used to the system and working patterns. Thus, it is necessary to develop network and relationships with the local people of the target market in order gain knowledge. Thus, as an evidence of the importance of having networks and links, an analysis developed through interviews of the SMEs

operating in Finland, that are experienced or are experiencing these markets has been presented. Along with this, due to the big difference in the markets, various barriers will arise in the process that should be handled efficiently and thus, some of these major barriers are also highlighted so that there would not be any difficulty in the management of resources for efficient and effective handling of these possible barriers.

Envor Group Oy has been coming up with new innovative ideas and technologies for effective management of waste as well as for efficient and maximum production of biogas. It has designed a new innovative technology which is able to process the small packaged groceries as well. Biogas is produced with minimum energy consumption as energy is produced within the process itself. The processing capacity of the plant is 84000 tons biowaste per year. It produces 6 million cubic metres of biogas of which energy content is 39000 MWh (Envor Biotech, 2013). With the increasing facilities and innovations, and due to limited market in Finland, internationalization is chosen as the best alternative to reach the customers in need. According to the CEO of the company,

*“We know that Nepal is with huge prospects but we do not have any idea how we can enter the market. We want to know what are the suitable places that could be used as a target market. We want to know how the entire process works and about the rules and regulations being followed for waste management.”*



## 4. NEPAL: COUNTRY'S PROFILE

The land of Lord Buddha and home to world's highest mountain peak is the common definition of Nepal. It is a small landlocked country in South Asia with a population of 26 millions (2011 census). Nepal is divided into five development regions and geographically into three regions (terai, hilly and mountain). Among different development regions, Central Development Region is the most developed and populated area with the capital city, Kathmandu. Nepal is rich in natural resources with high potential.

Before making any decisions on selection of market or any entry modes, it is necessary to know the situation of the target market. Thus, a market analysis is conducted analysing different aspects of the Nepalese market.

### 4.1 A Glance at the Economic Situation

Nepal though is a small country, is highly populated and the population has been increasing continuously. The population growth rate of Nepal is 1,81(2013 est) percent which has decreased comparatively to previous census and has been ranked 66th among all the countries in terms of population growth (Fact, 2013). With the increasing population, now the working population covers 57 percent of the total population increasing from 51 percent (Koirala, 2013). Nepal is an agricultural country where 38,1 percent of the total GDP is covered by agricultural sector according to an estimation in 2012 (Nepal Economic Profile, 2013). With agriculture the other important factor in Nepal's GDP is remittance. It has been playing pivot role in determination of Nepal's GDP. With the introduction of liberal trade and economic policies, Nepal began witnessing an exodus of youth to foreign countries in search of employment opportunities. With this, the contribution of remittance towards GDP started with 2 percent in 1990s (Bhatta, 2011) and currently is covering 25,5 percent of GDP (WB, 2013). The migration of Nepalese youth for employment is significant in gulf countries like Qatar, Saudi Arabia, etc. and also Malaysia. According to a data from 2009, Malaysia and Saudi Arabia are on the top in the list of destinations (Ozaki, 2012). On the other hand, increasing remittance is increasing trade deficit. With the

improving living standard of people through the remittances the increasing demand for imported goods has lead to rise in trade deficit which is 27,1 currently (Kruse;Bajracharya;& Mahato, 2013).

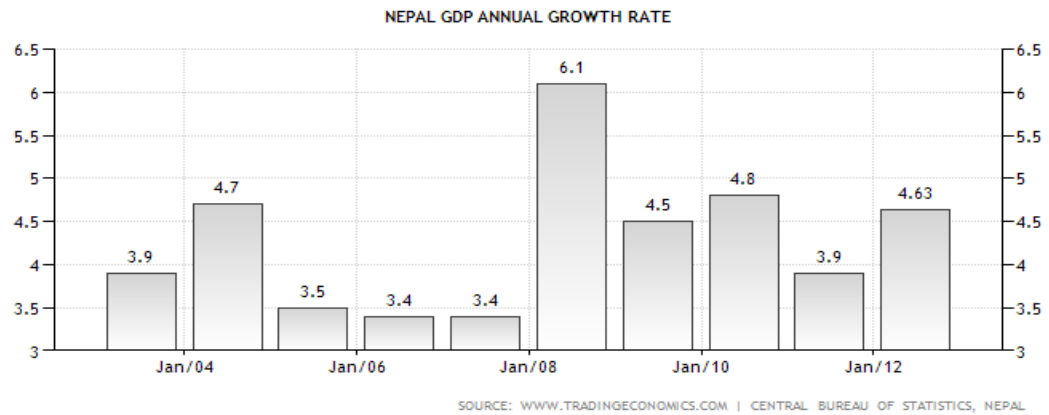


Figure 4 GDP Annual Growth Source: (Economics, 2013)

The above chart shows the trend of GDP from January 2004 to the end of 2012. According to the chart, the average growth rate is 4,63 by the end of 2012. It is improving in comparison to previous years. The consumer price inflation (CPI) is increasing and increased to 7,9 percent according to following diagram.

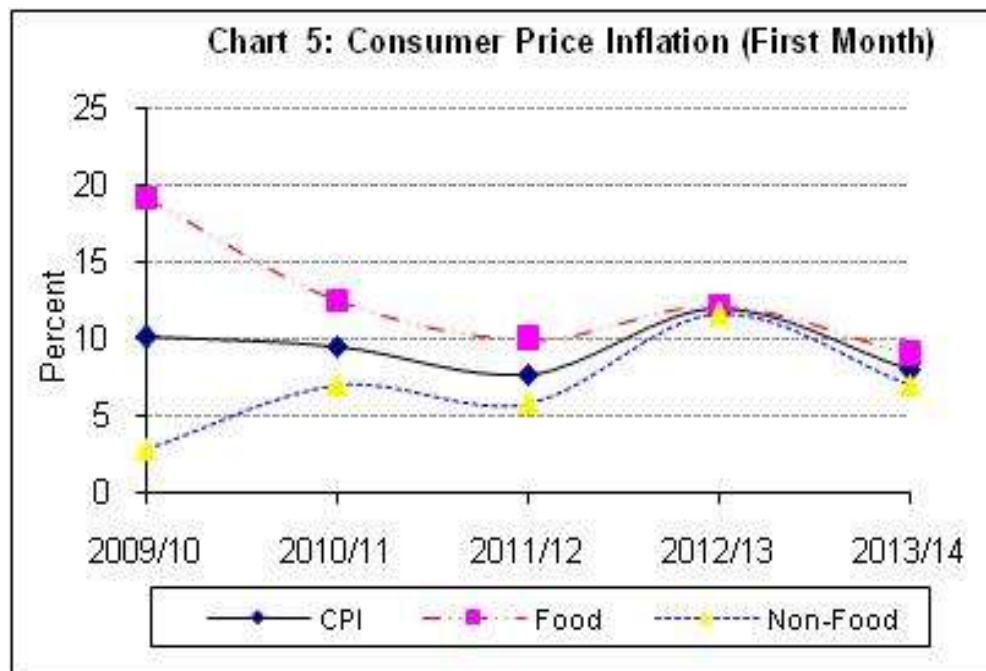


Figure 5 Current Inflation Rate Situation in Nepal Source: (Nepal Rastra Bank, 2013/2014)

Selected Economic Indicators (%) - Nepal	2013	2014
GDP growth	3,6	4,5
Inflation	9,9	10,5
Current account balance (share of GDP)	3,4	1,8

Table 2 ADB estimates *Source:* (Nepal:Economy, 2013)

According to a forecast (Table 2) published by Asian Development Bank, the GDP has decreased to 3,6 in comparison to previous year by the end of July 2013 but will again increase to 4,5 in 2014 whereas, inflation increased to 9,9 in the fiscal year 2013 as agriculture faltered, higher prices in India raised the import bill and Nepal rupee depreciated (Nepal:Economy, 2013). Inflation is estimated to increase even more to 10,5 in 2014.

Along with this as the Nepalese currency is pegged on Indian currency at the a rate of Rs. 1,6. (Sharma, 2013), the fluctuation in Indian currency has direct impact on Nepalese currency. The continuous rise in inflation in India is transmitted through currency peg causing further depreciation of Nepalese currency making the situation even worse. Devaluation or depreciation of currency makes imports expensive and exports cheap. Though the peg seems to be having negative impact, on the other hand, for a developing nation like Nepal it is very important as it makes it easy to understand the price situation and market stability as well as acts as solution to the volatile exchange rate with other foreign currencies. But the review of peg from time to time with provide with more opportunities for Nepal (Upadhyay, 2010) and this is being discussed.

With the effects of currency peg and various other factors, Nepalese currency vis-à-vis the US dollar depreciated by 3,0 percent in mid-August 2013 from the level of mid-July 2013. It had depreciated by 0,2 percent in the corresponding period of the previous year. The exchange rate of one US dollar stood at Rs.

97,96 in mid-May 2013 compared to Rs. 95 in mid-July 2013. (Nepal Rastra Bank, 2013/2014)

#### 4.2 Doing Business in Nepal

According to the World Bank, Nepal has been listed as one of the easiest countries for doing business. Nepal has been ranked as 105 out of 185 countries on the basis of easiness of doing business. According to World Bank (2013), Nepal made starting a business easier by reducing the administrative processing time at the company registrar and by establishing a data link between agencies involved in the incorporation process (Bank, 2013).

Topics	DB 2014 Rank	DB 2013 Rank	Change in Rank
Starting a Business	97	103	+6
Dealing with Construction Permits	105	97	-8
Getting Electricity	98	99	+1
Registering property	24	22	-2
Getting credit	55	52	-3
Protecting Investors	80	80	-
Paying taxes	126	121	-5
Trading Across Borders	177	173	-4
Enforcing Contracts	139	137	-2
Resolving Insolvency	125	123	-2

Table 3 Ease of Doing Business in Nepal Source: (World Bank a, 2013)

Taking a glimpse of the above table, the impression we get about doing business in Nepal is opposite to what is explained but the following chart makes it clear.

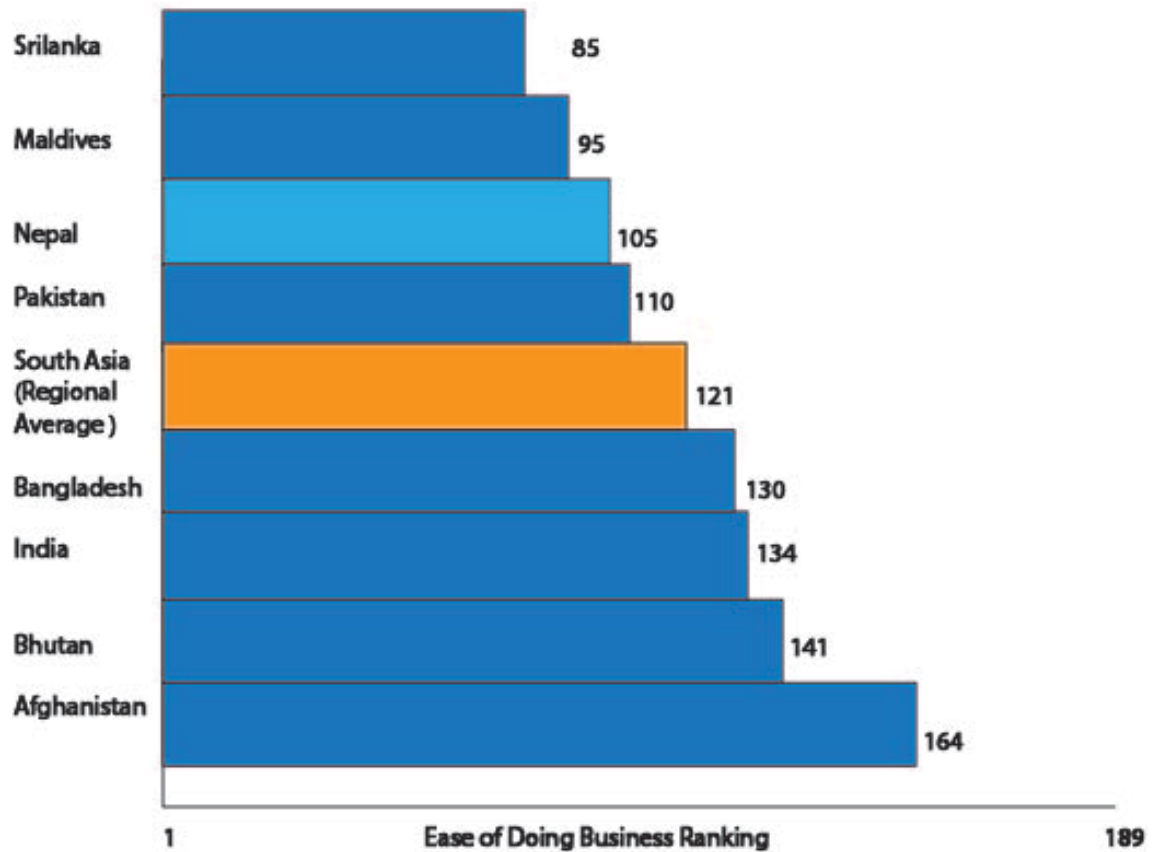


Figure 6 Nepal's Ranking in Ease of Doing Business in South Asia (Bank, 2013)

In comparison to other countries in South Asia, Nepal ranks third on ease of doing business after Sri Lanka and Maldives above from the South Asia's average in a situation when South Asia's strong economy, India lies below average. This chart provides an insight to decision makers for the selection of appropriate market in South Asia for internationalization.

The following table shows the total procedure to be followed for starting a business. Here, prices are presented in Nepalese rupees where, according to Nepal Rastra Bank, the central Bank of Nepal, current rate of exchange is 1 €= NPR 134, 98 (approx.)

S.N.	Procedure	Time Consumed	Cost
1	Verify the uniqueness of the proposed company name	1 day	NPR 5
2	A professional verifies and certifies the memorandum and article of association	5 days	NPR 10000 depending on the professional's charges
3	Buy a stamp to be attached to the registration form	1 day	NPR 5
4	File documents with the Company Registrar's Office, Department of Industry	15 days	NPR 4500
5	Make a company rubber stamp	1 day	NPR 275
6	Register for VAT and income tax with the Inland Revenue Office, the Ministry of finance	5 days	No charge
7	Enroll the employees in the provident fund	1 day	No charge

Table 4 Procedure of Starting a Business in Nepal Source: (Worldbank, 2013)

The Foreign Investment in Nepal is regulated and administered by the Foreign Investment and Technology Transfer Act (FITTA) and Industrial Enterprises Act. The Department of Industries (DOI) is the sole agency for administration and

implementation of the Foreign Investment and Technology Transfer Act in Nepal. Various laws, acts, rules and regulations have been developed and implemented in order to encourage foreign investments. The new Industrial Policy 2010 was created with the primary objective of attracting domestic and foreign investments by improving the industrial environment, increasing industrial production and productivity, and establish Nepal as an attractive investment site in South Asia (MOI, 2013).

With the aim of attracting foreign investments, the government of Nepal adopted the concept of Special Economic Zone which refers to a geographical region, liberal economic laws in comparison to country's typical economic laws with relaxation in customs duties and a more liberal regime in respect of other levies, foreign investments and other transactions (SEZ, 2013). All industries located in Special Economic Zone shall be exempted from income tax for first five years from the beginning of commercial transaction and production and fifty percent subsequently (U.S., 2013). Industries established with foreign investment are entitled to enjoy all the facilities and incentives including income tax facilities as provided to the local investors (MOI, 2013). The labour practices in Nepal is based on the Labor Act 1992. The creation of a new labor law is in process, and is being drafted with input from regular bipartite discussions and consultations with trade unions and employers, and with tripartite consensus of the GON, employers, and trade unions. According to the labour wage rate published by the Ministry of Labour and Transport Management, Government of Nepal in 2010, the monthly minimum wage is Rs.3550 and Dearness allowance is Rs. 2650 (Yomari, 2010).

The Government of Nepal is seeking to improve the investment climate in Nepal in possible ways through infrastructure development and policies improvements and various foreign investment reforms like foreign direct investment processing time has been reduced to 10 days from 30 days, in approval process also steps have been reduced from 21 to 15 (THT, 2013). Despite these kind of changes and reforms, foreign investors are expressing their dissatisfaction due to the red tapes and bureaucracy due to which these reforms have not made much

change for investors. The government has been slow in implementation of policies and regulations. Foreign investors must deal with obscure commercial regulations, vague and changeable rules governing labor relations, difficulty to get long term visas, etc (U.S., 2013). Due to these redtapes and bottlenecks foreign investors are reluctant to approach to Nepal despite huge opportunities offered by Nepal in terms of resources.

#### 4.3 Prospect of Biogas in Nepal

Since Enviro Group Oy and the case company are SMEs involved in biogas production it is therefore necessary to shed light on the prospect of biogas production in Nepal. Nepal is a low income country and has been suffering from energy crisis from decades. The supply of energy is not sufficient to meet the demand. People in rural areas are moreover dependent in wood for daily activities mainly for cooking and heating whereas in urban areas people are dependent on petroleum products, and also there is limited electricity available. Only one-third of the country's population lives with electricity connections while the rest depend on kerosene and dry-cell batteries for light after dark (Chhetri, 2012).

Today, the popularity of biogas production has been increasing rapidly in Nepal especially in remote areas. The attractiveness towards biogas as the most efficient alternative source of energy has emerged extensively widening the scope of this sector. The biogas support program that started in 1992 has installed 241,920 biogas plants in over 2,800 VDCs and all 75 Districts. Currently there are around 81 private biogas companies operating in Nepal (Dhakal, 2013).

Defining biogas, it is the gas emitted from anaerobic digestion or degradation of organic matters like sewage, animal byproducts, agricultural wastes, industrial and household wastes and municipal solid wastes in absence of oxygen mainly consisting carbon dioxide, methane and in small amount other gases like nitrogen, hydrogen, etc (AFDC, 2013).



This has widely spread in remote areas with the establishment of small biogas plants that are used for daily consumptions but not much in urban areas. The waste management problem in urban areas of Nepal is of a major concern which small projects cannot meet the need and big projects are not being developed. Furthermore, due to lack of proper waste management system, mounting waste can be seen everywhere around the cities. Though the municipalities are responsible for this and they have been working but due to lack of proper technology and funding, it is getting disastrous. Talking about the cities, Kathmandu, the capital city is one of the fastest growing Metropolitan areas in South Asia (World bank, 2013). According to a research conducted by a group of researchers from The Johns Hopkins University, U.S.A. the average municipal solid waste generation was at the rate of 523,8 metric tonnes per day where the municipality reported to be around 320 metric tonnes per day. (Pretz CR, 2010) Likewise, as another evidence, according to a research conducted by Mohan B.Dangi for his book, SWMRMC reported that KMC collects 250 tonnes of waste per day out of total waste of 300 tonnes but the author on his further study, found that various NGOs and private organizations were involved in waste collection collecting 151 tonnes per day already which when combined with the amount collected by the municipality, exceeds the total amount of waste generation reported by the city. (Dangi, 2009) According to the director of SWMTSC, Sumitra Maskey, Kathmandu produces the highest amount of food waste in the entire country. She added that the capital city was responsible for 50 percent of the organic waste produced in the country. According to a research conducted by SWMTSC, 500,000 tonnes of edible food is trashed every year (Kharel, 2013). Despite this big problem, old traditional system of waste management, burial method is used. So much of renewable energy that could be produced through waste is just wasted.

Today, the only source of electricity is hydropower. Nepal has high prospect for hydropower and is the main source of electricity but the produced electricity is insufficient. The total amount produced is 3,16 billion kWh (Nepal Economic Profile, 2013) whereas consumption is 4,83 billion kWh. To fulfill the unmet demand, Nepal is also purchasing some amount from India. Along with this

other problem is the distribution where they are not being able to distribute produced electricity fully and during the process of distribution, there are problems of leakages, intentional as well as due to technical problems. So, along with biogas there is also high prospect for electricity.

There is no particular policy yet related to conversion of waste to energy. But there are various strong policies for the protection of environment and waste management as well as for starting a business by a foreign company in Nepal. Recently government approved the regulation on waste management which was supposed to come in 2011 and will be implemented as soon as it is published in Nepal Gazette (THT, 2013). This law would include various controlling aspects for management but the great part would be that it would be necessary for households to separate biodegradable and non biodegradable waste before the garbage collection. Until now, regardless of what the waste is paper, plastic, metals, food, everything is dumped in the same place. There is no system of separation at home. Besides these laws and regulations, Nepal has also signed BIPPA (Bilateral Investment Protection and Promotion Agreement) with Finland on 3<sup>rd</sup> February 2009. BIPPA is an agreement according to which the host country would protect the foreign investments and also compensate the losses suffered by investments due to war, armed conflict, national emergency, insurrection or riot. (Parashar, 2011).

Alternative Energy promotion Center (AEPC) is the major organization working for the promotion of development of renewable energy in Nepal focusing mainly on rural areas operated under Ministry of Science and Technology. Being particular with biogas production, Nepal Biogas Promotion Association (NBPA) is an organization of all known biogas construction companies in Nepal and BSP Nepal, which was the first development organization successful to achieve ISO 900:2008 certificate. SNV Netherlands Development Organization has been seen to be involved from decades in Nepal's renewable energy production and Germany as well has been involved much. Currently, micro hydro projects, solar energy, biogas are the major renewable energy being focused on. Efforts are being made for efficient and maximum use of renewable

sources for energy and they have been successful as well but this is not enough. There is a need to invest as much as possible for the development of sustainable and renewable energy resources. Since, it is really important for Nepal to have enough funding and the main source is foreign investments. As soon as the foreign aid stops there is no way to proceed with the projects.

#### 4.4. Existing Biogas Technology Analysis in Nepal

Going back to the history of biogas in Nepal, it was first introduced in 1955 in Nepal by Father B.R. Saubolle as an experiment which was successful. But due to lack of awareness and government's interest, the actual development started in 1975/76 through a programme organized by a government agency then with partnership and support of SNV development organization from Netherlands, Biogas Support Programme was established (BSP) in 1992. After this, the concept of biogas started spreading all over the nation and until 2011 more than 250000 small biogas plants have been installed (Association, 2013). There are not any high capacity plants yet in Nepal only the small ones suitable for household purpose which are spreading more in rural areas especially after the subsidizing system. At present, BSP has been able to implement only the GGC2047 model of biogas plant but BSP is in the process of implementing a new model overcoming all the shortcomings of the existing model after some experiments. There are other different models used for biogas production in Nepal like CCE which is used for processing kitchen waste for biogas production focusing on urban areas but these kind of models are very few in number and still under experiment. GGC2047 model is being used as standard model from decades.

#### **How biogas works?**

Biogas is produced through anaerobic fermentation of organic matters. Defining the whole process, first there is an inlet through which the organic matters like human and animal waste is passed to the digester. Then in absence of air and at the temperature of 20-35 degrees, the digestion process starts in presence of methanogenic bacteria. As a result, biogas is produced

which consists of different gases but mainly methane( $\text{CH}_4$ ) and carbondioxide( $\text{CO}_2$ ). It consists of 6kWh/m<sup>3</sup> energy. And the remainings after digestion are delivered out through the outlet. (Association, 2013)

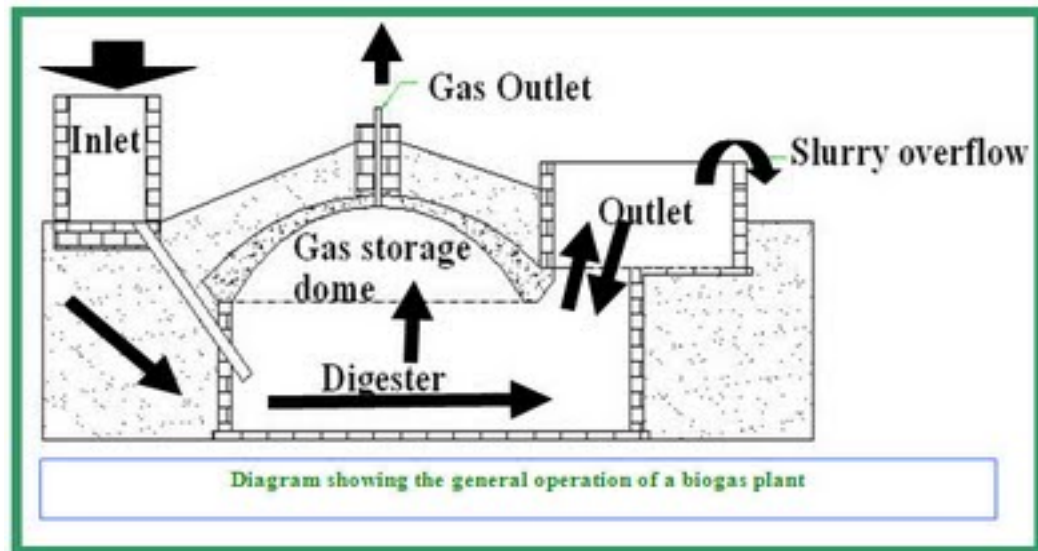


Figure 7 GGC2047 Model Biogas Plant (Association, 2013)

#### 4.5 Trade Relations Between Finland and Nepal

The relationship between Nepal and Finland can be traced back to many years beginning from the establishment of diplomatic relationship in 21st September 1974. Finland has been always assisting Nepal in various development activities through different Finnish development programmes. Nepal is one of Finland's eight long term development partner countries. According to the Department of Industry, there were five joint ventures between Nepal and Finland until 2012 (MOF, 2012). The trade relation between the nations is still modest despite success in development cooperations and wide opportunities available in Nepal. The trade and investment situation has been presented below:

Fiscal Year	Export ('000 Rs)	Import ('000 Rs)	Balance ('000 Rs)
2008/2009	24,401	76,637	-52,236
2009/2010	20,748	1,214,488	-1,193,740
2010/2011	45,204	606,892	-561,688

Table 5 Trade Between Nepal and Finland Source: (TEPC, 2011)

The above table clearly depicts that the trade relation has not been that significant in the relationship. But there is also an example of tremendous commercial success of a Ncell in Nepal. Ncell is one of the major telecom operator in Nepal which is mainly owned by TeliaSonera (TM, 2013) Thus, there is a wide prospect available in Nepal but due to lack of adequate market information, network and other several barriers Finnish companies are not being able to approach.

Finland has been supporting its SMEs in development and internationalisation in best possible ways. It can be traced back to the history with the establishment of The First Trade Promotion Agency in Europe in 1919 (EU, 2008) . There are various advisory services available along with financial supports, grants, internationalisation supports, etc. There are various organisations and institutions provided by the government itself to facilitate SMEs and have always been of great help for SMEs in their business establishment and development process. There are various institutions available among which the major ones are as follows:

#### *Finnvera*

It is a well established company providing financial assistance to the companies planning to internationalize. They provide the facility of financial expertise to the enterprises beginning their international operation (Finnvera, 2013). They also have various services free of charge for SMEs and also provide various trainings according to the requirement of the company.

### *Finpro*

Finpro was founded by Finnish companies in 1919, and is a public- private organisation also a part of the Ministry of Employment and Economy Group. It is the national trade, internationalisation and investment development organisation in Finland. They provide consultation services and assist in every phase of internationalisation to companies. They also provide SMEs with various business opportunities in international markets. Finpro has 375 professionals in 69 offices in almost 50 countries and Nepal is also one of the countries (Finpro, 2013).

### *Team Finland*

The team Finland network promotes Finland's external economic relations and the internationalization of Finnish companies. The core of Team Finland network consists of The Ministry of Employment and the Economy, The Ministry of Foreign Affairs and The Ministry of Education and Culture as well as the publicly funded organizations and overseas networks whose performance they oversee. The Team Finland Network is steered by the government. More than 70 teams around the world which also includes Nepal handle its activities. Its aim is to intensify cooperation between Finnish players in these sectors (TM, 2013).

### *Tekes*

Tekes funds companies' development projects that aim growth and business innovation. It mostly concentrates on small and medium sized companies seeking growth through globalization. It offers funding for young and innovative enterprises with an aim to substantially accelerate the growth and internationalization of most promising SMEs (Tekes, 2013).

## 5. RESEARCH METHODOLOGY

The subject of internationalization being very wide, there is no particular way to describe it. Thus, because of the broadness of the topic, I preferred to choose qualitative method for my research. Through this research method, I was able to understand the internationalisation scenario of SMEs approaching towards developing nations like barriers they have to face and also it was clear how and to what extent networks influence the internationalisation process. Descriptive method of research was used. Descriptive research relies on observation as a means of collecting data where the researcher concentrates on observing the physical setting, the key participants and their activities, particular events and their sequences and the attendant processes and emotions involved (Saunders; Lewis; & Thornhill, 2009). It attempts to examine situations in order to establish what is the norm i.e. what can be predicted to happen again under the same circumstances (Walliman & Baiche, 2001). Along with this the research is a bit exploratory as much research has not been conducted in the context of developing nations.

Case study method was used as the main base of the research. The word 'case' refers to a unit of human activity embedded in the real world which can only be studied or understood in context and merges in with its context so that precise boundaries are difficult to draw. A case can be an individual, a group like a family, a class or a large-scale community like an industry, a town, etc. All these are known as single cases and these kind of cases will be used for the research. Thus, the research was based on single case study method. A case study is one which investigates these various kind of cases to answer specific research questions and seeks different kinds of evidence that is in the case setting but needs to be extracted and collated to get the best possible answers to the research questions (Gillham, 2010). A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009). For the study, a case company is used which will be referred as company A chosen as a representative company for SMEs

planning to internationalise to developing nations like Nepal. There are three companies used in the study that were selected on the basis of following criteria.

- *Companies are Finnish SMEs (with less than 250 employees)*
- *Planning to internationalise or already internationalised to developing nations*

The methods used for the research and data collection are explained in detail below:

### *Qualitative Method*

This qualitative case study is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources. This ensures that the issue is not explored through one lens, but rather a variety of lenses which allows for multiple facets of the phenomenon to be revealed and understood (Baxtar & Jack, 2008). Qualitative research method is used to investigate why and how of decision making (Glenn, 2010). It focuses primarily on the kind of evidence that will enable us to understand the meaning of what is going on. It helps us to see the case or issue from different perspective of different people. Mostly it is concerned with theory and an evidence supporting the theory used for the research.

## 5.1. Data Collection

Various methods have been adapted for data collection concentrating on the reliability of the data and the need of the research. Both primary and secondary sources were used for data collection.

### 5.1.1 Primary Data

Primary data refers to the data collected specifically for the research project being undertaken (Saunders; Lewis; & Thornhill, 2009). Primary sources are the original sources from which the researcher directly collects data that have not been previously collected (Krishnaswami & Satyaprasad, 2010). It refers to the



collection of data by ourselves for the purpose of our study through surveys, interviews, etc. The major method used for the collection of primary data has been explained in detail below:

### *Interview*

Interview is one of the prominent methods of data collection. It is a two way systematic conversation between the investigator and informant initiated for obtaining information relevant to a specific study (Krishnaswami & Satyaprasad, 2010). The primary data was collected through face to face interviews and telephone interviews and the informations missed during the interview were covered through emails. The Chief Executive Officers (CEO) of both the companies Company A and Envor Group Oy have been interviewed concentrating on their opinions on the importance of network for internationalization. The CEO of company B which is also a SME in Finland and has already been operating in the international arena especially in emerging markets and developing nations which also includes Nepal has been interviewed. It is an expert in ICT and Environmental Systems. With the CEOs of company A and B, telephone interview was conducted whereas with the CEO of Envor Group Oy face to face interview was conducted. But the main source of data has been telephone interview and moreover, it has been unstructured or non directive interview providing an opportunity to explore in depth on the issue without any restrictions and biases (Krishnaswami & Satyaprasad, 2010). Unstructured interview refers to loosely structured and informally conducted interview that may commence with one or more themes to explore with participants but without a predetermined list of questions to work through (Saunders; Lewis; & Thornhill, 2009).

### *Limitations*

Along with the advantages this method of research also has some limitations which may create barrier in the process. On one hand, conversation may take a different direction sometimes going out of the topic and also due to lack of

proper sequence, classification of responses and coding may be difficult. This makes the method time consuming and lengthy (Krishnaswami & Satyaprasad, 2010). While on the other hand, due to busy schedule accessibility also becomes the problem (Gillham, 2010).

#### 5.1.2 Secondary Data

The data that has already been collected for some other purpose are the secondary data which may include both raw data as well as published summaries (Saunders; Lewis; & Thornhill, 2009). The secondary data used for the research include various newspaper articles, articles from journals, reports, documents, etc.

## 6. CASE ANALYSIS

The case company will be addressed as company A. It is a SME operating in Finland involved in the business of biogasification, anerobic digestion, production of clean water and bio fuels (Bioste Oy). According to the CEO, the company has been trying to expand its market to Nepal since 7,5 years but until now the process is still ongoing. The case is about the company's recent attempt to internationalize to Nepal. The company began with the company's cofounder's initiation of starting a business in Nepal. The cofounder has been living in Nepal since many years and had links and networks with the local firms. On this basis, it was decided to make an approach. They wanted to establish a waste management and biogas production system in Kathmandu. The CEO also visited Nepal many times with a motive to establish more networks and contacts in Nepal's local market. They discussed with the local firms, made networks and then in cooperation with the local firms, they immediately applied for the government tender that was open for renewable energy production projects. Their project idea was ranked second in the competition for tender but fortunately, later due to inability of the top ranked project to implement, they received the first position. This encouraged them to act quickly and start immediately with the project. They also planned to start the work immediately in September 2013. But when the time came for investment, then the problem started when the local market investors denied to make any investment and the problem is still ongoing. From the interview, research and analysis it is very clear that the case company had put all its effort to develop more networks and utilize its networks for successful entry to the market. While on the other hand, complete ignorance of the values of Uppsala Model of Internationalization has been realized analysing the approach made by the company. The evidence has been provided below through experience shared by the CEOs of the company A and company B.

## 6.1 Network in the process of internationalization

The case firm has used networks widely in different contexts for different purpose which will be analysed in this section emphasizing the role of network.

### 6.1.1 Network approach of the case firm

The approach of the case firm to enter the Nepalese market seemed more passive. It had recognized Nepal as a place with high potential before only but the actual initiation for market entry came from the contacts of company's cofounder in Nepal. The cofounder has been living in Nepal and had contacts. Thus, they did not focus much on market research or did not consider the need to understand the market and situation. The approach began with the influence of the CEOs' strong tie .i.e. the cofounder. This was explained by the CEO as follows:

*"Our company's cofounder has been living in Nepal with his family since many years. So, he had many contacts which made our approach to the market easy."*

This passiveness was the first shortcoming in their approach. Without any concern for future situations that may arise, immediate action was taken on the basis of the initiation. Here, Uppsala Model of Internationalization's market knowledge aspect has been ignored.

### 6.1.2 Influence of network on market entry and selection of entry mode

The case company was motivated to approach towards the arena of international business only after having some networks in Nepal whether the relationship was formal or informal. Having an influence and motivation of the networks available, it was able to apply and get the tender through Nepalese government for the project. They cooperated with the local firms for tender application with a plan to work as a joint venture. The approach was a good one as it would be beneficial to learn more from the locals about the market. This provided the case company a way to enter the market. In this context, the CEO

of company B also being involved with company A's project to Nepal expressed as follows:

*"Since I am frequently travelling to Nepal for my business, I have contacts with whom together we could apply for the tender and we received the second place. But fortunately, the first place project could not work and now we have the first place making things even better."*

Here, the correct market entry mode was chosen for initial stage of internationalization as joint venture has been listed as one of the appropriate market entry approaches in the literature review.

### 6.1.3 Relationships and Network Development

The case firm has been actively involved in expanding its networks in Nepal as well as increasing involvement of the firms from target market for maximum benefits. It has been trying to interact with as many people as possible developing new contacts. Here, it makes us clear that the value of weak ties in the rapid internationalization of SMEs has been well understood and possible efforts have been made in order to form an extensive network web. The CEO of company A said:

*"I have been travelling to Nepal several times seeking for opportunities to build new relationships and analyse the situation. During this process I meet a lot of people trying to make the network wider."*

The focus has always been on network and relationships. Through this priority, they were able to understand the available prospect for expansion and also suitable ways to enter the market like the tender. The importance of network is clearly depicted. But as explained by the Uppsala Model of Internationalization, there is other important aspect called market knowledge required for successful international expansion which has been clearly ignored here. Regardless of possible situations that may arise in future due to the cultural distance, market situation, different ways of conducting business, etc., the entire focus on one important aspect i.e. network has led to creation of barriers

caused due to ignorance of the other important aspect .i.e. market knowledge. So, having enough networks only did not work. Thus, the recognized barriers from the case as well as the possible ones have been explained.

## 6.2 Market Barriers\Challenges

Despite having networks, various barriers arise during the process of internationalization. Thus, according to the experience of the case company, and considering the company's situation, following barriers in internationalization have been identified which would be applicable in case of every developing nations like Nepal. The barriers are chronologically ordered on the basis of their influence.

### 6.2.1. Corruption and bureaucracy

This has been identified as one of the major problems in the developing nations and today's emerging markets. Bureaucracy affects firms of all sizes, it imposes larger costs on SMEs, in terms of the additional personnel and resources required to deal with it. According to the survey conducted by Economist Intelligence Unit, 46 percent of SMEs responded as corruption and bureaucracy to be the biggest challenges in developing nations and emerging markets (Watson, 2011). The influence of corruption has been so wide that to make things happen it gets necessary to involve into these unethical activities. Due to expanding bureaucracy, everywhere power and contacts are the only ways to get things done. The Nepali bureaucracy, politician, and the business sector are most seriously affected by, and inextricably involved in corruption (Subedi, 2005). Foreign investors have often complained about complex and opaque government procedures. They should deal with largely non transparent legal system in which the legal procedure is very slow and uncertain. Bureaucracy is generally reluctant to accept legal precedents (U.S., 2013). Thus, the firm is facing the problem as people with whom they are involved in the target market are expecting commissions and profits but the firm was totally unaware about the upcoming situation. In this context the fact that Nepal has been ranked very low

in corruption. According to the ranking of Transparency International, Nepal is ranked 139 among 176 countries with a score of 27 out of 100 (2012) where, higher the score cleaner the corruption situation (TI, 2013).

#### 6.2.2. Unfaithful business activities

This has become one of the major issues in developing nations. With increasing corruption and bureaucracy, dishonest business practices with a motive to earn more profit have been increasing rapidly. This has been acting as a huge barrier. According to the CEO shares his experience in this context as follows:

*"We received the tender from the government and we were eager to start. We already made some investment to reach to this stage and everything was agreed with our partners and collaborators. The project was supposed to begin this September 2013 but even before we started, problems came up. Our partners want us to invest alone but share profit with them which was not what we agreed. We do not even have the opportunity in our hands and we have already started losing it."*

The local firms denying from making an investment despite agreement made earlier but expecting profits depicts the operating situations of business activities clearly.

#### 6.2.3 Labour Unrest

This has become a really big issue for the firms in developing nations. There are various trade unions and labour unions with various demands going on strikes to pressurize firm which in some cases have also led to closure of the firm. There are various events taking place. Like in India, recently The Savli plant of Bombardier Transportation, the largest investment of the Canadian firm in Asia witnessed labour unrest recently with 100 labours protesting on the site (TNN, 2013). Similarly, the situation is similar in other developing nations like China, Nepal, etc. Recently in Nepal, the well known international fast food brand Kentucky Fried Chicken (KFC) had to go through a serious situation due to labor unrest and is in the situation of shutting down. In the past also, Surya

Nepal, a joint venture of Indian tobacco Company had to end its garment manufacturing unit in Nepal and several other multinational companies like Unilever, Colgate Palmolive had been through this (PTI, 2012). Despite having BIPPA agreement made with several nations which promises to protect the foreign firms in Nepal, the implementation has not been seen yet. Thus, for a SMEs, this is an important factor to be considered while internationalizing to any market in developing nations.

### 6.3 Case Discussion

According to the literature review, the theories have significant role in the internationalisation of SMEs. Thus, it is necessary to analyse the case in relation to the theories. The case analysis points out that the situation, approach and perspective of the firm strongly support the network theory of internationalisation put forth by Johanson and Mattsson (1994). As the firm's business is limited to the domestic territory and is seeking to internationalise through development of indirect networks and relationships through its cofounders' available link, the firm resembles the 'Late Starter' explained by Johanson and Vahlne in their theory. The experiences shared by the informants and the findings of the study suggest that the network is taken as a key to success in the arena of international business and also as the best way to enter the market. The CEOs provided with their own perspective on their attempt towards market entry and internationalisation which suggests that their strategy is completely based on network and relationships. It explains that the network plays a pivot role in the process of target market selection, in determining the level of commitment of resources to make an approach and to develop the opportunities as the firm decided to internationalise taking the direct and indirect relationships in the target market as a base. The entire approach and process indicate that the firm did not follow the process as mentioned by Uppsala model of making the internationalisation process gradual and slow. But the findings of the study show that the barriers the firm faced and is still facing in the process, is all due to complete focus and high expectation from their networks ignoring the other important aspects that are necessary for the successful management



of barriers and resources.

Networks and relationships have significant role in successful internationalisation but they should be taken along with other important aspects. The first ignored aspect is the market knowledge. According to the findings drawn through the case analysis, the firm did not conduct enough research about the target market due to which it could not get a long term vision for possible barriers that could arise. As the Uppsala model of internationalisation suggests, it is necessary to have enough knowledge about the target market before we proceed especially if the market is with large psychic distance. This aspect has a huge impact in the process. The CEO seems to be developing networks and taking steps forward but ignoring the aspect of gaining market knowledge necessary to approach towards any market. As explained in U-model, firm should learn from its business relationships and utilise the knowledge to enter the foreign market and later in market penetration. The firm is supposed to learn about the market through the relationship which is not seen in the case analysis and this has become the reason for the obstructions in the process. The other important finding is the consideration of trustfulness of the ties and networks before completely depending on those. This has also been the other weakness of the case company. The case company has fully trusted the networks developed in the process and became completely dependent on them during the process. This also provides an evidence to the finding of (Ojala & Kontinen, 2011) that trustfulness of the ties is important when the opportunities are considered and new ties are formed for internationalization. But ultimately, the root of every weakness is the lack of market knowledge and research of the case company as the awareness about possible barriers, business operation systems and activities in the target market, etc. could have been gained before making any decisions or approach.

Thus, on one hand, it is very important to develop networks and relationships for a firm to internationalise especially in the context of Asia. Networks have a great value. When asked for suggestion about doing business in Asia, the first one we get is to develop network and contacts with the right person to make

things happen. We can also get the idea of the importance of network in Asia through the famous chinese term '*guanxi*' which means relationship. It mainly refers to the benefits from networks and social relationships and has been a success widely being used in Chinese businesses. The situation is similar in most of the Asian countries (Feeny & Thuraisingham, 2012). This clearly depicts the respect and significance for networks and links in Asia. On the other hand, it is also necessary to manage resources and fully utilise the opportunity of learning from the networks. The emphasis should be on learning and developing through extensive network. Hence, strategies developed through the combination of both the theories, network approach and U- model will make a success story for the case firm.

## 7. CONCLUSION AND IMPLICATIONS

It is crystal clear that despite having huge prospect and opportunities in Nepal, the SMEs are not being able to reach those due to various internal and external barriers. The resources available in Nepal are just being wasted. Nepalese are neither utilizing it themselves due to lack of finance, technology and infrastructure nor are willing to handover the responsibility of utilization to others. Thus, in this situation, it is necessary to develop good relations with the local companies and related institutions. Nothing will work better than well established network with the locals in these markets. The other necessity is to understand the market, operation system, people, etc. so that a plan that would benefit every aspect of the market could be developed. The situation is similar in every developing nations like Nepal and is an issue to be considered highly.

Considering this situation and need, the study is able to examine the role network plays in the internationalization process and decisions of SMEs. Networks have been recognized as the significant aspect to be considered in order to succeed in the markets of developing nations. This study has identified how networks act as driver for internationalization and how they influence further in the process. I was able to uncover that networks highly affect the patterns of internationalization of a firm, like here the case firm is entering the market entirely on the basis of its network regardless of market situation and knowledge of the target market. During the internationalization process, it does not necessarily require to be gradual and slow as explained in the U-model (1977) but should consider the necessity to have adequate market knowledge and research before making an approach. The better the knowledge about the market, more valuable are the resources and the commitment to the market is also stronger (Andersen, 1993). Through the research, analysing every aspect during the process of internationalization of SMEs to developing nations, following Uppsala model and network theory together has been realized to be the most relevant alternative for SMEs' successful internationalization.

According to this, in the beginning, SMEs need to gain adequate knowledge about the target market. But in every stage of internationalisation, networks are to be explored and expanded as networks help to identify international opportunities, to establish credibility along with their partners, to provide access to resources considered as strategic, such as the knowledge of market (Mohamed Amal, 2010) as network itself is an important source of knowöedge. However, the findings contribute to the framework of the new revisited form of U-model developed by Johanson and Vahlne (Johanson & Vahlne, 2009) which emphasised on the importance of network along with the role of prior market knowledge in the internationalization process. Thus, there is strong evidence that having wide networks and knowledge is the key to successful internationalization. It should be noted that the aspects like the lack of proper understanding of the market and people could turn the entire plan to the opposite direction like the case company facing the unexpeced obstructions created by its partners in Nepal. In this context, the CEO of company A has shared his opinion on Nepalese trend on investment.

*“Its not that Nepalese people do not have money, its just that they do not want to make any investments but want to earn profit.”*

As this research has been conducted addressing the needs of Envor Group Oy, through the experience that the case company has been facing it is suggested that an extensive market research should be conducted with a long term vision before making any decisions on internationalization. It is evident from the findings that besides the external barriers faced in the target market, lack of enough market research and knowledge act as significant obstructions. Thus, the research should include all the important aspects according to the findings of this study considering the experience and opinions shared. As the importance of network has already been discussed it is necessary to have enough links and connections in order to enter the market and establish a position but with a proper plan for the management of resources and network. The importance of network in Asian context is also to be considered as already discussed with the case. As theories of internationalization help to explain the

strategic process of expansion into foreign markets (Sedoglavich, 2012), it is necessary to take into account the appropriate theories in which the suggestion would be the strategies to be developed with the combination of U-model(2009) and network approach theory discussed in the study with efficient resource management. My suggestion is consistent with the conclusion of Coviello (1997) besides at one point where the gradual internationalization process explained in U-model has been followed which says that the firm should internationalize first to the nation with less psychic distance and then move to nations with higher psychic distance. I do not agree with this idea of incremental internationalization process as through the evidences provided during this study, the only aspect identified as weakness is lack of market knowledge of the target market and this could be easily overcome through extensive market research, proper resource management and full utilization of networks in the target market for learning about the target market. Hence, I would suggest to develop an effective strategy on the basis of the framework presented by (Coviello & Munro, 1997) skipping the step of internationalization to psychologically close nation. This kind of independent and efficient planning will lead to success rather than following the path of competitors or partners. It should be understood that they have different issues and problems in Nepal creating barriers but when these issues are identified and addressed in proper way with well established relations to local industries, nothing will stop from making things happen. (Ojala & Kontinen, 2011) have explained about SMEs behavior in foreign market selection through terms proactive and reactive where proactive refers to a firm actively seeking for opportunities whereas reactive refers to a firm reacting to the opportunity that came by chance. Here, it is necessary for the SME to be proactive and explore opportunities for network formation that would be helpful for further process in internationalization. It should be noted that the approach of company A is very convincing establishing networks but this was the reactive response to the company's cofounder's initiation and thus was passive in the process depending on the developed networks and lacking the understanding of the market.

## 7.1 Managerial Implications

The study shows how firms can use networks to reach the target market but also makes us aware that enough market knowledge is necessary for successful expansion of business. The case company is highly influenced and benefitted by its networks. In small-to-medium-sized firms, the manager plays an important role in identifying the stimuli for internationalisation (Chetty & Holm, 2000). Thus, the managers need to realize the importance of coordinating the available networks and also conduct an in depth research on the target market. They should understand that the more social they become with extensive business network, the doors for internationalisation will open more. This study provides an insight to the managers how they can make a successful approach towards internationalization understanding the pivot role network during the entire process. It is necessary for the managers of SMEs to understand that only network development will not necessarily lead to success but instead they should be able to conduct an in- depth research on the target market and understand that they will be dealing with entirely different culture, system and business patterns. They need to be careful while establishing relationships with extensive research beforehand. They need to utilise the opportunity of having networks in understanding the market, ways of operating in the market and establishing a position in the market.

## 7.2 Limitations of the study

The main limitation of the study is that the research is highly focused on single case and also the research is more concentrated on one nation only. The research conducted on the target market concentrates on the biogas production situation and scope. Likewise, interviews with few people can also be taken as limitation as it makes the research limited to the experience and opinions of these few people only. It may not be possible to generalize some cases because of research being based on single case and more focused into the need of Envor Group Oy.

However, a thorough and extensive research on internationalization is necessary concentrating on SMEs as they have been playing a vital role in the economic development of nations. Nepal needs to implement the bilateral agreements made with various nations in order to attract foreign investment. All the agreements made will be in vain if not implemented properly. Only after full enforcement of these agreements, Nepal will be able to create foreign investment friendly environment motivating the foreign investors with a promise of protection, support and smooth operation.

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