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SME Internationalization through Acquisition

Finnish SMEs expanding to Germany

International Business

Bachelor's thesis

Turku School of Economics

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This thesis is commissioned by the Finnish Business Transfer Forum (Omistajanvaihdosfoorumi), which aims to promote and foster a better environment for SMEs' business transfers. Business transfers, including generational changes and acquisitions, are likely to increase in the future. Acquisitions, in particular, provide an alternative avenue for business expansion, growth and internationalization, also contributing to healthy market dynamics. This thesis suggests that there are various advantages to choosing acquisition as a market entry strategy.

Small and medium enterprises (SMEs) are a backbone of the economy, driving economic growth, job creation and innovation. Given the limited market potential in Finland, many SMEs must look for growth opportunities abroad. Promoting and supporting such growth can support local economic well-being and its competitiveness. While foreign acquisitions are widely researched in international business, a vast majority of studies focus on multinational enterprises, leaving a gap in the understanding of SME acquisitions.

This thesis seeks to identify internationalization opportunities for Finnish SMEs, with particular focus on the German market. Germany's large size, sophisticated market and industries, and strategic location in Central Europe might present internationalization and growth opportunities for Finnish SMEs. By investigating how and when acquisitions generate value, alongside the central challenges of SME acquisitions, I seek to uncover factors that contribute to successful foreign acquisitions.

The findings indicate the pre-acquisition decisions play a critical role in determining the success or failure of acquisitions. Success also depends on effective management of the process, and the quality of post-acquisition integration. While there are several factors that must be considered to achieve desired objectives, proper preparation, competent management and support of external professionals can enable Finnish SMEs to internationalize their business through acquisition.

Key words: acquisition, internationalization, SME.

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Tämän opinnäytetyön toimeksiantaja on Omistajanvaihdosfoorumi, jonka tavoitteena on edistää pk-yritysten omistajanvaihdoksia ja luoda niille suotuisampaa toimintaympäristöä. Omistajanvaihdokset, joihin lukeutuu sukupolvenvaihdokset ja yritysostot, tulevat todennäköisesti lisääntymään tulevaisuudessa. Yritysostot tarjoavat vaihtoehtoisen väylän liiketoiminnan laajentamiselle ja kansainvälistymiselle, mikä myös edistää tervettä markkinadynamiikkaa. Tässä tutkimuksessa esitän, että yritysostojen valitsemisella on useita etuja kansainvälistymiselle.

Pienet ja keskisuuret yritykset ovat talouden selkäranka, joka edistää talouskasvua, työllistymistä ja innovaatioita. Koska Suomen markkinapotentiaali on rajallinen, monet pk-yritykset joutuvat etsimään kasvumahdollisuuksia ulkomailta. Tällaisen kasvun edistäminen voi tukea Suomen taloudellista hyvinvointia ja kilpailukykyä. Vaikka ulkomaisia yritysostoja tutkitaan laajasti kansainvälisessä liiketoiminnassa, valtaosa tutkimuksista keskittyy monikansallisiin yrityksiin, jättäen aukon pk-yritysten yritysostojen ymmärtämiseen.

Tässä opinnäytetyössä pyrin kartoittamaan suomalaisten pk-yritysten kansainvälistymismahdollisuuksia, keskittyen erityisesti Saksan markkinoihin. Saksan suuri koko, kehittyneet markkinat ja toimialat sekä strateginen sijainti Keski-Euroopassa saattavat tarjoavat kansainvälistymis- ja kasvumahdollisuuksia suomalaisille pk-yrityksille. Tutkimalla, miten ja milloin yritysostot tuottavat arvoa, sekä pk-yritysten yritysostojen keskeisiä haasteita, pyrin löytämään tekijöitä, jotka edistävät onnistuneita ulkomaisia yritysostoja.

Löydökset osoittavat, että yritysostoa edeltävillä päätöksillä on suuri vaikutus yritysostojen onnistumiseen. Menestys riippuu myös prosessin hallinnasta ja yritysoston jälkeisen integroinnin laadusta. Vaikka haluttujen tavoitteiden saavuttamiseksi on otettava huomioon useita erilaisia tekijöitä, niistä asianmukainen valmistelu, pätevä johto ja ulkopuolisten ammattilaisten tuki voivat merkittävästi auttaa suomalaisia pk-yrityksiä kansainvälistymään yritysostojen avulla.

Avainsanat: yritysostot, kansainvälistyminen, pk-yritykset.

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1 Introduction

1.1 Background

Small and medium enterprises (SME) are critical for both local and global economies, contributing to economic growth, job creation and innovation. SMEs serve as a backbone of the economy, amounting for 99 % of all European companies. European SMEs amounted for 51,8 % of value added in 2022. The European Commission defines SMEs as firms with fewer than 250 employees and annual turnover of less than €50 million or balance sheet total of less than €43 million. The definition includes micro enterprises, which represent a vast majority of Finnish companies. Micro enterprises employ under 10, small-sized enterprises between 10–49 and medium-sized enterprises between 50 and 249 employees. (Katsinis et al., 2024)

Despite SMEs' economic importance, academic literature tends to focus on the business transfers, more specifically mergers and acquisitions (M&A), of large enterprises. Foreign entry strategies of SMEs have many differences compared to large enterprises, for instance, limited resources and managerial experience, and fewer international networks (Sestu et al., 2018). This leaves a gap in internationalization and market entry literature, focusing particularly on SMEs, despite their major contribution to local economies, employment and development.

Business transfers, including generational changes and acquisitions, are becoming increasingly relevant due to demographic changes, mainly the aging of the population. Transfers do not only affect individual firms but hold larger macroeconomic significance. Failed business transfers or closure of business could create job disappearances and financial losses, calling for more attention to business transfers among SMEs. Promoting business transfers among SMEs could contribute to securing employment, economic stability and growth.

Finland's small domestic market, with a population of approximately 5,6 million (Statistics Finland, 2024) can limit scalability and growth opportunities. Many might be compelled to seek opportunities abroad, where they can access larger customer bases, new resources, and diversify their business operations. Internationalization is often a necessity for the survival and growth of business, for which acquisition can be used for. Acquisitions provide many opportunities, such as immediate access to new markets, clients and established business. Therefore, it might be a way to efficiently enter foreign markets. Germany and its mature economy, large market size, and cultural and economic similarities with Finland, emerge as an attractive business location for Finnish SMEs looking to internationalize.

However, acquisition is a complex venture and requires careful considerations. Each acquisition is unique, and therefore, strong generalizations are hard to come up with. While acquisition research has been active for decades, findings are mostly fragmented. Most of the literature focuses solely on multinational enterprises, which leaves the research of SME acquisition rather scattered. Some concepts of multinational enterprises can be applied to small and medium enterprises, although, research shows that SMEs entry mode choices are influenced by different factors, and therefore, the applicability is limited. By analysing relevant literature, this study seeks to find key factors and strategies required for successful SMEs foreign acquisitions.

1.2 Aim of the thesis

The aim of my thesis is to respond to the increasing need for academic literature focusing on market entry theories, especially on foreign acquisitions of SMEs. This thesis is commissioned by the Finnish Business Transfer Forum (Omistajanvaihdosfoorumi), which aims to promote business transfers and facilitate a favorable environment for them in Finland. Its OVKV-project's goal is to increase awareness of opportunities of acquisitions as part of international growth of Finnish SMEs.

The purpose of the thesis is to explore SME internationalization through acquisitions by focusing on Finnish SMEs acquiring companies in Germany. I begin with diving deeper into the factors that make Germany an attractive location choice for acquisition. To explain why a Finnish SME might explore expanding into Germany, I discuss the theory of psychic distance. This part answers my first sub-question: *why should Finnish SMEs consider entering the German market?*

The choice of market entry with a high ownership level lies between greenfield investment and acquisition, also referred to as organic or inorganic growth. Therefore, I will compare acquisition to organic growth to provide a better context on motivations for acquisition and its strategic opportunities. Further, I explore the characteristics of SMEs that might choose to acquire. The aim of this part is to understand motivations for acquisitions, defining what a successful and well-performing acquisition can be, and in which situations they could create value. The part is seeking to answer the second sub-question: *why should SMEs consider acquisition as a foreign market entry mode?*

To understand key considerations for SMEs entering foreign markets through acquisitions, chapter 3 introduces the main steps of an acquisition process. Understanding the challenges a firm can face after completing the deal, and how this phase affects the success of the acquisition, is likely to affect the decisions made in pre-acquisition phase. Therefore, while my thesis is focused on the phase prior the deal, I must discuss key aspects of post-acquisition phase to support the purpose of my thesis.

This part introduces the main steps and challenges of the acquisition process, answering my third sub-question: *what challenges and pitfalls SMEs face in acquisitions?*

Building on evidence found in chapter 3.1, this part introduces a framework to navigate the acquisition process. The framework is developed through findings from literature focusing on main steps of the process, and it combines considerations presented by the researchers as well as practical suggestions, which are result of my analysis. Synthesising findings into a comprehensive framework, I am contributing to both academic understanding and practical insights for Finnish SMEs expanding into German market through acquisitions. The last part answers my main research question: *what contributes to successful SME internationalization through acquisition?*

Eventually, this thesis aims to bridge the gap between academic research and practical needs by exploring the internationalization of SMEs through acquisitions, with a focus on Finnish firms expanding to German market. By combining theoretical insights and practical suggestions, the study contributes to academic understanding while offering actionable suggestions for SMEs and professionals involved in business transfers. This study also shows potential gaps in research, discussed in conclusions of the thesis. Given the limited focus on SME acquisitions research and increasing significance of business transfers, the research aims to address a timely and important need.

2 Internationalization and Acquisitions

2.1 Rationale for Finland-Germany Context

Psychic distance is defined as certain characteristics and differences of two countries, concerning for example, language, cultural norms and values, business practices, political, legal and educational systems, and industrial development (Johanson & Vahlne, 2009; Ojala, 2008). Perceived distance might also be affected by former familiarity and experience in the foreign country, and therefore, varies individually. A greater psychic distance is equivalent to increased risk and liability of foreignness, that the firm has to overcome (Johanson & Vahlne, 2009), decreasing probability of a full acquisition (Sestu et al., 2018, p. 67).

Psychic distance is different from cultural distance since it is based on individual perception, whereas cultural distance is defined at national level. Therefore, psychic distance is more likely to have an impact on specific investment decisions (Sousa & Bradley, 2006), especially in SMEs where decisions are made by one or few entrepreneurs or managers (e.g. Pablo et al., 1996). The psychic distance explains why internationally inexperienced firms first tend to enter markets similar to their home environment (Johanson et al., 1975). For example, Sweden can often be the first choice for Finnish firms. The theory can also explain why Germany might be an attractive market for Finnish SMEs.

Germany might be a potential country for Finnish SMEs due to many similarities between the countries, but also manageable differences. Politics, regulations, and cultural factors can increase the risk of foreign acquisitions (Angwin & Savill, 1997, p. 427). A study has shown that high environmental uncertainty, for example, institutional differences, decrease probability of acquisitions (Brouthers & Nakos, 2004), especially for SMEs (Laufs, 2015, p. 1111). The European Union and its membership provide a single market with harmonized regulations, trade policies and legal structures, promoting a safe and stable environment with low barriers. Both are democratic countries, having strong rule of law and stable political environments. Therefore, there isn't any significant institutional differences that increase the psychic distance.

Both Finland and Germany are open economies, well integrated globally, encouraging international trade and posing minimal government intervention. However, Germany is significantly larger in market size and population, possibly indicating more business opportunities. Germany has the largest population in Europe (Worldometer, 2024), where it ranks first by GDP and fourth worldwide (Worldometer, 2022). For comparison, Table 1 presents key numbers of Finland and Germany side

by side. Finnish SMEs might benefit from Germany's larger markets, customer bases, number of local partners and wide international networks. The bigger size and central location of the country could as well imply on larger scope and scale of operations and revenue.

Table 1. Comparing Finland and Germany (Adapted from Worldometer, 2022, 2024)

	Finland	Germany
GDP	\$281 billion	\$4,1 trillion
Worldwide rank of GDP	47th	4th
Population	5,6 million	84,5 million
Worldwide rank of population	117th	19th

The comparison of Finland and Germany (table 1) presents the size difference between the two countries, using two key metrics: GDP and population. The worldwide ranks show that Germany plays a significantly bigger role in the global economy, compared to Finland which is relatively smaller. Of course, such simple metrics only give an indicative picture of the role of both economies. However, because the market environments of the countries are rather similar, such a simple comparison can be used here to support the discussion.

Beside the market size, the attractiveness of German market could be explained by its strategic location, especially compared to relatively distant location of Finland. The central position with its 9 neighbour countries makes Germany significantly well-connected, with an easier access to other central European markets as well. On the other hand, the geographic distance appears to decrease the likelihood of acquisitions between two countries (Chakrabarti & Mitchell, 2016). The distance to Germany might pose challenges or create additional friction for a Finnish SME, for example, by requiring close managerial presence or regular travelling.

While there are some cultural differences, Germany is one of the most similar countries in all central Europe, compared to Finland. Therefore, one could assume that if a Finnish SME wants to expand to central Europe, Germany might be the first choice. Finnish and German national cultures are similar, with only slight differences (Nyström, 2017). The study states that both place high value on efficiency, punctuality, reliability and honesty, but German business culture is more hierarchical, and communication more formal compared to Finland. Like said before, the national differences are

mostly manageable, and being aware of the differences might help to take the right approach to overcome them.

The Finland Chamber of Commerce (2023) identifies two trends in Germany: green energy and digitalization. Russia's warfare in Ukraine led to an energy crisis in Germany, which relied on Russian inexpensive fossil fuels. In result, Germany has been localizing its value chains and prioritizing security of supply. At the same time, Germany aims to achieve climate neutrality by the year 2045, completely abandoning coal and nuclear energy. German firms have also expressed insufficiency in digitalization and digital infrastructure, which is still in transition. These developments could mean increasing business opportunities for Finnish firms, who are associated with well-developed knowhow in the areas of expertise, and high reliability. (Finland Chamber of Commerce, 2023)

In conclusion, the institutional environments of Finland and Germany are rather similar, which lowers the environmental uncertainty and provides a stable location for businesses. Germany's size, sophisticated market and strategic location in the centre of Europe provide many attractive opportunities for Finnish SMEs seeking to internationalize. The national cultures have many similarities, and with some awareness, the differences are also possible to overcome. However, psychic distance has probably the biggest influence on SMEs location choices, and since they vary individually, the decisions and outcomes of firms can be very different.

2.2 Acquisition as a Market Entry

Research offers extensive suggestions for internationalization motivations. Dunning's eclectic paradigm presents a classic theory, dividing the motivations into four categories: resource, market, efficiency, and strategic asset seeking investments (see Sestu et al., 2018). By pursuing resource seeking investments, a company may explore resources abroad that are not available in the domestic market or are more convenient to acquire in another country. Finnish SME might, for example, seek advanced facilities, new technologies, or skillful labor. Market seeking investments are pursued to expand the company's customer base, which large market such as Germany offers. Efficiency seeking investments are aimed at achieving economies of scale, and strategic asset seeking investments seek to acquire strategically important resources and capabilities. While firms might seek international markets for various reasons, most can be included in these categories. Accordingly, Finnish SMEs in Germany might seek larger markets and customer bases, sophisticated industries and valuable knowledge and capabilities.

A study of eight Finnish small and medium software enterprises which have entered the Japanese market identified several reasons for the market entries (Ojala, 2008). Apart from one firm that followed an important customer, all firms were attracted by the size or sophistication of the target industry in the new market. The motivations for market entries were seeking new and larger customer bases, economies of scale and scope, accessing new knowledge, capabilities and network opportunities. These motivations align with the Dunning's motivations for internationalization and discussed opportunities that Germany might offer, both presented above. According to the study, all but one of the software enterprises had previous international experience in psychologically closer countries, supporting the Uppsala theory (Ojala, 2008, p. 139) further discussed in the chapter 2.3.

Gradual internationalization may not always be viable when firms need to grow quickly, enter new markets, gain competitive advantage, or acquire resources or capabilities that would be difficult to develop internally. A firm might, for example, target niche markets with limited market capacity, which requires rapid market entry before competitors (Bell et al., 2003, p. 351). This is where acquisitions emerge as a compelling market entry strategy, offering immediate access to the many internationalization opportunities. By acquiring an established firm in Germany, a Finnish SMEs can rapidly gain access to critical resources, local networks, and customer bases, mitigating the risks associated with organic growth.

A central theory in acquisition research is the resource-based view of the firm (RBV), which emphasizes the importance of internal resources and capabilities to achieve competitive advantage, and applies to both MNEs and SMEs (see Van Teeffelen, 2012). Firm's resources are defined as a set of capabilities, and tangible and intangible resources. Extending the theory, the foundational idea of a central book in acquisition literature emphasizes that sustainable competitive advantage stems from value creation through strategic growth (Haspeslagh & Jemison, 1991). It suggests that competitive advantage is a result of continuous enhancement and improvement of a firm's capabilities, which can be achieved through acquisition.

While strategic renewal is yet not widely discussed in acquisition literature (see Tall, 2014), acquisition has been recognized as a tool for strategic redirection and renewal, which positively affects competitive advantage (Jemison & Sitkin, 1986, p. 145). According to a study on strategic renewal through acquisitions, the renewal process can target the resources and operating practices, business activities or overall strategy of the buyer or seller (Tall, 2014, p. 68).

Firms grow and renew in two ways, organically or inorganically (Penrose, 1959). Interestingly, research suggests that organic (e.g. greenfield investments) and inorganic growth (acquisitions), have

a different impact on a firm's future organic growth (Lockett et al., 2013, p. 48). While previous acquisitive growth has a positive effect on organic growth in the future, previous organic growth constrains it. Focusing solely on organic growth, firms risk becoming constrained by path dependence, and limiting their ability to adapt to new challenges or opportunities outside of their current areas of expertise (Lockett et al., 2013, p. 69). This is likely to negatively affect a firm's competitive advantage, which is a result of continuous improvement and renewal of the strategy.

Acquisition offers access to new resources, capabilities, and knowledge, which are hard to create or recreate internally. Because these assets are built up on previous knowledge accumulated over time, internal development could be impossible (Graebner et al., 2010) or take years to reach the level of profitability enjoyed by established competitors (Lee & Lieberman, 2009, p. 144). A firm might, for example, lack needed capabilities to develop a new desired product (Lee & Lieberman, 2009, p. 146), which could be acquired by acquisition. Therefore, a firm might leverage acquisitions to achieve strategic renewal to gain competitive advantage and ensure future growth.

Haspeslagh et al. (1991) highlight three key value-creating results of acquisitions that can enhance a firm's strategy and competitive advantage. *Combining resources* and capabilities of two firms is associated with economies of scale and scope. The latter two, *transfer of functional and general management skills* focus on complementing and strengthening the combined firm's existing capabilities on operational and management level. (Haspeslagh & Jemison, 1991, pp. 27–32). Additionally, acquisitions can support a firm's strategy by acquiring a certain capability, platform or an established market position (Haspeslagh & Jemison, 1991, pp. 35–36), and in result, promoting strategic renewal, important for competitive advantage.

Acquisition's value-creating results are often referred to as synergies. The idea is that the combined entity can create greater value and performance together than separately, creating strategic potential (Larsson & Finkelstein, 1999). The realization of synergies is a result of the combination of similarities and complementarities, interaction and coordination in post-acquisition integration process, and lack of employee resistance (Larsson & Finkelstein, 1999, p. 1). This implies to the idea that acquisition performance depends on the decisions made during the process, and the post-acquisition integration success (e.g. Haspeslagh & Jemison, 1991). Therefore, navigating these phases is key to realization of the potential synergies, and value creation that motivated the acquisition in the first place.

Research offers conflicting insights into the effects of foreign acquisitions. Internationality complicates the acquisition process and post-deal integration, which may hinder synergy realization

and create other challenges (Larsson & Finkelstein, 1999), which are discussed further in this thesis. Meanwhile, some research has found no significant differences, or even slightly higher success in foreign acquisitions, compared to national ones (Angwin & Savill, 1997, p. 427). Larsson & Finkelstein (1999, p. 18) suggest that employee resistance might be lower in cross-border acquisitions, possibly due to stronger awareness and emphasis on cultural differences. Despite potentially amplified risks, foreign acquisitions may offer unique and preeminent synergy potential, such as globalization synergies, speed of market entry, and access to new markets, customers and networks outside domestic markets. Operating in foreign markets might enhance capabilities and foster innovation through exposure to new knowledge and experiences (Chetty & Campbell-Hunt, 2003, p. 800).

Small and medium enterprises are generally restricted in resources, capabilities, and international experience (Sestu et al., 2018), which may pose challenges for foreign acquisition. However, SMEs might also have some competitive advantages compared to MNEs, for example, being more flexible and agile than larger enterprises (Cheng, 2008). Compared to larger firms, SMEs are more innovative, less bureaucratic, and less restricted by established routines and rigid structures (Knight & Cavusgil, 2004). Innovative changes often require unlearning established routines, which is hard and expensive (Barkema & Vermeulen, 1998). Therefore, despite the challenges, small size and youth of a firm might actually bring benefits for internationalization.

There are other characteristics that differentiate SMEs from MNEs and affect their internationalization decisions. SMEs' decisions on internationalization are often dependent on just a few managers and their attitudes towards it, which are shaped by personal level of education, experience and language knowledge (Chetty & Campbell-Hunt, 2003), as well as values, beliefs, and personality traits (Laufs, 2015, p. 1111), and individual risk propensity (Pablo et al., 1996). According to the latter study, individuals might perceive similar situations and emphasize opportunities or challenges differently.

Many SMEs are family businesses, and the decisions are made by family owners. The findings on family ownership's effects on SMEs growth and performance are contradictory, and results may be dependent on, for instance, firm size which varies within SMEs significantly (Kotey, 2005). According to the study, family ownership is generally associated with long-term orientation, while non-family firms focus on short-term profits and growth. Some indicate negative correlation between family-owned SMEs and internationalization efforts (Fernández & Nieto, 2006). The same study found that family SMEs are more likely to choose high-ownership entry modes to maintain control

and independence. The findings imply that the actual initiatives, objectives and outcomes of SME internationalization and acquisition cannot be generalized, because they are highly case- and context-specific.

This chapter lays the foundation for understanding potential opportunities and motivations for acquisitions. While keeping in mind the limitations of SMEs, the part indicates opportunities of acquisitions instead of inorganic growth, in terms of competitive advantage and growth. Besides, the findings also indicate what constitutes a successful and well-performing acquisition, with all its value creating potential. By understanding of how acquisitions create value, we can identify further factors that promote or disrupt acquisition performance and success.

2.3 Characteristics of SMEs seeking Foreign Acquisitions

The above findings already indicate situations where acquisitions could be a viable market entry mode option, or which firms might be involved. This chapter intends to explore further on this question, seeking to gain deeper understanding when SMEs might choose to seek foreign acquisitions. By researching and discussing characteristics of firms seeking acquisitions to enter new markets, we can better understand situations where acquiring can be a suitable internationalization strategy. To elaborate on this, I present findings on situations where acquisitions can provide opportunities, such as synergy potential.

Ojala (2008) found that the studied Finnish software enterprises internationalized gradually, aligning with the Uppsala internationalization theory. The theory suggests that firms first expand to similar foreign markets through low ownership modes, such as exporting. With gained international experience, they can then explore markets with higher psychic distance and commit to higher levels of ownership, such as acquisitions or greenfield investments. (Johanson & Vahlne, 1990) Firms can use previous international experience and gained knowledge to increase operations in foreign markets and perform better (Cheng, 2008, pp. 209–210). Although, previous experience does not seem to affect acquisition success (Barkema & Vermeulen, 1998). Managers might fail to learn from previous experiences or to apply acquired knowledge, or apply previously successful practices in wrong situations.

Some research challenges the stage theory by introducing a born-global theory. Born-global theory suggests that internationalization is not always incremental but can happen rapidly, often within a few years from establishment of the firm, or suddenly after long focus on domestic market (Bell et al., 2003). The young born-global firms are associated with high knowledge-intensity and innovative

culture (Knight & Cavusgil, 2004). Therefore, this is a significant finding, which suggests that not all firms enter new markets incrementally, by gradually gaining international experience. Accordingly, internationalization might be embedded in the strategy from the start and executed rapidly, without previous experience and well-established presence.

Many research focuses on the choice between acquisitions and greenfield investments, also referred to as establishment choice (Barkema & Vermeulen, 1998; Harzing, 2002). The main difference between the two modes is that through acquisition, a company can acquire existing business activities and capabilities, instead of building them from the start. Greenfield investments require more time to establish functioning operations and to generate profit. A company might find it difficult to quickly develop new or copy its existing capabilities in a new foreign market. Acquisitions require a big financial commitment upfront but provide immediate access to already established business activities and other opportunities, which are discussed above. When choosing between acquisition or greenfield investment, a study suggests considering the relative advantages of the modes from three perspectives: costs of entry, risk of entry and speed of entry (Lee & Lieberman, 2009, p. 143) discussed next.

Internal developments are usually financed by current cash flow, while other methods are used more often to fund acquisitions, most often bank loan (Alpeza et al., 2018). The basic idea of acquisitions is, that the loan is repaid by the cash flow of acquired company. The total costs are often high, including the purchasing price, integration and management costs. The costs of internal development tend to be lower if a firm has strong research and development (R&D) capabilities, and vice versa (Lee & Lieberman, 2009, p. 143). Since SMEs are often restricted in financial and human resources, one might assume that their R&D capabilities are limited, resulting in higher costs of internal development. Of course, the costs depend on various factors, for example, the size and type of operations.

As I have discussed, one of the main benefits of acquisitions is the speed of entry, providing immediate access to established operations and revenue. As mentioned, it allows immediate access to resources and capabilities, which might be hard and slow, or even impossible to develop internally. Because of the challenges of internal development and its relatively slow speed compared to acquisitions, the latter is favoured, especially when the speed of entry is important (Angwin & Savill, 1997, p. 426; Lee & Lieberman, 2009, p. 144).

Lee & Lieberman (2009, p. 143) suggest that internal development is usually considered less risky. On the contrary, another research indicates that internationally unexperienced firm is likely to

perceive acquiring firm with established business operations and market position safer (Barkema & Vermeulen, 1998). Acquisition decisions are made by individuals with different risk perceptions, similar situations can be perceived in different ways (Pablo et al., 1996), and due to individual behaviour uncertainties, outcomes are hard to generalize. According to the latter study, some decision-makers emphasise the possible opportunities, other individuals prefer more security and see more potential threats. Both entry modes have their own risks and opportunities, but it depends on the individual decision-makers and firm's strategy, which risks can be tolerated. With no prior experience in Germany, it might be perceived less risky to acquire a firm with established operations and networks in the country.

As well as individual attitudes and experience, firm specific factors affect the entry mode choice. Research suggest that a firm is more likely to enter a market with a greenfield investment when it has strong technological capabilities (Barkema & Vermeulen, 1998, p. 9). In that situation, it is less likely that another firm can offer valuable capabilities from which the acquirer might benefit from. The acquiring firm would also need to integrate new capabilities with existing ones, which may require significant effort and unlearning old routines. A firm with fewer technological capabilities, in turn, is more likely to benefit from acquiring another firm with stronger capabilities, instead of developing them internally from the start. (Barkema & Vermeulen, 1998). While the study only refers to technological capabilities, the idea might apply to other capabilities too.

However, all firms can benefit from acquisitions outside their primary business. Rather than developing new capabilities internally a company is more likely to acquire a firm that has already established itself within the new target business area (Barkema & Vermeulen, 1998; Graebner et al., 2010; Larsson & Finkelstein, 1999). The foremost study states that a firm is more likely to expand into primary business through greenfield investments, because it will rather replicate its capabilities abroad (Barkema & Vermeulen, 1998). Meanwhile, some findings are contradictory, suggesting that the likelihood of acquisition increases, when a firm expands within its primary business (Angwin & Savill, 1997, p. 427; Lee & Lieberman, 2009, p. 156). It might be easier to better assess and understand a similar business, compared to one outside the acquirer's primary business (Lee & Lieberman, 2009, p. 145). The study states that better assessment and higher relatedness may reduce costs and risks, and ease the post-integration process of acquisition. By acquiring a competitor within the primary business, the acquirer may also reduce competition and occupy a larger market share (Marks & Mirvis, 2011). Although, the same study suggests that this rarely is a primary motivation for an acquisition.

In acquisition literature, the strategic fit of two companies is discussed as complementarity and similarity. It refers to compatibility of strategic goals, resources, capabilities, operations, and processes, which can be seen as similar or complementing (Pablo et al., 1996, p. 728). Research exploring similarity and complementarity in terms of risk supports the idea that businesses with similarities are easier to acquire, because they can be better assessed (Pablo et al., 1996). However, the same study states that similar acquisitions reduce diversity, which may increase risk by making the company too focused on one area, and path dependent. Similarity might also cause more resistance from target company's employees, decreasing synergy realization (Larsson & Finkelstein, 1999). The resistance might be caused due to overlapping operations, which are more likely to be shut down.

While similar acquisitions are associated with economies of scale, acquiring complementary businesses leads to economies of scope, increased diversity and expanded capabilities (e.g. Pablo et al., 1996). The study supports the idea that complementary businesses are easier to integrate, because there is less overlapping operations and no need to unlearn old patterns first. It could be the complementary acquisitions, when firms may achieve strategic renewal and find synergy potential – for instance, by acquiring a firm with strengths, where the acquirer is weak. These synergies are often important opportunities and motivations for acquisitions in the first place.

In conclusion, this chapter discusses firm specific factors that influence their internationalization and acquisition decisions. I also explore different characteristics of firms and how they influence the choices they make for acquisitions. The findings suggest that there are various factors influencing these decisions, such as firm size, international experience, innovativeness and capabilities, organizational strategy and future objectives. Discussing acquisitions of similar or complementary firms, firm within or outside the primary business and firm specific capabilities, this part provides broader context for SME acquisitions and suggests situations where acquisitions can offer synergy potential. Understanding that can help defining criteria for the target, in order to achieve SMEs objectives.

3 The Acquisition Process

3.1 Challenges and Pitfalls

The acquisition process itself is an important antecedent for acquisition performance and success (Haspeslagh & Jemison, 1991, p. 3). The sole existence of potential synergies is not enough – understanding and managing the process, and successful integration of the firm’s is key to synergy realization. Many acquisitions fail to create value, often due to challenges and pitfalls occurring the in pre-acquisition phase, or undermining the importance of the post-acquisition integration. (Larsson & Finkelstein, 1999). Failure can also emerge in the early phase of the process, as uncompleted acquisition deals (Matalamäki et al., 2020, p. 122; Van Teeffelen, 2012).

Scholars explore the stages of acquisition process from various perspectives, and break it down in different ways. Some frameworks divide the process into two main phases – pre- and post-acquisition – others include a during acquisition phase (Tall, 2014). There is no generally agreed-upon structure, as acquisitions rarely follow a straightforward, linear path. The steps are overlapping, revisited and occurring simultaneously (Haspeslagh & Jemison, 1991). Moreover, acquisitions typically alternate between periods of intense activity, and phases where no immediate action is taken (Pablo et al., 1996). The process also demands significant time investment and involves multiple actors – mostly buyers, sellers, financial institutions, and external advisors (Van Teeffelen, 2012, p. 5)

Navigating the challenging and complex process, firms may encounter numerous strategic and operational challenges. While there is no universally standardized structure, the acquisition process can generally be conceptualized into distinct steps. A structured approach helps to simplify the process, to apply theoretical findings, and foster a better understanding of important considerations. Due to its limited scope, this thesis divides the process into two phases: pre- and post-acquisition.

Table 2 illustrates the main steps during both phases. This chapter outlines the acquisition process, highlighting critical challenges that firms, particularly Finnish SMEs expanding into German market, may encounter pre- and post-acquisition. Each step presented in the table 2 will be discussed in more detail during the following two subchapters. By mapping out the steps and recognizing potential challenges, pitfalls, and important considerations backed up by acquisition literature, the aim of this section is to foster better understanding of the process. With a good understanding, firms could be better equipped to make informed decisions, and achieve successful acquisition outcomes.

Table 2. The acquisition process (Adapted from Gomes et al., 2013; Graebner et al., 2010; Jemison & Sitkin, 1986; Very & Schweiger, 2001)

Pre-Acquisition	Planning and defining strategy
	Buy team and process management
	Target identification and selection
	Negotiation
	Target valuation
	Due diligence
	Financing
Post-Acquisition	Choosing integration strategy
	Integration process management

3.1.1 Pre-Acquisition Phase

The pre-acquisition phase means activities prior to a completed deal – the actual purchase of the target firm. Decisions made in this phase lay the foundation, which might set the firm up to success or failure. Acquisition literature has acknowledged the process itself as a main reason for unsuccessful and poor performing acquisitions (Haspeslagh & Jemison, 1991). However, majority of the research focus on challengers in takeover and integration (Marks & Mirvis, 2011), ignoring other important considerations, which are mentioned in this chapter.

Firms typically pursue acquisitions to achieve strategic goals such as entering new markets, accessing valuable resources, or gaining economies of scale and scope, as discussed above. For an acquisition to create value, it should be aligned with a firm's business and growth strategy (Angwin, 2001). Born-global firms are associated with a more structured and strategic approach to acquisitions (Knight & Liesch, 2016).

Foreign market entries usually rely on external advisors (Tall, 2014, p. 102; Very & Schweiger, 2001, p. 23). In fact, despite their acquired knowledge, experienced buyers appear to use external experts more often (Varamäki et al., 2013). Lack of expertise or insufficient quality of experts may result in unsuccessful acquisitions (Matalamäki et al., 2020, p. 135). Firms might have difficulties understanding local tax and legal systems, accounting systems, environmental regulations, finding information about the target company, and have communication barriers (Very & Schweiger, 2001,

p. 20), which applies well for potential struggles of Finnish SMEs in Germany. To overcome these challenges, SMEs have to rely on local expertise.

However, many professionals seem to focus on mid-sized firms, and are often too expensive for SMEs (Van Teeffelen, 2012, p. 22). The costs of advisory services were around three times higher in foreign acquisitions in 2012 (Tall, 2014, p. 102). Additionally, without local knowledge and networks, a firm might have difficulties identifying suitable advisors in the target country (Very & Schweiger, 2001, p. 19). As a Finnish SME begins the process in Germany, it might be unsure about where to find the right professionals, important for supporting and achieving firm's initiatives.

Further step involves identifying and assessing potential targets. There are some online platforms with lists of companies on sale. Although, all potential companies might not be actively on sale, limiting the selection of potential targets using this method. Another option is contacting suitable companies and inquiring about a possible interest in selling. Identifying potential target companies abroad and initiating contact might be challenging (Very & Schweiger, 2001) with both of the methods. Unexperienced Finnish buyers might not know where to look, lack contacts and market knowledge to find an ideal target, and be unable to collect relevant information about German firms.

Evaluation of the firm is important to know whether the process should be proceeded further and eventually completed. The key evaluation criteria include strategic and organizational fit, the target firm's past performance and the resource requirements of acquisition (Pablo et al., 1996, p. 726). According to another study, target review may include financial analysis, strategic and organizational fit, identifying synergy possibilities, and due diligence (Very & Schweiger, 2001, p. 12).

One should also consider the size of the target compared to its own. Research has found contradictory information about the relationship between sizes of the two firms. A small target is likely to offer only limited capabilities and potential synergies (Larsson & Finkelstein, 1999), while acquiring a bigger target might require a substantial amount of resources and hinder the performance (Graebner et al., 2010). On the other hand, the foremost study has shown that acquiring a bigger target might turn out successful (Larsson & Finkelstein, 1999, p. 17).

In acquisition literature, strategic and organizational fit are often highlighted as key criteria for the target company, both connected to increased acquisition success (Bauer & Matzler, 2014, p. 280). The target company should be evaluated in terms of strategic fit, which is a result of balance between similarities and complementarities (Haspeslagh & Jemison, 1991). Although, that alone is not sufficient for good acquisition performance. Since the post-acquisition integration enables the

synergy realization, target firm's organizational fit should be well analyzed as well (e.g. Jemison & Sitkin, 1986). This means the alignment of cultures, management styles, reward systems and values, which can predetermine the possibility of successful integration and reduced employee resistance (Larsson & Finkelstein, 1999).

Due diligence is an objective analysis of target's strengths and weaknesses, aimed at gathering information to identify potential liabilities and risks that might negatively affect post-acquisition integration and synergy realization. Eventually, it is key to informed decision making (Angwin, 2001), which determines future success and performance of acquisition (e.g. Very & Schweiger, 2001, p. 14). Generally, due diligence is focused on exploring target's financial, legal and operational aspects, and target's valuation (Angwin, 2001, p. 35). However, focusing solely on financial or so called "hard" aspects might disregard crucial information about organizational fit and integration (Jemison & Sitkin, 1986; Marks & Mirvis, 2011). For this reason, the research shows a need for behavioral and cultural due diligence.

A successful acquisition process relies not only on the execution of different steps, but also the effective management of the process (Jemison & Sitkin, 1986). One of the management challenges is so called *activity segmentation* (Jemison & Sitkin, 1986, p. 5) meaning the team working separately. Professionals conducting due diligence could be poorly informed about strategic objectives of the acquisition or lack the competence to understand them (Marks & Mirvis, 2011). In result, critical aspects of the fit between two firms may be overlooked. Due diligence is often carried out by separate groups with limited coordination, leading to fragmented results and inefficient transfer of information to decision-makers (Very & Schweiger, 2001, p. 14). The lack of alignment could waste resources and affect overall acquisition success.

Although negotiations start before due diligence, I discussed the latter after target identification as they both regard analysis of the target. The negotiation phase starts with the first contact and ends with an agreement on acquisition (Tall, 2014, p. 156), lasting usually from one to six months (Matalamäki et al., 2020). The terms of the deal are discussed and refined, and the acquirer gathers more information about the target. The relationship between the two companies is also created. Some call this a courtship period, where mutual trust and understanding should be built (Gomes et al., 2013). The study suggests that mutual trust and previous relationships between the acquirer and the target can result in more successful negotiations, preferable price and better outcomes of acquisition.

Negotiations can often result in uncompleted deals by both acquirers and targets (Matalamäki et al., 2020). According to a survey and case study, buyers cited high asking prices, unmet expectations

during due diligence, and strategic disagreements as the primary reasons for negotiation failures (Matalamäki et al., 2020, pp. 132–133). Supporting this, another study states that acquirers walk away from deals for various reasons during negotiations and due diligence, often due to insufficient reliable information, unmet expectations, and strategic misalignments (Very & Schweiger, 2001, p. 21).

The finding contradicts with an earlier research, which identifies *escalated momentum* as a challenge in the acquisition process (Jemison & Sitkin, 1986, p. 151). It refers to the struggle to abandon deals or so called “rush to close”, even when justified (Marks & Mirvis, 2011, p. 163). This may result due to various psychological and organizational pressures of the acquisition, which the management might be unaware of. Rushed acquisition decisions might overlook crucial aspects of the acquisition, which can pose challenges and failures in the future.

A successful deal requires a mutual agreement on price, which might be challenging to achieve due to different perceptions of the buyer and seller. A seller can be an emotionally attached entrepreneur, who might overestimate the value of the firm (Matalamäki et al., 2020; Very & Schweiger, 2001), and reject even a good offer (Graebner et al., 2010). On the other hand, other firms might also be interested in buying, and setting a price too low can result in losing the deal.

To achieve sufficient returns post-acquisition, the price paid should be right (Gomes et al., 2013, p. 19). Therefore, proper evaluation of the target is important for pricing, since insufficient information might lead to setting a too high price (Graebner et al., 2010). In addition, the acquirer must consider total resource requirements for the acquisition, including estimated integration and management costs. Especially SMEs, often limited in resources, might have trouble finding sufficient collateral, and financing which firms usually seek from banks.

I covered the main steps of pre-acquisition phase, which showed that the phase is critical and complex. The lengthy process poses many challenges and pitfalls, which are often amplified in foreign acquisitions. Firms are often constricted in time and sufficient reliable information. Crucial information could be missed, affecting the eventual success and performance of the acquisition. Especially foreign acquisitions rely heavily on external professionals. As well as ideal targets, competent local advisors can be hard to identify. As mentioned, management of the process, such as activity segmentation and escalated momentum, is a pitfall that is often underestimated. Another key for successful deals is negotiating and an agreement on a suitable price.

While the purpose of my thesis is to focus on examples of Finnish SMEs acquiring in Germany, most of the insights and findings of this part are rather general and mostly applicable for all foreign

acquisitions in relatively close markets. I brought up some examples where it was relevant, but most of this section seeks to help understanding the process in general, since it applies to the Finland-Germany context too. The theoretical findings serve as a foundation for the last part of the thesis, where I synthesize them into practical suggestions.

3.1.2 Post-Acquisition Phase

While my thesis focuses on pre-acquisition, I must also explore the main aspects of the post-acquisition phase because it is an important determinant of acquisition performance and success. Therefore, this part helps laying the foundation for further discussion on practical solutions and suggestions for SMEs. Studies suggest that integration is the most important aspect of acquisition (e.g. Larsson & Lubatkin, 2001). Eventually, only in the post-acquisition phase is value created or lost. Post-acquisition challenges highlight the importance of decisions made in pre-acquisition phase. For instance, this part supports understanding the importance of organizational fit for synergy realization.

The post-acquisition process centers around integrating the acquired company into the existing operations, aligning cultures, and achieving the strategic objectives of the acquisition. This requires careful planning starting already in the pre-acquisition phase, choosing the right integration strategy, clear communication, and efficient management. The purpose of the acquisition is unique and therefore, it is important to acknowledge that organizations' needs and decisions might be different.

Managers tend to focus on the hard aspects of acquisitions, often undermining the importance of integration (Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999), which is the biggest determinant for synergy realization, according to the latter study. However, a key challenge in post-acquisition integration is determining the suitable level of integration. The degree of integration must align with the strategic objectives of the acquisition and compatibility of firms' cultures and structures. While a greater degree of integration enables synergy realization, it may significantly increase the integration costs, disrupt the target's current operations, and destroy valuable capabilities. This challenge is referred to as integration-autonomy dilemma (e.g. Graebner et al., 2010).

As well as disrupting the target, acquisition might also disrupt the acquirer from its primary business. Because of substantial resource, time and effort requirements, or so-called *acquisition momentum*, management does not focus enough attention on other important activities (Haspeslagh & Jemison, 1991). On the other hand, decrease in momentum in the post-acquisition phase might delay

integration, synergy realization, and decrease competitiveness of the firm (Graebner et al., 2010, p. 80).

Considering the human side of acquisition is important but might still be overlooked by acquisition managers (Marks & Mirvis, 2011, p. 165). The management might underestimate the stress that target's employees experience due to uncertainty and insufficient communication during acquisition (Marks & Mirvis, 2011, pp. 163–164). This so called *merger syndrome* might increase employee resistance, which hinders synergy realization (Very & Schweiger, 2001).

Conflicts might occur because *expectational ambiguities*, intentionally maintained during negotiations in order to complete the deal, must eventually be clarified (Jemison & Sitkin, 1986, p. 157). These different interpretations of objectives and expectations might amplify tensions between two firms, especially in Germany where honesty is held in high value. As the ambiguities clarify and create tensions, the acquirer might react by becoming too attentive and tightening control. This in turn, might raise defensiveness of the target and further foster distrust between the firms, and therefore, lower acquisition success. (Jemison & Sitkin, 1986, p. 157)

The last of four process management issues presented by Jemison & Sitkin (1986) is *misapplication of management systems*, which occurs due to arrogance and defensiveness of both organizations. For example, the acquirer might be overconfident about its capabilities, overlooking functions where the target could have valuable strengths. The target's differences might be assumed as incompetencies, while they could be just a result of organizational and national differences. The issues can lead to increased employee resistance, unsuccessful integration, and by imposing the acquirer's systems onto the target, valuable capabilities and knowledge can be destroyed.

Foreign acquisition may be especially challenging due to cultural differences of not only organizational, but also national level. Management faces challenges such as managing across cultures, integrating different organizational structures, and choosing the new management team (Very & Schweiger, 2001). Although interestingly, research shows that employee resistance decreases in cross-border acquisitions because managers might be more aware of cultural differences and take them more seriously (Larsson & Finkelstein, 1999, p. 18). As well as complementary capabilities, cultural differences can also create synergy potential, and foster learning through diversity (Marks & Mirvis, 2011, pp. 165–166). This aligns with Haspeslagh & Jemison (1991, p. 191), who suggest that firms can leverage from differences to achieve growth and success.

3.2 A Framework for Navigating Acquisitions

The above findings show that the acquisition process is complex, challenging, and consuming in time and resources. Pre-acquisition planning, target analysis, valuation, financing, and negotiations are critical steps that can significantly influence the success of acquisition. Post-acquisition integration, cultural adaptation, and the ability to navigate cross-border complexities also play a pivotal role in realizing the potential synergies, and value creation envisioned during the initial stages. Besides, the management of the process contains challenges and pitfalls that can either set the acquirer up to success or failure.

To address the complexities of the foreign acquisition process, this chapter introduces a framework that maps out key challenges and corresponding suggestions for solutions at main steps of the process. This framework synthesizes insights from the theoretical findings into a practical approach for firms pursuing foreign acquisitions. The aim is to answer my research question by discussing key considerations contributing to successful SME internationalization, achieving synergies, strategic renewal and growth.

Chapter 3.1 maps out the acquisition process and introduces key challenges and considerations found in the literature, which this framework is based on. Chapter 2 supports the part by providing a solid theoretical background for understanding the rationale, opportunities and characteristics influencing acquisitions and their success. Rationale for Finland-Germany context justifies Germany as a location choice for Finnish SMEs, while showing the importance of adjusting acquisition strategies to specific context. The research on motivations of SMEs pursuing acquisitions, and their characteristics, shapes further discussion, ensuring it addresses the realities of SME acquisition.

Bridging the gap between theory and practice by synthesizing insights from literature, and providing a structured approach to the acquisition process, the framework seeks to serve as a roadmap for navigating foreign acquisitions. It can be used to identify and mitigate risks in order to achieve desired outcomes. This is especially important for SMEs restricted in resources and no prior foreign acquisition experience. While the framework is aimed at Finnish SMEs pursuing acquisitions in Germany, many insights are mostly general and could be used in a broader context. Beyond SMEs themselves, advisors and policymakers may find the framework useful for identifying where firms may require guidance and support.

Table 3 is a structured summary of practical considerations and suggestions, which is the result of my research. By synthesizing previously discussed findings, I present actionable steps covering the whole

process in table 2. Each step is discussed in the following part, where I briefly describe the theory, challenges, and corresponding suggestions to overcome them. Again, while maintaining the main focus on the pre-acquisition phase, I must also discuss the post-acquisition considerations which might influence decisions made prior to the deal.

Table 3. Summary of practical considerations

1. Planning
2. Alignment with strategy
3. Using external advisors
4. Process management
5. Identifying targets
6. Synergy potential
7. Strategic fit
8. Organizational fit
9. Negotiation
10. Ability to walk away from bad deals
11. Sufficient time for acquisition
12. Paying the right price
13. Considering overall costs
14. Securing financing
15. Reducing employee resistance
16. Assigning integration team
17. Choosing the integration strategy

Because of the complexity of the acquisition process, a firm would benefit from good preparation and a plan. Planning the acquisition from the start of the process has shown to increase the success of acquisition (Colombo et al., 2007). To ensure alignment with the firm's business strategy, which is important for value creation (Angwin, 2001), objectives of the acquisition should be defined during the planning phase. Besides this, the plan could include critical considerations of the process such as competent team, sufficient resources, post-acquisition integration, and other critical aspects covered in this thesis. As the process goes on, the plan could be revisited and revised as needed.

Planning the integration from the beginning has shown to increase the success of acquisition as well. The planning should also involve the engagement of the target firm's management, and clearly communicating purpose and objectives of the buyer (Colombo et al., 2007, p. 203). This could apply

well to Germany, where the culture values long-term orientation (Nyström, 2017). Involving the target firm's employees from the start by communicating the buyer's objectives and long-term plan could help relieve resistance of target employees, and therefore, contribute to success of integration and acquisition in general.

There are several explanations and objectives for seeking foreign acquisitions, which are discussed above. Common goals are entering new markets, gaining access to valuable resources, achieving economies of scale and scope. Eventually, acquisitions are about seeking synergies (Larsson & Finkelstein, 1999), which can contribute to the strategic growth and competitive advantage (Haspeslagh & Jemison, 1991), and promote future growth of the firm (Lockett et al., 2013). Through understanding the opportunities of successful and well-performing acquisitions, the acquisition strategy and criteria for a suitable target firm can be defined. Instead of an opportunistic approach towards acquisition, SME should understand its own capabilities and how they could be complimented by acquiring another firm in order to support or renew the firm's strategy. This aligns with the structured and strategic approach of the born-global firms, which manage to gain rapid international expansion despite restrictions, such as smaller size and youth of the firm (Knight & Cavusgil, 2004; Knight & Liesch, 2016).

Involving external advisors is recommended, as they seem to lead to more successful acquisitions. Strong local expertise in Germany may help a Finnish SME to navigate the process and national differences, such as local legislation, valuation, deal structuring, and cultural issues. It could be beneficial if the professional had previous expertise in SME's cross-border acquisitions in order to understand the unique challenges and considerations in the context. As firm might have challenges navigating a wide range of issues (Very & Schweiger, 2001) such as finding a target and legal considerations, more than one professional might be needed to form a competent buy team. It might be challenging to identify suitable and experienced advisors in a foreign country (Very & Schweiger, 2001) as the quality and competency of the experts also affect the outcome of acquisitions (Matalamäki et al., 2020, p. 135; Van Teeffelen, 2012, p. 22). While a Finnish SME might not have its own networks in Germany, it could approach Finnish business transfer professionals who may be connected with experts abroad. Using connections can help identify qualified and suitable experts.

The team itself does not yet guarantee the success of acquisition, since the management of the process plays an important role too (e.g. Jemison & Sitkin, 1986). According to the literature, activity segmentation, meaning professionals working separately, leads to misalignment, inefficiency, and disregarding important information, as cooperation might unravel more information than an

individual can find. To pick up and evaluate information that is relevant for the buyer, the acquisition team should be well informed about the strategic objectives of the acquisitions (Marks & Mirvis, 2011). Additionally, the experts leading the process and evaluating the target should focus on aspects outside finance and legislation too (Angwin, 2001), including organizational culture and compatibility of firms (Jemison & Sitkin, 1986; Marks & Mirvis, 2011). Therefore, the suggestion is building a diverse team with different backgrounds, emphasizing communication and collaboration, instead of working independently.

Besides the trouble of finding competent professionals, a Finnish SME might find it challenging to identify targets to buy (Very & Schweiger, 2001). Suitable targets might not be on sale publicly and therefore, they cannot be found on online platforms. The search might have to go beyond the platforms, which requires local market knowledge. This phase is likely to require professional advisors and business brokers in order to conduct careful search and identify an ideal target firm. Additionally, a Finnish SME is likely to need help to collect sufficient and reliable information about the target.

The problem might be that a firm does not clearly define acquisition objectives through understanding its own strengths and weaknesses and therefore possible synergies of acquisition, and fails to evaluate the target and its compatibility through collecting sufficient and reliable information. Sufficient information is important to make informed decisions (Angwin, 2001; Very & Schweiger, 2001), such as knowing whether to proceed with the deal, and to set a suitable price (Graebner et al., 2010). As discussed above, key evaluation criteria include strategic and organizational fit, recognizing synergy possibilities, financial analysis and previous performance of the target, and due diligence (Pablo et al., 1996; Very & Schweiger, 2001).

The acquisition literature highlights that the combination of two companies should create value and promote strategic renewal and growth (e.g. Haspeslagh & Jemison, 1991). The study suggests that strategic fit should be a balance between similarities and complementarities. Larsson & Finkelstein (1999) also state that, besides the post-acquisition process and lack of employee resistance, the combination of similarities and complementarities lead to synergy realization. While similar firms are easier to reliably assess, complementary ones could lead to easier integration (Pablo et al., 1996) and lower employee resistance (Larsson & Finkelstein, 1999), both important to synergy realization. Besides, complementarities might offer more synergy potential in the first place.

In addition to strategic fit, the literature discusses acquisitions within and outside primary business (Angwin & Savill, 1997; Barkema et al., 1996; Lee & Lieberman, 2009), introduced in chapter 2.3.

Strategic fit and primary business alignment are rarely discussed together, although they seem to have many overlaps. They both are concerned with alignment and value creation, but with different scopes. Both theories emphasize that similarity of the target, whether in primary business or strategic fit, could be easier to assess, reducing risks (Lee & Lieberman, 2009; Pablo et al., 1996). On the other hand, the latter study suggests that there is a risk of path dependency, which limits strategic renewal and value creation. Meanwhile, expanding into complementary areas, both outside and within the primary business, offers potential for diversification, renewal and synergies.

Despite the similarities, strategic fit and primary business alignment have differences. For instance, even within the same industry, there might be many differences and possible complementarities. Therefore, bridging these two theories might offer a more nuanced framework for analyzing the target firms. Integrating these two perspectives may help to better assess the strategy optimization of an acquisition. The choice of approach depends on the acquirer's strategy and objectives. For instance, a Finnish SME might find the geographic difference of a German firm a sufficient complementary to justify a similar acquisition.

Besides strategic compatibility, organizational fit affects post-acquisition integration, and therefore, the overall performance and success of acquisition. To ensure successful integration, one should consider the organizational culture of the target, and its compatibility with the acquirer. This calls for cultural due diligence, instead of focusing solely on the financial and legal aspects of the acquisition (Angwin, 2001; Jemison & Sitkin, 1986; Marks & Mirvis, 2011). The latter study shows that successful acquirers are more likely to conduct cultural due diligence.

Negotiation is a time to gather information and build a mutual relationship between the two companies. Trust and respect is valued by both cultures but Germans may require longer to build it (Nyström, 2017). Therefore, the management of a Finnish SME might consider putting more effort to do so. In order to create a positive environment, to reduce employee uncertainty and possible defensive reactions, the acquirer should consider communicating during negotiations (Colombo et al., 2007). For instance, it is suggested to communicate the intentions and expectations of the acquisition (Jemison & Sitkin, 1986). While negotiations may include purposeful ambiguity, often needed to finish a deal, it might create mistrust and conflicts in the future (Jemison & Sitkin, 1986). Eventually, acquisition should fulfill expectations of both participants (Colombo et al., 2007, p. 204). Therefore, the buyer should consider its promises during the negotiations, because ambiguity can create dissatisfaction and resistance, hindering the integration.

Acquisition momentum might result in inability to walk away from improper deals (Jemison & Sitkin, 1986). While some research suggests that buyers can walk away from them for several reasons (Matalamäki et al., 2020; Very & Schweiger, 2001), it is recommended to define “deal breakers” and communicate them to the buy team (Marks & Mirvis, 2011) to avoid unsuitable deals. Additionally, research has identified having sufficient time as a predeterminate to successful acquisitions (Matalamäki et al., 2020). It might prevent the buyer from making rushed and improper decisions during negotiations, and avoiding acquisition momentum which is discussed above as a common management issue.

Valuating the target and setting the right price which appeals to both parties, and reflects the potential synergies, is important but challenging. Because of the challenges and complexities, professional help to correctly estimate the target’s value is recommended (Matalamäki et al., 2020, p. 142). For proper valuation, local professionals can help to understand German financial reporting and other factors considered when setting a price for the target. For the acquisition to be financially profitable, the overall costs of acquisition should not be underestimated either.

The costs of post-acquisition integration, on-site visits and other inevitable duties in Germany might turn out significantly expensive for a Finnish firm. Yet they can be required to properly integrate the companies and achieve acquisition objectives. Because SMEs are often restricted in resources (Sestu et al., 2018), they might have trouble securing enough funding and collateral for a loan. There are some additional opportunities for Finnish SMEs, which are worth looking into. Utilizing different funding options, such as state-owned Finnvera or Business Finland’s programs, might be detrimental to ensure sufficient resources.

After successfully completing the deal, it is time for the post-acquisition integration, which is the phase where potential synergies can be realized and objectives achieved. Therefore, it is a crucial part of the process, which should not be overlooked (Haspeslagh & Jemison, 1991; Larsson & Lubatkin, 2001). Colombo et al. (2007) highlights the need for initiating integration early in the acquisition process, by planning integration and focusing on reducing employee resistance in the pre-acquisition phase. Studies emphasize the importance of prioritizing the management of employee experience and creation of a positive atmosphere, which reduces the risk of the merger syndrome, endangering any acquisitions (Colombo et al., 2007; Very & Schweiger, 2001). Therefore, the integration should begin with communicating the buyer’s objectives and collaborating with the target firm’s management.

To ensure successful integration and avoiding merger syndrome, it might be beneficial to dedicate a team leading the integration process. Research advises to build an integration team with members

from both organizations (Very & Schweiger, 2001), supporting the need for collaboration between managements of the two companies. The team can foster cooperation, achieving agreeable outcomes, encourage employees' commitment and creation of a mutual culture. This is particularly relevant for a Finnish SME navigating acquisitions in Germany, as cultural differences and employee resistance can exacerbate integration challenges.

Acculturation, or adjusting into the new culture requires going beyond structural changes (Cartwright & Cooper, 1992). According to the study, just imposing the name, management and operations of the acquirer could create more resistance within the target's employees. Instead, creating a mutual culture through shared experiences has shown to be a more efficient way to achieve acculturation and successful integration (Larsson & Lubatkin, 2001, pp. 1578–1579, 1590). Due to the geographic distance between Finland and Germany, shared experiences might be challenging to arrange. Although, in the digital age introductions can be hosted online. For example, celebrations could still be organised and cross-visits arranged for the management of both firms.

Success of acculturation and the overall acquisition can be hindered by escalated tensions, defensiveness and arrogance of the two firms (Jemison & Sitkin, 1986), and reducing target's autonomy (Larsson & Lubatkin, 2001, p. 1577). The findings imply that target's organizational and national culture should be approached with respect and understanding of possible uncertainty and stress of employees. Instead of overtaking the target, the acquirer could focus on creating a pleasant and cooperative environment between the two firms. This could support realization of synergies and strategic renewal, created through complementary knowledge and capabilities of two firms (Haspeslagh & Jemison, 1991) and diversity of different cultures (Marks & Mirvis, 2011).

As the theory shows, the right level of integration depends on the context and objectives of the acquisition. The main concern is the integration-autonomy dilemma – while autonomy is needed to safeguard valuable competencies, integration is still needed for synergy realization (Graebner et al., 2010). Haspeslagh & Jemison (1991) present a widely recognized integration framework, illustrated in figure 1, suggesting four possible approaches for the integration strategy: absorption, preservation, symbiosis and holding.

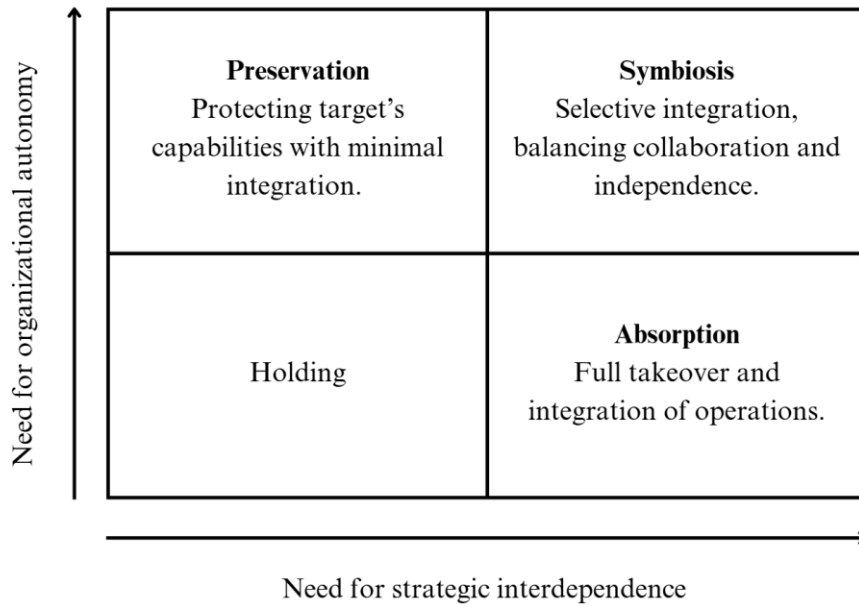


Figure 1. Integration framework (Adapted from Haspeslagh & Jemison, 1991)

The right approach depends on two variables: strategic independence and organizational autonomy (Haspeslagh & Jemison, 1991, p. 139). Foremost refers to the required degree of integration of operations and resources to create value and realize potential synergies. The latter refers to the required degree of the target firm's own identity, culture and operational independence to create value and realize synergies. The framework can help choosing the right integration strategy and balancing between the integration-autonomy dilemma. In addition, to ensure a successful integration, which is required for achieving positive acquisition outcomes, the integration should be completed in timely manner and not be delayed (Graebner et al., 2010).

On important note, the primary aim of the remarks about integration is not advising on how to navigate the phase, since that goes beyond the scope of my thesis and should be a research of its own. However, research suggests that planning the integration should start in the pre-acquisition phase (Colombo et al., 2007), also influencing other decisions made during the process, and have significant affect on the total costs of acquisition, which must also be considered early on. Therefore, this part serves the aim of the framework – supporting understanding of the acquisition process, its challenges and considerations, presented in a way that can be applied in practice.

4 Conclusions

4.1 Discussion

The purpose of this thesis was to explore SMEs internationalization through acquisitions, with examples of Finnish companies in Germany. The underlying objective is to contribute to research by focusing on SME foreign acquisitions, which is still underrepresented in market entry literature. In the following discussion, I go over all the sub-questions summarizing the findings and leading to the main research question: *what contributes to successful SMEs internationalization through acquisition?*

My first sub-question: *why should Finnish SMEs consider entering the German market?* seeks to explore factors that might make Germany an attractive location for a market entry. In conclusion, Germany is an attractive and relatively close market to Finland. The proximity of markets and cultures depends on personal perception shaped by attitudes and experience. Finnish and German business environments have similarities, but also differences which are mainly manageable. The main motivations might be sophistication and size of German market, which fosters scaling opportunities, business opportunities, attractive and well-connected location and new networks.

The opportunities that German market provides strongly align with chapter 2.2, which started by exploring motivations for internationalization. Understanding of these general motivations laid the foundation for the second sub-question: *why should SMEs consider acquisition as a foreign market entry mode?* The comparison of acquisitions and organic growth further explains motivations for the foremost market entry strategy. The part shows that acquisitions can be used as a tool to increase competitive advantage by supporting the firm's strategic renewal and ensuring its organic growth in the future. The source for strategic renewal and value creation are often discussed as synergies. The synergies refer to the strategic potential of the companies' combined through acquisition, which is more than they could generate individually.

While foreign acquisitions impose amplified challenges, especially for in many ways restricted SMEs, there are also many opportunities. With careful consideration, the challenges can be overcome and result in unique synergy realizations. Foreign acquisitions can offer globalization synergies, rapid market expansion, access to new markets, customer bases, knowledge and capabilities through acquiring an established business, and increased diversity which fosters strategy renewal, discussed above.

In chapter 2.3, I discuss the characteristics of SMEs that could be seeking acquisitions, exploring factors that might determine their internationalization and acquisition decisions. The same chapter also covers characteristics of acquisitions that might provide synergy potential and create value. This is discussed through different viewpoints – comparing acquisitions with internal development, using factors such as speed, costs and risks, and other firm-specific attributes, such as international experience, risk tolerance, resources and capabilities, and strategic objectives. The part builds on motivations discussed above by exploring when firms seek acquisitions and what type of acquisitions they seek.

This section answers my sub-question by presenting key motivations and opportunities for acquisitions. Although, these motivations serve not only as reasons for using this market entry strategy, but also as benchmarks for understanding what constitutes a successful and well-performing acquisition, and how that can be achieved. This understanding lays the foundation for my thesis and helps defining the potential objectives of an acquisition. It further helps to comprehend how the acquisition process should be designed and executed, ensuring that each step aligns with the defined objectives. By connecting the motivations, strategic objectives, and execution of the process, my thesis suggests that acquisitions are not just about completing the transaction, but about seeking and realizing synergies and striving for strategic renewal, which all ensure a firm's competitiveness and growth in the long term.

The third sub-question turns the focus on to the acquisition process, asking *what challenges and pitfalls SMEs face in acquisitions?* Understanding the process is important in order to navigate the complexity of foreign acquisitions. Identifying and considering the potential issues early in the process could help mitigating the risks. Understanding how each step and decision might affect the eventual outcome of the acquisition helps to make informed and strategic decisions, which align with the defined objectives.

All the questions lay foundation for the framework, which synthesizes findings into a structured approach for navigating acquisitions. The framework addresses the common challenges and pitfalls SMEs might face during the process, and presents them as practical suggestions supported by theoretical findings. The aim of this part is to answer my research question: *what contributes to successful SMEs internationalization through acquisition?* The framework seeks to find key considerations throughout the process, which contribute to achieving successful and well-performing acquisitions, while presenting them as practical and actionable steps for Finnish SMEs seeking

German market. Through my research, I recognized various considerations that can contribute to achieving successful and value creating acquisitions.

The SME should consider planning the whole process from the very start. One should have a structured and strategic approach towards the acquisition, making sure it aligns with the firm's strategy. Acknowledging own strengths and weaknesses, the buyer could better understand how to leverage acquisition opportunities to achieve competitive advantage and growth. To ensure smoother integration and synergy realization, the post-acquisition phase should also be considered from the start. That is why, despite of my focus on pre-acquisition, I discussed key considerations of post-acquisition phase.

Using external advisors is recommended in acquisitions, since they seem to contribute to better outcomes. This is very relevant for Finnish SMEs, which often have limited international experience and insufficient knowledge about German market. For these firm, relying on experienced advisors can bridge knowledge gaps and help mitigate risks occurring in foreign acquisitions. A diverse team with complementary skills and perspectives contributes to broader evaluation of the target. By fostering communication and collaboration within the buy team, SMEs can ensure that efforts are efficient and aligned with the objective of the acquisition. Therefore, it contributes to achieving long-term value creation and growth in international markets.

Local advisors and business brokers could also help finding better suitable targets for acquisitions, which increases synergy potential, and gathering sufficient and reliable information about the targets to ensure the strategy alignment. Among other factors, the synergy potential, strategic fit – meaning a balance between similarities and complementarities, and organizational fit should be well analysed. Proper evaluation mitigates risks, helps setting a right price, and ensures value creation in the future. Organizational fit is important for integration possibilities and outcomes, which highly contribute to synergy realization.

Negotiation is time for building mutual trust, gathering information and defining the deal, including price. To avoid momentum and inadequate deals, the SME should define and communicate its “deal breakers” to the buy team and have sufficient time and resources to negotiate. While some expectational ambiguities can be needed to complete the deal, one should keep in mind that they can backfire later by raising mistrust when revealed. Trust and honesty are valued in both Finnish and German countries. In the latter, people tend to be more sceptical and require more time to build trust. Therefore, it might be a good idea to make sure, that the promises made during negotiations are kept.

The key takeaway of this thesis is that the key considerations in pre-acquisition lay the foundations for the post-acquisition phase, and therefore, performance and success of acquisitions. For example, compatibility of the two companies can determine whether the acquisition can achieve its intended objectives. Decisions made, such as selecting a target that aligns with the buyer's capabilities and goals, can set the stage for successful integration and synergy realization.

Post-acquisition phase poses challenges such as employee resistance and the "merger syndrome" which can hinder synergy realization and create negative outcomes. This is especially important for Finnish SMEs acquiring German firms, given the national and organizational differences, which can create barriers for communication, collaboration and trust. Finnish SMEs must therefore take proactive measures to reduce employee resistance, ensuring members of both organizations feel valued and included. It is suggested to build an integration team with members from both firms to build mutual trust and sense of belonging. This applies well in the Finland-Germany context, where strong employee involvement is common. Acculturation can also be supported by creating shared experiences, rather than arrogantly imposing the culture of the buyer onto the acquired company.

A Finnish SME can apply the insights and framework presented in this thesis to understand how acquisitions can serve as strategic tool for internationalization of their business, especially into German market. Understanding the opportunities, such as global synergies, value creation, strategy renewal and its effects on competitive advantage, a firm can better define its objectives and align their actions with them. In addition to exploring the opportunities of acquisitions in Germany, this thesis highlights key considerations contributing to achieving the successful outcomes. By recognizing the key challenges and pitfalls firms face in pre- and post-acquisition phases, SMEs can use the framework as a practical guide to anticipate and mitigate risks, and navigate the complex process.

The framework synthesizes theoretical findings into comprehensible and practical suggestions tailored for Finnish SMEs seeking acquisitions in Germany. It addresses the amplified challenges of SMEs and foreign acquisitions, including cultural and organizational differences, while offering approaches to overcome them. By proactively anticipating and addressing the challenges, avoiding common pitfalls, and aligning their strategy with defined objectives, Finnish SMEs could mitigate risks, maximize the value creation and synergy realization, and successfully expand into German market.

Parts of this thesis have a broad and general perspective, while the Finland-Germany context provides practicality and deepens the understanding of foreign acquisitions. I seek to circle back to the practical examples when they are relevant and provide additional valuable insights. While the focus is on

Finnish SMEs in Germany, many insights are applicable generally. This is particularly true for acquisitions in relatively close foreign countries with open markets, extending my contribution beyond the specific German context. While some insights cater to Finnish SMEs specifically, SMEs have generally same characteristics, allowing the framework to be relevant for businesses outside Finland.

This thesis seeks to contribute to the underrepresented literature on SMEs foreign acquisitions. Since business transfers are expected to increase in the future, more focus should be concentrated on the topic. SMEs are the backbone of our economy, and their growth contribute to economic growth, job creation, and innovation. For companies in small economies, such as Finland, internationalization can be vital for scaling and growth. Since acquisitions can serve as a tool for strategic renewal, competitiveness, and of course, internationalization, SMEs should be supported to successfully navigate foreign acquisitions.

Beyond the relevance to SMEs, my thesis provides value for business transfer professionals by offering practical research-backed insights that can be directly applied to actual situations. By highlighting challenges and pitfalls SMEs face, as well as key considerations for mitigating risks and ensuring successful outcomes, professionals can be better equipped to guide SMEs through the acquisition process. Additionally, this thesis provides valuable insights for policymakers. By deepening the understanding of foreign acquisitions, it can foster ideas on how to create a regulatory environment, supporting SMEs foreign acquisitions. As business transfers increasingly contribute to healthy and sustainable economics, raising awareness and promoting the transfers can facilitate a better environment for them.

4.2 Limitations and Areas for Future Research

This thesis adopts a rather broad scope in examining SMEs acquisition. Therefore, it is forcing me to face several limitations. The research focusing on SMEs acquisition is scattered and often contains contradictory information. Some contradictions seem to stem from studies focusing on different industries, each with their own characteristics and acquisition objectives. This thesis ignores industrial differences or generalizes findings conducted in specific areas of business. Therefore, industry-specific research could be an area for future research. This could provide valuable insights for tailoring the acquisition frameworks for different contexts.

The size and ownership structure of SMEs and how these factors affect internationalization and acquisition is also beyond the scope of my thesis. My study briefly discusses the potential effects of

family-ownership on SMEs internationalization strategies and decisions, but no common ground was found. One potential reason is the wide range of firm sizes, which SMEs represent. The born-global theory contradicts with the Uppsala internationalization model, which suggests that acquisitions could be typically pursued by larger and well-established firms. Beside effects of ownership structures, future research could explore the specific sizes and types of SMEs that are likely to engage in acquisitions and have potential to succeed.

The findings and discussions in this thesis are largely theoretical, as no case companies were included in the analysis. While existing case studies on SMEs internationalization offer insights on foreign market entry in general, future research could focus specifically on acquisitions as a mode of entry. Conducting case studies of Finnish SMEs acquiring German firms could, for example, provide richer, more practical insights, and expand theoretical framework presented here.

The thesis also excludes other market entry modes and choices regarding ownership level, focusing solely on full ownership. However, other modes, such as joint ventures, may present alternatives for SMEs with limited resources and low risk tolerance. Another limitation is financial considerations, which are central to acquisition literature. Since SMEs are not publicly traded, there is limited financial information available, and this area stays beyond the scope of my thesis.

In conclusion, while this thesis offers valuable insights into SMEs foreign acquisitions and internationalization for SMEs, professionals and policymakers, still many areas remain open for further exploration. Addressing these limitations might further help build a more comprehensive understanding of how SMEs can successfully navigate foreign acquisitions.

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