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What Drives, Hinders, and Enables Internationalization among Swedish Furniture Producers?

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Abstract

The internationalization of small and medium sized companies has recently received an increased amount of attention. However, no existing model or theory manages to satisfactorily explain this process, which is indicated by the varying results from empirical studies. The prime interest of this study is to investigate what drives, hinders, and enables the internationalization of Swedish furniture producers. Thus, the focus is not directly on the internationalization outcomes or activities, but rather on the influencers and their impact on the process. The influencers refer to a firm's key decision maker, the internal organization, and the external environment of the firm. All three influencers simultaneously impact the process by driving it, hindering it, or enabling the firm to overcome the barriers. The empirical material will be collected among small and medium sized Swedish furniture producers. Multiple-case studies will be complemented by an industry wide survey.

Keywords: SMEs, key decision maker, internal organization, external environment

1. Introduction

Accelerated internationalization is becoming a “fact of life” (Ahokangas, 1998, pp. 170) for small and medium sized enterprises (SMEs) (Axinn and Matthyssens, 2002; Chetty and Campbell-Hunt, 2003; Coviello and McAuley, 1999). To study what drives, enables and hinders internationalization among SMEs should therefore be an important research topic. The industry providing the empirical data for this research is the Swedish furniture industry and in particular the producer segment. For a list of definitions of important terms used in this paper, see Table 3 on page 9.

1.1 Theoretical Problematization

Internationalization of SMEs is a complex issue and to consider small and medium sized firms under-sized version of large firms would be a mistake. However, the existing theories and models for internationalization are developed with regards to larger companies and corporations (Coviello and McAuley, 1999, Chetty and Campbell-Hunt, 2003), which is why problems arise when applying the same rules and explanations to the smaller enterprises (Holmlund and Kock, 1998). Also, the traditional internationalization theories were developed during the 1970's and have not been modified or updated along with the internationalization processes in which firms are involved (Axinn and Matthyssens, 2002). Even though the field of SME internationalization has received increasing attention lately (Korhonen et al., 1996; Knight, 2000), empirical support for existing models remains mixed (Coviello and McAuley,

1999; Axinn and Matthyssens, 2002). The internationalization models referred to here include the learning and innovation adoption models, the eclectic decision making model, the resource and capability based approach, and the network approach.

The overall problem-platform of this research refers to the theoretical gap, or un-developed theories, that exist with regards to internationalization of SMEs as briefly mentioned above. Penetrating the subject further by investigating the three factors that simultaneously influence the internationalization process might therefore be fruitful. The three influential factors include the key decision maker, the internal organization and the external environment of the firm (Axinn and Matthyssens, 2002; Fillis, 2002; Leonidou, 1995). How these factors influence the process is through driving and hindering it (Leonidou, 1995), but also by enabling the firm to overcome the barriers.

Extensive material on internationalization barriers exists, even though most of these studies were conducted in the 1980's (Fillis, 2002). Other studies focus on what drives or stimulates export, while the enablers of internationalization seem to be less frequently researched. Also, the relationships between the drivers, hindrances and enablers behind SMEs internationalization are not well established, neither are their origins. Moreover, while most empirical internationalization studies are cross-sectional, the process is considered not only time, but also industry, dependent (Westhead et al, 2001). Fillis (2002, pp. 912) states that "Industry specific studies are needed in order to elicit particular differences". Therefore, it should be beneficial to focus on one specific industry segment to enable a more comprehensive understanding.

1.2 The Swedish furniture industry

Approximately 860 firms make up the Swedish furniture industry, providing employment for about 18,000 people (Trä & Möbel Forum, 2003). Firms within the industry are often small and medium sized with limited resources. This makes it hard for them to become independently involved in international business. In 1996, 98% of the industry members had less than 200 employees (NUTEK, 1997).

Competition from foreign firms is increasing and it is creating a hostile environment for the Swedish furniture producers on their domestic market. One indication of this is the difference in import and export development trends. While import increased with over 27 percent between 2000 and 2003, exports decreased nearly one percent, see Figure 1. One possible explanation for the increased level of import might be the low entry barriers to the Swedish market. Another explanation can be increased interest from the Swedish producers to import parts and components in an attempt to improve their overall competitiveness.

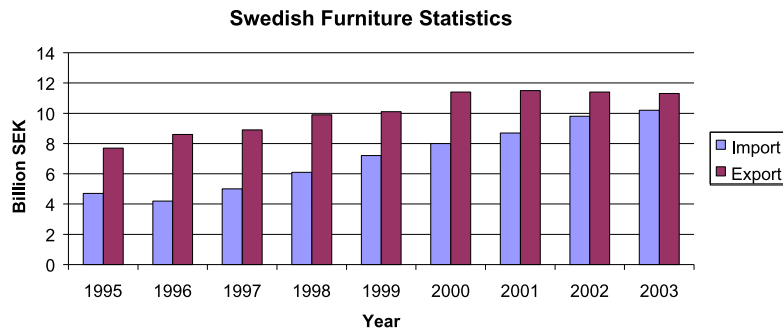


Figure 1. Overview of the Swedish furniture industry considering import, export, domestic consumption and total production (Source: TMF, 2006-06-07)

Since firms operating within small domestic markets have been found to depend heavily on export (Melin, 1992), it is interesting to note that only a minority of the small and medium sized furniture producers reach past the Nordic region. Low level of education and insufficient competence are examples of hindrances facing these firms (NUTEK, 1997; SIND 1986:10). In 1972 it was concluded that the main industry-specific barriers for market entry were related to language, transportation and business contacts (SOU 1972:2). The above barriers might still exist, but conclusive statements like these are not fair to make since the industry is quite heterogeneous. Some of the furniture producers show a high level of performance and have reached many international markets, while the vast majority have not.

Among the more acknowledged studies focused on the Swedish furniture industry is a study of strategic groups (Brege et al., 2001). In this study it is concluded that the disadvantages facing the average Swedish furniture producer with regards to export are: company size, sustainability, and lack of focus during a launch. However, Brege's study ends where an internationalization analysis would begin.

1.3 Research question and purpose

Taken together, the above discussion encourages further and deeper penetration of the internationalization process among the small and medium sized Swedish furniture producers. The focus of this research is therefore on the influential factors and their impact, rather than on the outcome of the internationalization process. The research question reads *what are the reasons behind different internationalization approaches among the Swedish furniture producers?* The purpose of this research is to *explore and describe what drives, enables, and hinders internationalization among the Swedish furniture producers.*

2. Theoretical framework

A firm's internationalization process is influenced by the key decision maker, the internal organization and the firm's external environment. After discussing each one of these factors, their potential impact will be further developed.

2.1 The key decision maker

The key decision maker of a smaller firm has a strong and direct impact on the firm (Holmlund and Kock, 1998) and therefore also on the firm's international involvement. Within the SME internationalization literature the following decision maker characteristics have been identified as potential influencers of the internationalization process: demographics (Riddle and Gillespie, 2003); educational background (Leonidou and Katsikeas, 1996; Riddle and Gillespie, 2003; Chetty and Campbell-Hunt, 2003; Czinkota and Ronkainen, 2001); level of international exposure (Czinkota and Ronkainen, 2001) and experience (Fletcher, 2001); country specific and general market knowledge (Rhee and Cheng, 2002); as well as attitude (Korhonen et al, 1996) and commitment (Czinkota and Ronkainen, 2001).

2.2 The internal organization

Even though SME internationalization is clearly influenced by organizational factors, few studies have taken this into consideration (Leonidou, 2000). Here the internal organization's influence on the internationalization process will be described in terms of firmographics and strategy. Firmographics (Riddle and Gillespie, 2003) refer to firm-specific attributes such as: firm size and age (Riddle and Gillespie, 2003; Eriksson et al, 2000; Moen, 2001); geographic market focus (Moen, 1999; Fletcher, 2001; Eriksson et al, 2000); export intensity (Riddle and Gillespie, 2003; Fletcher, 2001; Moen, 2001), ownership (Riddle and Gillespie, 2003; Korhonen, 1996) and business language (Holmlund and Kock, 1998; Moen, 2001). A firm's strategy is naturally closely linked to the firm's key objectives, which is not always growth. Chetty and Campbell-Hunt (2003) identified maintenance of control, access to and acquisition of resources as other key goals. It is logical to believe that the firm's main objective should affect what drives the internationalization process. Other strategy issues of relevance here are the firm's competitive advantage (Leonidou and Katsikeas, 1996; Moen, 2001, 1999); international responsiveness; R&D focus; and market approach (Moen, 2001).

2.3 The external environment

The third influencer of a firm's international process is to be found within the external context of the firm. The external environment can be divided into domestic (Leonidou, 1995) and foreign industry specific issues and refers to for example the markets' characteristics (Rhee and Cheng, 2002) and attractiveness (Moen, 2001).

2.4 Drivers

Many different internationalization drivers have been identified. These drivers can be divided into proactive, reactive and incidental depending on their nature (Moen, 1999). In Table 1 shows some of these different kinds of drivers presented along with the origin of each driver.

2.5 Barriers

Within the extensive literature on entry barriers facing SMEs in their internationalization process, different authors group barriers differently. Leonidou (2000) discuss attitudinal, structural, procedural, and operational barriers, while Westhead and his colleagues (2004) use the following groupings: strategic, informational, process-based, and operational. In this research barriers will be grouped into psychological, operational, product & market related, and organizational (Hamill, 1997), see Table 2.

2.6 Enablers

What enables firms to overcome international business barriers seem, compared to research related to barriers and drivers, much less studied. Based on the same structure used to discuss barriers and drivers, the enablers will be categorized based on the firm's key decision maker, internal factors and external environment. One important internationalization facilitator linked to the key decision maker is inter-personal relationships. These relationships are informal ties between the decision maker and other people active outside the organization. Examples of inter-personal relationships are social networks (Björkman and Kock, 1997) and friends and family (Riddle and Gillespie, 2003).

Proactive drivers	Example	Source
Key decision maker	Perceived market opportunities	Moen (1999); Andersen & Kheam (1998)
	Management interest & attitude	Holmlund & Kock (1998); Calif & Beamish (1995)
	Management experience & skills	Moen (1999); Calif & Beamish (1995)
Internal organization	Growth as a goal	Westhead et al (2004); Moen (1999); Holmlund & Kock (1998)
	Unique products need larger market	Czinkota & Ronkainen (2001)
	Accumulated internal knowledge & competence	Eriksson et al (2000); Riddle & Gillespie (2003); Bonaccorsi (1992)
External environment	Tax benefits	Czinkota & Ronkainen (2001)
	Favorable exchange rate	Westhead et al (2004)
Reactive drivers		
Internal organization	Excess capacity & overproduction	Czinkota & Ronkainen (2001); Moen (1999)
External environment	Unfavorable domestic market	Westhead et al (2004); Moen (1999, 2001); Czinkota & Ronkainen (2001); Fletcher (2001)
	Demand from customers & partners	Westhead et al (2004); Holmlund & Kock (1998); Johanson & Vahlne (1990)
	Need to level out seasonal variation	Westhead et al (2004); Moen (1999)
Incidental drivers		
External environment	Initiatives from abroad	Westhead et al (2004); Moen (1999); Holmlund & Kock (1998)

Table 1. Proactive, reactive, and incidental internationalization drivers.

Formal, inter-organizational relationships might also help the firm overcome barriers. Examples of such relationships include business associations (Riddle and Gillespie, 2003; Chetty and Campbell-Hunt, 2003); incubators (Riddle and Gillespie, 2003); support agencies (Coviello and McAuley, 1999); strategic alliances (Blankenburg-Holm et al, 1996); and customers (Korhonen et al, 1996). Other firm-based enablers are the organizations ability to learn (Eriksson et al, 2000); flexible production processes (Axinn and Matthysens, 2002); and the use of Internet (Hamill, 1997).

Factors that enable the firm to become or increase its involvement in international business can also be found in the firm's external environment. De-regulations of markets and reduction of trade barriers (Axinn and Matthysens, 2002) are two examples. Johanson and Vahlne (1990) state that stable and homogeneous market conditions can reduce certain barriers such as lack of market knowledge.

Thus, many drivers and hindrances have been found to play a role in a firm's internationalization process. For this research the main interest is to study what drives, hinders, and enables the furniture producers internationalization process as well as detect the relationship between these issues and their origin. For a visualization of this research, see the model illustrated in Figure 2.

Table 2. Barriers to internationalization divided into four groups: psychological, operational, product/ market related and organizational.

Psychological	Example	Source
Key decision maker	Mental models	Chetty & Campbell-Hunt (2003); Hamill (1997)
	Short term perspective	Fillis (2002); Hamill (1997)
	Foreign markets are perceived too risky	Westhead et al (2004); Hamill (1997); Fletcher (2001)
	Inertia	Leonidou (1995)
Operational		
Internal organization	Lack of language skills	Westhead et al (2004); Eriksson et al (2000); Holmlund & Kock (1998); Hamill (1997); Johanson & Vahlne (1977), (1990)
	Documentation & paperwork difficulties	Westhead et al (2004); Björkman & Kock (1997); Hamill (1997)
	Difficulties related to financial resources	Westhead et al (2004); Leonidou (2002); Chetty & Campbell-Hunt (2003); Fillis (2002); Holmlund & Kock (1998); Björkman & Kock (1997)
	Difficulties related to distribution	Westhead et al (2004); Holmlund & Kock (1998); Bonaccorsi (1992)
External environment	Delay in receiving payments	Hamill (1997)
	Lack of governmental assistance	Fletcher (2001)
Product/ Market		
Internal organization	Cost for product adoption	Hamill (1997)
	Lack of foreign market info	Westhead et al (2004)
External environment	Governmental attitudes & trade impediments	Westhead et al (2004); Fletcher (2001); Leonidou (2000); Holmlund & Kock (1998)
	Cultural differences	Westhead et al (2004); Holmlund & Kock (1998); Johanson & Vahlne (1977), (1990)
	Market size, stability & structure	Bonaccorsi (1992)
	Geographic distance	Holmlund & Kock (1998)
Organizational		
Key decision maker	Acts as a gate keeper	Moen (1999); Holmlund & Kock (1998)
	Lack of time & experience	Westhead et al (2004); Chetty & Campbell-Hunt (2003)
Internal organization	Lack of qualified & experienced personnel	Westhead et al (2004); Rhee & Cheng (2002); Eriksson et al (2000); Hamill (1997); Johanson & Vahlne (1977), (1990)
	Access to & control of sales channel	Holmlund & Kock (1998); Fillis (2002)
		Hamill (1997); Fletcher (1997)
	The small size of the company	Fillis (2002)

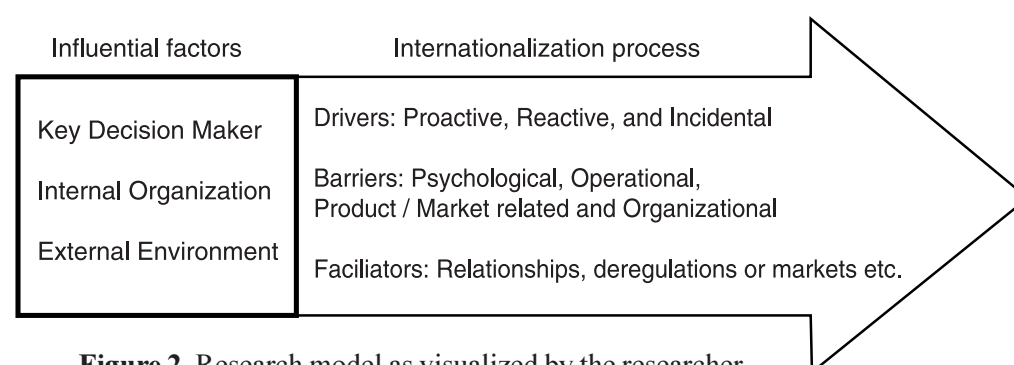


Figure 2. Research model as visualized by the researcher.

3. Method

This research can be viewed as a case study found within the empirical boundary of the Swedish furniture industry. This overarching case will include approximately three subordinate qualitative cases and one quantitative survey. The survey will be industry wide and launched either simultaneously or sequentially with the three cases. Each of the subordinate cases will be restricted to a particular firm. The firms will be selected according to the quota selection method (Merriam, 1994). When using this method, the cases selected should represent different subgroups within the total population to enable maximum variation. For a firm to be considered of interest for this research the following three pre-requisites must be met: Swedish operated and owned, small or medium sized, and be a furniture producer.

Export barriers are perceived differently among firms in different export development phases, but also among firms in the same phase (Leonidou, 1995). Thus, both internationalization approach and firm specific factors influence the perception of barriers. More research on pre-exporters has also been encouraged within the field of inter-nationalization (Leonidou, 1995). Considering these findings, the inward, outward and cooperative model developed by Luostarinen seems to be an appropriate theoretical frame to base the case selection on. For more about this model see Luostarinen (1979) and Korhonen et al (1996). Assuming that three cases will offer enough richness, the following type of firms will be selected: a domestically active firm that expresses interest in becoming internationally active; a firm that is involved in inward international activities; and finally a company that is engaged in outward business.

4. Discussion

This paper outlines a broad plan for how this doctoral thesis will be conducted. Since the empirical material has not yet been collected or analyzed, it is not possible to present any empirically supported conclusions. However, based on existing theory one can conclude that more research is needed within the field of SME inter-nationalization. This research will contribute to the knowledge bank by penetrating the subject deeper, past the activities undertaken by the international companies.

The ambition of this research is to contribute on an academic and theoretical level, and be of value to practitioners and policymakers. By creating a holistic picture of the links and origins of the drivers, hindrances and facilitators found among firms within one industry, add to the research field of internationalization of SMEs. From the practitioners' perspective this research will provide an insight into how other firms in the industry perceive and approach international business. This insight will hopefully stimulate to further discussions and reflections among the industry members. On the policymaker level it is important to expose what kind of support certain firms are in need of. Another key contribution would be to show how firm's needs for support varies with regards to level of international involvement.

In Table 3 below the reader will find definitions of terms used in this paper.

Table 3. Definitions of terms used throughout this paper.

Term	Definition	Source
Barriers	Entry and exit barrier, also referred to as hindrances and obstacles	Porter (1980)
Furniture producer	Manufacturer of chairs and seats; other office and shop furniture.	Statistic Sweden
	No consideration will be taken to the material used or the function of the furniture.	(SCB)
Internationalization	A dynamic and evolutionary process involving both outward and inward activities.	Coviello & McAuley (1999).
Inward activities	Include import of goods, services, finance, and technology through franchising, licensing, direct investments, and alliance agreements.	Korhonen et al.(1996)
Outward activities	Include export through agents or own salesmen, cooperation with other local companies, own sales company, joint ventures, subsidiaries abroad, establishment of own manufacturing facility abroad, acquisition, licensing, franchising and patent.	Holmlund & Kock (1998). Fletcher (2001)
Small and medium sized enterprise, SME	<u>Medium-sized enterprises</u> : Between 50 and 249 employees. Annual turnover rate does not exceed 40 million EURO, or annual balance-sheet total is less than 27 million EURO.	The European Commission
	<u>Small enterprises</u> : Between 10 and 49 employees. Annual turnover rate does not exceed 7 million EURO, or the annual balance-sheet total is less than 5 million EURO.	(Definitions according to the commission's updated recommendation for year 2005.)

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