Examining the environment for guiding SMEs throughout the assessment process of relevant strategic markets

Master's Thesis

to confer the academic degree of

Master of Science Global Business (MSc)

in the Master's Program

Joint Master in Global Business Russland/Italien
**Sworn Declaration**

I hereby declare that the master thesis submitted has been written solely by me, that I have not used other than the provided sources, and that all direct and indirect sources have been accurately credited.

The submitted document here present is identical to the electronic version submitted.

Asten, May 2018

Christian Karl Haunschmid
Acknowledgements

Foremost, I would like to thank a.Univ.Prof.in Dr.in Erna Szabo, MBA for being my academic supervisor, for her well-rounded guidance and all her support.

Additional thanks is warranted to a.Univ.-Prof.in Dr.in Iris C. Fischlmayr for steering me through the beginnings of my master thesis, for sharing her immense knowledge and for all her support until her unexpected passing.

Besides my advisors, I would like to thank all participants of the interviews for sharing their experiences and stories, which contributed significantly to my analysis.

I am also thankful for my fellows and friends for all the time discussing my ideas, and the valuable comments on this thesis.

My sincere thanks also to the CEO of ekey biometric systems GmbH, Dr. Leopold Gallner, for granting the permission to do the master thesis in the practical environment of ekey biometric systems GmbH, and for using internal company data for the analysis.

Finally, my profound gratitude to my parents Doris and Karl, and my sister Daniela for their continuous encouragement and all their support throughout the master thesis and the master’s program. Thank you.
Abstract

Internationalization is a broad research field with an extensive variation of sub-fields and a widely ramified network of terms and definitions. The internationalization patterns are one sub-field of interest, describing various ways how SMEs are implementing internationalization nowadays. The incorporation of the recent research streams internationalization stages and internationalization dimensions brings further light into the internationalization process of SMEs. Within the internationalization process, the market assessment provides the basis for international market selection decisions. Despite the prevalence of international market selection models, little is known about the influence of internal and external factors on the international market selection decisions and the market assessment. The concurring opinion of researchers (Simon, 2007, Brouthers et al., 2009; Rahman, 2013) is that current international market selection models insufficiently describe the internal and external environment and lack the incorporation of the internal environment into the market assessment. Especially, the description of the internal environment in the context of internationalization suffers from the use of superordinate categories and terms, instead of illuminating underlying factors. The aim of this thesis is, therefore, to determine the internal and external factors for the market assessment of SMEs, and pinpoint strategic factors with increased influence on the international market selection decisions. Next to revealing highly influential macro-, and meso-level factors, such as, the size of the high-class segment, the buying power, the consumption behaviour, the norms and regulations, the complementary products/industry and the low-cost industry for the market assessment of SMEs; the findings also revealed an extensive number of internal factors with high influence on market assessment and international market selection decisions (IMSDs). The high-influential internal factors revealed are: gut-feeling of the management, weighting of investments, the commitment of partners in the foreign markets, the resources of those partners, and the distribution experience of those partners, the geographic distance, Psychic Distance, language, the international heritage of the SME, and product-specific rules and regulations, market-specific budget, and the capacities of the management. Suggesting that market-specific costs, the capacities and qualification of the management, the language proficiency and the availability of local partners in the foreign market are strategic factors, this thesis provides a recommendation for SMEs to adapt their market assessment process and incorporate those contributing internal factors into IMSDs.

Keywords: Internationalization, International market selection decisions, SME, resource-based view, internal and external factors, market assessment
# Table of Contents

## TABLE OF FIGURES  
TABLE OF FIGURES ix

## LIST OF TABLES  
LIST OF TABLES x

## ABBREVIATIONS  
ABBREVIATIONS xi

## 1 INTRODUCTION  
1.1 Problem Definition  2
1.2 Method of the Literature Review  2
1.3 Structure and Purpose of the Literature Review  3

## 2 LITERATURE REVIEW  
2.1 Internationalization  6
  2.1.1 Traditional approaches  7
    2.1.1.1 Product Life Cycle  7
    2.1.1.2 Uppsala approach  8
    2.1.1.2.1 The revised model 2009  10
    2.1.1.3 Internationalization process model by Welch and Luostarinen (1988)  13
  2.1.2 Modern Approaches  14
    2.1.2.1 Roots of revolutionary thinking  14
      2.1.2.1.1 GAINS approach by Macharzina and Engelhard (1991)  14
      2.1.2.1.2 “Three-E concept” by Kutschker (1996)  14
      2.1.2.1.3 The “Ebenenmodell” by Swoboda (2002a)  17
    2.1.2.2 International new ventures  18
      2.1.2.2.1 Born Globals  19
      2.1.2.2.2 Born-again Globals  22
  2.1.3 Overview of the three main internationalization patterns  23
  2.1.4 Stages of internationalization  27
    2.1.4.1 Speed of internationalization  27
    2.1.4.2 A Stages Model of internationalization  28
    2.1.4.3 (Increasing) Internationalization  29
    2.1.4.4 De-internationalization  29
    2.1.4.5 Re-internationalization  31
      2.1.4.5.1 International experience  33
      2.1.4.5.2 Exit Process  33
      2.1.4.5.3 International time-out and re-entry  34
  2.1.5 Four dimensions of the internationalization process by Simon (2007)  35
    2.1.5.1 Motives of internationalization  36
    2.1.5.2 Market assessment  37
    2.1.5.3 Market entry mode  39
      2.1.5.3.1 Operation modes  41
      2.1.5.3.2 Target market strategies  41
    2.1.5.4 Product Scope  42
  2.2 Resource-based view  42

### Notes:
- vi: Table of Contents
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2.3.3</td>
<td>Product-specific factors</td>
<td>92</td>
</tr>
<tr>
<td>4.2.3.4</td>
<td>Knowledge</td>
<td>93</td>
</tr>
<tr>
<td>4.2.3.5</td>
<td>Capabilities</td>
<td>94</td>
</tr>
<tr>
<td>4.2.3.6</td>
<td>Liabilities</td>
<td>94</td>
</tr>
<tr>
<td>4.2.3.7</td>
<td>Financial resources</td>
<td>95</td>
</tr>
<tr>
<td>4.2.3.8</td>
<td>Strategic orientation</td>
<td>96</td>
</tr>
</tbody>
</table>

4.3 Case Analysis: Findings

<table>
<thead>
<tr>
<th>Subsection</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3.1</td>
<td>High influential factors</td>
<td>98</td>
</tr>
<tr>
<td>4.3.2</td>
<td>Medium influential factors</td>
<td>101</td>
</tr>
<tr>
<td>4.3.3</td>
<td>Least influential factors</td>
<td>103</td>
</tr>
<tr>
<td>4.3.4</td>
<td>Comparison with the literature review</td>
<td>104</td>
</tr>
<tr>
<td>4.3.5</td>
<td>Questioning the internationalization process</td>
<td>106</td>
</tr>
</tbody>
</table>

5 CONCLUSIONS AND LIMITATIONS

<table>
<thead>
<tr>
<th>Subsection</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Conclusions</td>
<td>107</td>
</tr>
<tr>
<td>5.2</td>
<td>Limitations and Future Research</td>
<td>109</td>
</tr>
</tbody>
</table>

BIBLIOGRAPHY

APPENDIX A PESTEL ANALYSIS

APPENDIX B PORTER’S FIVE FORCES

APPENDIX C INTERVIEW GUIDE

APPENDIX D MAXQDA CODING
Table of Figures

| Figure 1 Literature Review Process                                                                 | 3 |
| Figure 2 Guideline for the master thesis                                                       | 4 |
| Figure 3 The basic mechanism of internationalization: state and change aspects                  | 9 |
| Figure 4 the business network internationalization process model (the 2009 version)            | 11 |
| Figure 5 Three E concept                                                                      | 16 |
| Figure 6 The “Ebenenmodell”                                                                    | 17 |
| Figure 7 A stages model of internationalization                                                 | 29 |
| Figure 8 Re-internationalization platform                                                       | 35 |
| Figure 9 The internationalization process                                                       | 35 |
| Figure 10 Growth strategies                                                                   | 36 |
| Figure 11 Motives of internationalization                                                      | 37 |
| Figure 12 Strategic Management – Overview                                                       | 38 |
| Figure 13 Strategies of international companies                                                 | 40 |
| Figure 14 market entry- and penetration models by resource commitment                           | 40 |
| Figure 15 Modes of resources                                                                   | 45 |
| Figure 16 Extension of the decision matrix                                                      | 47 |
| Figure 17 Strategic Process - List of tools                                                     | 52 |
| Figure 18 Porter's Five Forces                                                                 | 58 |
| Figure 19 Illustration of the linkages between RBV and resources of the IB literature          | 67 |
List of Tables

Table 2-1 Connectivity of homogenous and heterogeneous deep structures ................................................. 15
Table 2-2 Characteristics of the three internationalization pattern based on probabilities .......................... 24
Table 2-3 Characteristics of traditional, Born-Global and Born-again Global internationalization patterns .......................................................................................................................... 26
Table 2-4 Decision Matrix ............................................................................................................................. 46
Table 2-5 Possible Scenarios for the decision matrix .................................................................................... 47
Table 3-1 Comparison of the external factors generated from the External Environmental Scanning and IB literature .................................................................................................................. 60
Table 3-2 Discrepancies of the RBV literature ............................................................................................. 66
Table 3-3 Comparison of internal factors sourced from Internal Environmental Scanning and the IB literature ........................................................................................................................................ 72
Table 4-1 Overview of the response rates of the interviewees ...................................................................... 80
Table 4-2 Influence of the internal and external factors on market assessment and IMSDs .......................... 97
Table 4-3 Comparison of the results of the case study analysis and the literature review .......................... 105
Abbreviations

BG  Born-global
BAG  Born-again global
CE  Communità Europae
CCC  China Compulsory Certificate
CNIL  Commission Nationale de l’Informatique et des Libertès
CSIS  Center for strategic & international strategies
DOI  Degree of Internationalization
e.g.  Exempli gratia
et al.  et alia
etc.  Et cetera
EU  European Union
FDI  Foreign direct investment
FSRT  Foreign sales ratio
GAINS  Gestalt approach of international business strategy
GDP  Gross-domestic product
GNP  Gross-national product
IB  International Business
IMS  International Market Selection
IMSD  International Market Selection Decision
INV  International new ventures
MNEs  Multinational enterprises
NAFTA  North American Free Trade Agreement
OECD  Organisation for Economic Co-operation and Development
p.  Page
R&D  Research and development
RBV  Resource-based view
RMA  Repair and Maintenance
SMEs  Small and medium-sized enterprises
UN  United Nations
1 Introduction

“What should I do when we get an international order?” (Czinkota et al., 2004, p.1). In times of ongoing globalization, and as a result of the increased availability of goods through technology advancement, such as, the Internet, companies are challenged. Firms have to define new processes for demand outside the domestic market. It forces companies to look beyond their national boundaries (Leonidou et al., 2007).

Companies develop internationalization strategies, in order to define how to operate in other countries. The process of internationalization leads to the necessity to adapt the companies’ business strategies to different cultures and different business ethics (David, 1998). Different types of stage and process models were the initial approach to describe internationalization (Bilkey & Tesar, 1977), which are later put by Zentes et al. (2004) into the category of traditional models. Zentes et al. (2004) divide the internationalization approaches in traditional and modern conceptualizations. Former consists of concepts, such as, the Product Life Cycle of Vernon (1966), the internationalization process by Johanson and Vahlne (1977), also called the “Uppsala model”, or the “Helsinki international-model” of Luostarinen (1970), and addresses the export activities of mid-sized businesses at the beginning of internationalization.

The modern concepts, according to Zentes et al. (2004) are the “GAINS approach” of Macharzina and Engelhard (1991), the “Three-E Model” of Kutschker (1996), the “Ebenenmodell” of Swoboda (2002a) or the Born Globals. A common characteristic among the traditional and modern conceptualizations is the aspect of time. The traditional conceptualizations refer to an incremental, step-wise internationalization over time, whereas the “GAINS approach” of Macharzina and Engelhard (1991) describes internationalization as a radical and revolutionary process. A radical and revolutionary process is marked by skipping intermediate steps, due to the internationalization into psychically more distant markets, where higher amounts of resources are invested compared to incremental internationalization. Oleijnik and Swoboda (2012) base their study on internationalization patterns on traditional and modern conceptualizations, but also add a third concept, originally mentioned by Bell (2001), the so-called Born-Again Globals (BAGs).

Other scholars (Benito & Welch, 1997; Bell, 2001; Dominguez & Mayrhofer, 2015) have applied a longitudinal approach to internationalization. According to Bell (2001, p.174f), traditionally internationalizing SMEs can increase the speed of internationalization, due to the occurrence of critical events (e.g. changes in ownership of the management), and suddenly show Born-Global characteristics. As Born Globals tend to have a higher failure rate than companies applying a traditional internationalization model (Mudambi & Zahra, 2007), Benito and Welch (1997) discuss the stage after an unsuccessful internationalization and name it De-internationalization. De-internationalization appears to be partial or total, as firms withdraw from certain markets, and weaken their commitment or adapt their entry mode, due to internal or external factors (Dominguez & Mayrhofer, 2015). De-internationalization is, hereby, often perceived as failure rather than an intermediate stage for optimization (Trapczynski, 2015). Welch and Welch (2009) extend the literature by defining Re-internationalization, which is a re-entry into international markets. Hereby, firms can access their international heritage, if still existing, to benefit from their prior internationalization experience.

Recent studies on internationalization of small-and medium enterprises (SMEs)¹, tend to go away from describing internationalization of SMEs in a holistic view, and instead, narrow down the focus of

---

¹ “The distinction between SMEs and larger firms can be based on several criteria, and thus there is no unified definition of SMEs across the world” (Sandberg 2012, p.6). According to the European Commission (2018), enterprises with less than 250 employees, a turnover of less
interest towards the differences of internationalization into developing, emerging and developed countries (Dehnen, 2012; Caputo et al., 2016) or shifting the focus towards the influence of firm specific resources and capabilities on SME performance (Ruzzier et al., 2006; Ruzzier et al., 2006; Simon, 2007; Brouthers et al., 2009; He & Wei, 2011; Schu & Morschett, 2017). This thesis goes in line with the recent trend and picks up the statements of Simon (2007), who argues that resources and capabilities are not yet considered for market assessment. In order to understand why market assessment plays such a crucial role during the internationalization process, an adapted version of an internationalization process of Simon (2007) is illustrated in Subsection 1.3. Figure 2 acts as a guideline for the thesis.

1.1 Problem Definition

Schu and Morschett (2017) rename market assessment into international market selection (IMS), which refers to the actual choice of where to internationalize. The international market selection decisions (IMSDs) are based on the information gathered through the market assessment in the second step of the internationalization process, according to Simon (2007). IMS is influenced by the external and internal environment. Those environmental layers are further expanded by Wheelen and Hunger (2010) into macro-, meso-level and micro-level environment and exert varying influence on the market assessment, according to Rahman (2013) and Simon (2007), and on the commitment of companies in the foreign markets, according to Dominguez and Mayrhofer (2015). Hereby, researchers (Simon, 2007; Brouthers et al., 2009; Rahman, 2013) agree that internal and external factors are neglected, or insufficiently described in current IMS models, because, foremost, those IMS models name superordinate terms or categories without examining the factors underneath. This implicates a need for further research on this issue. The critical link, hereby, is the missing determination of internal and external factors influencing market assessment and IMSDs. Hence, following research question arises:

“What are the internal and external factors needed for assessing relevant markets for the internationalization process of SMEs?”

Hereby, the term relevant markets is favoured, due to the findings of Dominguez and Mayrhofer (2015), who state that (Re-) internationalization can be undertaken into existing and new markets. Hence, market assessment may be performed for existing and new markets.

1.2 Method of the Literature Review

In order to answer the research question, a profound literature review of the term internationalization is made. The challenge of systematic reviews is to create methodologically rigorous management research (Hodgkinson & Rousseau, 2009). Hodgkinson and Rousseau (2009) add that the process of systematic review increases methodological rigor by providing insights through theoretical synthesis into fields and sub-fields. The difficulty of systematic review in management research is that fields and sub-fields of different importance bear the danger of information overload, causing struggle in creating trans-disciplinary understanding (Tranfield et al., 2003). Hereby, the Chapter 2 and 3 follow the structure of Frank and Hatak (2014), as illustrated in Figure 1.

than 50 million Euro, and a balance sheet total of less than 43 million Euro are determining factors, whether or not, an enterprise is categorized as a SME.
The literature review of the thesis is conducted as Narrative Review (Collins & Fauser, 2005) of existing contributions, which address the current state of the art of the internationalization of small and medium-sized enterprises. The resourced-based approach, a framework emerged of the strategic management discipline, is recently put into the focus of the internationalization of SMEs to explain how specific resources are linked to successful market entries (Ruzzier et al., 2006). Hence, keywords used for narrowing down the topic of internationalization and guiding the author towards answering the research questions are “Internationalization of SMEs”, “Resourced-based view”, “market assessment”, “International market selection” and “Internationalization process”. Cross-functional research has been applied to receive state of the art contributions in the literature. Books and Online Databases, such as, EBSCO, EZB and LISSS, provide the foundation for the literature review.

1.3 Structure and Purpose of the Literature Review

The purpose of this thesis is to expand and explore the up-to-date elaborations on internal and external factors for the market assessment process of SMEs. The findings of this thesis enhance the market assessment process of SMEs by pinpointing several internal and external factors influencing international market selection decisions of managers, which so-far have been used, if any, under non-explicit, superordinate terms. The guideline of thesis is illustrated in Figure 2.

Chapter 2, hereby, consists of an up-to-date review of the literature on internationalization. This chapter outlines the different internationalization patterns and the varying speed of internationalization of the different internationalization patterns. SMEs sooner or later have to deal with demand outside their home country. Hence, SMEs are forced to define internationalization strategies. An internationalization process is conducted, which consists of four dimensions (Why? Where? How? What?). Due to the call of the subject related literature for further research on the examination of internal and external factors for the market assessment and on the influence of the factors on international market decisions, the focus of this master thesis lies upon the dimension “market assessment”. Subsequently, the resource-based view is introduced in Chapter 2, in order to illuminate the internal environment of SMEs.

Figure 2 further illustrates that market entry mode is following the assessment of the market, which is supported by Simon (2007). Subject related literature revealed that SMEs are able to transform their
internationalization pattern over time, which leads to different operation modes in the foreign country. Hence, this thesis is also considering this research field in Subsection 2.1.4 and 2.1.5.3.

Figure 2 Guideline for the master thesis

Chapter 3 delves deeper into the market assessment of SMEs. Current international market selection models are in disagreement about which factors are relevant for the market assessment. Especially the internal environment suffers from superordinate resource categories, which are difficult to seize or apply for SMEs. The examination of the internal and external factors of SMEs by using specific tools of strategic analysis is undertaken in the following.

Chapter 4 analyses semi-structured interviews to gain insights from managers’ experience. For the interview analysis, detailed subsections for the selected method, sampling, the applied semi-structured interview process and the data analysis process are provided in Subsection 4.1. The results are confronted with the results derived from the systematic review in Chapter 3. Hereby, the influence of external and internal factors on market assessment and on international market selection decisions is under investigation.

Conclusively, the master thesis discusses the findings and pinpoints the limitations and future research opportunities.
2 Literature Review

2.1 Internationalization

A historical review of the term internationalization shows that it is neither a modern nor a relatively young phenomenon. It is a phenomenon, which has accompanied societies for thousands of years. In the ancient Near East, for example, people traded copper, tin or other mineral resources into many parts of the world. This thesis, however, does not focus on the history of internationalization, but rather on finding a suitable definition for the concept of internationalization with special reference to small and medium companies.

Welch and Luostarinen (1988, p.36) define internationalization rather simply as “process of increasing involvement in international operations across borders”. Zentes and Swoboda (1999) agree and add that internationalization is a process of cross-border value creation. International expansion is a key research stream in the international business literature (Griffith et al., 2008; Trapczynski, 2015), which leads to a melange of different definitions and different terms in use.

Sousa and Tan (2015) discuss internationalization paths and distinguish between incremental and revolutionary development. Olejnik and Swoboda (2012) discuss the same differentiation under the term internationalization patterns. Dominguez and Mayrhofer (2017) use both internationalization paths and patterns to define their understanding of internationalization. Their main aim, however, is to add internationalization stages, a term, which refers to different levels of the firms’ commitment to foreign markets over time.

Internationalization dimension is another term that is often used in subject related literature (Welch & Luostarinen 1988; Macharzina 1982) and refers to different perspectives of internationalization. Hereby, the authors distinguish between the operation modes (export, cooperative modes or foreign direct investment), diversification (different markets), products (more than one product or industry sector), value addition by a foreign venture, and the integration of different sub-units of the internationally operating firms. Other authors (Simon, 2007; Dehnen, 2012) group internationalization dimensions into the superordinate term internationalization process. Simon (2007) defines the internationalization process as the result of the firm’s pool of resources and its capability to build and leverage resources in the international context, and says that the internationalization process follows four internationalization dimensions: motives of internationalization, market selection, market entry mode and product scope. For this master thesis, the categorization of Simon (2007) is taken and further explained in Subsection 2.1.5.

Subsection 2.1.1 will first highlight the perspective of incremental internationalization pattern, discussing the relevance of early concepts of internationalization, such as, the Product Life Cycle of Vernon (1966), the Uppsala model (Johanson and Vahline, 1977), the Helsinki model2 (Welch & Luostarinen, 1988). Two frameworks are widely used to explain internationalization (Vissak & Francioni 2013; Domingue & Mayrhofer 2017): The Uppsala model (Johanson and Vahline, 1977) and the Born Global approach. In Subsection 2.1.2 the concepts of the revolutionary internationalization pattern are discussed, in which the Born Global approach emerged. The stages of internationalization are discussed in Subsection 2.1.4, following recent research of nonlinear internationalization paths of increasing, decreasing and re-increasing international commitment (Benito & Welch, 1997; Santangelo & Meyer, 2011; Welch & Welch, 2009). Finally, in Subsection 2.1.5 the dimensions of internationalization by Simon (2007) are discussed. General internationalization strategies are not the core focus of this master thesis and, therefore, only briefly described.

---

2 These terms are used in consistency with other authors (Santangelo & Meyer, 2011; Simon, 2007; Johanson & Vahline, 2006), who refer to the Uppsala model and the Helsinki model in the same way.
2.1.1  Traditional approaches

2.1.1.1  Product Life Cycle

The product life cycle of Vernon (1966) is one of the first approaches to describe internationalization as a process. He argues that the local environment has a beneficial impact on the firms if the environment is more conducive to the creation of new techniques or products (Tayeb 2000). According to Vernon (1996), there is a series of stages throughout a product goes during its development.

In the first stage, a new product is developed, manufactured, and sold in the domestic home country of the company. In case of international demand, these innovations must be first transferable to other economies (Tayeb, 2000) and second, export will be the likely choice of operation mode. Direct investments are not considered at this stage (Simon, 2007). Tayeb (2000), hereby, differs in his explanation of the stages from Simon (2007), and identifies five stages and treats innovation of the product and introduction to the domestic market as an independent stage. Due to high customer orientation, the company is forced to a low degree of standardization to fit customer needs. High qualification of employees raises the labour costs and the overall production costs of the product, which, inevitably, leads to a higher price of the product. A small customer segment is targeted, which leads to a relatively low number of sales.

In the second stage, the demand outside the domestic market is growing, which leads to a higher export ratio. According to Simon (2007), the relocation of the production of the goods can be considered, if the average costs in the new (advanced) country are lower than the total costs in the domestic country. Total costs are calculated as sum of average variable costs plus average fix costs of the product. Economies of scale are realized, due to higher stability/standardization in the production process. Competitors in the same geographic area or other advanced countries arise and imitate the product. The price competitiveness of the company is challenged, as well as, high transportation costs into foreign countries arise (Simon, 2007). Tayeb (2000) discusses relocation initially within the fourth “maturity of the product” stage, adding exporting of products as independent third stage. He agrees that if the transportation costs into a second or third country can be offset, relocation of the production and importing of the products can be considered.

In the third stage, the production is relocated into developing countries. Simultaneously, the production in the domestic or other industrialized markets will be stopped. The outsourced products are re-imported into the domestic market, as total costs are lower than maintaining a production in the domestic country (Simon, 2007). Additionally, as the products might be imitated and re-produced, also other companies in developing countries start to invest into the production of the same products. If they achieve cost advantages, due to lower labour costs, other input or standardisation of production system, they might export back to the initial host country. This stage offers a high degree of stability in production and a high degree of standardization. Mass production of the products lead to higher economies of scale. Hence, qualified workforce is replaced by lower qualified workers. Simultaneously, the price elasticity is increasing, which leads to further price competition in the market (Simon, 2007).

Simon (2007) criticises the product life cycle approach and reveals several weaknesses of the approach. One of the main criticism of the product life cycle approach is the missing time frame for each stage, as it provides no indication of the duration of time a product needs to pass one stage. Another limitation is the focus on only two internationalization modes, export or direct investment, the other modes of entry (2.1.5.3) are not considered at all. The model itself also misses to determine the degree of evolutionary or revolutionary behaviour, which is analysed in this thesis in Subsection 2.1.1 and 2.1.2. According to Vernon (1966), the Product Life Cycle as internationalization process is static and predictable and with no possible access to human influence (Simon, 2007). This has been proven wrong
by other authors (Johanson & Vahlne, 1977; Kutschker, 1996; Oviatt & McDougall, 1994), who state that the internationalization process is dynamic, and, therefore, less predictable.

Another disadvantage of the model is the focus on cost-intensive products for a mid-to-high class customer segment. The model is narrowed down in its applicability not only by its customer segmentation, but also by factors relevant in the host country. It seems that the model only applies for companies from advanced or industrialized countries, but not for companies from developing countries (Dehnen, 2012). Additionally, the focus on the U.S. as being the world Nr.1 economic force in the market is outdated, as well as, the condition that the income per capita is the highest in the U.S. Other countries, such as, Germany and ten other countries have performed equally well, if not better (Kutschker & Schmid, 2005). The model also does not provide statements, where companies consider to make foreign direct investment and how the market selection decisions are made (see also Subsection 2.1.5.2).

Simon (2007) concludes that the model cannot be used to explain internationalization in the last centuries, however, it can still be applied to a few case-specific scenarios:

- foreign market activities of smaller companies with a low degree of internationalization (DOI),
- companies with a high degree of internationalization and a global network, which still produce in their domestic countries,
- companies with products of high standardization, which produce and develop new products more cost-efficiently.

2.1.1.2 Uppsala approach

The internationalization process (IP) model, popularly known as the Uppsala model by Johanson and Vahlne (1977), discusses internationalization to be “the outcome of an iterative process of learning and commitment to foreign markets” (Santangelo & Meyer, 2011, p.894). “The Uppsala model explains how foreign market risks are managed by acquiring tacit knowledge about foreign markets and incrementally changing their commitments to those markets” (Oviatt & McDougall, 2005b, p.540).

At that time, the subject related literature (Hood & Young, 1979) suggested that firms choose or should choose their entry mode by taking into account the costs and risks of the market characteristics, as well as, their own resources. Johanson and Vahlne (2009, p.1412) found contradictions in their empirical observations and their findings indicated that “Swedish companies frequently began with ad hoc exporting”, as their first operation mode, when implementing internationalization. The Establishment Chain, originally developed by Johanson & Wiedersheim-Paul (1975) examines four Swedish companies, discusses the incremental pattern to move from one operation mode to another. According to Johanson & Vahlne (1977), it is one of the dimensions of the internationalization process. The establishment chain considers four different operation modes: No regular export activities, exports via independent agents, sales offices or joint ventures abroad, and production subsidiary in foreign countries (Simon 2007; Tayeb 2000). Hereby, a company achieves success in sales in their domestic country first and internationalization is a result of incremental decisions (Tayeb, 2000). If the number of sales raises, a company shifts from exporting via agents to establishing their own subsidiary until it starts manufacturing in the country to overcome trade barriers (Johanson & Vahlne, 2009).

The second dimension of internationalization is the Psychic Distance. Psychic Distance refers to the condition that firms tend to internationalize first into psychically close markets rather than markets, which are far away from their domestic country (Johanson & Vahlne, 2009). Simon (2007) adds that Psychic Distance speaks about a time frame for a step-wise cultivation of foreign markets, where companies tend to internationalize in similar markets, such as, the domestic market. Hereby, psychically distant markets reveal factors, which are difficult to understand for the internationalizing
firms. Psychic Distance chain is defined as: “(F)actors preventing or disturbing the flows of information between firms and market. Examples of such factors are differences in language, culture, political systems, level of education, level of industrial development, etc.” (Simon, 2007, p.204). The companies tend to gradually internationalize into further away foreign markets in Psychic Distance terms (Johanson & Vahlne, 2009; Johanson & Wiedersheim-Paul, 1975).

Firms adapt “by learning from their experience of operations, current activities, in foreign markets” (Johanson & Vahlne, 2009, p.1412). Experience influences the chosen level of commitment of SMEs in a foreign market. Commitment is defined as “the product of the size of the investment times its degree of inflexibility” (Johanson & Vahlne, 2009, p.1412). A “large investment in saleable equipment” is not seen as a strong commitment, according to Johanson & Vahlne (2009, p.1412), but a strong dedication to meet the customer needs, however, is. Commitment decisions strengthen the companies’ position in the foreign market and are based on perceived opportunities and risks of the market, which are influenced by market knowledge (Johanson & Vahlne, 1977). As higher commitment in resources leads to a different experience and a different generation of knowledge, both factors showing strong interdependences. In the first stage “no regular export”, the firm has made no commitment to resources of the market as the information about the market is non-existent within the organization. In the second stage, an information channel is developed together with a sales agent. At this stage relatively low commitment to the market is necessary. In the third stage, control over the information channel is achieved by establishing a firm’s own sales subsidiary in the market. Consequently, the commitment to resources must be strengthened, which allows companies to gain direct knowledge about the influencing factors in the market. In the fourth stage, the company controls supply and sales in the foreign market, which requires the strongest commitment of resources for a market. Tayeb (2000) adds that companies might jump from one to another stage, which will be discussed in Subsection 2.1.2.

*Figure 3 The basic mechanism of internationalization: state and change aspects*

![Diagram of the basic mechanism of internationalization](image)

*Source: Johanson and Vahlne, 1977, p.26.*

The model presented in Figure 3, is dynamic, as there are interdependences between commitment and learning and the output of one stage constitutes the input for the following stage. State variables are market knowledge and market commitment. Developing or changing variables are commitment decisions and current activities. Market knowledge and market commitment are both affecting the “perceived opportunities and risks which in turn influence commitment decisions and current
activities” (Johanson & Vahlne, 1977, p.27). Resources located in the foreign market or the allocation of resources from the domestic market to the foreign market is termed resource commitment (Johanson & Vahlne, 1977).

Commitment decisions are based on knowledge of a market at a given time. Opportunities, market environment, and performance of activities, competition and channels of distribution, etc. influence the level of knowledge at a certain time. Hereby, Tayeb (2000) adds experiential knowledge as crucial, as it cannot be acquired otherwise. Johanson & Vahlne (1977, p.27) further state that “knowledge of opportunities or problems is assumed to initiate decisions”, which explains the interlinkage between market knowledge and commitment decisions. Current activities generate experience, such as, market experience and firm experience. This experience does not necessarily need to be generated, as companies could acquire the knowledge by hiring persons with market experience (Johanson & Vahlne, 1977). Increased experience influences market commitment. The better the knowledge about a market, decisions pro higher commitment of the company are made, which leads to an increase of the commitment in the market.

The Uppsala model of 1977 received major criticism over the last decades from leading scholars in international business literature (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Autio, 2005). The main criticism, however, raised from the international new venture approach and the Born Global phenomenon, which received empirical evidence that companies jump over stages in the establishment chain and internationalized soon after inception (Johanson & Vahlne, 2009). The authors, therefore, subsequent published adaptations and further notes on the Uppsala model in 1993, 2006 and 2009. The latter elaboration concluded in a revised Uppsala model, which is introduced in the following.

2.1.1.2.1 The revised model 2009

In 2009, Johanson and Vahlne published a revised model, considering the importance of networks in the internationalization of firms. They state that “now our view is that successful internationalization requires a reciprocal commitment between the firm and its counterparts” (Johanson & Vahlne, 2009, p.1414). The authors broaden their understanding of internationalization by “analysing commitments to positions in business networks (of which foreign markets would be a special case), and by incorporating learning, trust building and opportunity creation as process variables” (Santangelo & Meyer, 2011, p.894).

Firms are frequently taking part “in a set of different, close and lasting relationships with suppliers and customers...” and “...operate in networks of connected business relationships” (Johanson & Vahlne 2009, p.1414). The term business networks is explained as exchange within connected relationships, hence, “exchange in one relationship is linked to exchange in another” (Johanson & Vahlne 2009, p.1414). Knowledge is created through the firms’ own activities, but is also transferred from the partners’ activities to the firm. Participants of the business networks even benefit in terms of knowledge creation from business activities of firms, which maintain a relationship with the same partner (Johanson & Vahlne, 2009). Internationalization is now seen as multilateral network development process (Johanson & Vahlne, 1990; Johanson & Vahlne, 2009). Trust can be seen as substitution for knowledge (Arenius, 2005) and is seen as ability to predict another’s behaviour (Morgan & Hunt, 1994). Johanson and Vahlne (2009) add that trust is a requirement for commitment and supports increased commitment.

The essential elements of internationalization process are trust and commitment building within a relevant network, which arise of social exchange processes of interactive and sequential relationship enactment (Johanson & Vahlne, 2009). Further, the authors discuss the problem of “liability of outsidership” for companies without a relevant network in a foreign market. Outsidership prohibits
the development of business in a foreign market and can be surpassed only by seeking insider opportunities either by a request of service of the target market or by a focal firm, which requests products to be delivered to its own customers in a new foreign market.

The 1977 model is revised by the following that “the firm is embedded in an enabling, and at the same time constraining, business network that includes actors engaged in a wide variety of interdependent relationships” (Johanson & Vahlne, 2009, p.1423). Existing business relationships exert a significant impact on the actual decision, where to internationalize and the chosen operation mode. Less relevant is, however, the aim to overcome various market entry barriers or “the distinction between entry and expansion in the foreign market” (Johanson & Vahlne 2009, p.1423). Opportunity seeking and exploitation is strongly related to learning and commitment of resources (Johanson & Vahlne, 2006; Johanson & Vahlne, 2009). Compared to the 1977 model, which is considered to be risk (or uncertainty) reducing (Johanson & Vahlne, 2009, p.1418), the revised model states that “internationalization is contingent more on developing opportunities than on overcoming uncertainties”. Knowledge might only be accessible to insiders of networks, hence, a strong commitment to the business network leads to the possibility of opportunity discovery or creation (Johanson & Vahlne, 2009; Eriksson et al., 1997).

*Figure 4 the business network internationalization process model (the 2009 version)*

![Figure 4 the business network internationalization process model (the 2009 version)](image)

Similar to the 1977 model, there are state and change variables, which are interdependent (Figure 4). The model illustrates that “increased level of knowledge may thus have a positive or a negative impact on building trust and commitment” (Johanson & Vahlne 2009, p.1423). Hence, the reduction or termination of the relationship on one or both sides of a mutual relationship is possible or at any side of the business network, where a company is a member. Differences between the 1977 model and the model of 2009 are, first, the recognition of opportunities within the knowledge state variable. Knowledge constitutes of opportunities, “needs, capabilities, strategies and networks of directly or indirectly related firms in their institutional contexts” (Johanson & Vahlne 2009, p.1423). Opportunities are referred to as the most important component within the state variable knowledge. The network positions refers to market commitment within the original model, but got replaced, because the internationalization process is assumed to be within networks. Relationships are composed of different levels of knowledge, trust and commitment, and, therefore, each relationship is unique and differs in terms of its actual impact on successful internationalization (Johanson & Vahlne, 2009).
The change variables changed from current activities to **learning, creating, and trust-building**, which are seen to be the outcome of current activities. Learning, hereby, does include the daily routine and activities, which lead to experiential learning, and other kinds of learning³ (Johanson & Vahlne, 2009). “The speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment, and particularly on the extent to which the partners find given opportunities appealing” (Johanson & Vahlne, 2009, p.1424). Opportunity creation is also put on the same level as trust and learning, as this is a knowledge-producing dimension and “a critical part of any relationship” (Johanson & Vahlne 2009, p.1424).

The fourth aspect of the 2009 model is **relationship commitment decisions**. Hereby, Johanson and Vahlne (2009) stress the point that members of a network increase or reduce the commitment to one or many participants of a network and that the relationship changes, according the level of commitment. Commitment changes can be psychological and rather invisible, in most cases, “however, they will be visible through changes in entry modes, the size of investments, organizational changes, and definitely in the level of dependence” (Johanson & Vahlne 2009, p.1424). Subsection 2.1.4 elaborates on the commitment changes over time and Subsection 2.1.5.3 discusses the different market entry modes.

In conclusion, the revised model states a dependency of internationalization on a firm’s relationships and network. Firms go abroad because of an internationalization move of an important partner. Hereby, finding interesting business opportunities or following a partner abroad are the two reasons to internationalize. Whereas finding interesting business opportunities opens the door for becoming part of a network (becoming an insider), the latter demonstrates the firm’s strong commitment to the relationship with the partner. Santangelo and Meyer (2011) discuss international voids and uncertainty as major drivers between realized and intended/imposed strategy and they see them as extension to the Uppsala model.

Limitations of the model of Johanson and Vahlne (2009) are that there are no conclusions about how much time passes until a company internationalizes and which motives are decisive for the decision makers to start internationalizing. Additionally, major findings of Johanson and Vahlne (2009) have been revealed less substantial nowadays, according to Nordström (1991), who argues that the Psychic Distance is decreasing over time, due to globalisation, better communication and information gathering and the world becoming homogenous. Other criticism refers to the deterministic characteristics of Johanson and Vahlne’s (1977) statement that companies have to follow a given order in internationalization steps. More recent models (see Subsection 2.1.2) elaborate on a radical and revolutionary approach.

There is a range of restrictions from different scholars, such as, Anderson et al. (1994), who state that the model is only for companies in an early stage of internationalization; but also from Johanson and Vahlne (1977), who state that their model is not applicable for companies with an extensive pool of resources, if the market conditions are stable and homogenous, and if the company has already gathered experience in other markets with similar conditions. Another criticism refers to the missing

---

³ Hereby, different kinds of learning are named in the literature, such as experiential learning (Johanson & Vahlne, 1977), organizational learning (Crossan et al., 1999) or congenital learning (Pellegrino & McNaughton, 2017). The literature, also, discusses private knowledge (Oviatt & McDougall, 1994), experiential knowledge (Koch, 2001; Oviatt & McDougall, 1994), tacit knowledge (Johanson & Vahlne, 2009; Grant, 1991), market-specific knowledge and general internationalization knowledge (Johanson & Vahlne, 1977). Therefore, a structured overview to build a common understanding of learning and of knowledge is provided in Subsection 2.2.1.
statements regarding market entry strategies, such as, Joint Ventures, Licensing, Franchising or Acquisitions.

2.1.1.3 Internationalization process model by Welch and Luostarinen (1988)

The internationalization model of Welch and Luostarinen (1988) show great similarities to the approach by Johanson and Vahlne (1977). It diminishes certain weaknesses of the model, as it considers e.g. a broader spectrum of market entry modes and a deeper differentiation regarding the Psychic Distance and the dependence of internationalization behaviour on products (Simon, 2007). Because of its similarities to the Uppsala model, this thesis focuses now on the differences and adaption to the former. Welch and Luostarinen (1988) find that internationalization processes differ in three dimensions, namely product, operation and market. Hereby, the product scope contains of goods, services, systems and knowhow. The differentiation between those terms, however, is not clearly defined. The findings show that companies that are familiar with goods and the service for them are less rigid, and, therefore, more likely to internationalize. Simon (2007) describes lateral rigidity as the degree of acceptance of known and familiar patterns of activities. The less sceptical an organization is towards unfamiliar and new activity patterns or markets, the less rigid an organization behaves. The more knowledge on a particular foreign market an organization gathers, the less rigid an organization becomes during their internationalization decisions. Sales knowhow and systems are less important, according to Simon (2007). His elaboration, however, lacks to illuminate the term “systems”.

Within the dimension of operation, the approach is differentiating in importing and exporting of all cross-border activities in both directions, which include materials, services, products or investments. Those activities can also be cooperative. Cooperation can be established by strategic alliances, joint ventures or merger/acquisitions (Simon, 2007; see also Subsection 2.1.5.3.1).

The markets are distinguished into very close, close, medium, distant, very distant countries. The distance is defined via the business distance, which consists of cultural, geographic and economic factors. The business distance can be linked to Psychic Distance of the Uppsala model. The more distant a country is, the less knowhow a company has about this market, the less likely it will choose this country to internationalize (Simon, 2007).

Based on empirical research, the following internationalization patterns arise. The chain of product types illustrates the chronology of product types, which are exported, starting with products, then services, systems and finally knowhow. Within each product type, e.g. products, the most familiar product will be exported, followed by less familiar products and ends with the least familiar good (Luostarinen & Welch, 1988).

The Establishment Chain is similar to the Uppsala approach, adapted by the companies’ characteristics of being rigid towards internationalization. First, marketing activities without direct investment are chosen, followed by marketing activities with direct investment. As third stage, production activities without direct investment are followed by production activities with direct investment. Hereby, it has to be said that the assumption is chosen, that the knowhow of marketing activities is higher than the knowhow on production activities (Welch & Luostarinen, 1988).

The Psychic Distance Chain is the first market entry of a company into a very near or near market. The empirical data, however, considers only the first market entry of a company, and, therefore, a sequential chronology is not given (Simon, 2007).

The internationalization process within each dimension is divided into four different stages, “beginner stage”, “development stage”, “growth stage”, “mature stage” (own translation: Simon, 2007, p.77). Hereby, synergies can be found between Welch and Luostarinen (1988), and the Product Life Cycle of
Vernon (1966). A holistic pattern across all dimensions of the internationalization process is missing (Simon, 2007).

The approach of Welch and Luostarinen (1988) applies as decision process model rather than an internationalization process model. Hereby, it is questionable why knowhow is the only factor to influence the rigidity of companies towards internationalization, but not other factors, such as, resources or external factors.

The criticism of the approach by Welch and Luostarinen (1988) can be partly inherited from the Uppsala approach. The application of the Helsinki approach is limited to companies in the early access of foreign markets. Further, the validity is limited to small industrialized markets, and their participants, who start to internationalize. For big MNCs, the internationalization pattern is not per se valid.

2.1.2 Modern Approaches

The modern approaches differ from the original incremental thoughts presented under Subsection 2.1.1., such as, the Uppsala model, the Helsinki approach or the Product Life Cycle. The modern approaches, classified by Zentes and Swoboda (2004), elaborate on a rapid or revolutionary pattern of internationalization. Hereby, approaches, such as, the Born Global (BG) approach and the International new venture (INV) approach by Oviatt and McDougall (1994), will be discussed in the following. There are, however, alternative modern approaches, such as, the “Three E concept” by Kutschker (1996), the “Ebenenmodell” of Swoboda (2002a), which are based on the GAINS approach by Macharzina and Engelhard (1991). Although those three approaches do not seem to get much attention in the subject related literature, the roots of the revolutionary thinking in internationalization lie within those approaches.

2.1.2.1 Roots of revolutionary thinking

2.1.2.1.1 GAINS approach by Macharzina and Engelhard (1991)

The approach of Macharzina and Engelhard (1991) is based on the incremental stage models of Johanson and Vahlne (1977) and Welch and Luostarinen (1988). The basic foundation is that tensions in the company lead to sudden changes influencing the structure, strategy and environment of the company. The sudden change occurs if the costs of not adjusting is higher than the costs of adjustment of the organization. This adjustment leads to a new gestalt of the organization, hence, “gestalt approach of international business strategy” (GAINS). Within the GAINS approach, Macharzina and Engelhard (1991) define three configurations of international companies, non-exporters, reactive exporter and active exporter (Simon, 2007). Each of those configuration shows different characteristics of environmental, strategic, organizational and management variables. The internationalization process is described as a chain of evolutionary and revolutionary phases, and the latter leads to a change in the gestalt of the organization.

2.1.2.1.2 “Three-E concept” by Kutschker (1996)

The approach by Kutschker (1996) is divided into three types of processes, namely planned and continuous internationalization or evolutionary internationalization; episodes of internationalization; and international business processes, or internationalization epochs.

Evolutionary internationalization observes an incremental internationalization process made by managers in their daily routine. Gradual improvements in productivity and rationality are within their responsiveness. Due to a limited holistic view, Kutschker (1996, p.12) names this pattern “piecemeal-engineering”. Evolutionary internationalization is also rooted in limited control over selection and variation processes. Even more radical changes, such as, a takeover of an international competitor, which require a more revolutionary change of structures and process, would be realised by gradual,
continuous learning of the organization. Kutschker (1996) explains this on the basis of the surface structure (“Oberflächenstruktur”) and deep structure (“Tiefenstruktur”), and adds that employees constantly contribute to slight adoptions of those rigid structures of the organization, due to development of routines, knowhow or individual perceptions.

Episodes of internationalization contain larger structural changes of the organization, such as, a merger of two companies or the change from multinational to global or transnational company. The rigid, stable structure of an organization becomes suddenly instable. This instability leads to tensions within the organizations. Kutschker (1996), hereby, integrates basics of the GAINS approach, as the suddenly occurring change and is, therefore, revolutionary. The outcome will likely be a new gestalt of the organization. Simon (2007) roots those changes in strategic programs as tools for implementing entrepreneurial actions and for changing the internationalization presence of the company. International episodes exist, if several or most of those programs tend to be clustered together in a sharp time frame.

Kutschker (1996) characterises episodes by a limited time frame with significantly increased activities in internationalization. International episodes constitute radical changes within the surface structure of an organization and the occurring challenges are new, uncommon and complex. Examples of episodes of internationalization are market entry in foreign markets, founding of subsidiaries or entering international cooperation. The phase of significantly increased international activities follows a phase of gradual, incremental internationalization. Kutschker (1996) adds that such revolutionary phases may occur over time, but do not necessarily need to, whereas the incremental phase is imperative.

Tensions can also occur, due to missing connectivity of the new and changed surface structure with the old and unchanged deep structure. Outsourcing of change management to external consultant with no or limited insights into the organization and with different values or a different background are the main reasons for missing connectivity. Kutschker (1996) points out that only one potential combination of new surface structure and old deep structure does lead to support within the organization (Table 2-1), a connectable new surface structure to a homogenous deep structure. Homogenous is described as common values, norms, beliefs and shared visions within the organization. The other three types of combination lead to resistance (missing connectivity of the new surface structure to the homogenous deep structure), conflict (connectivity of new surface structure to the old heterogeneous deep structure), and randomness (no connectivity of the new surface structure to the old heterogeneous deep structure).

<table>
<thead>
<tr>
<th>Old deep structure</th>
<th>New surface structure</th>
<th>Connectivity</th>
<th>No connectivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homogeneous</td>
<td>Support</td>
<td>Resistance</td>
<td></td>
</tr>
<tr>
<td>Heterogeneous</td>
<td>Conflict</td>
<td>Randomness</td>
<td></td>
</tr>
</tbody>
</table>

International epochs, however, are long-term transitions, which imply fundamental changes to the core of the organization. The transition involves the deep structure of the organization, which requires time. Time is the major difference between episodes and epochs, as epochal changes require more time than changes during episodes. The trigger of transitions in form of epochs, according to Kutschker (1996), are misfits between parts of the organization, misfits between company and environmental
requirements and differences in strategic visions and existing resources and capabilities; and examples could be the outsourcing of the production and shifting the core business to research and development (R&D); or the opening of a production plant abroad and the change towards strong customer-relationship. International epochs are characterised also by an intentional commitment of the top management. The top management sets a common goal to be achieved, with sufficient room for flexibility as transitions of organization could possibly also lead to changes to the overall industry (Kutschker, 1996).

Figure 5 Three E concept

![Figure 5 Three E concept](image)

Source: Simon, 2007, p.95

Figure 5 illustrates the three E concept. The dimension time is mostly neglected by Kutschker (1996), as he sees his approach as taxonomy. The only indication the abscissa provides is that epochs require more than episodes; and episodes need more time than evolutionary processes.

Criticism applies on the model as Kutschker (1996) fails to provide sufficient information on how to distinguish between time frame, scope and intensity of the change caused by the different internationalization processes. Also, the degree of radical internationalization is not covered by his statements. Further, markets, market entry modes and the product scope are not discussed in his model. Nevertheless, the “Ebenenmodell” provides a substantial progress as it gives statements regarding the motives for internationalization (Simon, 2007).

In a later work, Kutschker (2002a) elaborates on the concept of an internationalization matrix. The matrix allows to derive internationalization strategies and internationalization processes under consideration of the company’s internationalization potential and internationalization degree. Both characteristics are valued high or low, allowing companies to evaluate their current level of internationalization and to benchmark their current internationalization position towards other participants in the industry. Kutschker’s (2002a) 2x2 matrix would allow to distinguish between four types of companies, differing in terms of speed of internationalization. It implies, therefore, that companies can take influence upon the speed of internationalization (see also Subsection 2.1.4.1.) The matrix, however, experienced criticism by Simon (2007), as the factors international potential and international degree are insufficiently defined. The internationalization matrix shows severe weaknesses, as it does not fully define the term internationalization potential and misses to state absolute and relative characteristics to conclude its validity. Additionally, the independency between
both, internationalization potential and the relative degree of internationalization can be questioned as both axes of the matrix are dependent on each other. Important market-relevant factors are not considered in this concept, such as, market attractiveness of foreign markets or the profitability of the company. The author speaks about management resources without defining, what is meant by resources. A weakness, which is eminent throughout the internationalization literature, according to Simon (2007).

Simon criticises the three E-concept for the lack of empirical foundation. The approach got tested empirically both by Kutschker (1996) and Bäurle (1996), who, however, are also the developer of the approach. A certain subjectivity cannot be denied, when they conclude that their approach is valid for their chosen industries.

2.1.2.1.3 The “Ebenenmodell” by Swoboda (2002a)

Although it must be recognized that this model has been developed significantly after the following major modern internationalization approach, International New Ventures (Oviatt & McDougall, 1994) and Born Globals (emerged from International New Ventures), I agree with Simon (2007) that it can be still categorized within the roots of modern approaches, as it is the first concept that discusses the external and internal environment as influencing variables on internationalization decisions and constitutes those factors within a framework of an internationalization process.

*Figure 6 The “Ebenenmodell”*

The “Ebenenmodell” (Figure 6) discusses the international development of a company by taking into consideration that the development reflects a compromise between individual and collective, as well as, conscious and subconscious single decisions. The approach makes statements regarding the environment (external and internal context as stimuli of transition), international direction of companies (guiding principles as primary level of transition), structures, strategic processes and culture of companies (activities as secondary level of transition).

Based on Swoboda’s (2002a) work, Simon (2007) defines three potential, but hypothetical internationalization patterns. First, the transactional orientation of companies means the penetration of close foreign markets through export or foreign direct investment (FDI) (see Subsection 2.1.5.3). This orientation allows companies to exploit their small capacities and generate knowhow of the markets and continuous loops of learning. Second, market orientation implies the penetration of a greater number of countries or market at the same time. The advantage of this form is the high presence in different countries at economized resource basis. Hereby, the companies rely on export
as dominant operation mode. Third, the orientation on speed combines the transactional orientation, as well as, the orientation on different countries/markets. Time plays a crucial role, as learning effects are simultaneously generated, while penetrating different markets and transactional forms. This form requires a high pool of resources (Simon, 2007).

The Ebenenmodell integrates the ideas of the GAINS concept that companies choose both, incremental, as well as, revolutionary internationalization patterns, which lead to different gestalts of organizations over time; and tests empirically the coherences between the primary and secondary level as illustrated in the Three E concept by deep structure and surface structure (Simon, 2007).

The Ebenenmodell, however, still shows weaknesses, according to Simon (2007). Swoboda (2002) distinguishes between internal (unternehmensinterne) and external (unternehmensexterne) factors of the company, which are the initiators for change in the primary and secondary level. The external factors differ between macro-environmental and micro environmental factors. Macro environment contains political and legal issues whereas micro environment covers companies and their country-specific attributes, such as, the condition in the domestic market. Simon (2007) criticises this differentiation, because industry-related factors are categorized together with internal factors within micro-environment. Additionally, the internal factors are discussed with fewer empathies on details. Swoboda (2002) names the role of management behaviour, the usage of strategic tools and structures, international potential and availability of resources, but refers to Bäurle (1996) for further details.

2.1.2.2 International new ventures

A recent phenomenon, which has, among other industries, mainly been observed in technology oriented industries, are firms that internationalize soon after their inception. International new ventures (INV) are firms that, “from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall, 1994, p.31). Hereby, INV differ in terms of significant commitment of various resources in multiple markets. In contrast to gradually evolving multinational enterprises (MNEs), INV focus on a proactive international strategy right from inception, despite lacks of owning foreign assets. Instead, controlling vital assets becomes more important than owning specific foreign assets, and a distinguishing factor for INV. INV rely on hybrid structures, such as, licensing or franchising, or build a network of relationships to conserve resources, by forming non-formal business relationships, based on trust and moral obligation. Another feature of INV is the opportunistic search for finding advantages “in transferring some moveable resources (e.g., raw material, knowledge, intermediate products) across national borders” to satisfy the demand (Oviatt & McDougall, 1994, p.35). These companies are characterised by “a management team with an unusual constellation of competencies developed from previous experiences” (Crick, 2009, p.455). INV rely on private knowledge to overcome trade and organizational barriers. An interesting property of private knowledge is the mobility of knowledge, due to improved modern communication infrastructure, which makes knowhow possible to be transferred and used in synergy with less mobile resources in foreign markets (Oviatt & Mc Dougall 1994). Globalization and technological advances in information and communication technologies are two external environmental trends that support the development of early internationalizers (Knight & Cavusgil, 2004).

The reason, why mostly high-tech enterprises were able to globalize in such a rapid pace, is rooted in the control, not the ownership, of vita resources. The mobility of knowledge supports the conservation of a sustainable competitive advantage and is a main characteristic of INV. Hereby, the resources are required to be unique. Relying partly on Barney (1991), Oviatt and McDougall (1994) define four conditions for sustainable competitive advantages of INV. Unique resources, which are protected by
patent rights, copyrights or trade secret, is the first condition. The second condition is an imperfect imitability of knowledge to keep it proprietary. Third, knowledge can be limited by INV via licensing. The fourth condition is the use of network governance structures by keeping the internal control and market control over the transfer of resources (Oviatt & McDougall, 1994).

Oviatt and McDougall (1994) illustrate four types of international new ventures. The first group consists of new international market makers. This group focuses on moving goods from one nation to another, if the demand is rising. Spotting and acting on emerging opportunities, gathering market knowledge and the industry, as well as, the ability to establish a loyal network of business partners are the sustainable competitive advantages. New international market makers are divided into two types, namely Export/Import Start-ups, which focus on a few markets of increased familiarity to the entrepreneur; and multinational traders who serve numerous countries. The sample of Knight and Cavusgil’s (2004) study consists of a median of 20 countries. The third type is a geographically focused start-ups that exploit foreign resources to create advantages by focusing on specialised needs in a specific geographical area. The coordination of multiple value chain activities distinguish this type from export/import start-ups. The advantage is created by involving tacit knowledge and the establishment of an exclusive network of business partners in the various markets, which is inimitable for outsiders or competitors. The fourth type are global-start-ups. “It is the most radical manifestation of the international new venture because it derives significant competitive advantage from extensive coordination among multiple organization activities, the locations of which are geographically unlimited” (Oviatt & McDougall, 1994, p.59).

2.1.2.2.1 Born Globals

More recently, the subject related literature discusses the term Born Globals and uses both INV and BG as synonyms. There is no agreement in the literature about a single definition of INV or a BG, as both are throughout defined by the definition of INV of Oviatt and McDougall (1994). Born Globals are early adopters of internationalization from and near founding, seeking international business opportunities on a global range and enhancing their business performance by selling their output in multiple countries (Kuvalainen, 2007; Rialp et al., 2005) within three or less years from their establishment (Li et al., 2012).

Cavusgil and Knight (2004, p.124) define Born Globals as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries”, a definition, which is almost identical with the definition of Oviatt and McDougall (1994, p.49). Also other researchers rely on this definition (Pulkkinen & Larimo, 2007; Baum et al., 2011).

The typical description of Born Globals, which is based on more or less similar definitions of international new ventures, lead to a number of overlaps in the characteristics of both terms. Hence, most scholars tend to use both as synonyms, although others, such as, Crick (2009), investigate the quantitative and qualitative differences between INV and BG. The above mentioned definitions draw conclusions about the typical characteristics of Born Globals. First, Born Globals are defined to be global from, or near their founding, hence, their age of those firms is relatively young. In contrast to the stage models, which consider age to be an important factor for internationalization, Born Global companies can be global from inception (Olejnik & Swoboda, 2012). Second, the definition of Oviatt and McDougall (1994) says that knowledge-based resources are used in multiple-countries, which indicates, that Born Globals appear mainly within knowledge-intensive industries and global niche markets. However, Cavusgil and Knight (2004) state that the Born Global phenomenon is seen as universal due to its appearance in virtually all major trading countries. Due to opportunity seeking on a global range, according to Kuivalinen et al. (2012) and Rialp et al. (2005), the Born Global firm is
present in multiple countries at the same time which could lead to simultaneous entry into foreign markets. However, other studies discuss the time frame of internationalization on a broader view with distinguishing results (Freeman et al., 2013; Li et al., 2012; Dominguez & Mayrhofer, 2017).

Several scholars (Olejnik & Swoboda, 2012; Crick 2009) raise four fundamental issues, which need to be discussed prior to answering the questions about the differences between INV and BG. Those four issues are based on Zahra and George (2002) elaboration on the measurement of the degree of internationalization, and have been categorized into “first, scope (diversification vs concentration); second, scale (or extent/intensity); and third, time” (Kuivalainen et al. 2012, p.450). Crick (2009) states that the term “global” misses a common definition. Early researchers (Ohmae, 1985) suggest Triad markets, mentioning USA, Western Europe and Japan. However, recent developments, such as, the expansion of the European Union to 27 countries, or the rise of China to the biggest economy worldwide does question the initial definition of a Triad market (He & Wei, 2011). Operating in more than 20 countries is the median of the sample in the research of Knight and Cavusgil (2004), however, the minimum number of serving foreign countries as criteria for being global is not further discussed in the literature.

Second, according to Crick (2009), “rapid internationalization” is insufficiently defined and is, therefore, extended by Li et al. (2012), Knight and Cavusgil (2004) and Freeman et al. (2013), who refer to a three year time frame, and Oviatt and McDougall consider a time frame of not more than six years (2005b).

Third, the number of markets served by the company is an indicator for BG and INV, especially their geographic diversity. However, this third issue provides synergies to the first point of “defining global” and hence, in my opinion, Crick (2009) could have used those issues altogether.

Finally, the fourth issue is the level of commitment in foreign markets (in terms of amount of sales and modes of market entry undertaken), which can vary over time and in intensity for each country (Crick 2009; see also Subsection 2.1.4.1). Hereby, Olejnik and Swoboda (2012), for example, differ from Crick’s four issues fundamental issue, as the terms operation modes, as form of commitment, is used as a structural scale measure of internationalization, and the country dimension as a geographic scope measure, in accordance with Kuivalainen et al. (2007). The time lag and the foreign sales ratio as performance scale are represented as independent characteristic in their work on finding empirical evidence for the three distinct internationalization patterns.

Crick (2009), however, has focused on the differences between BG and INV, but others further distinguished between Born Regionals (Lopez et al., 2009, Johanson & Vahlne, 2009), Born Internationals (Majkgard & Sharma, 1999), true BG (Kuivalainen et al., 2007), leading to a higher complexity of the Born Global phenomenon. In his findings, Crick (2009) discusses that no quantitative differences between INVs and BGs could be found and states that there is no difference between INV and BG firms in respect of their measures of performance in overseas markets, as well as, in their sources of competiveness in overseas markets (Crick 2009). There are, however, small qualitative incongruences between INVs and BGs, namely that INVs tend to focus more on the regional development of collaborative agreements, especially in their lead markets⁴; whereas BGs looked at all markets with a similar weighting and were more likely to open subsidiaries and the management team preferred FDI over collaborative agreement in particular regions. Although considering the findings of Crick (2009), Olejnik and Swoboda (2012), did not find any empirical evidence to confirm the existence

⁴ Dehnen (2012) discusses the “lead market concept” as suitable strategy to reduce Psychic Distance for markets by entering particular markets from psychically closer foreign subsidiaries. Hereby, the subsidiary in the lead market takes over full responsibilities for the internationalization activities.
of sub-categories within the Born Global approach or differences between INV and BG. In their findings, the authors gain empirical evidence of the existence of the radical and rapid internationalization pattern, next to the traditional, incremental internationalization pattern and the Born-again Globals (BAGs) (see Subsection 2.1.2.2.2).

According to Crick (2009), the focus on regions (scope) is the only qualitative difference between INVs and BGs, which is, in my opinion, an insufficient criterion for not using INV and BG as synonyms. Additionally, in more recent literature, Born Globals are further divided into sub-categories, Born Regionals, Born Internationals and true Born Globals. The former two describe chosen regions in which companies focus to internationalize at first. In my opinion, this distinction into several sub-categories weakens the qualitative observation of Crick (2009) even more, because the fundamental research question of Crick would need further adaption to “the differences between INVs and Born Regionals or Born Internationals”. Moreover, the typology of INV by Oviatt and McDougall (1994) is hardly cited or used, with exception of Pulkkinen and Larimo (2007) or Baum et al. (2011), when discussing similarities or differences between INVs and BGs, or compare rapid and incremental internationalization of SMEs. Additionally, Kuivalainen et al. (2012, p.451) states that true BG have “a large geographical presence and high foreign sales to total sales ration, resembling so called global start-ups”. This would indicate that the fourth type of INVs, according to Oviatt and McDougall (1994), as well as, one sub-category of Born Globals can be used as synonyms. Born regionals and Born internationals, however, focus on a geographically concentrated set of international markets, showing strong similarities with export/import start-ups and geographically focused start-ups from the typology by Oviatt and McDougall (1994). For this work, I will use Born Globals as synonyms of international new ventures.

Other researchers (Kuivalainen et al., 2012; Freeman et al., 2013) have dedicated their work on identifying antecedents and outcomes of the rapid internationalization pattern. Hereby, the degree of internationalization is often a central point of consideration. Three measurements of DOI are commonly used: time, scope and scales (Zahra and Georg, 2002; Kuivalainen et al., 2012). Olejnik and Swoboda (2012) add foreign sales ratio (FSRT) as fourth factor. Time has been previously mentioned, as it is an important measure to distinguish between BG and traditional internationalizing SMEs or Born-again Globals, although no clear cut could be made as most scholars refer to a time frame of three to six years from inception. The FSRT ratio is a measurement of performance scale. The literature, hereby, discusses definitions of 25% (Knight & Cavusgil, 2004) or the amount of foreign assets (Kuivalainen et al., 2012) or simply uses a general description of “a large share of foreign sales” (Bell et al. 2003, p.487). Structured scale consists of the foreign operation modes. BG make flexible choices in terms of entry modes. There is no defined sequence, and the entry mode varies from exports to collaborative modes and foreign direct investment (Bell et al. 2003). Scope is divided into market concentration and market diversification. Former relates to a geographic, regional focus of nations, whereas the latter relates to a global presence, and, therefore, a higher number of countries or regions in which the company sells its products and services. Several markets can be penetrated at the same time and firms pursue worldwide operations focusing on lead markets (Bell et al. 2003). Kuivalainen et al. (2012) adds that another criteria of being classified as BG could be to serve more nations than the number of neighbouring countries, a 50% sales outside its home continent, or serving customers on multiple continents. Table 2-3 (see Subsection 2.1.3) summarizes the characteristics for Born Globals, traditional and Born-again global internationalization patterns.
2.1.2.2 Born-again Globals

Bell et al. (2001) discuss a new phenomenon, which they name Born-again Globals. These firms are well established, traditional SMEs operating in their domestic market for a long period, but suddenly decide to rapidly increase their activities and commitment in foreign markets. As the name Born-again says traditional firms are suddenly reborn to Born Globals. As there has been a significant time lag from the founding of the company to the critical incidents, which leads to show a Born Global behaviour, the age of Born-again Globals is more related to the traditional internationalization pattern than to the Born Global approach (Bell et al., 2001). Olejnik and Swoboda (2012) investigate 674 companies and find that more than 50% of all Born-again Globals are older than 25 years before they decide the go international. The trigger for such an extensive change in their strategy can be critical events and hence, the BAGs are able to speed up their process of internationalization, which is seen as reactive strategy. Prior the critical event, the firm showed no particular interest in international expansion. Bell et al. (2001) states that a combination of critical incidents lead to sudden internationalization of the company. Their evaluation shows that 82% of their sample had a change in ownership through either management buy-out, takeover by another firm or bought from the administrator. Hereby, a domestic or international customer or a competitor acquired the focal firm, which led to additional human and financial resources and access to new networks. In 19% of the “change in ownership” cases, the acquired focal firm had actually ceased all their trading before acquisition. A change in ownership introduced new entrepreneurs with a greater emphasis on and experience in internationalization (Bell et al., 2001).

Another critical incident, 47% according to Bell et al. (2001), is that acquisitions of other firms with international activities or an inward technology transfer occurred. The takeover of companies with international networks led to the launching of existing products in new markets by using, e.g. the recently gained distribution agreements in the countries. Such high investment costs arising from the acquisition of technological knowledge or the acquisition of distribution rights, may lead to the exploitation of new competitive advantages.

The third critical incident is client followership. In case a major domestic customer enters foreign markets or a foreign customer enters the domestic market, a company might get forced to follow the customer abroad. In 47% of all cases, client followership was the main reason for increased international dedication (Bell et al. 2001).

Those significant events provide additional resources to the firm and commitment to internationalization is raised (Bell et al., 2001). Kalinic and Forza (2012) add that a growing number of traditional SMEs is investing into foreign markets, despite limited knowledge on markets, networks and experience. This characteristic of investing in numerous countries without proper market knowledge, networks or experiences is rather congruent with the BG approach than with the traditional internationalization pattern, and Olejnik and Swoboda (2012) gained empirical evidence that Born-again Globals, indeed, exist and can be, therefore, seen as third fundamental internationalization pattern. Success factors of this shift in the internationalization pattern are the international strategy of companies, the flexibility of companies and the customer relationship. This is contrary to the leading literature in this field, saying international experience, knowledge-intensity and international networks are important for international success (Bell et al. 2001).

Olejnik and Swoboda (2012) further discuss the characteristics of Born-again Globals on the four fundamental issues, the countries (geographic scope), the foreign sales ratio (FSRT, performance scale), the foreign operation modes (structure scales) and the time lag (commencement). The characteristics are illustrated in Table 2-3 (Subsection 2.1.3). Born-again Globals have a strong or even sole focus on domestic expansion first, whereas worldwide operations are established after the
decision to go international. In the following, several markets at the same time are penetrated, similar to the Born Global approach. According to Olejnik and Swoboda (2012), 99% of the Born-again Globals are operating on a worldwide scope. The foreign sales ratio is classified by a large share of foreign sales. Further, they state, that 81% of the BAGs have a FSRT of more than 25% (compared to only 44% of traditional or 89% of BG). Born-again Globals can use a range of flexible entry modes, but there is a tendency that they use more committed entry-modes than traditional SMEs or Born Globals. Born-again Globals have a possibility of 76% to use FDI as chosen entry mode, due to the accumulation of tangible assets (see Subsection 2.2).

2.1.3 Overview of the three main internationalization patterns
In the previous two chapters, I have had a detailed look on the different traditional and modern approaches of internationalization. Despite the numerous approaches in the international business literature, three of them have achieved major interest and received higher recognition in the subject related literature (Olejnik & Swoboda, 2012; Freeman et al., 2013; Dominguez & Mayrhofer, 2017; Li et al., 2012) than the remaining, previously introduced approaches. Hence, a summary of the main characteristics of each internationalization pattern, based on the work of Bell et al. (2003, p.346ff) and Olejnik and Swoboda (2012), is illustrated in Table 2-3.

At first, Olejnik and Swoboda’s (2012) research on the four characteristics of the degree of internationalization on the three identified major internationalization patterns is introduced. The four characteristics are: the countries (geographic scope), the FSRT (performance scale), the foreign operation modes (structured scales) and the time lag (commencement). Table 2-2 shows the results. According to the authors, firms of each internationalization pattern (respectively class in this table) have different conditional probabilities to operate solely within a specific characteristic. Given the main characteristic countries, traditional SMEs have a “26 per cent probability of only operating in neighbouring countries” (Olejnik & Swoboda, 2012, p.481), while having a 37% conditional probability to operate in Europe or worldwide. This supports the claims of the traditional approach, summarized in Subsection 2.1.1. The traditional companies are slower in terms of internationalization than pendants from the Born global approach. Nevertheless, with time traditional industries may as well increase their foreign sales ratio to up to 50%, realized by multinational or global sales. In contrast to BornGlobals or Born Globals, which have a significantly higher probability to work, e.g. worldwide with about 81% for BG, and 99% for BAG. This is supported by Kuivalainen et al. (2012) and Li et al. (2012), who state that Born Globals have a strong international presence shortly after their inception.

Considering operation modes, traditional SMEs are more likely (65%) to work via export. Born Globals are rather balanced in their choice of operation modes with 53% using export and 47% using FDI. This is congruent with what we have been discussed in the traditional approaches and in the modern ones. Born-again Globals, however, are more likely to use more committed internationalization modes, showing a 76% probability in using FDI (Olejnik & Swoboda, 2012). This is confirmed by other scholars (Bell et al., 2001), who state that Born-again Globals have a strong base of resources when the decision to internationalize is made.
Table 2-2 Characteristics of the three internationalization pattern based on probabilities

<table>
<thead>
<tr>
<th>Class 1 (Traditional SME)</th>
<th>Countries</th>
<th>Operation modes</th>
<th>Time lag</th>
<th>Foreign sales ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighbors: 0.26</td>
<td>Europe: 0.37</td>
<td>Export: 0.65</td>
<td>0-3 years: 0.19</td>
<td>0-10%: 0.18</td>
</tr>
<tr>
<td></td>
<td>World wide: 0.37</td>
<td>FDI: 0.35</td>
<td>3-10 years: 0.20</td>
<td>10-25%: 0.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10-25 years: 0.15</td>
<td>25-50%: 0.40</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25-50 years: 0.21</td>
<td>50% +: 0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>50+ years: 0.25</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Class 2 (Born global)</th>
<th>Countries</th>
<th>Operation modes</th>
<th>Time lag</th>
<th>Foreign sales ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighbors: 0.04</td>
<td>Europe: 0.15</td>
<td>Export: 0.53</td>
<td>0-3 years: 0.60</td>
<td>0-10%: 0.01</td>
</tr>
<tr>
<td></td>
<td>World wide: 0.81</td>
<td>FDI: 0.47</td>
<td>3-10 years: 0.03</td>
<td>10-25%: 0.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10-25 years: 0.22</td>
<td>25-50%: 0.41</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25-50 years: 0.15</td>
<td>50% +: 0.48</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>50+ years: 0.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Class 3 (Born-again global)</th>
<th>Countries</th>
<th>Operation modes</th>
<th>Time lag</th>
<th>Foreign sales ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighbors: 0.00</td>
<td>Europe: 0.01</td>
<td>Export: 0.24</td>
<td>0-3 years: 0.00</td>
<td>0-10%: 0.04</td>
</tr>
<tr>
<td></td>
<td>World wide: 0.99</td>
<td>FDI: 0.76</td>
<td>3-10 years: 0.25</td>
<td>10-25%: 0.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10-25 years: 0.19</td>
<td>25-50%: 0.46</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25-50 years: 0.12</td>
<td>50% +: 0.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>50+ years: 0.43</td>
<td></td>
</tr>
</tbody>
</table>

Source: Olejnik and Swoboda, 2012, p.481

Third, the **time lag** shows that traditional SMEs have a balanced diversification among the time lag characteristics. In contrast to Born Globals, whose most significant share is between 0-3 years from inception. This is congruent with most scholars (Freeman et al. 2013; Knight & Cavusgil, 2004; Li et al., 2012), who state that Born Globals operate globally within three years from their founding. Other scholars, however, such as, Oviatt and McDougall (2005b), raises the time frame to up five or six years, which still possible, but less probable given the empiric evidence from Olejnik and Swoboda (2012).

Another interesting point is that there are still 37% left, whose age might exceed 10 years, before they go international, but are still considered to be BornGlobals.

The fourth characteristic is the **foreign sales ratio** of the firms. Traditional SMEs show tendentially less probability for a higher share of foreign sales. Nevertheless, it is interesting that at least 40% achieve more than 25% of their overall sales in foreign countries. This is supported by the traditional stage models (Johanson & Vahlne, 1977), as those sales will most likely be generated in neighbouring countries. Born Globals, however, as well as, Born-again Globals, have a significantly higher share at the foreign sales ratio. For BG and BAG, 25% or more of all sales are highly probably to be made outside the domestic market (Olejnik & Swoboda, 2012).

Moreover, Olejnik and Swoboda (2012) raise the question, if internationalization patterns can change over time. Jones and Coviello (2005) speak of “fingerprint patterns” and internationalization profiles consisting of several firm’s internationalization behaviour or patterns. These internationalization profiles describe the changing internationalization patterns of SMEs over time, as internationalization patterns are captured as specific set of operation modes, countries and the extend of foreign sales at a specific point of time. Hence, Olejnik and Swoboda (2012) are removing the time lag due to the time-invariance of this characteristic and state that the other characteristics are open to change over time. In their findings, Olejnik and Swoboda (2012) observed that 81 out of 362 firms changed their original internationalization pattern from traditional to Born Global. These firms have increased their market diversity (scope) and their performance scale, while focusing on the same operation mode, which they used the last ten years. A second pattern observed is the change from traditional SMEs to BAGs, which 57 out of 362 firms made. The firms changed their dominant operation mode to FDI in 50% of the cases, and increased their foreign sales ratio to above 50 per cent. This is congruent with the literature, as Born-again Globals are usually emerging from traditional SMEs. The fact, however, that less traditional firms show a Born-again pattern rather than a Born Global pattern after ten years of time, asks for further interpretation. Olejnik and Swoboda (2012) conclude that firms may remain in a slower
and less committed pattern of internationalization, before rapidly increasing their commitment and pursuing growth orientation by international expansion. The definition of Born Globals is that a Born Global “captures only the early phase of committed internationalization” (Olejnik & Swoboda, 2012, p.490). By removing age as time-invariant characteristic, the authors are able to discuss Born Global characteristics under a new term “highly committed firms”. The authors, hereby, call for an enlargement of the knowledge on internationalization profiles and state that they showed that older firms also follow committed patterns. In my opinion, what Olejnik and Swoboda (2012) ask for is a downsizing of approaches to explain internationalization patterns. By removing age as critical factor for distinguishing between Born Global and Born-again global, the authors embrace an again simplified view on internationalization pattern, namely non-or less committed firms vs highly committed firms, in other words, firms pass different stages of internationalization, where they are able to (suddenly) increase or decrease the level of commitment.
Table 2-3 Characteristics of traditional, Born-Global and Born-again Global internationalization patterns

<table>
<thead>
<tr>
<th></th>
<th>traditional</th>
<th>Born Global</th>
<th>Born-again Global</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>typical description</strong></td>
<td>older firms</td>
<td>young firms</td>
<td>older firms</td>
</tr>
<tr>
<td></td>
<td>traditional manufacturing industries</td>
<td>originally knowledge-intensive industries, global niche markets,</td>
<td>traditional manufacturing and service intensive industries (e.g. retailing)</td>
</tr>
<tr>
<td></td>
<td>successive entry in and commitment to foreign markets</td>
<td>simultaneous entry into foreign markets</td>
<td>internationalization triggered by critical incident</td>
</tr>
<tr>
<td></td>
<td>no global focus</td>
<td>global from inception</td>
<td>no initial global focus</td>
</tr>
<tr>
<td></td>
<td>reactive</td>
<td>proactive</td>
<td>reactive</td>
</tr>
<tr>
<td></td>
<td>gradual internationalization</td>
<td>radical and committed internationalization</td>
<td>radical and committed internationalization</td>
</tr>
<tr>
<td><strong>countries (geographic scope)</strong></td>
<td>domestic expansion first</td>
<td>concurrent domestic and international expansions</td>
<td>domestic expansion first</td>
</tr>
<tr>
<td></td>
<td>successive international expansion in psychically and/or geographically close markets</td>
<td>worldwide operations focussing on lead markets</td>
<td>worldwide operations</td>
</tr>
<tr>
<td></td>
<td>single market at a time</td>
<td>several markets at the same time</td>
<td>several markets at the same time</td>
</tr>
<tr>
<td><strong>foreign sales ratio</strong> (performance scale)</td>
<td>not the main characteristic</td>
<td>large share of foreign sales</td>
<td>large share of foreign sales</td>
</tr>
<tr>
<td></td>
<td>small to medium share of foreign sales</td>
<td>different definitions, usually more than 25%</td>
<td></td>
</tr>
<tr>
<td><strong>foreign operation mode</strong> (structure scale)</td>
<td>increase in commitment along the establishment chain: no regular export activities, exports via agent, sales subsidiary, production/manufacturing</td>
<td>flexible choice of market entry modes</td>
<td>flexible choice of market entry modes</td>
</tr>
<tr>
<td></td>
<td>No defined sequence of modes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>varies from exports to collaborative modes and FDI, but no defined sequence</td>
<td></td>
<td>more committed modes possible because of strong resource base</td>
</tr>
<tr>
<td><strong>time lag (commencement)</strong></td>
<td>Late</td>
<td>Early</td>
<td>Late</td>
</tr>
<tr>
<td></td>
<td>different definitions ranging from three years to six years after inception</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Own Table in accordance with Bell et al., 2003, p.346/7.*
2.1.4 Stages of internationalization

In the previous Chapters we have discussed several internationalization patterns of SMEs, some with a higher degree of incremental, others with a more revolutionary pattern. Two approaches are widely discussed in the literature of international business, the Uppsala model and the Born-global approach (Vissak & Francioni, 2013; Dominguez & Mayrhofer, 2017). However, we have also seen more recent internationalization approaches, linking both views together (see also Subsection 2.1.2. modern approaches).

Several scholars (Benito & Welch, 1997, Kuivalainen et al., 2012) have attempted to analyse new phenomena concerning the internationalization of SMEs, even though their focus contrasts with the leading literature in this field. Their research discovers the phenomena “speed of internationalization”, the concept of “De-internationalization” and “Re-internationalization”. Vissak and Francioni (2013) propose a concept of non-linear internationalization patterns of SMEs, which is illustrated by Dominguez and Mayrhofer (2017, Figure 7). Hereby, the authors show that firms may decrease an international commitment before Re-internationalizing activities again. Over time, the companies are likely to follow various paths, e.g. change from incremental to revolutionary patterns or from increasing commitment to decreasing commitment in internationalization activities. Dominguez and Mayrhofer (2017) identify five stages of internationalization: Starting international expansion, increasing internationalization, changing or decreasing internationalization, Re-internationalization, increasing internationalization. The iteration of the stages of internationalization is dependent on the speed of internationalization.

2.1.4.1 Speed of internationalization

The internationalization approach Born Globals has shown that rapid internationalization is possible due to a high speed of internationalization. The speed of internationalization has influence on the time frame of the internationalization process. As time is seen as one of the factors to distinguish between Born Globals and Born-again Globals (Freeman et al. 2013; Bell et al., 2001), the term speed of internationalization appears mostly in combination with Born Global or Born-again Global literature (Li et al., 2015) (see also Subsection: 2.1.2).

Dominguez and Mayrhofer (2017) investigate the speed of internationalization together with the other phenomena of De-internationalization and Re-internationalization on five Italian SMEs and investigate also the time frame for each stage of internationalization, which companies may experience. Their findings, although very limited applicable due to their small size of their sample, provide indications towards a time frame for each stage. As the lack of a time frame for other internationalization approaches remains unspecified for traditional and Born-again Globals, the shift of the focus towards analysing, what forces are influencing the speed of internationalization brings further insights.

Li et al. (2015) differ between individual-level forces and company-level forces, which influence the speed of internationalization. More importantly, they extend existing literature on MNEs (Covin & Miller, 2014; Fan & Phan, 2007), which already investigate market-specific knowledge, risk-taking propensity, strategic alliance, and market orientation isolated from each other. Li et al. (2015) focus on SMEs and conclude that individual-level antecedents mediate the relationship between rapid internationalization and company-level antecedents, and company-level antecedents moderate the relationships between rapid internationalization of individual-level antecedents. Individual-level forces are entrepreneurial qualities, such as, innovativeness, risk-taking, and proactiveness (Li et al., 2012). Those entrepreneurial qualities are based on the entrepreneurial cognitive styles and personality characteristics, e.g. risk tolerance and propensity to act (Forbes, 2005), in other words, on resoluteness and decisiveness (Li et al., 2015). Oviatt and McDougall (1994) support the mediating force of the
entrepreneurial actor. Nevertheless, the authors add that the mediating force is influenced by enabling forces (technology), motivating forces (competition), and the discovery or enactment of opportunities.

Li et al. (2015) divide the company-level forces into three organizational capabilities: knowledge, consensus, and market responsiveness. Knowledge should be created by internal information and processing of various sources, which enables entrepreneurs to respond quickly to opportunities in the market (Knight & Cavusgil, 2004). The quality and the volume of the information and the speed of processing the information integration among various units determines the speed of internationalization and the degree of commitment to internationalization decisions (Verveke & Yuan 2013; Li et al., 2012). The second organizational capability is consensus. A company should be free of conflicts, which delay the process of internationalization (Li et al., 2012). Forbes (2005) discusses the freedom to exercise their creativity, Rapert et al. (2002) adds that bounded rationality and power battles lead to the development of subjective alternatives. Third, market responsiveness is the key to discover and exploit foreign market opportunities. The more responsive a company is, the earlier it will internationalize (Li et al., 2012). Li et al. (2012) differ from Oviatt and McDougall (1994) in so far, as they remain on a firm-level without considering the influence of business networks as moderating factor. The authors suggest, only, developing business networks as supporting tool for entrepreneurs for receiving information and to counteract potential psychological or mental pressure. Oviatt and McDougall (1994), however, are discussing the moderating effect of business networks in line with Johanson & Vahlne (2003) (see Subsection 2.1.1.2).

Dominguez and Mayrhofer (2017) are not only discussing speed of internationalization as variable factor for internationalization, they are also incorporating the recent concepts of De-internationalization (Bell et al., 2001) and Re-internationalization (Welch & Welch, 2009), in other words, the increase and decrease of commitment to the market, into their stage model of internationalization. Their view is supported by Vissak and Francioni (2013), who elaborate on a non-linear internationalization process.

2.1.4.2 A Stages Model of internationalization

A reduction of the internationalization process to the Uppsala model or the Born Globals approach is not useful. The literature review till now already shows that internationalization is more diverse. Available studies (Bell et al., 2001; Kalinic & Forza, 2012, Benito & Welch, 1997; Santangelo & Meyer, 2011; Welch & Welch, 2009) show that traditional SMEs do not necessarily follow an incremental or linear way of increasing internationalization. The stages model by Dominguez and Mayrhofer (2017) merges the traditional internationalization views with the recent developments of internationalization (Figure 7).
2.1.4.3  *(Increasing)* Internationalization

Indirect exports is the first international activity of most SMEs, in conformity with the Uppsala model, according to Dominguez and Mayrhofer (2017). In the first stage, companies acquire international experiences needed to develop their internationalization strategy, and develop their networks. For the chronology in time, the authors refer to a time duration of several years till up to decades of exporting activities. An exception here are Born Globals. During the second stage of internationalization, companies tend to rapidly increase the commitment towards internationalization and also tend to expand into more distant countries. Dominguez and Mayrhofer (2017) speak about one to eight years of rapidly growing international activities. In general, the first two stages of internationalization are consistent with the internationalization approaches covered in Subsection 2.1.1 and 2.1.2., despite the fact that companies may choose various approaches due to a change in speed of internationalization.

2.1.4.4  *De-*internationalization

Firms internationalize by joining (inter)national business networks in foreign markets, strengthen their position in the network and follow “iterative cycles of learning and changes in commitment” (Santangelo & Meyer, 2011, p.894). However, commitment may decrease, as well as, increase over time (Figure 7). A decrease in commitment is, what the literature calls De-*internationalization* (Santangelo & Meyer, 2011).

De-*internationalization* has various forms. Some researchers (Benito, 2005; Benito & Welch, 1997) investigated the De-*internationalization* as radical exit of commitment decrease, ceasing all international activities. They, hereby, speak about total De-*internationalization*. Others (Freeman et al., 2013; Hadjikhani & Johanson, 1996), however, discussed that De-*internationalization* is more complex, and that there are mitigated forms of De-*internationalization* which they call partial De-*internationalization*. Partial, in most cases, stands for a significant decrease in resource commitment in form of re-allocation of resources to the domestic market both in terms of human or financial capital, but it may, as well, consider the simultaneous economic maintenance of the business network by
information exchange, even the withdrawal out of only one international market/area from an international diversified company or an exit with ongoing operations has been studied. Santangelo and Meyer (2011), however, also investigate how likely it is that companies, soon after their initial internationalization move, change their commitment.

Turner and Gardiner (2007; p.489) add that firms choose to reduce international activities by “dropping a product, lowering foreign direct investment, reducing the scope of activities or withdrawing from international activities altogether”. They see De-internationalization as dis-investment as companies with an aggressive global strategy tend, after failure, to implement a more defensive corporate strategy.

The topic of De-internationalization is largely unexplored. Internationalization has been widely reduced to growth seeking strategies to sustain or increase the expansion of a company. In the extant literature, such as, the Uppsala model, the individual role and decisive power is underplayed. Recently, however, authors consider the role of individual entrepreneurs during strategy formation (Oviatt and McDougall, 1994) within the Born Global approach, e.g. Luostarinen (1990) already discusses in his work the possibility of withdrawal of old products, rejections of used operations and exits from old markets as changes in the state of the internationalization pattern.

Calof and Beamish (1995), Andersson (2000) and Turner and Gardiner (2007) confirm this view and add that De-internationalization is a strategic adaption (Calof & Beamish, 1995) and re-structuring of the firm’s international assets with the aim to sustain long-term growth strategy (Turner & Gardiner, 2007). Freeman et al. (2013, p.171) assume that “De-internationalization (market exit or withdrawal) can result in increased market knowledge and commitment”. Re-structuring is a pro-active and entrepreneurially driven skill with the combination of outward and inward-oriented activities during De-internationalization and Re-internationalization (see Subsection 2.1.4.5) over time. Outward-oriented activities consist of export intermediary, direct export or via agents, sales offices overseas, FDI to supply overseas, licensor or franchisor overseas, strategic alliances, cooperative manufacturing, joint ventures or special projects (see Subsection 2.1.5.3). Inward-oriented activities are import intermediary, exclusive reseller or buying agent, direct import, buying office overseas, licensee in home country, strategic alliances, cooperative manufacturing, joint ventures and special projects. Salk (2010) adds that strategic re-structuring enables continuous organizational learning, and on the individual level, increases the international experiences and knowledge about establishing or strengthening social and business contacts (Freeman et al., 2013) due to personal linkages of Born Global managers (Andersson, 2000). The advantage of Born Globals is that they can develop relational capabilities by preserving foreign relationships during the re-structuring process.

Freeman et al. (2003, p.158) further notes “a new product introduced to a new market through a new operation, or an existing product introduced to another country through another type of non-investment marketing operation, refer to ways of increasing the degree of the firm’s commitment” and hence, is influencing the internationalization pattern of the company. In my opinion, this statement is incomplete as the question remains, if such an internationalization move changes the company’s internationalization pattern by force. Earlier, this thesis discussed the differences between incremental and radical internationalization pattern. To a certain extent, it may, indeed, change the internationalization pattern if the new operation activity is radical enough, e.g. if the introduction of an existing products is done in several countries at the same time, which refers to the Born Global approach. If the introduction of a new or existing product, however, is done in neighbouring countries or countries with relatively low Psychic Distance, I would not consider that such operations actually change a company’s internationalization pattern. Therefore, I would rather change the initial statement of Freeman et al. (2013) stating the following: Such an internationalization move changes
the company’s stage of internationalization, hence, leaving room to interpret if the change also influences the company’s internationalization pattern.

De-internationalization, or within the Born Global approach also called re-structuring, can be partial or total. Freeman et al. (2013) have examined the activities undertaken in each form of De-internationalization, stating that De-internationalization is considered to be partial, if the company chooses to reduce or cease output completely, but maintain contact with foreign business networks. A small reduction of staff in the foreign market is also considered to be partial, as well as, inward-oriented activity. Overall, a decline in resource commitment is the major factor for partial De-internationalization, according to Freeman et al. (2013). A total De-internationalization appears if a firm decides to cease all its activities, including the stop of sales, the maintenance of business contacts and the withdrawal of all resources of the market. Hereby, the possibility of a re-entry through Re-internationalization is significantly lower than at a partial withdrawal from the market. Swoboda et al. (2011) investigated the reasons for decreasing commitment, which led to partial or total De-internationalization. Poor performance is the reason, most named by companies, with 9.8%, which leads to De-internationalization or re-structuring activities. This is congruent with Johanson & Vahlne’s statement (2009) that performance and missing promising prospects lead to ceasing or a decline of commitment. Another argument which can be put close to performance is the missing ability to “hold on its own”. This reflects the prospect of introducing a fast-selling item into the market, which soon after its introduction, reverts and has to be reviewed. The second most stimuli with 6.4% for a decrease of commitment is the internal environment. Hereby, the authors distinguish between resource factors and strategic factors. Whereas strategic factors are stimuli for increasing commitment, the resources are likely to support decreasing commitment. Driving factors are, hereby, increasing inefficiency within the organization and new management. Although new management may as increasing stimuli for internationalization, 6.4% according to Swoboda et al. (2011), and Bell et al. (2001), it is more likely that new management drives re-structuring or De-internationalization rather than increasing commitment in foreign markets. Stimuli, which lead less likely to a decrease in commitment in foreign markets are external environment and attitudes of managers. External environmental factors, which could lead to De-internationalization are less demand in the foreign market, rules and norms have changed in the foreign market, which make trade more difficult or costly for the host firm, or the contractual situation with resellers or agents have changed.

2.1.4.5 Re-internationalization

The focus of internationalization in research has been on internationalization as an outward process from countries (Welch & Luostarinen, 1988; Welch & Welch, 2009). Limited research on inward process and the connection to outward operation, as well as, De-internationalization is available. Especially De-internationalization becomes more important, as companies at an early stage of internationalization and smaller firms show a high drop-out rate from international operation. Re-internationalization has not been given focus during research for a long time. Only a few studies are yet available (Bell et al., 2001; Vissak, 2010; Welch & Welch, 2009). Stam et al. (2006) named Re-internationalization a pervasive phenomenon, as in many researches some firms displayed serial internationalization exit and re-entry behaviour, but have not been treated as specific category. Re-

---

5 The results of Swoboda et al. (2011, p.585) showed performance only as second important factor with 29.1%, and internal environment (38.7%) as the most important reason for commitment reduction. However, after reassessing the results by considering the “stimuli weight (percentage in relation to the number of items per factor)”, it became visible that only three items have been named within performance, but six items were named within internal environment. The authors concluded that performance was, hence, more important than internal environment item, leading to 9.8% performance versus a 6.4% weight of internal environment (calculation: 29.1%/3=9.8%; 38.7/6=6.4%).
internationalization is defined as process of withdrawal from an international inward or outward operation before subsequent international re-entry (Luostarinen, 1979). Welch and Welch (2009), hereby, argue that Re-internationalization is a process consisting of four stages “involving international business activity, an exit from international operation, a time-out period for some duration and a process of international re-entry” (Welch & Welch, 2009, p.568).

International business activities or international operations, hereby, refer to inward and outward activities of firms. Exit from international operations is not a clear-cut terming either. Freeman et al. (2013) speaks of withdrawal to be complete or partial. Complete withdrawal means cutting all contacts, communication and business activity in the foreign market and can be, therefore, called international exit of a foreign market. Partial withdrawal, on the other hand, means that companies cease international sales while maintaining a low-level communication with their former network in the market (see also Subsection 2.1.4.4.) as it might form a useful foundation for re-entry (Merret, 2002). Other companies anticipate ultimate re-entry and offer international promotion activities (Welch & Welch, 2009).

Some companies are still fully prepared to process orders by sporadic export, and although there might be considerable periods of time between those orders, such firm behaviour would not meet international exit. International exit means psychological disengagement or implementing a strategy, which includes international withdrawal (Welch & Welch, 2009).

Vissak and Francioni (2013) apply the terms partial and total on Re-internationalization, stating that firm’s de- and Re-internationalize several times during their internationalization process with different levels of commitment, hence, different entry modes. Factors for Re-internationalization are ownership change, acquiring additional knowledge, reduced trade barriers, improved foreign market/industry conditions. Network relationship and connections, resources, capabilities, re-entry costs, and previous actions/strategies in the foreign market influence re-entry decisions. Firms may enter new markets or previous markets. Factors to prevent to go into previous markets are negative circumstances of the previous exit(s), lack of knowledge about the market’s current state, lack of confidence or fear of pre-justice because of previous activities.

The time-out period is not clearly defined either. The results of Vissak and Francioni (2013) shows that a time-out period may apply for all international activities, or for particular regions/markets, and that the duration varies for each firm or within each industry.

An important role within the Re-internationalization research plays the individual entrepreneur. Speaking of complete international withdrawal, entrepreneurs might sell their company after ceasing international operations, or close down all operations and start a new company. Entrepreneurs add their international experiences to the companies, providing insights into processes and drivers of Re-internationalization. Companies, however, may also preserve and seize their international heritage, despite the loss of the entrepreneurial side due to ownership change. Hence, the new owner might set steps to re-enter international market (Welch & Welch, 2009).

The extant literature suggests that there is a significant group of companies, which De-internationalized, which plans to Re-internationalize in the future. Older studies show that 61.8% of SMEs within the clothing and electronic sector has plans to restart internationalization activities (Crick, 2002). This is an increase to a former study of Welch and Wiedersheim-Paul (1975), who found out that 43% of Australian non-exporters are planning to Re-internationalize. There is not yet empirical evidence, which provides insights into whether, how, when and how many of those firms with intentions to Re-internationalize, truly implement a Re-internationalization strategy later (Welch & Welch, 2009).
2.1.4.5.1 International experience

The difference between Re-internationalizers and newly international entrants is the international experience, whether positive or negative. The prior international experiences is seen as the international heritage of a company. The international heritage consists of its retained knowledge, networks (including relationship sediments), key management and staff, and attitudes. It has been retained, (partially) lost or even added in the time-out period.

Despite the withdrawal of psychical presence and tangible resources, the firms’ experiential knowledge, international networks, managerial skills and attitudes, in short, the intangible dimension, is their international heritage. In general, it can be said that the longer the international activity, the greater the international heritage, which can be used for Re-internationalization. The international heritage evolves out of positive and negative international experiences. Learning effects are created due to failures of inappropriate foreign market approaches and mistakes of key decision makers. Maehlum (1996), Crick (2004), and Schutjens and Stam (2006) state that companies are able to Re-internationalize successfully by “avoiding the crucial mistakes of the earlier efforts” (Luoastarinen & Welch, 1990, p.250). The degree of commitment at the previous internationalization strategy influences the international experiences of a firm. A prior-international player that showed commitment by choosing entrance modes with relatively high commitment, such as, subsidiaries, will gain significantly more international experiences than firms, which chose exporting.

The sustainable processing of international experience is a crucial process within Re-internationalizers. Welch and Welch (2009) warns that cognitive biases hinder companies to take the right conclusions out of their learning effects. Learning erases failures, leads to confidence and confidence produces favourable anticipations and interpretations of outcomes. Owner managers are more likely to be affected by selective, limited focus in the learning process, according to Forbes (2005). Rapert et al. (2002) discusses bounded rationality of decision makers, power battles within the management as reasons for different learning outcomes, Welch and Welch (2009, p.570) state that the “connection between former international experience, its outcomes, and types of learning, and the link between organizational memory and individual perceptions, are not straightforward”, hence, it is difficult to estimate what lessons an individual manager takes from previous successful or failed internationalization activities.

Market knowledge and international experience could be also dispersed in the company. The retaining of the people, involved in early internationalization actions, or accessibility to knowledge should be the aim of a company with Re-internationalization intentions after De-internationalization (Welch & Welch, 2009).

Hereby, managers might also see their previous internationalization experience in a very negative light so that a potential re-entry is not taken into account (Crick 2002). Benito and Welch (1997) speak about the choice of a more risk-averse approach, when Re-internationalization is considered.

In general, the greater the difference between the re-entry situation and the former international activities is, in terms of country, culture, line of business and networks, the less useful the international heritage is. However, international experience does help to develop institutional and business knowledge, which is not related to markets but firm-specifically relevant for all markets (Eriksson et al., 1997).

2.1.4.5.2 Exit Process

The judgement of the internationalization is also based on the type of experience involved in the withdrawal process. An overnight loss of price competitiveness, exchange rate drops or a disruption due to government action lowers the willingness to repeat international activities and re-enter
international markets more than a slow decline of sales over a certain period of time, which led to the exit strategy or a partial withdrawal from the market. Companies or managers facing one or many of such critical factors leading to a total withdrawal of the market, are more likely to conserve a negative attitude towards internationalization. They might show no interest, no commitment, and no internationally relevant information exchange with any foreign market for a certain duration of time, which the literature names total exit (Welch & Welch, 2009; see also Subsection 2.1.4.4)

2.1.4.5.3 International time-out and re-entry
The longer a company stays out of international markets, the less likely it will re-enter the markets. Parts of the international heritage are tied to the staff, and may be lost and remain inaccessible when staff is laid off during De-internationalization. Re-internationalization appears to be more likely for companies with a strong commitment to Re-internationalize, that are actively pursuing it and that their international heritage has not suffered from lay-offs or ugly-exits during the disruption of international networks. However, companies, which suffered due to critical factors during De-internationalization, may decide to re-enter only after a long period of rest. (Figure 7) For those companies major changes within the company or in the external environment could lead to a fresh start in terms of internationalization (Athanassiou & Nigh, 2002; Bloodgood et al., 1996). Given this aspect, time allows staff turnover, internal restructuring, the recovery or replacement of damaged networks, and the emergence of new external re-entry influences (Welch & Welch, 2009). Bell et al. (2001) confirms that for a group of long established firms, a change in ownership was the key driver for international activities.

The final stage, the re-entry process, occurs in a similar manner to the initial internationalization entry process. The determination of its success relies on how the re-entry process takes place, the encountered experience, the managerial commitment and the initial form, strength or source of stimuli to re-start international operations (Madsen & Servais, 1997).

The speed of Re-internationalization varies between the companies. Companies, which have retained their previous network or communication with prior business partners, as well as, the people, who were initially part of the internationalization activity, might Re-internationalize faster than those companies, which made a clear cut (Crick 2004). Furthermore, a broader and more intensive approach to internationalization can be chosen, as the initial learning stage about cultural knowledge, and knowledge about foreign business activities or networks can be re-activated (Welch & Welch, 2009).

Figure 8 illustrates key elements to build up a Re-internationalization platform. The depiction shows the initial described international heritage, which received dissipation, retention or addition during the time-out period. The internationalization platform shapes the commitment of the company towards re-entry and Welch and Welch (2009) assume that it has an impact on whether the company is successful or not, without explicitly adding empirical validity to their statement.
2.1.5 Four dimensions of the internationalization process by Simon (2007)

The literature review on traditional and modern approaches confirmed the existence of three dominant internationalization patterns. By providing a longitudinal view on internationalization in the previous chapter, the different stages of internationalization become visible and confirm that different levels of commitment in foreign markets can be chosen, which allow companies to move bi-directionally from one current operation mode to another. What has not yet been discussed, are the operation modes of companies, the necessary steps for companies to take, in order to internationalize and which factors determine the decisions for internationalization. A detailed look on the internationalization process of Simon (2007) provides a suitable approach for answering these questions.

Simon (2007) characterizes the internationalization process by four dimensions and raises four basic questions of internationalization: Why? Where? How? What? Figure 9 illustrates Simon’s four dimensions of an internationalization process. The question “why are companies internationalizing?”

---

Figure 8 Re-internationalization platform

![Re-internationalization platform](image)

**Source:** Welch & Welch, 2009, p.574

Figure 9 The internationalization process

![Internationalization process](image)

**Source:** Adopted Figure from Simon, 2007, p.221; Dehnen, 2012, p.206.
is answered by motives of internationalization, which are the drivers for the internationalization of a company (Dehnen, 2012). The layer market assessment refers to the question „where to internationalize?” and elaborates on the factors influencing market selection decisions. The question “how to internationalize” defines the operation modes of companies. The fourth layer “product scope” will be shortly discussed, as it is not relevant for this thesis. The outcome of the internationalization process is the formulation of an internationalization strategy (Simon, 2007).

2.1.5.1 Motives of internationalization

The motives for SMEs to internationalize are active or reactive. Management perceives profitability and international sales as strongest motivator. Higher economies of scales is another motivator for companies to internationalize. Higher output reduces the production costs and makes the company more competitive also in the domestic market (Czinkota et al., 2004). Increased profitability and higher economies of scale can be integrated to growth potential in the market scope. According to Ansoff (1965), growth potential can be found in the product scope or the market scope. The distinction is between growth in existing products or new products and between growth in existing markets and new markets. Four different alternatives yield, namely market penetration, market development, product development and diversification. Figure 10 illustrates the four different growth strategies. In this thesis market development in the context of internationalization activities of SMEs is in the focus. Market development is characterized by opening up new markets with existing products. Thereby, companies use both, the expansion into new regional, national or international markets and the extraction of new customer segments through new distribution channels or through promotion of existing product on international exhibitions of different industries.

![Figure 10 Growth strategies](image)

Also, the product scope is a motivator for companies to internationalize if the product offers a distinctiveness to other products in the international market or as a result from a unique technological advantage. This motivator is not necessarily part of a growth strategy, as usually existing products are exported rather than large investment into new products are made for internationalization purposes. Exclusive market information is another proactive motive and combines the knowledge about foreign customers, marketplaces, or certain market situations not known to others. The knowledge and exclusivity may rely on coincidences, or on international research of the firm. This motivator can be hardly protected and hence, is supposed to be imitate rather soon, especially, due to the...
improvements made in communication and information technology. Tax benefits are the seventh proactive motivator, however, a decreasing one given the emergence of strong bi- or multilateral trading contracts (Czinkota et al., 2004). Figure 11 illustrates proactive and reactive motives of internationalization.

Figure 11 Motives of internationalization

<table>
<thead>
<tr>
<th>PROACTIVE MOTIVATIONS</th>
<th>REACTIVE MOTIVATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit advantage</td>
<td>Competitive pressures</td>
</tr>
<tr>
<td>Unique products</td>
<td>Overproduction</td>
</tr>
<tr>
<td>Technological advantage</td>
<td>Declining domestic sales</td>
</tr>
<tr>
<td>Exclusive information</td>
<td>Excess capacity</td>
</tr>
<tr>
<td>Managerial urge</td>
<td>Saturated domestic markets</td>
</tr>
<tr>
<td>Tax benefit</td>
<td>Proximity to customers and ports</td>
</tr>
<tr>
<td>Economies of scale</td>
<td></td>
</tr>
</tbody>
</table>

Source: Czinkota et al., 2004, p.4.

Reactive motivators occur due to slow or sudden severe changes of the business environment. Competitive pressure is, hereby, the most common indicator for a reactive motive to internationalize. Losing domestic share due to internationalizing competitors, which benefit through higher economies of scales, drives companies to start internationalizing, in order to remain competitive. Overproduction and declining domestic sales are other reactive motives. If the domestic market is on a downturn, the company can either reduce production, which raises production costs; remain passive, which raises inventory costs; or start selling internationally. Initially, the selling of excess inventory was a short-term mechanism to remain competitive. Declining domestic sales could be also rooted in a decline in its product life cycle. Instead of investing into R&D for a pushback in the product life cycle, an expansion in foreign markets starts a new product life cycle. Similar, an excess in capacity can be a reactive motive for companies to internationalize, if the production process is not fully utilized. Such an excess in capacity might occur due to a saturation of the domestic market. In both ways, fixed costs can be reduced and spread on multiple markets, and, therefore, can be a powerful motivator. Proximity to customers is another powerful motivator for companies. This proximity can either be physic or psychological. Trade unions and trade contracts make foreign markets closer than ever before (Czinkota et al., 2004). Nevertheless, as Johanson and Vahlne (1977) discuss, different cultures, languages, norms, attitudes and values of managers could shift the perception of psychically close markets to relatively distant markets and vice versa. Another threat is that competitors might establish high entry barriers in foreign markets, and hence, the companies decide to follow earlier to lower the risk of losing the market permanently. Czinkota et al. (2004) states that quick entry rather ends up in De-internationalization due to insufficient preparation. The literature, especially within the approach, does agree to this statement. The difficulty, however, is to examine the factors leading to (quick) decisions pro internationalization. By detecting relevant factors influencing the decision makers during the assessment of markets, I hope to bring some light into this issue.

2.1.5.2 Market assessment

Hereby, Schu and Morschett (2017) also speak about international market selection (IMS) or foreign market selection. International market selection (IMS) refers to the actual choice of where to internationalize. „Despite this recognized importance of foreign market selection in International Business (IB) literature, little is known about how foreign market selection decisions are made...” (Schu & Morschett, 2017, p.710). Swoboda (2002a, p.110) distinguishes between external („unternehmensexterne“) and internal („unternehmensinterne“) factors for market assessment. Hereby, the external factors are divided into macro- and micro-environment. Swoboda's (2002a) distinctions can be criticized, as he combines industry-related factors together with internal factors within micro-environmental. Due to Swoboda's (2002a) missing definitions of external and internal
factors, this distinction in only two environmental layers does not meet the requirements of this thesis. Hence, this thesis follows the distinction of Wheelen and Hunger (2010, p.146f), who are distinguishing in macro- and meso-environment when considering the external factors, but in micro-environment when discussing internal factors.

Markets in general are split into two halves as seen in the Figure 12: The internal environment and the external environment. The external environment, also called macro-environment, hereby, elaborates on the natural, societal and task environment (Wheelen & Hunger, 2010). It contents of uncontrollable factors, such as, natural catastrophes, political stability, demographic distribution, life-style trends, and shifts in technologies (Gattringer et al., 2013).

The meso-environment is also part of the external environment, and is affected by the macro environment. It covers the industry-specific issues, such as, rules and norms, rivalry and stakeholders of companies. This level provides answers, where to position the company, or how to promote and distribute the products, but still is dependent on boundaries of the macro-level (Wheelen & Hunger, 2010).

*Figure 12 Strategic Management – Overview*

The micro-environment focuses on the internal analysis of the corporation. Internal analyses combine factors, such as, strengths and weaknesses, the culture and the structure of a company (Wheelen & Hunger, 2010).

**International market selection decisions**

While the motives (why?) are representing the initiators of the internationalization process, the entry mode (how?) and the product scope (what?) refer to the actual actions a company sets during the implementation of an internationalization strategy. In the middle of the internationalization process, the core of every internationalization process is the selection of a suitable international market. Hereby, market assessment is the foundation on which international market selection decisions (IMSDs) are made as IMSDs are based on the analysis of comparable information on countries, industries, products and/or customers and are directly related to the firms’ success or failure abroad (Schu & Morschett, 2017) in other words, IMSDs are based on market assessment (Sakarya et al., 2007). The literature on international market selection is widely consistent with the description of the process for international market selection (IMS), summarized by Kumar et al. (1993, p.33) in “a) screening stage, b) identification stage, and c) selection stage.” However, existing models for
international market selection “do not reflect the importance of firms’ strategic factors in the market selection decisions” (Rahman, 2013, p.120), which goes along with other scholars (Brouthers et al., 2009; Simon, 2007), who reveal that resources and capabilities of firms must be considered during the assessment of international markets.

Given the call of further research on this topic, there is a need to examine the state-of-the-art of the resource-based approach, before being able to close a circle again towards the influencing internal and external factors for market assessment. Section 2.2 complies this need and links to resource-based view to internationalization by introducing the decision matrix by Simon (2007). In Chapter 3, then, the market assessment is, again, discussed broadly and the literature is carefully examined to identify factors influencing the market assessment, and as a consequence, market selection decision.

### 2.1.5.3 Market entry mode

Researchers (Kutschker & Schmid, 2005; Welch & Welch, 2009) have focused on market entry strategies. Within the traditional and modern approaches of internationalization, internationalization patterns have been characterised by one, or more, likely operation modes. Although my focus does not lie upon market entry strategies, the importance to describe market entry strategies briefly is given, in order to complete the understanding of the internationalization process of SMEs. Therefore, I will provide an overview of the market entry strategies and discuss the relevant ones briefly.

Figure 13 illustrates five different internationalization strategies of companies. According to Kutschker and Schmid (2005), there are market entry- and penetration strategies, target market strategies, timing strategies, allocation strategies and coordination strategies. In order to complete the understanding of internationalization from the previous subsections, I will introduce the market entry- and penetration strategies, and discuss target market strategies briefly.

Market entry modes are divided into 10 different categories. A company can chose between those operation modes either during their initial market entry or as a market penetration form, if the entry has already been made earlier. This differentiation is important, as operation modes can change over time regardless of the initial market entry mode, as discussed during Subsection 2.1.1; 2.1.2; and 2.1.4.
Based on his focus on the resource-based approach, Simon (2007) provides an overview of the market entry- and penetration modes in consideration of their resource commitment and the control and governing ability of companies (see Figure 14).
2.1.5.3.1 Operation modes

**Export** defines the sales of products and services across national borders. The operation mode is characterized by a weak commitment of resources for the foreign markets and low initial investments are required. Early in the literature of internationalization, export was mostly assigned to SMEs as SMEs have limited resources available, but since the Born Global approach emerged, this statement is less significant. Export is distinguished in indirect and direct export. In some cases, a third party company is intermediated, which takes all the risks, all costs and all functions of the business activities abroad. Direct export maintains a direct relationship with the end customers in the foreign market. The differences of both forms lie in either owning more control over all activities in the market (direct export) or reducing the risk of all activities in the market and the revenues of the sales (indirect export) (Dehnen, 2012).

Foreign direct investment is characterized by a transfer of resources across national borders. Hereby, subsidiaries, joint ventures or strategic alliances are the most common one, according to Dehnen (2012).

**Subsidiaries** are one operation mode. Hereby, a production plant, sales office or an assembling workshop is established in the foreign country, which takes over certain processes. Major driver of this operation mode are cost reduction potentials. The foundation of subsidiaries brings greater independence of local partners, and transfer or drain of knowledge to third party companies can be minimized. Another way of establishing a subsidiary is the acquisition of a local partner or competitor. The advantage is that business can run smoothly shortly after the acquisition has been made, whereas the foundation of a new company requires more time to operate successfully (Dehnen, 2012).

**Strategic alliances** are horizontal consolidations of resources of different companies for a particular business area. Hereby, those companies could be partners or competitors in the market. Motivational drivers for strategic alliances are the lack of access to particular resources in the industry, or if both companies separately are not capable of penetrating the market. A more committed operation mode are joint ventures. If the risk and the financial investment are perceived as too high, or the knowhow to establish a subsidiary or production plan abroad is missing, a joint venture with one or more companies is chosen. A new form of organization is found, which can be headquartered in the market of the foreign partner(s) or in a third country. Within joint ventures, minority and majority holding, or even parity are distinguished. The removal of entry barriers, the reduction of risks compared to other direct investment modes, improved branding due to the cooperation with a local firm and the exchange of knowledge and sales channels are the most beneficial motivating factors. The disadvantages, however, are the wrong choice of partners and the differing strategic directions in which the joint venture should develop. Knowhow drainage, cultural differences and instability are other disadvantages for joint ventures and strategic alliances (Dehnen, 2012).

2.1.5.3.2 Target market strategies

Another internationalization strategy is target market strategies. According to Dehnen (2012), target market strategies are the second step of the market entry procedure. Due to the resource scarcity of SMEs, companies are forced to select markets, and the right market selection is the basic foundation for successful internationalization. As earlier defined, Kumar et al. (1993) defines three stages: screening stage, identification stage, and selection stage. Company-specific, product specific and market-specific factors need to be integrated into the market selection process (Simon, 2007) to reduce errors through subjective observation during the market assessment (Dehnen, 2012). Dehnen (2012) highlights three market-oriented terms to consider for market selection processes, the attractiveness of markets, the market-specific risks and the market-specific entry barriers. However, Dehnen (2012) adds that these terms only cover the market-oriented terms and that other factors are
influencing market selection decisions, such as, the industry, the type of product, company-specific factors and the management system.

2.1.5.4 Product Scope
The product scope discusses the standardization of products on a global scale or the product differentiation for satisfying customer needs. As one extreme form, a company could seek a high degree of standardization, a standard product for all customers, in order to reach economies of scale. The costs benefits provide a significant boost of competitiveness of the company. However, companies are changing to a local or regional differentiation of their product. Additionally, governmental restrictions or laws might prohibit the sales of a standardized products, and, therefore, an adaption or differentiation of the product is necessary, in order to enter or penetrate the market (Dehnen, 2012). The product scope may be affected by various external and internal factors, and, therefore, product specific factors are part of the examination of the external and internal environment during the market assessment of SMEs.

2.2 Resource-based view
The resource-based view was introduced by Penrose (1959) as an idea that the firm’s position in the market should be examined, based on its resources. However, it took several decades until Wernerfelt (1984) resumes Penrose’s thoughts and stresses that a set of resources may become a firm’s competitive advantage. Resources of firms are seen to be responsible for firms’ superior long-term performance, due to creating sustainable competitive advantages. Barney (1991, p.102) defines sustained competitive advantage as “implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy” and names four conditions of resources which a firm must possess if its competitive advantage is sustainable. The resources have to be valuable, rare, inimitable, and non-substitutable, better known as the VRIN\(^6\)-approach. Other researchers (Grant, 1991; Penrose, 1959) differ soon between resources and capabilities, or stock and flow resources. Later, knowledge is added as third category (Gersch et al., 2005).

Resources are classified into tangible, financial and intangible resources. Tangible resources are technological, physical and human resources, whereas intangible resources are reputation and organizational resources (Grant 1991; Wernerfelt, 1984). In the subject related literature, intangible resources are also referred to as tacit knowledge (Ruzzier et al., 2006) or organizational routines and skills (Nelson & Winter, 1982). Amit and Schoemaker (1993, Ruzzier et al., 2006, p.492) classify resources into seven main categories: “financial (size and type of capital); physical (location, plant, access to raw materials, transportation, etc.); human (personnel and management); technological (product and process-related); reputation (image, brands, loyalty, trust, goodwill); and organizational resources (management systems)”, and the relationship of firms.

Freiling (2001a) divides the RBV into five development stages over time. The first stage and the second stage, antecedents and constitutional stage, contain of the early micro economic literature and the researches of Penrose (1959), and Wernerfelt (1984). The third stage, orientation stage, differs between market-based view and resourced-based view, raises the issues core competencies and causal interdependencies. The competence-based view in the late 90s discusses the generation of competencies as special resources, and the usage of resources to exploit market opportunities. Within the fifth stage, competence-based strategic management, the term firm-addressable resources and competence leveraging are introduced (Simon, 2007).

\(^6\) VRIN= Valuable, rare, imperfectly imitable, non-substitutable, according to Barney (1991).
The RBV, however, is a static theory, where the integration of resources and capabilities in a dynamic environment is not discussed. In order to sustain the competitive advantage in dynamic environments, the dynamic capabilities are first introduced by Teece et al. (1997). Rapid changing environments require firms to create an ability to “integrate, build, and reconfigure internal and external competencies” (Teece, 1997, p.561) constantly and faster than in static environments. “Dynamic capabilities enable a firm to adjust its strategy and resources to maintain and sustain a competitive advantage” (Kim et al. 2015, p.535) by “involving organizational learning and the acquisition of knowledge, new combinations of resources, or establishing new activities” in dynamic markets (Ruzzier 2006, p.98). Embedded within the firms processes (Barney, 1991), those dynamic capabilities prevent a fast erosion of competitive advantages (Kim et al., 2015).

Although, the RBV has been in a central role since decades and many studies arose from the combination of the RBV with strategy management (Kutschker & Schmid, 2005; Simon, 2007; Mintzberg, 1985; Peteraf & Barney, 2003) or innovation research (Goes & Park, 1997), there is little theoretical consents on the definitions of resources and capabilities. In the Subsection 2.2.1, this master thesis shortly discusses major findings on definitions of resources and capabilities.

2.2.1 Definition of resources, capabilities and knowledge

According to Collis and Montgomery (1995), the RBV sees firms as unique, historically evolving cluster of resources. Firms are distinguished by the type and size, as well as, the combination of each resource. The firm-specific combination of resources allows the generation of competitive advantages of one firm towards another (Peteraf & Barney, 2003). According to Wernerfelt (1984, p.172), resources can be “anything which could be thought of as a strength or weakness of a given firm”. As this definition is too general, other researchers (Barney, 1991; Grant, 1991; Amit & Schoemaker, 1993; Freiling, 2001a) discusses and define resources on a more narrow perspective.

Freiling (2001a) distinguishes the terms input goods and resources, and hereby, defines input goods as commodity goods which are used for different processes in the firm and also used for the creation of internal and external output. Input goods are all (production) factors and all resources available to the firm. Resources, hereby, are all commodities, which are refined by firm-specific processes, in order to generate sustainable competitive advantages. Freiling (2001a) further adds that in each firm, certain bundles of resources have strong influence on the competitiveness of firms, whereas others have less or no influence at all. Nevertheless, bundles with less or no influence on the competiveness of the firm might still provide a useful foundation for the generation of new resources. The refinement process of resources is done by individuals or groups, who use their knowledge and experience to develop competitive advantages. Those individuals or groups can be either from the internal personnel or from external organizations or networks. Simon (2007) discusses competences as special resources, and states that competences of firms enable the processing of commodity goods and resources in superior form compared to the firm’s competitors. Lack of competences, however, would lead resources to remain fallow and unused. Knight and Cavusgil (2004) put competences next to embedded routines under the term organizational capabilities.

Freiling (2001a) defines competences as replicable, collective action of firms, which are not based on coincidence. Available input commodities are used and combined to remain market competitive. Core competences are a special form of competences supporting the development of sustainable competitive advantages and superior long-term performance. Core competences are cross-functional and cross-divisional integrated and result in a corporate behaviour or a corporate process, which the company can do exceptionally well. Hereby, the subject related literature distinguishes between individual-specific competences, and group-specific competences. Whereas group-specific competences are refinement processes, based on collective action, to process input commodities to sustainable competitive advantages, individual-specific competences are linked to capabilities (Simon, 2007).
Capabilities rely on resources and are defined as the competences out of superior combination of resources (Grant, 1991) which requires perfect coordination between multiple agents (Grant, 1991; Ruzzier, 2006). Constant repetition of co-ordination leads to developing organizational routines (Nelson & Winter 1982), those organizational routines involve tacit knowledge as local abilities or competencies, such as, skills, are categorized within capabilities (Grant, 1991) or organizational capabilities (Knight & Cavusgil, 2004). For identifying capabilities, manager must remain objective, Grant (1991) adds. The danger of biases occur if past successes, future hopes or wishful thinking are added during the identification stage. Hereby, the assessment of capabilities relative to the competitors is crucial, according to Grant (1991).

The knowledge-based view extends the resourced-based view and adds knowledge as the essence of organizational capabilities. Knowledge can be used to identify and use relationships among informational factors, in order to refine fallow resources into capabilities. Knowledge, especially tacit knowledge, is embedded in individuals, is hard to imitate, difficult to duplicate, in many cases unique and immobile. Continuous conversion of tacit knowledge leads to organization routines, embedded business activities derived from multiple individual sources leading to organizational knowledge (Knight & Cavusgil, 2004). There are many forms of knowledge in the literature, such as, private knowledge (Oviatt & McDougall, 1994), experiential knowledge (Koch, 2001; Oviatt & McDougall, 1994), market-specific knowledge and general internationalization knowledge (Johanson & Vahlne, 1977). The list is far not complete, however, these are specific forms of specialist knowledge, which in its essential form can be integrated into tacit or organizational knowledge (Knight & Cavusgil, 2004).

2.2.2 Resources in the context of internationalization
As discussed in earlier subsections of this master thesis, resources and capabilities should play an important role in international market selection. Initially, internationalization is defined as “the process of adapting firms operations (strategy, structure, resources, etc.) to international environments” (Crick, 2009, p.454). Although resources, capabilities and knowledge seem to be widely recognized as important brick in internationalization research, there is little literature available, which provides examples of particular resources or capabilities of firms or how those resources and capabilities influence international market selection decisions. A common behaviour in the theoretical literature, but also in international press, is, to discuss resources and capabilities as a superordinate reservoir of internal factors. Hereby, especially, failures of international strategies are rooted in resource scarcity, resource shortage or missing resource potential (Simon, 2007). Although, researchers (Barkema et al. 1996; Barkema et al. 1997) empirically state particular resources, e.g. the experiences and learning orientation, as influential factor for the internationalization process, the main lack of this and most other studies is the missing common definition of resources and capabilities which has been addressed in Subsection 2.2.1. Simon (2007), hereby says that consistency in wording is not comparable with consistency in terms.

He further adds that only a limited amount of models developed in resource-based or competence-based studies are linked to the internationalization of SMEs. The model of Ahokangas (1998) is the most promising model, according to Ruzzier et al. (2006), as it addresses the development of key internal and external resources and strategic internationalization behaviour of small firms combining the strategic and network perspectives of resources. The adjustment of resources within the firms and between firms and their environment is analysed alongside two dimensions. First, resources are internal or external; second, resources are firm-oriented or network-oriented. Figure 15 illustrates four potential modes of resource adjustment.
The modes of adjustment rely on the assumption that the firm has control over critical resource stocks and that there are interdependences between those critical resource stocks. **Internal firm-orientation** means that firms develop the critical resources needed for internationalization on their own. Hereby, the firm enters international activities and starts learning from experience, without relying on externally available resources (Ruzzier et al., 2006). **External firm-orientation**, however, consists of developing or using relationships with various expert organizations, research institutions or universities. The **network-orientation** contains the adjustment of internal resources in a firm’s network by entering co-operations in terms of strategic alliances in R&D or international after sales-services. Both partners express their interest in joint development of resources for their own purposes. **External network-orientation** aims on the shared control over firm-specific resources of their own via mergers or joint ventures. Ruzzier et al. (2006) apply the model practically when the authors state that firms may pursue different internationalization strategies over time. Ruzzier et al. (2006) then draw the line to the network approach by supporting other researcher’s (Johanson & Vahlne, 2009) findings that the network and the actors within the network provide the resources for internationalization. The central statement of the authors indicate an endorsement of the incremental approach, by raising the argument “the model rests on (organisational) experimental learning that increases (market) knowledge and leads the firm to increased (market) commitment” (Ruzzier et al., 2006, p.100). However, although this statement is similar to claims of researchers of incremental internationalization patterns, Ruzzier et al. (2006) also discuss the entrepreneurial perspective, as the social capital of entrepreneurs can be seen as resource. The connection between individual entrepreneurs and their firms with other individuals in the same industry and the international environment allows the integration of the available tacit knowledge (of the network). The entrepreneurial perspective of SME internationalization is, however, referred to the Born Global approach, as discussed in Subsection 2.1.2.4.1.

The few available studies in the IB literature (Chang, 1995; Bogner et al., 1996; Tsang, 1997) focus on market entry modes, market cultivation strategies and target market strategies. However, none of the above studies discusses the influence of resources on international market selection decisions of SMEs. As basic foundation for internationalization underlies the assumption that companies have developed an international competitiveness, which lies in the survival of the company by establishing a base of resources to remain present on the market. As second assumption, Simon (2007) raises the causality
and the temporality of the internationalization process. Causality describes the motives of companies to go international, whereas temporality is linked to timing and speed of internationalization.

2.2.3 Decision Matrix by Simon (2007)
Simon (2007, p.224) develops a decision matrix, based on the internal and external factors. The decision matrix evolves out of the resource-oriented research to explain the competitiveness of companies in markets, based on the availability of resources and competences (Gersch, Freiling, & Goeke, 2005). Resources differ regarding to type, scope and in their combination with each other. Competences refer to the ability to use the resources in a more efficient way than competitors (Reed & DeFillippi, 1990). Simon simplifies the matrix by defining resources and competences, in the following referred to **Base of Resources**, to be existent or non-existent, at a given time. As criteria to determine **market attractiveness**, Simon (2007) suggests market potential, quality of market, supply of energy and raw materials and the environment. The market attractiveness can be seen as, either high, or low.

**Table 2-4 Decision Matrix**

<table>
<thead>
<tr>
<th>Market attractiveness</th>
<th>Base of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-existing</td>
</tr>
<tr>
<td>high</td>
<td>Resource-gap</td>
</tr>
<tr>
<td>low</td>
<td>Decision irrelevant</td>
</tr>
</tbody>
</table>

*Source: Simon, 2007, p.234*

Four possible situations are illustrated in the decision-matrix (Table 2-4). First, if the base of resources is not existent and the market attractiveness is low, a decision-irrelevance is given. Second, if the market attractiveness is high, but the base of resources is missing, a resource gap prevents market cultivation. If a resource gap is closed, a future market cultivation will be possible. Third, if the market attractiveness is low, but the base of resources for the market exists, the outcome is marked as waste or an inefficient use of resources. Those resources, which are captured in this state of the matrix should be re-allocated, e.g. to fill resource gaps in other markets. The optimal outcome is an existing base of resources and high market attractiveness, where resource exploitation enables market cultivation (Simon, 2007). Company-specific combinations of resources and the superior usage of such lead to competitive advantages (Collis & Montgomery, 1995), which sustain the viability of the company in the market (Gersch, Freiling, & Goeke, 2005).

The extension of the decision matrix by defining the base of resources and market attractiveness to be country-specific, Simon (2007) is able to draw the line from the RBV to the internationalization process of companies by extending the decision matrix to 16 different scenarios (Figure 16).
Figure 16 Extension of the decision matrix

### Table 2-5 Possible Scenarios for the decision matrix

<table>
<thead>
<tr>
<th>Combination</th>
<th>Scenario</th>
<th>Business activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A</td>
<td>Home Country: decision irrelevance, Host Country: decision irrelevance</td>
<td>No activity</td>
</tr>
<tr>
<td>1B</td>
<td>Home Country: decision irrelevance, Host Country: Resource irrelevance</td>
<td>No activity, resource degeneration in the host country</td>
</tr>
<tr>
<td>1C</td>
<td>Home Country: decision irrelevance, Host Country: resource gap</td>
<td>Resource build-up in the host country</td>
</tr>
<tr>
<td>1D</td>
<td>Home Country: decision irrelevance, Host Country: resource exploitation</td>
<td>Instant internationalization</td>
</tr>
<tr>
<td>2A</td>
<td>Home Country: resource irrelevance, Host Country: decision irrelevance</td>
<td>No activity, degeneration of home country resources</td>
</tr>
<tr>
<td>2B</td>
<td>Home Country: resource irrelevance, Host Country: resource irrelevance</td>
<td>Resource degeneration in home and host country</td>
</tr>
<tr>
<td>2C</td>
<td>Home Country: resource irrelevance, Host Country: resource gap</td>
<td>Resource allocation between home and host country, resource build-up in host country</td>
</tr>
<tr>
<td>2D</td>
<td>Home Country: resource exploitation, Host Country: resource irrelevance</td>
<td>Instant internationalization, resource exploitation in host country</td>
</tr>
<tr>
<td>3A</td>
<td>Home Country: resource gap, Host Country: decision irrelevance</td>
<td>Resource build-up in home country</td>
</tr>
<tr>
<td>3B</td>
<td>Home Country: resource gap, Host Country: resource irrelevance</td>
<td>Resource allocation from host to home country</td>
</tr>
<tr>
<td>3C</td>
<td>Home Country: resource gap, Host Country: resource gap</td>
<td>Resource build-up in home and host country</td>
</tr>
<tr>
<td>3D</td>
<td>Home Country: resource gap, Host Country: resource exploitation</td>
<td>Instant internationalization, resource build-up home country</td>
</tr>
<tr>
<td>4A</td>
<td>Home Country: resource exploitation, Host Country: decision irrelevance</td>
<td>Born National</td>
</tr>
<tr>
<td>4B</td>
<td>Home Country: resource exploitation, Host Country: resource irrelevance</td>
<td>Born National, resource degeneration in host country</td>
</tr>
</tbody>
</table>
Cases 1A, 1B, 2A and 2B are described in Table 2-5 and describe no activity, due to low market attractiveness in home and host countries. Fallow resources of case 1B, 2A or 2B should be re-allocated to more attractive markets. Scenarios requiring decisive action are cases 1C, 2C, 3A, 3B and 3C. Hereby, the market attractiveness in the home or host country is given, but a resource gap is identified. Companies surpass the identified resource gap by building up the necessary resources internally, or transfer resources by acquisition of or cooperation with local businesses. The cases 1D, 2D, 3D offer high market attractiveness in the host country, but also an existing resource base for the host country. Simon (2007) draws the line to internationalization, as he suggests instant internationalization for companies facing this scenario. The extended decision matrix by Simon (2007) also offers a drawback to recent discussions involving Born Nationals\(^7\) as pendant to Born Regionals or true BG. The cases 4A, 4B and 4C discuss the high market attractiveness and a strong resource base in the home country, while at the same time, a resource gap and less market attractiveness in the host country, leading to an increased focus on the home country (Simon, 2007). The case 4D is linked to the Born Global approach, if the market attractiveness, as well as, the resource base is favourable high for the company to become global right from or soon after inception (see Subsection 2.1.2.2.1, or Oviatt & McDougall, 1994).

Simon (2007), however, fails to name particular factors of resources or competences in his decision matrix, which could indicate conclusions about the criteria “existence or non-existence” of the base of resources, hence, the justification of this criteria for his decision matrix is not given. In order to counteract this weakness, Subsection 3.3.2 elaborates on examining internal factors of companies related to international market selection decisions.

The same weakness applies for the external environment. Although Simon (2007) names at least the terms to describe market attractiveness, the definition of market attractiveness is missing. Second, in his thesis there is no indication on how to retrieve the necessary information on external factors of the environment, which leaves room for further research. In order to shed some light on the external factors influencing IMSDs, Subsection 3.3.1 examines tools to identify external factors.

Despite the drawbacks of Simon’s (2007) decision matrix, it could be used as tool to relate to different international market selection decisions. Beforehand, the above mentioned weaknesses must be eradicated. Hence, this master thesis focuses on the examination of the internal and external factors, in order to prepare the foundation to estimate the influence of the revealed factors on IMSDs, and filling the decision matrix with an applicable pool of factors.

\(^7\) Born Nationals, hereby, represents a strong focus on the home country, due to low market attractiveness or no resource base in the host country. In the literature, Born Nationals are comparable to traditional companies or Born-again Globals, which stay in their home country for a long time before they internationalize. (see also Subsection 2.1.1 and 2.1.2.2.2)
3 Internationalization process – Market assessment

3.1 International market selection

The international market selection approaches are, generally, distinguished in “high and low levels of systematization”, or, in other terms, “the rational market selection approach”, and “the Internationalization Process (IP)-based approach” (Marchi et al., 2014, p.2200). The rational market selection approaches are contained of a formalized and structured sequence of steps, in order to assess the markets. Hereby, the definition of goals, the definition of a set of alternative solutions, the identification and weighting of variables, and the evaluation and selection of the optimal solution based on rational choices are parts of the process. Quantitative methods are used to collect extensive information sourced from secondary data, in order to rank and benchmark different solutions based on accessibility and attractiveness (Papadoulous et al., 2002).

Low systematic approaches allow managers to make iterative decisions, based on risk aversion (Stray et al., 2001), and which are influenced by the firm’s strategic orientation and experiential knowledge (Koch, 2001). Hereby, Johanson and Vahlne (1990) refer to behavioural studies and the decision maker’s intention to find the one satisfactory solution, by relying on heuristics of judgement and choice and the concept of Psychic Distance. Their statement, however, has been made prior the emergence of the Born Global, and the Born-again Global approach of internationalization. Hence, the importance of the Psychic Distance, as core construct of market selection approaches, has diminished over the last decades (see Subsection 2.1.1.2.1).

Rational models have been criticized to suffer from their prescriptive nature, as no consensus for a complete set of factors to measure market attractiveness and accessibility exists (Sakarya et al., 2007), and there is no consensus about the relative weighting of those factors in multi-criteria settings (Papadopoulos & Denis, 1988). Therefore, the secondary data collection is problematic (Papadopoulos & Martin, 2011), and the strategic orientation of the firm is neglected (Brouthers et al., 2009). Low-systematic approaches, however, suffer from cognitive biases in problem formulation, data acquisition, judgement and choice (Kumar et al. 1993), and “variables tend to be ignored, and empirical validation is lacking” (Marchi et al., 2014, p.2201).

Small firms tend to use low-systematic approaches, as extensive research and information collection about many foreign markets are unrealistic and costly. Hence, the business owners’ personal goals, the stability of the firm, resource constraints and resistance to change are the most influential factors of the strategic orientation. Especially several scholars name entrepreneurial orientation, as one of the most important factors for SME internationalization (Ngoma et al., 2017; Kuivalainen et al., 2012), and intuition, the so-called “gut-feeling”, of the management plays a significant role for the IMS (Marchi et al., 2014). Entrepreneurial orientation contains of risk-affinity, pro-activeness and innovativeness. A company is risk-affine, when it shows willingness to take calculated business opportunities, although not being able to ascertain the consequences that the risk might bring. Risk-affine firms are aggressively searching and seizing business opportunities, in order to attain high returns. The anticipation and pursuit of new opportunities related to future demand and forward-looking commitment to emerging market is called pro-activeness. Pro-activeness is characterized by the number of realized projects in foreign countries of less or no strategic interest at all. The implementation of first mover advantages by expanding into unexploited markets and showing high market responsiveness are influencing the pro-activeness of a company. Innovativeness is the third pillar to affect entrepreneurial orientation. Which is evaluated on the degree of new products or new processes, in a particular duration of time (Ngoma, 2017). Innovation means to generate, accept and implement new ideas, processes, products or services (Calantone et al., 2002).
By referring to the research of Kumar et al. (1993), Rahman (2013) describes the screening stage as the ranking of markets by macro-level factors, such as, economic, political, socio-cultural, and geographic factors. Wheelen and Hunger (2010, p.147) name this stage societal environment, as “the mankind’s social system includes general forces” that affect multiple industries. The identification stage, in the following, according to Rahman (2013), elaborates on industry-specific indicators of markets, the competition within the different markets and aims to narrow down the pool of alternatives for market entry. Wheelen and Hunger (2010) name this stage task environment. This stage consists of units or groups, which are in an interrelationship with each other, who directly affect or are affected by the moves of each other. According to Wheelen and Hunger (2010, p.147), “governments, local communities, suppliers, competitors, customers, creditors, employees/labour unions, special-interest groups, and trade associations”, can be summarized within this group. However, they also add a third category, of natural environment, to their screening stage of the environment, because they name physical resources, wildlife, and climate that are as “an inherent part of existence on Earth” (Wheelen & Hunger, 2010, p.147). In the selection stage, Rahman (2013) discusses the usage of firm-specific factors to oppose with the alternatives from the identification stage and names profitability and product diversification as internal factors.

Many authors in the last decades have elaborated on international market selection and some of them proposed their own IMS-models (Brouthers et al., 2009, Papadopoulos et al., 2002, Swoboda et al., 2009, Schu & Morschett, 2017). The comparability, however, is weak, due to different conditions, such as, the retailing industry in the research of Schu and Morschett (2017); and the manufacturing industry in the research of Brouthers et al. (2009). Therefore, I am discarding a reprocessing of published IMS-models during the last decades, but also, due to the statements and research calls made by Rahman (2013), Brouthers et al. (2009) and Simon (2007) of the missing influence of resources and capabilities within the current selection process of international markets.

3.2 Environmental Scanning

The research question aims to identify external and internal factors relevant for the market assessment. A key term, which is in the literature named to examine the environment, is Environmental Scanning. „Environmental scanning is the monitoring, evaluation, and dissemination of information from external and internal environments to key people within the corporation. A corporation uses this tool to avoid strategic surprise and to ensure its long-term health” (Wheelen & Hunger, 2010, p.146). The two layers of the environment of the strategic analysis of markets are: the external environment and the internal environment. Hereby, Simon (2007) incorporates both layers into his decision matrix under the terms market attractiveness and base of resources. He further states that resources and capabilities do play a minor part in current market selection decisions, as the internal environment analysis receives less attention and different weighting of factors, than the external environment in the market assessment process. The literature provides an extensive amount of tools and models for analysing the internal and external environment (Figure 17).
At first, however, recent IB literature is examined to receive a state-of-the-art overview about the common factors used for both sides of the environment. These factors sourced from the IB literature are later compared with the findings from the environmental scanning for each environmental dimension. By choosing and applying particular tools for each environmental layer, information about external and internal factors are extracted and conclusions of the interactions between internal and external factors of SMEs and the market assessment process of SMEs can be generated.

3.3 External Factors
3.3.1 Narrative Review of external factors influencing international market selection decisions

The term market attractiveness is often associated as the key element influencing international market selection decisions (Simon, 2007; Wheelen & Hunger, 2010; Marchi et al., 2014), but it is yet lacking a core set of variables for measuring market attractiveness. Next to developing their own IMS models, some authors (Rahman, 2013; Marchi et al., 2014; Kuivalainen et al., 2012) tried to bring some light into the antecedents of international market selection decisions by investigating, which factors influence the decision makers.

Kuivalainen et al. (2012) names the environmental level, the firm level and the managerial level. Using the definition of Wheelen and Hunger (2010), the factors within the environmental level can be categorized in the macro- and meso-environment, whereas the firm level and the managerial level can be both categorized as micro-environment of the company. Kuivalainen et al. (2012) identifies industry factors, environmental dynamism, uncertainty or environmental turbulences, distance, country of origin and market-specific factors, such as, economic, competitive, technology, customer- and regulatory factors. These macro- and meso-level factors lack distinctiveness and are not broadly discussed. Although Kuivalainen et al. (2012) is able to narrow down the pathway for identifying external factors, which influence IMSDs, his work does not bring sufficient new insights.

Rahman (2013) takes a slightly different approach by identifying macro-economic indicators, other macro-level indicators, micro-level indicators and firm’s international business capabilities. Using the definition of Wheelen and Hunger (2010), macro-economic indicators and other macro-level indicators can be categorized within the macro-environment; micro-level indicators can be categorized within
the meso-environment; and firm’s international business capabilities are part of the micro-environment of companies. Rahman’s (2013) results, yielded from interviewing several major decision makers of different industries, which identified thirteen macro-level factors, that key decision makers look at, for screening international markets and use as main criteria for discarding the majority of all non-favourable countries. The factors of Rahman (2013, p.130) are re-categorized into statistical and non-statistical indicators.

Statistical indicators:

- Gross national product (GNP),
- GNP growth rate,
- rate of inflation,
- currency reserve,
- stability of exchange rate,
- population size,
- size of middle class,
- literacy rate,
- product significant demographics

Non-statistical indicators:

- cultural practices,
- religious practices,
- traditional links and
- Attitudes towards foreign products.

Whereas, the first nine indicators are statistical factors, which allow comparison between different countries, of which only the first six of them provide a pre-condition for generalization. The size of the middle class, the literacy rate and the product significant demographics, although are statistical factors, and the remaining indicators, such as, cultural practices, religious practices, traditional links and attitudes towards foreign products, have a weak ability to be generalized among different industries and, therefore, seem to be more product-related. Rahman (2013) mentions, hereby, that food in Malaysia needs to be “halal”, which is important for the food industry, but can be neglected by the automobile industry. The meso-environmental indicators, according to Rahman (2013), are local production statistics, import statistics, projected demand, competitive offerings and intensity of competition. Those factors offer the possibility for comparison between countries. In contrary to Kuivalainen et al. (2012), Rahman (2013) is able to name at least six generally comparable macro-level factors and six meso-level factors, which can be compared between different countries.

Marchi et al. (2014) tested an IMS decision process approach that is able to capture the entrepreneur’s experience, reduce cognitive biases, but still preserve the flexibility requested for decision-making by combining low and high systematic approaches of IMS. In their study, the authors identified 21 relevant factors for assessing the market. Hereby, the authors relied on existing international business literature (Sakarya et al., 2007; Cavusgil et al., 2004; Koch, 2001; Papadopoulos et al., 2002) to list objective and perceived input variables. Using the definition of Wheelen and Hunger (2010), the thirteen identified input variables can be categorized within the macro- and meso-environment, whereas the perceived input variables are categorized within the micro-environment. The factors of Marchi et al. (2014, p.2205) are categorized in macro- and meso-level factors:
The macro-level factors are:

- Apparent consumption (domestic production plus imports minus exports)
- Consumption trend (for the relevant duration)
- Human Development Index
- Gross national product per capita (GDP)
- Consumption propensity (apparent consumption/total consumption)
- Import penetration (total imports as % of total consumption)
- Geographic distance
- Product specific factors
  - % of university students
  - % of population in the 10-30 years age range
  - Country of origin advantage
- Country risk

The meso-level factors are:

- Substitutive product demand
- Tariff barriers
- Country risk

Nevertheless, the findings of Rahman (2013) and Marchi et al. (2014) can be criticized. Rahman’s (2013) findings depend strongly on the experience and knowledge of the interviewed decision makers. The internationalization background of the interviewed people in Marchi et al. (2014) research was not determined. Although, a certain level of congruence between the existing literature and the responses of the decision makers has been ascertained, the empirical evidence, of if those factors are truly valid, is missing. Additionally, only successful companies have been interviewed by Rahman (2013), which leaves room for further research, on which external factors unsuccessful companies have relied on during their IMS decision process. In the study of Marchi et al. (2014), the only external factor discarding the majority of unsuitable countries during the screening stage has been the GNP, based on the individual decision and evaluation of the entrepreneur, whereas Rahman (2013) considers macro- and meso-level factors to relevant for the first stage. This limits the generalization ability of the findings of Marchi et al. (2014). Rahman (2013) further adds a second stage, which he calls structural awareness. The factors added during this stage are presented in Subsection 3.3.3.

Both studies suffer also from the missing validity, if the examined external factors are complete. As Subsection 3.3.3 shows, the total number of external factors, by using special tools of strategic analysis, is identified to be 58 (see Subsection 3.4.1.4), as compared to only 12 at the study of Marchi et al. (2014). The two investigated studies of Rahman (2013) and Marchi et al. (2014) go in line with the internationalization literature, but avoid drawing a line to the strategic management tools to assess relevant markets.

3.3.2 External Environmental Scanning

Wheelen and Hunger (2010) divide the process of external environmental scanning into three aspects of environment of corporation’s natural, societal, and task environments. The natural environment focuses on general economic factors, such as, climate, wildlife and physical resources. The interrelation between corporations and the natural environment is persistent, but the side effects of their interrelation affects also others. The concept of sustainability, for example, considers these side effects, such as, Global Warming. Furthermore, it states that corporations must include both, the unpredictability of natural occurrences, such as, changing of sea level, changing of weather or changing
of climate, as strategic factors and the impact of their activities upon the natural environment, into their decision-making processes.

The societal environment contains numerous strategic factors, which can be regionally or nationally diversified. Those strategic factors are unique for each country; in fact, neighbouring countries can face totally different societal factors, such as, different understanding of business ethics, trade regulations or the transfer of profits. In order to avoid inconsistent terminology, the societal environment is named macro-level environment.

The task environment refers to the industry-specific environment of companies. Hereby, the industry competition is analysed, as the analysis gives an indication about the attractiveness and profitability of the industry (Wheelen & Hunger, 2010). The task environment is renamed meso-level environment for this master thesis.

3.3.2.1 Available Tool for analysis of the natural environment

The natural environment represents the ecological system of the world. Usually, most companies neglect this layer during the market assessment, because they already deal with the current consequences, as the factors emerging from this layer affect all people in the world, e.g. global warming. However, there are minor regional diversifications, such as, natural disasters. Some areas are affected by volcanic eruptions than heavy snowstorms; others are affected by annual tornados, not by earthquakes or droughts. Also, the supply of water is of lower quality and quantity in African countries than elsewhere. Such minor adjustments have to be considered also during market assessment decisions (Wheelen & Hunger, 2010).

3.3.2.2 Available Tool for the analysis of the macro-level environment

Rahman (2013), and Wheelen and Hunger (2010) discuss the societal environment, or macro-level, as the ranking of markets by economic statistics, political, environmental, socio-cultural, and geographic factors. The tool, which provides an insight into these factors, is called the STEEP or PESTEL analysis. The PESTEL analysis divides the societal factors into six categories, namely: economic, political, legal, environmental, socio-cultural and technological factors. Each of the categories relies on its specific trends, and those trends can have strong or weak impact on the businesses. The impact of each specific trend varies from industry to industry, which means that businesses of different industries may take different strategic approaches to counteract a particular trend. The factors presented in Table 3-1 are unranked, and re-processed in Subsection 3.3.3 on their relevance for international market selection decision. The following external factors are based on Appendix A: PESTEL analysis.

One economic factor, which impacts business activities, is interest rates. Higher interest rates lead to a higher mortgage rate, which increases the price of houses, and hence, result in a reduction of houses sold (Wheelen & Hunger, 2010). Additionally, a low demand on new houses has further impact on the home appliance industry, as less people with a new house require new home appliances, such as, stoves and dishwashers. Another economic factor is the unemployment level. The lower the unemployment level, the more difficult it is to employ the right person for the right job. In Czech Republic (CZ), the unemployment rate is the lowest of all members of the European Union (EU) in 2017 (Eurostat, 2018). Opening up a sales subsidiary and finding the right person with the right qualifications is significantly more difficult in CZ than in other countries. Exchange rates or currency markets are

---

8 The original term PEST goes back to Dare (2006), and has been re-organized multiple times to STEPE (Richardson, 2006) or PESTEL (Shilei & Yong, 2009).
another economic factor, which can exert influence on the business activities. Given the current drop of about 20% of the Dollar to the Euro, since December 2016 (Exchange rate, 2018); or the uncertainty following the Brexit9 negotiations within the EU leading to a drop of 25% of the Pound Sterling to the Euro, major trends and long-term changes in the currency markets are visible. Another economic factors are wage-levels, and the disposable and discretionary income. The higher the average income per person, the keener people are to consume. The gross domestic product (GDP) and its annual growth represent a major economic factor (Wheelen & Hunger, 2010). Energy alternatives, energy availability and costs of energy vary between countries. In Iceland and Bosnia and Herzegovina, the average price for one kWh is only a third of the costs of Denmark or Germany (KWH Preis, 2018). However, there are also global factors, which can have impact on local or regional business activities, but are not caused by natural disasters. A global financial crisis, a breakdown of the financial system, has obviously significant influence on many industries.

The technological part of the macro-environment can also exert influence on different industries simultaneously. The Internet and other improvements in communication technologies allows us to stream videos, music and movies instantly, while endangering the business model of all movie rental businesses or film distributors and CD stores. Improvements in the computer microprocessors, with the development of portable devices, promoted the use of personal computers in nearly every household, which also affected the automobile industry. Patent protection is, hereby, named by Wheelen and Hunger (2010) as technological strategic factor. In some markets or areas, such as, the EU, it might be easier to protect new products or technology than in others, due to its consistent law for each member. Statistics, such as, the total government spending on R&D or the total industry spending for R&D, on the other hand, provide an insight about the intensity of the market in terms of R&D. In Japan, Korea or Austria, the average gross domestic expenditure on R&D as percentage of the GDP exceeds 3% (OECD RDS, 2018). The availability of the Internet, a telecommunication infrastructure, differs in terms of its quality for different countries, which vary on relatively high level, especially in developed countries (Unicef, 2018). In fact, the greater problem of today’s telecommunication infrastructure, in the developed countries might be the increasing cyber criminality (CSIS report, 2018).

Antitrust laws are political-legal instruments to restrict unfair acquisitions within the same or related industries, forcing larger companies to diversify into unrelated industries. Lufthansa, a German airline, experienced the intervention by antitrust laws during their acquisition of AirBerlin, an insolvent German competitor. Certain parts of AirBerlin, e.g. FlyNiki, an Austrian subsidiary of AirBerlin, could not be acquired, due to the application of antitrust laws (Reuters, 2018). Higher levels of taxation and constraining labour laws in Western countries challenge companies to find a competitive strategy or to consider relocation into a less costly market. Government bureaucracy is another political-legal factors to consider, as there is a significant delay in time until a new business gets its approval. The delay ranges from 1 day in Singapore, to 14 in Mexico, 87 in Indonesia or 481 days in Congo, according to Wheelen and Hunger (2010). The Global Warming and the C02 footprint are regulated via Greenhouse Gas Emission Trading Acts. Although the Kyoto protocol and the following UN Climate Change conferences regulated the C02 emissions, which has been signed by 175 states, the implementation does affect each country differently. The withdrawal of the United States from the

9 Brexit is a combination of “Britain” and “exit of the European Union”, which increases the uncertainty in economic developments (Guardian, 2018).
Climate agreement by 2020 does increase the uncertainty of this factor (Reuters climate pact, 2018). Foreign trade regulations is also an important political-legal factor. Trade agreements, such as, the NAFTA or the EU, make it easier for companies to create international business relationships. Finally, the stability of the government plays a significant role for business activities, as a stable government allows companies to forecast future actions and laws to avoid cost-intensive surprising changes in the market, such as, price control or resource restraint of raw materials or rising import duties.

Socio-cultural factors, according to Wheelen and Hunger (2010), include demographic trends. The population is growing from 3.71 billion people in 1970 to 8.72 billion by 2040, while certain areas are more affected than others. Especially, urban areas will experience population growth. In industrialized countries, the percentage of elderly people to the overall population will rise steadily. Developing countries, however, are even more affected by demographic changes, as there are more young people than old people. Reasons are rooted in restricted access to healthcare, lack of supply of fresh water, but also a significantly higher birth rate than in the industrialized countries (OECD fertility rates, 2018). However, these demographic trends result in sociocultural factors to be considered in the future. Lifestyle changes among the older generation (50+) will have a significant influence on the economy, as they are the majority of the population of industrialized countries, and may have money to spend on products and services. Young people, however, and especially, young females, experience new trends in their career expectations and career opportunities. Trends, such as, Gender Equality, push women into the position to choose between family and career, delaying the raise of a family to a later time of their life, encouraging them to take career-driven decisions. Another factor is the life expectancy and access to healthcare. In Italy, by 2050, one of three people will be above 65, which will be almost double the amount of people above 65 by 2005. In other areas, such as, Japan, a low birth-rate results in a decrease of its population by almost 30% by 2050 (Wheelen and Hunger, 2010).

Under ecological factors the energy efficiency, ecological awareness and climate change are considered. Also, costs and material for recycling or regulations regarding waste disposal and energy consumption are classified within ecological factors (Gattringer et al., 2013).

The macro-level factors presented in this Subsection are re-processed in Table 3-1 of Subsection 3.3.3. In the following, a strategic analysis of the meso-environment will be conducted and added into Table 3-1 to allow a comparison of the findings from the IB literature and the strategic management literature.

3.3.2.3 Available Tool for the analysis of the meso-level environment
Rahman (2013) discusses the industry attractiveness as part of the identification and evaluation stage of market selection and is categorized within the meso-environment by Wheelen and Hunger (2010). Hereby, the identification of industry factors are the core of this analysis. The tool, which allows us to analyse the industry factors in more detail, is Porter’s Five Forces.

According to Porter (1980; as cited in Wheelen & Hunger, 2010, p.158), a cooperation is “most concerned with the intensity of competition” of its industry. Basic competitive forces shape the level of intensity of competition. “The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital” (Porter, 1980, p.3). Wheelen and Hunger (2010, p.158) summarize the six forces: “threat of new entrants, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers, and relative power of other stakeholders.” Originally, Porter (1980) mentioned only five forces, but a sixth force is commonly added to include governments or local
communities exerting influence on corporations. Figure 18 illustrates the six forces. The higher a force, the more likely it can be considered as a threat, as it might reduce profits. A low force, in reverse, can be seen as opportunity to increase profits. The revealed factors are derived from Appendix B: Porter’s Five Forces.

*Figure 18 Porter’s Five Forces*

New entrants are a threat to the established corporation, because they invest substantial resources to gain market share. **Market entry barriers** can prohibit potential new entrants. “An entry barrier is an obstruction that makes it difficult for a company to enter an industry” (Wheelen & Hunger, 2010, p.159). **Economies of scale** is when the costs per unit of a product fall, due to high production volume, and, therefore, is an important market entry barrier. The high production volume and sale of microprocessors of Intel, or the high production volume of leading pharmaceutical corporations, give the established corporations cost advantages over any new rival, as fix costs are spread on a large number of units. **Product differentiation** can be a market entry barrier, if the participants of the market have strong brand awareness and invest strongly in marketing campaigns. **Capital requirements**, in terms of huge financial resources required to manufacture a certain product, is a high market entry barrier, e.g. in the airplane industry or automobile industry. **Limited access to distribution channels** is a strong market entry barrier, e.g. in the beverage industry, due to long-term contracts of customers with their suppliers. **Customer loyalty** or **high switching costs** are market entry barriers. The Enterprise resource planning software industry is an example for an industry with high switching costs, as employees need to be trained in the new system and it requires time to implement the system successfully. Also **governmental policies** may restrict the access to raw materials or it may strongly regulate the industry itself, such as, the pharmacy market regulation in Austria, where new pharmacies can be only opened if there is a catchment area of 5500 people for each pharmacy and not less than 100m between each store (Mooradian et al., 2012).

The bargaining power of customers is high, if they can force prices down and demand a better quality of products or services. Customers can increase their power when they purchase a **large proportion**
of the seller’s product or service, e.g. oil filter manufacturer for a major automobile manufacturer. Some industries have high concentration of customers, such as, the grocery industry in most European countries. The three biggest grocery retailers in Austria share more than 75% of the market among each other (Mooradian et al., 2012). The size of the customers allows them to bargain for lower prices. If the products are highly standardized or undifferentiated, the switching costs of the products is reduced. Alternative suppliers offer the same product, allowing the customer to play the suppliers off against each other in terms of prices and quality and switch easier from one to another. Examples for low switching costs are gas stations or suppliers of the automobile industry. A relative unimportant product in the value chain of the buyer’s product, such as, wires for lamps, increases the customer’s bargaining power as it can be easily substituted. Considering the value chain, if backward integration is easily possible, the buyer’s power is increased by threatening to take over this part of the value chain. If the customer spends a significant proportion of the total procurement budget on a product of a supplier, the customer becomes very price-sensitive. Lower margins or cost cutting strategies are additionally a strong incentive to look around for suppliers with better prices.

The bargaining power of suppliers is increased, when the reverse factors of the bargaining power of customers are existing. A high concentration of suppliers or a monopoly-position of one supplier gives the supplier a powerful position in negotiations. The bargaining power of suppliers is higher, if the suppliers are independent from one single customer or if the switching costs of the products are high, such as, the ERP system for companies. If products are highly differentiated or developed to satisfy the specific needs of the customer, the loyalty of customers is increased, which reduces the customer’s bargaining power. There are no comparable or affordable substitutes of the supplier’s product or service available, or forward integration of the value chain is possible. These factors lead to higher price charges of the supplier, limiting quality or services, or shifting costs to their customers.

The threat of substitutes is higher, the more products satisfy the same need. According to Porter (1980), the potential returns of an industry are limited by substitutes, due to the ceiling on chargeable prices. Substitutes may have a strong negative influence on the industry’s attractiveness and profitability, if switching costs from one product to another are relatively low. Tea is a substitute to coffee, voice-over IP is a substitute for fixed-line telephony (Wheelen & Hunger, 2010).

Rivalry within the industry is strongly given, because a move of one participant leads to a reactive move of another rival. Hereby, the rivalry among the competitors is high, when there are numerous companies roughly equal in size, attempt to reach a dominant market share. Price wars can occur, if the growth rate of the industry drops, or if the firms’ amount of fixed costs needs to be covered. This holds up, especially for the airline industry, as lower prices may take away passengers from other competitors or the planes must fly on schedule, despite the number of passengers booked in for the flight. Which lead to last minute offers to cover the relatively high fixed costs. The airline industry is also very transparent, as passengers easily note dropping prices. Low switching costs between the airlines are additionally a condition supporting the occurrence of price wars. Large investments in terms of increasing capacity to lower unit costs or to increase differentiation can be taken. However, increased capacity leads to a higher supply of the goods, resulting in a lower selling price throughout the industry. Differentiation achieved by developing unique product specifications to be distinguished from products of rivals, will most likely raise the costs per unit and reduces the margin of the product. Moreover, higher speed of innovation results in a constant challenge of each other’s position in the market. Exit barriers are the flipside of the entry barriers, and occur because of the high specialization
of companies in a certain industry, which keeps the companies from leaving an industry. Breweries, for example, have limited uses except for making beer. According to Porter (1980), those factors, which lead to price wars, differentiation of products and a higher speed of innovation, reduce the attractiveness of an industry.

The sixth force, according to Wheelen and Hunger (2010), is the relative power of other stakeholders. Wheelen and Hunger (2010, p.161) add that “governments (if not explicitly included elsewhere), local communities, creditors (if not included with suppliers), trade associations, special-interest groups, unions (if not included with suppliers), shareholders, and complementors”10, as influential factors for assessing the industry attractiveness. However, a clear distinction of the sixth force is not possible, due to several overlaps of its factors with other categories.

3.3.3 Comparison of the external factors sourced from strategic analysis and IB literature

The comparison of external factors, generated from tools of the strategic analysis and the external factors, recommended by IB scholars (Sakarya et al., 2007; Cavusgil et al., 2004; Koch, 2001; Papadopoulos et al., 2002), is illustrated in Table 3-1. It shows that the IB literature, and in the following IMS literature relies strongly on the economic and socio-cultural macro-level factors of a market, during the screening process of the markets. The screening process contains of factors, which are illustrated in Table 3-1 and shaded in black colour, whereas the factors identified for the identification stage are marked green.

The strong reliance on economic and socio-cultural factors can be seen as weakness in the screening process, as technological, political, legal and ecological factors are mostly neglected. By adding factors examined by using tools from strategic analysis of markets, the decision maker is able to get a more complete picture of the market. The more factors relevant for the screening process, the risk of dropping or discarding markets, which would actually be attractive to the company, is reduced.

<table>
<thead>
<tr>
<th></th>
<th>External Environmental Scanning</th>
<th>Rahman (2013)</th>
<th>Marchi et al. (2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro-level factors – total number: 1st level (2nd level)</td>
<td>30</td>
<td>14 (5)</td>
<td>1 (10)</td>
</tr>
<tr>
<td>economic</td>
<td>interest rates</td>
<td>Gross national product (GNP)</td>
<td>GNP</td>
</tr>
<tr>
<td></td>
<td>unemployment rate</td>
<td>rate of inflation</td>
<td>apparent consumption</td>
</tr>
<tr>
<td></td>
<td>exchange rate</td>
<td>GNP growth rate</td>
<td>consumption trend</td>
</tr>
<tr>
<td></td>
<td>currency markets</td>
<td>currency reserve</td>
<td>GDP per capita</td>
</tr>
<tr>
<td></td>
<td>wage-levels</td>
<td>stability of exchange rate</td>
<td>consumption propensity</td>
</tr>
<tr>
<td></td>
<td>disposable and discretionary income</td>
<td>gross domestic product (GDP)</td>
<td>import penetration</td>
</tr>
<tr>
<td></td>
<td>gross domestic product (GDP)</td>
<td></td>
<td>product specific factors</td>
</tr>
</tbody>
</table>

---

10 A complementor is a product which “works well with a firm’s product and without, which the product would lose much of its value” (Wheelen & Hunger, 2010, p.161). As an example, Wheelen and Hunger (2010) name the tire and automobile industry.
<table>
<thead>
<tr>
<th>technological</th>
<th>patent protection</th>
<th>product specific factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total governmental spending on R&amp;D</td>
<td>International property right law</td>
</tr>
<tr>
<td></td>
<td>total industry spending on R&amp;D</td>
<td></td>
</tr>
<tr>
<td></td>
<td>telecommunication infrastructure, Internet</td>
<td></td>
</tr>
<tr>
<td></td>
<td>cyber criminality</td>
<td></td>
</tr>
<tr>
<td>political-legal</td>
<td>antitrust laws</td>
<td>Legal system compatibility</td>
</tr>
<tr>
<td></td>
<td>taxation</td>
<td>Level of corruption</td>
</tr>
<tr>
<td></td>
<td>constraining labour laws</td>
<td>Governmental control - Pricing restrictions</td>
</tr>
<tr>
<td></td>
<td>governmental bureaucracy</td>
<td>Stability of government</td>
</tr>
<tr>
<td></td>
<td>Greenhouse Gas Emission Trading Acts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>foreign trade regulations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>trade agreements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>stability of government</td>
<td></td>
</tr>
<tr>
<td>socio-cultural</td>
<td>access to health care</td>
<td>population size</td>
</tr>
<tr>
<td></td>
<td>lifestyle changes</td>
<td>size of middle class</td>
</tr>
<tr>
<td></td>
<td>life expectancy</td>
<td>literacy rate</td>
</tr>
<tr>
<td></td>
<td>birth-rate</td>
<td>product significant demographics</td>
</tr>
<tr>
<td>ecological</td>
<td>Energy efficiency</td>
<td>cultural practices</td>
</tr>
<tr>
<td></td>
<td>Ecological awareness</td>
<td>religious practices</td>
</tr>
<tr>
<td></td>
<td>Climate change</td>
<td>traditional links</td>
</tr>
<tr>
<td></td>
<td>Recycling costs and –material</td>
<td>attitudes towards</td>
</tr>
<tr>
<td></td>
<td>Regulations regarding energy consumption and waste disposal</td>
<td>foreign products</td>
</tr>
<tr>
<td>Meso-level factors – total number:</td>
<td>28</td>
<td>5 (9)</td>
</tr>
<tr>
<td>1st level (2nd level)</td>
<td>0 (3)</td>
<td></td>
</tr>
<tr>
<td>entry-barriers</td>
<td>economies of scales</td>
<td>local production statistics</td>
</tr>
<tr>
<td></td>
<td>product differentiation</td>
<td>Tariff barriers</td>
</tr>
<tr>
<td></td>
<td>capital requirement</td>
<td>non-tariff barriers</td>
</tr>
<tr>
<td></td>
<td>limited access to distribution channel</td>
<td>Capital requirement (Marketing costs)</td>
</tr>
<tr>
<td></td>
<td>tariff barriers</td>
<td></td>
</tr>
</tbody>
</table>
| Continuation: Entry-barriers | customer loyalty
high switching costs
governmental policies |  |
| --- | --- |
| bargaining power of customers | large proportion of seller's product or service
high concentration of customers
high standardization/undifferentiated of products
low switching costs
relative unimportant product in the value chain
backward integration
price-sensitivity | importing statistics
projected demand
Distribution system compatibility |
| bargaining power of suppliers | high concentration of suppliers
high switching costs
independence of single customers
no comparable or affordable substitution
forward integration |  |
| threat of substitutes | ceiling of prices |  |
| rivalry within the industry | growth rate of industry
high fixed costs
transparency of the industry
low switching costs
increased capacity
increased differentiation
higher speed of innovation
high exit barriers | competitive offerings
intensity of competition
Availability of local business partners
Potential of strategic alliances | country risk |
| other stakeholders | Level of government support
Level of governmental control
Profit repatriation restrictions | country risk |

Source: Own Illustration of Appendix A and Appendix B
In the second step of market assessment, the meso-environment of particular markets are investigated and industry-specific factors are examined. Porter’s Five Forces are, hereby, a well-known tool to gain more knowledge on the meso-level factors. However, both Marchi et al. (2014), as well as Rahman (2013), differ from this path and use a slightly adapted approach. Marchi et al. (2014) adds both, macro-level and meso-level factors for the identification stage, but the authors still strongly rely on economic and socio-cultural macro-level factors. As a result, in order to assess the markets, industry specific factors are mostly neglected. Only country risk and tariff barriers are added into the assessment of markets, which can be seen as weakness of Marchi et al.’s (2014) IMS process. Tariff barriers are import duties, excise duties, export or import levy, subsidies of export. Non-tariff barriers are import quotas, custom delays, subsidies or governmental restrictions and limitations to impede trade (Leonidou et al., 2007; Papadopoulos et al., 2002). Rahman (2013), on the other hand, adds a second assessment stage, which he names structural attractiveness. In Rahman’s (2013) screening stage\textsuperscript{11}, the 15 macro-level factors have been chosen to evaluate the market attractiveness, whereas only 1 macro-level, namely GNP, has been used by Marchi et al. (2014). However, Rahman (2013) additionally adds five meso-level factors for the screening stage, which reduces the risk of discarding potentially attractive markets. During the assessment of the identification stage\textsuperscript{12} of the market, Rahman (2013) discusses mainly meso-environmental factors, but also, adds several macro-level factors for assessing relevant markets. The author is able to provide a good understanding of the industry-specific factors. The proposed factors show a strong congruence with the industry-specific factors, examined by using Porter’s Five Forces, and are partly able to extend the broad view by additional factors.

3.4 Internal factors

3.4.1 Narrative Review of internal factors influencing international market selection decisions

The appointment of external factors to assess market accessibility and market attractiveness is a common practice in the IB literature. However, researchers avoid investigating, which internal factors are crucial for international market selection decisions.

Kuivalainen et al. (2012) discuss firm-level and managerial-level factors, which are both categorized into micro-environment by Wheelen and Hunger (2010). Firm-level factors are categorized in umbrella terms, such as, resources, knowledge, strategic orientation, networks, capabilities and liabilities. At the managerial-level, Kuivalainen et al. (2012) names entrepreneurial orientation, mind-set and experience. Although, the authors demonstrate the direction of research necessary to determine internal factors underlying those umbrella terms, his research does not bring sufficient new insights to the research question.

Rahman (2013, p.130) lists eight factors within the category of international business capabilities, which can be categorized into micro-environment, by using the definition of Wheelen and Hunger (2010):

- Synergy with existing markets
- Synergy with existing marketing skills
- International marketing capabilities
- Firm’s international orientation

\textsuperscript{11} Rahman (2013) calls this stage market attractiveness evaluation in his paper.

\textsuperscript{12} Rahman (2013) calls this stage structural attractiveness evaluation.
• Management’s overall feel
• Ability to achieve market share objectives
• Firm’s competitive position in Australia\(^{13}\)

One aspect at Rahman’s (2013) findings is that he adds the micro-environmental factors at the screening stage by assessing the size attractiveness of a market, by not only macro- and meso-level factors, but by adding internal factors of the micro-environment. This goes in line with the thoughts of Simon (2007), who discusses the incorporation of internal factors at the market assessment process in his decision matrix. Rahman’s (2013) thoughts on international marketing capabilities on internal factors are shared by others, who name dynamic capabilities (Teece, 1997; Ruzzier et al., 2006), as market orientation\(^{14}\) (He & Wei, 2011; Knight & Cavusgil, 2004) or exploratory capabilities (Lew et al., 2013). Researches of the identification and positive influence of capabilities onto the firm’s performance in foreign countries show (He & Wei, 2011) that capabilities should have a strong relevance for IMS. Rahman’s (2013) understanding of capabilities is shared and acknowledged within the IB literature, but remains the only consistency with the IB literature.

The rest of Rahman’s (2013) internal factors mostly differs from the preliminary factors named by Kuivalainen et al. (2012). Synergy with existing markets is only another umbrella term, which could stand for resources, knowledge and experience. This use of resource category-overlapping factors without offering a profound theoretical background, on which internal factors are conglomerated, is a negative example of the first level of Rahman’s (2013) market assessment. Moreover, the managerial-level is reduced to the management’s overall feeling, although other authors (Dhanaraj & Beamish, 2003) have extended the managerial level.

Another weakness of the list of internal factors is the firm’s competitive position in the home market, as this factor should be re-categorized as it is already examined in the meso-environment. Also the ability to achieve market share objectives is not explained further in the research of Rahman (2013), hence it is questionable to keep this factor in the list.

Rahman’s (2013) second level, the identification level, contains more micro level factors, e.g business culture compatibility. These factors of the second level find partly better application, as he names business culture compatibility with the foreign market as a measurement for distance to consider for market assessment, which is supported by Knight and Cavusgil (2004). Networks are listed during the identification stage of international market selection and Rahman (2013) assesses networks by considering the availability of local business partners, the potential to develop strategic alliances and distribution system compatibility. All in all, Rahman (2013) is able to partly extend the understanding of micro-level factors. In most cases there are hardly any synergies within the existing literature, nor does his work seem to get any acknowledgement in the recent literature of the RBV.

Marchi et al. (2014) discusses perceived input variables as internal factors influencing international market selection decisions. Hereby, their research relies on other researchers’ findings (Koch, 2001; Papadopoulos et al. (2002); Kumar et al. (1993); Alexander et al., 2011) and lists eight perceptual variables, of which seven belong to the micro-environment. Only one variable, market information from secondary data, is vaguely described, as information about a market from secondary data can incorporate macro-, meso- and micro-level aspects, and, therefore, is excluded from the list.

\(^{13}\) The latter factor, “firm’s competitive position in Australia” will be renamed “firm’s competitive position in the Home Country”, as the research of Rahman (2013) focuses on Australian SMEs, which have been internationalizing, only

\(^{14}\) He and Wei (2011), and Knight and Cavusgil (2004) use marketing orientation as synonym for market orientation
Internal factors, according to Marchi et al. (2014, p.2205)

- Perceived level of product standardization
- Perception of Psychic Distance
- Perception of imitation risk
- Product superiority
- International experiential knowledge (institutional and business experiential knowledge of the target market)
- Embeddedness in a local network with foreign relationships
- Managerial skills (level of managerial skills in relation to the foreign market)

Marchi et al. (2014) extends the work of Kuivalainen et al. (2012) by adding product-specific factors for IMSDs. Knight and Cavusgil (2004) agree that product-related factors may play a significant role in IMS, if the superiority and the uniqueness of the product can be exploited, as temporarily competitive advantages of the company in the foreign market. Psychic Distance, as explained in Subsection 2.1.1.2, which contains of language, culture, level of education, level of political systems, different values and norms, and business practices (Simon, 2007), and can be linked to the liabilities-category of Kuivalainen et al. (2012). The more distant a country is, the greater the liability of foreignness and newness is (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994).

The international experiential knowledge is strongly linked to international heritage. However, international heritage, as described in Subsection 2.1.4.5.3, which also incorporates experiences, knowledge and skills, networks, management and attitudes (Welch & Welch, 2009). Networks, hereby, are covered by the embeddedness in a local network with foreign relationships (Marchi et al. 2014). Rahman (2013), additionally, adds the availability of strategic partners in the market and the potential to develop strategic alliances as pre-condition for successful network development. Knight and Cavusgil (2004) discuss the leverage of foreign distributor competences, as SMEs tend to rely on the market knowledge of their foreign partner.

The managerial-level, by Kuivalainen et al. (2012), is extended to the level of managerial skills in relation to the foreign market (Marchi et al., 2014), to the management’s gut feeling (Rahman, 2013), but covers also the entrepreneurial orientation (Kuivalainen et al., 2012; Ngoma et al., 2017) and experience of the management (Marchi et al., 2014). According to Swoboda et al. (2011), attitudes emerged from experiences of past internationalization moves, are the most important factor for increasing internationalization. Ngoma et al. (2017) prove that entrepreneurial orientation has a significant positive relationship with internationalization of SMEs.

The authors cited in this chapter paint a diversified picture of internal factors relevant for internationalization. Only Kuivalainen et al. (2012) provides an overview of umbrella terms relevant for internationalization. Other authors focus on a specified area of research, e.g. Rahman (2013) names factors classified into knowledge, strategic orientation, networks, capabilities, liabilities and mind-set of the management, but does not discuss entrepreneurial orientation or organization resources. He and Wei (2011), only focus on the capabilities arising from market orientation of companies. Knight and Cavusgil (2004) mainly highlight the impact of product-specific factors on the performance in international markets, allowing to determine IMS-relevant product-specific factors.

However, most of the internal factors highlighted in the internationalization literature hide behind umbrella terms, such as, resources, capabilities, strategic orientation, networks, capabilities, liabilities, entrepreneurial orientation, mind-set, attitudes of the management, experience and product-specific factors. Furthermore, the investigated internationalization literature avoids illuminating the internal factors behind those umbrella terms, and misses to draw a linkage to strategic tools for examining the
underlying internal factors. Subsection 3.4.2.1 will, therefore, present the strategic tools available for analysing the internal environment of companies, and substantiate the umbrella terms with actual internal factors relevant for market assessment.

### 3.4.2 Internal Environmental Scanning

The review of the existing literature on RBV in Section 2.2 has shown that a common ground is hardly to be identified. The main issue is the missing definition of the terms resources and capabilities. The understanding of resources and the interdependences of resources and capabilities within the RBV differ strongly. Table 3-2 represents an overview of several well-known classifications of resources, which represents the disagreement within this scientific area.

**Table 3-2 Discrepancies of the RBV literature**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>tangible Assets</td>
<td>physical resources</td>
<td>physical capital resources</td>
<td>tangible assets</td>
</tr>
<tr>
<td></td>
<td>technological resources</td>
<td>Physical technology used in a firm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>human resources</td>
<td>A firm's plant and equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A firm's geographic location</td>
<td></td>
</tr>
<tr>
<td>intangible assets</td>
<td></td>
<td>A firm's access to raw materials</td>
<td></td>
</tr>
<tr>
<td>financial resources</td>
<td></td>
<td>Human capital resources</td>
<td></td>
</tr>
<tr>
<td>organizational resources</td>
<td></td>
<td>training, experience, judgment, intelligence, relationships, insights of individual managers and workers in a firm</td>
<td></td>
</tr>
<tr>
<td>reputation</td>
<td></td>
<td>Missing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>organizational capital resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>a firm's reporting structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>a firm's formal and informal planning, controlling and coordinating systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>informal relations among groups within a firm and between a firm and those in its environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Missing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>human resources</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own Illustration, based on Simon (2007, p.145); Mooradian et al. (2011, p.219).

Simon (2007) concludes that the present systematization of resources lacks of completeness, theoretical evidence, exclusivity, unambiguity, more exemplary clarification, which he calls a pitiable condition. He further adds that new research, about the resource classification and resource typology, is needed and makes a call for collecting empirical evidence for both regarding the competitive advantage.

The first step, according to Grant (1991, p.115), is to “identify and classify the firm’s resources” and “appraise strengths and weaknesses relative to competitors”. In his definition, resources are used as superordinate term for covering all relevant internal factors in one cluster.

In the following, I will discuss several assumptions as the theoretical foundation for resource identification, since it is not distinct. Figure 19 opposes the seven categories, named by Amit and
Schoemaker (1993), and the resource terms, named in the Internationalization literature. The Figure shows that the different resource terms can be assigned to specific categories of Amit and Schoemaker (1993). Although the assignment of each category to one specific resource term is not completely distinct, it creates, nevertheless, higher clarity. The elaborated resource terms of the internationalization literature support an international context for the analysis of the resource terms and help to examine the underlying internal factors. Hence, the first step in the analysis will be to identify key factors for each stated resource term of the IB literature, while the second step is the comparison between the internal factors revealed by the internal environmental scanning and the listed internal factors in the IB literature.

**Figure 19 Illustration of the linkages between RBV and resources of the IB literature**

![Diagram showing the linkages between RBV and resources of the IB literature](source)

The technological resource can be assigned to product-specific factors, which is supported by Amit and Schoemaker (1993). According to Grant (1991), product-specific knowledge of employees is part of the technological resource; however, the usage of the resource terms, emerged from the Internationalization literature, allows us to classify product-specific knowledge within the resource category knowledge.

Another assumption is that the term resources of the IB literature covers physical resources only. Evidence can be found in Wheelen and Hunger’s (2010) conclusion of the consistent further development from resources to capabilities to distinctive competences. Wheelen and Hunger (2010) state that resources are an organization’s asset and include tangible and intangible assets. If the organization is capable of exploiting their resources, to establish business processes and routines, the resources can be refined to capabilities. Capabilities remain within a department of a SME, hence, there are marketing capabilities, manufacturing capabilities or human resource management capabilities. Ruzzier et al. (2006) adds that intangible resources are, also, referred to tacit knowledge, which contains capabilities and knowledge, and can be linked to the identically named resource categories of the IB literature. As a result, the intangible resources categories of Schoemaker (1993) can be linked to capabilities and knowledge, whereas the tangible resources (financial, physical and technological resources) can be further divided. While technological resources are assigned to product-specific factors and knowledge, financial resources are connected to costs, according to Rahman (2013). Hence, physical resources remain and are, therefore, linked to the category resources of the IB literature.
The category **human (resources)** covers the **managerial level**, which contains of the entrepreneurial orientation, the mind-set of the top management, the experience of the managers or the entrepreneur, and the experiential and process-related knowledge of employees or the top management. Dhanaraj and Beamish (2003) add that personal characteristics of the decision maker are relevant for internationalization decisions.

The category **reputation** is enhanced by adding **marketing**. The literature bases reputation on the development of distinct and superior capabilities, which allows to link this category to **capabilities** and **liabilities**. The distinctiveness and superiority of capabilities leads to survival of the company or to outperforming competitors, leading to higher reputation. He and Wei (2011) add that market orientation capabilities have direct influence on the perception of the Psychic Distance. Johanson and Vahlne (2009) and Oviatt and McDougall (1994), discuss the liability of foreignness, measured by the Psychic Distance, and support the assumption. Kotha et al. (2001) state that marketing skills (e.g. branding or reputation) compensates the disadvantages resulting from the liability of foreignness.

For addressing the **organizational resources**, Ruzzier et al. (2006) names factors, such as, expertise, system and policies, managerial systems, financial structures, planning and controlling, culture or skills of employees. A clear distinction between some listed factors of organizational resources and the overall classification, according to Amit and Schoemaker (1993), cannot be made. Organizational resources need to become lean, in order to become more distinct to other resource categories. Expertise is already covered either in the **managerial level**, by discussing previous internationalization experience, or within product or process-specific knowledge. **Financial resources** are covered in **costs**. The culture of the business is discussed as part of Psychic Distance, which has been earlier introduced. The skills of employees refer to the development of capabilities. Hence, the remaining factors managerial systems, planning and controlling, and systems and policies can be assigned to the **strategic orientation** and to the **entrepreneurial orientation**.

### 3.4.2.1 Available tools for analysis of the micro-level environment

The strategic literature provides us with an extensive amount of firm-specific tools to analyse the micro-environment. Referring to Grant’s (1991, p.115) framework of a Resourced based approach to strategic analysis, the first step is to “identify strengths and weaknesses” and “appraise them relative to competitors”. The Strengths and Weaknesses analysis is a well-known tool to identify internal factors of SMEs (Wheelen & Hunger, 2010). By discarding the external environment in this chapter, the estimation of the revealed internal factors relative to competitors will not be possible, as the competitor analysis is part of the external environment. Instead, a more general approach is used by examining internal factors, based on their overall potential to become a strength, or a weakness, for not otherwise specified industries and markets. Hereby, nine categories have been previously emerged in the IB literature, namely, product-specific factors, resources, liabilities, human and managerial level, capabilities, knowledge, strategic orientation, networks and costs. These categories are illuminated in more detail in the following. The factors presented in Table 3-3 are unranked and re-processed in Subsection 3.4.3.

Product-specific factor are the **construction of bespoke customer solutions** (Müller-Stewens & Lechner, 2005) and a **fast-cycle new product development** (Glomik & Smyczek, 2011). Being customer-oriented, a company’s strategy is local or regional product differentiation (Porter, 1980). The faster the product development cycle is, the better the company reacts on locally different needs of customers. The **number of Research and Development staff** (Müller-Stewens & Lechner, 2005) may influence the speed of product development cycles of technological companies. The higher the number of R&D staff, the more projects or developments can be made simultaneously and completed in time. SMEs usually are faced with the problem of being too small in terms of R&D workforce to react to all
emerging trends in an industry and, therefore, must prioritize, in which product-specific developments are made first. **Quality improvement** (Müller-Stewens & Lechner, 2005) is a product-related outcome of R&D. Also, **patents and copyrights** (Mooradian et al., 2012) for new technologies secure the inimitability of the product for a limited time duration or by generating royalty income. **High product standardization** (Porter, 1980) is the opposite of product differentiation and hereby, considered as relevant product-specific factor. The higher the standardization, usually, the more efficient a company becomes. The employees develop organizational routines during their processes, with high standardization, from which manufacture capabilities emerge. **Repair and maintenance (RMA) service** (Müller-Stewens & Lechner, 2005) is another product-specific factor, which goes along with the product standardization. If the products are highly standardized, organizational routines within particular departments, such as, the RMA department, are developed, which leads to additional product-related capabilities. The **latest IT or manufacturing facilities** are product-specific factors, as long as the age or the degree of the facilities is compared to the industry standard (Müller-Stewens & Lechner, 2005). The number of IT or manufacturing facilities is assigned to physical resources.

Physical resources are made up of the **number of plants and advantages or disadvantages resulting from their location** (Mooradian et al., 2012; Müller-Stewens & Lechner, 2005). The **access to raw materials** (Mooradian et al., 2012) is an example for location advantages or disadvantages. The **size and the age** of the company, the plants and its technological facilities (Müller-Stewens & Lechner, 2005) play also a significant role in the assessment of physical resources. **Logistical management systems or Enterprise Resource Planning** systems (Mooradian et al., 2012; Müller-Stewens & Lechner, 2005), hereby, allow to maintain a higher level of standardization of particular processes, such as, **material procurement** (Müller-Stewens & Lechner, 2005). Another physical resource is the **capacity utilization** (Müller-Stewens & Lechner, 2005). The higher the utilization, the more efficient the company or plant works. Another physical resources are the **land** (Mooradian et al., 2012) and the **market value of fixed assets**. The **alternative use of fixed assets** is named also as physical resources (Ruzzier et al., 2006).

Under liabilities, the liability of smallness and foreignness are mentioned in the IB literature. The liability of smallness emerges (Marchi et al., 2014) out of the small size of SMEs or the small number of staff within particular departments, which limits the company in their productivity. Certain trends are not recognized or considered, as existing workforce is already fully occupied with completing formerly initiated processes or developments. The liability of foreignness is discussed often in accordance with Psychic Distance. Hereby, the **values and norms** of companies, the **corporate culture, and language proficiency** and **business ethics** of the country of origin and the host country can be named (Müller-Stewens & Lechner, 2005; Alexander et al., 2007). Also, “**political systems, level of education, level of industrial development**” influence the Psychic Distance of the market (Johanson & Wiedersheim-Paul, 1975, p.308). The latter three have already been discussed in the external environment. The liability of newness consists of missing brand equity or awareness in the new market. SMEs usually suffer from this factor, as their brand equity is relatively low and they might start as outsider in the market (see also Subsection 2.1.1.2.1).

He and Wei (2011) link market orientation to international market selection and name market intelligence generation capabilities, market intelligence dissemination capabilities and **market responsiveness**, as main factors of market-orientation. Hereby, the “systematic use of generated knowledge to guide strategy recognition, understanding, creating, selection, implementation, and modification” (Hunt & Morgan, 1995, p.11) is the core capability; the market information collected itself is assigned to the resource category knowledge. The faster a corporation is able to respond to changing needs or requirements of the customer, the better the impact is on its performance (He and Wei, 2011). The **customer relationship management** (Mooradian et al., 2012) is another capability
within the functional area marketing. If customer relationship management is maintained accordingly, the information transfer of needs and requirements of customers or stakeholder is supported. Customer relationship management may also influence the customer loyalty. A strong loyalty of customers, reputation, brand equity, brand awareness and unique marketing campaigns are additional capabilities in the marketing functional area (Müller-Stewens & Lechner, 2005). In a broader corporate view, acquisition management (Mooradian et al., 2012) might become a capability of the company. Especially, considering the foreign direct investment internationalization, the acquisition of the right companies to expand into other markets is important. Process-related competences (Mooradian et al., 2012) are cross-functional capabilities. Innovativeness, multidivisional coordination, and design skills are group-specific competences, which require the interaction of different departments. Exploiting economies of scale (Mooradian et al., 2012) can be a capability, if the manufacturing costs can be kept low and a strategic advantage through, e.g. mass production, can be achieved. Also the quality and the effectiveness of customer service is a capability, as after sales, in some industries, becomes more and more important (Moore et al., 2012; Wheelen & Hunger, 2010; Müller-Stewens & Lechner, 2005).

As previously mentioned, market information (Müller-Stewens & Lechner, 2005) is part of the resource category knowledge. Hereby, the management of this knowledge (Müller-Stewens & Lechner, 2005) can be superior compared to others. If management decisions are based on management information systems, sources of biased or incomplete information can be removed. Not only the management itself can be affected by market information, but, also, the knowledge transfer (Lew et al., 2013) is an important factor. Knowledge transfer can occur in many ways, e.g. in terms of market information from the host country to the home country. The knowledge transfer of the products from the home country to the host country or the inter-department knowledge transfer to support cross-functional capability development, is an important factor. Knowledge retention is crucial for developing an international heritage (Welch & Welch, 2009). Past internationalization failures or successful moves enhance the organizational learning of the company and can be useful for future developments. Knowledge can be also an individual-bound factor. Employees may look for self-fulfilment, or develop knowledge over time by specializing their profession. Simon (2007) distinguishes between personalized individual and group bound knowhow. The individual experience is bound to the person, and may be lost in case of lay-offs. This holds, especially, true for R&D employees in high-tech industries.

Under strategic orientation of the company, the short- or long term actions and its policies are summarized. According to Kuivalainen et al. (2012), strategies affect foreign entry decisions. Hence, what is the internationalization strategy of the company? Are restructuring or cost-cutting actions planned in the short-term, which would change the current status significantly? On the other hand, managerial systems (Müller-Stewens & Lechner, 2005) are part of the strategic orientation of the company, e.g.: to evaluate sales figures, or simply monitoring inventory. Consensus at the top management in strategic decisions and a consistency in decisions supports a clear strategic orientation (Li et al., 2012) and are, in my opinion, internal factors for the category of strategic orientation.

In order to counteract the phenomenon of outsidership or foreignness, the company must start to build networks in the foreign country (Johanson & Vahlne, 2009). Networks can be built by establishing a distribution network in the foreign country with a variety of distribution channels (Müller-Stewens & Lechner, 2005). However, relationships might already be formed and inherited from past internationalization steps, or by employer or employee relationships, which have been brought into the company (Welch & Welch, 2009). Once part of the network, a company can also form partnerships with other participants in the network. The access to new networks in the country and the market
information transfer are seen as part of leveraging foreign distributor competences (Knight & Cavusgil, 2004; Kotha et al., 2001), but has already been recognized under knowledge transfer.

Also, costs to internationalize play an important role in the assessment of markets. Factors to be assigned to the resource category “costs” are summarized under the financial position of the company (Müller-Stewens & Lechner, 2005). In most cases, tariff barriers or non-tariff barriers are understood as examples. However, those terms are assigned to the external environment. In the firm-specific view, the Debt to Equity ratio, marketing costs, securities (Mooradian et al., 2012) and the credit rating of the company are decisive factors.

As last resource category, the managerial level is introduced. Hereby, not only the top management is considered, but also the individual employees. Kuivalainen et al. (2012) names entrepreneurial orientation as antecedent for internationalization. Entrepreneurial orientation contains of risk-affinity, pro-activity and innovativeness of firms. According to Fletcher (2001), managerial characteristics are drivers of internationalization. Dhanaraj and Beamish (2003) confirm personal characteristics of the decision-maker: the type and level of education, the age, the proficiency of foreign languages, the risk tolerance, the international orientation and the aspirations for growth and profits. The attitudes of the management (Swoboda et al., 2011), or other authors call it “the gut feeling” (Rahman, 2013; Marchi et al., 2014), is an internal factors of the company. The experience, as part of the international heritage, as mentioned by Kuivalainen et al. (2012), has been re-assigned to knowledge. According to Figure 19, the managerial level does not only consist of the top management level, but also of the employees. Hence, the qualification of the employees, the pay rates, the firm’s formal and informal coordinating systems, ethics, the trust and motivation of the employees (Mooradian et al., 2012) and the possibility of advanced training to specialize their profession are factors within the managerial level. Hereby, also, the structure of the corporation (decentralization vs centralization) has an influence on the employees.

3.4.3 Comparison of the internal factors sourced from strategic analysis and IB literature

The comparison of the internal factors generated from the strategic analysis and the internal factors elaborated on in the IB literature (Rahman, 2013; Marchi et al. 2014), is illustrated in Table 3-3. The IB literature claims to integrate the internal environment into international market selection models, without clearly stating, which factors are influencing international market selection decisions. So far, this impedes weighting of single resource categories, as the underlying factors are not determined. As illustrated in Table 3-3, the IB literature only investigates eight (Marchi et al., 2014) or 16 (Rahman, 2013) internal factors. This occurs, as the IB literature mainly works with umbrella terms, under which a conglomeration of specific factors are unified. The strategic analysis of the micro-level, however, yields 73 internal factors to be relevant for analysing the internal environment of companies. The internal factors of the environmental scanning are unranked and non-weighted, which does not allow any conclusions on the importance of a particular resource categories for IMSDs.

Another aspect, visible in Table 3-3, is that the IB literature strongly relies on networks and product-specific factors, whereas the remaining categories are hardly investigated. Even in the limited number of internal factors examined from the IB literature, additional umbrella terms to explain a category are used. This is, especially, visible in the category managerial level with the factor “managerial skills” of Marchi et al. (2014), and the category capabilities by naming “synergy with existing marketing skills”. In my opinion, the authors of the IB literature have not investigated these issues in detail, but rather used copious umbrella terms to cover as much of this category as possible.

Additionally, the IB literature remains very focused on specific areas of research, when the RBV is applied. He & Wei (2011) specifically discuss market orientation to affect IMSDs, whereas Lew et al. (2013) explore the role of social capital in creating exploratory capabilities. Only a few studies (Marchi
et al., 2014; Rahman, 2013) are trying to investigate the whole picture of IMS, but in my opinion, fail because of the discrepancy in the RBV literature, especially, regarding the micro-level factors.

All in all, the status quo of internal factors in recent IB literature, used for international market selection processes, is shallow and incomplete. The application of strategic tools of environmental scanning to reveal the shadow resource categories used in the IB literature brings a significant number of internal factors to light, which have not yet been considered. Although, the results shown in Table 3-3 are unranked and not weighted, the understanding of internal factors could be enhanced. Hence, for the first time, revealing a throughout screening of relevant internal factors classified into nine main resource categories, which are named by several authors (Rahman, 2013; Marchi et al., 2014; Kuivalainen et al., 2012) of IB literature to influence IMSDs. In the next Subsection, four of them are taken out and explored in more detail.

*Table 3-3 Comparison of internal factors sourced from Internal Environmental Scanning and the IB literature*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro-level factors</strong></td>
<td></td>
<td>73</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>construction of bespoke customer solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>fast-cycle new product development</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>number of R&amp;D stuff</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>quality improvement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>technological discontinuity/end of life products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>degree of outsourced R&amp;D patents &amp; copyrights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>product standardization repair and maintenance service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>latest IT or manufacturing facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Product-specific factors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>construction of bespoke customer solutions</td>
<td></td>
<td>special product specific rules/regulations</td>
</tr>
<tr>
<td></td>
<td>fast-cycle new product development</td>
<td></td>
<td>product standardization</td>
</tr>
<tr>
<td></td>
<td>number of R&amp;D stuff</td>
<td></td>
<td>imitation risk</td>
</tr>
<tr>
<td></td>
<td>quality improvement</td>
<td></td>
<td>product superiority</td>
</tr>
<tr>
<td></td>
<td>technological discontinuity/end of life products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>degree of outsourced R&amp;D patents &amp; copyrights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>product standardization repair and maintenance service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>latest IT or manufacturing facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Physical resources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>number of plants/service facilities</td>
<td></td>
<td>fit with product/service sourcing strategies</td>
</tr>
<tr>
<td></td>
<td>location (dis-) advantages</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>type of manufacturing system</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>access to raw material size and age of the company</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>productivity rating</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>logistical management systems or ERP systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>material procurement capacity utilization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>liabilities</th>
<th>alternative use of fixed assets</th>
<th>market value of fixed assets (land)</th>
<th>values and norms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>corporate culture</td>
<td></td>
<td>Language proficiency</td>
</tr>
<tr>
<td></td>
<td>vulnerability to cyber attacks</td>
<td></td>
<td>vulnerability to strikes</td>
</tr>
<tr>
<td></td>
<td>business ethics</td>
<td></td>
<td>business ethics</td>
</tr>
<tr>
<td></td>
<td>brand equity</td>
<td></td>
<td>brand equity</td>
</tr>
<tr>
<td>capabilities</td>
<td>market responsiveness</td>
<td></td>
<td>synergy with existing marketing skills</td>
</tr>
<tr>
<td></td>
<td>customer relationship management</td>
<td></td>
<td>international marketing capabilities</td>
</tr>
<tr>
<td></td>
<td>loyalty of customers</td>
<td></td>
<td>firm's competitive advantages</td>
</tr>
<tr>
<td></td>
<td>reputation</td>
<td></td>
<td>reputation</td>
</tr>
<tr>
<td></td>
<td>brand equity</td>
<td></td>
<td>brand equity</td>
</tr>
<tr>
<td></td>
<td>brand awareness</td>
<td></td>
<td>brand awareness</td>
</tr>
<tr>
<td></td>
<td>unique marketing campaign</td>
<td></td>
<td>unique marketing campaign</td>
</tr>
<tr>
<td></td>
<td>economies of scale</td>
<td></td>
<td>economies of scale</td>
</tr>
<tr>
<td></td>
<td>quality of customer service</td>
<td></td>
<td>quality of customer service</td>
</tr>
<tr>
<td></td>
<td>process-related competences</td>
<td></td>
<td>process-related competences</td>
</tr>
<tr>
<td></td>
<td>acquisition management</td>
<td></td>
<td>acquisition management</td>
</tr>
<tr>
<td>knowledge</td>
<td>market information</td>
<td></td>
<td>market information from secondary data</td>
</tr>
<tr>
<td></td>
<td>knowledge management</td>
<td></td>
<td>international experiential knowledge</td>
</tr>
<tr>
<td></td>
<td>knowledge transfer</td>
<td></td>
<td>knowledge transfer</td>
</tr>
<tr>
<td></td>
<td>knowledge retention</td>
<td></td>
<td>knowledge retention</td>
</tr>
<tr>
<td>strategic orientation</td>
<td>managerial systems</td>
<td></td>
<td>synergy with existing markets</td>
</tr>
<tr>
<td></td>
<td>consensus at top management</td>
<td></td>
<td>firm's international orientation</td>
</tr>
<tr>
<td></td>
<td>consistency in decisions</td>
<td></td>
<td>ability to achieve market share objectives</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>fit with firm's growth strategies, risk strategies, return of investment objectives</td>
</tr>
<tr>
<td>networks</td>
<td>distribution channels employer/ee relationships leveraging distributor knowledge availability of business networks</td>
<td>availability of local business partners potential to develop strategic alliances distribution system compatibility</td>
<td>embeddedness in a local network with foreign relationships</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------</td>
</tr>
<tr>
<td>costs</td>
<td>debt to equity ratio marketing costs taxation advantages the role of finance manager in strategic management process dependency on performance or budget securities credit rating cash flow</td>
<td>marketing costs</td>
<td>marketing costs</td>
</tr>
<tr>
<td>managerial level</td>
<td>attitudes of the management entrepreneurial orientation risk-affinity innovativeness pro-activeness characteristics of the decision-maker qualification of employees training of employees quality of work life pay rates firm’s formal and informal coordinating systems ethics motivation trust structure of the company</td>
<td>management’s overall feel business structure compatibility</td>
<td>managerial skills</td>
</tr>
</tbody>
</table>

Source: Own illustration, based on Rahman (2013); Marchi et al. (2014)
In the following, I will explore four internal factors from the environmental scanning in more detail, which I believe have a strong influence for IMSDs. In Chapter 4, those internal factors will be compared to the results of the interviews of the case study.

Language proficiency is one key internal factor, SMEs are looking for, when they consider to internationalize. Emerging from the Psychic Distance approach of the Uppsala model, companies evaluate the significance of cultural information about the foreign market, and perceive the market as either close or distant. Language proficiency is seen as part of the cultural knowledge about a market. However, due to its relevance, several authors (Bassen et al., 2001; Koller et al., 1998) name language proficiency as a distinct factor and conclude that lacking language proficiency is identified by SMEs as one of the most critical restraint of internationalization. By implication, this means that language proficiency has to be included into the assessment of relevant markets.

The lack of available local business partners and resulting from this, difficulties in establishing business relationships and entering local business networks, are named as critical internal factors for SMEs to internationalize. This is supported by Gutmann (2000), who states that missing cooperation partners in foreign markets are restraints for internationalization. Karagözoglu and Lindell (1998) add that the difficulties in forming international business relationship inhibits internationalization. Simon (2007) sees the reason in the missing capability to identify suitable business partners, and to form a business relationship. I agree with Simon’s (2007) statement, as nowadays, due to global technological progress, it becomes more and more unlikely that there are no local business partners available in foreign markets. The capability to identify suitable partners in foreign markets, therefore, becomes a core asset for the company. Even in small market niches, it should be possible to attract potential business partners, form business relationships and get access to the local network.

Management capacity consists of the adequate number of staff and its optimal utilization for a market or region. Simon (2007) concludes that missing management capacity is a restraint to internationalization, when the existing staff is already fully occupied that the necessary activities in the foreign market are delayed. It becomes even more critical, when the qualification of the management is insufficient, and, hence, foreign market activities are wrongly implemented, because of missing foreign market knowledge, lack of competences or missing experience to exploit market opportunities. In my opinion, the missing qualification of managers is, especially, an issue for companies, which are forced to reoccupy a position with a time restriction, or have made internationalization decisions, or set internationalization activities before searching the market for suitable candidates.

The factor financing, in other words costs, is named by many authors (Bassen et al., 2001; Gutmann, 2000; Karagözoglu & Lindell, 1998; Koller et al., 1998) as a one of the main restraints for internationalization of SMEs. Although I agree, that the mentioned terms of high costs of capital, raising of funds (Bassen et al., 2001), and lack of capital (Koller et al., 1998) play a significant role for the decision of pro or contra internationalization, I would like to shift the focus of this factor towards a comparative application, within the international market selection process. In my opinion, there are more general costs of internationalization, which cover the costs of screening, identification and selection of markets. In addition to it, there are market-specific costs, which contain of investment required to enter the market. The market-specific costs differ in its magnitude. The magnitude of market-specific costs differs from market to market, as more distant markets require more investment than psychically close markets (He & Wei, 2011). Hence, a comparative application of different markets, regarding their market-specific costs and their market attractiveness is a more suitable approach than plainly adding costs as internal factors.
4 Case Study Ekey

4.1 Method

“Through qualitative research we can explore a wide array of dimensions of the social world, including the texture and weave of everyday life, the understandings, experiences and imaginings of our research participants, the ways that social processes, institutions, discourses or relationships work, and the significance of the meanings that they generate. We can do all of this qualitatively by using methodologies that celebrate richness, depth, nuance, context, multi-dimensionality and complexity rather than being embarrassed or inconvenienced by them. Instead of editing these elements out in search of the general picture or the average, qualitative research factors them directly into its analyses and explanations. This means that it has an unrivalled capacity to constitute compelling arguments about how things work in particular contexts” (Mason, 2002, p.1). In other words, “qualitative research claims to describe life-worlds ‘from the inside out’, from the point of view of the people who participate” (Flick et al., 2004, p.3). The qualitative research method allows to gain insights from managers’ experience of internationalization, which yield synergies and contradictions between the literature review and the single-case study.

4.1.1 Data Collection

In order to enrich and reflect on the secondary data gathered in Chapter 3, an interview process is utilized to gain primary data. Semi-structured interviews were the core method of Section 4.2, and were found appropriate, as the empirical qualitative study was explorative, and “the open structure ensures that unexpected facts or attitudes can be easily explored” (Jarrat, 1996, p.9). Semi-structured means that the interview guide is open and loose, which allows the interviewed persons to express themselves completely free and open (Flick, 2009). The advantage is that the data collection was enriched by the personal experience of the interviewed top-level managers.

Additionally to the literature review and the semi-structured interviews, I (the author of this thesis) was not merely a passive observer. Instead, I occupied the role as a participant observer, due to my employment relationship as export manager at ekey biometric systems GmbH. This allowed me to take insights from my daily working experience, derived thoughts of social interactions and current strategic developments of the company into consideration, while collecting and evaluating the data. The benefit was that I was able to relate to issues, which may have not been specifically explained, and draw conclusions from data with hidden context (Yin, 2009). Also, I was able to gain access to data, which would be, under normal circumstances, not accessible for an outsider of the organization.

4.1.2 Case Study

“A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. [...] The case study inquiry copes with the technically distinctive situation, in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis” (Yin, 2009, p.18). The case study method is appropriate for this thesis, as the underlying real-life phenomenon should be investigated and understood in-depth, considering important contextual conditions with the aim to “illuminate the theoretical issues being studied” and “to understand how behaviour and/or processes are influenced by, and influence context” (Cassell & Symon, 2004, p. 323).

The case of ekey

Ekey biometric systems is an Austrian-based manufacturer of biometric fingerprint access control systems. The company was founded in 1999 and has become market leader in Europe for biometric
fingerprint access control systems. The company offers solutions for private and commercial customers, both in the door- and in the electronic industry. Ekey is positioned on the high-end customer segment, satisfying the needs for products with higher security, higher reliability, higher quality and higher functionality. Ekey biometric systems now exports more than 70% of its products. The majority of the exported products, more than 75%, is exported into Germany. For ekey, market assessment plays a vital role, as goods have been sold into more than 70 countries, without carrying out a detailed market analysis for most of the markets.

4.1.3 Interview Partners

The sample of interviewed participants in the study consisted of three professionals with more than five years of experience in internationalization of companies. Ideally, the interview partners have developed their internationalization experience in SMEs and possess strong managerial and leadership skills. Experience in internationalization is defined as working for an internationalised company with at least one other market next to the home country. Hereby, the interviewee were ideally, responsible for all operations in the host country. For the purpose of this thesis, the selection of people was further limited to individuals working for the company ekey biometric systems GmbH.

The sample itself did not rely on specific criteria, such as, gender, nationalities, age or different international backgrounds. While gender and age were not supposed to exert any impact on the findings of this thesis, different nationalities, or different international backgrounds might have. However, given the single-case method, the sample consisted of Austrian citizens only. The age of the sample varied from the late 30s to the early 60s, and interviewed people were required to occupy a position as top manager, senior executive or director. The time frame of at least five years of experience should guarantee that the individuals have been engaged in several internationalization activities in different host countries.

The single-case approach narrowed down the list of individuals and by applying the criterions defined above, the qualified individuals have been approached by email and direct contact.

4.1.4 Interview Process

In the initial approaching email, the interviewees have been informed to block 1.5h of his time for this meeting. The time range for the interview is between 1 and 1.5h. The interviewees were told that the interview is of sensitive matter, however, the findings of the thesis will be made available to the company, in order to facilitate a reflection process for the participants. The names of the interviewees were made anonymous to avoid any kind of discredit arising from the findings of the interviews and ensure a non-judgmental reflection process within the company. The interview part should raise the validity of the study, as synergies or contradictions in contrast to the Literature Review may emerge. The findings of the Literature Review were supposed to be supported by the insights gained during the interview process. In Appendix C, the interview questions are listed and a brief summary of the interview process is added in the following.

The first step of the interview were the introduction questions. In this step, personal questions regarding the time working for ekey biometric systems GmbH, the years of experience within the field of interest of this study, the period of time working and living in Austria and the current position in the company. Basically, these were the warm-up questions to allow the interviewee to become comfortable with the situation and the interviewer. This helped the interviewer to get to know the participants better and to assess their experience in the relevant scientific field. Using the initial introductory part should make the interviewees open for further discussion on their work. In the next step, more detailed questions regarding past internationalization policies of ekey have been commonly

---

15 Internal Dokument & Homepage ekey (2018)
used in the past, who are the final decision-makers in the company, and, if any, are there differences in the decision-making process if the market entry modes vary. For the first two steps between 15-20min were taken, as the questions are rather closed with the purpose to reveal as much of the context as possible.

The third step, asked specifically for firm-specific definitions for market attractiveness and resources of companies. Also, the individuals were questioned, if the definition of the company regarding both terms is congruent with the individual’s perception and definition of the terms. This helped to distinguish a common ground of understanding of the terms on the company-level and on an individual level. Next, more specific questions were asked regarding the external and internal factors with the purpose to detect the relevant factors for international market selection decisions. This was, where findings are made, synergies or contradictions with the findings of the Literature Review were found and conclusions were drawn to extend the current international market selection processes. Especially, the questions considering the internal factors revealed unknown data in the context of internationalization, and was of special interest for this thesis. This part took between 30 and 40min.

The final step concluded with any remaining issues not having been covered in the interview. Hereby, the interviewees got the opportunity to come up with other ideas, statements or questions, which they would like to share. This concluding part of the interview allowed interviewees to speak even more openly, leading to interesting drawbacks and conclusions. Insights from another angle came up during this step, which have been of added value for the thesis. The final step had no intended time range, however, the total interview time of 1.5h was not extended.

4.1.5 Data Analysis

The recorded interviews were transcribed using the f4 software tool. The f4 software tool was ideally developed for transcribing interviews and offered features to make the transcribing process more accurate. For the coding of the interview the MaxQDA Pro 18 software had been utilized and the results were derived from the data analysis presented in Appendix D. Mainly, the categories derived from the literature review were used for starting the initial coding scheme. The interviews were reviewed by using the initial categories of the literature review as main codes. Sub-codes for each category emerged and similar codes could be combined into a factor. This allowed to remain comparable with the literature review on market assessment and built the foundation for the data analysis and the findings. Repetition of codes indicated a higher response rate of the interviewees on a particular category, which can be seen in the data analysis in Appendix D. An overview of the MaxQDA data analysis is illustrated in Section 4.2 and further, re-processed in Section 4.3. The findings are derived from Table 4-2 in Section 4.3.

4.2 Case Analysis

This chapter presents the results of the case analysis and the results provide the basis for answering the research question “What are the internal and external factors needed for assessing relevant markets for the internationalization process of SMEs?” Subsection 4.2.1 discusses the findings of the macro-level factors. Subsection 4.2.2 focuses on the findings of the meso-level factors, and Subsection 4.2.3 elaborates on the findings of the micro-level factors. Each section contains a list of factors, where the participants responded to be relevant for the internationalization process. The factors have been assigned to the specific categories addressed in the literary review and discussed, based on their significance. Section 4.3 links the findings of the case study to the literary findings and draws a conclusion to the internationalization process of SMEs.

The case analysis disclosed that the internal and external factors used for the assessment of relevant markets are widely considered, but with varying impact on the final international market selection
decision. The findings showed that all interviewees mentioned factors, which can be categorized into the economic, legal, socio-cultural aspect of the macro-level environment; the complementary products, substitutes, the bargaining power of customers, market-entry barriers, market-competition of the meso-level environment; and the financial resources, strategic orientation, knowledge, managerial-level, networks, capabilities, liabilities and product-specific factors of the micro-level environment. A few other categories, such as, the political and technological factors of the macro-level environment, other stakeholders of the meso-level environment and physical resources of the micro-environment have only received little response by one or two interviewees. Although all interviewees were able to comment on the majority of the categories, the relevance of each category varies in terms of the actual influence upon the final international market selection decision. Table 4-1 illustrates the stated factors of the interviewees for each category and gives an indication about the frequency of responses of the category. Hereby, the scores “low”, “medium” and “high” derived from the number of responses of the interviewees on a particular category. Section 4.3 re-processes the data of Table 4-1 and draws a conclusion on the influence of external and internal factors on the market assessment and the IMSDs.

The most prominent topics during the interviewees for the macro-level environment are: the socio-cultural factors followed by the economic and legal factors. The most prominent topics for the meso-level environment are: the complementary products16 followed by the market competition. The most prominent topics for the micro-environment are: the product-specific factors, the managerial-level and networks.

Table 4-1 Overview of the response rates of the interviewees

<table>
<thead>
<tr>
<th>Categories</th>
<th>stated factors by the Interviewee</th>
<th>Responses of the Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro-level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>GNP/GDP; building sector; export ratios; consumer behaviour; buying power</td>
<td>Medium</td>
</tr>
<tr>
<td>Technological</td>
<td>patents</td>
<td>Low</td>
</tr>
<tr>
<td>Legal</td>
<td>Norms &amp; regulations; translation of product-related documents; data protection regulations</td>
<td>Medium</td>
</tr>
<tr>
<td>Political</td>
<td>Political stability</td>
<td>Low</td>
</tr>
<tr>
<td>Ecological</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Socio-cultural</td>
<td>Luxury segment; attitude towards data protection regulations; language; affinity &amp; openness to new technology; psychically close markets</td>
<td>High</td>
</tr>
<tr>
<td><strong>Meso-level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining power of customers</td>
<td>Telecommunication development; price sensitivity; customer-specific processes; customer-specific requirements; switching costs;</td>
<td>Medium</td>
</tr>
<tr>
<td>Market-entry barriers</td>
<td>Low cost industry; returns &amp; repair processes; transportation costs; customs/import duties</td>
<td>Low</td>
</tr>
<tr>
<td>Market competition</td>
<td>Competition analysis; benchmarking</td>
<td>Medium</td>
</tr>
<tr>
<td>Other stakeholders</td>
<td>Changing data protection regulations</td>
<td>Low</td>
</tr>
<tr>
<td>Bargaining power of suppliers</td>
<td>Keys</td>
<td>None</td>
</tr>
<tr>
<td>substitutes</td>
<td></td>
<td>Low</td>
</tr>
</tbody>
</table>

16 Due to the high response rate of complementary products and its high influence on market assessment, this category has been taken out from the category “other stakeholders” and is presented as distinct category.
4.2.1 Macro-level factors

In Subsection “Narrative Review of external factors influencing IMSDs” (3.1) and in Subsection “Available Tool for the analysis of the macro-level environment” (3.3.2.2), the categories of the macro-level environment have been introduced, based on the PESTLE analysis. The categories, which received increased importance from the interviewees, have been the economic, technological, political, legal and socio-cultural category. It can be stated at this point, that the ecological factors have been neglected by all interviewees to be of any importance for IMSDs. The macro-level categories with importance to the interviewee are in the following discussed and the relevant macro-level factors for the market assessment are revealed.

4.2.1.1 The economic factors

The interviewees described the economic category to consist of the GDP/GNP, the buying behaviour and the consumer behaviour. The highest consistency among the interviewees was reached by the factors consumer behaviour and buying power. Wage-laves, and disposable and discretionary income have an impact on the buying power and the consumer behaviour of the people (Wheelen & Hunger, 2010). One interviewee provided an example of buying power: “In Poland, the minimum wage starts at 400€, the average (wage-level) is probably between 1000 and 1500€, the more expensive our products become, the smaller the target group. […] 50% of the Austrian population should be able to afford an ekey finger scanner, […] in Slovenia I would say […] it is not 50% […] because of the purchasing power of the people living there.” (Interviewee A 62-68) A reason for taking this factors into consideration is the price of the product and the challenges resulting from the distribution of relatively high-priced products (Subsection 4.2.2.1).

The factor GDP/GNP and market size, on the other hand, which received both relevance within the strategic literature and the internationalization literature, did have less impact on the market

---

17 Language showed a medium-high response rate with regard to capabilities, but a low response rate of language occurred in the context of the socio-cultural category.

18 The quotes of the interviewees are referenced by their code name, ranging from A-C, followed by the paragraph coding from MaxQDA.
assessment at ekey. One interviewee stated: “I would say, based on certain economic numbers like market size, GDP. At the end of the day, it turned out to be rather a flying start.” (Interviewee A 19-19)

The economic numbers of specific industries played a significant role for the market assessment. Factors mentioned are the building sector and export ratios related to the door industry. Hence, these factors will be discussed under “complementary products” (Subsection 4.2.2.1).

The economic factors buying power, consumer behaviour and GDP/GNP occupy an influencing role for market attractiveness. There is a varying influence of each factor, according to the interviewees. Hence, the importance of those factors for the market assessment will be discussed in Section 4.3.

4.2.1.2 The technological factors
The technological factors have been mostly neglected by the interviewees. Ekey bears several patents related to their products and other patents would not hinder ekey to enter a new market. The response on the question, whether patents are an obstacle to enter a market, has been answered by “No, not really.” (Interviewee B 44-44)

4.2.1.3 The legal factors
The legal category of the macro-environment was noted by all of the interviewees in various ways, but all related to the market assessment. The interviewees named data protection regulations as important factor to consider for the market assessment. The interviewees state that this restricts the distribution of a certain product portfolio of ekey, and it would influence the intended strategy in the relevant market. “On the other side, there are data protection regulations, which have to be observed, [...] the CNIL, the data protection agency (in France), administers very restrictive regulations” (Interviewee B 42-42) “[...] in the European Union (EU), the latest issue is data protection. Some countries interpret the issue data protection more rigorous than others, which has influence on the products we are able to export there.” (Interviewee C 45-45)

Another legal factor was the norms and regulations in different markets. Here, the interviewees named the certification of the products, which has to be fulfilled, in order to sell the products in the market. These certifications constituted an obstacle for entering a market. “Yes, definitely, the test requirements, for instance, the CE-certification for products, which we have to fulfil.” (Interviewee B 42-42) “A second element we started paying more attention to [...] is the regulations and norms that we (ekey) might have to fulfil in certain countries. China is an example, there is a so-called CCC-certification, we (ekey) need to comply with. [...] at this point of time we are simply lacking the resources to [...] evaluate in detail what is required on the technical side to fulfil this CCC-requirement.” (Interviewee A 37-37)

Another factor, mentioned by an interviewee, was the translation of product-related documents into the local language. This requirement to provide documents, such as, manuals, hazard warnings, product-specific datasheets in local language, various from country to country. Own observations, due to my working relationship with ekey, exhibit that Czech Republic is an example for having such requirements towards manufacturers. The response during the interviewee, hereby, was that such requirements become an organizational challenge to ekey, in terms of capacities (Subsection 4.2.3.2.2) and of costs (Subsection 4.2.3.7).

The legal factors show a strong influence on the market assessment, due to their influence on market attractiveness. The legal factors are also interlinked with product-specific factors and knowledge and will be, therefore, discussed in Section 4.3.
4.2.1.4 The political factors

This category received less attention by the interviewees. For earlier internationalization decisions this factor had not played any role during the IMS process. “[...] at early stages, it (political stability) was not really taken into consideration.” (Interviewee A 37-37)

However, according to the interviews, the factor political stability had recently started to get significant influence upon the decision to increase the commitment of ekey in a certain market. “[...] in Turkey, for instance, [...] even though we were approached by a partner last year who expressed interest to develop the Turkish market on our behalf further, we moved forward with this partner, but we agreed straight from the beginning that we would do this only with very limited resources in a very controlled way.” (Interviewee A 37-37)

4.2.1.5 The socio-cultural factors

The socio-cultural factors were reported to consist of the luxury segment in each country, the attitude towards data protection regulations, the language, the affinity and openness to new technology, and psychically close markets. From these factors, the most frequently mentioned one, was the affinity and openness to new technology. The development within the society is in a favourable direction for ekey, as end users start to engage with the topic biometric access control supported by the development and presence of fingerprint as part of the mobile phones. “In our earlier days, you know, people were only talking about biometrics first, in general. In the second stage, they started talking, they started differentiating different biometric technologies, is it face recognition, is it the fingerprint recognition [...]” (Interviewee A 74-74). “[...] meanwhile, mobile phones carry finger scanners, which is surely beneficial because the people become used to unlock with the finger.” (Interviewee B 46-46) “Extremely attractive would be the Asian market, also the American market, due to being a huge market using one language; and the Asian market, which is very receptive to this (fingerprint) technology.” (Interviewee C 121-121)

Another factor, which received greater feedback in this category, was servicing the luxury segment. The interviewees distinguished between selling emotions and targeting a wealthy customer segment. “[...] it is about gadget, life style, it is about having a sexy product, if is about emotions, selling emotions [...] it is like James Bond for private home, everybody wants to be James Bond.” (Interviewee A 46-46; 99-99)

On the other hand, the case analysis showed that a luxury segment is present in many countries, despite their economic development or the country-specific buying power. This focus on a specific class of the population has been already addressed by Rahman (2013), who added the “population size” and the “size of middle class” as demographic factors for market attractiveness. In the case of ekey, I would, therefore, rename the factors, and define it as the “size of the high-end class”. “There are opportunities in this upper-class segment basically in every country, also in countries, where one would say, that the economic potential is very low. But generally, there are everywhere rich people and a market for luxury goods” (Interviewee B 34-34) “[...] like India, where a small percentage of the population can be targeted, but considering the size of the population, one percent is sufficient to realize good business [...], in this example, we (ekey) are targeting high-end villas, and looked at it at that way, India, for instance, is also an attractive market.” (Interviewee B 32-32)

Language is seen as part of the Psychic Distance, according to Simon (2007). According to the case analysis, the Psychic Distance revealed influence on market assessment. Ekey looked at psychically close markets to internationalize, because existing concepts, strategies and sales tools could be copied into countries using the same language as the home country “[...] to extend these (sales) activities from Austria and Germany to the next German-speaking country Switzerland...” (Interviewee C 35-35)

Language is assigned to multiple categories, also into Capabilities (4.2.3.5) and Liabilities (4.2.3.6)
Another indicator for Psychic Distance being of importance to ekey, was the statement that “The closeness to us (ekey; Austria) is an important topic, so we do not miss any attractive markets nearby, by searching the distance.” (Interviewee C 23-23)

The socio-cultural factors show a stronger influence on market attractiveness than the other macro-level factors and will be discussed in Section 4.3.

4.2.2 Meso-level factors
As discussed in Subsection 3.3.2.3, the meso-level factors consist of the industry-related forces, highlighted under the term Porter’s Five Forces. The interviews revealed that the categories emerging from Porter’s Five Forces have varying impact on the industry attractiveness\(^\text{19}\), with market competition and bargaining power of customers being named with a medium response rate. Furthermore, one category emerged from the interviews, namely complementary products. This category is added as unique category, due to its high resonance during the interviews. In the literature, complementary products are named as part of “other stakeholders”. On the other side, the bargaining power of suppliers’ category received zero responses during the interview and is, therefore, discarded as influential factor for market assessment. Personal observation made it clear that ekey is solely manufacturing in Austria and there is no intention to outsource any of the production steps. Hence, the consideration of the bargaining power of suppliers for internationalization became obsolete.

4.2.2.1 Complementary products
Before being able to illuminate the influence of complementary products for the market attractiveness by addressing challenges and benefits occurring from complementary products, the different types of industries ekey sells to, have to be discussed. The interviews narrowed down the ultimate problem of ekey, out of which the connection to complementary products arises. “Biometry, or Fingerprint as such, is no real solution, but rather part of a bigger solution […]. it (fingerprint) requires a (electric) locking mechanism in a door or an engine of a garage or a similar system, in order to become, in total, an applicable solution for the user.” (Interviewee C 51-51)

The industries being addressed by the interviewees most frequently are the home automation industry, the lock industry and the door industry. Hereby, the distinction between macro- and meso-level factors become less clear, as ekey looks at economic factors related to those specific industries in a specific market and includes them into the assessment of the market attractiveness. “Primarily, it is about quantities […]. also about Euros (turnover) but primarily quantities, which are of interest to us. With quantities we (ekey) can get an idea about the market potential.” (Interviewee C 71-71) “[…] if there is simply a huge door industry, like in France for instance, where there are big door manufacturers […] the major (door producer) manufactures almost 100.000 doors a year, this can be, of course, attractive.” (Interviewee B 32-32)

Also the earlier mentioned building industry and export ratio of the door industry are considered. The building industry is assumed by ekey to have direct influence on the door industry in terms of the number of produced doors. A booming building sector is supposed to lead to an increase in the door production. This observation has been made in several markets before. On the other hand, export ratios of the local door industry in a market becomes of strategic interest for ekey, if the exports are realized into strategic important markets of ekey. This issue cannot be explicitly assigned to one

\(^{19}\) The interviewees were associating industry-specific factors with the term market attractiveness, rather than with the term industry attractiveness. Based on the literature (Porter, 1980), the term industry attractiveness would be correct. However, I will continue to distinguish between macro-, and meso-level factors influencing the market assessment. At the same time, I am not able to categorize factors based on their influence on industry attractiveness.
subsection, due to its relevance for the “strategic orientation” (Subsection 4.2.3.8) of a SME. “[…] Poland, for instance, has a very strong export-oriented door industry and from various aspects this topic becomes essential for us, because firstly we (ekey) are strongly rooted in the door industry and secondly it would be strategically badly if other finger scanners (competitor products) would be exported from Poland into our core markets Austria and Germany and subsequently, our core markets would be attacked” (Interviewee C 41-41)

Other markets may offer a less attractive door industry, because only a low amount of doors is produced or the doors are imported from elsewhere. Hereby, a second industry, the home automation industry can be targeted. An economic factor investigated in the context of the home automation industry is the number of realized projects annually and who are the key players, and key system integrators in the market. Own observations show, that by collecting such market information, the industry potential of the market can be assessed.

The case study revealed a high dependency of ekey on complementary products. Ekey focuses on the access control system only, which requires an electrified locking mechanism or a superior home automation system afterwards, in order to process the triggering signal of the ekey product. This dependency leads to further challenges when establishing business relationships. The responses on each challenge varied among the interviewees.

First, missing cross-industry competences becomes a critical issue for ekey. Customers from the door industry, lack of fundamental knowledge with regard to electrification of products and basic wiring competences. With regard to internationalization into more distant countries, this becomes an even greater challenge because certain aspects of the knowledge transfer, such as, on-site support, training of local production workforce, final tests of commissioning the systems, have to be considered and are more difficult to realize in more distant countries. “They (door producers) lack of […] understanding […] the electrical engineering, which is in a way the foundation of our products. We need to get the electricity into the front door, we need to make sure that everything is wired correctly to the lock and to the power supply […] the door producers just require here more assistance.” (Interviewee A 131-131)

Second, ekey is confronted with the requirement to offer a comprehensive package to the different industries. Resulting from the missing cross-industry knowhow of the door producers, ekey was, for example, required to develop an easy-to-install product and easy-to-operate concept for that industry. “This is all about process thought. The buying decision is made by the door producer and the simpler, the more comfortable the whole process for the buyer, in this case the door producer, is, because the wiring with plugs becomes easy and universal, in order to save working time in the production, less knowhow is necessary for semi-skilled workforce of the door producer who are able to install the system without producing errors […] the less components are necessary, in order to economize […] the package in total, the more attractive it (the package) becomes for the door producer” (Interviewee C 55-55)

Another challenge is targeting those customers with a specific high-quality product portfolio. In certain countries, however, those customers are not existing, which lowers the attractiveness of the market for ekey. The main reasons for this are the price of the product and the price-sensitivity (Subsection 4.2.2.2) of customers. “[…] for each export country, it must be evaluated if good doors, high-quality doors are an issue there. There are particular countries, such as, the Scandinavian countries, where doors are rather cheap. There are other countries, such as, Germany and Austria, where doors have a high value” (Interviewee B 20-20) “[…] when it comes about the door industry in the UK, you hardly actually get to find any door producers that manufacture front doors, high end front doors, in an industrial way, meaning interesting quantities. […] Most of the time they are only producing cheap doors, where it gets extremely difficult for us to add, to accommodate the costs of the finger scanner and of an electrified locking mechanism […]” (Interviewee A 29-29) A reason for assessing the quality
of the customer’s portfolio is to gather information about the price range of the doors. In the case of ekey, if the doors are made of PVC and are in a price range between 500-1200€, then it becomes increasingly difficult for ekey to actually sell to those customers, due to the price of the ekey product and the extra costs resulting from requiring an electrified locking mechanism. “[...] if the door just costs 500€ and the package motorized lock and finger scanner including installation costs 1500€, then this becomes rather unlikely to realize huge sales quantities. If aluminium doors cost 3000€, for instance, plus 1500€ for motorized lock and finger scanner, then this is reasonable.” (Interviewee B 20-20)

Nevertheless, there are also certain benefits arising from the dependence on complementary products. The benefits resulting from offering a complementary product are the cross-selling opportunities, offering a global product for global industries, and using the resources of the manufacturer as a multiplier.

When it comes to cross-selling, the ekey product as an add-on to existing systems, allows the sales team of the manufacturer of doors or locks, or the system integrator to generate additional sales. Especially in saturated markets, adding ekey products brings additional turnover for the same amount of sold units, for instance, doors. In certain markets, where the market competition is high, the ekey product allows a certain degree of differentiation among competitors, which might result in additional competitive advantages for ekey customers.

Whereas the door industry is seen as traditional industry (Interviewee A 46-46), the home automation industry is a modern industry and more globally existent. As already discussed in Subsection “the socio-cultural factors” (4.2.1.5), the luxury segment is an important customer segment for ekey, which is also targeted by system integrators in the home automation industry. Although, home automation system integrators are not equally widespread across the globe, you can find them literally anywhere, which is a benefit for ekey when looking for foreign business relationships in this industry. “It (home automation) is surely a trend, which becomes more and more, and there are opportunities in the high-end market literally in every country” (Interviewee B 34-34) “At least from my point of view, this (the home automation industry) is truly a global market, you know, you find people in India, China, Europe, North America, in Africa, really anywhere” (Interviewee A 46-46).

The third benefit resulting from the dependence on complementary products, is the multiplier by being able to use the sales team of the manufacturers of doors, locks and system integrators. In most cases, their sales team is much bigger than the total number of the sales team of ekey. Cooperating with those manufacturers helps ekey to raise the awareness in the market and increase its reputation within their distribution channels. Reputation is separately discussed in Subsection 4.2.3.5.

The meso-level factors, especially the economic numbers of the complementary industries, do play a significant role in the assessment of markets in terms of their market attractiveness, according to the case analysis. Hence, those factors will be discussed in Section 4.3.

4.2.2.2 The bargaining power of customers

The ascertained dependency on the complementary products leads to the question if ekey is under increased pressure of customers with regard to prices, product development or other requirements. Hereby, the case analysis showed that advance information via the Internet, price sensitivity, customer-specific processes, customer-specific requirements and switching costs were associated with bargaining power of customers.

The price sensitivity played a critical role, however, only with regard to end customers. The interviewees responded inconsistently, as one opinion was that end customers become more and more informed about the prices and the technology, which might put some pressure on the dealers of ekey systems and increase the price sensitivity in the market in the future. “An end-user that has a
tight budget [...], usually has a budget of 500€ [...] so there are certain budget constraints on the end-user side, if we now still add, though we could from a mere technological point of view, [...] the finger scanner and the electrified locking system into a PVC door [...]. This would probably add at least another 800 to 1000 Euro [...].” (Interviewee A 29-29)

On the other side, the responses of the interviewees were that, since ekey is targeting the high-end segment, which is supposed to be less price-sensitive, price sensitivity would be less of an issue. However, still customers are able to compare prices of the products in the industry and are able to confront ekey with price expectations from their side. Hereby, ekey is able to differentiate itself with product-specific factors (Subsection 4.2.3.3) “[...] the lowest prices, we are currently aware of, are about a 120 to 150 Euro purchasing price from the door producer’s points of view, whereas we are depending, of course, on the specific solution. Is it with Bluetooth, is it with RFID, is it integrated, is it the ARTE(20) finger scanner?” (Interviewee A 70-70)

Increased information on the side of customers is mainly favoured through the Internet. Although, this point didn’t find high response during the interviews, I assume, that this becomes more and more relevant. In my opinion, the technological advances in information and communication technologies favours at the beginning the internationalization, but challenges, in the following, also existing market players, as information about their product, their prices and other aspects are shared easily globally.

In the previous subsection, the challenge of forming a comprehensive package for customers was introduced. The statement of the interviewees that the easier the package becomes, the more attractive it becomes for the door producer, leads to the conclusion that the requirement to develop customer-specific processes increases the bargaining power of the customers. Additionally, customer-specific requirements could be imposed to ekey. One requirement, for instance, could be to become ISO 9001:2015 certified. Although ekey is already certified, there might be other requirements, which come up in the future, where certain customers could potentially exert higher pressure on ekey and have an increased bargaining power. Those requirements could be not only customer-specific, but also industry-specific. The high dependency on two industries with complementary products, apart from their own biometric industry, requires ekey to have competences in multiple industries, in order to react to possible changes in the environment in a reasonable time frame.

On the other hand, forming comprehensive packages increases also the switching costs of the customer, which has a decreasing effect on the bargaining power of the customers. Due to customized wiring diagrams, the reprogramming of bespoke milling procedures or the existence of particular interfaces for the connection to third party systems, the switching costs are relatively high and a change from ekey to a competitor product, or vice versa, is with high effort.

Although certain pressure of customers can be exerted on ekey regarding price and with regard to upcoming regulations, the bargaining power of customers is considered to be low. On the one hand, the switching costs are responsible that, as soon as, a door producer, for instance, becomes a customer of ekey, the switching costs become relatively high and it is difficult for competitors to entice the customer away from ekey. Additionally, price sensitivity is not considered to be of ultimate need for customers approaching ekey from various industries. Ekey is targeting the high-end market by approaching high-quality aluminium door producers with a product range with a certain minimum price-range and system integrator, which generally offer services for the high-end market.

---

20 The ARTE finger scanner is a finger scanner in a unique small case (Homepage ekey, 2018).
4.2.2.3 The market entry barriers

Several market entry barriers were named by the interviewees in various ways, but most of them with relatively little response rate on market assessment. The most frequently factor named, and the one with the most influence on market assessment, is the existence of a low cost door industry. The case analysis revealed a strong dependency on the door industry previously, and the challenge arose that those targeted door producer should manufacture high-quality doors. If there is, however, no high-quality door industry in the market, then this market would possess in this sense a market entry barrier, as the door industry is hardly to be approached successfully. “An end-user that is interested to purchase [...] a PVC door usually has a budget of 500€ maybe up to a thousand Euro. [...] if we now [...] integrate the finger scanner and the electrified locking system into a PVC door, [...] customers were simply unable to actually, you know, raise this extra money.” (Interviewee A 29-29)

Factors with little influence on the market assessment were customs or import duties, return and repair processes, and transportation costs. Customs and import tariffs are currently not considered to be relevant. Although, there are countries, where such additional costs on the product apply, customs and import tariffs are only considered, if those factors would be far beyond of what is considered reasonable. “[...] for instance, if in an overseas country, like Argentina, import duties of 100% apply, then this would be generally a disadvantageous factor” (Interviewee B 28-28)

In general, however, the European Union is considered favourable by the interviewees, due to no import tariffs or customers, but also because of more cost efficient and faster transportation costs and, return and repair processes. Although these factors are only less relevant for market attractiveness, they are at least verified for each market and briefly discussed in Section 4.3.

4.2.2.4 Market competition

Market competition was named quite frequently during the interviews, however, it turned out that it had, if any, only hardly influence on the market attractiveness. One interviewee A responded clearly, “No, I would say, it is not”, and added, “I would not know, I have never come across actually a situation, where it was in favour for us to break into that market, vice versa, I was never in a situation, where the presence of a competitor led to the situation that we were driven out of the market” (Interviewee A 54-54; 56-56).

Another interviewee, however, revealed that a certain amount of market preparation might be already done by existing competitors in the market and that fingerprint, as “interruptive innovation” (Interviewer C 63-63), would then break into the market and offer added value by benchmarking itself to the existing products (competitor products) in the market. Competitor products, hereby, are RFID or keypads, or other access control technologies. At the same time, increasing differentiating to other existing products of competitors is required, which is also discussed by Wheelen and Hunger (2010) or in Subsection 3.3.2.3. Hence, when considering to enter a certain market, the competition within the market would play a role only in that particular way that ekey would analyse the competitors and their products, in order to position themselves strategically in the market. In general, however, ekey is already aware of the existing competitors in the biometric industry and competitor analysis are already available for each key account manager at ekey. The strategic positioning is not uniquely in foreign markets, it follows from the strategic position in the core markets. Own observations showed, that ekey constantly reviews their position in the core markets.

4.2.2.5 Substitutes

Substitutes in the market were not taken into consideration for industry attractiveness, due to two main reasons. First, biometric substitutes, such as, iris or vein scanners are not really available in the residential high-end segment, where ekey products are positioned globally. On the other hand, the keys are considered to be the substitute, which mostly interferes with ekey’ business opportunities.
Mainly, because of the widespread usage for hundreds and thousands of years of keys, it is hardly possible to imagine being without them. Alternative electronic access control systems are considered to be competitor products. Those products have been addressed in the previous Subsection Market competition (4.2.2.4).

4.2.2.6 Other stakeholders

Other stakeholders have experienced less responses with regard to market attractiveness. Mainly, because data protection regulations have already been elaborated on in Subsection “The legal factors” (4.2.1.3) and complementary products or industries have been added as distinct factors. However, “other stakeholders” are more relevant, considering their possible impact on the meso-level environment and the micro-environment. Interviewee C (45-45) stated “Some countries interpret the issue data protection more rigorous than others, which has influence on the products we are able to export there.” There is an uncertainty, how future product development, such as, cloud solutions, is affected by current data protection regulations, as well as, how the distribution of those products within certain industries will be affected. For instance, France, although member in the European Union, is, nowadays, prohibiting the distribution of a network-based biometric access control system for commercial use. This limits the product portfolio of ekey and reduces the potential customer segment.

4.2.3 Micro-level factors

In Subsection Internal Factors (3.4) and in Subsection Internal Environmental Scanning (3.4.2), the micro-level factors have been examined based on strategic management literature. Three out of nine emerging categories from the micro-environment received high responses during the interviews: the managerial level, the networks and the product-specific factors. The categories with medium-response rates were the financial resources, knowledge, capabilities and liabilities, whereas financial resources and strategic orientation have been of less important to the interviewees. Only physical resources has been neglected by the interviewees during the case analysis and, therefore, will be discarded with regard to its relevance for market assessment.

4.2.3.1 The networks

The case study revealed that the most important category for the interviewees was networks. The interviewees responded consistently across various factors, stating the resources of partners in the foreign market, the commitment of the partner to ekey products, turnover and the distribution experience to be of high relevance for the market assessment. Other factors of networks with less relevance for the market assessment were trust, existing business contacts of the partners and the availability of partners in the foreign market.

The resources of partners in the foreign market had been the most influential factor for market assessment and was named by all interviewees in various ways. “That you find a good partner [...] who does real distribution work [...], who has the financial resources and the personal resources, that our (ekey) products can be actively distributed.” (Interviewee B 8-8) “Resources can come ideally from the distributor” (Interviewee B 72-72) “A distributor must be ready to hire people and to do correspondingly marketing activities, including to raise a budget for those marketing activities [...] and a budget for, for example, trade shows.” (Interviewee B 78-78) “Important is [...] an appropriate financial background to realize the market development [...]” (Interviewee C 105-105)

In terms of financial resources of partners, the interviewees showed various expectations how to use them, such as, local printing of sales documents, translation of required documents in local language, participation at trade shows and hiring skilled people with technical knowledge. The importance of this factor is underlined by following statement. “I would say one of the key lessons learned over the past
couple of years was [...] when working with external partners [...] they underestimated the required investment of really breaking into the market.” (Interviewee A 25-25)

In the following, the interviewees also reckoned the distribution experience alongside with the availability of resources of the partners. “Important is [...] distribution knowhow, because, firstly it is mainly about sales tasks.” (Interviewee C 105-105) “Distribution knowhow is market knowledge, knowhow about sales channels [...]” (Interviewee C 109-109) “In general resources are crucial for a distribution, on the other site, the distribution experience.” (Interviewee B 80-80)

The commitment of the partner to the ekey products were also of major relevance for the interviewees. “[...] the partner we appointed for the market in Liechtenstein, he was more committed to the market development. They (the partner) did it (market development) in a more strategic, in a more professional way.” (Interviewee A 21-21) “Important is a certain commitment for the task as a distributor [...]” (Interviewee C 105-105)

Commitment was also seen as the foundation for turnover, which is another major influential factors for market assessment at ekey. One reason, why turnover is relevant for market assessment, is lacking resources (see also Subsection 4.2.3.2) “We are lacking resources constantly, so we need to decide carefully on what [...] we should pay attention to and realized turnover is here one of the strongest arguments [...] turnover, of course, depends on the partners side and their activities on their willingness, also on the interest in our product. So it does play an important role” (Interviewee A 129-129) “There are several criteria, on the one hand the (market) potential of the country, such as, a country with a massive door industry. [...] On the other hand, [...] what is the realized turnover with respect to the commitment” (Interviewee B 16-16)

Another factor within the network category is the availability or existence of partners in the foreign market. The case analysis showed that this factor is, indeed, of certain relevance, as with the right partners in the market, significant progress could be made in particular countries, whereas in other markets, those partners were missing. However, it is mainly about finding the right partner with previously mentioned resources, distribution experience and commitment, where market development can be successfully made, and is not done by simply appointing anyone as partner in the market.

Some of the interviewees also valued existing business contacts of business partners in the market. The presence of such an own customer network would underline the distribution experience of partner and allow the assessment of the customer segment, whether or not, those business contacts are located in the right industry.

Trust, however, was stated to be of major relevance for the internationalization process, and is taken into consideration when the commitment at the side of ekey was required to be raised. This requires a more detailed investigation of the chosen market entry mode, which is not part of this case analysis. The influence of trust is addressed briefly in Section 4.3.5.

The commitment of the partner, existing business contacts, resources of partners, distribution experience, turnover and the availability of partners will be added into the discussion of Section 4.3.

4.2.3.2 The managerial level

The managerial level can be divided into two sub-categories, top management and employees. With regard to the top-management sub-category, the market assessment is by the feelings of the management and the self-perception, in terms of risk assessment for past internationalization decisions. In the employee sub-category, the capacities of the middle-management, the qualification
of the middle management and attitudes towards self-fulfilment of the middle-managers were addressed by the interviewees to be of relevance for the market assessment process.

4.2.3.2.1 Top management

Strong resonance of the interviewees in the sub-category emerged regarding self-reflexion on previous internationalization decisions. Hereby, the interviewees showed consistency in terms of weighting investment and opportunities carefully against each other, take investments carefully and to be selective about the next strategic steps. On the one hand, it is about not losing any opportunities in the market, whereas, on the other hand, to be able to take decisions within a reasonable time frame. “In our case, being still a small to medium sized company, we just have a lot less financial power. Therefore, we have to be a lot more careful with our investments and a lot more selective on what we are actually doing and what we are not doing.” (Interviewee A 58-58) “I would say we utilize emerging opportunities, and also utilize them in a timely way. And yes, it can happen that such an opportunity works out […] or not.” (Interviewee B 134-134) “We are careful, and deliberate, and cost-aware towards decisions (internationalization decisions), in order to minimize the economic risk of a failure […]” (Interviewee C 115-115)

Another factor mentioned by one of the interviewees was gut-feeling. Internationalization decisions are taken in a team, and if there is a good feeling about a country, then it is a good indication to take the next step into this market. The gut-feeling has been mentioned by Rahman (2013) and is also part of the attitudes of the management, according to Swoboda et al. (2011). Therefore, I would consider both factors, gut-feeling, although mentioned by only one interviewee, and the weighting of investments as important for market assessment and those factors will be added in Section 4.3.

4.2.3.2.2 The employees

Figure 19 in Subsection 3.4.2 stated that the managerial level consists of the top-management and of the employees. Mooradian et al. (2012) named several factors, of which the qualification of the employees, middle managers or key account managers, in particular, was reckoned as internal factor for market assessment. The most named required qualification towards middle managers in the case analysis was the language competences to speak the local language. Subsection 4.2.3.5 adds language as internal factor distinctly. Secondly, social competency was required, due to a strong interrelationship with the foreign partners. Hereby, empathy is needed to understand, what the counterpart needs and how to react during negotiations, which is closely tied to business ethics. Thirdly, certain flexibility with regard to willingness to travel abroad or holding digital sales meetings outside the office hours, due to time differences, was also required for middle managers. Fourth, technical knowhow is required, in order to speak to the different industries and to be responsive to their individual specific needs (see also Subsection 4.2.3.4). Fifth, another ability, which is looked for in middle managers, was the attitude towards an individual contribution to make a difference in the job. It is required to think outside the box. The factor is added as self-fulfilment.

On the other hand, it is difficult for a small company to provide local language competences. Hereby, the cooperation with local partners comes into play. Such partnerships can only be successful, if a common language is spoken. In most cases, the English language is spoken globally and is required to be spoken by both sides of the business partnership.

Another challenge for internationalizing SMES is the lacking capacity in the middle management. Without the necessary capacity to develop a market, a new foreign market is not chosen. “[…] the primary resource is the key account manager, who supervises the particular market […].” (Interviewee C 31-31) “It is not realistic to build-up distributors simultaneously in many countries […]. Distributors require extremely intensive support, especially at the beginning, and sometime the time per employee
is simply finished.” (Interviewee B 116-116) “[...] at the end of the day, there are four people (et ekey), who are supposed to service an entire... the globe.” (Interviewee A 37-37)

The middle managers’ capacity is one of the central decisive points for IMSDs for a particular market. “It depends strongly on our (ekey) resources, especially resources of supervision (of a market), on the manpower. It is no use to focus on a market, if there are not the required capacities and knowhow to develop the market.” (Interviewee C 117-117)

This is also a reason, why the resources of partners in the foreign markets are valued as important for the market assessment process and in the following for IMSDs. If the partner in the foreign market takes over the responsibilities from the ekey middle manager, then the ekey middle manager can focus on knowledge-transfer (Subsection 4.2.3.4) to the partner rather than developing the market. Additionally, the market-specific costs (Subsection 4.2.3.7) can be partly assigned to the partner.

Capacity, qualification of employees and self-fulfilment of employees are internal managerial-level factors to be discussed in Subsection 4.3.

4.2.3.3 Product-specific factors

For the market assessment, SMEs have to analyse their product to understand, whether or not, the product is suitable for the foreign market. The evaluation of the products for the feasibility in foreign countries might bring valuable information about the product standards. “[...] in the States it is very often the distributor, that is just sourcing the door panel from a producer, but it is only the panel. So the finalization (of the door), adding an access control system [...] , this is not actually something that is done by the door producer for the end user, but instead by the distributor of the front door on behalf of the end user [...] , which is a challenge for us, because everything needs to be standardized in terms of geometry, how products look like, how they integrate into those door panels and we are, at least at this point of time, simple not able to meet those requirements.” (Interviewee A 83-83)

Additionally, other product requirement might be differently in the foreign country, which demands product development on the side of the SME. “In the U.S.A, we have the obstacle that the locking mechanism works totally different than in Europe [...] in the U.S.A, we need battery and wireless solutions, which we (ekey) currently aren’t offering.” (Interviewee C 49-49)

The product development is challenged from new requirements from new markets, but also receives pressure of constant innovation for existing markets. Product differentiation is, hereby, named by Porter (1980) as product-specific factor, which the case analysis also revealed for ekey. The case analysis showed, that ekey emphasis product differentiation over product standardization. “By offering smart solutions” (Interviewee A 68-68) “Is it with Bluetooth, is it with RFID [...] is it the ARTE finger scanner.” (Interviewee A 70-70) “Integration possibilities, physical integration into intercoms, etc., logical integration, integrated into home automation systems, etc.” (Interviewee B 96-96)

In Subsection “The socio-cultural factors” (4.2.1.5) the luxury segment was introduced to be the target market segment for ekey. Hence, the products are required to deliver the needs of this customer segment, which were, according to the case analysis, high quality, easy-to-operate concept, sophisticated design and emotions, in order to succeed in the market. “Even today, very often, you come across products that might be still only in so called prototype stage and not available yet, or you would end up purchasing a product, that would break down within the shortest period of time. I think, what is making us really unique, I mean, the products have proven themselves in hundreds of thousands of installations in very harsh conditions [...] , for example, cold weather or hot or humid, but also by people just coming back home after a long day of work and [...] it (the product) works in 99.9% of all cases in a highly reliable way.” (Interviewee A 103-103) “Quality starts at the durability (orig. endurance) of the product [...] . Secondly, the industry does not like any problems resulting from
warranty cases, as this would require after sales services, which causes high costs and thirdly, it is our aspiration to quality to provide a product for the end-user, which is build that way, an end-user has less, if any, problems with administration and operation [...].” (Interviewee C 85-85)

Feedback on the needs of customers is collected, for example, at trade shows. “It has happened so many times at trade shows, that people just stopped and they made a comment on the design, that they liked it a lot [...] once they start playing around with it (the product), it is a product, where it becomes fairly easy to connect with potential people and start working with emotions, you know [...] it is like James Bond for private home, everybody wants to be James Bond [...].” (Interviewee A 99-99)

The deadline for the availability of new products has to be aligned with customers and partners in the market to be part of their annual marketing activities. Further, they require sufficient time to finish their expenditures, following the release of new products, such as, stock management, catalogue production, adaption of manuals, and translation of manuals, and advanced training of employees and dealers. Glomik and Smyczek (2011) speak, hereby, from the requirement of the industry towards a fast-cycle new product development.

Product-specific rules and regulations, and product development are product-specific factors, which may have influence on the resource base of internationalizing SMEs and are discussed in Section 4.3.

4.2.3.4 Knowledge

In Subsection “the managerial level” (4.2.3.2) has been already briefly outlined, that knowledge can be market-specific, technological specific or sales-specific, and that certain experiences or qualifications of employees support the development of a specific field of knowledge. Market-specific knowledge can be summarized as all information from any subsections of the external environmental scanning including information about partners in the foreign markets.

Technological knowhow consists of knowledge about the product and the knowledge about the technologies and products frequently used in the complementary industries of the foreign market. Both types of knowledge, market-specific and technological knowhow, can be also transferred bidirectional from one or more partners in each country to the individual middle-managers, or to the SMEs. Due to the intensive supervision of the foreign partners, technical knowhow is transferred to the foreign partners, while market knowledge is, in reverse, generated at the side of ekey. The latter is named by Knight and Cavusgil (2004) leveraging foreign distributor competences. “Knowledge transfer is desired, since we accompany our partners from Austria quite intensively, is it (knowledge transfer) occurring automatically.” (Interviewee C 111-111)

The sales knowledge is a type of knowhow, which the middle manager has to build-up. Also here, a certain knowledge transfer, more likely within the organization, can emerge. Mostly, however, sales knowledge is seen as part of the qualification of the middle manager.

The experience from previous internationalization is a factor, which has been named by various interviewees. This experience is assigned to international heritage (see also Subsection 2.1.4.5.1). “In the last years, we have made lots of experience and there is nothing comparable, at least, we do not see nothing comparable, where we would be able to copy anything. Therefore, we are dependent on our knowledge and experiences regarding making decisions (IMSDs).” (Interviewee C 115-115)

Of this subsection, only the experience from previous internationalization will be further discussed in 4.3 to be part of the resource base of the SMEs, which is required for internationalization. The other factors in this subsection are too vaguely defined, and can be interlinked with other subcategories of the case analysis.
4.2.3.5 Capabilities

With regard to capabilities, the interviewees responded generally in various ways, with one consistent factor, namely service responsiveness. Hereby, the service of ekey is seen as capability of the organization, which Mooradian et al. (2012), and Wheelien and Hunger (2010) support. Problems at customers may arise, for example, during installation, commissioning, conduction final tests, or during any other stage, hence, service orientation is a way for ekey to differentiate itself. “We pay a lot of emphasis on service, I think, we are a very service oriented. [...] We are trying to assist the customer and solve the problem [...] because we consider ourselves as a supplier of premium products.” (Interviewee A 107-107)

“We are providing different means of tech-support by phone, by remote desktop. It is a free-of-charge number that we are publishing. So we make it easy for our customers to reach out to us and request help.” (Interviewee A 109-109) “[...] to differentiate ourselves by offering the better service.” (Interviewee B 58-58)

The service responsiveness, however, becomes more critical the more distant the markets are. Hence, the geographic distance is a liability, which is discussed in Subsection “Liabilities” (4.2.3.6).

Reputation is another vital factor of marketing capabilities (Müller-Stewens & Lechner, 2005). However, the more distant the market becomes, the more difficult it becomes for SMEs to build upon their reputation from the home market. Oviatt and McDougall (1994) discuss this under the term liability of foreignness and newness. Johanson and Vahlne (2009) add, that a SME starts as an outsider in the foreign market. “[...] it is important that the industry has a highly reliable partner with ekey. [...] The industry enters a form of partnership with high dependency, and, therefore, a high risk [...].” (Interviewee C 87-87) “[...] We want to work together with our customers on a long-term business cooperation at equals and I think that this honest type of partnership is honoured and understood by the customers.” (Interviewee C 91-91)

Another core competence of ekey as a manufacturer is, also offering the biometric expertise. This gives ekey a unique selling position in the market of being the true technology company, on the one hand, and a manufacturer of residential biometric access control products, on the other hand.

With regard to language competences within the organization, ekey is able to support two languages with regard to service inquiries. However, recently certain local language competences could be built up by ekey and ekey is now capable of supporting the French language. By doing that, ekey was able to develop temporarily competitive advantages in the country.

Service-responsiveness, biometric expertise and the reputation of the company are factors of the resource base of a SME and are added in Section 4.3. Language has been already considered in the Subsection “the socio-cultural factors” (4.2.1.5).

4.2.3.6 Liabilities

The case analysis showed that the three main obstacles to enter a new market are geographic distance, certain challenges arising from the new market and the language barrier. The Psychic Distance says, that companies focus on psychically close markets rather physical distant markets (Johanson & Vahlne, 1977). Ekey also focuses on near markets, as already briefly discussed in Subsection 4.2.1.5. “With distance, the risk increases. [...] the Asian market is from an emotional, spatial and knowledge point of view too distant.” (Interviewee C 121-121) Psychic Distance is not only focusing on the emotional distance, but also the likelihood of unexpectedly technological obstacles is reduced in psychically close markets. “France is a European Union member, so whatever, you know, in terms of norms and technical requirements, we have everything under control [...].” (Interviewee A 127-127)

The challenges arising from geographic distance are, firstly, arising from the service-oriented capability. Hereby, the question is, whether this can be realized in an efficient and highly-qualitative
way to become a competitive advantage in the target market. Another obstacle is the transportation costs, or return and repair services, which become timely and costly for customers from distant countries. Distant countries, hereby, decelerate the speed of service responsiveness, where the former capability may become obsolete or even a disadvantage in the market. It is necessary to think about the realization of a sustainable knowledge-transfer between ekey and the partners in the market. Otherwise, either the requirements at the side of the partner with regard to the minimum technical competences cannot be fulfilled, or the generation of market knowledge and gathered experience with regard to international heritage at ekey cannot be supported. For the knowledge transfer, a common language is inevitable. Language is separately discussed also in Subsection 4.3.4 “In the case of distributors, if the employees speak English, this would not a big obstacle to enter the market.” (Interviewee B 123-124)

Another liability is that new markets might bring no awareness about the biometric technology, which means sales cannot start immediately, as the awareness for biometric technology must be raised, or the brand awareness of ekey needs to be established. This can be also tied to geographic distance, as it is rather likely that geographically close markets have transnational brand recognition (Stallman & Wegner, 2015).

With missing available products, due to special product regulations like in the U.S.A, standard sales might become extremely expensive to realize. A sustainable business model is, then, more difficult to be established. “[...] every time in the States, when somebody is actually interested in ekey, it turns into a special project and [...] just becomes extremely expensive.” (Interviewee A 83-83)

Another challenge in new markets’ industry might also be with regard to project cycles. Especially, the home automation industry works with long lasting project cycles. Own observations showed that these long-lasting project cycles make a short-term evaluation of the realized turnover versus assigned resources more difficult. Lastly, also costs (see also Subsection 4.2.3.7) might become an important factor, where a certain minimum amount of investment would be required, in order to start successfully. “[...] because to send one employee there (China) for the market development of, how many, a billion of people, that would not make sense at all. When you start, one has to do that with large-scale investments [...] but for that we (ekey) are currently missing the risk capital.” (Interviewee C 121-121)

4.2.3.7 Financial resources

He and Wei (2011) state, that more distant markets require more investment than psychically close markets, which is underlined with the statement of interviewee C (121-121) in the previous subsection. Costs received a medium response rate at the case analysis. There are budget constraints for internationalization activities. “[...] we would have to invest into marketing, into advertising campaigns, into trade shows, into, ideally, TV ads; but it is just far beyond our budgets to launch a TV campaign, for example, in five different countries at the same time. In our case, being still a small to medium sized company, we just have a lot less financial power. Therefore, we have to be a lot more careful with our investments.” (Interviewee A 58-58)

Other costs consist of the translation of sales documents, travel costs, marketing costs with regard to homepages in local languages, which are a consequence for the organization after entering a new market. On the other hand, if those initial investments are manageable, this is a reason for increased attractiveness of the market. Hereby, especially psychically close market offer reduced initial investments “[...] because all the sales documents were ready, the Homepage in German language was available; hence, it was not difficult to start the market development there (Germany).” (Interviewee C 35-35)
Hereby, costs are assigned to particular markets. A market-specific budget is issued, which covers all activities within a year. Those activities may cover basically all above mentioned ones, although those activities might vary from country to country regarding their magnitude.

The costs of markets do play a role for the IMSDs and will be discussed in Section 4.3.

4.2.3.8 Strategic orientation

The case analysis revealed that ekey follows a market development strategy. The market development strategy, according to Ansoff (1965), is discussed in Subsection 2.1.5.1 and highlighted with following statement of the case analysis. “[...] each year we (ekey) increasingly focus on one country and push forward within this year that it (market) runs by itself.” (Interviewee C 117-117)

Ekey ranks the countries, based on strategic importance, strategic relevance or strategic irrelevance. Strategic important markets are markets with increased focus, whereas strategic relevant and strategic irrelevant markets are developed reactively and opportunity-based. However, this current model seems to be less accurate, because examples for misjudgement were provided during the interviewees. “Two years ago, we had the United States put on that (strategic importance) level, but after carrying out an, I would say, an in-depth market analysis, I would say, given the situation in the States, given the way, how the market works and the type of solutions (products) we are able to offer today, we came to the conclusion that we would have to actually downgrade the importance of the North American market again. So in a way, North America moved from this top-level now one step lower again into a country of relevance.” (Interviewee A 121-125) “[...] originally, we had the UK at a, really in our very early days, we had the UK at quite a high priority, because of the fact that within the EU, the UK market is among the most potent markets in terms of their economic performance. [...] we considered the UK market to be of high strategic importance. As we moved forward, however, when we eventually realized that there is actually no door industry in the UK, we re-arranged a bit the priority and it fell, I would say, from the top 3 down to the middle field.” (Interviewee A 31-33)

In Subsection “complementary products” (Subsection 4.2.2.1) the necessity to internationalize into relevant markets with a high export ratio into strategically important core markets of the SME has been discussed. This can be also categorized as factor for strategic orientation, as those relevant international markets with increased impact on the core markets, could be targeted at first, in order to sustain a continuous growth in the core markets.

4.3 Case Analysis: Findings

The case analysis showed an extensive amount of categories, which have been addressed during the interviews. The results of the case analysis revealed, which internal and external factors are necessary for assessing relevant markets in the internationalization process of SMEs. The factors presented in Subsection 4.1.1, 4.2.2 and 4.2.3 derived from the interviews only. The findings show that there is a strong variation in the level influence of factors on the market assessment, and that some of them, despite being reckoned as having limited influence in the market assessment, still have an influence on the final IMSD of SMEs. Table 4-2 illustrates the results for the case study. The score low, medium and high for each factors in the column level of influence derived from the perception of the interviewees on each factor’s importance on market assessment and IMSDs, and from my interpretations made during the analysis of the interviews. Additionally, the Table 4-2 incorporates the thoughts of Simon (2007) by adding the Base of Resources for categorizing internal factors, which are influencing IMSDs, but not market assessment. In Subsection 4.3.4, four factors of the Literature Review in Section 3 are compared with the findings of the case analysis.
Table 4-2 Influence of the internal and external factors on market assessment and IMSDs

<table>
<thead>
<tr>
<th>International market selection decision</th>
<th>market assessment</th>
<th>external controlling factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>level of influence</strong></td>
<td>high</td>
<td>medium</td>
</tr>
<tr>
<td>consumer behaviour</td>
<td>GDP/GNP</td>
<td>data protection regulations</td>
</tr>
<tr>
<td>buying power</td>
<td>turnover</td>
<td>the attitude towards...</td>
</tr>
<tr>
<td>norms and regulations</td>
<td>translation of product-related documents</td>
<td>customs and import duties</td>
</tr>
<tr>
<td>low-cost industry</td>
<td>affinity and openness to new technology</td>
<td>competition analysis</td>
</tr>
<tr>
<td>export ratio of doors; destination of export of doors</td>
<td>availability of partners</td>
<td>product and process requirements</td>
</tr>
<tr>
<td>geographic distance and Psychic Distance</td>
<td>existing business contacts</td>
<td></td>
</tr>
<tr>
<td>language proficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>size of high-end class: percentage of people, who are considered wealthy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>market information about complements:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>door industry: number of produced doors, type of doors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>lock industry: number of electrified locking mechanism sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Automation industry: number of realized projects a year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>commitment of the partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>resources of partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>distribution experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>product-specific rules and regulations</td>
<td>reputation</td>
<td></td>
</tr>
<tr>
<td>weighting of investments</td>
<td>management qualification</td>
<td></td>
</tr>
<tr>
<td>gut-feeling</td>
<td>product superiority</td>
<td></td>
</tr>
<tr>
<td>management capacities</td>
<td>self fulfillment</td>
<td></td>
</tr>
<tr>
<td>market-specific budget</td>
<td>service responsiveness</td>
<td></td>
</tr>
<tr>
<td>international heritage</td>
<td>biometric expertise</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>political stability</td>
<td></td>
</tr>
<tr>
<td></td>
<td>trust</td>
<td></td>
</tr>
</tbody>
</table>

Source: Table developed by the author
The results represented in Table 4-2 can be re-arranged to become an extension to Rahman’s (2013) market attractiveness and structural attractiveness model, presented in Subsection 3.3.1 and 3.4.1. Despite the first layer market assessment being similar to Rahman’s (2013) elaboration, it extends his understanding of which internal and external factors are used for market assessment. Further, I rename Rahman’s (2013) structural attractiveness and introduce controlling layers of additional internal and external factors. The layer internal controlling factors, hereby, consist of the factors assigned to the Base of Resources; whereas the layer external controlling factors are tied to varying market entry modes.

Additionally, the categorization into high-, medium- and low-influential factors suggest a prioritization of the examined factors. After analysing the high influential factors, the medium influential factors follow and allow a certain fine-tuning for each layer of IMSD. At the end, low influential factors can be evaluated, in order to fine-tune a certain layer even more. In this form, the findings of the case analysis become a scientific specialization of Rahman’s (2013) elaboration on the internationalization process.

4.3.1 High influential factors
Table 4-2 illustrates the interaction of internal and external factors on the market assessment process by classifying these factors, according to their influence on market assessment and IMSDs. The factors are categorized, based on the interviewees and my personal interpretations of the analysis of the interviews. The macro-level factors with the highest influence are consumer behaviour, buying power, norms and regulations of the host country, the size of the high-end class, and language21. The case study revealed that there are few factors with high influence on market attractiveness, which show certain interactions with others.

The economic factors consumer behaviour and buying power are familiar factors of market assessment in the IB literature (Wheelen & Hunger, 2010). It is rather interesting, that those are the only two economic factors, which received the status of a highly influential factor for the market assessment process during the interviews. I believe that one reason, why other economic factors are not considered of high influence for the market assessment of ekey, might be, that ekey is concentrating on a small niche market. Hence, the overall macro-level is secondary, and detailed information about the niche market is more applicable for ekey.

Norms and regulations, such as, the CCC-certification required for distributing products in China, are certainly affecting the market assessment strongly, according to the interviewees. By collecting information about this factor, the SMEs, such as, ekey, are able to understand, whether or not, their existing products are suitable for the market. First, the product is required to meet the quality standard of the market, which refers to the underlying norms. Second, there might be different processes within the industry. As mentioned in Subsection 4.2.3.3, the industry might have certain product requirements regarding certain functionalities, such as, the U.S., which requests a battery-powered system, where ekey is currently not be able to provide a solution. Hence, taking the decision matrix of Simon (2007) into consideration, the resource base in terms of the right products for entering the U.S. is currently not fulfilled and ekey requires to build-up the right knowledge to develop a suitable product. Without adding norms and regulations into the market assessment, a SME might find itself in the middle of entering a new market without the right products. Hence, it has a strong influence on the market assessment process, as without the right products to enter the market, a successful market entry is not possible.

21 Assigned to multiple categories: language is discussed in Subsection 4.3.4.
According to the interviewees, meso-level factors are dominated from complementary industries, mainly requesting market-information about specified economic numbers of complementary industries, such as, the door industry, the lock industry, or the home automation industry. The economic numbers searched through market analysis are the number of produced doors in the market, the type of doors produced annually. In the case of ekey, ekey is looking at the high-qualitative aluminium or timber doors. The number of electrified locking systems sold in a market, in general, and the number of realized projects realized in the home automation industries. Alongside mere economic numbers, market information regarding the key players of the market and their share on the market is collected to derive an overview of the market potential. Another key factor is the export ratio of the key players, especially, if, and to what extent, the key players are exporting into core markets of ekey. If those key players export into core markets of ekey, it might be vitally important for ekey to also internationalize into those markets and obtain the key player’s initial commitment towards ekey in those markets.

Further, low-cost complementary industries act as a market barrier for SMEs, if the price of the product is high. This entrance barrier is mainly relevant for ekey, due to the relative high price of the product. On the contrary, one can argue that a cost leadership and product standardization strategy would diminish this factor, which in my opinion, would be correct. The market entry barrier cannot be generalized, because it is interlinked with the price of the ekey product, and the targeted high-end customer segment.

Focusing on a luxury segment in the market favours markets with relatively high consumer behaviour and buying power. More importantly, however, is the size of the high-end class in the market. The bigger the size of end customers with increased buying power, the higher the market potential. Further, the case study showed, that also countries with lower economic factors would have a certain luxury segment to service.

Another finding of the case analysis is that, next to external (macro and meso-level) factors, also internal factors were considered by the interviewees for highly influencing market attractiveness. The internal factors extracted from the interviews are gut-feeling of the management, weighting of investments, the commitment of partners in the foreign markets, the resources of those partners, and the distribution experience of those partners, the geographic and Psychic distance, and language, the international heritage of the SME, and product-specific rules & regulations, market-specific budget, and the capacities of the management.

The network category has significant influence on the market assessment, naming three of eight factors with high impact. According to the interviewees, increased commitment of the partners in the foreign markets is valued as a plus for market attractiveness and is a reason for entering a market. “[…] the partner we appointed for the market in Liechtenstein, he was more committed to the market development. They (the partners’ sales people) did it (market development) in a more strategic, in a more professional way. […] we teamed up with this distributor in Liechtenstein, founded a joint venture together with them.” (Interviewee A 21-21)

The resources of the partner and the distribution experience are both highly influential, as the partner in the foreign market is able to take over the market development with little commitment from the side of ekey. Such partners, in most cases, have already developed their own network of partners or customers. An existing network of partners is less valued than sufficient resources and funds invested for the market development by the partner. Sufficient resources combined with the experience to distribute the product, are a strong combination of factors for becoming successful in the market, according to the case analysis. If such a partner exists in a relevant market, and if the partner is also strongly committed to the ekey products, this would be already a strong indication for an
internationalization activity of ekey, by at least entering the market by choosing export as market entry mode. This thesis contributes to the literature by extending the current factors associated with networks, by naming additional, more critical factors for the market assessment of SMEs. Those factors are opposed to the literature in Subsection 4.3.4.

According to the interviews, the geographic distance is an important factors for the market assessment, as it has influence on many other categories and factors. It is challenging the organizational capabilities, if the transfer or the marketing of those capabilities is difficult to realize or challenged by long distances or time differences. Some capabilities might be immobile and a transfer is not possible. Market responsiveness, as well as, service responsiveness is slower than in closer markets. The transfer of knowledge between distant markets is also affected by time differences. Different business ethics and business relationship expectations make it difficult to establish a certain level of trust and reliability. Geographic distance affects the leveraging of foreign distributor competences. The more distant a country is, the more difficult the knowledge transfer becomes. Hence, geographic distance is a high-influential factor for SMEs, which require the leveraging effect of knowledge transfer to build-up their own competences. Next to geographic distance, also Psychic Distance has been named by the interviewees to be important for the market assessment. A finding, which is contrary to Nordström’s (1991) statement, who said that with ongoing globalization, advanced communication and information systems and the increasingly homogenous world would diminish the effect of Psychic Distance. This statement of Nordström cannot be supported. According to the interviewees, Psychic Distance is still important for market assessment.

The interviews revealed three highly-influential internal factors, which can be added to the resource base of SMEs. The weighting of investments on internationalization is interlinked with the international heritage. The decision maker within ekey evaluates the relevant market, and tries to compare it to previous internationalization experience from their internationalization heritage. Hereby, previous internationalization activities required varying investment, and hence, the decisive manager try to find the right solution by self-reflecting previous internationalization moves. The gut-feeling is also interlinked with this process of self-reflexion. If the team of decisive managers has a good feeling about a particular market, or a certain investment, it will certainly support a decision in favour of internationalization.

The internal factor capacities of the (middle) management, despite issuing high influence in Table 4-2, exerts its influence mainly on the base of resources. According to Simon (2007), a company requires to have a base of resources when it comes to internationalization activities. In case, the base of resources is not available, it must be build-up or re-allocated from elsewhere, before IMSDs are made (see Subsection 2.2.3).

Same applies for the market-specific budget, which contains of all estimated costs for the internationalization into a relevant market. The investment necessary to enter a market, are not tied to the market assessment as such, however, it does influence the final IMSD. Hence, I would see the market-specific costs also as part of the resource base of a SME, which means, in case of a lack of financial resources, the internationalization move might be delayed.

The capacities of the (middle) management and the market-specific costs are separately discussed, alongside networks and language, in Subsection 4.3.4.

---

22 Trust is separately discussed in Subsection 4.3.5
4.3.2 Medium influential factors

There are some factors, which impact the market attractiveness on a medium level. Although, the factors listed in the Subsection High influential factors (4.3.1) are valued stronger by the decision making managers at ekey, it is not sufficient for SMEs to simply take the factors of high influence, because this might lead to a biased market assessment.

There are also certain linkages between certain medium influential factors, and some are also tied to higher influential ones. The case analysis showed that information on GDP/GNP is used for an internal ranking, based on strategic importance rather than having weighted influence during the market assessment (see Subsection 4.2.3.8). Such an internal prioritization of countries can be seen as preparatory work to define a list of markets, which are potentially interesting for a more detailed market analysis. “[...] a country with a very low GNP [...] will be less interesting, [...] however, those countries are not per se completely uninteresting [...].” (Interviewee B 38-40) Given the limited resources of SMEs, multiple market analysis are hardly to be carried out at the same time. Hence, GDP/GNP becomes more important, as those factors impact the preparatory ranking of the countries, before the actual market analysis of a market starts. Such an internal prioritization does not automatically imply the actual ranking countries for future internationalization activities, which again lowers the influence of GDP/GNP on the market assessment. “Within the EU, it (the UK) is the second or third largest economy, [...] we (ekey) considered the UK market to be of high strategic importance.” (Interviewee A 33-33) “[...] we (ekey) discuss that (the assessment of the countries) every year and we evaluate those points (economic factors, commitment of foreign partners in the specific country) per country each year and then it can happen, that we are re-ordering the priority. The development of the economy alone in the specific country is important, but not single-handedly critical [...] (for the prioritizing of the country).” (Interviewee C 41-41)

If such a preparatory list of countries would not be existing, it would rather be difficult for a country to start choosing one market over another. The turnover in a relevant market does also play a medium role in the market assessment, mainly, because it is seen similar to GDP/GNP. If there is existing turnover in a market, the initial market-specific costs could be partially or completely covered. Turnover has been also named by Czinkota et al. (2004) to be a major, proactive motivator for internationalization.

The translation of documents into the local language is a factor, which is considered to have medium impact on the decision to internationalize in a relevant market, as it is strongly tied to costs. Costs are again exerting high influence on the final decision to internationalize, but secondly, they are also causing organizational outlay. The translated documents, such as, manuals or technical documents, must be added in the supply chain management and enclosed for the sales process into the particular country. “It [the translation of documents] is also for us an organizational expense, also in terms of costs, and this total expenditure has to be opposed to the market opportunities in the particular country in the market language.” (Interviewee C 93-93)

The political stability is another medium influential factor. The reason, why political stability is not valued high, is, because of the willingness of ekey to invest little resources into a market of questionable political stability. Whether or not, political stability is added into the market assessment, depends on the market entry mode. If the market entry mode is via export, and the responsibilities for market development are outsourced to a partner, ekey is still willing to support the partner in a very limited way. However, I would conclude that a more committed market entry mode would not be realized. I believe, that political stability mainly influences the final IMSD by being considered within a level of controlling factors. Rahman (2013) named such a second level structural attractiveness, but he
did not speak about the controlling ability of certain factors on IMSDs. Hence, the findings of the case study enhance his work by discussing factors relevant for market assessment, factors assigned to the base of resources, and factors exerting controlling influence on IMSDs. Political stability is a factor, which is, at a certain point of time, either given, or not. Especially critical is, that this factor becomes increasingly influential, the more the commitment of a SME in terms of market entry mode is considered. A controlling layer does not directly influence market attractiveness, but is affecting the IMSD. Previously mentioned factors, such as, capacities of the managers, market-specific costs, and international heritage can be added to internal controlling factors.

Affinity and openness to new technology is categorized as medium influential factor, as markets, such as, the Asian market, has been named as interesting and attractive country a few times during the interviews. One of the reasons has been the affinity to technology. This factor is strongly tied to the product-specific factors, and it will be mainly relevant for high-tech industries in their market assessment process. On the other side, no statements have been made, if “not affine” markets would be potentially unattractive markets. I believe, by adding this factor, a company may assess the acceptance of the market prior market entry, and, therefore, slightly raise or reduce the estimated market potential.

Another factor leaves room for discussion, which is the availability of partners in the foreign country. This factor turns out to be of a “the chicken or the egg”-dilemma. The interviewees provided various responses. On the one hand, internationalization is supported by existing business contacts of the SME in the foreign countries, which is also supported by Johanson and Vahlne (2009). Other responses of the interviewees were that it is about finding the right partners in the market, which could take over the local sales exclusively. However, if there are (the right) partners in the market available, this factor’s weighting for market assessment is decreased. Other factors of the network category become more important for the interviewees, such as, the resources of the partner, the commitment of the partner and the distribution experience, and is an extension of Johanson and Vahlne (2009) findings. Although being a “yes or no” factor, the availability of partners in the foreign market does not deserve a controlling function in the IMSD process. More likely, it becomes a fine-tuning factor for SMEs to consult, if two or more countries are on a similar level of market attractiveness.

Reputation is another medium influential factor, which can be categorized into the base of resources rather than the market attractiveness. This factor is also dependent on the geographic distance, as in more distant countries, the reputation in the home country may diminish, the more distant the host country is. The IB literature (Johanson & Vahlne, 2009; Oviatt & McDougall, 1994) calls it the liability of foreignness. In psychically close markets, on the other side, reputation can be a strong resource of the SMEs. In the case of ekey, the psychically close markets can be penetrated with the reputation of being Europe’s Nr.1 Fingerprint manufacturer. Additionally, ekey is in a unique position by being a manufacturer of biometric access control solution, and a biometric expert in the underlying technology. This position is strongly interlinked with reputation. Hence, reputation as resource base can be fully utilized, whereas in psychically or geographically distant countries, the reputation as resource base must be built up first. Psychic Distance and geographic distance are two factors with strong influence on the market assessment, which is also supported by the IB literature (Marchi et al., 2014).

The qualification of the (middle) managers, who are responsible for the management of the relevant market is valued to have strong influence on the IMSDs, according to the interviewees. This is congruent with the thoughts of Simon (2007) regarding the decision matrix of internationalization. The employee of a SME is seen as part of the resource base of a company. Hence, the better the employee is qualified to take responsibilities regarding knowledge transfer, support and service of the foreign
partners, the better the odds for being successful are assumed to be. The wish to find self-fulfilment in the job, in other words, the motivation of the employee to make a difference, is interlinked with this factor. However, the main reason, why I believe this factor is only exerting medium influence on the IMSDs is, that ekey made the decision to increase the commitment of internationalization activities in France from exporting to being locally present in the market, before hiring a qualified employee, who will be responsible for the market. That means, that this factor did only impact the IMD of ekey in very a limited way, by taking only certain minimum requirements of the advertised position into consideration for the market assessment, such as, being a French native speaker, for instance.

4.3.3 Least influential factors

In the last subsection of least influential factors only a few factors are described in more detail, because most of those presented here, have been already discussed in the case analysis. The factors with low influence on market assessment are customs and import duties, service-responsiveness, and self-fulfilment of the managers, biometric expertise, process-requirements of customers, and competitor analysis. Mainly, those factors are already determined.

Data protection regulations of a certain country are strongly interlinked with the products to be distributed in the particular market. The reason, why this is only considered of low importance to market assessment, is, that there are multiple complementary industries available and a certain data protection regulation might only affect a mere fraction of the market potential. One example is France. Although, the data protection regulation are one of the strictest in the European Union, ekey has chosen to increase its commitment in this market from export to hiring a new employee, who is opening up a new subsidiary in France. The French law restricts the distribution of a third of ekey’s product portfolio, and limits the distribution to the commercial segment. All those downsides arising from the data protection regulations are offset by an extremely well developed door-industry and the high market potential in this industry. In my opinion, the data protection regulations are definitely a factor, which could gain greater importance for the market assessment in the future. This is also supported by one of the interviewees saying that the product development might be affected by future tightening of regulations with regard to biometric access control systems, especially considering ongoing cloud-based\textsuperscript{23} product innovation. Currently, there is an uncertainty about how the data protection regulations will prospectively affect such solutions. Therefore, it is necessary, especially within the biometric industry, to review this factor and add it, if any data protection regulations might be enforced.

The product superiority has been already discussed in Subsection 3.4.1. Emotions, easy-to-operate concept design and quality are considered factors of product superiority, which may have influence on the resource base of internationalizing SMEs. Marchi et al. (2014), and Knight and Cavusgil (2004) added, that product superiority leads to competitive advantages of the company in the foreign market. This case analysis has, hereby, extended the work of Marchi et al. (2014), and Knight and Cavusgil (2004) by naming factors defining product superiority.

However, the factor is interlinked with other factors influencing IMSDs, and hence, also to a certain extend affecting IMSDs. Mainly, product superiority allows targeting the luxury segment and the wealthier customers, who are capable of raising the extra amount of money to purchase a higher priced product. In my opinion, the customer segment of ekey might not be the wealthier segment, if the product superiority would not be given. The underlying growth strategy of product differentiation, on the one hand, by investing into improvements of the product, and developing additional features

\textsuperscript{23} Cloud (computing) is the provision of computing resources, such as storage space or computing power, as a service over the internet (IBM, 2018).
for increased comfort and unique interfaces to connect to third party applications, and, on the other hand, by following a market development growth strategy of entering one market every year is supported by product superiority as unique selling point. In order to maintain the product superiority, a competitor analysis is required to gain benchmarking results across the biometric industry. The competitor analysis has been discarded earlier to have no influence on the market assessment. Nevertheless, it could be added as factor to be categorized into the resource base of a SME. Only, if the product superiority is granted by benchmarking the products across the industry using a competitor analysis, product superiority could be added as resource base for internationalization.

The Section “Case analysis” (4.2) further disclosed that certain categories would not play a role for ekey during the market assessment process. Whereas “substitutes” were covered in the category “competitor analysis”, “other stake holders” were addressed during the category “bargaining power of customers”, and “strategic orientation” was related to the export ratio of complementary products and to a preparatory list of markets, the “technological” category of the macro-level environment requires a more detailed look. The technological category revealed that patents were denied to have any impact on the IMSDs at ekey. With regard to factors mentioned in the strategic literature in Subsection 3.3.3, such as, cyber criminality, telecommunication infrastructure, the Internet, a possible reason for not considering technological factors for the market assessment is that the product portfolio of ekey is not affected by any of these variables, mentioned in Subsection 3.3.3. By implication, it means that product-specific factors need to be revealed and examined at first, before being able to answer the category technological factors. It is also an indicator that the assessment process of the macro-, meso- and micro-level environment of markets is a simultaneous rather than a successive process.

4.3.4 Comparison with the literature review

In this subsection, a comparison of four factors are provided, on which base the conclusions of the case analysis can be drawn. The four factors chosen in this comparison have been discussed in Subsection 3.4.3.1, and are language proficiency, management capacities and qualification, the lack of available business partners and costs. In current strategic and IB literature, those internal factors have been differently derived. Table 4-3 shows the importance of those four factors for the market assessment, based on the literature review and the case analysis findings.

Hereby, it is clearly visible that current strategic and IB literature is lacking the weighting of the internal factors, regarding their influence on the market assessment process, and their influence on IMSDs. The language proficiency is mentioned as valuable factor for the market assessment in the strategic literature. Nevertheless, the strategic literature does not provide any weighting of language proficiency on its importance for successful international market decisions. The IB literature neglects language proficiency for the market assessment. In the IB literature, language is categorized as sub-factor of Psychic Distance. Hence, the weighting of language proficiency in the IB literature is unspecified. The case analysis revealed that language proficiency is a critical factor for internationalization for SMEs, and that local language competences are considered to affect the development of the market positively. Language proficiency might extent the potential market in terms of available business partners. Business partners, unable to speak English and/or German as 2nd language, decrease the potential reachable size of the end customer segment, according to the interviews. Hence, language proficiency influences the market attractiveness positively. By addressing an example of ekey for the importance of local language proficiency during the internationalization process to France, a conclusion can be drawn that this factor should be considered for IMSDs. “If the employees of the distributor speak English, there isn’t any obstacle (to establish a business partnership). If we (ekey) don’t speak the local language, it (the business relationship) won’t work at all […]. An (ekey)
employee locally has to speak the local language [...]. For direct supply relationship (exporting) it is [...] advantageous, if you speak the language of the market, keyword France.” (Interviewee B 126-126)

Table 4-3 Comparison of the results of the case study analysis and the literature review

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>Strategic Literature</th>
<th>Internationalization Literature</th>
<th>Case Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language proficiency</td>
<td>valued</td>
<td>unspecified</td>
<td>Medium</td>
</tr>
<tr>
<td>Management capacities and qualification</td>
<td>valued</td>
<td>varying</td>
<td>High</td>
</tr>
<tr>
<td>Lack of available business partners</td>
<td>valued</td>
<td>valued</td>
<td>low</td>
</tr>
<tr>
<td>Market-specific costs</td>
<td>unspecified</td>
<td>unspecified</td>
<td>medium</td>
</tr>
</tbody>
</table>

Source: Table developed by the author

The comparison of the management capacities and the qualification of the management between the literature and the case analysis findings draw a similar conclusion. Whereas the strategic literature values the existence of the internal factors management capacities and management qualification, without weighting them for market assessment, the IB literature is divided by disagreement. Marchi et al. (2014) adds managerial skills, where a possible connection to qualification could be drawn; but Rahman (2013) does not consider this factor in his market and structural awareness model. In the case analysis the interviews showed a high response rate on the topic management capacities and management qualification, and also provide an indication that both factors combined have a strong controlling influence on the international market selection decisions of SMEs. This is, because both factors are interlinked with the resource-based of a company, which has been broadly discussed in Subsection 2.2.3.

The lack of available business partners is an internal factors of the network category. Hereby, the strategic and the IB literature (Johanson & Vahlne, 2009) are congruent and are mentioning the availability of partners to be of influence to the market assessment. By using existing networks, SMEs are able to break into the market and develop the market further. However, the case analysis values this internal factor differently than the literature. The case analysis revealed that the existence of a business network is a pre-requisite for more relevant factors emerging from the network category. The network category is enhanced by the available resources of the partners, the commitment of the partner and the distribution experience. The existence of a network alone does not necessarily lead to a successful market development, whereas a committed partner with sufficient resources is more likely to lead to a successful market development.

The fourth factor are the costs arising from entering a market. The strategic and the IB literature are unspecified with regards to costs. Only marketing costs are named by Rahman (2013), which leaves room, which factors exactly are used for the market assessment. The case analysis showed that the term costs is copiously used, but market-specific budget is a more accurate definition of the costs arising through the internationalization. Hereby, different means are assigned to the term market-specific budget, and might be varying from market to market. Although the interviewees only
responded with a medium rate to market-specific budget, the costs arising from entering a market have a strong influence on IMSDs. Hereby, the market-specific budget receives an exceptional status, similar to management capacities and management qualification. It is assigned to the base of resources, which, at the end of the day, is evaluated, if this resource base for entering the foreign market is sufficiently existing or not. According to Simon (2007), lacking resources will be required to be build-up before entering a market. The **market-specific costs** have, hence, a controlling function for the IMSD.

### 4.3.5 Questioning the internationalization process

Next to the examination of findings on the external and internal factors relevant for market assessment, the case analysis also revealed that market entry modes influence the market assessment of relevant markets to a certain extent, which is contrary to the existing literature. According to Simon (2007), the choice of the market entry mode (how to internationalize?) follows the market assessment (where to internationalize?) and is explained in Subsection 2.1.5. The interviewees, however, responded frequently that certain macro-, meso- or micro categories consist of different factors, dependent on the market entry modes exporting or foreign direct investment.

One factor was trust. Trust was only taken into consideration, if the commitment of ekey was about to be raised. “*Up to now, we have always taken existing dealers as starting position for a joint venture or a subsidiary and the cooperation within a joint venture must have a sustainable foundation of trust [...]***” (Interviewee C 103-103) On the contrary, own observations showed that, when talking about exporting as market entry mode, this factor had no influence on the market assessment.

Another factor is political stability. The interviewees responded that political stability would be considered, nowadays, for IMSDs, while simultaneously limiting the commitment of ekey for markets with increased political instability. On the example of Turkey, exporting as market entry mode is reasonable, while other market entry modes are discarded, due to political instability.

Hence, this thesis suggests to combine the second step **market assessment** with the following step **market entry mode**. This is vitally important for SMEs, especially, for BGs, which may jump from one operation mode to another. If more committed operation modes are chosen, the pool of factors for market assessment and IMSDs is added with political stability and trust.
5 Conclusions and Limitations

5.1 Conclusions

The internationalization process of SMEs has been the core of multiple researches, especially with emphasis on the market selection process and the market entry modes of SMEs. The limitation of the current available literature, however, is the missing focus on the internal and external factors, which influence market assessment. Market assessment, hereby, provides the foundation for international market selection decisions and, subsequently, market entry modes. The information on internal factors relevant for the market assessment is even scarcer, as the available literature is content with naming only, what this thesis named, resource categories instead of explicit internal factors. The contribution of this master thesis is collecting and unravelling the conglomeration of terms associated with internationalization in the IB literature, and presenting an examination of external and internal factors relevant for the market assessment during the internationalization process.

The research was conducted by using a qualitative study of ekey biometric systems GmbH. The foundation of the research was a literature review on “internationalization” and “the resourced-based view”, leading to a comparison of factors of the literature review on market assessment of SMEs and the factors used for the market assessment of relevant markets at ekey.

For the comparison of the factors, the findings have been classified, according to their environmental layer, into the macro-, the meso-, and the micro-level layer. Second, the factors merit further elaboration of their corresponding category. In the macro-level, the categories have been economic, technological, political, legal, socio-cultural and ecological. In the meso-level, the categories have been complementary products, substitutes, bargaining power of consumers, bargaining of suppliers, market competition and other stakeholders. The resource categories in the micro-level have been financial resources, physical resources, managerial-level, networks, capabilities, liabilities, product-specific factors, knowledge and strategic orientation. The first findings were that there are 37 external and internal factors with varying influence on the market assessment of SMEs. Of those 37 factors, 18 showed high or increased influence on the market assessment of relevant markets, nine showed medium influence on market assessment, and ten revealed low influence on market assessment for SMEs, respectively IMSDs.

The classification of the high influential factors into the macro-level environment revealed that five factors could be assigned to the macro-level environment. Those factors were consumer behaviour, buying power, norms and regulations, the size of high-end class and language. Hereby, the economic category with two, as well as, the socio-cultural category with two factors played a more significant role than the political-legal category with one factor, or the other categories of the macro-level environment with no assigned factor. This is supported by Rahman (2013) and Marchi et al. (2014), whose findings concluded an increased influence of the economic and socio-cultural category on market assessment. Three highly influential factors could be also classified into the meso-level environment, namely the economic numbers of the complementary industries, the export ratio of the complementary industry and the presence of a low-cost industry. This finding is partly support by Rahman (2013), who added local production statistics and importing statistics as relevant for market assessment. The classification of the high influential factors into the micro-level environment showed that ten factors were assigned to this layer. The factors were the commitment of the partner, the resources of the partner, the distribution experience of the partner, the gut-feeling of the management, the weighting of investments, the management capacities, the international heritage, the geographic and Psychic Distance, the market-specific budget, and the product-specific rules and regulations. Hereby, the findings reveal that the network category with three and the managerial-layer category with three factors played a significant role in the market assessment process of SMEs, but
also liabilities, financial resources, product-specific factors and knowledge were considered for the market assessment of relevant markets. The increased relevance of the micro-environmental factors for market assessment has not been addressed in current literature (Chapter 3). Nevertheless, Johanson and Vahlne (2009) have outlined that factors, such as, Psychic Distance, would be relevant for internationalization. Hereby, the research of Vissak and Francioni (2013) should be mentioned, who name external and internal factors for Re-internationalization.

The classification of the medium influential factors into the macro-level environment narrowed down four macro-level factors: GDP/GNP, the translation of product-related documents, the political stability, and the affinity and openness to new technology. The factors were distributed equally among the macro-level categories economic, political, legal and socio-cultural. In the meso-environment, no factors were named as medium influential factors. Five medium influential factors were categorized to the micro-environmental layer, three of them being assigned to networks, one to capabilities and one to managerial-level. The internal factors are existing business contacts, turnover, the availability of business partners, the reputation of the SME and the management qualification.

The classification of the least influential factors for the market assessment process of SMEs lead to a similar distribution of factors among the three environmental layers. Two factors were assigned to the macro-environment with the data protection regulation being categorized into the legal, and the attitude towards data protection regulations being categorized into the socio-cultural category. Three factors were assigned to the meso-environment, which are categorized into the market entry barriers, the bargaining power of consumers and market competition. The meso-level factors named were competitor analysis, the product/process requirements and the customs/import duties. Five internal factors were categorized in the resource categories managerial-level, capabilities, product-specific factors and network. The internal factors named were trust, self-fulfilment, service-responsiveness, biometric expertise and product superiority.

This leads to the interpretation of the results. The internal factors had a significant higher influence on market assessment, than presumed by the literature. Although the IB literature valued the existence of the internal factors to be considered for market assessment, and added the micro-level generally into consideration for the internal market selection decisions, the findings of this master thesis conclude that the majority of factors relevant for the market assessment of SMES are internal factors, and not external factors. This may lead to a change of the market assessment process, which mainly considered macro-level factors to be relevant for IMS. The internal factors were a dominant environmental layer, not only exceeding in terms of quantities of named factors in the case analysis, but also in terms of their influence on the market attractiveness, market assessment, and IMSDs. Additionally, the thesis suggests a controlling ability of certain factors upon IMSDs and divides the factors, which are influencing IMSDs, into three layers. Although, a multiple layer approach of market assessment is not new, e.g. referring to Rahman’s (2013) approach; this thesis, nevertheless, adds a distinct category namely the controlling layer, consisting of internal and external controlling factors, which is affecting IMSDs directly.

The thesis contributes to the literature by stronger involving four chosen internal factors, and opposing them to the current literature. This underlines the current lack of consideration of internal factors during the market assessment in the IB literature, and this thesis encourages further research in this field. Another contribution is the suggestion to incorporate the revealed factors into international market selection models. In Section 3.1, the 3-step IMS model of Kumar et al. (1993) has been linked to the three environmental layers of Wheelen and Hunger (2010) by assigning the screening stage to the macro-level layer, the identification stage to the meso-level layer, and the selection stage to the micro-level layer. One contribution of the thesis is that this assignment is incorrect, which is also partly
supported by Rahman’s (2013) elaboration on the market and structural attractiveness. Hence, the thesis is, additionally, an extension of Rahman’s (2013) findings, that micro-level factors may influence market attractiveness.

In the literature (Section 3.1), the strategic process is widely described as sequence of analysing the macro-environment first, before the meso-environment and the micro-environment are assessed. The thesis contributes that the market assessment process is simultaneous and not successive. Factors of different layers are actively interacting with each other and should be evaluated entirely. Further, the findings suggest, which factors may be assigned to market attractiveness, and which factors are part of the controlling layers. Hereby, the decision matrix of Simon (2007) is partly extended by revealing internal factors and, hence, made more applicable for SMEs.

5.2 Limitations and Future Research

This thesis provides an extension of the current literature on the IB literature by examining the internal and external factors relevant for market assessment and influencing international market selection decisions. The research concludes that specific factors should be included in future market assessment processes of SMEs and suggests that current literature on internationalization of SMEs is incomplete. This thesis is the first step to gain more insights on the market assessment process of SMEs and begins the examination of the influence of external and internal factors on the decision makers. Nevertheless, certain limitation of the thesis have been noted in different areas of concern.

First, the generalization of the conclusions on other SMEs in other industries is questionable. Ekey biometric systems GmbH operates in the biometric industry, in which the environmental conditions are unique. A more detailed study with SMEs from various industries may yield different results in terms of the actual influence of external and internal factors on market assessment. A multi-case design with a higher sample size would allow greater generalization of the results, than the applied single-case study.

Second, some examples of the case analysis showed that the consideration of particular factors depends on the market entry mode for the chosen market. The dependence of factors on market entry modes was one of the most named phrases during the interviews. This is contrary to the literature. According to Simon (2007), the choice of the market entry mode follows the market assessment process. The case analysis revealed that factors, such as, political stability, increase with increased commitment of ekey in a relevant market. However, the scope of this research was not designed to illuminate the internationalization process. Nevertheless, it gives an indication for a mismatch in the current literature and this mismatch is deemed interesting for further research. Future research should address the question, if market entry modes actually follows market assessment, and to which degree the influence of external and internal factors on the market assessment increases or diminishes with increasing commitment of the SME in a relevant market.

Third, in the case of ekey biometric systems GmbH, the meso-level factors have a strong influence on the market assessment of SMEs. Hereby, the question arises, if industry attractiveness is, generally, more important for SMEs, than market attractiveness, when it comes to international market selection decisions. Further research would help to estimate the degree of influence of each environmental layer on the market assessment and may lead to findings about the degree of influence on the IMSDs of SMEs.

Fourth, representatives of different internationalization patterns would enrich the findings of the research. If the sample could include representatives of the traditional internationalization pattern, the Born-global approach and the Born-again global approach, the findings might become more differentiated and better applicable for SMEs.
Fifth, current research does include evaluation procedures, regarding the actual influence of external and internal factors on IMSDs, only on a very small scale. The aim of the research was to identify and examine the external and internal factors without ranking them in their importance to market assessment or IMSDs, nor did the semi-structured interviews make a scientific analysis of the degree of influence possible. Additionally, the suggestion to combine market assessment with market entry modes as one step in the internationalization process raises the question, if certain factors are strengthened, or are weakened, in a particular market entry mode with regard to their influence on market assessment and IMSDs.

Addressing those limitations may lead to a more comprehensive picture of the internationalization process of SMEs, leading to a better understanding of what external and internal factors thrive IMSDs and analysing, which factors are mostly tied to successful or not successful internationalization activities of SMEs.
Bibliography


## Appendix A PESTEL analysis

Following Table has been used for Subsection 3.3.2.2:

<table>
<thead>
<tr>
<th>Economic</th>
<th>Political/Legal</th>
<th>Socio-cultural</th>
<th>technological</th>
<th>ecological</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td>Antitrust laws</td>
<td>lifestyle changes</td>
<td>improvement in</td>
<td>energy efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>technologies/The</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Internet</td>
<td></td>
</tr>
<tr>
<td>unemployment</td>
<td></td>
<td>career expectations</td>
<td>patent protection</td>
<td>ecological awareness</td>
</tr>
<tr>
<td>level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>exchange</td>
<td>taxation</td>
<td>career opportunities</td>
<td>total government</td>
<td>climate change</td>
</tr>
<tr>
<td>rates/currency</td>
<td></td>
<td></td>
<td>spending on R&amp;D</td>
<td></td>
</tr>
<tr>
<td>markets</td>
<td>government</td>
<td>life expectancy</td>
<td>total industry</td>
<td>recycling</td>
</tr>
<tr>
<td></td>
<td>bureaucracy</td>
<td></td>
<td>spending for R&amp;D</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>disposable and</td>
<td>greenhouse gas</td>
<td>access to health</td>
<td>availability of the</td>
<td>waste disposal</td>
</tr>
<tr>
<td>discretionary</td>
<td>emission trading acts</td>
<td>care</td>
<td>Internet</td>
<td></td>
</tr>
<tr>
<td>income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gross-domestic</td>
<td>foreign trade</td>
<td>telecommunication</td>
<td>energy consumption</td>
<td></td>
</tr>
<tr>
<td>product</td>
<td>regulations</td>
<td>infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>energy availability/costs</td>
<td>trade agreements</td>
<td></td>
<td>cyber criminality</td>
<td></td>
</tr>
<tr>
<td>of energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>stability of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>government</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Simplified Table, based on Wheelen and Hunger (2010), Gattringer et al. (2013)*
Appendix B Porter’s Five Forces

Source: Information of Appendix B derived from Wheelen & Hunger, 2010, p.158f; Mooradian et al., 2012, p.15f; Porter, 1980

**Threat of new entrants**

**Market entry barriers**

- Economies of scale
- Product differentiation
- Capital requirements
- Limited access to distribution channels
- Customer loyalty or high switching costs
- Governmental policies

**Bargaining power of customers**

- Large proportion of the seller’s product or service
- High concentration of customers
- Highly standardized or undifferentiated
- Relative unimportant product in the value chain of the buyer’s product,
- Backward integration
- Price-sensitive

**Bargaining power of suppliers**

- High concentration of suppliers
- Independent from one single customer
- The switching costs
- No comparable or affordable substitutes
- Forward integration

**Substitutes**

- Ceiling on chargeable prices
Industry competitions

growth rate of the industry
high fixed costs
transparency
Low switching costs
increasing capacity
increase differentiation
higher speed of innovation

Exit barriers

Other Stakeholders

governments
local communities
creditors
trade associations
special-interest groups
unions,
shareholders
complementary products/industries
Appendix C Interview Guide

Background questions:

How long do you work at ekey biometric systems GmbH? Which position are you currently occupying within ekey biometric systems GmbH? Which responsibilities do you have in your current position?

How long do you work and live in Austria? Have you been working in a similar position in a different company before?

Interview

- In my how many countries, ekey biometric systems GmbH, in the following shortly ekey, is currently present?
  - Which market entry modes have been chosen up to now?
  - Who carries the decisive responsibility for internationalization activities? For export? For foreign direct investment (FDI)?
  - What are the differences in decisive responsibilities between the market entry modes export and FDI?
  - Would you describe any of the past FDI as especially successful?
  - Why would you see this FDI as successful?
  - What are the reasons, why this FDI has been successful?
  - Has ekey ever reduced its commitment in one market, due to missing revenues? If yes, which markets are you referring to?

Market Attractiveness:

- How does ekey define market attractiveness?
  - How would you personally define market attractiveness?
- How does ekey assess a market of interest?
  - How did previous internationalization activities emerge?
- To what extent did ekey consider the external environment into the market assessment?
  - What are possible factors of the economic layer to influence international market selection decisions?
  - Would you consider technological factors to play a role for the decision to internationalize?
  - Are there any political aspects, which would be assessed prior a market entry?
  - Which legal factors would you see critical, when it comes about market entry?
  - Which socio-cultural factors are assessed prior market entry?
  - Are there ecological factors, which influence the decision to internationalize?

Industry Attractiveness:

- How does ekey define its industry? Which factors of a market are assessed to determine an industry attractive?
  - In general, which market entry barriers arise, when internationalizing into a relevant market? Based on the internationalization to country XY (to be specified during the interview), which obstacles were required to overcome to successfully enter the market?
  - How would you describe the bargaining power of customers? Would you see the bargaining power as supportive or impeding internationalization?
  - Would you see substitutes as hazard and in the following as obstacle to invest into a market
To what extent are complementary industries important for the attractiveness of a market? Which main criteria would you consider to be important?

Would you say that competitors in the market are an obstacle to enter? Which benefits arise from the presence of a competitor for ekey? Which disadvantages arise from the presence of competitors in a market?

Which other stakeholders would exert influence on ekey with regard to the market assessment?

Firm-specific resources:

- How does ekey define its resource base? What are the firm-specific resources of ekey?
- Which of the above mentioned resources would you consider relevant for the internationalization into a relevant market?
  - What are the product-specific factors relevant for the internationalization into a relevant market?
  - Are there any physical resources relevant for the decision to internationalize?
  - What obstacles within the firm would you weight critical for the market entry into a relevant market?
  - Which core competences of ekey are incorporated into international market selection decisions?
  - What can be categorized into knowledge of ekey? What kind of knowledge influences the decision to internationalize positively?
  - What is the growth strategy of ekey? Which strategic purpose does ekey see in internationalization?
  - To what extent are networks important for ekey, when assessing a market?
  - What are the costs arising from internationalization? Which costs play a more critical role than other? What activities cause costs at the side of ekey or the business partner?
  - What qualifications would you see critical, an employee of ekey should have to develop a market?
  - How important are free capacities of the employees for the international market selection decisions?
  - How would you best describe ekey’s internationalization strategy in terms of risk calculation? Would you describe yourself as risk-averse or risk-taking? Why?
- Is there anything, which has not been covered yet? Are there any questions left from your side?
Appendix D MaxQDA Coding

Example of the MaxQDA Coding scheme is presented below.

<table>
<thead>
<tr>
<th>Codessystem</th>
<th>Interviewee A</th>
<th>Interviewee B</th>
<th>Interviewee C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 market attractiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 environmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 socio-cultural</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 luxury segment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 attitude towards data protection regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 language</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 affinity &amp; openness to new technology</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 physically close markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 legal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 norms &amp; regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 translation of product-related documents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 data protection regulation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 political</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 technological</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 economic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 unspecied economic factors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 GNP/GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 building sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 export rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 consumer behaviour</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21 buying power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 industry attractiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 other stakeholders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 complementaries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26 cross-selling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 global industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 multiplier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 challenges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 dependence on complementary product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 premium-quality of product portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32 market competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33 comprehensive package</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34 missing cross-industry competences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35 home automation integrators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36 door manufacturer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>37 lock manufacturer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38 substitutes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39 barging power of customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 customer-specific requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41 advance information via the Internet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42 price sensitivty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43 customer-specific processes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44 switching costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45 market entry barriers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>46 low-cost door industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>47 returns &amp; repair processes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48 transportation costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49 customs/import duties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 micro environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51 financial resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52 costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53 market-specific budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54 Strategic orientation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Codesystem</td>
<td>Interviewee A</td>
<td>Interviewee B</td>
<td>Interviewee C</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>knowledge transfer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>sales knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>technical knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>market knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>top management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>get-funding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>self-reflexion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capacities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>qualification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>self-fulfillment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Networks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>trust</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>commitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>existing business contacts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>resources of the partners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>distribution experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>existence/availability of partners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>local language competences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>biometry experts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>service responsiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reputation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>geographic distance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>challenges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>language</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>physical</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product-specific factors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>product-specific rules/regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>emotions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>easy-to-operate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>design</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>product development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>quality</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>