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# **THE ROLE OF NETWORKS IN THE INTERNATIONALIZATION PROCESS OF FINNISH DESIGN COMPANIES**

Master's Thesis  
in International Business

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# 1 INTRODUCTION

## 1.1 Background of the study

Finnish design sector is at a turning point at the moment. The current way of doing business and exporting goods, will not be successful in the long run since the manufacturing of design products is shifting away from Finland. Design culture is also changing; single designer's importance is diminishing and there is a transition towards product development in teams. The design is also becoming only a small part of the end product – not the most essential feature. Accordingly, novel consideration and new way of working are needed in the industry. (Markkanen 2013.)

Even though there are no official statistics about the matter, the export of Finnish design products has clearly been declining in recent years. In this estimation, design products refer to products, the planning and production of which require design at least to some extent. The design sector is difficult to define, hence, data about design export is not gathered. However, government financial support to export of design has quadrupled in a short period of time, approximately from 200 000 Euros to 800 000 Euros from 2007 to 2011. If the financial support of foundations and the arts councils are included, the support of Finnish design rises to one million Euros. Nevertheless, the investments are considered far too low by the industry and the investors are not satisfied with the results. (Markkanen 2013.)

On the one hand, the future of Finnish design sector may be rather challenging. Finnish design companies face several challenges in internationalization; the bottlenecks are overly broad concepts, limited resources, unnecessarily low objectives, and companies' unwillingness to cooperate with each other (Design-yritykset ratkovat..., 2012; Öhrnberg 2012). Usually, Finnish design companies aim at international expansion by offering everything to everyone (Design-yritykset ratkovat..., 2012). However, the public organizations are constantly looking for new support models in order to improve the international operations of Finnish design companies. (Markkanen 2013.)

On the other hand, the prospects of the Finnish design industry can be considered promising. Both private and public investors are becoming more and more interested in the design industry (Öhrnberg 2012). Finnish design has also attracted global attention lately; Helsinki, the capital of Finland, was appointed as the World Design Capital in 2012 which was a notable honor (Avoim Helsinki, 2013). The appointment has further strengthened the publicity of Finnish design (Design-yritykset ratkovat..., 2012). The grounds for choosing Helsinki as the World Design Capital may be the commonplace nature of Finnish design – design products are part of people's everyday life, instead of them being seen only in museums and available for privileged elite. Accordingly, the

most popular Finnish designer brands are so called everyday brands, such as Fiskars, Marimekko, Iittala, or Nokia. (Toivanen 2010, 69.) Statistics show that design is becoming a more and more common component, which increases the quality and competitiveness of industrial products' export (Kalhama 2010, 15). Mikko Kalhama (2010, 15), the CEO of Design Forum Finland, organization that promotes Finnish design, states that: "Currently over 25 % of Finnish industrial exports benefit directly or indirectly from design as a driver of added value and competitiveness." This share is increasing and enabling Finnish design to become part of the world's leading design cultures. The establishment of web stores also creates new opportunities for companies in the design industry. In addition, the Finnish private and public investors have become more aware of the opportunities of the design firms. (Design-yritykset ratkovat..., 2012.)

Finnish design industry is proposed to have a considerable potential in global markets. However, the export potential of the design industry may not be understood in Finland. In order to increase the knowledge and understanding of industry, development activities are needed. The operation of design companies could be improved by, for example, increased networking and cooperation within the industry, establishment of more international contacts, allocation of the education, and development of financing models. (Lille 2010, 53–54, 59) Accordingly, the increase of cooperation and networking plays a significant role in the improvement of the design industry.

The earlier literature suggests that networks improve companies' global activities. Coviello and Munro (1997, 372) propose that international networks assist SMEs global growth. Vasilchenko and Morrish (2011, 90) also state that the use of networks, by creating long-term relationships, is extremely helpful in the development of firm's international business operations.

In order to better understand the cooperation and networking in the international operation of Finnish design companies, the focus of this research is on the networks in the internationalization process.

## **1.2 The purpose and structure of the study**

The focus of this research is on networks since they have been found to improve international activities. Therefore, the role of networks in the internationalization process is studied. Furthermore, it is investigated whether Finnish design companies do cooperate with other companies – either domestic or foreign – with respect to internationalization process.

The purpose of this study is to understand the role of networks in the internationalization process of Finnish design companies. The sub-objectives are the following:

1. *To describe the internationalization process of Finnish design companies.*
2. *To analyze what kind of networks are related to the internationalization process of Finnish design companies.*
3. *To analyze how networks are utilized in the internationalization process of Finnish design companies.*

The sub-objectives together form an understanding of the purpose of the study. The first sub-objective is concerned with how the internationalization proceeds and the second sub-objective focuses on different kinds of networks which are found in the internationalization process. The third sub-objective covers the operations related to these networks. Understanding of the sub-objectives is created both in the theoretical discussion and the empirical analysis.

This study offers a viewpoint on the design sector, focusing on the role of networks in the internationalization process. The results of the thesis might be useful for Finnish design companies, which are operating in international markets or intend to go global. The process point-of-view will be especially valuable for the managers of Finnish design companies since they can utilize the results of the research in developing their internationalization processes. The research will offer insight on important networks and the ways in which Finnish design companies have utilized them in their business.

In order to gain a comprehensive understanding of the topic, there is a theoretical overview on the main themes which consists of significant findings from the earlier literature. There is also an empirical research on Finnish companies operating in the design industry, which offers a practical understanding of the theme. This study, thus, comprises of a theoretical part and an empirical analysis, which support each other. Chapter 2 discusses the Finnish design industry by defining the key concepts and introducing the background of the industry and its current challenges. Chapter 3 investigates theoretical approaches to internationalization process by exploring three theories in detail. Chapter 4 discusses different types of networks and presents a classification of the networks by combining findings of different researchers. Chapter 5 discusses how the empirical research is conducted. The empirical results are discussed in chapter 6 where the research subjects are analyzed thoroughly and compared with each other.

## 2 FINNISH DESIGN

### 2.1 Design as a creative industry

The design industry can be considered to be *a creative industry*. However, before describing the concept of the creative industries, the term of creativity is defined. DiLiello and Houghton (2008, 37) define creativity as follows: "...the value of creativity in organizations may relate to an ability to harvest novel yet appropriate ideas in order to increase organizational efficiencies, solve complex problems and improve overall effectiveness." Amabile and Khaire (2008, 101) define the term rather similarly: creativity is the ability to create something novel and appropriate. According to these definitions, the adjectives novel and appropriate are essential in creativity.

The British Department of Culture, Media and Sport (DCMS) has developed the official definition of creative industries. The DCMS classifies the creative industries as the following eleven sectors<sup>1</sup> (Lee – Drever 2013, 1980; Deuze 2007, 249):

1. Advertising
2. Architecture
3. Arts and antique markets
4. Crafts
5. Design
6. Designer fashion
7. Film, video and photography
8. Software
9. Computer games and electronic publishing
10. Music and the visual and performing arts
11. Publishing, and television and radio

According to the official definition, the basis of creative industries is in individual creativity and skill (Deuze 2007, 249). The DCMS's definition has become generally accepted and it is in line with other classifications. However, the definition has been criticized, for example, because the software sector is a technical industry and does not traditionally belong to the creative industries. (Lee – Drever 2013, 1980–1981.)

The Finnish design industry can be defined based on the Standard Industrial Classification made by Statistics Finland. (Standard Industrial Classification, 2013). In the empirical research of this study (see Chapter, 5) the Standard Industrial Classification is

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<sup>1</sup> Department for Culture, Media and Sport (DCMS) (2010) Creative Industries Economic Estimates – Experimental Statistics (London: DCMS).

applied so that the design industry was outlined with special reference to the following industries: *textiles, furniture, clothing, and lighting equipment*. Accordingly, the case companies are selected from these industries.

## 2.2 The background of Finnish design

The concept of *Finnish design* was already established by the end of the Second World War, and Finland took advantage of the Finnish design brand in its export operations after the War. This national brand was created in order for Finland to distinguish itself from other Scandinavian countries. Originally, the Finnish design brand was based on Finnish culture, popular designers, and a mythical concept of Finnish nature. Nowadays, Finnish design may still have an influence on the Finnish country brand but currently high technology is also an essential part of design. (Autio 2011, 37, 45, 51–52.) Accordingly, Finnish design has a long history and the milestones are illustrated in the following timeline. (See Figure 1)

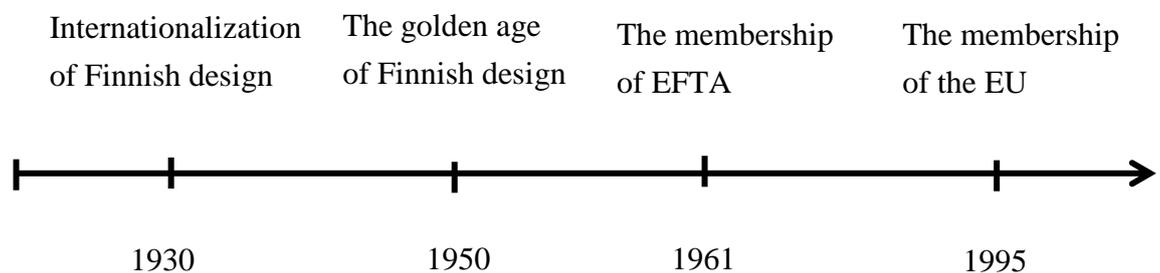


Figure 1 The milestones in the history of Finnish design

Although the internationalization of Finnish design started in the 1930s (Autio 2011, 43), especially the 1950s' have been characterized as the golden age of Finnish design (Korvenmaa 1999; Heinonen 2011). At that time, young designers gained international attention and independent business operations were established, for example, Marimekko, the clothing and textile company, was founded in 1950. (Heinonen 2011, 151, 154.) The success of Marimekko can be explained by its original and personal design, which encouraged others to follow its example (Veinola 1999, 116).

Finland became an associate member of The European Free Trade Association (EFTA) in 1961 (EFTA through the years), which enabled the industry of industrial art to grow. The standard of living also rose and the industrial serial production and the pro-

duction of consumer goods increased. However, the traditional industry, especially textile industry experienced a rundown in the 1980s and 1990s, and the era of metal and shipbuilding industry began. (Hienonen 2007, 15.) At that time, the profitability of clothing industry declined and several companies went bankrupt. Because the Finnish clothing had become excessively expensive, the interest to foreign fashion started to grow. (Veinola 1999, 116.)

In the 1990s, the designer's role changed: designer centricity was replaced by a more cooperative role. In the large-scale industry, the designer became a member of product development group which consisted of technical designers and marketing experts. In 1995, Finland joined the European Union (EU) which was expected to promote the Finnish industry, trade, science, and art since the cooperation with Western Europe became closer. As a matter a fact, the economy of Finland did improve. (Hienonen 2007, 15.)

### **2.3 The challenges and opportunities of the Finnish design industry**

Autio (2011, 55) emphasizes that the export of Finnish design is presently having difficulties, possibly because Finnish design has not developed sufficiently to meet the current needs of the global consumer. The Finnish consumer goods industry has also recruited foreign designers in order to survive the global competition. Nevertheless, there is a strong need for promoting export – national programs and support for innovations will not be enough. Autio (2011, 55) strongly believes that the support of design should be part of an economic decision making in order to retain the competitiveness of Finnish business operations.

Lille (2010, 6, 53–56) has investigated the untapped resources and potential of design and fashion industry in Finland. The aim of the study was to find out how the international preconditions of design and fashion industry can be improved. As a result, the following development proposals were found. First, the industry needs a portal where all the information about the industry could be gathered. Second, the networking and cooperation should be increased, and this could be done by organizing meetings with the players within the industry. The meetings would enable the exchange of experiences. However, at the beginning, a party taking the initiative in organizing the meetings would be needed whereas later on the meetings could be organized spontaneously. Networking can also be promoted by creating workshops where people can discuss a chosen topic. Third, more international contacts and industry knowledge would be needed in the industry. An example of creating international contacts is to organize seminars to which foreign experts and the entrepreneurs in the industry are invited. The development of cooperation with embassies and chambers of commerce is also recom-

mended. Fourth, it is essential that the players in the industry update their knowledge regularly because the industry changes continuously. For example, the business aspect should be included in the clothing industry's higher education. The fifth proposal is to create mentoring projects that offer support services for different companies based on their needs. The mentoring groups would consist of experts from different fields who have previous experience in fashion or design industry. Sixth, a financial model based on common interpretations of experts in the fields of financing, business, and fashion should be created. In order to take into account the special characteristics of fashion and design industry, the financing decisions should not be based on numeric data only but on more versatile aspects. A department supporting and financing operations and growth of creative industries should also be created. A reason for this is the fact that with the present financial instruments it is not possible to react to the rapidly changing opportunities.

Salimäki (1996, 1, 6–8) has researched the international competitiveness of the Finnish design industry. The aim of the research was to find out the success factors of Finnish design companies. First, management should determinedly execute *international goal setting*. A successful firm also tends to have a charismatic and powerful leader. Second success factor is *notable innovation* which can be either a technological or a marketing innovation. Third, the factor of *competitive internal efficiency* was discovered among successful Finnish design firms. This refers to the internationally competitive prices, carefully considered positioning in the value chain (core competency–subcontracting), close supplier relationships, competitive technology, target-oriented quality policy, flexibility, control of the whole logistic chain, high-quality information systems, constant development, and employee involvement. Fourth success factor is *market-oriented course of action* which includes the involvement of senior management, regular flow of information, cooperation with customers, strong trademark, cooperation with competitors, logical segmentation, and structure of the channel: producer–importer/agent–retailer.

A company's strategy is a relative concept, which means that the right strategy choices depend on the company's current operational environment. In order to give normative advice to a single company, an extensive analysis of the environment should be done. Thus, the success factors should be considered suggestive. The final choice is in hands of the business manager. (Salimäki 1996, 11.)

There are similarities between the two researches presented above. Half of Lille's (2010) proposals for improving design and fashion industry are related to cooperation and networking. Also, part of Salimäki's (1996) success factors of Finnish design companies deal with collaboration: close supplier relationships and cooperation with customers and competitors. Accordingly, by investing in the increase of cooperation with different parties, companies' international operation could enhance.

### **3 INTERNATIONALIZATION PROCESS**

The term “international” can be described as follows<sup>2</sup> (Johanson – Wiedersheim-Paul 1975, 306): “The term international usually refers to either an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad.” Johanson and Wiedersheim-Paul (1975, 306) point out that the concepts of attitude and action are closely linked to each other. Attitude refers to the reasons for starting international operations. The experience of international operations also has influence on these attitudes. In this thesis, the empirical analysis is focused on the international actions and, therefore, the term international is used to refer to the action.

#### **3.1 Operation modes**

Luostarinen (1994, 10–11) characterizes the internationalization process as an incremental stage process which consists of 15 international operation modes. They are recognized based on data on the internationalization of Finnish manufacturing firms collected by the FIBO Research Program. The operation modes are categorized into four groups: non-investment marketing operations (NIMOs), direct investment marketing operations (DIMOs), non-investment production operations (NIPOs), and direct investment production operations (DIPOs).

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<sup>2</sup> Kindleberger, C. P. *American Business Abroad*, Boston: Yale University Press, 1969.

Table 1 Operation Modes

| <b>Non-investment marketing operations (NIMOs)</b>         | <b>Direct investment marketing operations (DIMOs)</b>  | <b>Non-investment production operations (NIPOs)</b>  | <b>Direct investment production operations (DIPOs)</b>  |
|--|--|--|---|
| -Indirect exporting<br>-Direct exporting<br>-Own exporting | -Sales promotion subsidiaries<br><br>-Service subsidiaries<br><br>-Sales subsidiaries<br><br>-Warehousing subsidiaries | -Licensing<br><br>-Franchising<br><br>-Contract manufacturing<br><br>-Co-production<br><br>-Partial projects<br><br>-Turnkey project | -Assembly subsidiary<br><br>-Manufacturing subsidiaries |

In the first stage of the internationalization process, NIMOs, the company has three operation modes to choose from: indirect exporting, direct exporting, and own exporting. The company can move forward to the next stages, DIMOs, NIPOs, and finally to DIPOs as the international operations increase. (Gabrielsson – Kirpalani – Luostarinen 2002, 76–77.)

In the following chapters, the operation modes are explained but the focus is, however, on the operation modes used by the case companies of this research. The case companies will be introduced in Chapter 6.

### ***3.1.1 The non-investment marketing operations***

The non-investment marketing operations (NIMOs) consist of indirect exporting, direct exporting, and own exporting which are the major exporting modes. The modes differ from each other in the number and kind of distributors between the manufacturer and final customer (Luostarinen – Welch 1990, 20.) (See Figure 3)

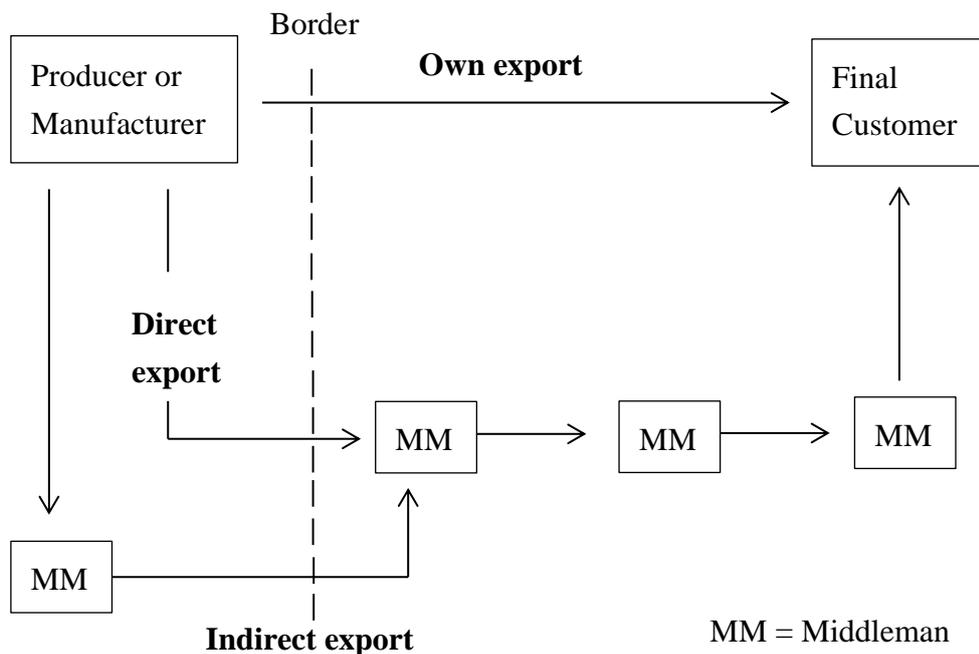


Figure 2 The exporting modes (Luostarinen – Welch 1990, 20)

In the *indirect exporting* the manufacturing firm does not take care of export activities itself. Another company based in the same country undertakes the export activities for the firm and acts as a middleman. (Luostarinen – Welch 1990, 21; Gabrielsson et al. 2002, 77.) Luostarinen and Welch (1990, 21) suggest that this middleman can be:

1. A domestic distributor firm specializing in foreign trade
2. A joint export organization (owned by exporting firms or in combination with some other private businesses)
3. Publicly owned export organizations
4. Another industrial company
5. Foreign owned company located in exporting country
6. Foreign tourists visiting the country
7. Sales in domestic ships sailing in foreign waters

According to Luostarinen and Welch (1990, 21) there are seven indirect ways to export products. The first alternative, a domestic distributor firm specializing in foreign trade may be an export or import agent, an export firm or export corporation. In this study, the export agent is defined based on the legislation of Finland because the study focuses on internationalization of Finnish companies. According to the act on commercial representatives and salesmen export, which has been enacted in 1992 (Act on Commercial 2012), an *export agent* is an entrepreneur who has an agency agreement with a principal. The export agent is committed to promote its principal's sales or pur-

chases by attempting to get bids from foreign customers. The export agent's foreign customers are retail businesses, wholesale businesses, importing companies, and distribution companies, and the agent receives a commission from the transactions made with the customers. A firm that has an agency agreement with an export agent is in charge of duties concerning the export activity: transportation, customs clearance, documentation, billing, and collection, and it bears the risk for the whole process. However, the principal and the export agent can agree that the agent bears the risk of the practicalities mentioned above. (Pehkonen 2000, 49–51.)

Second, a joint export organization can be a local, regional or national export association for different types of products. A joint export organization may also be a product or industry-based export association or a target market-specialized export association. (Luostarinen – Welch 1990, 21.) Pehkonen (2000, 52) defines *an export association* as follows: the export association is an organization, usually established by two or more companies, which is responsible for the export of its member companies. The cooperation between the exporters occurs in areas such as marketing, data acquisition, exhibitions, and fairs. Other examples of the export cooperation are government officials' export promotion operations and the support groups of Finpro (formerly known as the Finnish Foreign Trade Association). A firm participates in the cooperation if it finds the cooperation more beneficial than loss-making. The advantages of the cooperation between the exporters are the distribution of marketing expenses and reduced risk. Export routines are also done concentrated when cooperating. In addition, cooperation enables the application of first-class expertise. The disadvantages, however, are related to economic and human factors and dissatisfaction with the equality of the export operation.

Third, publicly owned export organizations can be product-, area- or target country based. Fourth, another industrial company may be acting as an agent or exporter. Fifth, a purchasing unit is an example of foreign owned company located in the exporting country. All in all, in indirect exporting, a domestic middleman takes care of the export sales and marketing duties whereas the producer's tasks are very similar to the domestic business. (Luostarinen – Welch 1990, 21–22.)

In *the direct exporting*, the producing firm is responsible for exporting activities and the firm is in direct contact with the first middleman in the target country (See Figure 3). Accordingly, direct exporting is a more active export operation in comparison with indirect exporting. As the producing firm's knowledge about international business increases constantly, it becomes less dependent on outside help. Firstly, the middleman can be a special distribution company for import purposes such as import agent, import-export agent, commission merchant, broker or importer (specialized import house, wholesaler, retailer). (Luostarinen – Welch 1990, 25.) In order to be able to choose the most appropriate representation form for its product, the producing firm must know the foreign markets well enough, such as the structure of the trade and the requirements set

by the customer in the foreign country. *The import agent* acts as the export agent in the home country by attempting to get bids from foreign customers. Like in the domestic agency relationship, the producing firm is in charge of the practicalities. In a foreign agency relationship, long distances and legal questions are inherent: when the agent is a foreigner, the Finnish law concerning commercial agent is seldom applied. *The importer* buys the products on its own account and sells them to a customer on its behalf. The importer's customers are wholesale and retail businesses or industrial plants. The operation principle of the importer is the same as the export business operating in the home country of the exporter. The importer may have an exclusive right to the whole market and an own retail sales network, which is utilized in the resale of products. The importer buys large batches, takes care of the storage, and bears the risk of the resale of the products and the receipt of the payment. The importer prices the product independently and receives the recompense for the work as a sales profit. (Pehkonen 2000, 52, 55.)

Secondly, the middleman may be a joint buying organization which is either a purchasing chain or governmental import organization. Thirdly, the middleman may be an industrial firm which is a local firm of which subcontractor the producing firm is. The industrial firm may also refer to a foreign or multinational firm that uses the producing firm as an international subcontractor. (Luostarinen – Welch 1990, 25.)

Luostarinen and Welch (1990, 27) define *own exporting* as an operation where there is no middleman between the producer and final customer – neither domestic nor foreign. Even though in the own sales unit abroad there is no middleman, this mode is not considered as an own exporting mode since there is foreign investment involved. Since there are no intermediaries in own exporting, there is a need to travel a lot and to be in contact with the markets and final customers. Own exporting can be a very efficient export mode even though it is the most expensive one.

### **3.1.2 *The direct investment marketing operations***

The classification by Luostarinen is broader than other theories of international operation modes presented in the literature. Petersen and Welch (2002, 158) suggest that Luostarinen's classification differs from those of the other researchers since there are more operation modes than in other theories and the subsidiaries are divided into various groups based on their operation. For example Pan and Tse (2000, 538) divide a wholly owned subsidiary to only three groups: greenfield, acquisition, and others whereas there are six types of wholly-owned subsidiaries in the model of Luostarinen.

The direct investment marketing operations (DIMOs) consist of sales promotion subsidiaries, service subsidiaries, sales subsidiaries, and warehousing subsidiaries. *The sales promotion subsidiaries* promote the sales of the parent company's products but do

not participate in sales activities. There can be several reasons for establishing a sales promotion subsidiary. For example, it may be forbidden to establish a sales subsidiary in some countries or the foreign wholesalers and retailers might take care of the manufacturing and thus there is no need to establish an own manufacturing unit. (Luostarinen – Welch 1990, 166.)

*Sales subsidiaries* take care of sales in a foreign country. A reason for establishing a sales subsidiary may be the fact that the firm can be in more direct contact with distributors and final customers. A firm may also establish a sales subsidiary because of its willingness to control the sales performance and the firm can possibly achieve better results than an agent. (Luostarinen – Welch 1990, 167.)

A *warehousing subsidiary*, as the term implies, means that the firm establishes a warehouse in a foreign country. The reasons behind the establishment of warehousing subsidiaries are rather the same as in sales subsidiaries. Nevertheless, the warehouse in a foreign country may solve logistical problems, such as slowness of supplying and long distances. (Luostarinen – Welch 1990, 170.)

When a company's international operations have grown and it has acquired experience from the global markets, a sales or marketing subsidiary may be established in order to serve the markets better. The establishment of a subsidiary reduces the risk and uncertainty.<sup>3</sup> A company may sell products directly from the subsidiary to end customer or through a retailer – accordingly, the sales operation can be either direct or indirect. (Gabrielsson et al. 2002, 77.)

### **3.1.3 The non-investment production operations**

In the third stage of the internationalization process, NIPOs, a company can choose licensing as an operation mode. Luostarinen and Welch (1990, 31–32) have defined *licensing* as follows: "... a contractual transaction in which the owner of certain knowledge assets - so called 'intellectual' or 'industrial' property - sells to another organization or individual the right to use these assets for a defined purpose." The definition of Welch, Benito and Petersen (2008, 97) is somewhat similar to the previous one: "Licensing involves the sale of a right to use certain proprietary knowledge (so-called intellectual property) in a defined way." The licensor does not turn over ownership un-

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<sup>3</sup> Luostarinen, Reijo (1979, 188), "Internationalization of the Firm: An Empirical Study of the Internationalization of Firms with Small and Open Domestic Markets, with Special Emphasis on Lateral Rigidity as a Behavioral Characteristic in Strategic Decision-Making," doctoral thesis. Marketing Department, International Marketing, Helsinki School of Economics, Series A:30.

der the licensing arrangement (Luostarinen – Welch 1990, 32) but one can establish ownership rights by registering the intellectual property publicly – a patent or trademark is an example of that. (Welch et al. 2008, 97). Nevertheless, there is a lot of intellectual property which is not registered or is non-registrable. (Luostarinen – Welch 1990, 32)

A company's alternative of operating is also franchising at this stage. In *franchising*, there is a contractual relationship between the owner (franchisor) and a separate business (franchisee). The franchisee operates under the franchisor's name and is required to offer standardized marketing concept to the customer. (Luostarinen – Welch 1990, 72.) Welch et al. (2008, 52) suggest that franchising can be classified into a first and second generation franchising. The first generation franchising is an independent sales relationship between the dealer and the supplier. The dealer focuses on one of the company's product lines and partly identifies their business with that company. The second generation franchising is a relationship between franchisor and franchisee that includes the whole business format: the product, service, trademark, a marketing strategy and plan, operation manuals and standards, quality control, and continuing two-way communication. Mc Donald's is a well-known example of the second generation franchising.

*The international contract manufacturing* means that there is a contractual relationship between the firm and the foreign producer who produces the final product. After the product is finished, it goes directly to the marketing process of the contractor. (Luostarinen – Welch 1990, 112–113.)

At the stage of NIPO a company's operation mode can be co-production. Wladimir (2009, 9) states that co-production is a type of relocation, which is based on an agreements, such as, joint ventures or original equipment manufacturing arrangements.

In a *partial project*, the project operator may supply only some part of the goods and services, and/or know-how of the total package. The project operator may also supply a whole sub-system which could be for example a communication system for a new mine. (Luostarinen – Welch 1990, 126.)

Several contributors might participate in *the turnkey project* but, nevertheless, an essential matter is that one party is responsible for setting up a plant and putting it into operation. The responsibilities in the turnkey project are amongst other things supply of technology, complete plant, and equipment.<sup>4</sup> (Luostarinen – Welch 1990, 126.)

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<sup>4</sup> U.N. Centre on Transnational Corporations, Features and Issues in Turnkey Contracts in Developing Countries. U.N., New York, 1983 (ST/CTC/28)

### 3.1.4 *The direct investment production operations*

In this chapter, two types of subsidiaries are introduced. The transfer of certain organizational activities to a subsidiary or an independent service provider to reduce costs is increasing globally. This is referred to as offshoring. Oshri, Kotlarsky, and Willcocks (2011, 7–8) define offshoring as follows: "...the relocation of organizational activities (e.g., information technology, finance and accounting, back office, human resources) to a wholly owned subsidiary or an independent service provider in another country. According to this definition, it is important to distinguish whether the same organization or third party offshores the activity.

The international operation modes, an assembly subsidiary and a manufacturing subsidiary belong to the direct investment production operations (DIPOs). *The assembly subsidiary* refers to the internationalization of production activities. A firm may be willing to establish an assembly unit because of the savings in transportation costs, production costs, and tariffs. (Luostarinen – Welch 1990, 172.)

*Manufacturing subsidiary*, as the term implies, is a unit which manufactures the products, and it is the most developed foreign business mode for manufacturing companies. A reason behind the establishment of a manufacturing subsidiary may be the competitive situation in the home and target markets. (Luostarinen – Welch 1990, 174.)

## 3.2 Uppsala model

Johanson and Vahlne (1977, 23) developed a model of the internationalization process of a firm. The model is concentrated on the firm's development, gradual acquisition, and integration. It also focuses on the use of knowledge concerning foreign markets and operations, and increasing commitment to foreign markets.

The Uppsala model relies on empirical observations demonstrating that it is typical for Swedish firms to develop their international operations gradually – not making large foreign production investments all at once. This gradual model of internationalization may be found in many companies from other countries that have small domestic markets. The Uppsala model is based on the assumption that the lack of resources and knowledge are obstacles to internationalization, and that learning about foreign markets and operations is a way to overcome these obstacles. Accordingly, firms tend to expand their business to a neighboring country or to a country, in which the mode of operation is similar. In the expansion of company's operation to new markets, the term of psychic distance could be taken into consideration. The term refers to factors, such as differences in language, culture, political systems, level of education, and level of industrial development, which prevent or disturb the information flows between a firm and the

market. (Johanson – Wiedersheim-Paul 1975, 305–308.) Johanson and Wiedersheim-Paul (1975, 307–308) state: “For obvious reasons, psychic distance is correlated with geographic distance.”

The Uppsala model consists of four stages, which explain the development of the operation in a single country; stage 1: regular export activity, stage 2: export via agents, stage 3: establishment of a sales subsidiary, and stage 4: establishment of foreign production. (Johanson – Wiedersheim-Paul 1975, 307.) (See Figure 2)



Figure 3 Uppsala stage-model

Firms tend to start an international operation by exporting via an agent. After this, firms typically establish a sales subsidiary and finally some firms may begin production abroad. The stages differ from each other by their degree of involvement. At the first stage, no regular export activity, the involvement is low: the company has not allocated resources to the foreign market and there is no exchange of information between the firm and the market. At the second stage, the company conveys and receives information concerning sales regularly through an intermediary and it is committed to the market to some extent. At the third stage, the firm is able to control what type and how much information it receives from the market, and at the fourth stage, the resource commitment of the company is high. (Johanson – Wiedersheim-Paul 1975, 307.)

The Uppsala model is a simplified model of internationalization process and its stages differ more from each other than they may do in reality. Because of the simplified nature of the model, it is not completely unambiguous to define at which stage the company is because it may have characteristics from two different stages. When applying the model in practice, it should be considered that not every company follows all the four stages. The reasons for this is that some markets may not be able to correspond to

the resource requirements of a specific operation mode. Also, a firm with a broad range of experience from foreign markets may pass one of the stages. (Johanson – Wiedersheim-Paul 1975, 307.)

In addition to Johanson and Wiedersheim-Paul, several other researchers have supported the view that internationalization process is a gradual process (Bilkey – Tesar 1977; Luostarinen 1994). However, the stage approach has received criticism for various reasons. Most of the criticism concerns the changes in companies' behavior after the model was developed (Johanson – Vahlne 2009, 1420). For example, several researchers support the view that companies internationalize soon after they are established (Oviatt – McDougall 2005; Knight, and Cavusgil 2004; Knight, Madsen, and Servais 2004). Companies have also been claimed to internationalize more quickly nowadays (Oviatt – McDougall 2005, 33). In addition, Madsen and Servais (1997, 577) argue that companies do not make decisions on internationalization solely based on the physical distance. Furthermore, the theories of incremental internationalization may not take into consideration the context of the industry, company or people well enough (Bell – McNaughton – Young 2001, 174).<sup>5</sup>

After developing the original model in 1977, there have been enormous changes in business practices and theoretical advances (Johanson – Vahlne 2009, 1411). Therefore, Johanson and Vahlne (2009, 1411) have made considerable changes to the Uppsala model. They have, for example, included insight on the meaning of networks in the decision making process of going international: "...existing business relationships, because they make it possible to identify and exploit opportunities, have a considerable impact on the particular geographical market a firm will decide to enter, and on which mode to use." (Johanson – Vahlne 2009, 1423). The network aspect is an essential factor when exploring the internationalization process in this study. Networks are explored in more detail in Chapter 4.

### **3.3 Born Globals**

The internationalization process has been considered as a gradual process, in which operations are often expanded to neighboring countries. Nevertheless, this approach has been criticized recently. Different approaches to internationalization process that have appeared lately are discussed in this chapter. (Bell – McNaughton – Young 2001, 173.) Recent studies have shown that internationalization can also be rapid and dedicated – a

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<sup>5</sup> Reid, S.D., 1983. Firm internationalization, transaction costs and strategic choice. *International Marketing Review*, Vol. 1 (2), 45–55.

term for a company which internationalizes this way is a *Born Global* (international new venture, global start-up). (Bell – McNaughton – Young 2001, 173; Knight et al. 2004, 645.)

Gabrielsson, Kirpalani, Dimitratos, Solberg, and Zucchella (2008, 49) state that Born Globals and Born Again Globals differ from a traditional firm by the means of realm of precocity and speed of globalization. Born Global, Born Again global, and traditional internationalizing SME are illustrated in Figure 4.

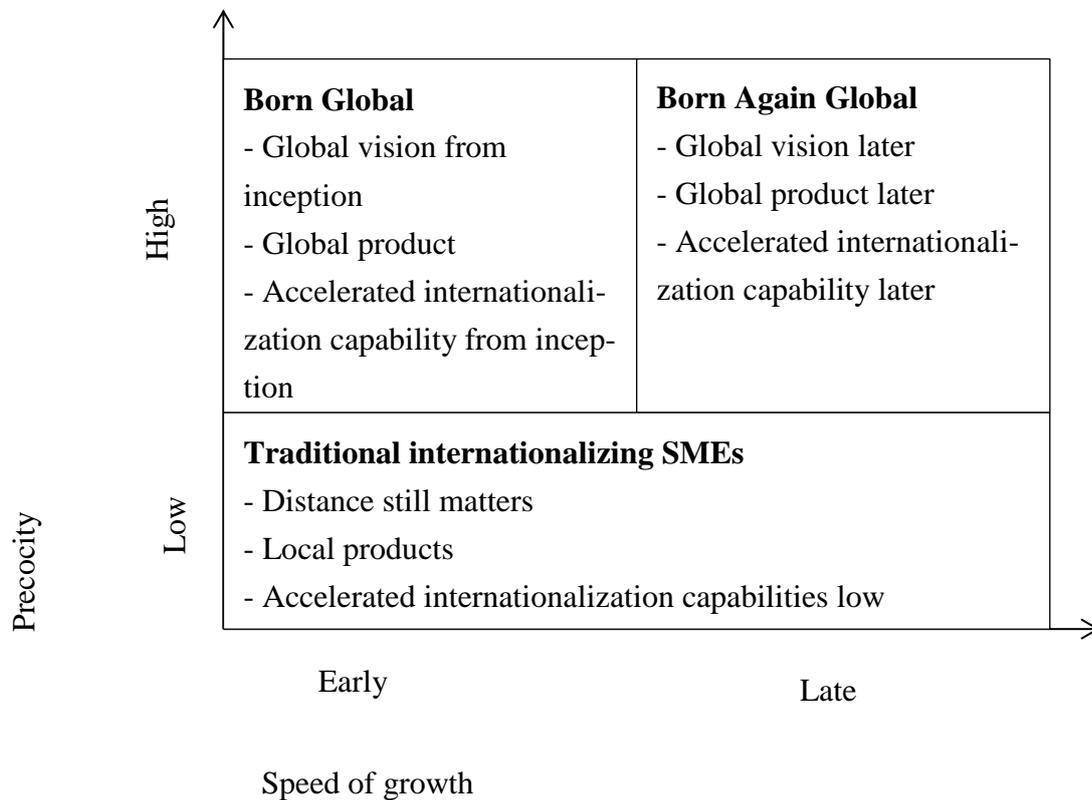


Figure 4 Born Globals Versus Traditional Internationalizing SMEs (modified from Gabrielsson et al. 2008)

Already at the time of inception, Born Globals have a global vision; they have a global product and accelerated internationalization capability. In the case of Born Again Global, global vision, global product and internationalization capability develop later. Traditional internationalizing SMEs have local products and their accelerated internationalization capabilities are low. (Gabrielsson et al. 2008, 49.)

Knight et al. (2004, 645) describe Born Globals as companies that internationalize early, are small by their size, and have limited resources whereas Knight and Cavusgil (2004, 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.” Luostarinen and Gabrielsson (2006, 774) also find that the international operation of Born Globals start before or at the same time with the domestic operation. Thus, the Born Globals plan their product, operation, market, and marketing strategies differently from the conventional firms. Accordingly, the theory of born global is a contrary view to the Uppsala model. Knight et al. (2004, 645–646) state that the born global phenomenon can be seen as a significant challenge to traditional theories which suggest that companies start their international operations gradually after operating in the home market for several years.

In addition to the Born Global firms, Bell et al. (2001, 174) take another approach into consideration; the concept of *born-again global firms*. Born-again global firm has an established position and has earlier concentrated on the home market – since it was not striving to expand internationally, but suddenly internationalized rapidly.

In the following chapter networks are discussed because they are closely related to the internationalization process. First, the concept of network is defined and, second, networks are classified into business and social networks. Third, the chapter discusses a network approach to internationalization which considers the development of a firm dependent on its positions at the market.

## 4 NETWORKS IN THE INTERNATIONALIZATION

### 4.1 Networks

In the recent decades, firms have become more and more networked both internally and externally; there has been a clear shift from closed businesses towards a networked way of doing business. Figure 5 illustrates this transition across decades.

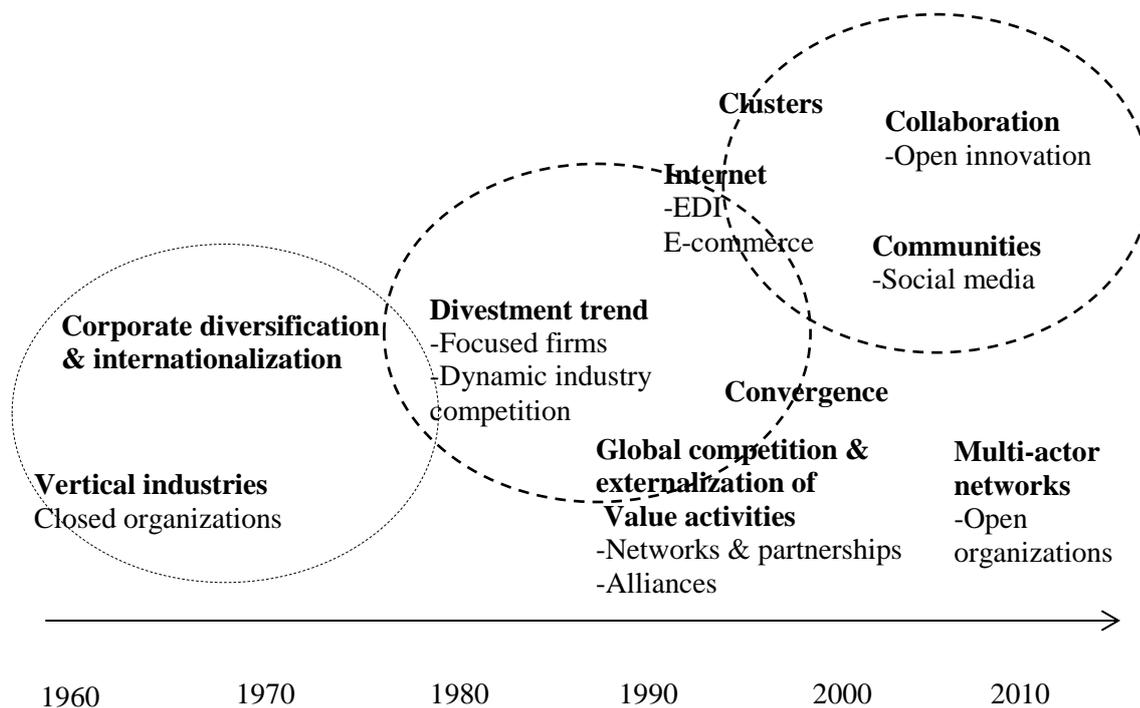


Figure 5 From Closed Firms to Collaboration & Networks (modified from Möller 2013)

The background of business networking extends far back in history. Previously, business networking was a precondition for becoming wealthy and the base for the distribution of work in agricultural and industrial society (Österle – Fleisch – Alt 2001, 2).

Österle et al. (2001, 2–3) introduce five phases towards business networking. The first phase was in the 1970s when computerization of business functions began, for example, invoicing was automated. As a result, solutions became isolated, which was an effective support for individuals' activities. At the second stage, in the 1980s, computerization expanded to functional areas, such as production and distribution, which contributed to whole departments' efficiency. The third phase occurred in the 1990s when the era of enterprise resource planning (ERP) systems began. Österle et al. (2001, 3) point out that: "The development of systems for enterprise resource planning (ERP)

enabled companies to implement integrated processes across various departments and/or functions.” The phase four is concurrent with the previous phase. In the 1990s some companies started to exchange data with customers or suppliers by implementing an electronic data interchange (EDI) system, which enabled processing of high-volume transactions. The fifth phase took place between 1990 and 2005 and the focus was on customer orientation. The aim was to fulfill customer needs in business processes; for example, the utilization of electronic commerce (EC) made quick linkages between business partners possible. The internet offered a technological infrastructure and, therefore, its role was significant in this phase.

There are several ways of approaching the concept of network. In this chapter, international and industrial perspectives are introduced. Forsgren and Johanson (1992, 2) have an international perspective on networks. They suggest that international business occurs in a network setting where direct or indirect relationships connect business actors to each other.

Johanson and Mattsson (1987, 34–35) on the other hand approach the concept of network from industrial perspective. They define industrial systems as networks of relationships among firms. In industrial systems, firms participate in activities such as production, distribution, and use of goods and services. Johanson and Mattsson (1987, 35) state that the majority of exchange occurs within existing relationships but firms can occasionally also create some new relationships as well as disrupt old ones. Accordingly, networks can be stable and changing by nature.

Johanson and Mattsson (1987, 36) emphasize that the industrial firm is dependent on external resources that are controlled by other firms. The network position of the firm is a key factor in accessing resources. Furthermore, the development of positions is time-consuming and requires a lot of work. When a firm enters a new market and attempts to achieve a clear position, it is important that the firm creates relationships with new counterparts. Both the seller and the buyer can take the initiative. In a situation like this, the relationship is new to both the counterpart and the firm. The firm can break old relationships or add a relationship to existing ones.

Networks may be extremely useful for companies. Chetty and Wilson (2003, 67–68) state that networks are a means of overcoming the lack of resources for companies; by exchanging information they can acquire knowledge through their networks.

## **4.2 Classifications of networks**

The interaction between the individuals is mainly social exchange, but it can also be exchange of knowledge or business. (Björkman – Kock 1995, 521.) Based on earlier literature, the same type of grouping can be utilized also in networks. Chetty and Wil-

son (2003, 64) classify networks into social and strategic networks whereas Vasilchenko and Morrish (2011, 90) classify them into business and social networks. Similar to both classifications is the use of the term social networks. Also the content of the strategic and business networks is rather similar. In this study, networks are divided into business and social networks and the terms are explained in more detail in the following sections.

#### **4.2.1 Business networks**

Business networks can be seen as sets of connected business relationships (Johanson – Vahlne 2011, 484), and frequent economic exchange is an essential factor in business networks. (Vasilchenko – Morrish 2011, 90). Business networks offer important opportunities for international expansion but the creation of business network relationships requires resources, time, and responsiveness to the interests of the partners, and is therefore a complex process. (Johanson – Vahlne, 2003, 98–99)

Vasilchenko and Morrish (2011, 91) state that business networks consist of competitors, suppliers, customers, distributors, and government. As mentioned earlier, Chetty and Wilson (2003, 64) classify networks into social and strategic networks. The strategic networks are further categorized into vertical and horizontal networks. Chetty and Wilson (2003, 64) state that: “Horizontal networks are the relationships that firms form with competitors while vertical networks are those formed with customers, suppliers and distributors.” Accordingly, the description of strategic networks is rather similar to the classification of business networks. However, there are also different kinds of descriptions for strategic networks. For example, Forsgren and Johanson (1992, 9) emphasize that the concepts, strategic and business networks should not be transposed and that strategic networks refer to franchising and subcontracting networks.<sup>6</sup> According to Forsgren and Johanson, the difference between strategic and business networks is that one actor builds strategic networks whereas business network develops over time. Strategic networks can also be seen as a part of business networks.

Håkansson and Johanson (1992, 28) introduce a model of industrial networks in order to create an integrated analysis of stability and development in the industry. The function of business relationships can be categorized into the following three components (Anderson – Håkansson – Johanson 1994, 2–3):

- activities

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<sup>6</sup> Thorelli, Hans B. (1986) Networks: Between Markets and Hierarchies. *Strategic Management Journal*, Vol. 7 (1), 37-51.

- actors
- resources

These components are linked to each other in the network's general structure. (see Figure 6) (Håkansson – Johanson 1992, 28.)

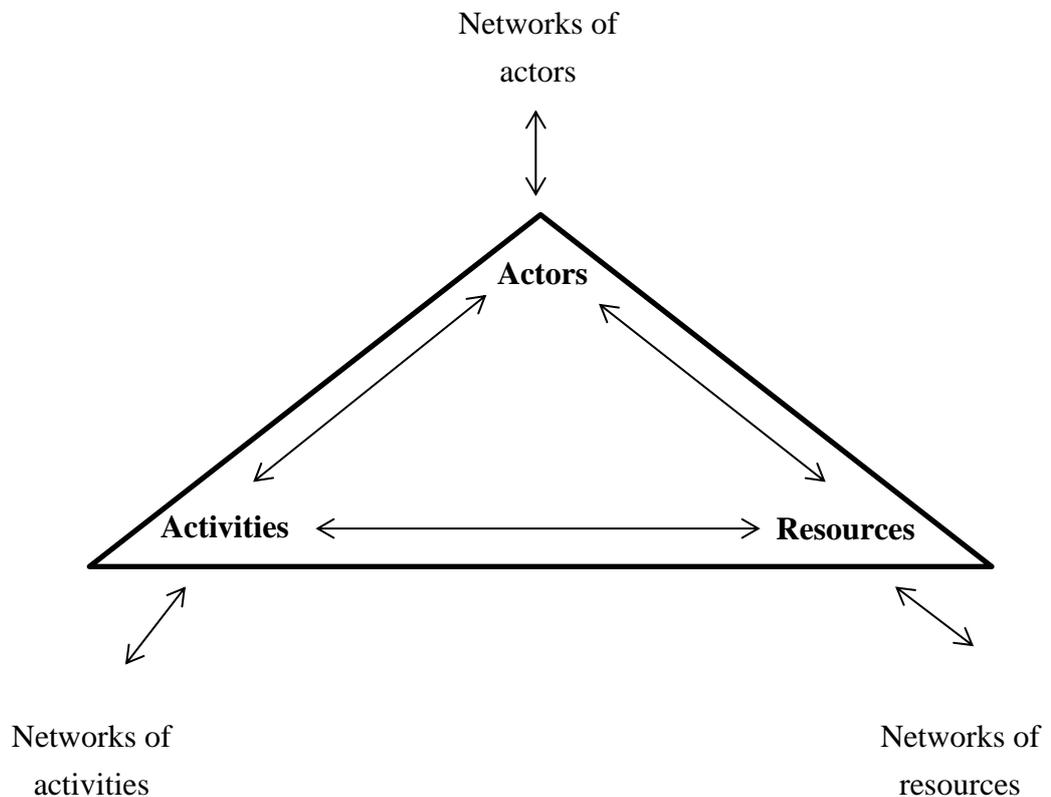


Figure 6 Basic structure of the industrial networks model

The role of *actors* consists of performing activities and/or controlling resources. The actors may be, for example, individuals, groups of individuals, parts of firms, firms, and groups of firms. The actors decide which activities to perform, how and when to perform them, and which resources are used. In the exchange processes, the actors develop relationships with other actors and they have different knowledge about activities, resources, and other actors. Accordingly, actors utilize their knowledge to increase their control. (Håkansson – Johanson 1992, 28–30.)

Håkansson and Johanson (1992, 28, 30–31) define *activities* as follows: “In activities actors use certain resources to change other resources in various ways.” An activity is established when actors combine, develop, exchange, or create resources. The activities are connected to each other in different ways in the network; they can be connected to each other tightly or loosely and there can be many relationships between them. The activity network can always be improved by establishing new activities or making changes in old activities.

Finally, *resources* are means that actors use when performing activities. A single actor or a group of actors can control the resources. The resources are heterogeneous and, therefore, they can be utilized in various ways – there is no one right way how a certain resource should be combined with other resources. (Håkansson – Johanson 1992, 28, 32)

According to Håkansson and Johanson (1992, 33) actors, activities, and resources have relations between the elements which form networks. First, the relationships are developed and maintained with each other by the actors. Second, the activities are connected to each other through networks and, third, the resources are connected to each other in networks. The three networks are closely connected to each other and they form a total network.

#### **4.2.2 Social networks**

Social networks are developed from personal relationships (Vasilchenko Morrish 2011, 90). Knoke and Yang (2008, 8) define social network as follows: “A social network is a structure composed of a set of actors, some of whose members are connected by a set of one or more relations.” Accordingly, actors and relations are terms closely linked to social networks. *An actor* may refer to individual natural persons, such as employees in a corporate work team or collectivities, for example, informal groups and formal organizations. *A relation* is a specific kind of connection or tie between actors and there are two types of relations: advising or conversing. In the advising relation, one actor initiates and the other receives, whereas the conversing relation is non-directed and mutual. (Knoke – Yang 2008, 6–7.)

Chetty and Wilson (2003, 63) point out that social networks contain relations with family, friends and colleagues. Björkman and Kock (1995, 521) classify them rather similarly and they state that a social network consists of individuals such as family, friends, acquaintances, and employees.

Vasilchenko and Morrish (2011, 96) note that social networks may have a significant influence on entrepreneurs’ selection of a market entry target and their initiation of internationalization into a particular market.

#### **4.2.3 The subcategories of the business and social networks**

After having made the descriptions of business and social networks, the information from several different resources concerning the concepts is combined. As a result, the

content of business and social networks is classified into subcategories illustrated in the hierarchical figure (see Figure 7)

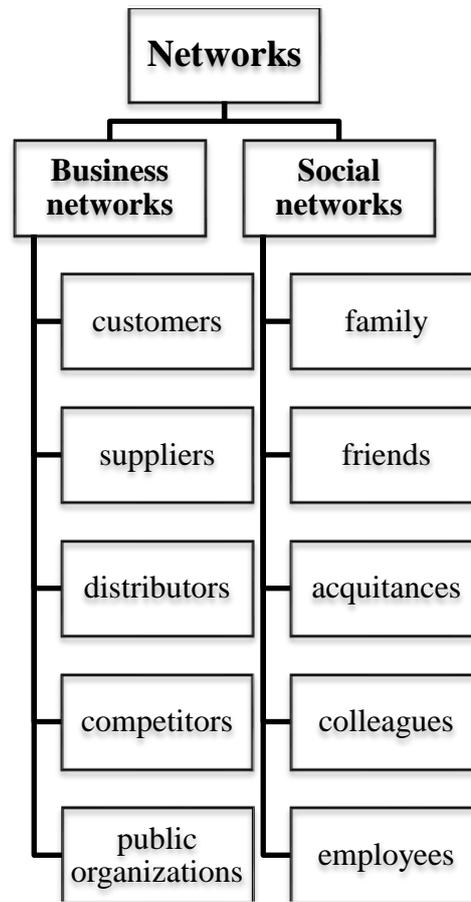


Figure 7 The subcategories of the business and social networks

Business networks were found to consist of customers, suppliers, distributors, competitors, and public organizations whereas social networks include family, friends, acquaintances, and employees. The classification above is employed in this research.

### 4.3 Network approach to internationalization

In their article “Internationalisation in Industrial Systems – A Network Approach” Johanson and Mattsson (1988, 287, 297–298) focus on the internationalization of industrial firms and describe the matter with the help of a network model. According to the model, the development of the firm is highly dependent on its positions and, hence, the firm may utilize its market assets in the further development. Accordingly, the internationalization characteristics of the firm and the market have an effect on the internationalization process. A highly international firm’s market assets are different than a firm’s

that is less international and, therefore, the network model is comparative by nature. The network model consists of four situations in the internationalization process: the early starter, the lonely international, the late starter and the international among others (See Table 2).

Table 2 Internationalisation and the network model (Johanson – Matsson 1988, 298)

|   |      | Degree of internationalisation of the market<br>(the production net) |                                       |
|---|------|--|---------------------------------------|
|   |      | Low  | High                                  |
| Degree of internationalisation<br>of the firm | Low  | <b>The Early Starter</b>   | <b>The Late Starter</b>               |
|   | High | <b>The Lonely International</b>                                      | <b>The International Among Others</b> |

In this model, the term “net” has been used to refer to specifically defined parts of the whole network. Consequently, the national net means that the grouping is done within national borders and production net means that the grouping is done based on product areas. In the production net the relationships are created between firms operating in specific product area. (Johanson – Mattsson 1988, 294.)

The firm’s internationalization refers to the establishment and development of positions in relation to counterparts in foreign networks. The vertical axis of the table refers to the degree of internationalization of the firm. This explains, first, how many positions the firm has established in different national nets and, second, their importance and the degree of their integration. The horizontal axis refers to the degree of internationalization of the market. The production net may be highly or slightly internationalized. In a highly internationalized production net there are a lot of relationships between different national sections which are part of the global production net. Less internationalized production net whereas implies that there are very few relationships between the national nets. (Johanson – Mattsson 1988, 294, 296.)

First, *the early starter* has very few international relationships as do its competitors and suppliers. The firm does not have a lot of knowledge about foreign markets and, as has been found in earlier literature, these firms begin to enter foreign markets nearby and use agents. The firm may use agents because, for example, the aim is to minimize the need for knowledge development or adjustments. The early starter may benefit from the market investments of an agent because this reduces risk taking and the need for the firm’s own investment. Finally, in this situation, the counterpart, such as distributor or user, usually takes the initiative. (Johanson – Matsson 1988, 298–299.)

A *lonely international* has relationships in foreign countries and, thus, has knowledge about the environment, culture, and institutions. Because the firm has already acquired some knowledge about the foreign markets, the chance of failure is lower compared to the early starter. The lonely international's knowledge and experience are advantageous in many ways. For example, the firm may benefit from the market investments by getting rapid diffusion of its new products. The lonely international may also face fewer difficulties than others in entering tightly structured nets because of its broad knowledge about several foreign markets. In addition, the experience of the lonely international enables the global expansion to markets different from the home market, whereas the expansion for the early starter is much more dependent on similarities between markets. The lonely international is highly internationalized but other parties in the production net, such as suppliers, customers, and competitors, are not. Therefore, initiatives to further internationalization do not come from these other parties. (Johanson – Matsson 1988, 300–301.)

*The late starter* is not highly international although its production net already is. The firm has various indirect relationships with foreign networks because its suppliers, customers, and competitors are international. The internationalization pattern of the late starter can be a result of indirect relations and the existence of entry opportunities. The relationships in the domestic market may be a motive for the firm to enter foreign markets. In this situation, the firm can utilize investments made in the home market in its internationalization. A disadvantage for the late starter is the fact that it has less knowledge about foreign markets than its competitors. The firm may also face difficulties in establishing new positions in a production network because the competitors may have occupied the markets; for example, the competitors may be already linked to the best distributors. (Johanson – Matsson 1988, 302–303.)

Finally, *the international among others* is highly internationalized and so is the environment. The international among others has broad international knowledge and strives for coordinating activities in different markets which probably accelerates the establishment of sales subsidiaries. The international among others also has access to external resources because of its numerous positions in globally linked networks. As a result, the firm has more possibilities to externalize its operations, for example, the firm may purchase some components instead of manufacturing them itself. The counterparts and competitors of the international among others are mainly internationally active. Therefore, great position changes, such as joint ventures, acquisitions, and mergers, occur in this situation rather frequently which is not the case for the other three cases described above. (Johanson – Matsson 1988, 304–306.) In the following chapter, the methodological decisions of this research are described.

## 5 METHODOLOGY

This chapter discusses in detail the way in which the empirical research was conducted. The purpose of this study was to understand the role of networks in the internationalization process of Finnish design companies and the sub-objectives were:

- To describe the internationalization process of Finnish design companies.
- To analyze what kind of networks are related to internationalization process of Finnish design companies.
- To analyze how networks are utilized in the internationalization process of Finnish design companies.

Accordingly, this chapter discusses how these objectives were explored. First, the research approach is presented and, second, there is an explanation how the cases are selected. Third, the data collection method is presented. Fourth, there is a description on how the data collected is analyzed. Finally, the trustworthiness of the research is evaluated.

### 5.1 Research approach

This research is qualitative by nature. The qualitative approach is typically seen as a contrary approach to quantitative research but the comparison between the two approaches is rather difficult to make. However, Silverman (2001, 29) states that: "...quantitative research cannot deal with the social and cultural construction of its own 'variables'."<sup>7</sup> The social and cultural construction is an interest of many qualitative approaches. This means that reality constructs socially, which can be understood through cultural meanings. (Eriksson – Kovalainen 2008, 4) In this thesis, the research objective is to understand the role of networks in the internationalization process of Finnish design companies. In this research the focus is on networks, in which social aspect plays an important role. Therefore, qualitative approach is a suitable method for this research.

The selected research strategy is case study research. Yin (1984, 14) states that in case study research, the researcher strives for an understanding of complex social phenomena by investigating characteristics of real-life events. Case study research is widely used in several sciences, such as psychology, sociology, and political science. Case study design can also be applied in economics, for instance, for the purpose of investigating the structure of a specific industry. In this study, the Finnish design sector is in-

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<sup>7</sup> Silverman, D. (2001) *Interpreting qualitative data: Methods for analyzing talk, text and interaction* (2nd ed.). London: Sage.

vestigated. (Yin 1984, 24). A case can be broadly understood as individuals, social communities, organizations, and institutions (Flick 2004, 147).

The research strategy in this research is *a descriptive case study*. There are three different types of case studies: exploratory, descriptive, and explanatory and each of these strategies have their own specific features. Nevertheless, the strategies are overlapping and the boundaries between them are not clear. (Yin 1984, 15–16)

This research is a multiple case study and the cases are comprised of four Finnish design companies. Case study research can be either a single or multiple case study and both have their advantages and disadvantages. Multiple-case study is proposed to have more compelling evidence than single-case study. Accordingly, the whole research can be seen more robust. However, the multiple-case study may take a lot of time and require comprehensive resources. (Yin 1984, 24, 52.) Yin (2012, 7) classifies case study designs into four types, which are illustrated as a two-by-two matrix in the Figure 7.

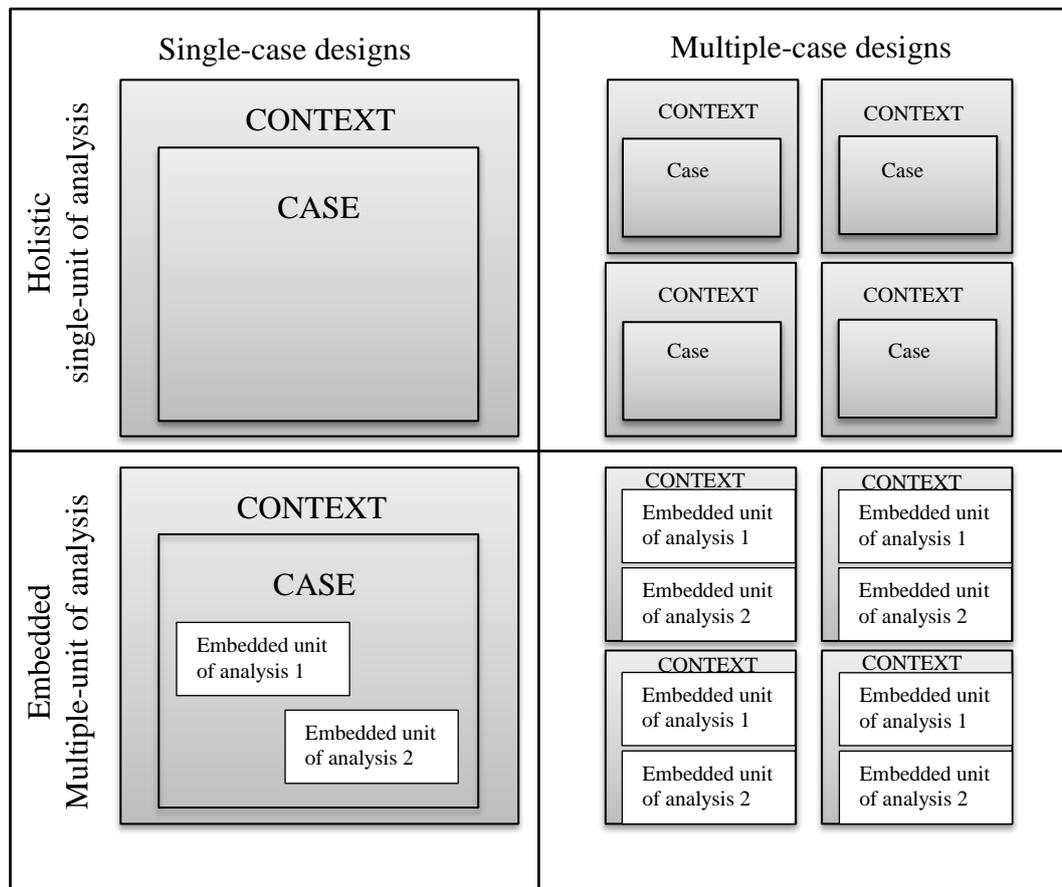


Figure 8 Basic types of designs for case studies (Yin 2012, 8)

Firstly, a case study can be either a single- or multiple-case study (Yin 2012, 7). Secondly, Yin (2012, 7) states that: "...you can choose to keep your case holistic or to have

embedded subcases within an overall holistic case.” Accordingly, the researcher first makes a choice between single and multiple case study and, second, the decision between holistic and embedded case studies. *In this study, holistic single-unit of analysis utilized.*

## 5.2 Case selection

The case companies are Finnish design companies which were selected based on the following requirements:

- the company operates in design industry (see Chapter 2.1)
- the company has Finnish ownership
- the company has international operations, and
- the company or a part of the company has internationalized in the recent years

The selected case companies are the following: the interior decoration unit of L-Fashion Group, Globe Hope, Klo Design, and Melaja Ltd. The case companies produce design products but are different from each other in many ways. The case companies are based in different Finnish cities: Kerava, Lahti, Turku, and Nummela. In addition to the requirements above, the case companies were selected based on their degree of internationalization. Klo Design and Melaja Ltd are less internationalized – their internationalization process is in its early stage and international operations are irregular – on the other hand, the interior decoration unit of L-Fashion Group and Globe Hope, are more international and operate actively abroad. The companies that are less international are also smaller, in terms of the number of employees, compared to the more international ones. The decision to select companies that are more and less international was made because it enables the comparison of companies with different degrees of internationalization.

## 5.3 Data collection

The evidence in case studies can be qualitative, quantitative or a combination of both. (Eisenhardt 1989, 534). Eisenhardt (1989, 534) proposes that the evidence in case studies consists of archives, interviews, questionnaires, and observations. Yin’s (1984, 84, 88) description of the evidence is rather similar, including documents, archival records, interviews, direct observation, participant observation, and physical artifacts. The data collection method in this thesis is *interviewing*. Interview material is one of the most significant sources of information in case studies. Interviews have been selected as a

data collection method because they offer the possibility to understand the company's interpretation of the role of the networks in the internationalization process.

The interviews in this thesis are semi-structured. Eriksson and Kovalainen (2008, 82) point out that in semi-structured interviews the interviewer plans topics or themes for the interview. In this thesis, different themes are discussed in the interviews. The themes are listed in the operationalization table (See Table 3).

Table 3 Operationalization table

| <b>Research objective</b>  | <b>Sub objectives</b>  | <b>Theoretical background</b>                   | <b>Themes</b>  |
|--|--|---|--|
| To understand the role of networks in the internationalization process of Finnish design companies | 1. To describe the internationalization process of Finnish design companies.                                 | Uppsala model<br>Born global<br>Operation modes | Internationalization process, foreign sales, production, operation modes   |
|  | 2. To analyze what kind of networks are related to internationalization process of Finnish design companies. | Business networks<br>Social networks            | Customers, suppliers, distributors, competitors, public organizations<br><br>Family, friends, acquaintances, colleagues, employees |
|  | 3. To analyze how networks are utilized in the internationalization process of Finnish design companies.     | Business networks<br>Social networks            | Cooperation with networks, how the relationships with different networks were created  |

The themes of the interviews are based on the study's theories that are linked to the sub-objectives. In this study, the interview questions were developed during the process. The advantage of a semi-structured interview is that it produces rather systematic and comprehensive materials. The questions should not be very precisely planned because this may result in the interviewee excluding significant topics from the conversation. Conversely, the comparison of the materials might be difficult if interviewees offer varying interpretations of the same questions.

All the interviews were done in Finnish and face-to-face. The interviews were also recorded. Each interviewee was informed about the themes of which he or she was in-

tended to discuss. The atmosphere in the interviews was open and positive. General information about the interviews is gathered in the following table. (see Table 4)

Table 4 The interview details

| Case company                            | <b>Interior decoration unit of L-Fashion Group</b> | <b>Globe Hope</b>             | <b>Klo Design</b>                       | <b>Melaja Ltd</b>             |
|---|--|-------------------------------|---|-------------------------------|
| Date of the interview                   | 10.10.2013   | 28.1.2014                     | 22.10.2013                              | 31.10.2013                    |
| City of the interview                   | Lahti  | Nummela                       | Turku                                   | Kerava                        |
| Interviewee's name                      | Annukka Linninen                                   | Seija Lukkala                 | Dani Aavinen                            | Risto Melaja                  |
| Interviewee's title                     | Division Director                                  | Chief executive officer (CEO) | Chief executive officer (CEO), designer | Chief executive officer (CEO) |
| Length of the interview (approximately) | 1 hour   | 35 minutes                    | 1 hour 40 minutes                       | 1 hour                        |

The interviews were done in the head offices of the companies which are situated in different cities in Finland. All the interviewees are in a leading position in the company and have the knowledge needed for this research. The target length of each interview was an hour, which was achieved in the interviews of the interior decoration unit of L-Fashion Group and Melaja Ltd. The reason for the short length of Globe Hope's interview was the CEO's limited time. Questions concerning background information, such as products, design, and employees' duties were left out in the particular interview because the information could be found on the company's website. This saved the CEO's time and enabled the interviewer to concentrate on the main themes, internationalization process and networks, during the whole interview. However, some important issues about themes left out, could have emerged in the discussion if they had been included in the interview. The reason for the lengthiness of Klo Design's interview is interruptions. The interview was done in a design shop and the interviewee had to serve customers several times during the interview.

In addition to the primary data, interviews, in the analysis, secondary data was utilized. The secondary data includes the websites of the case companies, articles published online, and company presentations. (See Appendix 1)

## 5.4 Data analysis

The four case companies were analyzed and they are discussed thoroughly one after another in chapter 6. The data collected through interviews was analyzed in the following manner. First, the case company was introduced and the information is based on the interview and secondary data such as company's website. Second, the internationalization process was described based on the themes discussed in the interview. Third, the networks related to the case company's internationalization process were also analyzed based on the themes discussed in the interview. Finally, a cross-case analysis was conducted; case companies' internationalization processes and networks were compared with each other.

The data analysis in this thesis was not based on one certain analysis strategy only. There is an analyzing strategy which relies on theoretical propositions where theory has an essential role. According to this strategy, the case study's objectives are founded on the theory which may have influence on, for example, the research questions and data collection. (Yin 1984, 106–107.) In this study, the analysis was done rather similarly; theory played also a rather important role and the interviews were done based on the themes, such as internationalization process and networks that were found in the theory.

The final part of the analysis includes *cross-case analysis*, which involved comparison of the cases. In the cross-case analysis, the aim is to look for similarities and differences across cases and compare the findings with the theory. (Eriksson – Kovalainen 2008, 130.) In this thesis companies with high and low degree of internationalization were compared.

## 5.5 Trustworthiness of the research

In this section, the trustworthiness of the thesis is evaluated. When evaluating the research based on clear criteria, transparency is improved and, hence, the strengths and limitations can also be emphasized (Eriksson – Kovalainen 2008, 290). According to Lincoln and Guba (1985, 219) there are four trustworthiness criteria: credibility, transferability, dependability, and conformability. Trustworthiness of this study is evaluated based on these criteria.

Lincoln and Guba (1985, 296) state that: "The implementation of the credibility criterion...becomes a twofold task: first, to carry out the inquiry in such a way that the probability that the findings will be found to be credible is enhanced and, second, to demonstrate the credibility of the findings and having them approved by the constructors of the multiple-realities being studied." Eriksson and Kovalainen point out that the

following questions should be asked from the study when *credibility* is evaluated (2008, 294):

- Whether you have familiarity with the topic and whether the data are sufficient to merit your claims?
- Whether you have made strong logical links between observations and your categories?
- Whether any other researcher can, on the basis of your materials, come relatively close to your interpretations or agree with your claims?

In this research, there were no language problems because the interviews were conducted in Finnish, which is the first language of the interviewees and the interviewer. In this study, the interviews have been recorded by two recorders and they were transcribed. The coherence of the research question, theoretical approach, and data collection was ensured by making an operationalization table (see table 3) where the sub-objectives and themes related to them are listed. In the interviews, these themes were discussed. Consequently, the sub-objectives were researched in the interviews.

In order to enhance *transferability* the researcher provides as wide a range of information as possible. (Lincoln – Guba 1985, 316.) The transferability requires that the similarities between the research and the previous research are showed (Eriksson – Kovalainen 2008, 294). In the analysis of this thesis the case companies' internationalization processes and networks are compared with different internationalization process theories and classifications of networks. The theoretical information is based on academic journals and books whereas the source for the empirical information is interviews and secondary data, such as the company's website. The amount of academic references could be larger and, thus, offer more comprehensive insight to existing literature. The empirical data would be richer if several individuals from each case company had been interviewed. It has been showed that there are similarities in the results of this study and in the earlier research. However, the results are applicable only to the companies investigated – the results cannot be generalized to all Finnish design companies.

In order to enhance *dependability*, the research should be done rationally and traceably and, second, the research should be documented (Eriksson – Kovalainen 2008, 294). Lincoln and Guba (1985, 318) state that it should be demonstrated that the data supports findings, interpretations, and recommendations. In this research, all the interviews have been recorded and transcribed. The interview at L-Fashion Group was done in the headquarters of the company and during the interview there were no significant interruptions. However, the interview was done in a café and there was some background noise, which may have had a slight negative effect on the interview. The interview at Klo Design was done in the design shop and the interview was interrupted several times when customers entered the store and the interviewee had to serve the customers. Because of the interruptions, the interview lasted twice as long as the other three interviews. How-

ever, the longer interview enabled the interviewer to go through all the themes. In the other two interviews, there were no significant interruptions. All the interviewees were also informed beforehand about the themes, which formed the contents of the interview. Thus, the interviewees were aware of the topic of the interview. The researcher aimed to create as natural a discussion and atmosphere in the interview as possible. Thus, the effect of the researcher was quite neutral.

*Conformability* means that the findings and interpretations are linked to the data clearly and illustratively – so that the reader does not have difficulties in finding the connection. (Eriksson – Kovalainen 2008, 294). In this research, the interviews are closely linked to the sub-objectives; the themes discussed in the interview are formed based on the sub-objectives, which is illustrated in the operationalization table (see table 4). The theoretical framework is also based on the sub-objectives: the theoretical part discusses internationalization process theories and networks – the same themes are the focus of the interviews. Accordingly, there is a strong link between the results and the data. In theory, the research is repeatable; however, the interviews were the result of the unique situation and the interaction between the individuals involved. If the interviews were to be repeated, the results would possibly be rather different. The analysis is also repeatable: case companies' internationalization process and networks were described based on the interview and this was compared with the earlier literature. In addition, the thematization was done based on the sub-objectives (see Chapter 1.2) The researcher made a literature review concerning the sub-objectives and the themes were the ones that were found in the existing literature. Finally, all the phases of the research are described carefully.

## **6 NETWORKS IN THE INTERNATIONALIZATION PROCESSES OF THE CASE COMPANIES**

This chapter discusses the role of networks in the internationalization process of Finnish design companies. As mentioned earlier, the design industry in this chapter is outlined with special reference to the following industries: textiles, furniture, clothing and lighting equipment.

The four case companies are analyzed and discussed thoroughly one after another. The case companies are introduced, their internationalization processes and networks are described, and finally the comparison of the case companies is done. The sources of data that are analyzed in the following chapters are gathered through interviews with representatives of each case company and through acquiring secondary, for example from companies' websites.

### **6.1 The interior decoration unit of L-Fashion Group**

#### ***6.1.1 Introduction of the interior decoration unit***

The first case of this research is the interior decoration unit of L-Fashion Group which is nowadays one of the largest clothing companies in the Nordic countries. The company was established in 1907 and started as a family business – at that time the company's name was Luhta. The company has a long history and the internationalization operation has begun decades ago. The global breakthrough occurred in the beginning of 1970s. Throughout the years, the product range has broadened and developed. The company has acquired Finnish clothing brands and their key operations which became their own separate business units. Finally, Luhta became a group of companies and the name was changed to L-Fashion Group. In 2012, the turnover of L-Fashion Group was 267 million Euros and the number of employees 1670.

The organization of L-Fashion Group is illustrated in Figure 9. L-Fashion Group can be divided into three units: fashion, sport, and home where each has their own brands. The “home” refers to *interior decoration and this unit is investigated in this study*. The foreign subsidiaries in Russia and China are discussed in more detail in Chapter 6.1.2.

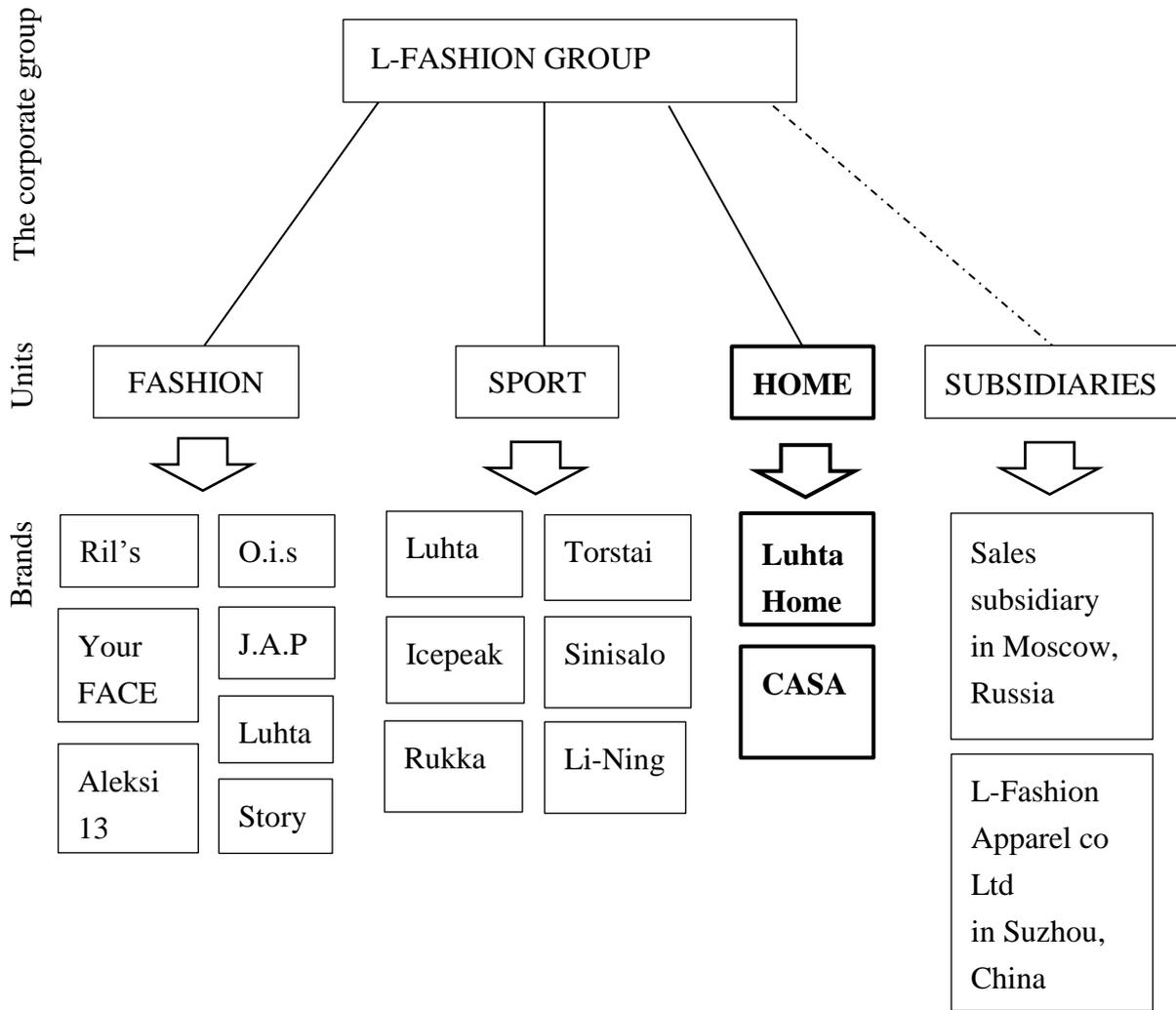


Figure 9 The organization of L-Fashion Group

The interior decoration unit has two brands: Luhta Home and CASA. Luhta Home is most significant since it is the main brand. Even though the interior decoration unit is investigated in this research, the effect the corporate group, L-Fashion Group has on the unit is taken into consideration.

The interviewee is L-Fashion Group’s division director who is the head of the interior decoration unit. The division director has worked for the company for five years, and her earlier working experience consists of managerial positions in the furniture companies Isku and Jysk.

Luhta Home’s collections have been designed and manufactured since 2000. The product range has developed throughout the years and, presently, it consists of a broad selection of interior textiles and decorative articles. The interior decoration unit has nine employees in Finland and eight in the manufacturing subsidiary in China, which will be discussed in the following chapter.

**6.1.2 Internationalization process of the interior decoration unit**

The internationalization process of the interior decoration unit is demonstrated in Figure 10 as a timeline. The production countries are placed above the timeline and the countries where the company has sales operations are marked below the line. In this chapter, the focus is on the internationalization process of the interior decoration unit and the corporate group, which has a strong background effect, is taken into consideration in the analysis.

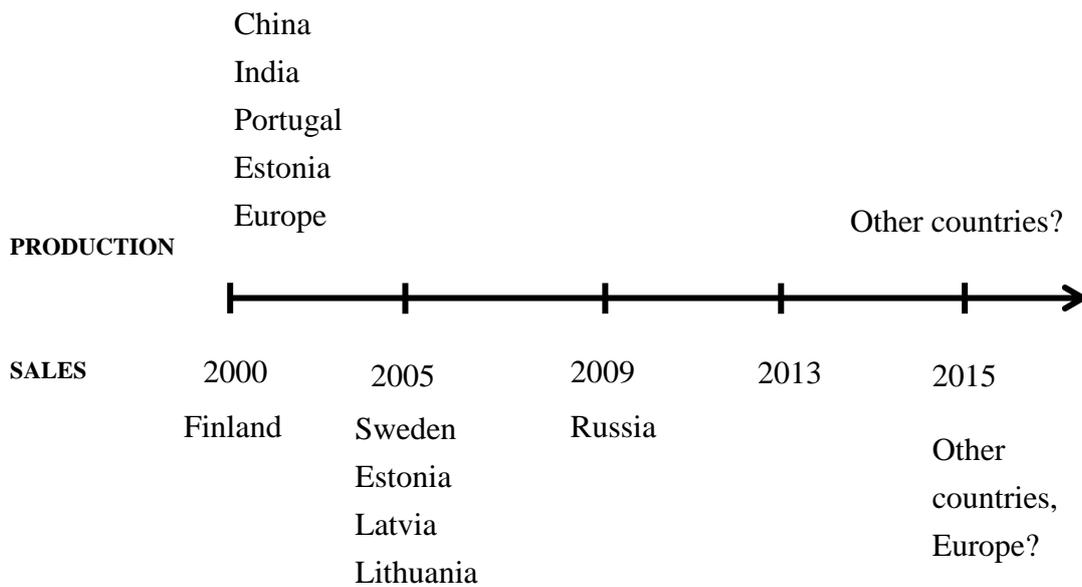


Figure 10 The internationalization process of the interior decoration unit of L-Fashion Group

The interior decoration unit was established in 2000, and its internationalization process started in 2005 when it expanded to Sweden, Estonia, Latvia and Lithuania. The operation mode in Sweden and the Baltic countries is through direct export. The division director finds the operation in Sweden and Estonia simple and very similar to the operation in Finland. The products are sold in independent local stores in Sweden – the unit does not have its own stores in the market. In Estonia, the products are sold in Finnish chain stores and local stores. The corporate group, L-Fashion Group does not have subsidiaries in Sweden and the Baltic countries and, therefore, the products are sold through retailers.

In 2009, the unit started to operate in Russia. L-Fashion Group already had a sales subsidiary in Moscow, which facilitates considerably interior decoration unit’s opera-

tion in the market. The division director finds the support of the subsidiary extremely important:

*“...the subsidiary in Moscow naturally helps us in everything we do.”*  
(Division director of L-Fashion Group 2013)

The corporate group has its own stores in Russia where interior decoration products are sold. The products are also sold in interior decoration stores. The division director finds the operation in Russia interesting but very different from the operation in Finland by the culture and the mode of operation. Compared to other foreign markets, everything takes a surprisingly long time in Russia, for example, after the first contact with the customer, it takes time until the official order has been placed. Even though the interior decoration unit has operated for approximately four years in Russia, the internationalization process is still unfinished. However, the division director considers Russia as a potential market where demand will continue to grow:

*“...people are beginning to invest more in home.”* (Division director of L-Fashion Group 2013)

The division director explains that issues such as the appearance and the brand of the car are very important for Russians, but the consumer behavior is changing; in addition to these external factors, she believes that the middle class is becoming more interested in the interior decoration.

The production of products for the interior decoration unit has always been done abroad. Earlier, part of the production was in Europe, Portugal and Estonia. The unit does not have production in Estonia anymore and only small amount of products are made in Portugal.

In Suzhou, China, the corporate group has a subsidiary, L-Fashion (Suzhou) Apparel co Ltd, which is responsible for being in contact with factories manufacturing the products. The subsidiary also employs quality controllers who visit the factories and inspect the production. In addition, the subsidiary is constantly looking for new potential producers. The production is clearly centralized in China where the majority of production is done. Part of the production has been made in India from the beginning and India is the second largest production country after China. All in all, the interior decoration unit is considering the possibility of expanding its international operation, both sales and production, in the future.

The Uppsala model is partly applicable to the internationalization process of the interior decoration unit. After the establishment, the unit has operated in the domestic market. In the beginning, the internationalization fell upon Sweden and the Baltic countries

which are the company's neighboring countries and later on the operation was expanded to Russia. Accordingly, the internationalization process has been rather gradual. However, the interior decoration unit is part of the corporate group and the corporate group has guided the units' operations; for example, the unit has expanded its business to the markets of China and Russia, where L-Fashion Groups' subsidiaries locate. The interior decoration unit can be placed to the second stage of Luostarinen's stage model of internationalization, direct investment marketing operations (DIMOs) because a sales subsidiary has been established.

### 6.1.3 Networks in the internationalization process of the interior decoration unit

In this section, the interior decoration unit's networks in the internationalization process are described: first, business networks and, second, social networks. The business networks of the L-Fashion Group's interior decoration unit are illustrated in Figure 11. The business networks consist of the corporate group of which the interior decoration group is part of - suppliers, and retailers.

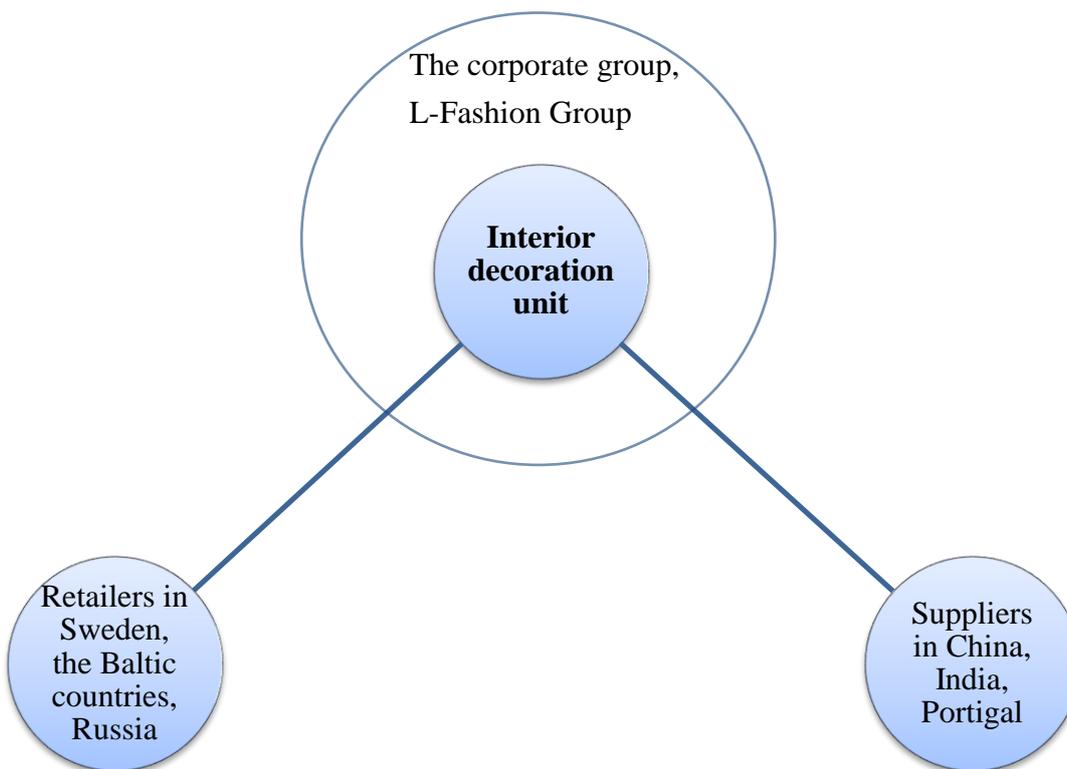


Figure 11 The business networks in internationalization process of the interior decoration unit

The interior decoration unit has internationalized with the support of *the corporate group*, L-Fashion Group. The group has internationalized before the interior decoration unit was even established. The corporate group has had a sales subsidiary in Moscow, Russia since 1990 and it has created networks in the market. Thus, the unit has been able to utilize the corporate group's networks, such as customer contacts. The corporate group's subsidiary in Suzhou, China also facilitates the interior decoration unit's operation. For example, the subsidiary in China has simplified the transportation of products to Russia a lot; the central warehouse is located in a customs-free zone from which the products can be transported directly to Russia – not through Finland. Consequently, the activities related to the freight and customs have become easier. The division director considers this a great benefit since the logistics in Russia is the most challenging activity. Accordingly, the corporate group has been the most important network of the interior decoration unit.

The products are sold in Sweden, the Baltic countries, and Russia and, thus, *the retailers* in those countries are important business networks. For the interior decoration unit, Russia is the most important international market. The cooperation with Swedish and Baltic retailers has been easy and very similar to the cooperation with Finnish retailers, whereas the cooperation with Russian retailers is challenging compared to cooperation with other retailers. The division director believes that trust is the most important factor in the successful cooperation with Russian retailers who appreciate the products being delivered precisely as agreed:

*“I think that it's quite of an important thing that you can prove them that the supply chain works and the product certainly arrives to the store when promised.”* (Division director of L-Fashion Group 2013)

The unit has production in China, India, and Portugal and, thus, *the suppliers* in those countries are important business networks. China's subsidiary employs 500 persons of which eight employees are in charge of interior decoration. The Chinese interior decoration team consists of local persons and their responsibilities include communication with the producers, supervision of the production, and search of new suppliers. The supervision, especially of production, which includes the quality control and ensuring the in-time delivery, is a very important function. The quality control and supervision of production conditions is rather easy because there is the local team which is responsible for these duties. The sales volume of the interior decoration unit is not very high and company's Chinese suppliers are not very extensive compared to the international chain stores' suppliers.

From the Portuguese supplier, the interior decoration unit orders certain products, which Portuguese are able to produce very well, such as bed covers. The reason for the

small amount of orders placed for goods produced in Portugal is the country's poor economic situation, which has led to textiles operation shifting extensively away from the country. The prices of the Portuguese producers are also higher and, thus, they are not as competitive as in the Far East. However, the products are high-quality and the cooperation with Europeans is very simple because there are no customs formalities and the time of delivery is shorter compared to the Far East suppliers. Another reason why the unit has decided to order products from Portuguese suppliers is the ability to order small amounts of products. Accordingly, it is profitable to order costly products from small Portuguese suppliers since their volume is low - suppliers from the Far East require larger orders. In India, the quality control is not as simple as it is in China since the unit does not have supervisors present.

The interior decoration unit has not received any assistance from external players, such as organizations for the internationalization. The unit has also not cooperated with its competitors. The division director of L-Fashion Group explains why Finnish companies do not work together with other companies within the industry:

*“Maybe it’s a Finnish mode of operation that we are not so open and willing to have those conversations with competitors. Everybody wants to hold on to their own contacts and suppliers.”* (Division director of L-Fashion Group 2013)

The interior decoration unit has tried to start cooperation with competitors but has not succeeded. However, the division director believes that the cooperation would be beneficial for the both parties. The interior decoration unit's social networks in the internationalization process are described in Figure 12. The social networks include designers, acquaintances of a Russian employee, and acquaintances of the Indian supplier.

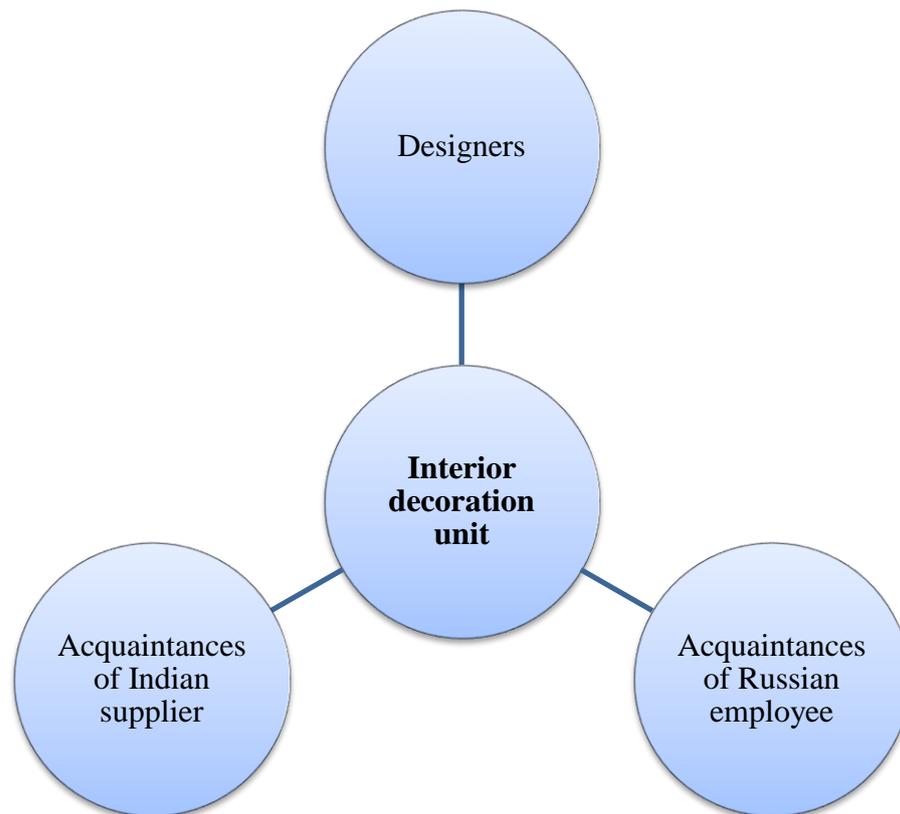


Figure 12 Social networks in the interior decoration unit's internationalization process

As mentioned earlier, employees belong to social networks. The interior decoration unit has its own designers and the whole portfolio is designed in Finland. The company also uses some external freelancers, such as design interns from university. *Designers* are one important social network of the unit because design has an essential role in general in the company but also in the international operations. The brand of Luhta Home meets Scandinavian taste because its ideology is based on Finnish nature. Thus, the designers have to be Finnish who know the nature thoroughly, foreign designers would not have sufficient knowledge for this.

Another social network was found to be *acquaintances of a Russian employee*. When the interior decoration unit's operation in Russia began, a local employee was hired to search for new customers. The Russian employee had worked in the textile industry earlier and had some contacts in the market that could have been utilized. The division director emphasizes that it would have been impossible to operate in Russia if they did not have a local person with contacts in the market:

*"...there has to be a person who knows the local market and speaks the local language."* (Division director of L-Fashion Group 2013)

Accordingly, the local contacts are extremely useful in the Russian market.

In addition, *acquaintances of the Indian supplier* are important social network of the interior decoration unit. The unit collaborates with certain Indian suppliers and if they do not have, for example, some material the unit has ordered, they find a way to get the missing material by contacting their acquaintances who work in the industry. Accordingly, Indian suppliers are networked and tend to cooperate with their acquaintances and friends. However, the division director points out that the course of action like this does not occur in China.

## **6.2 Globe Hope**

### ***6.2.1 Introduction of Globe Hope***

Globe Hope is a textile company, which produces clothes, bags, and accessories from recycled and discarded materials. The raw material for the production is acquired from different parties, such as, army and companies. Globe Hope has two own stores and an outlet store in Finland. The products are also sold through several retailers in Finland.

The CEO, Seija Lukkala, who is the interviewee, founded the company in 2003. The reason for the establishment of the company was the founder's frustration at waste produced by the textile industry. Furthermore, the core idea of the company is to operate in an ecological manner.

In 2010, Globe Hope acquired, Secco Finland, a company which produced products from hard materials, such as long-playing records (LPs), circuit boards, and tires. Thus, Globe Hope broadened its product range by starting to produce jewelry from the hard materials. In 2012, the turnover of the company was 1,35 million Euros and number of employees 20.

Seija Lukkala has a long experience in textile industry; before founding the company she worked for 13 years in the industry. Her duties include: design, sales, strategy formation, and communication. In addition to the company related duties she aims to develop the design industry and promote recycling in general.

### 6.2.2 Internationalization process of Globe Hope

The operation mode of Globe Hope executed in each market is export. The company's internationalization process is described in Figure 13. Only those countries where Globe Hope operates presently are marked in the figure.

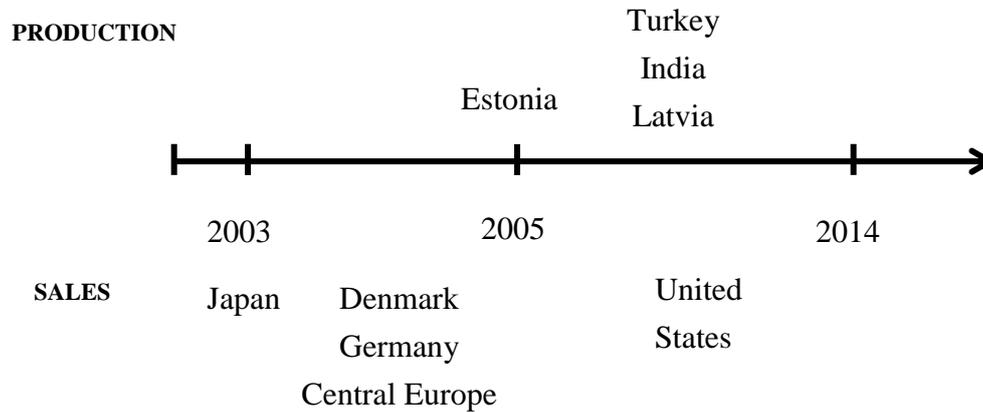


Figure 13 The internationalization process of Globe Hope

Born Globals start their international operation before or at the same time with the domestic operation. Consequently, Globe Hope can be categorized as a Born Global because it internationalized soon after the establishment. As mentioned earlier, Globe Hope was founded in 2003 and in the same year the sales to Japan began. The born global theory contradicts the Uppsala model, which claims that companies start internationalization in the neighboring countries and the operation grows step by step.

Very soon after the operation in Japan had begun, Globe Hope started to sell its products to independent stores in Denmark, Germany, and some central European countries. Globe Hope also sells products to the United States through retailers. Previously, Globe Hope has operated in nine different European countries, such as Iceland and the Faroe Islands. The company has even sold its products to some islands in the Indian Ocean. However, the company no longer operates in these countries.

Globe Hope operates in several foreign markets but the focus is on the German market. The reason for this is that the country has a long tradition of recycling and, therefore, in Germany the company does not need to explain the importance of recycling as much as in other countries. The CEO of Globe Hope explains the decision to concentrate on Germany:

*“It seems like there the ground is the most fertile for these kind of recycled products.”* (The CEO of Globe Hope 2014)

In 2012, Globe Hope started to invest in the operation in Germany. At that time, one person was responsible for researching the market and figuring out which operation mode would be the most suitable for the company. Consequently, Globe Hope decided to start the resale and collaboration with different German companies. In the beginning, Globe Hope had a communications agency in Düsseldorf, Germany. The agency’s operation was successful: it assisted Globe Hope to attract publicity. However, using the communications agency’s services led to high expenses and, therefore, the cooperation with the agency was terminated. For replacing the external communication s professional, Globe Hope decided to hire an employee who is in charge of the collaboration with the German companies. The collaboration in this case means that instead of traditional business gifts, Globe Hope produces gifts that are mediums of communication and signal the values of the company. At best, the business gifts are made from the client’s own materials. The company also has an agent in Germany.

When Globe Hope was established the production located in the home country. A few years later, in 2005, the subcontracting in Tallinn, Estonia, began. Globe Hope has several subcontractors in Estonia because the variety of the materials there is wide. Presently, the production is done simultaneously in both domestic and foreign markets. The production of tricot products started later in Turkey and in India, the latter one being a sort of an experiment. The company has ordered individual products from these countries. In addition, Globe Hope’s knits have been manufactured in Latvia. Previously, shoes have been manufactured in Portugal but the production has been terminated because the company is looking for a producer that would be located closer to the company. For Globe Hope it is important that the delivery is ecological – production does not necessary have to be done in the home country if the products can be delivered to another country environmentally friendly. For example, Estonia is a suitable production country because it is located close to Finland.

All in all, Globe Hope’s international operations are regular and systematic. The company also has a clear expansion strategy which is to develop the sales in Germany by acquiring new customers. Globe Hope can be placed at the first stage of Luostari-*nen’s* internationalization model, the non-investment marketing operations (NIMOs), because company’s operation modes are direct and indirect export.

### 6.2.3 Networks in the internationalization process of Globe Hope

The business networks in Globe Hope's internationalization process are illustrated in figure 14. They consist of retailers, Japanese importers, agents, public organizations, and subcontractors.

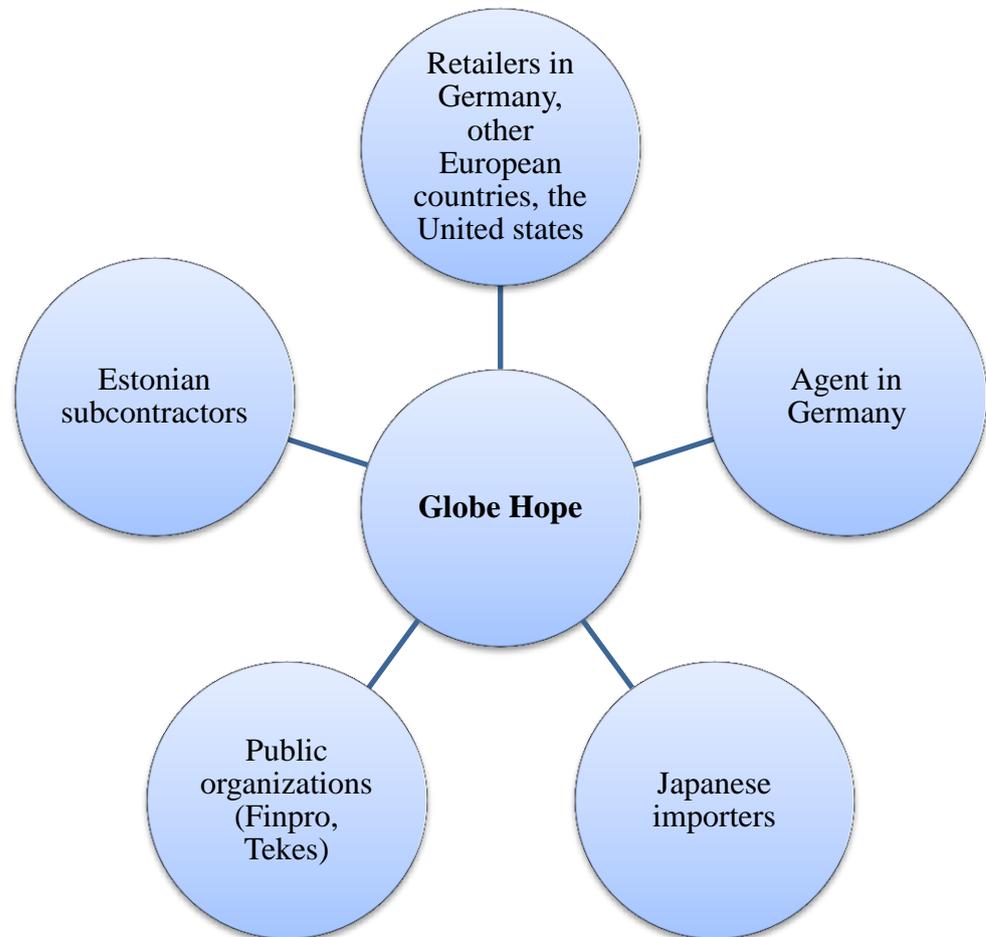


Figure 14 Business networks of Globe Hope

Globe Hope has concentrated on the German market and, therefore, the German *retailers*, the number of which is approximately 30, are an important business network. The CEO states that the only market the company has invested in is Germany but, in addition, the company has managed to sell products to other foreign markets without making notable investments. Globe Hope has succeeded in Germany because the German media has become interested in their products and values. However, the company's challenge is to achieve more visibility. Despite the success, the operation in Germany has progressed more slowly than Globe Hope's CEO had imagined.

*The retailers* in other markets, such as Europe and the United States, are also Globe Hopes business networks. The European retailer contacts were found at an international fair, whereas the retailer contacts of the United States were found at European fairs and from an exhibition in Washington. Globe Hope also has *an agent* in Germany, who is responsible for contacting retailers. Previously, the company has had agents in Spain and Italy but presently only in Germany.

Globe Hope has started its operation in Japan through *an importer*. The operation in the market has changed – the company presently uses a different importer. The CEO describes the trade in Japan as conservative and hierarchical, which is why the use of importers is common in Japan. The company has also sold directly to retailers but direct export has been terminated afterwards.

Globe Hope has had cooperation related to internationalization with different *public organizations*. First, the company has cooperated with Finpro which is a Finnish trade, internationalization and investment development organization. Globe Hope has participated in Finpro's market research projects which were partly financed by the state. The CEO believes that the projects have benefited the company, for example, the company has gained insight into new market areas. The disadvantage, however, is the fact that the results of the projects have not been concrete and they have caused expenses for the company. Globe Hope has also participated in internationalization projects of Tekes which is a Finnish funding agency for innovation. Globe Hope has gotten consulting assistance and funding for completion of these projects from Tekes.

In addition to home country, Globe Hope has subcontracting in Estonia. Globe Hope has five Estonian subcontractors and the CEO finds them very cooperative, for example if the subcontractors' capacity or knowledge is not enough, they will find a solution to the problem.

The social networks in the internationalization process of Globe Hope are described in figure 15. The social networks include the employee who is in charge of German market, the CEO's old colleague, and her friends.

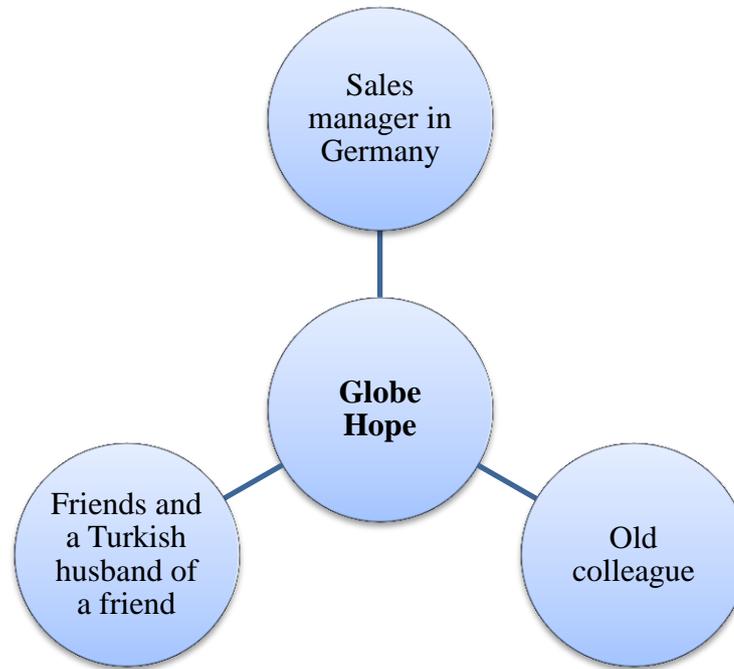


Figure 15 Social networks in the internationalization process of Globe Hope

The first part of the social networks is Globe Hope's *employee, a sales manager*, who has a significant role in the German operations. The sales manager is Finnish but has previously lived in Germany for 19 years and worked there. In the beginning, the sales manager worked for four years in Finland and familiarized herself with Globe Hope's operation. Thereafter she was transferred to Düsseldorf, Germany and, presently, she is responsible for the sales of the German companies. The sales manager has had an important role in Globe Hope's operation in Germany: she knows the market thoroughly and has excellent contacts which have improved the cooperation with German companies.

As mentioned earlier, the CEO has gained experience from textile industry while working as an entrepreneur for 13 years before she founded Globe Hope. Consequently, the CEO has created important networks which she has been able to utilize afterwards; when the CEO was planning to start subcontracting in Estonia, she asked old colleagues about their experiences from the Estonian subcontractors. Accordingly, an old colleague helped the CEO to find the first Estonian subcontractor. Thus, the second part of the social network is the *CEO's old colleague*.

The third part of the social network consists of *the CEO's friends*. The CEO has utilized her personal relationships in the internationalization process. First, the production in Turkey started with the help of a Turkish husband of the CEO's friend. The friend's Turkish husband helped the CEO by finding out what kind of textile producers there are in Turkey. The CEO visited a Turkish textile factory with this friend and her husband and ensured that the working conditions met the requirements. Consequently, Globe

Hope started to produce T-shirts at this Turkish producer. Second, Globe Hope has acquired retailer contacts with the help of the CEO's friends. The CEO's friends and acquaintances who have travelled abroad have given useful hints on interesting shops where Globe Hope's products could be sold. Afterwards, Globe Hope could contact those retailers and tried to sell their products to them.

## **6.3 Klo Design**

### ***6.3.1 Introduction of Klo Design***

Klo design is a lifestyle brand and a small business which was established in Turku in 2005. Its product range consists of accessories, furnishing fabric, furniture, and clothing and the products are sold in a design shops, fairs, and through retailers. The turnover was 184 000 Euros in 2012.

The company started from a school project, the idea of which was to design a harmonious collection for the Japanese market. The group consisted of designer students from different areas: clothing, textiles, and furniture. Later, the group decided to establish a company – for the majority of the group the objective was to gain some experience of the design industry in the short term, however, as for a few members their aim was to work for the company in the future. Consequently, within two years, the members changed their jobs and presently the CEO is the only original member left in the company. In addition to the CEO, there are three employees working at the company: one person is responsible for cloth printing and the other two for cutting and sewing the fabric. The interviewee is the CEO of Klo Design Ltd, Dani Aavinen, who is a designer by training.

The major part of the design was done when there were several co-owners in the company. The decision not to change the product offering radically after the co-owners left was a deliberate choice on the one hand, and an aim to save costs on the other hand.

### ***6.3.2 Internationalization process of Klo Design***

The internationalization process of Klo Design is demonstrated in Figure 16. The foreign production is marked above the timeline and sales countries below the line. The international operation mode of Klo Design is direct and indirect export. Export to Norway has been direct whereas exports to Japan, Denmark, Sweden, Germany have been done via an agent or importer.

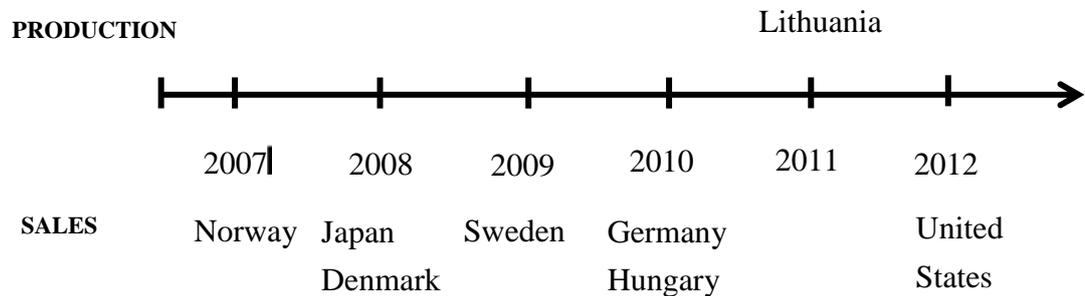


Figure 16 Internationalization of KLO Design

The internationalization process of KLO Design Ltd began in 2007 when the company received an order from a Norwegian retailer at an interior decoration fair. The following year the international operation expanded to Japan. The cooperation with the Japanese importer began when the importer visited a design shop where the products of KLO Design were sold, and was attracted by the products. As a result, the Japanese importer started to import KLO Design's products to Japan. Accordingly, KLO Design has been passive in the creation of these international relationships; the relationship was created at Norwegian retailer's and Japanese importer's instigation.

KLO Design found the Danish importer contact in 2008. The company searched the Internet for retailers of Danish design companies and contacted them. In consequence, one importer became interested and started to import KLO Design's products. KLO Design has utilized the same strategy in the search for Swedish and German importers. The cooperation with a Swedish importer began in 2009 and a German importer in 2010. KLO Design found the Hungarian importer in a sales exhibition in Budapest in 2010. The exhibition was a part of the Design Phenomenon project, which KLO Design organized. The project is discussed in more detail in chapter 6.3.3. In 2012, the web store in the United States was established. Unlike the creation of the relationships with the Norwegian retailer and the Japanese importer, KLO Design has played an active part in the creation of relationships with Swedish and German importers.

The major part of KLO Design products – accessories, furnishing fabric, and furniture, are made in Turku, Finland. However, the production of clothing and leather products is done abroad, in Lithuania. The production in Lithuania started in 2011 and was a large step for the company because Finnish production is highly valued by the CEO. The reason for producing abroad is naturally cost-related.

All in all, international sales operations are very irregular since foreign retailers and importers do not place orders very often. The CEO has not actively searched for new foreign retailers because international sales operations have not been highly profitable. One reason for the unprofitability is the fact that the small company does not have strong routines in exporting, and the international trade causes additional work. The total expenses in retail consist of production costs, transportation cost, fees for importers and additional paper work such as writing confirmations of order and invoices in English. Another reason is that the orders are small and rare which results to the fact that the company might make low profits or at worst revenues do not cover expenses. Foreign production on the other hand is more regular and might increase in the future if the company decides to invest in the clothing sector. Production in Lithuania has been rather steady.

The internationalization process of Klo Design is in its early stage and the company can be placed at the first stage of Uppsala model, no regular export activities, because international sales operations are occasional. Nevertheless, the company has operations in various countries both nearby and far away such as Japan. Klo Design can be placed to the first stage of Luostarinen's internationalization model: the non-investment marketing operations (NIMOs) because company's operations modes are both direct and indirect export.

### ***6.3.3 Networks in the internationalization process of Klo Design***

The business networks that have been found to be significantly involved in Klo Design's internationalization process are illustrated in the Figure 17. The business networks include a Lithuanian supplier, competitors, retailers, and importers.

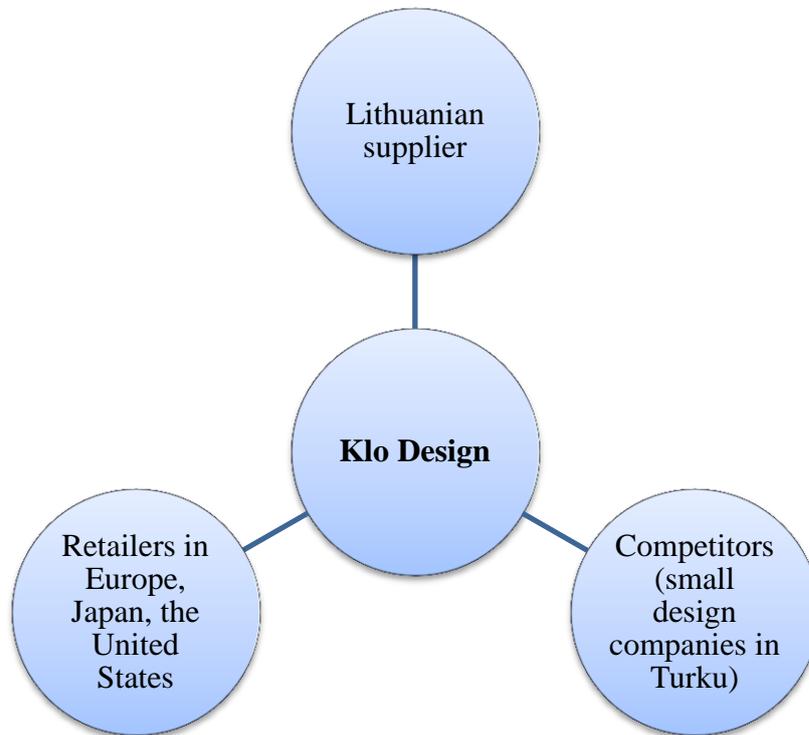


Figure 17 Business networks in the internationalization process of Klok Design

A part of Klok Design's products is produced in Lithuania and, thus, *the Lithuanian supplier* is an important business network partner. The production in Lithuania has been successful since the quality and prices of the products meet the requirements. The CEO also finds the location of the Lithuanian supplier suitable, because it is nearby and easy to travel to. Therefore, the CEO speculates that the production in Lithuania or somewhere else in Eastern Europe will increase. The CEO has familiarized himself with the production; he has visited the premises where the products are made and knows well the employees. However, the CEO strongly believes that there is no cooperation without challenges. Even though failures and mistakes sometimes occur, it is worthwhile to develop the existing relationship rather than create new one. The CEO gives reasons for maintaining existing relationships:

*“On the other hand, it's very difficult to create a new relationship.”*  
 (The CEO of Klok Design 2013)

The cooperation between Klok Design and the supplier has been close and the relationship has deepened throughout the years. The supplier has an employee who is in charge of Klok Design's production. The CEO mentions that the communication with this contact person has been simple because his requests are responded to rapidly and

the cooperation in general is uncomplicated. Accidentally, it turned out that the Lithuanian contact person had worked as a model previously and, consequently, Klo Design ordered promotional photographs from her. The CEO was very pleased with the professional work; the photographs were both technically and stylistically really good.

Klo Design has close cooperation with its *competitors*. The company is a part of Turku Design Now! group which is a group of eight independent design companies located in Turku. The group was established in 2008 and the objective is to combine members' resources in order to increase the coverage of the companies in both the domestic and international market. The group has attended fairs in Finland and abroad and there is a Turku Design Now! shop in Turku where member companies' products are sold. Accordingly, communality among small design companies in the region. In addition, Klo Design orders materials from Lithuania for another design company which is an example of international cooperation with competitors. Nonetheless, Klo Design's CEO does not consider other design companies as their competitors:

*“I don't like using the word “competitor” because I see that in the first place, we are our own competitor.”* (The CEO of Klo Design 2013)

The CEO finds that the company's own actions have greater impact on its performance than the companies' actions. The total market is, anyway, large enough for Klo Design because its share is relatively small.

*Retailers* can be considered as a part of Klo Design's business network. As mentioned earlier, the company has resales in various countries: Norway, Japan, Denmark, Sweden, Germany, Hungary, and the United States. However, major part of the foreign retailers has made orders only once or twice. Thus, the export is irregular and the cooperation with retailers and importers is rather slight. The CEO states that in order to make a breakthrough in Japan or international markets in general, KLO Design should find a chain of department stores that would make large orders.

In the interview, not many social networks were found and therefore there is no figure illustrating them. The previous employees, who were *designers*, can be considered as a social network because they have designed the products which have an essential role in international operations. The designers have also had influence on the global aspect of the company; originally, the idea was to plan a company which would export its products to Japan. Accordingly, the designers aimed to create a collection directed to international markets. Thus, the designers encouraged each other to the international activity. However, the CEO finds the original idea of making a breakthrough in Japan unrealistic. Presently the export to Japan is rather slight; the company receives orders from Japan approximately once a year.

## 6.4 Melaja Ltd

### 6.4.1 Introduction of Melaja Ltd

Melaja Ltd is a family business of plastics production which was established in 1990. During the 1990s, the business idea was to import plastic products. The operation has changed thereafter; in the 21<sup>st</sup> century, the company started its own production of plastic products. Altogether, Melaja Ltd has produced plastic products approximately 14 to 15 years of which 10 years the company has produced design products. The production is done entirely in Finland, despite the cost pressure, which is very rare in the industry nowadays. The significance of design products has grown radically; they compose approximately 95 per cent of the company's total sales.

Presently, the company employs nine persons. The interviewee is Risto Melaja, the CEO of Melaja Ltd. The product range is comprised of design and other products, such as trash cans, but study focuses on the design products. The design products consist of light fittings and furniture. The product range of Melaja Ltd is designed by one *designer*, Eero Aarnio who is internationally known artist. Melaja Ltd is responsible for the commercialization of the products and the compliance of safety regulations is extremely important, especially concerning the light fittings.

### 6.4.2 Internationalization process of Melaja Ltd

The international activities of Melaja Ltd are low and unsystematic. The CEO of Melaja finds that the company faces challenges in international operations:

*“...a small company's chances to achieve real export efforts are poor. All the time we are working as hard as we can [to achieve export efforts].”* (The CEO of Melaja Ltd 2013)

However, the company strives for increasing export activities all the time. The export activities started at the same time the company was established. Melaja Ltd has several retailers in many countries and two Finnish agents. The countries where the retailers are the most active are: Sweden, Belgium, France, and Germany. The countries are in order of importance from the most important export country to the least important. In addition to these countries, Melaja Ltd has exported its products to Taiwan, Japan, and Qatar. Melaja Ltd also has a web store and the products are sold directly to the end-customers through the web store. The production is done entirely in the home country, Finland.

Due to the fact that international operations are not regular there is no figure illustrating the company's internationalization process.

Sweden is the most important foreign market for Melaja Ltd and the export is done via an agent. The company has a couple of important retailers which make reasonable amounts of orders. In Belgium, Melaja Ltd also has an agent, but in France there is no agent since the retailers have been enthusiastic. The same retailers that have been Melaja Ltd's customers from the beginning are still making orders to the company, despite some retailer contacts that have been ended. The CEO emphasizes the importance of retailers:

*“They are incredibly important relationships. [...] Actually I could say that we have cooperated with the same retailers. (The CEO of Melaja Ltd 2013)*

Accordingly, after the relationship with a retailer has been created, it has typically lasted for long. The company has invested in maintaining the relationships with retailers.

In export activities, Melaja Ltd does not have one single strategy. However, the company has used the same operations model year after year. The operations model consists of two steps. In the first place, the company tries to get the products sold and the second step is to explore the market closely; the company tries to figure out which operation mode is the most suitable in a certain market and find the right contacts. For example, in some countries a foreign company needs to use an agent and in others it is easier to sell products directly to wholesalers without having an agent.

The Uppsala model is rather applicable to Melaja Ltd's internationalization process. The company's international activities are not regular and the export is directed mainly to neighboring countries. Thus, the company can be seen at the first stage of Uppsala model. The operation mode of Melaja Ltd is through indirect and direct export, and therefore, the company can be placed in the group of non-investment marketing operations (NIMOs).

#### **6.4.3 Networks in the internationalization process of Melaja Ltd**

The business networks in the internationalization process of Melaja Ltd are illustrated in the figure 18. The business networks consist of public organizations, retailers, agents, and competitors.

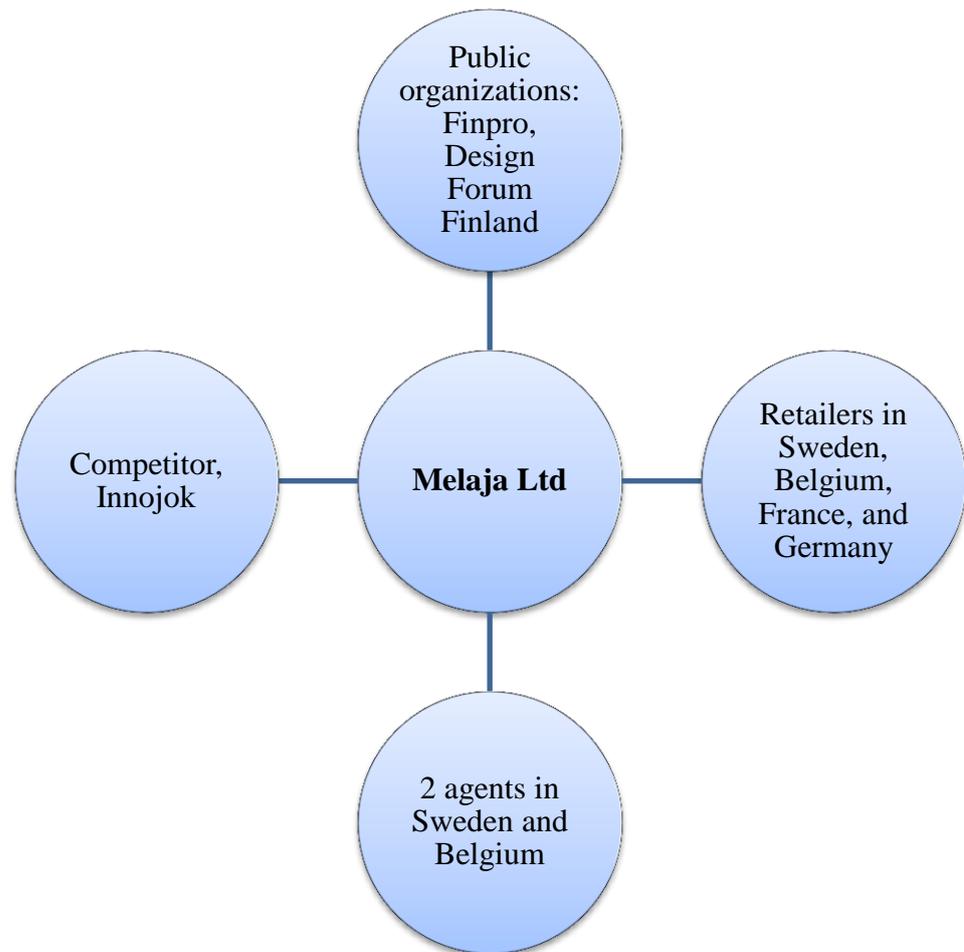


Figure 18 Business networks in the internationalization process of Melaja Ltd

Melaja Ltd has had several co-operation projects with *public organizations*. The company has participated in several export projects organized by the Finnish organization, Finpro. However, the CEO has been disappointed in all these projects for various reasons. The CEO emphasizes that the projects have not been profitable:

*“None [of the projects] has been profitable, we haven’t got a single sales lead. [...] We have participated in several projects and they have been quite short.”* (The CEO of Melaja Ltd 2013)

The aim of Finpro’s projects was to find new marketing channels in certain target countries. The market analysis would be worth its weight in gold for Melaja Ltd because for a small company it is expensive to make an analysis of a new foreign market by itself. The CEO finds that one problem is that the projects have been very short-sighted. Another problem is that Finpro has two clients, the state which finances half of

the project and the design company had to invest the remaining 50 per cent. Possibly the public organization cannot put enough effort in satisfying the company's needs since the state also has its own requirements. The CEO has a proposal for improvement for the export projects by suggesting that there should be a professional export manager which the projects currently lack. The export manager is needed to sell Melaja Ltd's and other Finnish design companies' products. If this kind of export manager was part of the projects, the design companies could benefit much more.

The largest co-operation project Melaja Ltd has attended is a Finnish design export event, called Hirameki Design × Finland in Japan, which was organized by Design Forum Finland, a promotional organization of Finnish design. Melaja Ltd did not benefit from the project the way the CEO expected; it did not acquire new customers and creating sales. There were potential customers in the event and Melaja Ltd found some contacts but the public organization did not assist in developing the relationships further and creating sales. The public organization managed to organize an impressive exhibition with large amount of guests but the real support Melaja Ltd received was minor. The CEO speculates that the experiences of the other design companies were the same.

Melaja Ltd has resale in Sweden, Belgium, France, and Germany and *the retailers* in those countries are the company's business networks. The company has managed to acquire new retailer contacts in international fairs, for example in Milan, Stockholm, and Copenhagen. All in all, for Melaja Ltd it has been very typical to establish new retailer relationships accidentally, for example at trade fairs. Melaja Ltd uses *agents* in the export to Sweden and Belgium. The CEO describes the cooperation with the agents as normal.

Melaja Ltd has some cooperation with its *competitors*, concerning the internationalization process. The company collaborates with one of its competitors, Innojok, which is a wholesaler of lighting equipment; Melaja Ltd produces products to Innojok and Innojok exports them. The CEO has also exchanged his views on the industry with competitors and had discussions with them. The information exchange is very simple since there is rather small amount of Finnish companies operating in the industry. However, the CEO wishes that there would be more networking between the design companies because the export of Finnish design could improve remarkably. An example of an advantageous cooperation with competitors is a project where an export manager of a public organization would export design companies products. The CEO sees that their products do not compete with other Finnish design companies' products:

*“We don't really have a competitor because no-one else is Eero Aarnio and no-one else sells his products.”* (The CEO of Melaja Ltd 2013)

The product range of Melaja Ltd is designed only by Eero Aarnio and no other company sells his products. The CEO finds that a customer's choice between Melaja Ltd's and other design companies' products is a matter of taste. Accordingly, cooperation with other design companies would be beneficial for each party.

The interview showed that Melaja Ltd does not have many social networks; cooperation with friends or acquaintances in the internationalization process did not seem to occur. However, one social network *the designer*, Eero Aarnio, has had a significant influence on the internationalization of Melaja Ltd. Because the company has an internationally known designer, their coverage in the interior decoration magazines has been extremely good. Thus, Melaja Ltd's has typically created new business contacts with the help of the designer. An example of improving Melaja Ltd's coverage is that a large Chinese newspaper publishing an article about Eero Aarnio where he presents products he has designed and which Melaja Ltd sells.

## **6.5 Cross-case analysis of the case companies**

In this chapter, the case companies are compared with each other. There will be a general comparison of all the four case companies. Also, there is a comparison between the more and less internationalized case companies. As mentioned earlier, the case companies were selected so that two of them, the interior decoration group of L-Fashion Group and Globe Hope, are more international than the other two, Klo Design and Melaja Ltd.

### ***6.5.1 Internationalization process of the case companies***

In this chapter, the case companies' internationalization processes are compared with each other. The suitability of the internationalization models, Uppsala model and born-global, for the case companies is also analyzed.

The case companies are placed in the Uppsala model based on their current stage in the internationalization process. The case companies' placement is shown in figure 19.

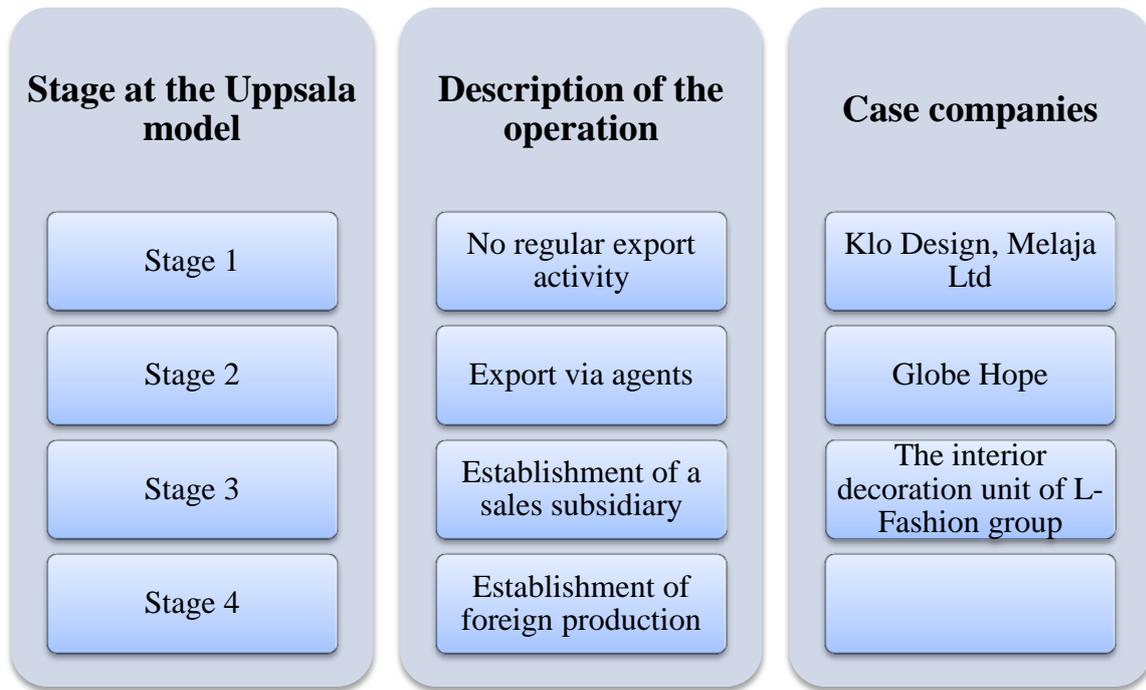


Figure 19 Case companies' stage at Uppsala model

As shown in the figure above, Klo Design and Melaja Ltd are placed to the first stage of the Uppsala model because the companies' export activities are not regular. Both companies have exported to several countries but the operation is occasional. According to the Uppsala model, the international operations are directed to the neighboring countries in the beginning of the internationalization process. However, the case companies have exported their products to countries far away, which contradicts the Uppsala model. In general, the Uppsala model suits Klo Design and Melaja Ltd rather well since their international operations are irregular and rather low and they also mainly operate in neighboring countries.

As already mentioned, the Uppsala model is difficult to apply to Globe Hope because the company is considered as a Born Global. Presently, Globe Hope's main operation mode is direct export which means that the company contacts the retailers directly. The company has one agent in Germany but otherwise the company exports directly. Globe Hope has neither established a sales subsidiary, nor a foreign production unit of its own. Based on this information, Globe Hope could be placed in the second stage of the Uppsala model, which is, however, slightly misleading since the description of the stage does not correspond to the way the company is operating.

The interior decoration unit of L-Fashion Group can be seen as achieved in the third stage of the Uppsala model, because the corporate group has established a sales subsidiary but not its own foreign production. The unit has benefited from the sales subsidiary in Russia and subsidiary in China, which is concentrated on the procurement of goods and logistics. In Russia, the unit has been able to utilize networks created by the corpo-

rate group. The interior decoration products are also sold in the corporate group's own stores in Russia. The internationalization process has been directed to neighboring countries: Russia, Sweden and the Baltic countries. Accordingly, the Uppsala model suits the interior decoration unit rather well.

All in all, when trying to apply the Uppsala model to the case companies, the model's limited scope is revealed. First, the model takes only a few operation modes into consideration: exporting via agents, establishment of a sales subsidiary and foreign production. There are, however, several other modes that have been presented in the literature after the creation of the Uppsala model; for example, Luostarinen has 15 operation modes in his model (see Chapter 3.2). Second, the international operation does not begin in the neighboring countries in each of the cases. Accordingly, the Uppsala model seems to be more applicable to some companies than to others, for example, the Born Global theory describes Globe Hope's internationalization process much better than the Uppsala model.

### ***6.5.2 Networks in the internationalization process of the case companies***

In this chapter, the case companies' business and social networks in the internationalization process are compared with each other. This research showed that the more internationalized companies, the interior decoration unit of L-Fashion Group and Globe Hope, have more business networks than the companies with less international activities. This is a natural outcome; as a company becomes more international the number of retailers and suppliers increases.

The case companies' business and social networks are summarized in table 5. The table illustrates what subcategories of business and social networks each case company has utilized in the internationalization process.

Table 5 The business networks of the case companies in the internationalization process

| The case company         | Business networks |        |                                      |             |                      | Social networks |               |            |                       |
|--------------------------|-------------------|--------|--------------------------------------|-------------|----------------------|-----------------|---------------|------------|-----------------------|
|                          | Foreign retailers | Agents | Foreign suppliers/<br>subcontractors | Competitors | Public organizations | Friends         | Acquaintances | Colleagues | Employees (designers) |
| Interior decoration unit | X                 |        | X                                    |             |                      |                 | X             |            | X                     |
| Globe Hope               | X                 | X      | X                                    |             | X                    | X               | X             | X          | X                     |
| Klo Design               | X                 | X      | X                                    | X           |                      |                 |               |            | X                     |
| Melaja Ltd               | X                 | X      |                                      | X           | X                    |                 |               |            | X                     |

The subcategories of business networks have been described as foreign retailers, agents, foreign suppliers or subcontractors, competitors, and public organizations and the subcategories of social networks such as family, friends, acquaintances, colleagues, and employees. The classification is rather similar to that in Chapter 4.2.3. However, the interviewees used slightly different terms when referring to some of the networks; for example, all the case companies are in the retail business and, therefore, instead of using the term customer, the interviewees mainly talked about retailers.

Globe Hope, Klo Design, and Melaja Ltd have four types of business networks whereas the interior decoration unit has only two types. However, interior decoration unit and Globe Hope have higher number of business networks than the other case companies; their number of suppliers and retailers is much higher, for example, Globe Hope has 20 retailers only in Germany. Globe Hope has all four types of social networks whereas the interior decoration unit has only two and Klo Design and Melaja only one type. The network types that all the case companies have are foreign retailers and employees (designers). Accordingly, the types of the case companies' networks are rather different. Globe Hope has the largest amount of different types of networks – it cooperates with every type of network except for competitors.

The case companies' most important business networks differ from each other. For the interior decoration unit, the most important business networks have been found to be the corporate group because it has two subsidiaries which the unit has been able to utilize. The corporate group has also created networks in the foreign markets which have been beneficial for the interior decoration unit. Globe Hope has invested in the German

market and, thus, German retailers can be considered as the company's most important business networks. Globe Hope has approximately 30 retailers in Germany which is rather high amount. The most important business network of Klo Design is probably the Lithuanian supplier because out of all international activities, the production in Lithuania is the most active. The retail is low and, therefore, the cooperation with retailers and agents is irregular. Melaja's most important network is the social network, the Designer, Eero Aarnio. The designer is well-known and his popularity has assisted the coverage of Melaja Ltd and its products.

More internationalized companies were found to have more social networks than the less internationalized companies. Their social networks were found to be established mainly with the help of business networks. The social networks of the interior decoration unit of L-Fashion Group were created through business networks, Indian suppliers and the Russian retailer. The Russian retailer's contacts provided essential assistance for the unit. Indian suppliers' contacts have also been a great help for the production activities in India. Globe Hope on the other hand has utilized the CEO's social networks in the textile industry which has helped to finding new foreign suppliers and retailers. The fact that the CEO of Globe Hope has operated for several years in the textile industry has potentially made the early internationalization possible. The social networks of less internationalized companies, Klo Design and Melaja Ltd, were their designers. Klo Design may probably replace the lack of social networks with cooperation with competitors. The close cooperation with competitors is something that does not occur among the other case companies. The cooperation with competitors has not, however, assisted the internationalization remarkably; Klo Design and its competitors have gone to fairs together and Klo Design orders some materials to its competitor.

## 7 CONCLUSION

This chapter discusses how the results of the study relate to earlier research. There are also suggestions for the managers, the Finnish design industry, and the public organizations. In addition, the limitations and suggestions for the future research are discussed. The implications are made based on the theoretical overview and empirical findings.

### 7.1 Theoretical implications

This study indicated that Finnish design companies may export to foreign countries which are located far from the home market even if the internationalization process has only recently started, international operations being still very limited. These features were taken into account in the criticism towards the Uppsala model. Accordingly, this type of operation is in contradiction with the stage-models of internationalization. A company which operates this way may not be a Born Global either, since the internationalization is not rapid and the domestic market is much more important than the foreign one.

This study also showed that social networks are crucial in the beginning of the internationalization process. A small firm, which is only starting the international operation is typically lacking international experience and finding new customers, for example retailers, might be very difficult and expensive. However, the assistance of a local person or a friend with contacts in the target country can be a key to new contacts. Thus, *social networks can be extremely helpful in the beginning of the internationalization process* since they may replace resources, such as capital and knowledge which are required in market analyses. In the earlier literature, networks have also been seen as a way to overcome limited resources; knowledge can be acquired by exchanging knowledge with networks (Chetty – Wilson 2003). This study also showed that social networks may enable the early and rapid internationalization which is characteristic for a Born Global firm. With the utilization of useful retailer and supplier contacts of friends, acquaintances, or old colleagues, the internationalization may progress rapidly.

The research showed that the boundary between social and business networks is blurred and, therefore, the classification of networks into social and business networks may be questioned. For example, social networks such as old colleagues may assist a company to acquire new supplier contacts. On the other hand, a company may create cooperation with a social network through a business network; for example a supplier may contact its acquaintance to produce some material for the company. Accordingly, *social networks can be established with the help of business networks and vice versa.*

Earlier literature suggests that networks assist the internationalization of a firm (Coviello – Munro 1997; Vasilchenko – Morrish 2011). However, this study does not support this finding completely since the empirical analysis showed that *not every network enhances the internationalization process*. The assistance of public organizations in cooperation projects was shown not always to be useful from the company's point of view. A small company's resources are limited and the support from public organizations in internationalization can be really useful. The company finances part of the cooperation project which may be a large share of a small company's budget and, therefore, high expectations fall upon the project. *The cooperation projects with public organizations may even be unprofitable for a company* because they may not create resources, such as new networks, but instead cut company's resources by causing expenses. The projects may be unsatisfying because the public organizations either do not know companies' needs or they do not have enough resources to fulfill them. The projects are also short-term which makes it difficult to create close and long-lasting relationships with foreign retailers. On the other hand, this conclusion does not take the public organization's viewpoint into account because the research is founded on design companies' interviews. Possibly the company has unrealistic expectations of the cooperation projects or do not know how to utilize the assistance of the public organization. For example, in an export event the company could create new relationships on its own initiative instead of expecting the public organization to take care of the networking.

This study indicated that *there is cooperation between small Finnish design companies and they are receptive to cooperation with competitors*. The reason for the willingness to cooperate might be that small companies may not consider other firms in the industry competitors and find that the collaboration would be beneficial both for themselves and the competitors. The situation from a large firm point-of-view seems to be contrary; a large company does not tend to cooperate with competitors and is probably afraid of suffering a loss if it did. In addition, the large company may not need support from external players, such as competitors, as much as a smaller company.

## **7.2 Managerial and policy implications**

According to the results of this study, managers could aim at creating cooperation with different networks. First, they could *invest in starting or increasing the cooperation with other companies in the industry*. They could have discussions with competitors about the industry and the international operation and, thus, avoid making the same mistakes that others have done. Managers could also *develop relationships with locals in a foreign market or hire an employee who has experience in the target market*. When entering a new foreign market, the local knowledge is crucial; the local person or employ-

ee with knowledge about the foreign market can assist in finding suppliers, producers, or retailers and in this way enhance the internationalization process.

When the international operation is in the beginning, the retailer network seems to be unorganized; the company may have several separate retailers from many different countries. One relationship may end already after the first purchase while others may continue even a long time. *The manager could be more systematic in managing the retailer network*; acquiring retailers and maintaining the relationships could be planned more carefully. Sometimes a retailer takes the initiative in contacting the company and making an order. In a situation like this, the manager could find out how the retailer had found it because this information could be extremely valuable for the company; the manager can even find a new channel which can be utilized later in acquiring retailers. The manager can also influence the continuation of the relationship with the retailer; once the relationship is established it is worth to maintain it.

It has been proposed that the players in the design and fashion industry could organize meetings for exchanging experiences in order to improve international operations (Lille 2010). This study supports this view; *Finnish design companies could exchange knowledge with other companies operating in the industry about suppliers and modes of operation*. First, it would be beneficial to share the information about trustworthy suppliers and producers that meet requirements concerning the product quality and working conditions. Second, companies could share their experiences of suitable operation modes because it may be difficult to find out whether for example direct or indirect exporting is a more suitable way of operating in a certain country. Consequently, this would be a great help in the market research and would save companies' time and resources.

In the design industry, the cooperation between companies may not be utilized enough. For example, Finnish design companies could create common international projects with other design companies. They could use the same foreign producer which would reduce the production costs because of the larger amounts of orders. The companies could also share storage space abroad and, thus, save in storage expenses. In addition, common transportation would cut transportation costs and, hence, operation could also become more ecological. Ecological values seem to be very important for several companies and if there was more cooperation between exporting companies; for example the common transportation, the vehicle emissions would be reduced. *Accordingly, companies within the industry could aim at collaboration because it would be valuable for both parties; the costs would decrease and the operation would be more environmentally friendly*.

This study showed that the Finnish design companies are not satisfied with the cooperation with public organizations and, accordingly, this area needs improvement. First, *the public organization should discuss with the company about its needs in order to*

*understand the company's expectations of the cooperation project thoroughly.* The public organization and the company could plan the project together so that it would meet the requirements of each party: the public organization itself, the design company and the government. Companies' expectations from the cooperation projects seem to be concrete benefits, such as establishing new retailer contacts, maintaining the relationship, increasing sales, and receiving useful data from comprehensive market research. *The public organization could also organize long-term projects instead of organizing stand-alone impressive events or exhibitions.* If the public organization could meet the requirements of the company, such as increase its sales, the government would also benefit.

### **7.3 Limitations and implications for the future research**

In this research, selected elements from theoretical literature were investigated. Three theories in the area of internationalization process were discussed: Uppsala model, operation modes, and Born-Globals; whereas in the network field, business networks, social networks, and the network approach to internationalization process, were discussed. Thus, the research does not offer complete vision of these fields.

This research investigated four Finnish design companies and the empirical data is based on the interviews with representatives of each of these companies. The results are strongly based on the perception of the interviewees and this is why the perspective is rather narrow. Accordingly, the results of this research are strictly linked to the four case companies and they are not applicable to every Finnish design company, nor the whole Finnish design industry. However, this study may offer valuable information about the Finnish design companies which may help understand their networks and internationalization process. In this study, several employees from each company could not be researched. Thus, the results represent the managers' viewpoint. This study describes the companies operation in a certain moment and cannot take a stand on the development of the companies' operation.

This study investigated networks and discussed only the company's viewpoint on the cooperation. Accordingly, this research offers a biased view since an opinion of only one party, the design company, is taken into consideration. For example, the cooperation with a public organization is discussed from the company's point of view. By investigating also the public organizations view on the cooperation, a more realistic general view could be created.

This research can be utilized in future research. In order to get broader understanding of the companies' networks in the internationalization process, other representatives of the case companies could be interviewed. The interviews could also last longer and,

thus, offer broader and deeper information about the company. This research could be continued by investigating more Finnish design companies; the same research could be carried out to other Finnish design companies in the future which would enable the broader scale research of the topic. Broader research could also possibly offer information about the industry in general.

Two areas of this research could be investigated in the future; social networks and public organizations. First, the utilization of social networks in the internationalization process of a Finnish design company could be investigated in more detail. Social networks were found to be valuable in the internationalization process and their utilization should be investigated more profoundly. Second, the cooperation between design companies and public organizations could be investigated because the cooperation should be developed. By exploring the ways of improving the cooperation valuable information could be offered for both the design company and public organization.

## 8 SUMMARY

The purpose of this research was to understand the role of networks in the internationalization process of Finnish design companies. In order to get a comprehensive understanding of the topic, the following sub-objectives were discussed: description of the internationalization process of Finnish design companies, analysis of what networks are related to internationalization process of Finnish design companies, and analysis of how networks are utilized in the internationalization process of Finnish design companies.

The Finnish design industry was introduced in chapter 2. The concept of design was defined to refer to the industries of textiles, furniture, clothing, and lighting equipment in the research. The Finnish design has a long history and, therefore, the background and also the industry's current challenges were explained so that the concept would be understood more profoundly.

Chapter 3 discussed in detail theories about the internationalization process; two stage models, the Uppsala model and Luostarinen's operation modes, were explored. The criticism of the Uppsala model was also presented in order to take its limitations into account. In addition, the Born Global theory, which is a contrary view to stage models, was discussed. The concept of network was investigated in Chapter 4; networks were classified into business and social networks and network approach to internationalization was discussed.

Chapter 5 explained how the empirical research was conducted. The research approach was a qualitative case study research and it was decided to investigate multiple cases. The four case companies, the interior decoration unit of L-Fashion Group, Globe Hope, Klo Design, and Melaja Ltd, were selected based on the definition of design industry. In addition, two of them are less internationalized and the other two are more internationalized, which enabled a comparison of the case companies. Data was collected through semi-structured interviews and themes related to the sub objectives were discussed in the interviews. Finally, the credibility of the research was explored.

The case companies were analyzed in Chapter 6. The analysis was done in the following manner; firstly, cases companies were introduced and, secondly, their internationalization processes and networks were described. Thirdly, case companies were compared with each other in the form of cross-case analysis. Chapter 7 described how the results related to earlier research. This research showed that cooperation with social networks, such as local persons, can be extremely helpful in the beginning of the Finnish design company's internationalization process. Accordingly, managers could develop relationships with locals in a foreign market or hire an employee who has experience from the target market. This study also indicated that networks may not always enhance the internationalization process, for example, cooperation with public organizations was not beneficial in a design company point of view. Hence, the cooperation projects with

public organizations should be improved so that the requirements of the company would be met. There should also be more cooperation between a firm and its competitors because it would benefit both parties by, for example, reducing costs. However, the cooperation between small Finnish design companies was found to occur in some extent whereas large design companies were not be as open to the cooperation as small companies. The limitations of the research were also discussed; the perspective is rather narrow since the results are strongly based on the perception of the interviewees and the study investigated only four Finnish design companies, which is why the results are not applicable to the whole Finnish design industry. In future research, other representatives of the case companies could be interviewed. This research could also be continued by investigating more Finnish design companies. In addition, social networks and public organizations in the internationalization process of a Finnish design company could be investigated in more detail.

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## APPENDIX

### APPENDIX 1      EMPIRICAL RESEARCH DATA

#### INTERVIEWS

Aavinen Dani, Chief executive officer, KLO Design Oy, Interview 22.10.2013.

Linninen Annukka, Division Director, L-Fashion Group Oy / Kodinsisustus. Interview 10.10.2013.

Lukkala, Seija, Chief executive officer, Globe Hope. Interview 28.1.2014

Melaja, Risto Chief executive officer, Melaja Ltd, Interview 31.10.2013.

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