

First contact: the influence of serendipity, planning and antecedent relations in the internationalisation of SMEs

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ABSTRACT

This empirical paper attempts to explain inward and outward internationalisation of small and medium-sized firms (SME) as a function of serendipity, interpersonal links and planning. In order to research this issue, a project with multiple study objects was designed within which the internationalisation processes of eight SMEs were mapped through personal interviews. The results of this study indicate that neither rational planning, interpersonal and interfirm linkages, or serendipity alone, appear to explain the internationalisation of SMEs and that a more dynamic definition of firm strategy is called for.

INTRODUCTION

The foreign market entry (FME) phase of SMEs' internationalisation processes has largely been neglected by internationalisation researchers (see Ellis, 2000). As a consequence, little is known about the actual mechanisms at play when SMEs make FME decisions, which are often assumed to depend on chance events or serendipity (see Brush, 1995). Another issue which has largely been ignored in past research is inward internationalisation, i.e. international sourcing (Deng and Wortzel, 1995; Liang and Parkhe, 1997). The purpose of this paper is therefore to shed some light on which factors influence SMEs' choice of foreign customers, foreign agents and foreign sourcing, i.e. how SMEs meet their foreign business partners.

The paper begins with a few short, empirical stories illustrating different internationalisation situations. These stories lead to the formulation of four research questions. A brief review of SME internationalisation research is then conducted to indicate the current state of the art in relation to the research questions, after which we present and discuss the paper's empirical findings. The paper is concluded with a model identifying twelve different internationalisation situations.

Stories of Internationalisation

When talking to managers about how they meet their business partners abroad, they all have a lot of anecdotes to share. Some of these concern seemingly chance meetings, like in the case of Chairs Ltd. finding an important supplier in Germany.

I'd been working for this firm until 1975, when they suddenly went bust, and what were we going to do? As development engineer I thought it'd be interesting to go down to this trade fair in Cologne, and I walked around there among some 1000 exhibitors for three days and I was about to go home on Friday evening. The fair closed at six. Half past five I found this tiny stall and a firm that I instantly saw would suit me. I didn't speak any German and he spoke nothing but German, so we did not have much in the way of communication. Anyway, I got a card from him and six months later a guy turned up, an agent for other German firms, and I asked him to help me. We went down there and things got started... they were very important for us when we started the firm.

Former CEO and founder of Chairs Ltd.

Sometimes, firms seem to have little choice in their market entries, like in the case of Traffic Ltd. entering an international distribution network.

Yes, it was [partner firm of parent firm] and [parent firm] that closed a management level agreement. It was [chairman of the board of parent firm] and their boss who'd met, don't ask me how, and decided that we had a lot of things in common and that we should work together. So they made a top-level deal and then they called together all the people who they thought should know about it and told us that, [chairman of the board of parent firm] said in those words, "I am not asking you to work together, that's an order". Perhaps not exactly what you wanted to hear.

Marketing Manager at Traffic Ltd.

Other stories concern the importance of market research or failed market entries like in the case of Utensils Ltd. trying to increase sales on the German market.

Here, take a look at what we've done in Germany [respondent shows diagram of sales in Germany]. Here are the numbers for '95, if you figure in price increases we sell even less today than we did then. First we had a partner, an agent, a guy who used to work for the Swedish Trade council, but that did not work. Then [a consultant] made a partner search, but nothing came of that. Then there was this visit to a new agent in '96 ... and he started at the fall trade fair in '97 ... but that did not work either so we terminated the contract with the agent and then in the spring of '99 we took in a new agent who was out visiting companies, pushing and so on. But that did not work either so we stopped working with him at the end of last year. And then you can say to yourself

“yeah, we’ve got the wrong agent. He’s crap, he’s not selling anything”. But that’s not it, if you’ve tried so many ways and none have succeeded you have to ask yourself, “is there a need for our products in Germany?” ... This is a failure but we’ve learned an awful lot from this. And during this period between ’95 and ’98 we worked in an incredibly structured way with more than 10 binders full of reports from different visits and so on. We could have taken an awful lot of long shots [on other customers] for the money we spent there. Frustrated Marketing Manager at Utensils Ltd.

Yet others are concerned with how people use their social networks like in the case of Waste Ltd. entering the US.

That’s an interesting story, because he [the US distributor] is a Swede who had a company here in [name of city] and used to be a supplier to us once who made cylinders for many years before this [the US venture] got started in 1984. He had already left Sweden then and was in the US selling pastry ... so he started with some Swedish pastry-making machine that they didn’t have over there, anyway that’s the way it was. And then when he saw that that didn’t work out [respondent laughs good-naturedly] he contacted us, he knew Waste Ltd. of course and [the former CEO], and it’s been down that road ever since. CEO of Waste Ltd.

From the above quotes, we can see that there are at least three different types of influences on FME and international sourcing decisions, namely serendipity, interpersonal and interfirm linkages, and rational planning. All of these have in the past been argued by different theoretical approaches and researchers to be of varying importance in internationalisation.

Research Questions

In order to shed some light on the issue of serendipity vs. the network approach vs. traditional planning in relation both to outward and inward internationalisation, the following research questions were formulated:

- To what extent and how can the internationalisation of SMEs be explained by serendipity?
- To what extent and how can the internationalisation of SMEs be explained by interpersonal and interfirm links?
- To what extent and how can the internationalisation of SMEs be explained by rational, strategic planning?
- Are there other factors that can explain the internationalisation of SMEs?

Internationalisation Research and the Internationalisation of SMEs

A great many theoretical approaches have been used to describe and explain internationalisation of firms, such as the internationalisation process model (Johanson and Vahlne, 1977; 1990), stage models (see Johansson and Wiedersheim-Paul, 1975 or Hadjikhani 1997 for a clarification of the difference between the S-model and the IP-model), the network approach (see Johanson and Mattsson, 1988), transaction cost analysis (see Anderson and Gatignon, 1986), the resource-based view (see Rutiinda, 1996), and foreign direct investment theory (see Dunning, 1988). What these theoretical perspectives generally fail to do, however, is to address the issue of *how* opportunities for international buying and selling are identified and more specifically *how* firms find foreign business partners.

In the last decade and a half, the internationalisation of SMEs has become the focus of great research efforts. Most of the theoretical perspectives that have been used to explain internationalisation in general, have also been applied in SME studies. Within this emerging research field, however, so far there has been a heavy bias towards large-scale survey research. Indeed, Coviello and McAuley (1999:249) claim, “*SME internationalisation literature is dominated by positivist research. As such, it is based on modern and logical empiricist traditions in an effort to confirm or disprove existing objective models through testing quantitative data*”.

Previous studies of the internationalisation of SMEs can be categorised as either being concerned with the influence of individual, firm, or environmental factors on either the process, or the outcome of internationalisation. By far, the greatest research efforts have been directed towards trying to explain the extent of internationalisation (in terms of foreign profits, foreign turnover, number of foreign markets served, and modes of internationalisation) with firm level structural factors, chiefly firm size (see Ali and Swiercs, 1991; Bagchi-Sen, 1999; Baird et al., 1994; Calof, 1993, 1994; Katsikeas et al., 1997). Although far from all researchers agree on this point (Brush 1995; Moini, 1995; Bonaccorsi, 1992; Calof, 1994), most researchers conclude that the propensity to internationalise as well as the extent of involvement in international activities are positively correlated with firm size. A great many studies also point to the importance of previous international experience for the decision to internationalise further (see Bloodgood, Sapienza and Almeida, 1996; Almeida and Bloodgood, 1996; Ali and

Swiercs, 1991; Morgan, 1997; Reuber and Fischer, 1997; Roth, 1995; Westhead, Wright and Ucbasaran, 1998). However, such studies provide little insights into the mechanisms at work when SMEs internationalise. In particular, studies that focus on social and firm relationships are scarce (see Holmlund and Kock, 1998). Foreign sourcing decisions are even less studied, perhaps a bit surprising when you consider that for every sale there is a purchase.

Foreign Market Entry and Sourcing Decisions – The Influence of Planning, Networks and Serendipity

The foreign market entry decision phase of internationalisation thus remains largely unexplored in academic research (Ellis, 2000; Ellis and Pecotich, 2001), especially from an SME perspective as seen above. Basically, normative literature would have us believe that there are a host of decisions that the firm must make, concerning, for example, the choice of market or market segment, the choice of entry mode, the choice whether to venture alone or together with a partner, how to adapt the firm's products to local conditions (see Hollensen, 2001; Bradley, 2002; Terpstra and Sarathy, 2002; or any one of the texts in the sizeable and ever-growing body of international marketing literature).

Logically, we can assume that each of these decisions is influenced to a varying extent by the firm, other firms and environmental conditions. Different theoretical approaches have tried to explain how such decisions are made, what degree of freedom the firm has in making such decisions, and to what extent it is possible to generalise about the making of these decisions. The Uppsala School holds that experiential learning is an important influence (Johanson and Vahlne, 1977; 1990), while the network approach claims that such decisions are influenced by the firm's relations with other firms – its position in a network. The resource-based view holds that such decisions are constrained by a firm's access to vital resources (Rutihinda, 1996), while transaction cost analysis aims at explaining FME decisions with the cost of carrying out a transaction and the frequency with which that transaction is performed (see Anderson and Gatignon, 1986).

These approaches afford the decision-maker varying degrees of freedom to act. The normative textbook approach or *the planning perspective* describes foreign market entry as a planned process, which – as long as environmental constraints are considered – is

controlled by the firm. Refuting these rationalistic models, which are often based on LSE studies, Brush (1995) claims that the most important influence on the internationalisation of SMEs is *serendipity*; i.e., foreign market entries in SMEs are very often the result of chance events and meetings, for which firms cannot plan in advance. The influence of *networks* on internationalisation has mainly been studied from the perspective of the business network, while the influence of social or personal networks has been largely left unexplored. Consequently, we know little about the influence of interpersonal linkages on internationalisation, while studies indicate that interfirm linkages are important both in identifying, initiating and carrying out international business activities.

To summarise, from past studies, we can identify three different influences on foreign market entry and the creation of international business relationships; rational planning concerns; interpersonal and interfirm linkages; and serendipity, i.e. accidentally stumbling over a suitable solution.

Definitional Issues

While the concepts of business relationship and internationalisation are often used as if there were universally agreed-upon definitions, this is far from the case. Below these concepts are defined as they are used in the current study.

A business relationship is considered to exist between two parties when it requires interaction between these two parties. Basically, we apply Håkansson and Snehota's (1995:25) definition that refers to "*mutually oriented interaction between two reciprocally committed parties*". A business relationship is not considered to exist if the two parties interact solely for the purpose of bringing about a single spot deal. For a relationship to exist it must be more long-term oriented than that. Also note that business relationships exist not only between the buyer and the seller, but also between the buyer and his agent and the seller and his agent. Indirect importing or exporting, i.e. when products are bought or sold in the focal firm's home country are not considered in this study, nor are relationships with agents located in the focal firm's home country. An international business relationship is thus considered to exist when these two parties exist in different countries.

In this context a business relationship refers to a relationship between two firms. A relationship between two individuals is referred to as a social relationship. Further, as

this paper is concerned both with the outward and inward perspectives on internationalisation, the term focal firm is used to denote the research object, rather than the exporting or selling firm as this would not be an appropriate term. Similarly, the term partner firm is used to denote the focal firm's business partner, rather than the buying or importing firm.

The relationship between a firm and its selling agent is considered an outward internationalisation relationship and the relationship between a firm and its buying agent is considered an inward internationalisation relationship. While it might certainly be argued that a firm buys the services from its agent by paying commission, the rationale for the above categorisation is very simple. The outward internationalisation function of the firm (i.e. export department, marketing department or sales department as the case may be) manages relations with sales agents and the inward internationalisation function (i.e. the purchasing department, production, inbound logistics etc.) manages relations with purchasing agents.

STUDY DESIGN

In order to answer the research questions posed in the Introduction, it was determined that an in-depth study with multiple research objects would be the most appropriate approach. The empirical data presented in this paper is based on interviews with CEOs, export managers, marketing managers, export salesmen, purchasing managers, and purchasers in eight small and medium-sized firms located in the county of Jonkoping in Sweden. Firms were selected on the bases of access, inward and outward international experience, and the availability of respondents with experience in these matters.

In total, 32 interviews have been conducted in order to retrospectively map internationalisation processes over time, with a focus on foreign market entry events, changes in organisational structures and international sourcing. Respondents were firstly asked to describe which foreign markets their firms served or had served in the past, after which each business relationship that the firms had been engaged in in each market was mapped. In total, 361 international business relationships were identified during the interviews. In some cases, a great number of business relationships had existed in various markets, in which case, discussions focused on those that had been the most important to the firms in the study. While omitting some relationships led to an

incomplete list of relationships, during the study, it became quite clear that when discussing those relationships that were of little significance to the firms, respondents tended to get them mixed up. Focusing only on those that were or had been of significance to the firms thus helped to ensure higher overall reliability, even if external validity suffered slightly. No claims concerning generalisability in a statistical sense are made though, and the numbers presented must be regarded with a measure of caution and can only be considered as hinting at the general and relative importance of various influences on the internationalisation processes of SMEs in the county of Jonkoping, Sweden.

Whenever possible, interviews were supplemented with company records to ensure higher reliability. However, this proved not to be possible in most cases, as respondents either did not keep records of past relationships or transactions, or were reluctant to share them. The general reluctance towards sharing existing records did not depend on an unwillingness to disclose material that might potentially be sensitive to the firms, but rather, it had to do with the difficulties involved in finding and sorting through such records. In this paper, empirical data are integrated in discussions concerning the phenomena at hand and serve mainly as illustrations of the points we aim to make.

THE FIRMS IN THE STUDY

The eight firms in this study are in some respects fairly homogeneous while being highly diverse in other respects. The largest firm has 137 employees (2000), the smallest 33, with an average of 92 employees. The firms vary in turnover between SEK 312 million (US\$ 32 million) and SEK 51 million (US\$ 5.2 million), with an average of 166 SEK million (US\$ 16.5 million). Seven of the eight firms are manufacturing firms in the traditional sense, while one firm provides traffic control systems with a larger share of service content (see Table 1). The firms occupy different stages in the value added chain, from a pure components manufacturer, via manufacturers of ready-made products to a systems provider without any manufacturing of its own. None of the firms is publicly listed, most being majority owned by a single family. All in all, these firms are fairly representative of the types of firms in the county of Jonkoping, a region known for its large number of small, family-owned manufacturing firms.

Table 1. Overview of the firms in the study

	Wheels Ltd.	Chairs Ltd.	Brackets Ltd.	Wires Ltd.	Utensils Ltd.	Waste Ltd.	K & C Ltd.	Traffic Ltd.
Founded year	1942	1977	c.1970	1982	1914	1971	1945/1984	1945/1990
Number of employees 2000	137	107	93	73	33	103	130	59
Turnover 2000 MSEK (US\$ 100,000)	162	312	115	206	51	144	141	199
Industry	Manufacturer of wheels for the furniture industry	Manufacturer of chairs for office use	Manufacturer of radiator bracket systems	Manufacturer of wire furniture	Manufacturer of kitchen utensils	Manufacturer of waste management systems	Manufacturer of kitchen and closet interiors	Producer of traffic control systems
Percentage of sales directly from foreign markets	45%	50%	85%	85%	44%	87%	57%	99%
Percentage of purchasing directly from foreign markets (est. by purch. Managers or sim.)	10%	35%	10%	5%	20%	10%	5%	15%
Current number of foreign markets served directly or through foreign agents	21	11	9	15	25	27	19	22
Number of countries from which are currently purchased directly	3	7	3	2	9	2	6	2

All the firms are highly outward international with direct foreign sales as proportion of total sales ranging from 44 to 99% with an average of 69%. The number of foreign markets served directly ranges from 9 to 27, with an average of 19. As far as inward internationalisation is concerned, the firms are decidedly less international, with direct international purchases as a proportion of total purchasing ranging from 5 to 35%, with a mode and median estimate of 10% (it should be noted that this number is based on impromptu estimates by purchasing managers, while the percentage of foreign sales is generally based on internal company records, the reason being that for most firms in the study, no records were kept regarding the percentage of foreign sourcing).

BUSINESS RELATIONSHIP INITIATION

Ellis (2000) argues that there are four different ways in which international business exchange relationship can be initiated; (1) by the seller, (2) by the buyer, (3) by a broker, or (4) as a result of a trade fair or chance. In this paper, we argue that there are three main ways in which an international business relationship can be initiated; by the (focal) firm; by the business partner; or, by a third party. This approach thus ignores the actual venue where the relationship is initiated. Ellis (2000:346) claims that *“it is evident that sometimes foreign market opportunities are discovered completely by chance, with no clear initiating role attributable to either the buyer, seller or third party ... Whether organised by the potential seller, buyer, or some outside agent (such as government department), the awareness of foreign opportunities communicated in the market-like trade fair setting cannot be easily attributed to either of the three parties already mentioned. Thus, it is appropriate to treat the trade fair as a special kind of scenario”*. We question such an approach. Either the firm, its partner or a third party will have to be the initiator of a relationship. Simply stating that it can sometimes be difficult to ascertain who actually initiated the relationship is in our opinion not grounds to include a fourth category. Indeed, a firm attends a trade fair with a number of objectives, one of which may be to actively *make* contacts with potential partners and/or to *expose* themselves to potential partners. The decision whether to attend a trade fair is a strategic marketing decision, consequently, partner search at trade fairs should be considered part of firm strategy.

Further, we would argue that from the strategy perspective point of view, the conscious use by a firm of an outside agency to bring about an international business relationship, be it through the use of a buying or a selling agent, should not be considered a third-party initiated relationship. An agent is employed to act for the firm in the firm's interests under conditions where the firm is unable or unwilling to act by itself. Thus an agent should not be considered an outside party, but rather as an extension of the firm. Consequently, business relationships initiated by the (focal) firm's agent should be considered as a firm-initiated relationship, while those that are initiated by the partner firm's agent should be regarded as partner-initiated relationships.

Third-party initiated relationships are consequently those business relationships initiated neither by the focal firm, the partner firm, nor by the agents of the focal or the partner firm. Examples of such third parties are those that are directly related to the focal firm or partner firms such as their customers, suppliers or owners. There are also examples of third parties that are unrelated either to the focal firm or the partner firm. These include social contacts, firms in other industries in the same region or similar.

In the empirical material forming the basis of this paper, relationships initiated by the focal firm and the partner firm make up the bulk of all relationships, or a total of 81% of all relationships recorded where the initiator could be identified (Table 2). Among those, relationships initiated by the partner firm represent the overall largest share, or 51% of all relationships, while those that were initiated by the focal firm correspond to 30% of all business relationships. Only 19% were initiated by third parties.

It should also be noted that among all business relationships discussed during the interviews, in 19 percent of the cases, the respondents were unable to provide a certain answer. There would, however, appear to be no reason to assume that the distribution among initiators in the case of the uncertain relations would differ from that of the certain cases. The great majority (81%), of all relationships in the study are outward internationalisation-related relationships. International sourcing-related relationships made up only one fifth of all relationships. This is also strongly reflected in the number of markets to which firms sell (on average 19) compared to the number of countries from which firms buy (on average 4). Considering the industries that the firms in the study are active in, though, this was expected. Often, the focal firms have a few large suppliers and many, smaller customers.

Table 2. Overview of business relationships

	Wheels Ltd.	Chairs Ltd.	Brackets Ltd.	Wires Ltd.	Utensils Ltd.	Waste Ltd.	K & C Ltd.	Traffic Ltd.	Total
Outward internationalisation									
Number of focal firm-initiated intl business rships	8	7	8	0	13	7	1	11	55
Number of partner-initiated intl business rships	22	16	8	10	17	26	9	25	133
Number of third party-initiated intl business rships	14	0	0	3	12	15	0	7	51
Uncertain initiator	12	0	2	1	13	5	12	10	55
Total number of outward business rships	56	23	18	14	55	53	22	53	294
Inward internationalisation									
Number of focal firm-initiated intl business rships	1	15	0	2	7	1	5	1	32
Number of partner-initiated intl business rships	3	7	1	1	2	0	3	0	17
Number of third party-initiated intl business rships	0	1	0	0	3	0	1	0	5
Uncertain initiator	0	2	4	0	4	1	1	1	13
Total number of inward business rships	4	25	5	3	16	2	10	2	67
All international business relations									
Number of focal firm-initiated intl business rships	9	22	8	2	20	8	6	12	87
Number of partner-initiated intl business rships	25	23	9	11	19	26	12	25	150
Number of third party-initiated intl business rships	14	1	0	3	15	15	1	7	56
Uncertain initiator	12	2	6	1	17	6	13	11	68
Total number of business relationships	60	48	23	17	71	55	32	55	361

Overall, the trade fair was an important venue for initiating relationships. Nearly 17% of all relationships were initiated at trade fairs or in trade fair-like settings, such as fairs and functions organised by trade promotion agencies. Possibly, due to the fact that in quite a number of cases respondents were unable to note who had initiated the relationship, the actual number of relationships initiated at trade fairs is slightly higher.

However, simply stating the number of relationships initiated by either party hardly generates much understanding of the mechanisms at work. In the following three sections, the three main ways in which international business relationships are initiated are discussed in connection to which examples are given from the empirical material.

Focal-firm initiated relationships

Focal-firm initiated business relationships make up less than one third of all business relationships in the study, decidedly less than the number of partner-initiated relationships which corresponds to more than half of all relationships. We have, however, identified a number of different mechanisms that are relevant to discuss within the framework of firm-initiated relationships, namely whether they were initiated directly by the firm or by the firm's agent, whether they were initiated through the use by the firm of existing social or business relationships, and whether they were initiated at trade fairs (Table 3).

Table 3. Focal-firm initiated relationships

	Wheels Ltd.	Chairs Ltd.	Brackets Ltd.	Wires Ltd.	Utensils Ltd.	Waste Ltd.	K & C Ltd.	Traffic Ltd.	Total
Outward internationalisation									
Total number of focal-firm initiated outward international business relationships which were initiated	8	7	8	0	13	7	1	11	55
directly by focal firm	7	6	6	0	6	7	1	3	36
by focal firm's agent	0	1	2	0	7	0	0	8	18
through use of antecedent social or business relationship	4	5	2	0	0	3	1	1	16
directly by focal firm at trade fair	1	0	0	0	1	1	1	0	4
Inward internationalisation									
Total number of focal-firm initiated inward international business relationships which were initiated	1	15	0	2	7	1	5	1	32
directly by focal firm	0	14	0	2	7	0	5	1	39
by focal firm's agent	0	1	0	0	0	1	0	0	2
through use of antecedent social or business relationship	1	2	0	1	0	0	3	0	7
directly by focal firm at trade fair	0	9	0	1	0	0	2	0	12

Ellis (2000) and Ellis and Pecotich (2001) note that in the case of firm-initiated business relationships, *information* is very often found among the firm's network contacts. This observation only finds partial support in our study. One explanation can be found in the characteristics of the firms in our study. Several firms are active in industries that are fairly limited in size, with few customers and competitors nearby. On the other hand, while they mainly buy standardised components, some of the firms sell specialised products to a well-defined set of buyers. Consequently, respondents in these firms

generally voice the opinion that while there are no industry-wise related firms in the region, they still have a good grasp on what the industry looks like and who the major players are, both domestically and internationally, or as one respondent noted “*this is a declining industry and we know all the actors. So, we hardly leave a potential buyer alone*” (marketing manager, Brackets Ltd.). Such general knowledge has been build up over the years, talking to customers, competitors and suppliers, attending trade fairs and so on. So, when asked to what extent respondents rely on social and business contacts for finding information about specific potential business partners, there was almost unanimous denial that this was an important source of information.

When discussing separate business relationship the same trend could be observed. Specific knowledge about customers or suppliers was not directly collected through interaction with other firms, but rather amassed over years of sporadic interaction. Overall, the importance of finding information about potential customers and suppliers is downplayed by respondents. As one respondent expressed it “*you sit down for a while and talk, and if they seem OK you do business*” (Former CEO, Wires Ltd.).

However, in all the eight firms can be found examples of how social antecedents or business relationships can be used to directly initiate business relationships. This category corresponded to one third of all ascertainable business relationship initiations. Typical examples of such antecedent social contacts can be found in Wheels Ltd. where the firm on several occasions has contacted its largest customer to find out the names of other suppliers to which they in turn could become a sub-supplier. In the case of Chairs Ltd., the founder made extensive use of the network he had created when employed as a construction engineer for a firm in the industry in which he later started his own firm. In K & C Ltd., we also find examples of how an existing non-transactional business contact, in this case the agent of a competitor, in their industry was used to find suppliers.

There are several examples of how firms used agents to find customers and in a few cases also to find suppliers. However, this is closely related to the firm’s internationalisation strategies, and in this study, no conclusions concerning the general prevalence of an agency in finding foreign business partners can be drawn - some firms prefer to use agents while others do not. Interestingly, in the case of Utensils Ltd., the use of agents is the preferred mode of internationalisation on markets close to the home

market, while more distant markets are managed directly by the firm. This, however, can be explained by the fact that the firm strives to actively market itself only in markets close to the home market, but is willing to sell to anyone who wants to buy their products. A similar strategy can be found in K & C Ltd.

Interestingly, the overall importance of the trade fair as a venue for the focal firms to initiate business relationships is fairly limited. Only very few examples of this were found in the study, with the exception of one firm, Chairs Ltd. which made extensive use of fairs to initiate relationships with suppliers. In the case of Chairs Ltd., this is part of the firm's overall strategy to very actively seek out suppliers.

Partner-initiated relationships

Nearly half of the relationships identified in the study were initiated by the focal firms partners directly, and in a few cases by the business partners agents (Table 4). In five of the eight firms, this was the dominating way of finding business partners.

Contrary to what was the case with focal-firm initiated relationship, a large share of relationships initiated by the partner firms were initiated during trade fairs. In fact, in 30% of all these relationships, the trade fair (or similar) was the initiation venue, nearly twice as many of the focal-firm initiated relationships. This is hardly surprising, though, as so many respondents expressed the view that firms go to fairs to expose themselves to other actors in the industry, to show their presence more than anything. Inversely, firms were not found to be approached by potential suppliers at trade fairs. Thus, at trade fairs it would appear that firms first and foremost actively seek out suppliers.

The partner firms' use of their business and social networks turned out to be quite an important influence in partner-initiated relationships. In nearly one-third of all outward partner-initiated business relationships, respondents noted that this was the case. There are several examples of different ways in which such relationships come about; for example when Waste Ltd. was sold by its previous owner and quickly had to find new suppliers. In many cases employees of the former owner's distributors set up new businesses to continue acting as distributors for Waste Ltd. Very similar observations can be made when Traffic Ltd. was sold by its former owner. In the case of Wires Ltd., we can also identify instances where prior social relations evolved into business relations.

Table 4. Partner initiated relationships

	Wheels Ltd.	Chairs Ltd.	Brackets Ltd.	Wires Ltd.	Utensils Ltd.	Waste Ltd.	K & C Ltd.	Traffic Ltd.	Total
Outward internationalisation									
Total number of partner-initiated outward international business relationships initiated	22	16	8	10	17	26	9	25	133
directly by partner firm	22	16	7	9	16	26	9	25	130
by partner firm's agent	0	0	1	1	1	0	0	0	3
through partner's use of antecedent social or business relationship	12	2	2	4	2	11	0	12	45
directly by partner firm at trade fair	10	9	2	4	7	7	4	0	43
Inward internationalisation									
Total number of partner-initiated inward international business relationships initiated	3	7	1	1	2	0	3	0	17
directly by partner firm	3	5	0	0	2	0	3	0	13
by partner firm's agent	0	2	1	1	0	0	0	0	4
through partner's use of antecedent social or business relationship	1	0	0	0	0	0	0	0	1
directly by partner firm at trade fair	0	0	0	0	0	0	0	0	0

Only in a few cases was it was possibly to ascertain whether any relationships were initiated by the partner firms approaching the focal firms' agents. Logically, it can be assumed that this might have been the case in a few instances where respondents have reported relationships as having been initiated by the focal firm's agent directly.

Third party-initiated relationships

Third parties, i.e. any part other than the focal firm, the partner firm, or the agents of either, were responsible for initiating one fifth of all relationships in the study. Interestingly, all but five of these were outward internationalisation relationships. However, the influence of third parties varied greatly among firms.

Several different ways of third-party initiation were also identified, including relationships initiated by the focal firm's owner, through acquisition by focal firm of subsidiary, by focal firm's customer, and supplier.

Table 5. Third-party initiated relationships

	Wheels Ltd.	Chairs Ltd.	Brackets Ltd.	Wires Ltd.	Utensils Ltd.	Waste Ltd.	K & C Ltd.	Traffic Ltd.	Total
Outward internationalisation									
Total number of third-party initiated outward international business relationships initiated	14	0	0	3	12	15	0	7	51
by firm's owner	0	0	0	0	0	11	0	5	16
through acquisition of subsidiary	0	0	0	0	5	0	0	0	5
by focal firm's customers	13	0	0	2	3	2	0	2	22
by focal firm's suppliers	0	0	0	0	0	1	0	0	1
by member of focal firm's business network or focal firm employee's social network other than customer/supplier	1	0	0	1	4	1	0	0	7
by member of partner firm's business network or partner firm employee's social network	0	0	0	0	0	0	0	0	0
by third party at trade fair	1	0	0	0	0	0	0	0	1
Inward internationalisation									
Total number of third-party initiated inward international business relationships Initiated	0	1	0	0	3	0	1	0	5
by firm's owner	0	0	0	0	0	0	0	0	0
through acquisition of subsidiary	0	0	0	0	0	0	1	0	1
by focal firm's customers	0	0	0	0	2	0	0	0	2
by focal firm's suppliers	0	1	0	0	0	0	0	0	1
by member of focal firm's business network or focal firm employee's social network other than customer/supplier	0	0	0	0	1	0	0	0	1
by member of partner firm's business network or partner firm employee's social network	0	0	0	0	0	0	0	0	0
by third party at trade fair	0	0	0	0	0	0	0	0	0

Logically, in those firms owned either by investment firms or by multinational manufacturing firms, the influence of the owner firm in finding customers and suppliers would be important. In this study, empirical observations support this notion; for example, at one time, Waste Ltd. was owned by a large multinational firm with a huge distribution network. Consequently, the parent firm initiated relationships between its distributors and Waste Ltd. A similar story can be found in Traffic Ltd.

In those firms that, at one time or another, were owned by investment firms with an unrelated portfolio of investments, or by owners without other interests in the same

industry; for example, Brackets Ltd., no direct influence of owner firms on business relationship initiation could be found in the empirical material.

In one instance, we noted that a focal firm made use of existing relationships in a firm that was acquired, namely in the case of Utensils Ltd., which acquired a small local manufacturing firm with customers in various countries in Europe. While relationships were initiated by Utensils Ltd.'s subsidiary, they were taken over or made use of by Utensils Ltd. For this particular sample, the importance of this category was obviously small due to the size of the studied firms.

Influence of focal-firm customers in establishing international relationships can be found in all but two of the firms in the study. To be included in this category, the third party would have to have had some active part in initiating the relationship other than just mentioning it to the focal firm. In the case of Wheels Ltd., a large domestic downstream customer (mainly retail chain and distributor) in several instances specified that its suppliers should use the products of Wheels Ltd. In the case of Utensils Ltd., in a few instances, their customers not only suggested that they expand their product line, but also initiated contact with suppliers.

Suppliers, though, seem not to be an important third party in business relationship initiation. Only two such instances were found in the study. However, eight instances of relationships initiated by third parties that are neither owner, subsidiary, supplier nor customer were found. Examples of third parties include competitors who decide to stop supplying customers and competitors who want to share the cost of shipping, and a few instances of the much-fabled individual "who knows someone who knows someone", the importance of whom is highly exaggerated in anecdotal literature if our study is anything to judge by.

Interestingly, very few relationships were initiated by third parties who were unrelated to the focal firms. While anecdotal evidence might lead one to believe that this category is of great importance in internationalisation, the empirical material collected for this study would indicate that its influence is fairly limited. Generally, the trade fair seems to be a place where firms and their business partners initiated business relations directly, and not by third parties.

AN OVERVIEW OF THE INTERNATIONALISATION PROCESSES OF THE FIRMS IN THE STUDY

The above discussion focuses on the three different main ways international business relationships can come about. Below we look at the inception of business relationships from an internationalisation process view *per* firm in the study.

The internationalisation processes of the firms in this study exhibit both similarities and differences. In its outward internationalisation, Wheels Ltd. has relied to a large extent on its customers to bring about relationships. Interestingly, the firm's largest domestic customer has initiated a large number of relationships with other, foreign customers by specifying the use of Wheels Ltd.'s products when ordering products from other suppliers. Wheels Ltd. has also, however, made use of this large domestic customer to provide them with information concerning its suppliers so that these can be made into customers for Wheels Ltd. In the early stages of the internationalisation of Chairs Ltd. the social relationships of the firm's founder were important in establishing both outward and inward relationships. As the firm grew, it tended to rely on partner-initiated relationships to a greater extent, exposing itself to the initiation of such relationships through attendance at trade fairs. In this firm, however, the importance of the purchasing function was always stressed and at times, 75% of total purchasing came from abroad. Consequently, the inward internationalisation continued being mainly focal firm-initiated.

Brackets Ltd. is active in a declining industry so while the early stages of the firm's outward internationalisation was characterised by partner-initiated relationships, more recently, the firm has been more proactive in finding customers.

For a long time, the outward internationalisation of Wires Ltd. was dominated by sales through a large German agent, who maintained contacts with the German-speaking part of Europe and handled the majority of foreign sales. Additionally, for the remainder of foreign sales, the firm relied on agents initiating business relationships. Today, Wires Ltd. aims at managing a greater portion of sales themselves, taking over relationships created by their agents. In both Wires Ltd. and Brackets Ltd., international sourcing corresponds to a small percentage of total purchases as most of their input materials can be sourced locally. Consequently, neither firm has expended great efforts trying to find international suppliers.

Utensils Ltd. has mainly relied on their many sales agents to find foreign customers and the firm itself has initiated few sales relationships, even if a great number exist. Indeed, the marketing manager expresses the opinion that the firm has too many customers and that he would rather see that existing customers were developed rather than adding new ones. Relationships with agents have typically been initiated at trade fairs, but few agents have been directly approached by the firm. Utensils Ltd. Has, on the other hand, been fairly active in finding foreign suppliers, even if only a very small percentage of purchasing comes from abroad.

The internationalisation process of Waste Ltd. is characterised by the changes in ownership that the firm has undergone. Shortly after the firm was founded, it was acquired by a large international firm and given access to a large distribution network. When Waste Ltd. was subsequently sold, the firm quickly had to find new foreign distributors. Consequently, there was no time to wait for potential customers to announce their interest and the firm took a more proactive stance. In fact, in several instances, employees at the former owner's distributors around the world left and set up their own business to continue to sell the products of Waste Ltd.

In the case of K & C Ltd., a new management team brought in two years ago changed the firm's approach to internationalisation. Previously, no marketing function in any real sense existed. The firm basically sat back and waited for customers to announce their interest, which raised some discontent on the market. Currently, the firm is actively attending international trade fairs to find new distributors and end customers. The firm has also found new suppliers around the world, as the product line has changed.

Traffic Ltd. differs greatly from the other firms in that it provides systems for traffic control and has no manufacturing of its own. In 1996, the business idea was narrowed and today the firm is focused on the production of road toll systems. Typically, in providing such a system, Traffic Ltd. acts as subcontractor to a project contractor, which in turn is contracted by the government. In the past, the firm employed a great number of agents and distributors around the world; firms that had announced their interest to represent Traffic Ltd. Today, the firm only supplies larger systems and has little use for distributors in the traditional sense. Instead, it uses its agents to scout for business opportunities and then actively seeks out government agencies to make them specify the use of Traffic Ltd.'s systems when new projects are released for tendering.

DISCUSSION

From the empirically based discussions above, we can see that there are three different main parties in relationship initiations; the focal firm, the partner firm and third parties, and that there are at least three different ways in which relationships may be initiated; as a result of rationally planned action from the focal firm's side; through existing interpersonal or interfirm linkages; and through serendipity.

Serendipity

In the entire study, no respondent was able to mention a meeting with a business partner that was due to pure chance, like the fabled anecdote of the random airport lounge meeting for instance. Instead, whenever seemingly unplanned business encounters occurred, it appears as if firms or their partners had some hand in designing such encounters. If we define the concept of serendipity as "*the happy knack of making unexpected and delightful discoveries by accident*" (Cassell, Concise English Dictionary), it would appear that there is an active component, and that some firms would be more prone than others to make serendipitous connections.

Contacts created at trade fairs can be seen as an example of this. During interviews, it quickly became clear that nowadays, trade fairs are attended not only for the reason of making sales, but to make new contacts and revitalise old ones. This does indeed indicate that if a firm attends a fair with this express purpose in mind and meets future business partners who attend the fair for the same reason, it is not a result of pure chance if they do happen to meet.

Theoretically, we thus end up with two entirely different types of seeming randomness in meeting business partners, pure chance over which firms have no control, and serendipity which entails the ability of the firm to make fortuitous contacts. Serendipity can thus be seen as something firms have a hand in creating, something that can be used – *a part of firm strategy*.

Strategy and Rational Planning

An essential aspect to discuss in this context is the extent to which the finding of business partners markets to enter and to source from can be seen as part of the firms' internationalisation strategies. It's quite clear that the traditional approach to market and partner selection advocated by normative literature, with the exception of a couple of instances, cannot be found in the firms in our study. This very much supports the

findings of Ellis (2000:462) who notes that *“the decision-makers in this study can be characterized by their near-universal disregard for the type of formal search behaviour advocated in the normative marketing literature”*. In our study, in those instances when firms did rely on such formalised plans, the outcome varied greatly, as illustrated by the case of Utensils Ltd.

As far as the question of market selection in outward internationalisation is concerned, respondents almost unanimously voiced the opinion that they consider the countries “near” them (although the definition of the term “near” varies between the Nordic countries, Northern Europe, Europe, the West, etc.) as their main markets, i.e. the markets on which they focus their marketing activities. However, most respondents said that they were willing to deal with buyers in most markets, but that they would not actively market themselves in these markets. We can thus identify another approach to strategy, a segmented form of opportunity recognition, with a greater reliance on serendipitous meetings to serve far-away markets.

We have argued that it could also be seen as the deliberate strategy for a firm to subject itself to the possibility of finding business partners and to use its contacts to find partners. Over and over in the study, respondents told stories of how their firms were interested in finding agents, customers and suppliers. Not knowing how to go about this or not being able to afford to hire experts or other consultants, firms attended trade fairs either waiting for potential partners to contact them or themselves contacting potential partners. Even waiting for potential partners to announce their interest can thus be seen as a part of firm strategy, as this provides the firm with an excellent opportunity to evaluate potential partners against each other. Certainly, the firm has limited control over which firms they are approached by, but they have control over which firms they decide to deal with. Further, the use of social and business networks to find suppliers and customers can be seen as another strategic choice. Indeed, we have found examples of how the development and maintenance of such networks are part of deliberate internationalisation strategy.

Antecedent Relations

Ellis (2000) and Ellis and Pecotich (2001) indicate that antecedent social relations are of great importance in export initiation. In the former study (Ellis, 2000), Hong Kong toy manufacturers were researched, while the latter study (Ellis and Pecotich, 2001) focused

on Australian manufacturing SMEs. Similar results were reached in both geographical contexts. Ellis and Pecotich (2001:125) say *“The cross-case findings generally support the view that decision makers frequently learn of foreign opportunities through their existing social ties. Four-fifths of the export stories reported [which totalled 32] revealed that prior personal contacts strongly influenced the perception of the entrepreneurial opportunity abroad and therefore the export initiation itself”* and Ellis (2000:454) says *“In terms of the use of personal contacts to identify trading opportunities ... social ties played a comparable role (39 per cent of indirect FMEs) as in identifying foreign exchange partners directly (41 per cent of direct FMEs).* Ellis (2001:456) also states *“where the initiating actor was the local toy-maker, social ties directly influenced 86 per cent and 64 per cent of the direct and indirect market entries”*. While our study was concerned with: (1) other acts of internationalisation than simply exports; (2) both outward and inward internationalisation; and (3) only with direct internationalisation, it makes it difficult to compare results directly. It is none the less interesting to note that the very strong importance of antecedent social relations found by Ellis (2000) and Ellis and Pecotich (2001) was not equally apparent here (it should also be noted that in the cited studies no difference is made between social networks and business networks).

This notwithstanding, the overall importance of social and firm networks must not be underestimated, especially not the conscious use of these by firms to initiate international relationships. In the study, customers, suppliers, parent firms and other members of business as well as social networks were of direct importance in 37% of all business relationship initiations. In relations initiated by the focal firm, antecedent relations were slightly less important (26%) than in relations initiated by the partner firm (31%). The greatest role of existing social and firm relations could be observed in the case of third party-initiated relations (71%), a logical finding, considering that a third party without knowledge of either the focal firm or the partner firm would be unlikely to identify a business opportunity. Again, however, we question whether such third-party initiations are purely due to chance.

Other Influences

What explanation can be found for the fact that partner-initiated relationships are so much more common than focal-firm initiated relationships, specifically so at trade fairs?

How can we explain that third parties seem so rarely to initiate relationships with suppliers? Why are outward relationships more often initiated by partners while inward relationships to a greater extent are initiated by focal firms? Do firms sit back and wait for their customers?

To attempt to answer such questions, we must seek the underlying mechanisms that explain how internationalisation is influenced by rational planning, networks, serendipity and chance. One important observation in the study is that internationalisation is not a continuous process. To the contrary, in most of the firms, internationalisation is highly incremental in the sense that pivotal events in the firms' histories spur sudden changes in internationalisation activity. Commonly, such pivotal events include the hiring of new management, the buying or selling of the focal firms by parent firms, and the introduction of new product lines. Both inward and outward internationalisation is influenced by such pivotal events, even if they seem to have a greater effect on sales than sourcing; for example, a new management team might adopt a more proactive approach than before and thus rely less on being sought out by customers and suppliers. A new owner might give a firm access to a network of distributors, or a new product line might force a firm to find a new set of suppliers etc.

Another issue that seems to be important in explaining internationalisation is the existence of established structures. The saying "*it's a small world*" is often used to explain the occurrence of seemingly chance events. A more appropriate saying would perhaps be "*it's a segmented world*", i.e. opportunities arise and firms enact them because they fit into a structure, be it materialised, e.g. in the form of resources or activities, or a conceptual structure. Firms belong to different structures and are thus more likely to come into contact with other firms that belong to the same structures, as they are subjected to certain events occurring within these structures. While it is impossible beforehand to fully know what events will occur within such structures, the firm and individuals inside the firm can be proactive in the sense that they can expose themselves to these events, be prepared to act on opportunities, and even influence when such opportunities arise (Håkansson, 1987). Examples of such structures include industry trade fairs, distribution networks, firm ownership, managerial networks and so on. Over and over, we can directly observe the ways in which these structures influence which international business opportunities firms are exposed to.

In addition, some caution must be exercised when interpreting the data in this study. The firms in the sample are of course not representative of firms in general and only 361 relationships have been addressed during the interviews. Further, the strategic orientation of the firms in the study cannot be assumed to exist in all firms. Whether or not the firms in this study have an above average reactive approach in internationalisation is thus difficult to say.

Model

Consequently, relationships can be initiated by the focal firm, by the business partner, or by a third party. There are also different influences on foreign market entry decisions, the strategic rational planning approach, interpersonal and interfirm linkages, serendipity and pure chance. With this in mind, a simple three by four matrix of international business relationship initiation situations can be constructed (see Figure 1).

Figure 1. Twelve international business relationship initiation situations

		International business relationship initiator		
		Focal firm	Partner firm	Third party
Main influence on international business relationship initiation decision	Rational planning	The focal firm makes a plan and implements, either itself or through its agent	The focal firm exposes itself to the possibility of being approached by potential partners or their agents, e.g. at a trade fair	The focal firm exposes itself to the possibility of being approached by potential partners, e.g. at a trade fair
	Interpersonal or interfirm linkages	The focal firm uses its and its employees connections to find business partners or its agent uses its connection	The focal firm is approached by partner firm (or its agent) which has found focal firm through use of interpersonal or interfirm linkages	The third party uses its network to create business deal that might benefit itself, its customer, supplier etc.
	Serendipity	The focal firm meets a business partner or the focal firm's agent meets a business partner (the identity of which is not known beforehand) through some design of intended to facilitate this	The partner firm meets the focal firm or the partner firm's agent meets the focal firm (the identity of which is not known beforehand) through some design intended to facilitate this	The third party comes across a business deal that might benefit itself, its customer, supplier etc. through some design aimed to facilitate this
	Chance	The focal firm or the focal firm's agent accidentally comes across a potential business partner and initiates contact	The partner firm or the partner firm's agent accidentally comes across the focal firm and initiates contact	The third party accidentally comes across a business deal that might benefit itself, its customer, supplier etc.

Each of the relationships encountered in this study can be placed in one of these categories.

While the model is fairly self-explanatory, some clarifications might be in order. Our study is concerned only with the perspective of the focal firm. Considering the type of study and the number of relationships, no other approach was possible. However, there are two parties in each relationship. Consequently, from each party's individual perspective, a different category applies.

The rational planning aspect is concerned mainly with the traditional textbook view of finding markets and customers, while the interpersonal and interfirm linkages categories is concerned with how networks of individuals and businesses are used by different parties. An example of a serendipitous influence on focal firm-initiated relationship is the participation of the focal firm in a trade fair, like the case of the former CEO and founder of Chairs Ltd.'s visit to the Cologne trade fair cited in the Introduction. A chance focal-firm initiated relationship, on the other hand, occurs at a venue where the firm would not have expected such an encounter to happen.

The majority of relationship initiations in this study belong to the interpersonal or interfirm linkages and serendipitous categories. We can thus see that rational planning in the traditional sense is of little importance, which in no way should be seen as an indication that firms do not have internationalisation strategies. Quite to the contrary, most of the firms in the study are well aware of what choices they make and their rationales for making them, as shown above.

CONCLUSIONS AND IMPLICATIONS

Today, the dominating schools attempting to explain the internationalisation of SMEs are the stage model perspective and the network approach. However, it is difficult to capture internationalisation using only one framework (Coviello and McAuley, 1999). As a conclusion to this paper, we would therefore like to note that a process approach with a more dynamic stage component, taking into considering the pivotal events aspect, combined with a social and business network approach, is a more fruitful way to explain the internationalisation of SMEs, especially from an internationalisation strategy perspective. A more dynamic stage approach should arguably consider the maturity of

the firm in selecting customers and markets, rather than focusing solely on number of markets and organisational entry modes.

Our recommendation for future *research* is that the purposefulness of such an approach be explored in greater detail, especially considering both inward and outward internationalisation. An important *managerial* implication drawn from the discussion is that firms should “learn to be in the right place at the right time”, i.e. to make the element of serendipity work in their favour as an option to market research and to not always adopt the traditional functional planning approach.

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