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**DEVELOPING A METHOD FOR THE INTERNATIONALISATION  
OF SMALL TO MEDIUM ENTERPRISES IN FINLAND.**

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## ABSTRACT

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This thesis explores the problems seen by many small companies who look to internationalise their operations. There are a number of theories and research methods that are considered throughout the thesis which focus on how continuous, reflective learning and iterative processes can be used to improve the chances of a small company with limited resources in their quest to become more international.

With the current economic problems facing the Finnish economy, many companies in Oulu are facing the problem of a shrinking domestic market place, and a lack of skills or experience to successfully take their products to the international market. Often the companies rely on the products to sell themselves without investing in a sales and marketing strategy. This thesis uses Action Research to develop a methodology for helping these companies. It explores the Uppsala model for internationalisation and Systems Thinking to create a methodology that focuses on continuous learning through the formation of iterative feedback loops. This enables the companies to be better prepared and more knowledgeable of what needs to be done, before they go abroad. The ideas are put in to practice with an Oulu based software services company by trying to help them to make their offering more attractive abroad to a new customer.

The thesis concludes with the project not achieving its desired results, but the developed methodology was shown to be viable and worthy of further development. More research is needed to prove the ideas in the real world and to obtain more positive outcomes.

Keywords: Action Research, Uppsala Model, Internationalisation, SME, Systems Thinking, Iteration, Business Development,

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## 1.INTRODUCTION

The aim of this thesis is to investigate the process that a company must go through if it is to successfully move from the domestic markets to the international ones. In recent years, there has been a huge effort made in the Oulu area to develop an entrepreneurial environment. This change in focus from large-scale industry to individual entrepreneurship is being driven by the collapse of many of the businesses and industries that have for so long been a symbol of the regions success. Many thousands of people have lost their jobs, and in this environment, are being encouraged to start up new companies with the aim being to create a vibrant new start up community in Oulu. It is hoped that this will create new jobs and regenerate the economic environment of the region.

The problem that many of these companies face, is that they are being set up and run by skilled engineers, who may have developed potentially good products but have little or no experience running a company. They lack the necessary skills and marketing abilities to take their products to the international market and often rely on the philosophy that the customers will come if the product is good enough.

There are many factors that affect how well a company is going to perform, and having a technically superior product or access to Venture Capital or Business Angel funding does not on its own, guarantee success. Being fortunate enough to take advantage of the success brought about from having the right product at the right time cannot be underestimated. However, for many companies starting out in the Oulu region, the reality is going to be much tougher. Understanding not only the product that is being sold, but also the factors that dictate where it can be sold is a huge obstacle to any company wishing to go abroad. In addition, since Oulu is a small city on the geographical margins of Europe, the need to understand the international marketplace should be a critical skill available to all companies.

Organisations such as Business Oulu provide an excellent service to companies looking to sell their products abroad. They take groups of companies to different events around the world and subsidise the costs of these trips. However, if the companies do not have the knowledge of how to convert these opportunities into real revenues, then there is bound to be a limit to how successful the companies can be. This needs to be considered when realising that Business Oulu is funded through taxpayer's money and new cut backs are being announced every day.

The days of having large manufacturing facilities that create thousands of jobs in Oulu are gone and the need to create new jobs by growing small, successful companies is the only way that the region can recover. Finding markets for the skills and technologies in the region is a key test for Oulu in the coming years, and it needs to be done in a structured way that is both effective and cost efficient. The geographic location of Oulu means that once many of the large manufacturing facilities have closed, it is unlikely that they will come back due to the large costs involved. The trend towards low cost manufacturing in other countries has hit Oulu particularly hard. If we look at Oulu's geographic location in the North of Finland, the number of people in the country that makes up the domestic market is 5.47 million people (Statistics Finland, date of retrieval 08.05.2015). For a similar company in, say, Edinburgh, the domestic market is 64 million people (Office for National Statistics, date of retrieval 08.05.2015) within 700km. This means that for the company in Edinburgh, planning to become international would be a secondary part of the strategy while they grow the domestic business. For a company in Oulu, the need to be international from the outset is far more critical.

This thesis takes a practical approach to understanding how a company can make the journey from being successful in their own region or country by looking at a new approach to the problem. The thesis looks for a way to increase the probability of being successful, without being so expensive that the company is at risk if new business cannot be created. There is the argument that in today's economic environment, all small and medium business in the tech sec-

tor should be international from the beginning, but this is something that many new businesses in Finland have difficulties with. Also, the idea that a new start up can simply start trading in any region in the world without any thought to what cultures and regions they are entering is perhaps a little naive. Small and medium companies are limited by their resources and must carefully choose the markets and locations in order to increase their chances of success.

The idea for the project was to work with a local company to understand how their international experiences have been to date. Looking at how the company present themselves on the international scene and trying to understand the reasons for their successes and failures in the past. Once the company has been analysed and recommendations and improvements have been carried out, the goal is to introduce them to potential customers abroad and work with them to secure new business.

Enabling companies to internationalise is more than simply handing them a list of leads on a plate. One of the challenges is to make sure that the customer is getting what they want. This involves making sure that there are systems in place to develop the products in the right direction in a timely manner. This means that the internal product development processes are directly linked to the feedback coming in from the analysis phase, and from the potential customers. This way, the companies are given access to the new markets but also the tools to develop internally. This is vital when it comes to creating an internationally self-reliant company.



## 2.PROJECT OUTLINE

With the decline of many of the industries in Oulu that have sustained the region for a generation, there are many technology companies, both new and established that are looking to expand their operations abroad. The business landscape has changed beyond recognition in a very short space of time, and many people and organisations are struggling to keep pace and understand the changes that are happening.

The following research questions are asked. How can Finnish SME's with limited resources, grow beyond the domestic markets and successfully find international customers? What kind of process should a company follow if it plans to go abroad? and finally, Can this process be made more efficient through the assistance of consultants?

The main idea behind this project is to investigate how a small technology company with limited resources can enter the UK market. The UK was chosen for a number of reasons. Firstly, the author is British and understands the business culture. Secondly, the banking sector (one of the key sectors for the project company) in the UK is very large and finally, the UK is relatively close to Finland in terms of geography, culture and accessibility. All of these factors mean that the so called 'psychic distance' between Finland and the UK is relatively low.

The project looks at some of the pre-requisites for companies attempting to internationalise, and how can they be practically assisted to develop their value proposition and be ready to meet potential customers. The main goal of the work is to maximise the chances of international success by highlighting a set of requirements that should be met, before a company should even consider going abroad. By doing this, it was hoped to reduce the risks and costs associated with internationalisation, as well as improve the knowledge of the international process.

The thesis addresses a number of different theories and research methods concerned with learning and developing international trade. Through this process, they are connected and a new methodology presented which highlights both the iterative nature of learning with the need to acquire knowledge and act upon it in order to expand beyond the domestic markets. The thesis also looks at how business analysis techniques can help to prepare a company for the challenges of internationalisation, before they leave their home environment.

There is also a practical research example with a real company, who were looking to internationalise their operations. The process that the company went through highlights the potential gains that can be made from a decision to internationalise, but also shows that even when a company makes good progress in their efforts to find foreign customers, they may be ultimately held back by their own internal problems, lack of experience, fear, unwillingness to adapt to new market conditions and not investing enough time and money in international business development.

The project ran for approximately 12 months and during this time the new ideas were developed and applied in a real world situation. As with many real life projects, the outcome was not the one expected or hoped for in the beginning, but the process itself appears to still be valid. Further opportunities and research need to be performed in order to verify and fine tune the process.

### 3.RESEARCH METHOD

The research techniques proposed in this thesis are based on Systems Theory and the research technique is Action Research, however the process is more closely based on real project information and the process incorporates aspects of the Action Research approach, but with more focus on the practical results. This chapter describes the features of Systems theory and Action research, and how this technique can be applied to Organisation Development within the chosen project.

The Systems Theory philosophy addresses the way that the author would like to analyse and work with the chosen company in order to achieve the best results. According to Järvinen (2012, 184), the systems approach takes a holistic approach to the system, which fits perfectly with the way that the research needs to exist in the real world application of the project. The project looks at both the internal operations of a company as well as the process of internationalising and how the company goes about starting to work with foreign companies. The idea behind the research is to find a way to make it easier for a company to build up relationships with potential new customers, while at the same time developing their own offering so that it is more in line with what the customers are looking for. By incorporating the customers needs, wishes and expectations into the research, and viewing the whole thing as one interconnected system, a set of sub-systems are developed that contain functions and relationships with other sub-systems. Analysing these individual sub-systems may also show some interesting results. Järvinen (2012, 184) goes on to discuss the idea that when examining the relationships and functions within a system, it is important to recognise the resources and the limitations within the system. This is particularly relevant when looking at how small companies operate. In order to create the best environment for success, understanding these factors is going to be critical to the success of the project as well as any company plans to internationalise. Järvinen (2012, 184) concludes by stating that in systems theory there is a

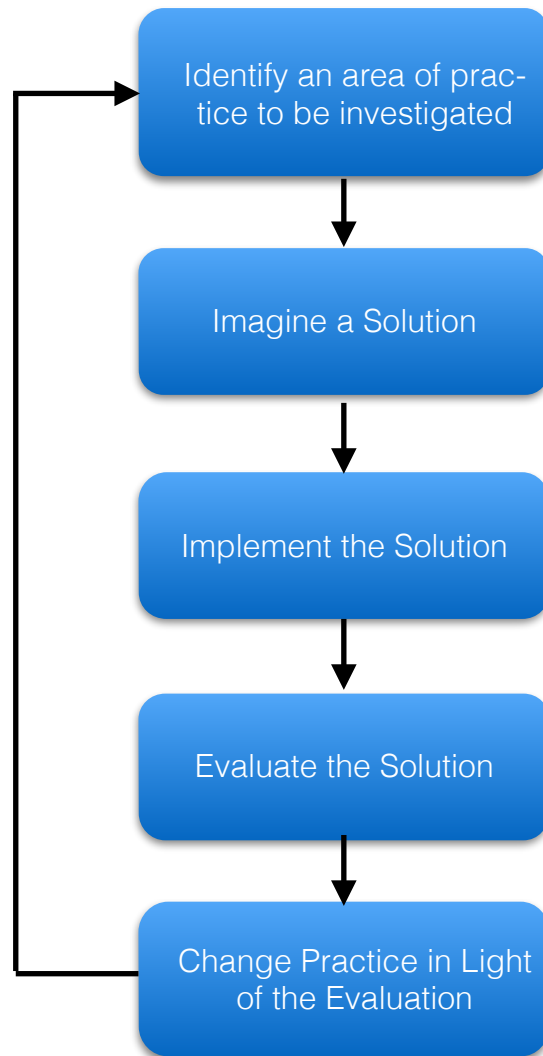
general 'ideal form', which is common to all systems. This is crucial to the idea that there might be a definitive set of identifiers that should be fulfilled if a company is to maximise its international potential. These identifiers may not be so easy to discover however as they may be sector specific or have geographical implications. For instance what is right for a company in Oulu may not be right for a company in Manchester or even Helsinki.

The research technique used is Action Research. The reasons for choosing this method, are that it is open ended and does not begin with a fixed hypothesis. It is a development process which continuously checks whether it is in line with what you wish to happen (McNiff, 2002, 6). Action Research is an iterative process, which also fits into the idea of organisational change through continuous improvement. Extending this organisational change to include the customer perspective is of great interest. While there are several variations on the Action Research model, McNiff (2002, 11) gives the cycle of activities (Figure 1.)

This is an important aspect when looking at a company and how it performs. Although there may be some historical evidence to suggest that a company is capable of performing the necessary changes. However, it is most important to focus on the future results and driving the changes accordingly. Becoming an international company is clearly the target, and all actions and decisions should be taken with this in mind, as well as measuring the progress against this goal.

The aim is to create a team effort within the company, with consultants acting as the research practitioner in order to create the ideal environment for success. If there is not this collaboration, then there is a good chance that the customer becomes dissatisfied, and the chance to maximise the opportunity is diminished.

This implication sits at the heart of the project aims. In order for the company to become international, there is the need for the system to develop. This not only means the company, but also the new foreign customers.



*FIGURE 1. The Action Research Cycle (McNiff 2002, 6)*

In order to understand the specific nature of helping an Oulu based Technology Company become international, it is important to set a target and create a set of measurable actions that can move the company towards their goal. It is unlikely that a fully developed theory can be generated since only one company is being studied, but developing a methodology that could be applied to many different types of companies would provide a very practical and tangible result to the research. This would also open up the topic for further research, since the types of companies, industries, customers, different geographic markets and even dif-

ferent Finnish cities make the study area potentially very wide. The amount of budget that the companies can set aside for international business development also has an impact on how much can be done and how quickly.

The results of the decisions taken during the process will only become known in the future. These outcomes will therefore go on to become the next 'base line' from which to aim for the goal from. In this sense, there is no right or wrong outcome, merely further opportunities to understand the outcomes of the process and to learn the lessons from them. This may be a somewhat idealistic view of the process, since all companies are primarily interested in generating profits, however, the reflective part of this is still valid and important.

Every company is different and the outcomes might vary depending on commitment levels, knowledge levels, budgets and general readiness at any given time. The hope is, that the information gained throughout the process can be used to create a system that provides the best outcome for the company with respect to their current situation.

In order to develop the method, the project would look to understand the current situation within the company and to jointly develop a plan to identify what the company hopes to achieve from the strategy and the areas that may need to be developed prior to moving forward with the customer search. By setting targets, creating a plan and then reflecting on the results, the process can be refined and developed as the results become available. Having used problem-solving techniques in a manufacturing and engineering environment, it is an area that the author is very keen to explore in an organisational and results driven business situation.

Once the process has been developed with the companies, the findings need to be documented. This is very beneficial in setting out a method, which can be used to benefit other companies in the future. The key to this process is that the company must be willing to adopt a strategy and make internal changes where necessary. There must also be the commitment to the budgetary side, as this is a big part of the overall commitment and dictates what can be done and where.

Without this commitment to both changing and learning, the probability of being a successful international company will be significantly reduced. Working to develop the company, as well as helping them connect to potential customers is a much more sustainable approach than simply giving money or supporting them on trips where the customers may not yet have been identified, or where the marketing strategy is not clear. This process should form a part of a much wider strategy into internationalisation that would aim to look at the real motivation behind why a company wants to internationalise and how they are going to go about doing it. A longer-term goal would be to create a framework to deploy this process globally with a proven network of local consultants who can deliver measurable and quantifiable improvements to the companies looking to become international. In the true spirit of Action Research, this process must develop and evolve the more times it is performed.

## **4.THEORY**

In this chapter a number of different areas of theory are introduced, which are used to develop a new methodology for a Finnish Small Medium Enterprise (SME) to follow. With the the help of a consultant team, it makes the internationalisation process faster, more efficient, less costly and with less risk. The concept of Active Research is also introduced in this chapter. Action Research gives a step-by-step iterative process that can be followed and adapted as needed throughout a given project. By using an Action Research approach, a reflective learning environment is created, which seeks to remove some of the barriers faced by Finnish companies when internationalising. Action Research also gives a framework upon which to build a new process rooted in reflective learning. The Uppsala model for internationalisation is then introduced, which focusses on incremental learning as a key aspect to starting foreign business activities. Finally, Systems Thinking is used to look at the whole process of finding, engaging and doing business with customers abroad.

### **4.1. Why Choose Action Research?**

Choosing to base the thesis around Action Research was one of the first decisions that was made in this project. The Action Research method was interesting as it takes existing problem solving methods and adds the inclusion of collected data to support the notion that you are reaching your goals. Action Research was developed within the education and teaching sectors in the 1970's and 1980's (McNiff 2002, 3).

Action Research is a practical way of looking at your own work to check that it is, as you would like it to be (McNiff 2002, 5). During this project, a small team, consisting of the author and employees of the company, perform the Action Research. Auer & Follack (2002, 773) state that the action research process is not static. It is more cyclic, alternating between action and critical reflection. It is an iterative process which converges towards a better understanding of what hap-



pens. Dick & Swepsom (2013) explains that action research is intended to achieve both action and research. It is suited to situations where you wish to bring about action in the form of change, and at the same time develop an understanding which informs the change and is an addition to what is known.

The reason for choosing Action Research over a different research method was the authors desire to have a very practical project which gave results that would be of potential benefit to other companies. By being involved in the project, and both guiding and participating in the process, it was possible to understand the problems facing small businesses in a much more detailed way.

#### **4.2. Action Research and Consulting**

The main driver for this thesis is to create a model which helps Finnish SME's position themselves better to do business abroad. In order to do this, the key role of the Action Researcher is carried out by a small team of consultants. There is some discussion that the Action Research process and the consultancy process are different. Baskerville (1999, 12) refers to numerous sources (Kubr, 1986; Lippitt and Lippit, 1978) who disregard the iterative process in favour of the linear "engage-diagnosis-action-disengage". This limits the role of the consultant and leads to the five differences between Action Research and consulting seen in Figure. 2. However, if the consultancy process were to be described as being non-linear, then using Action Research makes more sense as a potential consultancy tool. There is no reason that a consultant should not be engaged by a company for a longer period of time in order to facilitate the learning process of the employees and achieve the goal of internationalisation. The assumptions about consultancy made by Baskerville (1999, 12-13) seem to suggest that consultants can not perform Action Research because they are purely profit motivated and are only expected to provide solutions. This ignores the fact that most of the operational knowledge of a company lies with its employees, and therefore a good consultant should always be acting as a mentor who drives the actions towards the desired goal. One of the key aspects of Action Research is its commitment to the research community. There is nothing to stop the same ideology being applied to the SME business community in terms of

sharing ideas and discoveries. There are now more and more networking groups and events emerging, where people can go and share ideas and discuss business. Social media has also had a profound impact on the way knowledge is shared. In fact, this is the essence of good business networking. Results from a consultant driven Action Research project should be shared with the wider business community, while at the same time ensuring that any business confidentiality is retained. Action Research should be a tool that can be used by anyone who feels it can benefit them. Since most companies are constantly changing and evolving in an iterative way, why then, should an iterative process for learning not be used in a commercial environment?

Key Way	Action Research	Consulting
Motivation	AR is motivated by its scientific prospects, perhaps epitomized in scientific publications.	Consulting is motivated by commercial benefits, including profits and additional stocks of proprietary knowledge about solutions to organisational problems.
Commitment	AR makes a commitment to the research community for the production of scientific knowledge, as well as to the client.	In a consulting situation, the commitment is to the client alone.
Approach	Collaboration is essential in action research because of its idiographic assumptions.	Consulting typically values its "outsider's," unbiased viewpoint, providing an objective perspective on the organizational problems.
Foundation for recommendations	In AR, this foundation is a theoretical framework.	Consultants are expected to suggest solutions that, in their experience, proved successful in similar situations.
Essence of the organizational understanding	In AR, organizational understanding is founded on practical success from iterative experimental changes in the organization	Typical consultation teams develop an understanding through their independent critical analysis of the problem situation.

*FIGURE 2. Distinguish Between Action Research and Consulting (Auer & Follack 2002, 776 ; Baskerville 1999, 12&13)*

In fact, content driven marketing is significantly more valuable than simply putting money into advertising. According to Pulizzi (2013), 93% of Business to Business marketers are using content marketing. This could be in the form of blogs or instructional videos, but the key idea is that instead of keeping the knowledge secret, more and more companies are sharing knowledge, which supports the idea that Action Research can be legitimately used more in a business environment.

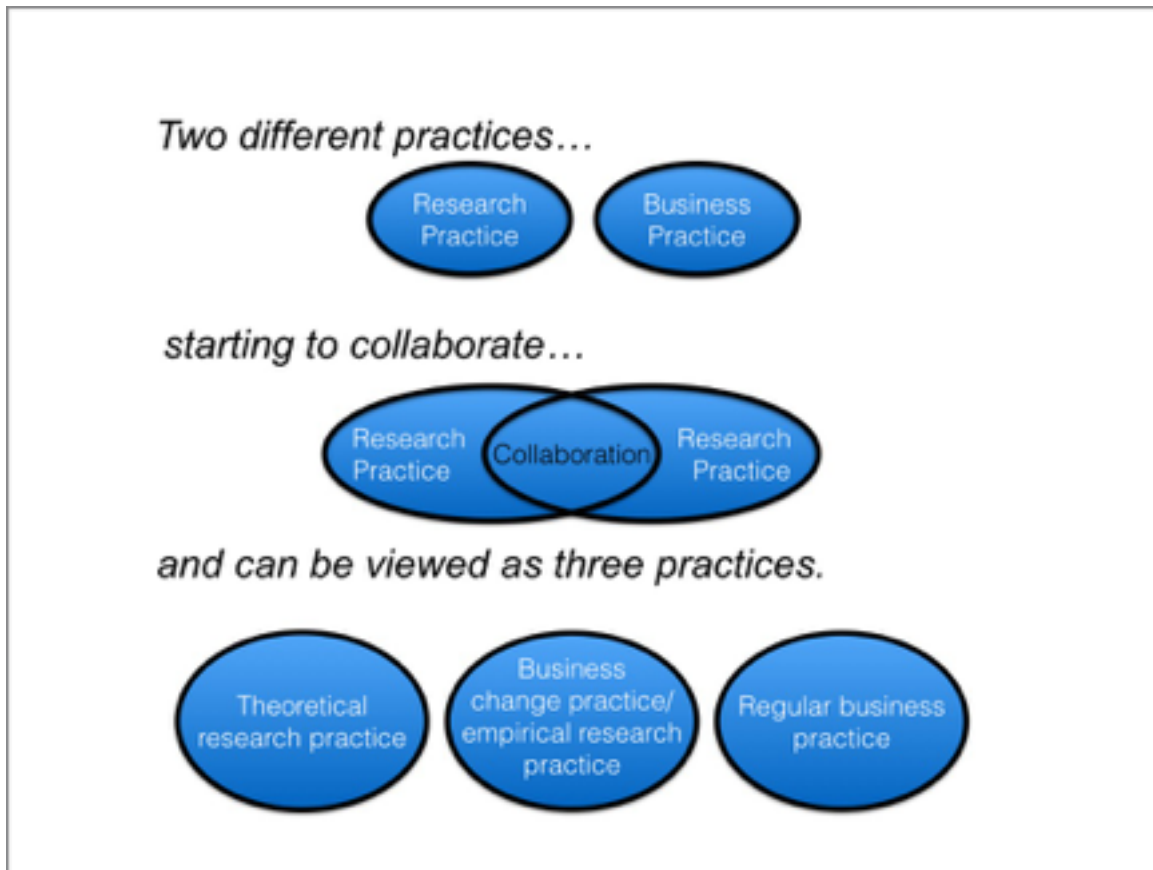
### **4.3. Starting Position**

Systematic investigation into personal behaviour and the reasons for that behaviour. Reporting this shows the process that the researcher has gone through in order to achieve a better understanding of themselves. (McNiff 2002, 6.)

This research process lends itself very well to the idea of business development as the idea that there is a beginning, a middle and an end to how a company develops and grows, while commonplace is not ideal. Businesses need to be constantly going through a cycle of self evaluation and development.

The five basic steps to an action research project were shown in Fig. 1 on page 14. McNiff (2002, 6) discusses that the basic problem solving process revolves around identifying a problem, imagining a possible solution, trying it out and evaluating it. In order for it to become an Action Research process, the group would need to say why they wanted to investigate a problem. This makes sense in a business environment, where resources should not be wasted on solving problems without there being a strong business case for justification.

Action Research has been mainly used in the education field, but the concept should be easily transferable to a business development setting, since the process uses the same ideas as quality management by making continuous improvements to a process or organisation and after every phase, taking a reflective state that enables the researcher to make any necessary improvements. The idea of combining research and business is introduced by Cronhölml & Goldkuhl (2003, 6) where three different practices are interlinked. These are the



*FIGURE 3. The Research Practice, the change practice and the business practice Cronhölml & Goldkuhl (2003, 6)*

non empirical theoretical research practice, regular business practice and business change practice. This can be seen in Figure 3.

The ideas that are developed in this thesis begin by using the principles of Action Research and combining it with Business Analysis techniques to create a collaborative process that uses a consultant in a more inclusive role within a team rather than the traditional role as a catalyst as discussed in the previous section. Normally a consultant comes into an organisation, usually on a short term basis, make recommendations, and then leave. In order for the change to be effective, this thesis looks at the consultant as part of the team, who guides the process and works with the client over an extended period of time to bring about change through collaborative learning.

#### **4.4. Action Research and Internationalisation**

The main objective of this thesis is to explore ways to reduce the risk on small companies that want to start to operate internationally. Therefore an investigation of how Action Research can be applied to the field of international trade development is performed. Since there are so many variables associated with internationalisation, it makes sense that there should be an element of iteration about the process. However, this could be a very costly process if it is done without any preparation or prior knowledge of the target country. Every country is different and knowing how to market in those countries is critical to success there. It is therefore be vital to create an accurate starting point from which to commence the business development. Some questions that may help with this could be; What is the target country and why? Is the product ready for the target country? Does the marketing message accurately sell the company and the products in the target country? Is there management commitment? Is there a budget?

There are several general ways to develop international markets. They include: exporting products and services from the country of origin; entering into joint venture arrangements; licensing patent rights, trademark rights, etc. to companies abroad; franchising; contract manufacturing; and establishing subsidiaries in foreign countries. A company can commit itself to one or more of the above arrangements at any time during its efforts to develop foreign markets. Each method has its own distinct advantages and disadvantages. (Warar 2011, 2.)

Thus, the idea of having only one interactive loop may not be enough, since this requires the company to seek out the customers and adjust their offering all at the same time which involves a higher level of risk. The end result being that the potential customer has a confused message about the product. This type of trial and error approach to marketing abroad might lead to success, but the chances of it failing are significantly higher and the reasons behind either the success or failure may never be clearly understood. Understanding the reasons for both success and failure should be a key learning objective for every company, but often the reasons for success overshadow any kind of serious analy-

sis of the reasons for failure. In other words, a company can be very quick to say - 'We won the contract because we had the best product, the best price and the best service!' We seldom hear a company state that - 'We lost the contract because the customer didn't understand our product, even though we think it is the best! How can we do better with this?' or 'We lost the contract because the customer wanted a different set of features than those we currently offer. How can we fix this in the future?'. Understanding why something fails, should give rise to a period of self evaluation, questioning and ultimately change.

#### **4.5. Systems Thinking**

In order to understand the reasons for both success and failure of a given SME strategy, the the wider perspective must be analysed. In trying to understand the reasons for why things happen in a business situation, understanding what goes on inside the company but also outside is a key goal. What are the interfaces inside and outside of the company? What impact does the customer have on the outcome? What impact does the company have on the outcome? For this, the concept of Systems Thinking is used.

A typical engineering approach to a problem is to break it down into smaller, more manageable pieces. This is known as Reductionism. Reductionism generates knowledge and understanding of a phenomena by breaking them down into constituent parts and then studying these simple elements in terms of cause and effect (Flood, 2010, 1). Systems thinking, in contrast, focuses on how the thing being studied interacts with the other constituents of the system - a set of elements that interact to produce behaviour - of which it is a part. This means that instead of isolating smaller and smaller parts of the system being studied, systems thinking works by expanding its view to take into account larger and larger numbers of interactions as an issue is being studied (Aronson, 1996, 1). Instead of simply looking at the company that is trying to internationalise, the whole 'system' of the company and its potential customers must be observed. By doing this, it can be seen, that instead of being a linear process, the system is made up of different communication and development loops that eventually lead to both parties doing business together. If the system as a

whole is observed, it can be seen that it is made up of the two companies (Supplier and customer) and a boundary of communication. This boundary could consist of the sales team on one side and the sourcing team on the other, or possibly the senior management teams of both sides. Each person within each organisation has their own circumstances to deal with such as performance targets, shareholders or profit margins and this creates uncertainty. Once uncertainty comes into a business system, it introduces risk. This is the inherent problem with internationalisation. How is the risk balanced with the need to grow the profits and the company? By looking at the whole system, it can be seen that there is more to internationalisation than simply saying that this is what we have on offer, come and buy it. Often the process takes time, and before any deals are done or revenue can come in, there must be a period of getting to know each other as individuals as well as specific product offerings. Before the process begins, both the company and the supplier do not know the other parties offerings, requirements or people. The customer is often wary about things they do not know or understand and the supplier is often desperate to close the deal at all costs. This creates a hidden tension within the system that can lead to misunderstandings and ultimately dissatisfaction.

Therefore, the whole business environment is made up of a complex social system that is traditionally based around making decisions without the correct information. Analysis is now required in order to make the system operate more smoothly, with the goal being to align both parties better around a commonly understood offering and requirement. By dividing the task of internationalisation down into separate, but co-dependent activities within the larger system, it is possible to create a more controlled entry to the international environment which has been planned and executed in line with a clear strategy. The stages can be seen in Figure 4.

By creating a three step method, it is possible to analyse the outcome of each of the parties activities in a much easier way. This reduces the added complication of the customer pressure to deliver what is offered compared to what the customer requires. The company can also be more confident that they know the

reasons for both their success or failure. If a product is not ready or the marketing message is not aligned with what the customer is looking for, it is clear that further work is needed in the 'internal preparation phase'. Additionally, if the potential customer does not know you or your product, then more work is needed not only to educate the customer about what the product does, but also to listen to what they are worried about and try to find a way to help them, through what you are offering. This process of building up trust takes time and requires patience. A recurring theme throughout this thesis is that international business takes time.



*FIGURE 4. Breaking down the internationalisation process into three steps*

#### **4.6. Why Should Finnish SME's Internationalise?**

Finland is a small nation with a population of 5.47 million people (Statistics Finland, date of retrieval 08.05.2015). For such as small country, it is important that the companies in Finland understand the necessity for international trade. In Finland 99.8% of all companies are SME's (Small or Medium Enterprises) who employ 66.9% of the total number of employees (Enterprise and Industry 2014



SBA Fact Sheet, 2014, 2). International trade is important and necessary because economic isolationism has become impossible. Failure to become part of the global market assures a nation of declining economic influence and a deterioration in standard of living for its citizens. (Czinkota, Ronkainen & Moffett, 1999, 4.)

By adopting an international strategy, a firm can open up greater opportunities than from following a purely domestic one. International business offers companies new markets. Since the 1950's the growth of international trade and investment has been substantially larger than the growth of domestic economies. (Czinkota et.al, 1999, 4.)

The Enterprise and Industry 2014 SBA Fact Sheet (2014, 6) states that for growth and internationalisation — the two key focus areas of policies targeting SMEs — remain a challenge. There are insufficient growth SMEs as well as internationalised SMEs, although larger companies in Finland are in many cases internationalised, the SME sector still mostly operates in the domestic market. These two topics continue to be in the spotlight, as SMEs are expected to produce a bigger share of growth than previously.

Thus, faced with both the problems of limited growth within companies and the numbers of internationalised Finnish SME's we can see that there is a need for the existing companies to internationalise in order to grow and survive. This is especially true when coupled with a stagnant economy where key areas such as the electronics sector have caused GDP in 2008 to fall by 2% and by about 1% annually subsequently. (Enterprise and Industry 2014 SBA Fact Sheet Finland, 2014, 2.)

There are many factors which would provide a company with the motivation to look abroad for more business. However, management will consider international activities only when stimulated to do so (Czinkota et al, 1999, 368). These stimuli fall into the two categories - Proactive or reactive. Figure 5 shows some examples of these motivations.

Proactive	Reactive
Profit Advantage	Competitive Pressures
Unique Product	Overproduction
Technological Advantage	Declining Domestic Sales
Exclusive Information	Excess Capacity
Managerial Commitment	Saturated Domestic Markets
Tax Benefit	Proximity to Customers and Ports
Economies of Scale	

*FIGURE 5. Major Motivations to Internationalise Small and Medium Sized Firms (Czinkota et al, 1999, 368)*

This study looks to position the company firmly on the proactive side. By forming a strategy to become international, and following a methodology for doing so, it makes the company much more capable of coping with not only the domestic markets, but also the new foreign ones. By staying reactive, the company would be relying on hope and good fortune to drive new sales abroad. These are not ideal attributes of a company that wants to develop its business operations in any market area.

For a small software services company, the case for adopting an international strategy may be compelling but it is also intimidating. Within the software services industry for instance, there are many different players, ranging from the very large multinational companies to the very small niche developers. If a Finnish software SME is to be successful in this space, they cannot afford to keep all of their eggs in the same Finnish basket. While they may have a broad skills set with a well diversified client base, their business model may still leave them open to their customers economic fortunes if they remain in a Finland. By seeking out more international clients, they can hope to ride out the stagnant local economy and grow the company. However, they will always be competing with the large scale software houses, who can operate with lower margins and faster turnaround times as a result of using resources from cheaper countries such as India or Eastern Europe. Understanding the value proposition that they

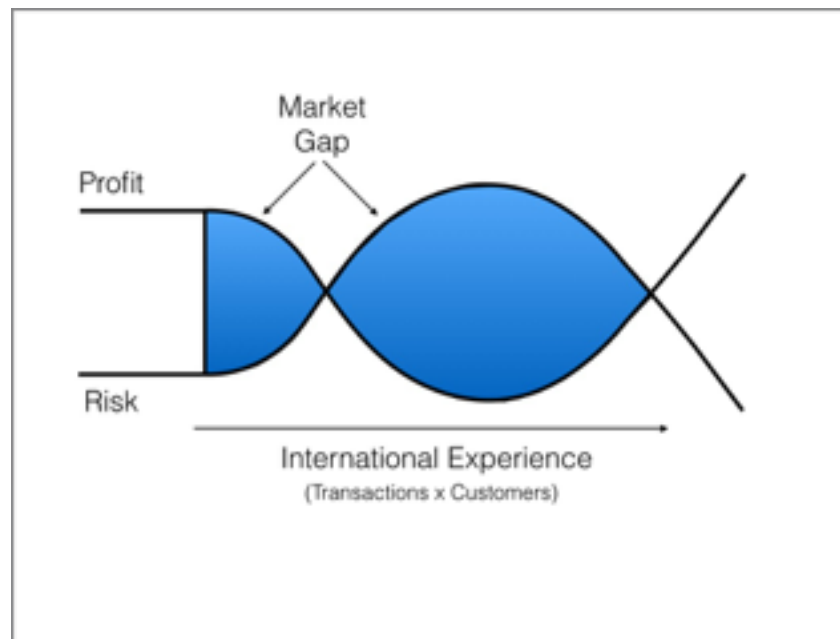
have is therefore critical to obtaining success abroad. When faced with these threats to even a domestic only market, the desire to be proactive and internationalise in order to grow and survive seems obvious.

There are going to be many concerns about internationalising which should be analysed at this point, since clearly these have a significant effect on whether a company is prepared to do business abroad or if they are forced in to it in a reactive way. Some of the concerns may include learning new ways of doing business, strategic changes such as service delivery, compliance and regulations, evaluating the preparedness for international trade, start up problems such as finding and communicating with new customers and finally dealing with international transactions and documentation (Czinkota et al, 1999, 368).

There clearly needs to be a strategic analysis performed by the Finnish SME's ahead of any decision to internationalise and the results of this analysis should be built into the strategy. Based on anecdotal evidence and the authors own experience, Finland is traditionally a very risk averse society, so this needs to be taken into consideration when understanding how exposure to both risk and profit can be affected by internationalisation. While there may be many concerns about whether or not to become international, there is an interesting point made by Czinkota et al (1999, 372) that states:

Domestically, the firm has gradually learned about the market and therefore managed to decrease its risk. In the course of international expansion, the firm now encounters new and unfamiliar factors, exposing it to increased risk. At the same time, because of the investment needs required by a serious international effort, immediate profit performance may slip. In the longer term, increasing familiarity with international markets and the diversification benefits of serving multiple markets will decrease the firm's risk below the previous "domestic only" level and increase profitability as well.

This can be seen in Figure 6 below



*FIGURE 6. Profit and Risk During Early Internationalisation (Cziconta et al. 1999, 372)*

For a small software company, understanding what the risks are when looking for foreign customers is crucial. Software companies like this are fortunate in that they do not have such high levels of risk as for companies who may need to invest heavily in a foreign venture such as a manufacturing company. This type of venture who need to set up a new plant or even office in a new country.

One other point that may explain why the new breed of SME's are not being as successful as they could be is to do with the entrepreneurs and employees previous international experience. Most, if not all of the high tech start-ups in Oulu have some previous connections to Nokia. For many years, they were a global powerhouse in the ICT sector as was such, the employees who worked for them, were in a very privileged position. Nokia were able to push their suppliers to work on very low margins and there was no shortage of suppliers willing to operate like this for a piece of the action. This meant that any international business that happened was with the luxury of the large organisation behind them. Following the collapse of Nokia, these same people are now faced with the prospect of working for small innovative companies trying to get their message

out. They do not have the negotiating power that they once had, and they have had difficulties changing their mindset from bigger player to small.

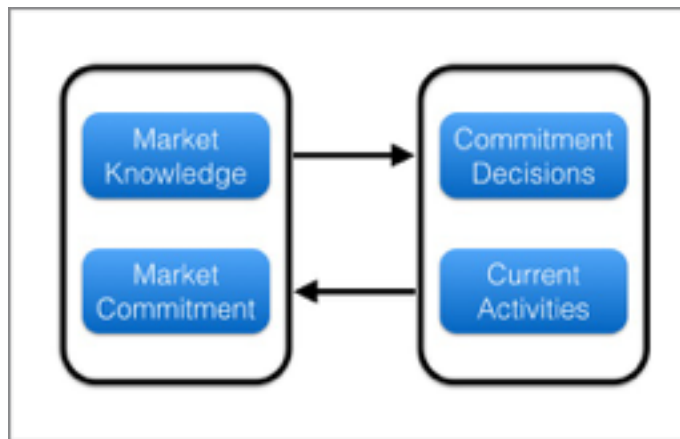
#### **4.7. How Do Firms Internationalise?**

Once a firm has taken the decision to internationalise, the methods of entry need to be assessed and developed within the strategy. One of the main features of all of the research is the need to increase knowledge and reduce risk. There are four steps which can improve the chances of success. Do lots of homework at the beginning. Plan on investing heavily in your overseas expansion. Tap into a network of professional consultants well versed in the quirks of international trade, and understand that going global is a long-term commitment. (Farrell & Updike, 1997.)

There are many reasons why a firm would take the decision to internationalise and take their products or services to a wider audience. According to Blomstermo & Deo Sharma (2003, 6) the process of internationalisation could be seen as a matter of knowledge development. Each step was based on the limited knowledge the firm had. But each step also meant that the firm learnt something new, that could itself form the basis for another step later on.

Trying to understand how a firm should go about the process of internationalisation is not so straight forward, as Blomstermo & Deo Sharma (2003, 4) note. They found that in their research, there was often a considerable difference between the received theories about firms and the actual firms. There was a clear difference between how the firms approached the problem and the theories presented to them. Often the company executives were more interested in running their business in their own way, than by following a theoretical process. This leads to the concept that experience is a key factor in deciding whether a firm is to internationalise. Having the knowledge, experience and commitment to internationalise is therefore going to be a gating factor for many SME's looking for new markets.

One of the best known models for how a company internationalises its operations is The Uppsala Model. The model consists of four mechanisms which can



*FIGURE 7. The Basic Mechanism of Internationalisation - State and Change Aspects. (Johanson & Vahlne, 1977, 26)*

be seen in Figure 7. These operations consist of two aspects, namely state and change aspects. There are two state aspects which are resources committed to foreign markets, market commitment, and knowledge about foreign markets possessed by the firm at a given point of time. The reason for considering the market commitment is that we assume that the commitment to a market affects the firm's perceived opportunities and risk (Johanson & Vahlne, 1977, 27). The change aspects consist of current activities and decisions to commit resources to foreign operations (Johanson & Vahlne, 1977, 28).

The Model outlines four basic steps of international market entry, and is commonly known as the establishment chain. Firstly, there are no regular export activities; Secondly, exports are carried out via independent representatives or agents; Thirdly, the establishment of sales subsidiaries and finally foreign production and manufacturing. (Johnson & Turner, 2003, 114). The Uppsala Model also makes three assumptions. The first being that a lack of knowledge is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad. (Johanson & Vahlne, 1977, 23). Secondly, that decisions and implementations concerning foreign investments are made incrementally due to market uncertainty. The more the firm knows about the market, the lower the perceived mar-

ket risk will be, and the higher the level of investment in that market (Forsgren, 2001, 6.) The third assumption states that knowledge is highly dependent upon individuals and therefore difficult to transfer to other individuals and other contexts (Forsgren, 2001, 7). There are some limitations to the model in terms of some of the things that it does not address such as different forms of market entry such as franchising, licensing or strategic alliances (Zohari, 2008, 3-4).

#### **4.8. The Business Development Process**

There are many companies and agencies providing International Business Development Services. These consultancy companies offer ways to either speed up or introduce the necessary market knowledge discussed in the Uppsala model to the companies. Often the consultant acts as a catalyst for change, and once he has delivered a report, or made his recommendations, it is up to the company to implement these and the consultant leaves. Erikson & Hagelin (2008, 5) describe the basic business development process as being linear. While there may be points throughout the process where some kind of reflection is carried out, such as a project meeting, the process has a clear beginning and an end. The end product may be some kind of report or plan, which the company will then have to go and implement.

This chapter has shown that the process of internationalising is primarily one of increasing knowledge about a new environment. In addition, using the Action Research approach alongside the systems way of thinking, has shown that the whole environment are a series of learning feedback loops. In the following chapters, a real life situation is analysed, and a new method developed which may help small companies in their international ambitions.

## 5. SELECTION AND DATA GATHERING

In order to explore the ideas that had been discussed ahead of the project, it was necessary to find a local company who would be willing to start working internationally. One early question to be considered was, what kind of company would suit this kind of project? This was very important, since the choice of company would dictate how large the project was to become and also the end results. If there is a lot of work to do initially, to prepare the company for internationalisation, then the opportunities for internationalisation within the time frame may be limited. Also, if the company has already spent significant resources developing their international strategy with some degree of success, then this may not give the best results either. Finding the right balance would therefore have far reaching implications on the outcomes of the whole project. This selection process was seen as important at this stage but would not be so important later on as the methodology would need to be successful for all types of SME regardless of what stage of internationalisation they are in.

The aim was to find a typical example of a Finnish technology company that are heavily focussed on the technical aspects of product development. A company who have not put as much focus on the marketing and business development side of their business as the technological development. The company should be reasonably well established and have a sound financial base with good products and reference cases from existing customers in Finland. The company should be able to demonstrate their flexibility and willingness to change if required, since this flexibility may well be called upon in the future to make fast changes if a new customer requires it.

By choosing a relatively well-established company, the amount of internal development work that may be needed to get to the international ready stage can be limited. This allows the project to move swiftly to the intended goal, which is to enable them to successfully start doing business abroad. There will be room for further study in the future by choosing a start up company that may not have



a fully developed product or clearly defined market strategy. For the scope of this thesis, it would be too large a task.

The chosen company are a software development and services company. They were established in 2006 and have approximately 25 staff, mostly based in Oulu, with a second office in Helsinki. They have been reasonably successful in the domestic market and have created a good customer base, but have not been successful on the few occasions when they have tried to look abroad for business. The business structure is very lean, and the only sales or business development resources are the top management. This is a typical scenario for many companies in Finland, where the focus is on the very high technical skills of the developers and management, at the expense of a compelling value proposition and basic marketing message. When a company is set up like this, they become very reliant upon their existing customers, but struggle to find new ones outside of their home region. This puts them at the risk of their customer's economic situation who may be inclined to reduce their own costs quickly by reducing the amount of money they spend on external services. This has directly affected the company in recent years with the downsizing of Nokia's business, who were their largest customer for a long time.

During the early discussions with the CEO, it became clear that the company were almost completely focussed on developing products for existing customers, without much thought given to marketing or strategic business development. The CEO described his strategy for finding new customers as a 'shot-gun approach which concentrates on the cases that he hits'. This approach may be successful in the domestic market, where reputation and local knowledge means that they might have a competitive advantage in that market. However, as a small company looking to establish itself internationally, this approach will never be so successful. The competition will be much fiercer, and the reputation will not be established making the task all the more difficult.

When working with existing customers who know the company's capabilities, strong business relationships have already been created. There is not such a big need for developing the value proposition and selling the skills and services.

However, in order to bring in new customers who do not know anything about them, or their skill set, the need to sell the company better becomes more critical. There are many software services companies around the world who specialise in doing things quicker and cheaper than anyone else. The key to the company's success is to successfully differentiate themselves from all of the other companies and find a specific niche market. There, they can use their references to demonstrate their competence. If they try to compete with the countless other companies around the world, they will certainly fail, and the international efforts will prove to be expensive with little to show for the effort.

Once the decision had been made to work with this company, it was important to get a good understanding of where they were in terms of how they present themselves to potential new customers. This was done by meeting with several key employees on a regular basis and slowly building up a picture of how they operate. There was also an initial discussion with a UK based business development consultant at the start of the project. Everyone was introduced and the company explained how they have been operating. Throughout the whole project, data was collected by way of informal meetings and discussions. The information would then go into a journal and targets were set which were agreed between the company, the researcher and the UK based consultant.

Very early on in the discussions, it became clear that an interesting segment to focus on would be the banking sector. It is an area that the company have plenty of experience in Finland from, but as yet, nothing abroad. It is also a sector that would be interesting to explore, since London is a Global financial centre with plenty of opportunities. This was the starting point from which the team could go into more detail about the work they have done in the banking sector. Who they have worked for, what problems they have solved, what are the problems that the banking sector in Finland have seen and what are the problems facing the banking sector in general. As the meetings progressed, more information became known and it became clear how to present the information. The company had normally presented themselves in terms of the hard skills that are within the company such as specific programming languages or front and back-

end development skills. A first draft presentation was created and sent to the UK consultant for evaluation. This was then refined and improved as more information was revealed.

The data gathering for this project has been an interesting challenge, as it was unclear at the start, what data was needed and in what format it would end up being presented. A starting point needed to be established with the company where as much information as possible can be gained from them about how they want to create new business, and where they thought that things have been successful and where things need to be improved. By evaluating the current situation inside the company, it was possible to gain a better understanding of how prepared they felt about finding new international customers.

### **5.1. Initial Situation**

During the initial discussions, it was very clear that from a technical perspective, the company are World Class, with some of the most highly skilled Mobile developers in the industry. This is something that they are rightly very proud of. The problem that was identified, however was that their marketing material did not focus on this, instead, they have chosen to sell a 'menu' of skills and areas where they have experience. When asked what his company did, the CEO replied, that it could do 'Anything you want'. While this statement may be true, it is not very helpful for a potential customer who may not even know what they want. There seemed to be very little understanding that if a customer needs to hire their services, then they must be in a position to guide them through what they can offer as opposed to leaving the decision to the customer who may not know what they need.

The company have regularly attended Mobile World Congress in Barcelona. Mobile World Congress is one of the largest exhibitions for the mobile industry with companies attending from around the world. The costs can be quite high to have a stand at the event, but the company received support from the local business support agency, Business Oulu. As the first interviews were taking place, they were planning their 2014 trip. During the discussions, it emerged

that the main objective of attending the event was to network with other Finnish companies. As Ira Kalb (2014, date of retrieval 08.10.2014) comments,

To overcome the “best kept secret” syndrome, it would help Finland to realise that the concept of “if you make it, they will come” is only found in movies. The benefits of Finland need to be actively marketed. That means they need to be highlighted in headlines, and not buried in the body text of communications.

This is clearly true in this company’s case where the belief that because they have the best talent in the industry, they only need to network within the Finnish business community. This is a very expensive way to maintain the status quo and merely gives the impression of actively marketing, as opposed to having a clear and focussed plan to grow the business outside of Finland. The need to expand beyond Finland’s borders and look for new business opportunities becomes more critical every day in an economy, where more and more Finnish companies are announcing redundancies. The overall economic outlook is one of long term stagnation, with many Small Business Administration areas showing no improvement for the last six years (Enterprise and Industry 2014 SBA Fact Sheet Finland, 2014, 1).

Another aspect of the company’s strategy that limits the growth potential of the company is charging of an hourly rate for 95% of the work they do. While this creates a predictable income when all available resources are utilised, it can be very damaging if any of the resources are not being fully loaded. This leaves the company vulnerable to the economic fortunes of their customers and makes any growth strategy risky. The need to recruit new employees becomes completely driven by the requirements of the customers and not by the long term strategy of the company. The company need to modify this strategy by negotiating a share of their customer’s success as well as looking to form a team that could create products and Intellectual Property of their own. This would give them greater stability and less reliance upon outside influences. During the interviews it was discovered that the company had done some key financial software activities for a gaming company who went on to have a hugely successful game. The game has made them many millions of Euro’s around the world, but

unfortunately, the company only took the hourly rates for the work that they did and were not able to capitalise on the success that they helped to create.

During the interviews, the company website was analysed. While it gave a positive image of the company in terms of it being a nice organisation to work for with plenty of benefits, it had a number of areas that let it down when it comes to drawing in new customers. The website cites many reference cases for their work in the Application (App) development field. However, many of the apps are stand alone products that are not connected to the company's main area of competence, namely the Banking sector. The website does not even mention the banking sector as a competence – let alone a key part of their business.

Throughout the course of the interviews, it became clear that the message was not being delivered to the customer clearly. The business model was not allowing the company any flexibility to explore new areas and develop potentially valuable in house products that could be marketed either to their existing customers or beyond.

## **5.2.Previous International Experience**

Understanding the previous success and failures of a company gives a good insight into how they go about looking for new business. During the interview process, the discussions often focussed upon where the business has been doing well, and where they were seeing difficulties. With regards to their attempts to internationalise, it was clear that there was a difference in what the customers were looking for and what the company was able to offer. This indicates that perhaps, the customers were not aware of the company's high technical competences and that other factors, such as speed and cost were seen by the customer as more important. This is a fundamental problem where the customer have not sold their value proposition to the customer, and the customer does not understand what is being offered. According to Cadle, Paul & Turner (2010, 92), value propositions summarise why customers choose to work with certain organisations, and what the customers want from each of them. Where

there is a competitive market the value propositions also help to identify why a customer would purchase from one supplier rather than the other. Cadle et al (2010, 93), give an example of a value proposition, that considers the reasons why different groups of customers choose to buy their weekly food shopping from one supermarket rather than another. One group requires a supermarket where the prices are competitive and the range of products extensive. Another group, reasonable prices are important, but high product quality is vital. A third group requires a supermarket that is local and does not require them to travel. Price is a factor, but location and ease of travel are more important.

As a result of this, different customers for any given organisation may have different value propositions (Figure 8). Whether that is the company owners and management, end customer or the companies partners or resellers. They each have a different perspective and opinion of what is important.

		<b>CUSTOMERS</b>		
		<b>Owner</b>	<b>Partner</b>	<b>End Customer</b>
<b>VALUE CATEGORIES</b>	<b>Timing</b>	Timing of receipt of financial reports and returns	Timing of receipt of information or goods	Timing of receipt of products/ services
	<b>Financial</b>	Level of dividend	Discount rate	Price of product/ service
	<b>Quality</b>	Reputation of organisation	Quality of service to partner	Quality of product/service

*FIGURE 8.* Types of Value Proposition (Cadle et al, 2010, 94)

The company have built up a very solid base of customers within the Finnish banking sector, and they have a high level of retention of existing customers which does lead to further projects. This indicates that once they have made an agreement with a customer, they are able to provide good services and customer care. However, this is only happening in the Oulu area. Their efforts to find new business in the Helsinki region, has also proved difficult for them.

Clearly, they have happy customers locally, but there is a real difficulty convincing new customers of the benefits of working with them.

This leads to the conclusion that while they are indeed a company with an exceptionally high skills base, with impressive references in the Banking sector, they are struggling to promote themselves and their offering successfully. In the current economic environment, this makes them far too reliant upon existing customers in the Oulu area who are also finding these times very challenging. In order to improve this situation, a new approach to the problem is needed that addresses the value proposition of the company to potential customers. Understanding the requirements of the customers as well as packaging the skills and competences of the company is key to them finding new customers internationally as well as domestically.

## 6.DEVELOPING A NEW METHOD

Developing a new method to better help Finnish companies internationalise has required a good understanding of the Finnish business culture in order to focus on where they need to improve and how they present themselves to prospective foreign customers. Often companies attempt to sell their products or services abroad without them being ready, or without performing the necessary background work to ensure that they understand the market they are trying to enter. For instance, is the price right? What are the customer's expectations? Who are the competitors in the new country? Are there any cultural factors to be aware of? Many of these questions should be understood before any attempt at internationalising is started.

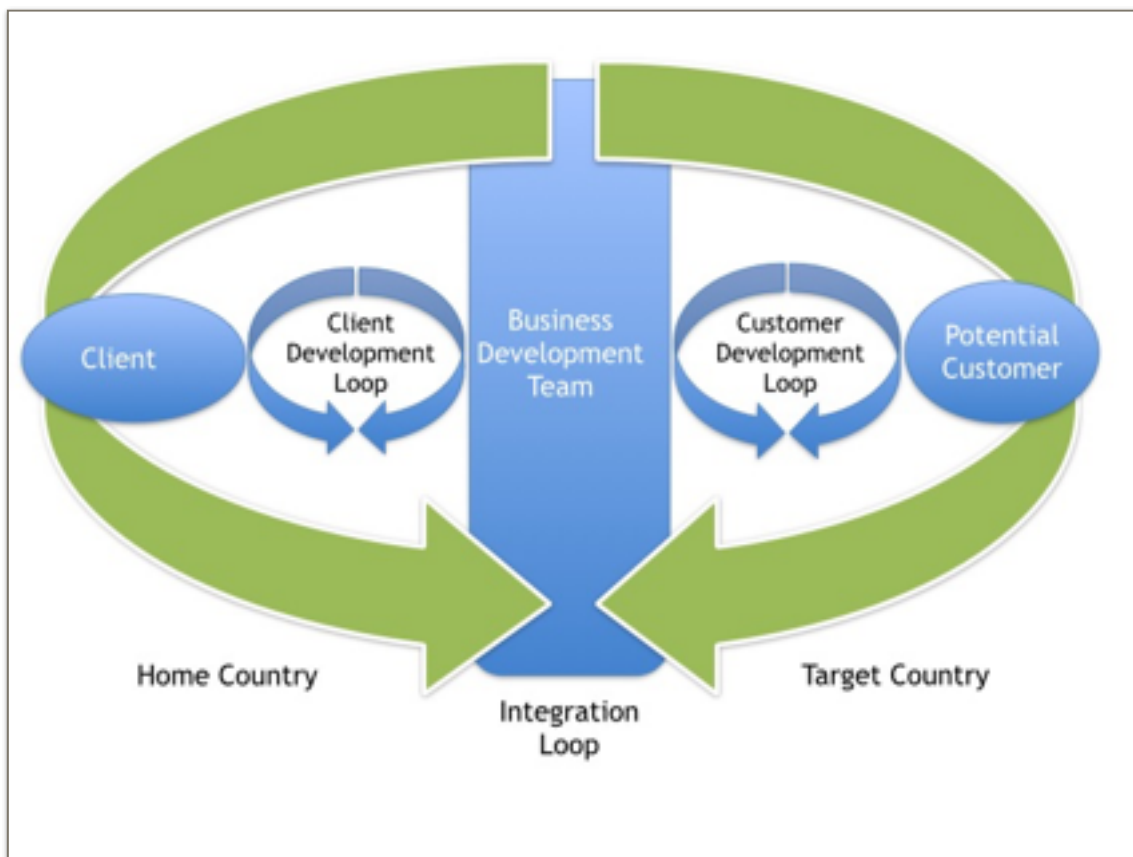
Choosing which country to start internationalising towards may have an impact on the success or failure of the endeavour. The Uppsala model gives is an incremental approach to internationalisation, where a given level of market knowledge and market commitment at a certain point in time then affects the commitment decisions and how activities are carried out in subsequent periods. In turn, these decisions and activities will influence the later stages of market commitment and market knowledge in an incrementally evolving spiral (Forsgren & Hagström, 2007, 5). The learning process therefore needs a starting point so that the knowledge within the company can be established and the strategy developed. The Uppsala model also discusses the concept of 'psychic distance' which means that a company will begin working in countries that they feel closest to their own in terms of business law, business language, everyday language, level of development and the level of education (Blomsterno & Deo Sharma, 2003, 5). As the knowledge within the company increases, then this psychic distance will increase. Thus, when looking to assist a company in their first steps of internationalisation, this factor needs to be considered in order to make the company feel more confident about the process.



The aim of the new methodology outlined in this chapter is to improve the chances of international success for a company by creating an environment that encourages self-development before, during and after an international agreement has been made. The idea has developed from the study of Total Quality Management (TQM), which focusses on continuous improvement and controlling processes within an organisation. If a company can apply these same ideas to improving how they approach internationalisation, then the chances of them being successful will improve. While this thesis does not go into any TQM methods or tools, it acts as a starting point which shares many common ideas with Action Research and The Uppsala model.

Another factor that this process seeks to address is the reliance in Finland upon funding. It is the authors opinion that too much attention is given to looking for ways to get funding for a business whether that is from Government funding organisations like TEKES, or from private venture capital investment. While this may be an important aspect of business, it is being hyped at the expense of creating a good product which is then marketed and sold to paying customers. Without products and customers, there can be no revenue and no profit, and consequently, the business will never be capable of standing on its own in the international arena. This method seeks to address this phenomenon by looking to help companies find more customers from overseas who are willing to put money into Finnish businesses and consequently the Finnish economy.

Figure 9 shows how the idea can be divided up into three distinct development loops. In the middle sits an independent Business Development team made up of a consultant in both the home country and in the target country. The Business Development team take the role of the researcher in the Action Research model, and were part of the development process with both companies. The idea behind this team is to create a buffer that can work with the client and advise them on how best to approach a particular market, as well as developing a strong understanding of the clients business. Understanding the client company is the key aspect of this process as it enables the team to work on behalf of the



*FIGURE 9. The Internationalisation Method*

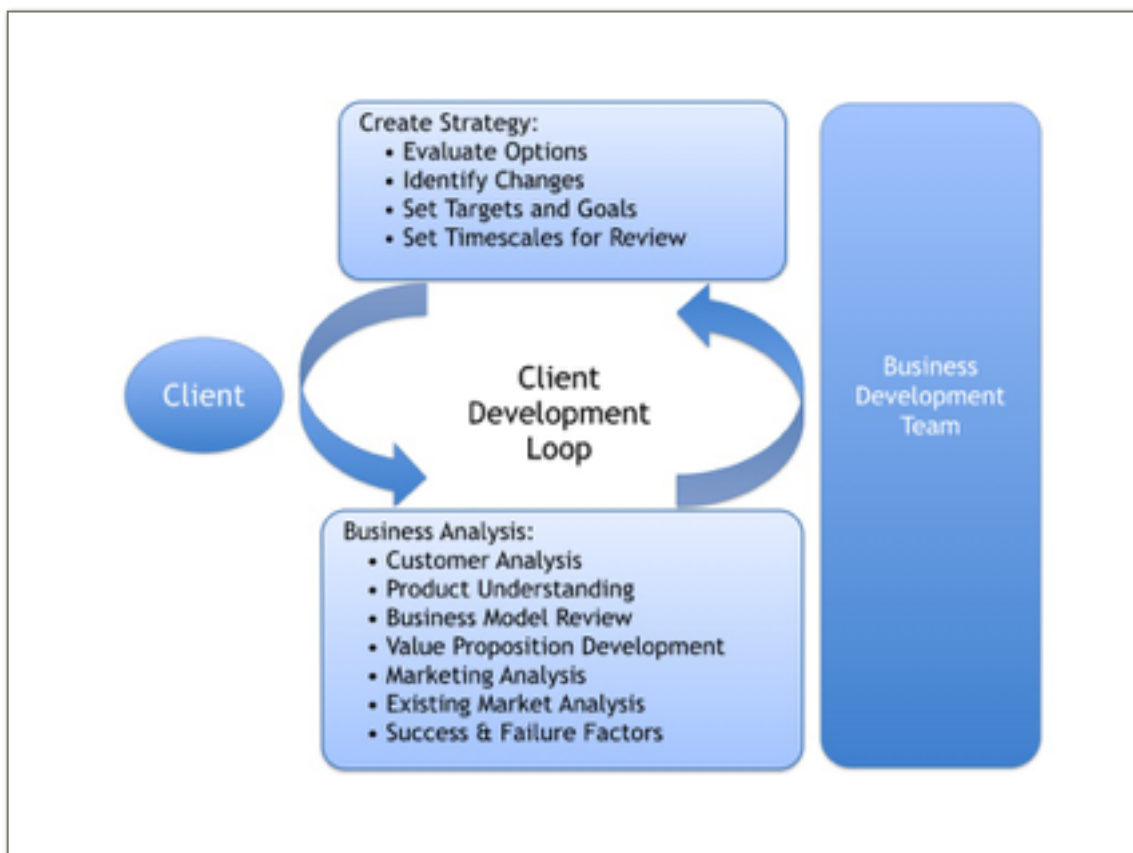
client in a much more focussed way. The method begins with the Client Development Loop.

### **6.1. Client Development Loop**

In order to be successful, it is important for the Business Development Team to fully understand the client. This first stage is very much a ‘getting to know you’ exercise. The Business Development team must find out from the client what they do, what are their strengths and weaknesses and why they want to internationalise their operation. They must also review the client’s marketing material, pricing and general offering, to determine what actions are needed in order to create the best possible value proposition with which to present to potential customers.

During this phase, the Business Development Team can start to divide their activities. One team member starts to work with the client company in order to develop the value proposition based on the findings of the ‘getting to know you’ phase. This may require the Business Development Team to set the client tar-

gets, which need be achieved before any introductions can be made to potential customers. It is vital to the success of the methodology that the client understands that before any introductions can be made, they must have products, services and a value proposition that is ready for their target country customers. These targets are developed with the client, and agreed together. The activities are based on all of the information gained from the client as well as the Business Development Team's knowledge of the markets and customers in the target country.



*FIGURE 10. The Client Development Loop*

At regular intervals, the team meet with the client to review the progress and if necessary set new goals or modify existing ones. The process must be flexible enough to adapt to any changes in circumstances. The Client Development Loop (Figure 10) is an individual Action Research Loop of its own, with the target being to make the company ready to begin international negotiations. By

creating this loop, the company can focus on what needs to be done in terms of creating the right conditions for internationalisation while at the same time guiding the strategy creation.

## 6.2. Customer Development Loop

While the client is busy developing their products, processes and value proposition, the consultant in the target country begins their work. By now, they have developed a good understanding of the client company's offering as well as their strengths and weaknesses. They also know what development activities are being carried out. With this information they can use their network to start looking for potential customers.

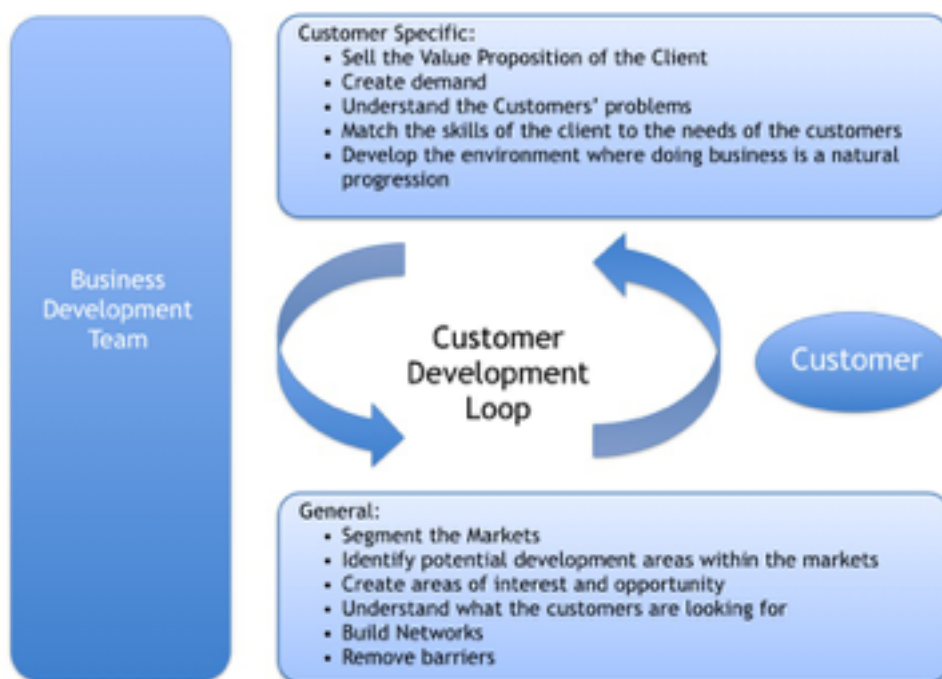


FIGURE 11. The Customer Development Loop

Before a specific customer has been located, a great deal of general background work should be done. These are shown as General activities in Figure 11. It is important for the consultant to have a clear idea of his areas of inter-

ests and what the problems are within those areas. Using networking and local knowledge as tools to identify areas for potential development and opportunity, the consultant can create demand where there may not have originally been any and approach specific companies whose requirements may be a close match. One of the biggest barriers to internationalisation is knowledge, as described in the Uppsala Model. This is clearly a factor on both the client side and the potential customer side. If the customer is aware of a specific problem, then the consultant can help them resolve this problem by connecting them with the client side company who may have the necessary skills and expertise to help. By understanding the problems that the potential customers are seeing, it is then possible to feed back this information to the clients, and for them to create a more targeted proposal which directly addresses the specific challenges being faced by the customer. This in turn gives the client the advantage of knowing exactly what is required, how they can help, and even offer advice on ways to develop the relationship.

Much of the work in the Customer Development Loop centres around the ability of the consultant in the target country to understand what the client is offering and use his network to identify potential customers as well as seeing the opportunities in the markets, identifying the needs, wants and requirements of the market.

By having an in depth knowledge of potential customers and clients, the consultants are able to know how best to introduce the client to the potential customers. During this phase, both the consultants in the home and target countries need to be discussing the progress of the client as well as the customer search. If new information is discovered in the customer loop that affects the work in the client loop, then it must be communicated quickly so that any necessary changes to the plan can be made. Once again, the role of Action Research combined with the theory of growing the level of knowledge is a key factor in this process. Every time a piece of new information is received, it becomes part of the learning cycle about the customer and the client. The next phase of the process is to draw both parties together at a time when the prod-

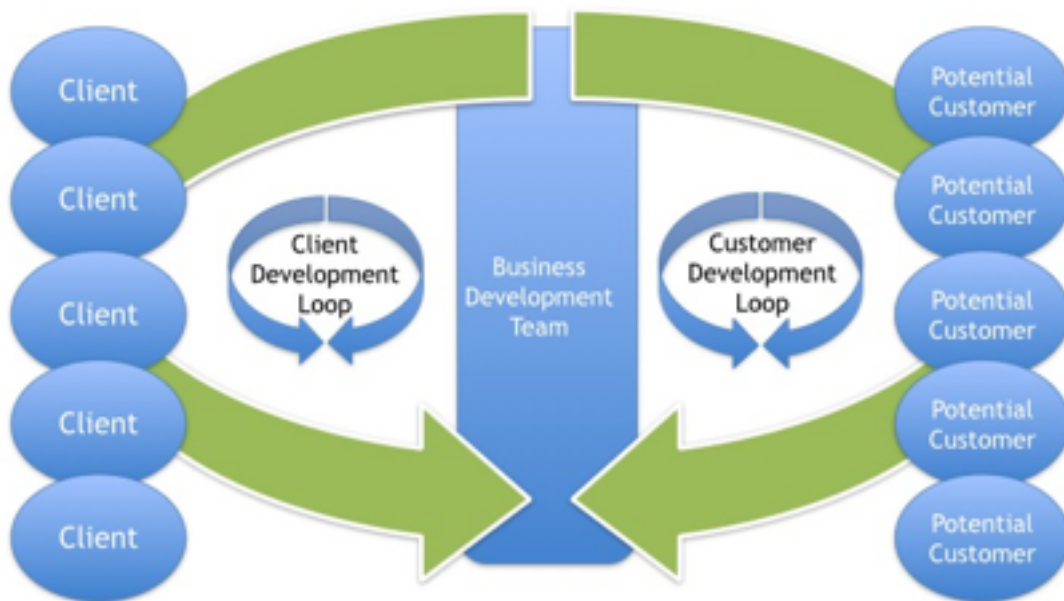
ucts or services that they are offering, match the requirements of the customer. The client now has an advantage over any competitors because they have been able to shape their offering to match the customer's needs. This can only have the effect of boosting the chances of success and reducing the risks that the client sees.

### **6.3.Integration Loop**

The final stage of the process happens when the consultants are satisfied that the client has reached a level that shows that they are ready to begin selling their goods or services abroad. By now, the consultant in the target country has located a potential customer who has shown an interest in either the products or services that the client is offering. The situation now arises where there is a client, who is ready to do business abroad, and a potential customer who has some awareness, interest and requirement in the products or services that the client is offering. This is the stage where the client and customer need to be introduced so that they can start to speak directly to each other. The consultants are still be part of the process to facilitate the negotiations and smooth over any cultural differences or problems that may arise. Having the business development team in place at this stage helps both sides arrive at an agreement that is mutually beneficial in terms of value for money for the customer and profitability for the client. The main role of the consultant in all phases of the process is to remove the barriers and develop the environment where clients and customers can begin to do business without having to first figure out if there is an opportunity or not.

### **6.4.Expansion of the Process**

The key to expanding the methodology relies on a network of consultants in various countries. With a small number of consultants, it is possible to cover a very large geographical and economic area. As the network expands (Figure 12), the process can begin to work in both directions, with the network being able to connect companies in multiple countries together. Once the consultants have a clear idea of what areas they are going to focus their attentions on, they



*FIGURE 12. Expanding the Process*

can actively seek companies from within the network to fulfil the requirement. Whether this comes from the client side offering products or services or from the customer side where a particular requirement or pain point is causing them problems, the consultant can then move to connect in either direction with the company that can best resolve the particular problem. Whether that is to find a customer for a client, or to solve a problem for a customer by connecting them with a client.

## 7. DESCRIPTION OF DEVELOPMENT TASK

The main objective of the study is to take a company that has been successful in the domestic markets, but have either not tried, or had difficulties when looking to internationalise. It is clear that in order to be successful in a new market area, it is important to not only understand the market that you are looking to enter, but more importantly, how you are showcasing your company and the products. In the Oulu area, there have been many trips organised by Business Oulu to various events and exhibitions around the world, these include Mobile World Congress in Barcelona, Arab Health in Dubai, Ad Week in New York and CommunicAsia in Singapore. These have been subsidised by the City and it is a very easy way for companies to get abroad. However, if the company have not got a clear value proposition and strategy in place for going to specific markets, then these events will have a reduced probability of success. Often the companies go to the events and come away with very little to show for a week of very hard work. This can, not only be disheartening, but also expensive in the long run. The idea of this study is to develop a method that can increase the chances of being successful when entering new markets by taking a more reflective view of what is being offered. Looking at the reasons for success and failure is also something that can provide the company with a more insightful look at how they have been operating.

In the previous chapter, the new iterative methodology was introduced. This chapter discusses how this was applied to the company's business. Focussing on the banking sector was an straightforward decision, since it was an area that the company have vast experience with. This was also an area that the UK based consultant had shown interest in. He had highlighted a number of areas where there were unresolved problems that the UK banks were seeing. Taking this information and matching it with the company's experience would give the project the initial direction it needed to best showcase their value proposition.



## **7.1.Website**

When approaching a company for the first time, almost always, the initial contact will be via their website. There could be any number of reasons for visiting a company's website, which is why it is so important to make a good first impression as quickly and simply as possible. This, however, is easier said than done. The company's website is professionally built, and on first inspection, provided a good introduction to the company and what they do. However, as the discussions and meetings progressed, it became clear that a large part of what the company did, was not being mentioned. 50% of the company's turnover is generated through the banking sector, yet they were hiding behind a wall of confidentiality from their customers. The site did show plenty of reference cases from nine different Apps that they have been involved with, ranging from ice hockey to music and media. There was nothing in the pages to suggest that they have any competence in the banking sector. Part of the development of the overall value proposition for the company involved updating the website to focus more on their achievements in the banking sector. By hiding it behind a wall of confidentiality the company are underselling their offering and their skills. One of the first recommendations was to update the website to show a series of stories that highlight particular areas where they had solved a major problem for one of their customers. These stories do not need to mention any customer names or confidential information, but by including this information with some supporting evidence such as the number of people using a particular piece of banking software, or the number of times a game has been downloaded gives the reader a very clear sense of what the company is capable of. Feedback from the first potential customer who went and viewed the site, confirmed this feeling. As a banking company, they were surprised not to find any information about their banking credentials and experience. It was therefore important to provide this information to the potential customer in another way.

## **7.2.Promotional Material**

Brochures should be a way for a company to provide a brief outline of what they do. It should be concise and easy to read without having too much text to read.

If the brochures are being handed out at events, then the recipient needs to be able to skim the brochure in a few seconds and make a decision on the company before putting the brochure in a bag. For the company, the promotional brochure focussed more on the collective skill set of the company. While there was a reference to the banking sector, again, it was not discussed due to confidentiality reasons. While it may be an important aspect of the company's image of itself that it can list all of the different programming languages and skills that the company has, this may not be what potential customers want to see, and the chances of a potential customer wanting to read through a list of skills seems to be quite low. The brochure should mirror the information on the website but with much less detail. Short sentences with just information to highlight the skills and experience of the company. The aim of the brochure should be to do one of a few things. The first would be to start a conversation at an exhibition where follow up action can be agreed, alternatively, to drive the person to the website for more information.

During one of the meetings, the company's trip to Mobile World Congress in 2014 was mentioned. When asked about their strategy for attending the event, their response was that they were going there to network with other Finnish companies. In fact, there were 85,000 attendees from 200 different countries, (Mobile World Congress 2014, date of retrieval 08.10.2104) which makes their strategy to limit the networking to Finnish companies appear somewhat insular. During the trip, they did speak with people from outside of Finland, but without a proper strategy for targeting companies within pre defined market segments, the chances of growing the business outside of Finland are not good. By improving the company message and developing a better strategy such as concentrating on gaming or banking, the company could have improved their chances of finding more customers.

### **7.3.First Discussions and Plan**

The first stage of the process centred around understanding the company's activities in the Banking sector. Three simple questions were developed to start analysing and understanding. It was hoped that this would bring out into the

open all of their activities within the sector so that the company story could be told more effectively. It was very important to tell these stories while ensuring that there were no breaches in confidentiality agreements that were held with their existing clients.

#### **7.4.What are the problems that the Company have solved?**

Once the interviews started regarding the work that the company had done in the banking sector, it became clear that they had skills and experience that would be very difficult to find in one organisation anywhere else. The experience ranged from several employees work in their former jobs at Nokia, where they held key project positions within the Nokia Money project. They had also developed a strong relationship with three of the Finnish and Scandinavian banks and had not only created applications for them, but also worked on the back end systems. This gave them a huge advantage if they could find a way to bring all of this information to a prospective new client in a way that maintains client confidentiality. By having this high level of experience and skill within an organisation and for them to be unable to present it to a wider audience had created a huge barrier on their ability to expand either internationally or domestically. Especially since half of their revenue is currently coming from the banking sector itself. The challenge facing this project was therefore to find a way to showcase the company's skills and experience in a better way. This would be the objective of the Client Development Loop that was introduced in section 7.1, and would take the form of a new slide set. The process of producing the slides would involve several iteration rounds which would not only fine tune the content from the company's perspective, but also to tailor the message to provide solutions to the problems that the wider banking industry were seeing. Further iterations would have concentrated on harmonising the message across all of their content methods such as the website and associated brochures.

#### **7.5.What are the problems that the banking industry are seeing?**

The banking industry is currently going through something of a revolution in many aspects. The growth of the internet has seen the emergence of internet

banking, mobile banking and most recently the mobile wallet and mobile payments. This has created a number of problems for the industry, with the key questions being - How can a bank or business be sure that the person is who they say they are? Also, many of the banks are using IT systems that are decades old. These systems have been working and are trusted by the banks even if they are a bit antiquated. The challenge the banks now face is how to connect these systems to newer systems while still ensuring the security and safety of their systems.

### **7.6.What is the company's business model?**

The company have a very conservative business model. They have created a structure that is heavy on the technical aspects, but lacks focus on the business development, sales and marketing side. The way that they make their money is by hiring out their engineering resources on an hourly basis. Many of the engineers are based at the clients premises and become part of the customer's development team. While this strategy may be good while the clients have the money to pay for outsourced developers, the problem with the strategy becomes clear during a downturn when the first people to go are the outsourced resources. This is something that Oulu has become very familiar with in recent times with the collapse of Nokia. This has affected the business on a number of fronts. Even if all of the resources are fully utilised, the model is still very conservative since the revenue generated is fixed. Once the 30 or so engineers are on projects, the company has reached a limit on revenue. The problem of how much each engineer can earn for the company comes into play. In Oulu, there is currently a huge number of engineers out of work and competition is fierce not only from other Finnish companies, but also low cost development countries such as India. This inevitably brings down the price that they can charge per hour for their engineers. If fixed costs such as rent, electricity or insurance start to rise, then the the resultant bottom line becomes worse and worse.

When asked what their long term strategy was, they replied that they were looking for organic growth. This is possibly a polite way to say that there wasn't a specific strategy or focus for the company and that any growth would occur nat-

usually without being driven in a certain direction by the management. In other words, they were relying on the principle of 'If we build it, the will come' which in the current economic environment is too Laissez Faire to be competitive.

Following the first discussions and review of the website and promotional material, the first item that was agreed, was to look at the value proposition of the company.

### **7.7.Value Proposition**

Creating the value proposition involved looking at a particular segment of their business and trying to understand how this can be better communicated to a potential customer. The chosen market segment was the banking sector as it is one where the company have a lot of experience. They were also able to back up this experience with valuable customer reference cases.

As was mentioned earlier, banking activities account for about 50% of the company's revenue. By analysing their previous activities and finding out what the problems facing the UK banking sector were, it was possible to build up an image that would accurately portray them as a highly skilled and experienced software house with a strong focus on the niche banking market. As the discussions progressed, many different stories came out and were documented so that a slide set could be produced which was tailored for presenting to a potential customer. The slides would answer the above questions with evidence of what has been done, and at the same time showcasing some of the more impressive projects that they have worked on. It was vital that the information was presented while maintaining customer confidentiality.

### **7.8.Customer Meeting**

Once the value proposition had been developed, the initial discussions with a UK based company involved with a new mobile wallet product could begin. The first discussions were between the author and the company's CEO, with the objective being to present the slides showing the company's value proposition and to also start to understand more about the customer, what they do and what

problems they are seeing. Often in the first stages of discussions, customers try to convince you that they have the best product on the market and are not seeing any problems or challenges. This is very rarely the case, and the challenge is to ask the right questions to get an accurate picture of the company. As the discussions progressed and trust started to form, the barriers began to come down and it was clear that there was a potential opportunity for the company to start working with this particular customer.

It was important to take the time to listen to the customer and try to work out how best to align his requirements with the client company. Over the course of several discussions, an area of interest was identified that may have given the opportunity to start discussions about developing a business relationship. The customer had stated that he was looking for a piece of functionality to add to his current product that the client company had first hand experience of. Once this was identified, the two parties were introduced first via a Skype meeting and then a face to face meeting was arranged in London. It was clear that the client company could help with the development of the functionality of the product, integrate new features that were not currently available and to ensure that the product was ready to go into high volume production. The customer also became interested in completely outsourcing the running of his software and IT to the client company. At this stage it was looking as if the client were going to be winning their first international contract with a company that were on the verge of launching a disruptive new product on the market. This would have had the potential to radically change the client's business.

### **7.9. Withdrawal from the Discussions**

As the discussions proceeded, it became clear that the customer was not in a position to begin the project immediately. He had a number of deals in the pipeline that once they were up and running, would be the source of his funding to start developing the product. The customer also offered a different business model to the client, which would see them forgoing their usual hourly rate model in favour of a revenue share model. During the early phases of the development work, the revenues would be comparatively small, but from analysing the cus-

tomers that were due to be signing agreements, the revenues for would have grown significantly to a point where their business would be growing very quickly. Because of the initial risks that the client may have been facing, the customer also offered a development fee on top of the revenue share in order to mitigate any risks that they may be exposed to.

However, the client felt that, for them, the risk was too great and they decided to walk away from the discussions. The client were concerned with what they saw as a lack of firm customers and the feeling that they needed to employ their resources elsewhere. Their perception that there was a lack of firm customers was unfortunately incorrect and one that they made without discussing with either the customer or the business development team. This led them to draw the wrong conclusions from what was actually a process that was merely taking longer than expected. Even after the business development team tried to understand what the problems the client were concerned about and to offer them answers and solutions, they had already made up their minds and decided to part company with both the business development team and the customer.

## 8.DISCUSSION

Starting to do business in the international arena is a time consuming activity. Results are not achieved in a matter of weeks but rather months. Typically the relationships must be built up gradually. Confidence and trust needs to be nurtured on both sides and this can easily take 6 months to a year to bear fruit.

To make decisions is to take risk. Decisions are based on insufficient information, because the most important piece of information (The Result) is hidden in the future (Laine, 22.11.2013, lecture.) This sums up quite nicely the final situation of this project, where the company were faced with what they perceived to be too much risk, and they made the decision to back out of the negotiations. The reality of the situation in fact, was that they had quickly earned the trust of the customer, and all they needed to do was show a little patience and understanding for the customers' difficult position and they would have been a key part of the product development. They would have been able to sign their first international agreement with a start up company that had a product that was ready to go to market and customers ready to start paying. The customer company looks set to be very successful with a number of customers already under contract and new ones in the pipeline, as well as significant interest from investors. In the authors opinion, this was a real opportunity, missed, through a fear of risk.

A lot of time has been spent trying to understand what happened. While the author may not have have been party to all of the information upon which the company based their decision to pull out, there does appear to be some evidence that the methodology proposed in this thesis, did work. A company that had not been successful at internationalising were able to develop their value proposition based on their achievements. They were also able to show that they were a company that could provide answers to some of the tougher challenges facing the banking industry. The customer was ready to commit to working with the company, and while there were delays, the customer are now about to start



receiving the first revenues from their customers. In hindsight, a better strategy for the company to have employed might have been to wait and see. While there were some costs associated with the project, they were not so big that they could not have waited to see what happens instead of making a poor decision in haste.

This project showed a number of very interesting points, which in themselves have been a huge learning experience. The biggest one of all, being that international business is not easy. It takes time, commitment, patience and a degree of determination to develop the right environment for two companies from different countries to feel comfortable doing business together. By using the process described in this thesis, the task of becoming an internationally successful company can be made significantly easier. It has not taken all of the risk out of the process, and nor should it. Business is about risk. Understanding risk and either mitigating it, accepting it, or withdrawing from it. The process benefits both the client and the customer sides by removing some of the barriers that are faced when looking abroad for customers, and it allows them the time to improve the value proposition before going face to face with the customer. Ironically, by placing up a new barrier, namely the business development team, the pressure on either side to get it right first time without all of the necessary information is significantly reduced. The business development team must have a good network of contacts who can help to connect the clients with the customers, but also, it is vital that they have the ability to lead the client in the direction of the customer. Many times, internationalisation fails because the client company may feel that their product is the best there is, when in fact the customer is looking for something slightly different. It is the business development team's job to highlight these differences and show the client that in order to succeed, certain changes are needed. Conversely, the customer may have to be led in the direction of the suppliers product. This is the elegant part of the process. The business development team are working to bring the two parties as close together as possible so that when they are introduced, many of the initial barriers to starting to do business have been removed and they are much closer to being able to do the deal than if they were meeting for the first time.

The theory and the research method presented in the thesis combined nicely in the development of the new methodology. The starting point for the whole research was to utilise the iterative nature of Action Research and the continuous learning put forward by the Uppsala model to create a cyclical system that could really benefit SME's. The big problem with many consultancy companies is that they use a linear model which firstly, doesn't allow for multiple iterations in the process and the very nature of the consultant is to act as a catalyst who gives their input and advice before leaving. The new method sees the consultants become part of the client team and the customer team which sees the holistic approach given by the Systems Thinking. By imagining the customer and the client as a single system with a boundary that was managed by the business development team, it has been possible to demonstrate that rather than the adversarial approach to sales and marketing, a more cooperative method was possible. By changing the focus an environment can be created, where both sides concentrate more on what they are offering and what the customer really wants. This results in a more reflective process that incorporates both the client and the customer as part of a single system. Further study in the field of Game Theory and how it could be applied to business development in general is also an interesting area to pursue. Essentially, this new method looks to bring closer cooperation between two potentially adversarial parties to improve the probability of a mutually beneficial outcome. This creates a more structured approach to the learning process described in the Uppsala model. If the learning is carried out as more experience is gained in a particular country or market, then logically, the company would be making mistakes and learning from these. By creating a more learning based environment it is hoped that the speed of learning is increased, while at the same time reducing the amount of mistakes made.

In order to develop the methodology further and confirm the initial findings of this study, it will be necessary to work with other companies in order to critically assess whether the idea can generate the results that are hoped for. As a direct result of this project, the author has started a small consultancy company with two associates. The company's main focus is on providing international business development services and there are a number of different opportunities

that could see the methodology tested in a real world situation. The first opportunity would be to investigate companies in the Oulu area that are working in the medical field. This is one of the fastest growing sectors in the region and there are several hundred companies from which to choose. One of the associates is based in Scotland and has strong connections into the National Health Service (NHS) in the UK. In order to find the right company that would be a good fit, the following criteria have been set. The challenge is to find new and trending technology that is ready for market or is already in use in Finland but not in the UK, has a massive appeal or can change or effect the care, health and life of people under the care of the NHS and can be either a product, service or technology. Cost will always be a factor, so there is a need to be mindful that the greater good is always balanced against cost. The benefits to the Oulu based companies is that they can be introduced to a market place that has 65 million potential users in the UK and then potentially beyond. The opportunity to working with Oulu based companies and prepare them to go into the NHS is extremely exciting. The NHS is a very large organisation that has strict requirements and policies that are often set by the Government. Therefore, it is crucial for the Finnish companies hoping to access this market to get it right first time. By using the connections in the UK and developing the iterative process, it is hoped that this can be successful.

A second potential project is in the gaming sector. One of the company associates has a close link to the South Korean game publishing market. As a result of this, a small group of companies from Helsinki and Oulu will be brought together to meet with the publishers on a forthcoming trip to Finland. The aim of the event would be to once again use the methodology developed in this thesis to understand the requirements of the Korean publisher before they visit, and to work with the companies in Finland to offer them training and advice on how best to go about meeting a new foreign customer. Particularly one with such a different cultural background. The challenge will be to understand the Korean market and find the companies that match this as closely as possible, or the ones that are willing to adapt to meet the Korean markets.

Both of these opportunities offers a chance to test and modify the methodology and find out where it is working or where it needs improving. What is clear is that the framework offers a learning opportunity to all parties involved, not just the client company.

## 9.CONCLUSION

The goal for the thesis was to develop a framework or methodology that could be used to help small and medium sized high-tech companies internationalise. While the practical side of the project did not achieve the results that were hoped for, they did deliver a very clear confirmation that the ideas presented were worth further study and examination. One thing that was learnt during the project that will require further fine tuning, is that of improving the initial starting points of both companies. In the situation described in this project, the client was not really ready to commit the time, resources and money to starting an international agreement. There is the possibility that they were looking to see if an 'easy win' could be found without committing to what was being asked of them. While this was primarily a research project, there was the potential to find significant opportunities for the client if they were prepared to fully commit to the idea and accept a certain level of risk. Unfortunately they were not able to do this. The author also needs to take on board the lessons from this situation and to try to better understand the challenges that companies in Oulu are facing. Is there a need to screen the companies more effectively so that they are more aware that the projects will require hard work from them, and not to sit still while the consultant brings them new customers ready to pay.

Looking at the project from the customer perspective, again, there is probably a need to further understand their position too. While the client decided to leave the project very early on, the author has remained in close contact with the customer and the situation does somewhat confirm the clients decision to leave. The customer has faced lengthy delays in getting his revenue stream up and running. Six months on from the client leaving, the customer is still not in a financial position to fund the work that he was looking to the client to do. Again, this needs to be seen as a learning opportunity for the author and the business development team, so that the customers' position is understood more thor-

oughly. The customer stated that the funding would be available within a few weeks, this continued for six months without happening.

This has taught the author that the starting positions of both companies is even more important to understand. Is the client ready for the process or expecting an easy ride? Is the customer in a position to pay for the goods or services that the client is offering? One of the overriding themes throughout this thesis and indeed the years of experience that the author has gained, is that international business is not easy, neither is it a quick process that can be rushed or taken lightly. It involves an investment in time, money and energy from all concerned if the outcome is to be positive. It is not a case of simply setting out your stall and expecting people to come in their droves to buy from you. It is about creating a strategy. It is about learning as much as you can about the target country you are going to. It is about preparation and being willing to adapt what you are doing when presented with some new piece of information. It is about accepting that there are risks and working out the best way to continue going forward and not giving in.

This project has been a very challenging but rewarding process. While a positive outcome would have been favourable to both the client and customer, the fact that events did not go as hoped for has meant that there are now more opportunities to develop the ideas further. Learning from the mistakes and working to improve the situation is a core part of Action Research and the ending of this particular piece of research is just the beginning of further research as the ideas are developed and refined. These ideas will now continue in the authors professional career and since the economic outlook in Finland has not improved in the two years since the idea started to form, it now feels like the right time to take the methodology out into the real world and try to improve the situation somehow.

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