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International diversification of a small Finnish firm

Case: Company X

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The objective of the study is to give the sponsor company a suggestion for a possible target market to enter with the given new product lines. One intention is to give information of how to use its existing resources as a base for new businesses abroad and another goal is to give information about a possible business model with some generic information about the global markets and the directions of the future of the global economies.

The theoretical framework was based mainly on the resource based view and the work of Wernerfelt, Barney and Clark. The dynamic capabilities were also discussed, mainly based on writings from Teece, Helfat and Peteraf. According to the authors, it can be useful for a company to look for new businesses not only by analyzing the environment, as is the traditional way, but also by taking a deeper look at the company resources and to use those resources as a base for the business strategy. According to Barney, the VRIO-framework can be used to analyze if the resources managed by a firm can be source of sustained competitive advantage.

The study was executed as a desk study, based on information gathered from databases of World Bank and Transparency International combined with information provided by the case company. The country data from the different sources was combined into one table and analyzed through different attributes which were chosen by the resources available for the sponsor company. The analytical approach was mainly qualitative and a combination of the elements from the resource based view and the traditional SCP-model was used to choose a target market.

As a result, six possible target countries were found, which would suite the goals of the sponsor company in the beginning: Sweden, Germany, Netherlands, Austria, Switzerland and Denmark. The results also suggest, that it is possible to build a new business based on the resources of a company, but it is also important to recognize which resources are lacked and how to get access to those resources. A business model was introduced for further use.

In conclusion I would say that a small Finnish company has many possibilities for doing business abroad by using available resources and the best way to get access to needed resources that it doesn't have is by networking and cooperating with other firms. Also, a company must be able to change its strategy very fast, and one of the most valuable resources in the fast changing world is the ability to look for new possibilities and to make quick decisions as suggested in the discussion about the dynamic capabilities. In a constantly changing environment firms must be able to develop new valuable resources by using their old ones, and they have to be able to change their direction very quickly.

Key words
Resource Based View, Internationalization, Dynamic Capabilities, VRIN, VRIO

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1 Introduction

"Entrepreneurship is about understanding opportunities, getting things started and finding new and better ways of putting things together. It is about coordinating on a global basis the assembly of disparate and usually co-specialized elements, getting approvals for non-routine activities, sensing business opportunities and finding ways to scale capabilities globally" (Teece 2013, 166).

The quotation above summarizes the goal of this study pretty well: the aim is to provide information, knowledge and some justifications for the new business of the sponsor company.

The situation in the Finnish economy is not very good at the moment and since 2008 there has been a decline in many industries. The decline rate of the exports from 2008 to 2012 has been 13%, from 66 to 57 billion euros (TeamNord 2014). One main reason is a struggling export industry, which has been relying earlier on the wood industry and more recently on the success story of Nokia. In Finland, the export is driven mostly by the big enterprises and many small companies think they don't have the resources or capabilities to internationalize, sometimes they also just don't want to. This situation is different for example from Germany where many middle-sized companies are doing international business, and very successfully.

1.1 The case company

The sponsor company of this study is a small Finnish company which was established in the late 1980's. Its main business today is in importing, marketing and selling of mechanical products for the Finnish industry, but also for companies in other northern countries and Russia. Lately, the company has been taken some consulting cases based on the knowledge and resources of its management team. Most of these cases were executed by the managing director of the company in the areas of different kind of management problems of the customer companies.

According to the company material (Company X 2016) the strengths of the company can be summarized as follows: the company has good connections worldwide, and those connections could be used to help the company to grow outside of Finland. Since the company is also pretty old and the management team has worked together for a long time, there is a deep working culture and well defined processes. Trust between the members of the management team is

strong. The managers of the company have a long experience in managing development projects in the areas of retail, IT and other challenging change-projects. The members of the management team have been working as consultants for other firms in various projects in areas of supply chain management, logistics and category management. They have also long experience in leading organizational changes and IT-related large development projects. The knowledge and skills in developing and managing business processes, especially in the area of importing and exporting, can be considered to be very good. The management team of Company X has also the ability to do business in several languages: Finnish, Swedish, German and English, which can be very valuable in doing international business. They also have experience in putting up and starting several new businesses.

Company X has been importing various articles for years, mainly from European countries, but the management team has also experience in importing products from China, India and other countries from Far East. The main customers of the company are in Finland, but they are also exporting to Russia, The Baltics and countries in Europe. Company X also has some experience in exporting to countries in the Middle-East and some major projects have been made with its Finnish customers in Chile, Brazil and Argentina. The company has been networking all over the world and it has business partners in every continent, and in addition to that, also the members of the management team have good personal contacts in several countries. Both the business networks and the personal contacts could be used when thinking about new business areas.

According to information gained from the company material, they lack the following resources: working capital, knowledge about different target markets, staff with local insights, products that could be exported and an operative working organization. Also, they have no political connections or experience in working in risky areas or in countries where bribery is part of doing business. The lack of these resources is one possible reason for the need of partners or some form of cooperation.

The decline in the Finnish economy has affected also this company, and it is looking for new business opportunities, possibly in putting up a new firm for exporting Finnish products abroad. This is one of the reasons they want this study to be done. The sponsor company has made some occasional exporting with its current products, but their idea would be to look for consumer products in some kind of partnership with the manufacturers in Finland. The exact product categories have not been chosen yet, but they are thinking to export products like fishing gear and related items.

"We have had some unofficial discussions with some Finnish companies about putting up a joint venture or other kind of partnership to export our products and services abroad. We need to find out the best markets and the best ways to do this. So, we would like to have a study done about the global markets and possible ways. As an outcome there should be a strategic level plan which markets to enter, how and why." (Company X 2016).

The aim is to establish a new company, or to buy products from Finnish manufacturers, for exporting Finnish products and services abroad, built on the resources available. The role of the sponsor company in a joint venture would be different kinds of management consulting services and project management services in the new company, perhaps with a role in the management team. The products would be products manufactured by the other partner companies or brands owned by the partner companies, and the product line should be possible to be increased in the future.

The sponsor company wants to get the following results from this study:

- How to use the resources of the sponsor company to build competitive strategies in combination with other network partners, theoretical background about building competitive advantage based on company resources.
- A general market analysis from the global markets: which countries would be easiest to deal with and what kind of markets would they have in general. Some general information about the different countries.
- A suggestion for the business plan: joint venture, alliance or other with funding suggestions. Theories behind using the resources and capabilities.

The suggested target markets should be possible to enter fast and as easy as possible with the resources available for the sponsor company. On the other hand, the markets should have some differences compared to the Finnish markets, because the sponsor company wants to learn how to do business in different market situations. This is because it is also very interested in doing business in some of the most difficult markets sometime in the future.

1.2 Needs and objectives

The focus of this study is to provide Company X with information and suggestions about the attractiveness of the different countries with assessment of the useful resources available for the company. The aim is to suggest the most attractive target countries, to assess the value of

the resources and capabilities available, and to suggest a business model for the implementation. According to the company, the target market should have a big potential market size, but it should also be relatively easy to access profitably with limited resources. I will provide the company with the needed information by answering the questions given below.

The main research questions are:

What could be the most attractive target country for internationalization?
What kind of business model would be suggested?

The following sub-questions help to fulfill the needs of company X:

Which countries have the largest market potential?
What kind of risks should be taken into account?
Which of the available resources could be valuable and why?
What other resources are needed?

By answering the questions above company X would get very valuable information for further steps in its international diversification and internationalization process.

Also, the study will give myself a deeper understanding of the market situation globally and different market entry strategies which itself is a great motivator for doing the study. In the theory part of the Resource Based View and its history I think some deep understanding of that theory will also be gained.

1.3 The scope of the study

This study concentrates on the questions given. It will not provide detailed market information or a detailed strategic plan. The demand of the given products will be assessed only based on higher level indicators, so a specific market research needs to be done separately by the case company later.

1.4 International aspects

This study is made for a company that is already involved in international business and which is planning to take part in an international diversification of some form. The language used in this

study is English and the sources for the theoretical framework were written mostly in English by internationally recognized authors. The study is focusing in finding attractive target markets from abroad and making suggestions about an international business model, so I would say that the study as a whole is very international and fulfills the requirements given by Haaga-Helia University of Applied Sciences.

1.5 The structure of this study

The structure and the chapters of this study can be summarized as follows:

Chapter 1: the background, the case-company and the goals and limitations of the study are introduced. Also, a description of the needs, objectives and the scope are described. The resource questions to be answered are given in chapter 1.

Chapter 2: in chapter 2 I will look at internationalization and the different parts of the world in general. Some useful tools, like CAGE-model and PESTEL- framework as well as some major risk-factors are described. Some markets are described in more detail, to give the reader an overview.

Chapter 3: in this chapter I take a look at the development and major findings of the resource based view with short comparisons to related or complementary viewpoints. I will use mainly primary data in the form of original articles when describing the development stages of the resource based view. In the end I introduce the conceptual framework of the study, combining the theoretical framework with the empirical part.

Chapter 4: in this chapter I will describe the research problem, the methodology and the methods chosen. The data sources and the data are introduced, and reasons for the different choices made are given.

Chapter 5: this chapter introduces the results of the empirical part with the key findings. Suggestions about the target market and the business model are given. In chapter 5 I will also assess the reliability, validity and the ethics of the study.

Chapter 6: in this chapter I will discuss the study and the results of the empirical part again, perhaps from a slightly different point of view than already done in chapter 5. This chapter introduces the implementation plan with some suggestions for further study and discusses the usefulness of the results for Company X. In the end I take a look at the research process and my personal reflections.

2 International business in general

International business happens when firms perform trade or investment activities across national borders. International trade is one form of international business, which refers to the exchange of different kind of services or products, for example through importing or exporting. (Cavusgil, Knight & Riesenberger 2014. 57.)

Common reasons for internationalization are: increasing sales and profits, the ability to better serve the existing customers, accessing resources outside the home-country, developing economies of scale, developing relationships and building networks with foreign partner companies and improving products and services by gaining access to new ideas. (Cavusgil et al. 2014. 57.)

In this chapter I will look at some general information about the international markets today and also, at some basic concepts and frameworks that can be useful for a company that is evaluating the possible markets.

2.1 Megatrends and consumer trends

The whole world is changing at an enormous pace which makes it difficult for companies to stay competitive on the market, if they don't change continuously. According to Lancefield, Vaughan & Boxshall (2015), there are five major trends going on in the world today: demographic and social change, shifts in global economic power, rapid urbanization, climate change with resource scarcity and major technological breakthroughs. These trends will have an impact on the Finnish economy and for the whole world economy.

One outcome of the rapid urbanization are the megacities. In 2025, most of the largest cities of the world will be located in countries of the Far- and Middle-East, particularly in China, India and Japan. Those are the countries where the population is growing, people are moving to cities and the economy is growing at the same time. All this together will lead to a major shift in the economic power from west towards east, and this will have its effect on the future. Also, there are predictions that the economic power in the future would shift from nations to the big cities, which would mean an enormous change also.

Cities have been the centres for trade for centuries, but the rapid urbanization of today in the emerging markets will probably shift the economic power to cities in a way that we have not seen before. Over half of the global GDP growth between 2010-2025 is expected to come

from the fastest growing cities in the emerging markets. The middle-class in these areas is growing fast in the number of individuals, but also the income of this class is rising. The urban middle-class in these cities is going to be a very interesting, and huge, target for many products and services in the future. (McKinsey Global Institute 2012.)

The map below illustrates the power shift from east to west, and the major cities of the future. As can be seen, the cities are concentrated on the eastern side of the world.

Figure 1. The power shift from west to east and the rise of the mega cities (Vakkuri 2015)

In addition to the megatrends and the rapid urbanization, there are some consumer trends that are affecting the future business environment, some of them more important than others. According to Daphne (2015) the ten major ones are: (1) buying convenience, easiness and quality time combined with a 24/ culture, (2) consumption as a route to progress in the form of ecological thinking and eco design, (3) consumers as influencers, for example in the form of vloggers and blogger, (4) sharing economy and the devaluation of owning things, (5) smaller central shopping centers for experimenting and entertainment, showrooms for online shops, space for communities and groups, (6) the rise of the millennials being less loyal to brands and very often socially conscious with a high need of belonging to a group, (7) privacy is luxury, (8) the rise of shopping tourism, social media and the turn of local consumers into global retailers, (9) separation between online and offline world and the rise of digitally themed products and finally, (10) connected health and mobile fitness monitoring in the form of wearables.

As mentioned by Prahalad and Ramaswamy (2004), the consumers of the future want to be part of the business system, they want to influence. Prahalad and Ramaswamy say (2004, 7) that value is co-created by the companies and their customers. For a company to be successful, the following things have to be taken into account: dialogue with the customer, access to the services, risk-benefits and total transparency. The interaction with the customer can happen anywhere at any time, not just at the point of sale as the traditional companies are used to think. In the future there will be also a need for companies to think again the value creation process and how to interact with the surrounding society in a way that creates value both for the company and the society, the companies have to create shared value (Porter & Kramer 2011). The product design processes of the future must be much more creative than today, as the customer demands are getting higher and one of the big trends in this area is going to be the circular economy (Accenture 2014), where the recycling of a product is being thought already from the beginning of the planning process

2.2 The global markets in general

According to Keegan (2014, 72) countries can be grouped in different categories according to their income level. He mentions the following four groups, used also by the World Bank. The grouping has been made according to 2011 GNI per capita using the World Bank Atlas method: (1) high-income countries, income $12475 and more, (2) upper-middle income countries, income between $4036 and $12475, (3) lower-middle-income countries, income between $1036 and $4035, and (4) low-income countries, income under $1025.

In his text Keegan (2014, 75) gives the following characteristics for low-income countries: "limited industrialization and a high percentage of the population working in agriculture and farming, the birth rates are high and the literacy rates are low, heavy reliance on foreign aid, high levels of poverty, the income distribution is in-equal, political instability and unrest". For marketers, there are some challenges in these countries that must be taken into account. In his text Keegan (2014, 180) mentions the following: low per capita income, high inflation, wide income distribution gap, high levels of taxation, import duties and other bureaucratic hurdles, a lack of marketing awareness and the presence of black market, fragmented communications and distribution channels and inadequate distribution and logistics infrastructure.

The lower-middle-income countries are also known as emerging markets (Keegan 2014, 76). They are at the early stages of industrialization. In the near future there lies huge potential in the economies of these countries.

The upper-middle-income countries are also known as industrializing countries (Keegan 2014, 77). The degree of urbanization is higher in these countries and the percentage of people engaged in agriculture is smaller compared to the lower-middle-income countries.

High-income countries are also known as advanced or post-industrial countries (Keegan 2014, 78). The most powerful nations, according to Keegan (2014, 79), are the G20. The different characteristics of these groups are very important when thinking about exporting products or services to the different countries. The countries in the different groups need totally different entry strategies and probably also different kind of products and services. This is something one must be aware of.

In the CAGE model, one form of the distance is the economical distance. For a company operating from Finland, which is a high-income country, it is often easier to do business with another country that also belongs to this group.

There is a huge variation in the GDP growth rate in different areas of the globe, as can be seen from the table below. Also, in general, the growth is estimated to be higher in the lower-income economies and the developing economies.

Table 1. The GDP growth rate of different country groups, estimates for 2015-2018 (www.worldbank.org)

Country groups	2013	2014	2015e	2016f	2017f	2018f
Aggregates						
Advanced economies	1.1	1.7	1.8	1.7	1.9	1.9
High-income economies	1.2	1.7	1.6	1.5	1.9	1.9
Developing economies	5.3	4.9	4.3	4.3	4.9	5.1
Low-income economies	6.5	6.1	4.5	5.3	6.3	6.6
BRICS	5.7	5.1	3.8	4.2	5.1	5.3
Emerging market and developing economies (EMDEs)	4.7	4.2	3.4	3.5	4.4	4.7
World	2.4	2.6	2.4	2.4	2.8	3.0
Regions/economies						
Europe and Central Asia*	2.3	1.8	-0.1	1.2	2.5	2.8
Latin America and the Caribbean*	2.9	1.0	-0.7	-1.3	1.2	2.1
Middle East and North Africa*	2.0	2.9	2.6	2.9	3.5	3.6
Sub-Saharan Africa*	4.8	4.5	3.0	2.5	3.9	4.4
East Asia and Pacific*	7.1	6.8	6.5	6.3	6.2	6.1
South Asia*	6.1	6.8	7.0	7.1	7.2	7.3

The estimated average growth for the world is 2,4 % in year 2016 (World Bank) and for the same year the growth estimate for East Asia and Pacific is 6,3% and for Latin America and the Caribbean -1,3%. For Europe and Central-Asia a small growth is estimated. The highest estimate for growth in year 2016 is in South Asia, 7,1%.

There are three kinds of economic cooperation or integration according to Keegan (2014, 91-92). They are the free trade area, a customs union and a common market. Between these three types of cooperation there are some major differences, but the main idea in all is to make it easier to do business between the member countries. Cavusgil et al. (2014, 254) have recognized five different levels of regional integration: a free trade area, a customs union, a common market, an economic and monetary union and a political union. For a political union there are no examples yet, but perhaps the European Union is closest. Some examples of these forms of co-operation are listed below:

- The European Union (EU).
- The Asia-Pacific Economic Cooperation (APEC).
- The Commonwealth of Independent States (CIS).
- Mercado Comun Del Cono Sur (MERCOSUR).
- The North American Free Trade Agreement (NAFTA).
- The Association of Southeast Asian Nations (ASEAN).
- The Transatlantic Trade and Investment Partnership (TTIP). The negotiations are still going on, but since the effects of this trade partnership could be so huge, it is mentioned here already.

These economic co-operations should also be taken into account when thinking about the possible target countries, because they increase the market of their members remarkably. If a company has access to one of the member countries of one of the co-operations, it usually means at least an easier access to the other member-states. This could be a huge advantage for a firm doing business with one of the members of a co-operation, especially so for a small firm with limited resources.

The advantages of this kind of regional integration can be summarized in (1) expanding the market size inside a bloc, (2) achieving scale economies for companies in the bloc, (3) attracting direct investments from outside the bloc because usually in that way the investors get access to the other member states also and (4) acquiring stronger political and defensive posture. For

outsiders a regional bloc can create a huge disadvantage by reducing the level of free trade. (Cavusgil et al. 2014. 264-267.)

According to the stage of their development the countries can be divided in three different groups: advanced economies, developing economies and emerging markets. The advanced economies are countries with high per-capita income, highly developed industries and a high level of infrastructure. The developing economies are low-income countries with limited industrialization and stagnant economies and most of the countries belong to this group. Emerging markets are former developing economies, which have achieved a decent level of industrialization and a rapid growth in their economies. Most of the emerging markets can be found in Asia. (Cavusgil et al. 2014. 278.)

2.3 The emerging markets

Emerging markets is a term that is hot today, but why should a company start doing business in this markets and what are the emerging markets? First of all, let's look at the reasons. In his book Grosse (2016, 30) gives two fundamental reasons to start making business in the emerging markets, and these are: (1) their markets are growing much faster than the markets in the traditional countries (United States, Europe, Japan). The income per capita is lower, but the buying middle class is growing fast, and (2) the emerging markets are great sources of raw materials and other production capabilities as cheap labour. According to Grosse (2016, 40-57), the key emerging markets in the early 21st century are China, Brazil, India, Indonesia, Mexico, Russia and South Africa.

When entering the emerging markets, there are some specific characteristics to take into account. The rules of the game are different than the western companies are used to. Grosse (2016, 105-140) gives some good examples of restrictions and barriers that a company must analyse deeply before starting a business in these countries.

India has the fastest growing population in the world and a fast growing middle class. In 2013 the Indian economy was the tenth largest in the world (Grosse 2016, 46). When thinking India as a potential target market one has to take into account the governments' role. In India there are a lot of restrictions for foreign companies and permissions are required. Although there is a lot of bureaucracy, the population is huge and the income per capita is rising, which makes India an attractive market for foreign companies (Grosse 2016, 47). The infrastructure in many

parts of India is still in pretty bad condition and the distances are long. The major cities, like Mumbai and Delhi, are still attractive (Grosse 2016, 48).

In 2013 Chinese economy was second largest in the world (Grosse 2016, 40). China is a huge market in Asia, but there are many difficulties in doing business in China. Some reasons are given by Grosse (2016, 112), one of them is that there are many restrictions from the government side, which makes it very hard to make profit in China. Also, often a partnership with a local company is needed.

Indonesia's income rate is growing fast, but the per capita income is still pretty low. Indonesia has a population of over 240 million people and the GDP in 2013 is estimated to be $US 868 billion. The market in Indonesia is small in terms of purchasing power, but the huge population still makes it attractive for many foreign companies. The growth rate and the government participation in the economy are high (Grosse 2016, 49-50).

Russia is a huge country with a large population and a shared border with Finland which makes it pretty attractive for Finnish companies. In 2013 the Russian economy was ninth largest in the world, with an estimated GDP at $US 2,1 trillion. The income per capita was lower than in the Triad countries, but it's improving and it's already higher than any of the other emerging markets (Grosse 2016, 52).

In South Africa the environment for doing business is relatively good (Grosse 2016, 115). There are far less restrictions than in many other emerging markets and in 2013 the estimated GDP was $US 351 billion, which makes it the 34th largest economy in the world (Grosse 2016, 54). In the sub-Saharan Africa South Africa is by far the largest market, with a market-size of approximately 40 percent of the whole area.

The Brazilian economy was seventh largest in the world in2013 and according to some estimates the economy keeps growing (Grosse 2016, 43). The Brazilian population is becoming wealthier and more oriented to consumption, which makes Brazil an attractive target market for many companies from outside Brazil. There are some governmental regulations in Brazil, but not as much as in some other emerging market, for example China.

The Mexican economy is also one of largest in the world, with an estimated GDP at $US 1,3 trillion in year 2013, but the income per capita has not grown much in the 2000s (Grosse 2016, 50). Mexico has a population of over 120 million people and it has a free-trade relation to the

United States through NAFTA. The government regulation in Mexico is generally not too burdensome (Grosse 2016, 51).

Africa is in a so special stage in its development that it deserves a closer look in this chapter, although it is not one of the emerging countries, since its economy is growing fast and there are some special characteristics in the different areas. Africa is a large continent with many countries at different stages of economic development. Mataen (2012, 4) has found eight major megatrends that are shaping this geographical area: (1) population growth and demographic shifts, (2) cultural revolution, (3) regionalization of the markets and evolution of intra-African markets, (4) rapid urbanization, (5) commercialization of essential services, (6) deregulation and liberalisation, (7) the growth of credit and (8) capital market development.

When talking about the situation in Africa today, there are some major issues to be considered. According to Mataen (2012, 132) "the greatest infrastructural challenge in Sub-Saharan Africa is to link Africa to itself and states to themselves". Mataen (2012, 135) mentions as the biggest problems of the development of the infrastructure bureaucracy, dysfunctional customs services, customs, procedures that are not harmonized and corruption.

Power generation is one of the major trends all over Africa (Mataen 2012, 137). There are many projects going on to ensure the power supply in the future, but the largest project is the Grand Inga project which is supposed to have a potential of generating between 39000MW and 45000MW (Mataen 2012, 138). Of course, it is not enough to build the power plants, but also the transmission grids need to be built or renewed.

Another issue in the development of the African economy is the arrangement of transportation of goods, both between the African countries and between Africa and other continents. The ports of Africa are poorly managed and lack connections to the major ports outside Africa. One thing that is happening now is the privatization of the port operations in Africa (Mataen 2012, 144-145). The airports in Africa still lack capacity and until yet, there are not enough development projects going on in this area (Mataen 2012, 15-151).

Since the population in Africa is rapidly growing and urbanization is happening at a high speed, the development of African cities is also one issue for the local countries. According to Mataen (2012, 146-147) almost every major city in Africa is under a modernization project.

In the area of technological networking the African countries have done well. In telecommunications, Africa stepped straight into the mobile world and skipped the phase of building expensive physical wire connections (Mataen 2012, 155). In terms of telecommunication, Africa is nowadays very well connected. Africa is also well connected to the other parts of the world by fast undersea cables.

The possibilities for international companies to do business in Africa have dramatically increased in the past decades. One major reason for this is the shift towards democratically chosen governments and their willingness develop the business environments in their countries (Mataen 2012, 181-183).

The development of Africa as a business environment has been enormous in the last decades, and it should be considered as a potential market when thinking about internationalization. One of the major reasons, of course, is the rising middle class. When summarising the opportunities in consumer retail, Mataen (2012, 244-245) mentions the following topics: (1) the development of the road networks will make efficient distribution possible, (2) increasing employment opportunities mean more people have the possibility to spend, (3) the amount of payment cards and bank accounts is increasing rapidly, (4) rapid urbanization is sending African youths into urban centres swelling the consumer bases and (5) improving personal prosperity is boosting the amount that people spend when shopping. Africa is on its way to become a serious partner in the world trade, but it might be still a little bit too risky.

According to Chin and Michael (2014, 5) the emerging markets are going to remain the biggest sources of growth for decades to come. The major reasons for this are: their population is growing much faster than in the mature markets, the consumption is growing at a very high speed in those markets, there is a fast urbanization going on and the liberalization of trade. Also, in some cases the emerging markets can step over some development stages like has happened in parts of Africa with the spread of mobile technology.

The emerging markets are not only possible target markets, but there are also many things that can be learned from the companies based in these countries. The best of them have been growing fast in the past years, and they have done it somehow different than for example most of the companies in the developed countries. Guillen and Garcia-Canal (2008) mention some reasons why emerging market MNC's have been able to be competitive also globally and some of these points could be valuable also when thinking about the international diversification of a small Finnish company. They give the following six reasons for the success of the emerging

market MNC's: (1) the speed of internationalization compared to the gradual speed of the traditional MNC's, (2) their weak competitive advantage and the need of upgrading their resources, (3) they are used to unstable political environments, (4) they simultaneously enter developed and developing countries, (5) they search for external growth through alliances, joint ventures and acquisitions, and (6) high organizational adaptability. Guillen and Garcia-Canal (2008, 18) give the following advices for companies to learn from the emerging markets SME's: building networks and gaining access to competitive resources that they lack, using alliances and joint ventures to expand more quickly, using vertical integration and finally, being active in managing relationships with local officials and other stakeholders.

2.4 Different kind of risks in global business

As I already mentioned, there are some differences between domestic and international businesses and one of them are the dimensions of risks. The four risks in internationalization business are: cross-cultural risk, country risk, financial risk and commercial risk. These are normally the main characteristics that make international business different from domestic business. (Cavusgil et al. 2014. 57, 117.) The next figure shows an overview of the changes in the country risk rating in the 1st quarter of 2016.It gives a quick overview of the risk-level in the different areas of the world.

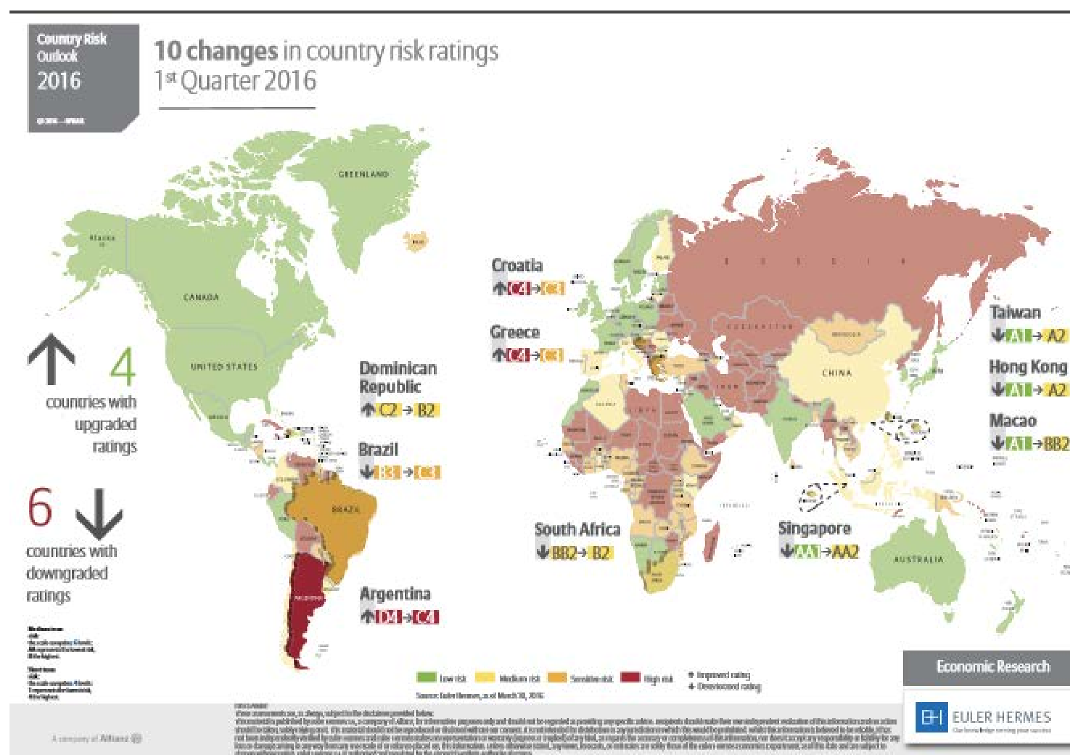

Figure 2. Country risk outlook 2016 (www.eulerhermes.com)

According to the information given in the figure 11 above, the highest risk level is predicted to be in Argentina, although its rating has been upgraded. The lowest risk level can be found from North-America, Australia, Europe, India and some other countries. The risk level has risen in six countries and fallen in four countries. Countries where the risk level has been upgraded are Dominican Republic, Croatia, Greece and Argentina. The downgraded risk levels can be found from Brazil, Taiwan, Hong Kong, Macao, South Africa and Singapore. I will look at the riskiness of the different countries in more detail later.

Riskiness can be high due to many different reasons, but one that is important for a small company is the political stability in a country. Also, it is not possible to try to internationalize into countries with a lot of unrest or even warzones. Below I have an illustration about the political situation in the different countries, which is one indicator that can help to forecast the riskiness of a country in the future according to an analysis made by the World Bank. In the next chapter, when I am screening the different markets, riskiness is one of the first factors to consider.

2014, Political Stability and Absence of Violence/Terrorism

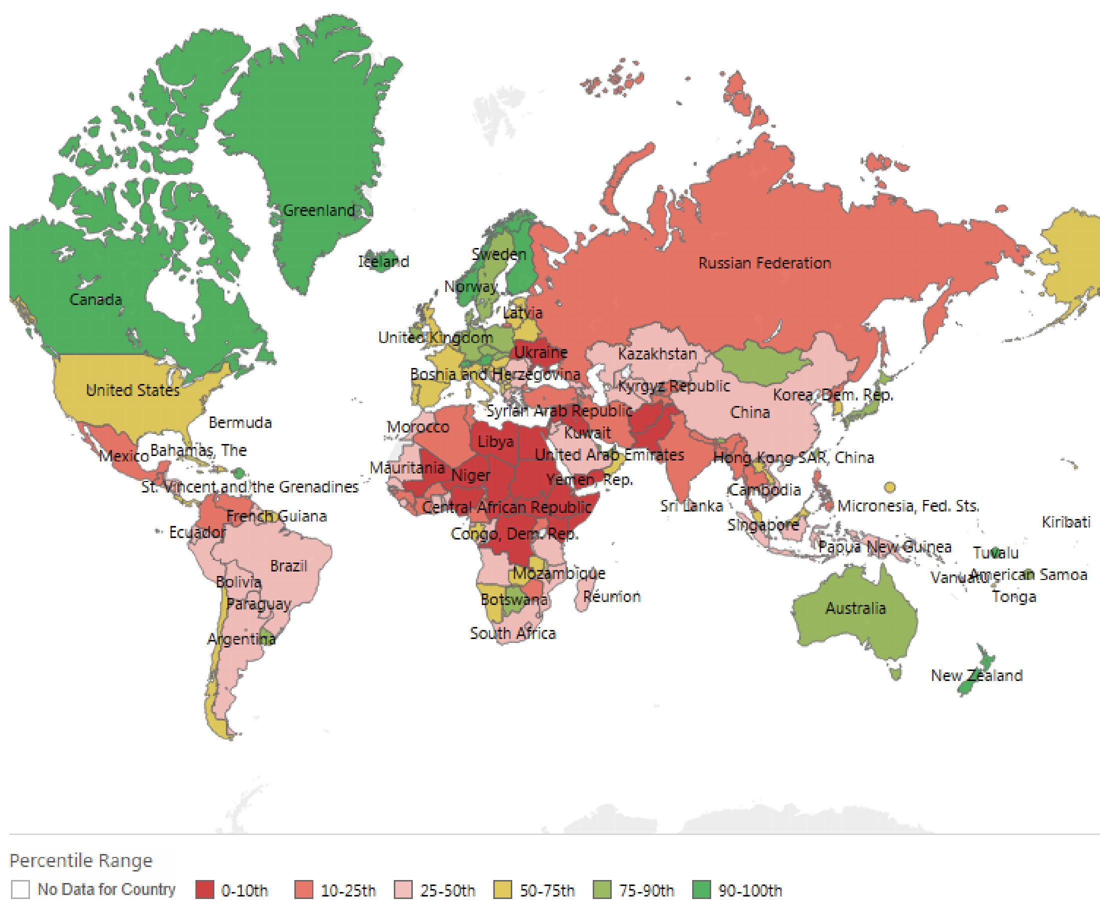

Figure 3. Political stability and absence of violence/terrorism (www.worldbank.org)

When I look at the overall political stability and absence of violence in the world, there is not much green in the map. As already mentioned, political stability and the absence of violence will also be one factor when comparing the different countries in the next chapter. The most stable areas can be found in northern Europe, Greenland and Canada. Central Europe and Australia can also be considered to be pretty stable, concerning the political stability. The countries in northern Africa and Middle-East cannot be considered as safe and also Russia and Ukraine have their risks. One think that must be remembered is, that the risk level in a country can change very fast from not risky to risky, and one reason for this are different kind of terrorist acts, which unfortunately are more probable nowadays than in the past.

In the next map I will show an illustration about the voice and accountability in the different countries which is also one way to look at the political system. There seems to be some kind of a correlation between these and the previous map, which also seems pretty logical.

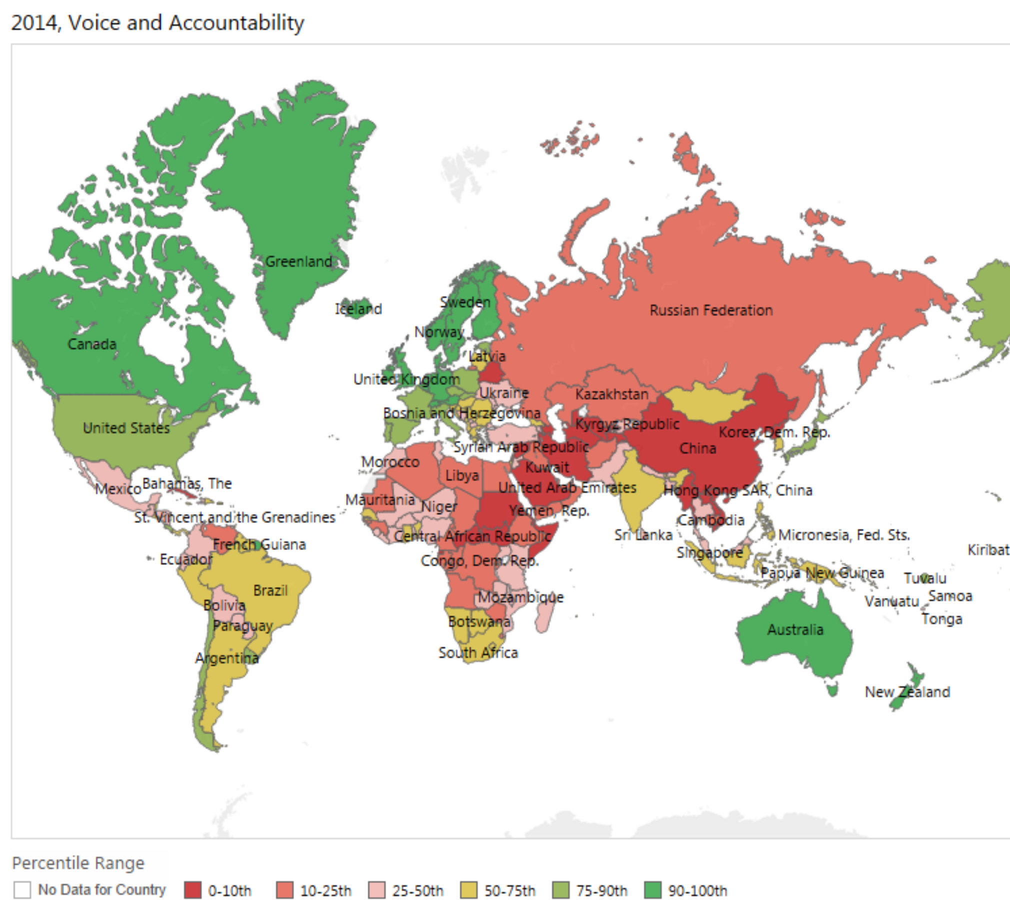

Figure 4. Voice and accountability (www.worldbank.org)

Cultural differences can cause an increase in the risk-level between two countries. Culture is defined by psychologist Michael Bond as "a shared system of beliefs, values, expectations especially about scripted behavioral sequences and behavior meanings developed by a group over time to provide the requirements of communal life in a particular geographical niche. This shared system enhances communication of meaning and coordination of actions among a culture's members by reducing uncertainty and anxiety through making its members' behavior predictable, understandable, acceptable and valuable." (Keegan 2014, 127-128.)

Bribery and corruption can cause problems for foreign firms, since in some countries they are still "business as usual". A foreign firm has to make an ethical decision, if it will adapt to the local habits totally, if it will maintain the home-country ethics with no adaption at all, or something in between. To estimate the corruption level of a country for example the Corruption Perception Index published by Transparency International (www.transparency.org) can be used. (Keegan 2014. 113-117.)

Country risk, or political risk, is the outcome of the development of local political or governmental environment which can cause the company a potential loss in its profits. Examples of such cases can be government intervention, barriers to trade and protectionism. Failures of the government can lead to an economic crisis, high inflation or market downfalls. Some political or legal activities can have a huge impact on the business environment: the laws can favour the local businesses or the they can change unpredictably in an unfavourable direction. Also, the local restrictions or bureaucracy can make it very difficult for a foreign firm to operate profitably. It is important to know the local political and legal systems beforehand. (Cavusgil et al. 2014. 199-220.)

A legal system of a country provides the framework of different rules which then define the boundaries in which a business can operate. Instead of being static, the legal systems are dynamic, which means that they change all the time. The faster they change, and the harder it is to predict the direction, the more difficult it is to make predictions about the profitability of a business. Rule of law is an often used term, which means a legal system where the rules are clear and widely respected. (Cavusgil et al. 2014. 207.)

The political system of a country can cause many difficulties for a firm. Some of the most usual causes are (1) embargoes and sanctions, which make it more difficult for a foreign operator to do business, (2) boycotts against firms or nations, which make it impossible for certain firms to

operate, (3) threat of terrorism or violence makes it very difficult and dangerous for firms to do business and (4) warzones. (Cavusgil et al. 2014. 211-212.)

A country risk can arise from the host-country legal environment or from the home-country legal environment. Typical laws that can rise the country risk are (1) foreign investment laws, (2) controls on operating forms, (3) marketing and distribution laws, (4) laws on income repatriation, (5) environmental laws, (6) contract laws, (7) internet and e-commerce regulations and (8) inadequate or underdeveloped legal systems. From the home-country side typical regulations causing problems can be found in (1) the foreign corrupt practices act, (2) anti-boycott regulations, (3) accounting and reporting laws or (4) transparency in financial reporting. (Cavusgil et al. 2014. 213-216.)

One more form of country risk to be taken into account when doing international business is the government intervention. Usually it appears in form of various forms of protectionism, like tariffs, non-tariff barriers like subsidies and governmental support programs for local firms, customs or investment barriers. The level of economic freedom is one way to measure this kind of risk. (Cavusgil et al. 2014. 227-240.)

Often the level of political risk in a certain country can best be predicted by the country's stage of economic development, meaning that in this sense the high-income level countries are less risky than the low-income countries. (Keegan 2014. 99.)

In international business one form of the potential risks is the financial risk or currency risk. It can be defined as harm caused by changes in the price of one currency relative to another, and if a firm is not prepared, it can cause huge losses very quickly. To avoid the risk, firms can decide beforehand on the exchange rate to be used, or the selling firm can use only the currency of its homeland. Several other mechanisms are also available. (Cavusgil et al. 2014. 309.)

Commercial risk occurs due to poor business strategies or the procedures in the execution. Some possible areas which have to be considered deeply enough beforehand are the selection of the business partners, timing of the entry and pricing of the products. The same risks can occur in domestic business also. (Cavusgil et al. 2014. 46)

One traditional way to look at the economies, and the possible causes for riskiness, is through the PEST(EL)- framework. The PEST(EL) framework is a good tool for listing and analysing the possible influences of the environment. As Johnson et al. (2009, 27) puts it, it is important

for managers to know the possible changes in the environment to choose the best strategies. PESTEL stands for the following environmental influences: political, economic, social, technological, environmental and legal. A checklist for PESTEL analysis is introduced by Lynch (2006, 84) as follows: (1) political future, (2) economic future, (3) socio-cultural future, (4) technological future, (5) environmental future, and (6) legal future. This is a very good list to keep in mind when thinking about the possible indicators for the attractiveness and risk-level of the different countries.

In the CAGE-model the distance of two countries is assessed according to four different attributes. Distance is always not only physical, but there are also other kinds of distances (Johnson, Scholes & Whittington 2009, 219). In the CAGE framework the following dimensions of distance are referred to: (1) cultural distance, indicating the differences in language, ethnicity, religion and different kind of social norms, (2) administrative and political distance, assessing the administrative, political or legal traditions in the target country, (3) geographical distance, where not only distance but also size, sea access and the quality of communication and other infrastructure is assessed, and (4) the economic distance, answering the question if the economics of the countries are at the same level. The closer the target country is to the home-country, the easier and less risky it usually is to do business. The PESTEL framework and the CAGE-model can easily be used together to complement each other.

2.5 International entry strategies of a firm

There are several possibilities for a company when thinking of internationalization. The right mode is highly dependent of the company's strengths and resources. For a small company it's crucial to choose the right mode because of the very limited resources. According to Johnson et al. (2009, 224) the following market entry modes can be found: exporting, joint ventures and alliances, licensing and foreign direct investment. In the figure below Grafers and Schlich (2006, 109) give a more detailed illustration of the different forms of market entry.

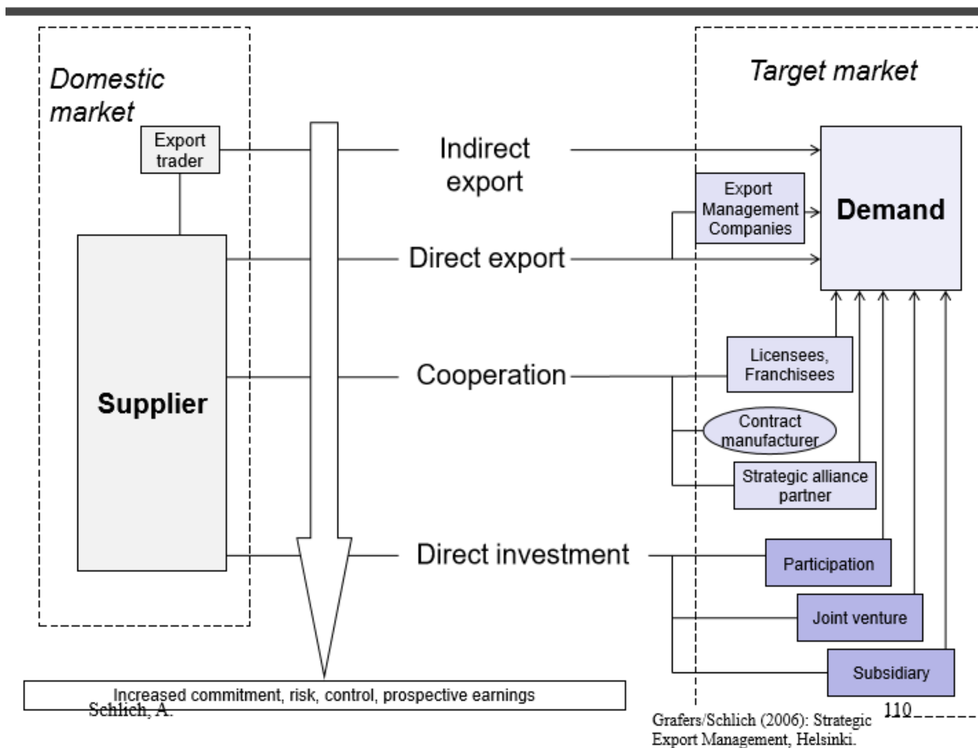

Figure 5. The different market entry modes (Grafers & Schlich 2006, 109)

The figure shows the different modes of internationalization. The more one moves down on the arrow, the more capital is needed and the more long-term commitment is needed. For companies with lack of capital and companies who want to avoid taking too much risk it is wise to start from the options at the top of the figure, and when gaining knowledge of the market, they can then increase their commitment to a certain market and move downwards in the figure. This type of internationalization strategy is similar to the one known as stages model, where the company starts by importing and then step by step moves first to exporting and then finally perhaps even to foreign direct investments. It is very similar to the thoughts of the sponsor company of this study.

2.6 Indicators for market potential

According to Keegan (2014, 79) for the vast range of products in international markets today, the most important indicator of potential is the income. To compare the income level of different countries the PPP is used, because it also looks at the living costs in each country. According to Keegan (2014, 82) the standard of living in different countries cannot be seen only from the income per capita. As an example he mentions that in industrialized countries people have to pay for goods and services that are free in less developed countries. For products whose

price is low enough, not the income, but the population can become the most important indicator of potential (Keegan 2014, 85). This has to be considered when determining the market potential and the possible consumer demand in that particular market. As a result, both GDP and population must be considered when estimating the sales potential of a product at a generic level.

When appraising the possible markets, at least the following six criteria should be assessed (Keegan 2014, 240-241): market potential, market access, shipping costs and time, potential competition, service requirements and product fit. The attributes given by Cavusgil et al. (2014. 369.) are similar: market size, market growth rate, market intensity, market consumption capacity, commercial infrastructure, economic freedom, market receptivity, country risk. The most relevant attributes will be chosen in the market selection chapter.

3 The resource based view

If a company wants to keep its relative position in the industry, it must grow and change continuously and if it wants to improve its market-position, it must do this even faster (Ansoff 1957, 113). Possibilities for growth, according to Ansoff, are increased market penetration, market development, product development or diversification. Diversification is the most challenging growth strategy since it requires the firm to break with its old patterns and traditions and to enter a totally new business area. When a diversification strategy is chosen, both the present product line and the present market structure are simultaneously changed (Ansoff 1957, 114). There are three different diversification strategies given by Ansoff (1957, 118): vertical diversification, horizontal diversification and lateral diversification. Which one to choose depends on the market trends and the firms position in the competition. After setting the long range sales objectives a three level screening process is suggested for selecting the right diversification strategy: long-range product-market policy, comparing the diversification opportunities with each individual diversification objectives and grouping the alternatives and finally a quantitative evaluation where the profit potential of the alternatives is compared (Ansoff 1957, 121-122). However, the firms' internal factors are not considered in the framework given by Ansoff. The frameworks and theories by mentioned by Ansoff are still very useful and relevant in many cases.

The firm was defined as a collection of productive resources already in 1959 (Penrose & Pitelis 2009, 21) and many think that this was actually the start for the resource based view. Competitive strategy has been defined after that as the primary concern of managers, depending of understanding the industry and the competitors (Porter, 1980). The five forces (Porter 1980, 4) have for long been the framework for companies looking for strategic choices. In his text Porter argues, that there are five forces defining the attractiveness of the market: current competition, threat of new entrants, threat of substitutes, bargaining power of buyers and bargaining power of suppliers. By analysing these forces, a company can find a competitive position when choosing from the generic strategies, also defined by Porter: overall cost leadership, differentiation and focus (Porter 1980, 35). A company stuck in the middle can, according to Porter, not gain competitive advantage if not competing in very rare conditions. The thoughts of Porter have been criticized because they don't take into account the differences between the resources and capabilities of the different companies in a given industry and also because it is often very difficult to define the industry boundaries clearly enough. But, the five forces framework is a useful tool and should be used together with some other tools.

3.1 1984 and the first steps

In his article Wernerfelt (1984) suggests that it should be possible to look at a firm's market possibilities also through the resources of the company instead of using the industry attractiveness model of Porter. The idea of looking at the company's own resources was originally mentioned in Penrose's (1959) work, but this article of Wernerfelt is most often considered to be the start for the development of the resource based view. According to Wernerfelt (1984), every resource should be thought as a strength or weakness of a company and when trying to find the most useful resources they should be analysed according to the time they will be profitable. A firm should find a sustained competitive advantage by analysing its own resources critically. Also, Wernerfelt (1984) gives an example of a resource-product matrix for analysing the different resources available for the firm. Wernerfelt doesn't give many thoughts of what could be the most valuable resources of a company and therefore, possible sources for sustained competitive advantage.

Barney (1986) argues, that organizational culture could be one source of sustained competitive advantage for a firm. Typically, culture is a set of values, assumptions, beliefs and different kind of symbols which all together guides the company's acting. A culture is hard, or even impossible, to copy by a competitor. Barney (1986, 657) also defines the three levels of company performance: below normal, normal and superior. The comparison should be made with the company that is able to "break even" in the industry. If a company wants to imitate a better performing company, it only increases the competition which leads to lower margins for every participant. So, companies who have competitive advantages that are not imitable, have a sustained competitive advantage. For a culture to be a source of sustained competitive advantage, three condition must be met (Barney, 1986, 658): it must be valuable, it must be rare and it must be imperfectly imitable. If all this three condition are met, then, and only then, can culture be a source of sustained competitive advantage. This was one of the starting points for the VRIN-framework and later VRIO-framework, which I will discuss in more detail later.

In his article Barney (1986) discusses the different competition models, the industrial organization model, the Chamberlinian competition model and the Schumpeterian competition model. Barney (1986, 792) argues, that the IO model was originally developed to assist government policy makers when formulating their economic policies and when the strategy theorists are using the model to develop a theory of competitive strategy, they have turned the objectives of the model upside down. The IO economics has its focus on industry structure and the Cham-

berlinian economics begins with a focus on the firm's unique assets and capabilities. Some resources or assets found by Chamberlin, that can lead to competitive advantages, are: know-how, reputation, brand awareness and skilful management (Barney 1986, 793). One of the main messages in the Chamberlinian economy is, that firms should seek for competitive advantages in their own strengths and try to avoid their weaknesses. The views from Chamberlin are complementary to the theories of the IO economists since the industry structure has a strong effect on which skills of the firm are valuable. The third theory in Barney's article is the Schumpeterian competition. The Schumpeterian competition is actually very unstable and hard to predict. Schumpeter sees the competition as creative destructions following each other and which cannot be predicted by the firms in the industry. To survive under the conditions of Schumpeterian shocks, firms need certain capabilities and firms that cannot change when the industry changes, cannot survive (Barney 1986, 798). Some argue that the competition in the modern world is mostly Schumpeterian, and therefore, the resource based view and the frameworks given by Porter, are too static and not usable in many cases. This will be discussed in more detail later.

If the implementation of a strategy requires resources that the firm doesn't have, one way to get those resources is by acquisition of those resources. Whenever this happens, a factor market develops (Barney 1986, 1232). When using such resources, it is only possible to gain returns greater than average if the price of those resources is much less of their value. This means imperfections in the factor markets. If the strategic factor markets are perfect, it is not possible to get resources under their value, since every participant has access to all the same information about the value of those resources. But, more commonly, different firms have different expectations of the value of a strategy and the resources needed to implement that strategy (Barney 1986, 1233), which means that rents are possible to gain. One interesting thing is also the fact that whenever a firm implements a strategy, and the returns are greater than expected by the company, the difference is due to good luck, not due to a well implemented plan. Information is power and the imperfections in strategic factor markets are created through different expectations between firms. The firms with the most accurate expectations or the firms that get lucky, can be able to win on the market (Barney 1986, 1238). This is a very interesting argument and also highlights the importance of knowledge in the modern economy: information is power. There are two ways to get information that can be used in the market: analysis of the firm's competitive environment and analysis of skills and capabilities already controlled by a firm (Barney 1986, 1238). Since the environmental analysis is generally public information and available for all, it is not very likely to generate the advantages needed. This means that the best way to gain information that is not available to all and that can give a firm an advantage on the

strategic factor market, is turning inward and analysing the companies own resources and capabilities. This is a very important thing to keep in mind when thinking of diversification through acquisition of another company: a firm that is using only public information for the pricing, can expect normal returns at best, because all companies have access to the same information. These arguments should be kept in mind also when thinking of other kinds of cooperation between individual firms. It is also important to notice that the sustainability of a competitive advantage is much greater when it is based on multiple advantages that are large and there are not many environmental threats (Ghemawat 1986, 58).

One possible way to enter a new business is forming a joint venture with one or more partners. According to the transaction theory firms choose how to transact according to the criterion of minimizing the sum of its costs from production and transaction (Kogut 1988, 320). Transaction costs, then, are costs that come from writing contracts, discussing the terms and claims and other activities for administrating and monitoring a transaction. According to transaction cost theory a joint venture could be a reasonable solution when it can reduce the overall costs of its parties.

Another way to look at the reasons why to put up a joint venture is through strategic behaviour theory. It says, that firms transact in a way which maximizes the profits. Often this view is wrongly seen as an opposite to the transaction cost theory, although it should be seen as complementary (Kogut 1988, 322). The main differences between transaction cost and strategic behaviour analysis lie in the motives to cooperate and the partner-selection.

A third reason for forming a joint venture could be because of organizational learning and gaining knowledge. A joint venture could be an effective way to share tacit knowledge which otherwise would be difficult. This three different but overlapping perspectives gives a good framework of the reasons and benefits behind forming a joint venture (Kogut 1988).

3.2 Bundles of resources as valuable assets

For managers, it is often not easy to recognize bundles of resources or assets that are the reason for their competitive position rather than a product market combination (Dierickx & Cool 1989, 1504). This leads to a situation where too little attention is given to protect these assets from the competitors, which makes it easy for them to imitate or substitute them in their businesses. Dierickx and Cool (1989, 1504) point out that for a company it is important to focus more on its unique skills and resources than on the environment, which is rather the opposite

than pointed out by Porter earlier (1980). Also, they argue, that factor markets are not perfect which means that not all factors are bought and sold on the market. If a company owns non-tradeable assets, they have to be deployed in its product market and, companies that don't have these assets, can't buy them from the market, but instead have to build them on their own. Building asset stocks is sometimes not easy and can even be impossible or very time consuming, which gives the owner of such assets an advantage towards the competitors. The following reasons are given by Dierickx and Cool (1989, 1507-1509): time compression diseconomies, asset mass efficiencies, interconnectedness of asset stocks, asset erosion and causal ambiguity. These can be thought as one of the earliest definitions of the characteristics of strategic resources which can be the source of sustainable competitive advantage of a firm.

A company should look at itself as a portfolio of competencies, not only as a portfolio of businesses. In the long run, the competitive advantages of a firm are built on the core competencies, not on the end products (Prahalad & Hamel 1990, 81). Diversification strategies can be built on the competencies, not only by looking at the market attractiveness. Three tests can be applied when trying to find the core competencies of a firm: do the competencies provide access to a variety of markets, do they make a remarkable contribution to the customer values of the end product and are they difficult for the competitors to imitate (Prahalad & Hamel 1990, 83-84). Similarities to Barney's definitions in 1986 are obvious. Many successful companies use alliances to learn new competencies as opposite to those companies who lose their core competencies when forming alliances and some Japanese companies are used as examples of successful "learners". After a company has built its core competencies, it can use those competencies to build core products to be used in its end products. A company should develop a strategic architecture to make the resources of the company more visible and easier to allocate (Prahalad & Hamel 1990, 85-89).

It is argued that too often companies just try to imitate their competitors (Hamel & Prahalad 1990, 36). One reason for this is the competitor analysis which often is focused on the existing resources and capabilities of existing competitors. This type of analysis doesn't give any information about potential competitors, which in a fast changing world can lead to competitive disadvantages very fast. Hamel and Prahalad (1990, 40) suggest strategic intent as one solution to this problem. They argue that strategic intent, as they define it, "provides consistency to short-term action, while leaving room for reinterpretation as new opportunities emerge". A strategic intent is supposed to give the employees a clear goal for their work and the focus is high and in the future, like being the world leader in the business area. According to Hamel & Prahalad (1990, 41) managers should be asking the following question: "What must we do differently

next year to get closer to our strategic intent"? The goal of a strategic end is clear, but the paths to get there leave room for improvisation and flexibility, since there might be different ways to achieve the goal. The idea is to try to close the gap between the resources and the ambitions by building new capabilities and advantages. To get the whole organization work in the same direction, managers need to (Hamel & Prahalad 1990, 45): create a sense of urgency, develop a competitor focus on every level of the organization, provide the needed skills, give the organization time to digest one challenge before starting another and set clear milestones. The best way to keep competitive advantage is to improve existing skills and create new ones faster than competitors can copy them. The thoughts here are very good and should be adapted also in the end of this study.

Battles in the business world will be won by companies that can build and dominate new markets (Hamel & Prahalad 1991, 81). Those companies are able to fully use their resources for innovation and searching for opportunities. It is suggested that a successive company should look for business opportunities far beyond the boundaries of its current businesses. To be able to do this, a company needs to quicken its corporate imagination, which can be done by: escaping the tyranny of the current markets, searching actively for new product concepts, forgetting the traditional price-performance assumptions and starting to lead the customers instead of following them (Hamel & Prahalad 1991, 83-85). It is suggested that instead of trying to succeed on every trial there should be more small trials made. In doing so, the possibility for success is increased. Also, to be able to find really new opportunities the company should be looked at as a portfolio of core competencies instead of a portfolio of businesses or products (Hamel & Prahalad 1991, 91).

The managerial resources and rents and the role of top-management in generating firm rents are discussed from the resource-based view in the article by Castanias (1991). It is argued, that part of the firm rents is generated by the superior managerial skills of the top management, and if these skills fulfil certain conditions they can be source of competitive advantage, even sustained competitive advantage. A three level hierarchy of managerial skills is given (Castanias 1991, 160): generic skills, business or industry related skills and firm-specific skills. Generic skills do not produce quasi-rents, since they are easily transferable, but industry level and firm level skills may be a source of above average rents, since those are worth less to other firms. All three types of skills are needed and all can generate Ricardian rents (Castanias 1991, 161-162) and if they have industry-related or firm-specific attributes they can also produce quasi-rents. It is then a different question who will collect the extra value, the firm or the manager, which is an important question for the company to ask.

3.3 The VRIN-framework and the VRIO-framework

It is said that “firms obtain sustained competitive advantages by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses” (Barney 1991, 99-101). The industry analysis has been dominating the scene but the problem with it is, that it effectively eliminates firm resource heterogeneity and immobility as sources of competitive advantage. The resource based view makes two assumptions: firms may be heterogeneous with respect to their strategic resources and these resources may be imperfectly mobile across firms. Resources are defined as: “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney 1991, 101). This definition was originally made by Daft, 1983. Also the following definitions are used in the article (Barney 1991, 102): “a firm is having a competitive advantage when it is implementing a value creating strategy that is not being implemented simultaneously by any current or potential competitor. If the other firms are unable to duplicate the benefits of the strategy, then the company has a sustained competitive advantage”. In other words, resources that are evenly distributed in the industry and highly mobile are generally not sources of sustained competitive advantage. When analysing the resources of a firm, they must have the following attributes to have the potential to become sources of sustained competitive advantage: they must be valuable, they must be rare, they must be imperfectly imitable and there must not be substitutes available (Barney 1991, 105-106). This is the definition of the so called VRIN-framework, which is still used by many professionals.

To be valuable, the resources must “enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness” (Barney 1991, 106). If the resources are not simultaneously implemented by large number of other firms, they can be considered as rare. To be imperfectly imitable, an explanation could be one of the following reasons: unique historical conditions, causal ambiguity and social complexity. These conditions were originally mentioned already in the article by Dierickx and Cool (1989). The last condition for a resource to be a possible source of sustainable competitive advantage is that there are no substitutes available. These conditions will be discussed more deeply later. The final conclusions that Barney (1991, 117) makes are very crucial for the further work: firms cannot purchase sustained competitive advantage but those advantages must be found in the resources already controlled by the company. This article can be thought as one of the starting points in building the resourced based theory as known today.

A framework, which I will look deeper in the end of this study, for building a company strategy based on the resource-based view is given by Grant (1991, 115):

1. Identify and classify the firm's resources.
2. Identify the firm's capabilities.
3. Appraise the rent-generating potential of resources and capabilities.
4. Select a strategy which best exploits the firm's resources and capabilities relative to external opportunities.
5. Identify resource gaps which need to be filled. Back to step 1.

This framework is based on the premises that internal resources provide the direction and are the primary source of profit. Also, it is argued that an externally focused orientation cannot provide a secure foundation for formulating long-term strategy (Grant 1991, 116). Six major categories of resources are given: financial, physical, human, technological, reputation and organizational resources. When I analyse the case-company, I will look after resources under these topics, among others.

Not only the returns from the strategies but also the implementing costs of those strategies define the economic performance of a company (Peteraf 1993, 185). She argues, that a firm may gain huge advantages by analysing information about its assets. Also, the resource-based view explains very good the differences in firm profitability which cannot be explained by the differences in industry conditions. According to Peteraf (1993, 186), the competitive advantage of a firm consists of the following four elements of the resources: heterogeneity (rents), ex post limits to competition (rents sustained), imperfect mobility (rents sustained within the firm) and ex ante limits to competition (rents not offset by costs).

It is important to notice, that analysing the industry is not enough and firms can gain competitive advantages also in very unattractive, low opportunity environments. Barney (1995, 50) argues, that also internal attributes should be analysed and this should be done as part of the SWOT-analysis. This means that resources and capabilities of a firm are at least as important as the surrounding environment. The following questions should be asked about each resource and capability (Barney 1995, 52-56):

- Is it valuable? Does it enable the firm to exploit its opportunities and/or neutralize some of the threats? The models developed by Porter are useful when isolating potential opportunities and threats (Barney 1995, 52).

- Is it rare? If many companies in the industry possess the resource or capability, it probably cannot be a source of competitive advantage. However, this doesn't mean that such resources are not important.
- Is it imitable? If companies that don't possess the resource cannot duplicate or substitute it without high costs, it can be a source of competitive advantage. In his text Barney (1995, 53-55) gives three main categories for resources that are difficult to imitate: the importance of history, the importance of numerous small decisions and the importance of socially complex resources.
- Is the firm organized to exploit the resources?

As can be seen, these definitions are almost the same as already in the earlier papers by Barney, but one detail is interesting: in this article the resource based view is seen much more as a complementary theory to Porter's five forces than earlier, when it was seen more as a competitive theory or an alternative.

One of the complaints made on strategic planning is, that it is too static and too slow in a world that is changing faster than ever. Collis and Montgomery (1995, 118-119) see the resource-based view as a solution, since it combines the internal analysis with the external analysis. They also argue like many before them, that resources cannot be evaluated in isolation, since their value is dependent of the environment and the industry. Since the inimitability of a resource doesn't last forever, the managers have to test the durability of the resources. Also, they have to check who gets the profits from a resource, since it is not automatically the firm. The resources that are found to be the sources of competitive advantages have to be updated and developed all the time. When trying to grow by leveraging resources, there are three common mistakes that firms must avoid (Collis & Montgomery 1995, 127-128):

- Very often managers overestimate the transferability of the resources, assets and capabilities. Because the valuable resources are hard to imitate, it might be hard also for the owning firm to replicate them in a new market.
- The second mistake managers often make is to overestimate their ability to compete in highly profitable industries. Often those industries are attractive because of strong entry barriers.
- The third mistake when performing a diversification strategy is to assume that generic resources can be a major source of competitive advantage in a new market. Every market has its specific competitive dynamics, which has to be remembered.

It can be argued that knowledge is one of the strategically most important resources of a firm, and the main task of a firm is the coordination of the individual knowledge of its employees (Grant 1996, 109-111). An organization can learn in two ways: by the learning of the individuals in the firm or by hiring employees with knowledge that the organization didn't previously have (Grant 1996, 112). When thinking about the resources that could potentially be sources of competitive advantage for a firm, one resource or skill could be the ability to harness and integrate the knowledge of many individual specialists (Grant 1996, 116). This is especially so because of the costs and difficulties in transferring knowledge.

3.4 Diversification, networks and the final stages of RBV

There are different kind of opinions whether diversification into international markets has a positive or negative effect on the firm's performance. First of all, I use here the following definition for international diversification: "expansion across borders of global regions and countries into different geographic locations or markets" (Hitt, Hoskisson & Kim 1997, 767). Accordingly, the level of internationalization can be measured through the number of different markets in which the firm is operating. First of all, a small company needs to be very careful whatever it is doing, also when thinking about internationalization.

It is suggested, that early efforts to internationalize have often positive effects on the firm performance. It increases the knowledge in the company which helps it to take advantage of its internal resources, also internationally. Later on the effects of international diversification become negative. This is mostly because of the high level of complexity and increased coordination and distribution costs. It is suggested that the best results from internationalization can be achieved in a business with many products, some experience in international business and carefully thought simple steps. But, there is a limit how far a company can go before the costs due to the higher complexity get higher than the gains through diversification. On the other hand, if the steps are taken carefully and the company keeps on learning in the process, it can go pretty far. (Hitt et al. 1997).

Firms are willing to diversify if the benefits outweigh the costs (Campa & Kedia 2002, 1731). Unlike often argued, the diversification itself does not decrease the value of the company, but the past performance and the overall industry situation that has led to the diversification. Very often firms diversify and move away from industries with low growth rates, so the poor performance of a diversifying firm is not necessarily an outcome of the diversification, but more likely an outcome of the situation already before that (Campa & Kedia 2002, 1759).

For the management of a firm one question to think about are the boundaries of the company: which activities should be within the boundary of the firm and which activities should be outsourced. According to the transaction cost theory there are three concepts that help to understand the boundary decisions: governance, opportunism and transaction-specific investments (Barney 1999, 138). Governance is the mechanism through which a firm manages its exchanges and it can be grouped as follows: market governance, intermediate governance and hierarchical governance. When choosing the type of governance, a firm has to think about the costs of the governance type, especially the transaction-specific investment, cost of governance and the threat of opportunism (Barney 1999, 139).

When a firm does not possess all capabilities it needs to be able to perform its strategy successfully, it has three choices: to cooperate with firms that have those capabilities, to develop those capabilities or to acquire a firm that has those capabilities. In rapidly evolving industries firms will often prefer to gain access to new capabilities through non-hierarchical forms of governance, since the other options are often not possible in practice: it takes too long to develop the capabilities or it is too costly or impossible to buy them. In such cases the opportunism costs are just part of the price to get access to the capabilities and the firm has to accept them (Barney 1999, 143-144).

The way a firm is building its networks can have a huge impact on the competitive advantages and especially the alliances a firm is able to participate. Networks are becoming more and more important, both in sharing of resources and also sharing of knowledge. Networks can be a major source for knowledge about new business opportunities (Gulati 1999, 399). Also, the network resources are results of the former networks of the firm which can provide the firm with useful knowledge about possible new alliances. Since network-resources are built on a long historical experience and they are often very path-dependent, they might be sources of sustained competitive advantage for a firm (Gulati 1999, 399).

To be able to build alliances, a firm first needs to get information about possible alliance partners and their needs and requirements, but also information about the reliability and other characteristics of those candidates. Such information can be very hard to get without good network resources which makes building alliances very risky and often costly the less there is trust between the partners (Gulati 1999, 400). Also, the implication of network resources can be seen as an enabler for cooperation in the future.

Since network resources are usually heterogeneously disbursed among the firms and they have a unique history difficult to imitate, they have great potential to be sources of sustained competitive advantage for a firm. On the other hand, a firm can also become a victim of its own history if it has been joining the wrong kinds of networks (Gulati 1999, 416). Some firms also are never able to enter alliances. Gulati (1999, 416) suggests that before entering a major strategic alliance a firm should build its network resources and also that the network structure of a company should be part of its strategic planning process. This a very important point to keep in mind also in the later parts of this study.

Very often the resource based view is used in the environment of large corporations, but it suits also very well for use when analysing the competitive advantages of smaller firms. Rangone (1999, 234) argues, for resources to be strategic and thus the possible source for sustained competitive advantage, the following tests have to be made: competitive superiority test, imitability test, duration test, appropriability test and substitutability test (very close with the VRIO-elements: value, rarity, imitability and substitutability, organizational ability). In his paper Rangone (1999, 235) recognizes three basic capabilities that a small firms competitive advantage can be based on: innovation capability, production capability and market management capability. The capabilities are founded on the critical resources of the company, which he defines: financial resources, human resources, organizational resources (including networks), skills, know-how, brand and reputation. The key performances of the firm connect the resources with the capabilities and makes it possible for the company to achieve some value generation. All this together builds up to the competitive advantage of the company, which can be used to a growth strategy, a high margin strategy or a combination of them. According to Rangone (1999, 237) the strategic analysis of a SME can be defined in five steps:

1. Define the strategic intent and the key performances.
2. Identify the resources influencing the key performances.
3. Asses the strategic value of the resources.
4. Assess the strategic consistency of the resources.
5. Generate strategic options.

In his paper Rangone (1999) gives very good and simple advices how to build the strategy of a firm on analysis of the resources owned by the company. I will consider this also in the final parts of this study.

As already mentioned earlier, the resource-based view is being criticized for being too static (Eisenhardt & Martin 2000). They argue, that the RBV assumes that resources are heterogeneously

distributed across firms and that the differences persist over time. Also, they argue, that RBV cannot explain how and why competitive advantage is achieved in rapidly and unpredictably changing situations. They give a definition of dynamic capabilities, which should solve the problem and I will discuss the dynamic capabilities later. I would say that it is more like a part of the resource based theory than a theory of its own, but there are also opposite arguments.

The resource-based view can be used also to analyse reasons for strategic alliances (Das & Teng 2000). One of their arguments is, that firms use alliances to gain access to other firms' resources which are valuable. Also, in a competitive situation, alliances are more likely to be formed between companies that are in vulnerable positions, trying to strengthen the position in combining the resources. The following definition for resource-based rationale of alliances is given (Das & Teng 2000, 33): "strategic alliances are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners". Also, if a firm is lacking a factor that it needs to accomplish its strategy, it has the following options: produce the factor on its own, purchase the factor from the markets or make it together with some partner firms (Das & Teng 2000, 34). If the needed factors are time consuming or costly to produce, and unavailable on the markets, the only option left is to form some kind of an alliance to get access to those factors. The resource-based view prefers alliances over M&A's when the following conditions are met: not all resources of the target company are valuable and some of the less valuable resources of the target company cannot be easily disposed of without taking a loss (Das & Teng 2000, 37). Also, an alliance gives more flexibility and options in the future than a M&A. When analysing the potential value of an alliance both property based and knowledge based resources have to be taken care of. Property-based resources have near perfect protection while knowledge-based resources are more vulnerable to unintended transfers. This also means that alliance partners will lose their knowledge-based resources easily (Das & Teng 2000, 43). Strategic alliances can take various forms including joint ventures, minority equity alliances, joint R&D, R&D contracts, joint marketing or production, supplier partnership licensing agreements and distribution agreements. Mostly the aim for a firm in the different forms is "being able to procure valuable resources from another party without losing control of one's own resources" (Das & Teng 2000, 44).

Superb tacit knowledge about global opportunities and the capability to leverage the knowledge in a way that cannot be matched by the competitors can be a possible source of competitive advantage for a small company (Peng 2001, 815-818), and this is especially true when entering the emerging markets. Most small companies cannot afford to compete on tangible resources, so their only chance is to compete on the intangible resources, doing more with less. Also, they

have to use their networking skills and flexibility. Another important point is the importance of managerial resources of a firm, in other words the skills and different abilities of the managers in different areas, which is often one of the most valuable resources (Castanias & Helfat 2001). The intangible resources, such as networks and managerial resources, are going to play a major role also in this study.

One area that has been studied from the resource based view is the role of market-based assets in gaining competitive advantage. The questions are how resources are used to create customer value and how they are used in managing uncertainties and dynamics of the marketplace. The idea is to find those resources that are marketing-specific, leveraged through market-facing processes and are delivering customer value that can gain competitive advantage for the company (Srivastava, Fahey & Christensen 2001, 779). Assets, processes and capabilities are treated separately. Relational assets are described as relationships, based on factors like trust and reputation. It is possible that such assets are pretty rare and also difficult and time consuming for competitors to replicate. Intellectual market-based assets are defined as knowledge about the environment that a firm possesses (Srivastava et al. 2001, 781). The processes can be defined as core operating processes, product development management and processes related to human resources management. The capabilities can be defined as the outcome of in customer value when performing the processes.

If customers prefer a firms offering over that of one or more of its rivals, the firm has a customer-based advantage. Customer value can be defined in four different dimensions: attributes (product features and functional attributes), benefits, attitudes and network effects. The value of the network effects is being rising in the resent years, both for customers and companies. "Networked market-based assets help a firm create value over and above that of stand-alone products" (Srivastava et al. 2001, 784).

Very often the RBV is used on larger companies, but the need is the same for smaller companies. Three basic capabilities have been identified to be critical in finding sustained competitive advantage: innovative capabilities, production capability and market management capability (Barney, Wright & Ketchen 2001, 634).

In the capability lifecycle the different stages of capabilities or resources are introduced. According to Helfat and Peteraf (2003, 998) the capability lifecycle can be used to describe the lifecycle of both non-dynamic and dynamic capabilities. They define capabilities as follows

(Helfat & Peteraf 2003, 999): "a resource refers to an asset or input to production that an organization owns, controls, or has access to on a semi-permanent basis. An organizational capability refers to the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result". Three basic stages of capabilities are recognized: founding stage, development stage and maturity stage. After a capability has reached its maturity stage, or even before that, some events may have an influence on the development of the capability and the capability may branch into at least the following six additional stages: retirement, retrenchment, renewal, replication, redeployment and recombination (Helfat & Peteraf 2003, 1000). The capability development of a firm is highly path-dependent.

In the capability lifecycle model the six different branches represent a general set of potential paths for the development of the capabilities (Helfat & Peteraf 2003, 1005). It is because of threats and opportunities that a firm starts to think about the different branches. For example, it is costly to transfer capabilities to new markets, so it will not be done unless there are new opportunities in the new market or threats in the old market.

Pricing can be seen as an important skill or resource by which a company can get value through market-based exchange: too low prices gives some of the values created by the firm for the customer free and too high prices decrease the quantity of items sold (Dutta, Zbaracki & Bergen 2003, 616). Also, it is argued that price setting processes are capabilities that can be used as a basis for a competitive advantage. The problem in price setting is not only finding the right price, but also how easily it can be done and how easily price changes can be made. The challenge then is how to make effective price changes when the product and customer range is wide and there are multiple competitors to compete with (Dutta et al. 2003, 623). Since changing prices can be costly and setting the price at a wrong level can decrease the rent earned by the firm, it can be argued that it is possible for a firm with right price-setting processes to gain competitive advantage over its competitors (Dutta et al. 2003, 627). It is a capability of the managers and it can be very rare and imperfectly imitable.

Wang and Barney (2006) argue in their text, that a resource based diversification strategy might have some unexpected effects on the firm-specific investments made by the employees. One such point is, that by diversification in the right direction the firm can make it more attractive for the employee to make firm-specific investments, such as looking for special educational opportunities, because it is more likely for the employee to get possibilities to use those new skills to gain value for themselves. For the firm, then, this firm-specific knowledge can be used later

for gaining sustainable competitive advantage, so both the employer and the employee are winning.

The resource based view can be used to find out the core resources of a company for building competitive advantage, but another way to use the RBV is to use it in an opposite way: inhibiting others to use their own values (Jang 2013). As an example of this kind of usage could be the Japanese companies with their core products as explained by Prahalad and Hamel earlier (1990, 85-90).

Lately, the importance of the resource based view in marketing has risen. The basics were written by Penrose already in 1959, but the real development of the resource based view started in 1980's. When the RBV is used in international marketing, the question to be asked is: "which existing resources and strategies lead to desirable performance in new markets, rather than on how to use expansion to develop new resources" (Kozlenkova, Samaha & Palmatier 2014, 9). One of the main principles given by Kozlenkova et al. is, that a firm could use its already existing resources to expand into new market areas and use these resources to build new advantages in those new markets simultaneously with the existing markets. The main point here is, that a firm should not rely solely on its old resources and believe that those resources can gain competitive advantage also in the new markets, but instead it should use the original resources to build new resources in the new markets. Kozlenkova et al (2014, 9) argue, that too many of researches in using the RBV in marketing concentrate on which of the existing resources could be used in new markets, and such a strategy can be very risky in real life. As an example they give Wal-Mart's expansion into Germany, which failed mainly because Wal-Mart was not able to generate new resources, that would have brought competitive advantage in Germany, fast enough.

Some of the main critics against the RBV are, that it is tautological, too little role for product market is given, many resources could lead to the same outcome and there is a limited managerial prescription (Brahma & Chakraborty 2011, 12), but these arguments are mostly proven wrong, or at least questionable, already in 2001 (Barney 2001).

The development to a theory (Barney & Clark 2009) has been long, and some still argue that the resource based view is not a real theory, but the term Resource Based Theory has been used by many researchers, such as Barney (2001), Barney & Clark (2009) and Kozlenkova et Al. (2013). In the next chapter I will summarize the RBV and take a short look at the dynamic capabilities framework.

3.5 Competitive advantage and the Resource-Based View

The resource-based view has already a long history and today some speak of a resource-based theory (Barney & Clark 2009), although there are also some arguments against the theory, as mentioned in the previous chapter. In this chapter I will summarize the theory and its main points today. This chapter is mainly based on the work of Barney, but also others will be mentioned if necessary.

"A firm has a competitive advantage when it is creating more economic value than the marginal firm in its industry; it has a sustained competitive advantage when efforts to duplicate the bases of that advantage have ended. Sustained competitive advantages tend to last longer than other kinds of competitive advantages" (Barney & Clark 2009, 81). To be successful, a company must implement a good strategy and avoid a bad strategy. Good strategy is not only about using the strengths of the firm but also about creating new strengths (Rumelt 2012, 9) and avoiding the weaknesses. According to Rumelt (2012, 77) a good strategy has the following three characteristics: a simple explanation of the challenge faced, a guiding policy of how to deal with the challenge and a decent set of actions that are designed to lead to goals set in the guiding policy. To be able to form a decent strategy, some theories have to be understood.

3.6 The Structure-Conduct-Performance model

The structure-conduct-performance framework is one of the traditional models in analysing the attractiveness of a market, although it was originally meant to show the government under which conditions in an industry a perfect competition would not develop and to help the government to make decisions about when to interact and how (Barney 2007, 54). One way to describe the idea behind the SCP framework is described in the figure below:

Figure 6. The Structure-Conduct-Performance Model (adapted from Barney 2007, 55)

The model describes the logic between the structure of the industry, the firm conduct and the performance and it is pretty straightforward: the attributes of the industry in which a firm operates define the possibilities of different possible actions for the company and in some industries there are very few options, which means, that in these industries companies generate at the best returns that cover their costs. The firm conduct and the performance is totally determined by the industry structure. (Barney 2007, 54).

Table 2. Types of Industry Structure, Firm Conduct Options, Firm Performance, and Social Welfare Implications (adapted from Barney 2007, 56)

Type of industry	Industry attributes	Examples	Firm conduct options	Expected firm performance	Social welfare implications
Perfect competition	Large number of competitors Homogenous products Low-cost entry and exit	Stock market Crude oil	Price taking	Normal	Social welfare maximized
Monopolistic competition	Large number of competitors Heterogenous products Low-cost entry and exit	Toothpaste Shampoo Golf balls Automobiles	Product differentiation	Above normal	Less than perfect competition
Oligopoly	Small number of competing firms Homogenous or heterogenous products Costly entry and exit	U.S. steel in the 1950s U.S. autos in the 1950s U.S. breakfast cereal	Collusion	Above normal	Less than monopolistic competition
Monopoly	One firm Costly entry	Polaroid in instant photography Microsoft in PC operating systems	Use market power to set prices	Above normal	Less than oligopoly

In the table above a summary of the SCP model is given with some examples. One interesting point is, that in industries where competitive advantages can be gained by companies, without barriers to entry they will be quickly competed away (Barney 2007, 54). In his five force's model Porter (1980) gives a framework for analysing the different threats in an industry, which gives a firm a way to evaluate the attractiveness of any particular industry.

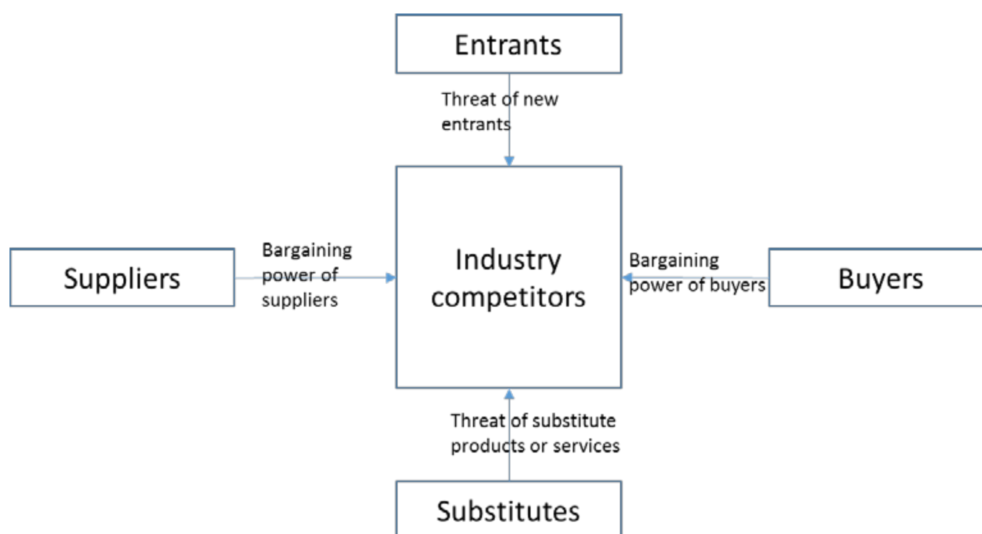

Figure 7. The five forces driving the industry competition. (adapted from Porter 1980, 4)

The five forces model describes the current competitive situation in a particular industry, with four threats coming from outside, one from the competition itself. The threats can be described as forces that can increase the competition in the industry and thus force the firms in the industry to competitive parity, which means decreasing profit and increasing costs (Barney 2007, 57). The five forces model has been criticized for being too static and for not taking into account the heterogeneity of the firms. Teece (2013, 15) argues, that at least the following factors are ignored or underplayed in the model: opportunities in technology, different kind of path dependencies, supporting institutions in the industry, learning effects and some regulatory effects. In the five forces model there is too little appreciation for many factors that change the industry rules, for factors inside the firms, for the role of complementary products and networking or for the sometimes very unclear industry boundaries (Teece 2013, 16). Later I will look at the dynamic capabilities a little bit more deeply, since they can give some help for the problems mentioned by Teece.

The industry competitors or the current rivalry can be defined as follows: large number of competing firms, competing firms that are the same size and have the same influence, slow or no industry growth, lack of product differentiation and productive capacity added in large increments (Barney 2007, 71; Porter 1980, 17-21). The barriers to entry can be economies of scale, product differentiation, cost advantages independent of scale, switching costs and government regulation of entry (Barney 2007, 59; Porter 1980, 7-17).

Threat of buyers: the number of buyers is small, products sold to buyers are undifferentiated and standard, products sold to buyers are a significant percentage of a buyer's final costs, buyers are not earning significant economic profits, buyers threaten backward vertical integration (Barney 2007, 75). The buyers in the industry are bargaining the prices down and therefore make the profitability of the industry decrease.

Threat of substitutes: substitutes can substitute the firm's product or service if the price is set too high, therefore substitutes place a ceiling on prices firms can charge for their products (Barney 2007, 72). The task for the firm's management is to search for such substitutes that can perform the same or similar tasks than the firm's product, and this may sometimes be very difficult and costly (Porter 1980, 23).

Threat of suppliers: the suppliers' industry is dominated by a small number of firms, suppliers sell unique or highly differentiated products, suppliers are not threatened by substitutes, suppliers threaten forward vertical integration, firms are not important customers for suppliers (Barney 2007, 73).

The SCP models are very useful tools in strategic analysis, but they should be used together with other tools that are more focused on the firm's own strengths and weaknesses (Barney 2007, 83). One example of such frameworks is the resource based theory. I already have looked at the history and the development of this theory and in next chapters I will summarize the main points and how the theory can be used in practise.

3.7 Resource-Based view

Generally speaking, there are two explanations about why some firms outperform others in the competition: the first one focuses on the market power analysis and the second one on the firm's capabilities of using its resources more effectively and efficiently than its competitors. The resource-based theory (Barney & Clark 2009) focuses on the latter one. The resources of a firm can be classified into four categories: physical capital resources, financial capital resources, human capital resources and organizational capital resources (Barney & Clark 2009, 24). The logical chain from resources to rents is described in the figure below:

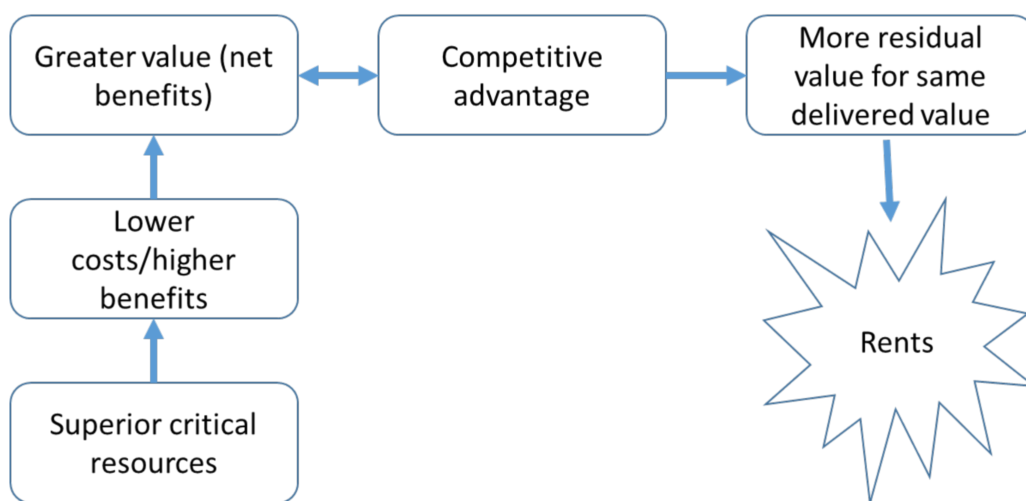

Figure 8. The chain of logic from resources to rents (adapted from Barney & Clark 2009, 28)

As already mentioned in the previous chapter there are generally heterogeneous expectations in the strategic factor markets. It means, that it is often possible for some strategizers (firms seek-

ing to develop resources to implement a strategy) to generate rents from acquiring the resources necessary to implement its strategy (Barney & Clark 2009, 35). These differences in the firm's expectations are the source of competitive advantages when acquiring or developing resources to implement certain strategies (Barney & Clark 2009, 38).

Because resources available on the factor markets normally have a cost, it is very important for a firm to first look at the resources it already possesses. In fact, firms that exploit resources and capabilities they already have are more likely to gain competitive advantages (Barney & Clark 2009, 49).

According to Barney and Clark (2009, 57) a resource has to have all the following four attributes to hold the potential of competitive advantage: it must be valuable, it must be rare, it must be imperfectly imitable and it must be able to be exploited by the firm's organizational processes.

Valuable and rare resources can only be sources of sustained competitive advantage if they are also imperfectly imitable. This means that those firms that do not possess these resources are not able to get them by direct duplication or substitution. There are at least the following three reasons for resources to be imperfectly imitable: they are dependent on a unique, historical condition, they are causally ambiguous or they are socially complex. (Barney & Clark 2009, 59-60).

The fourth condition that is necessary for resources to be sources of sustainable competitive advantage is the organization's ability to exploit the potential of these resources (Barney & Clark 2009, 67).

Figure 9. The relationship between resource heterogeneity and immobility, value, rareness, imperfect imitability, and organization, and sustained competitive advantage (adapted from Barney & Clark 2009, 69)

The VRIO framework offers a tool for the resource-based analysis with the following questions to be asked (Barney & Clark 2009, 70): (1) does the resource or capability possessed by the firm enable it to respond to environmental threats and opportunities, (2) is the resource or capability currently controlled only by a small number of firms, (3) do the companies that do not have the resource have a cost disadvantage when acquiring or trying to develop the resource, and (4) is the firm organized in a way that enables it to fully exploit the resources?

First, if a firm holds a resources that are not valuable, those resources will not help the company to implement its strategies. Such resources, therefore, are actually weaknesses for the firm since organizing to exploit such resources will only increase costs and decrease revenues (Barney & Clark 2009, 70). Resources that are valuable, but not rare, can be very important for a firm. They are generally not sources of competitive advantage, but they can generate competitive parity, so they are the foundation of the business and makes it possible for the firm to gain value of normal value in the industry. If the resources are valuable and rare, but not costly to imitate, such resources can generate temporary competitive advantage for the firm. If the resources are valuable, rare and costly to imitate, exploiting such resources are most likely to generate sustained competitive advantage for the firm (Barney & Clark 2009, 71). In the figure below the VRIO- framework is illustrated:

Table 3. The VRIO framework (adapted from Barney & Clark 2009, 70)

Valuable?	Rare?	Costly to imitate?	Exploited by organization?	Competitive implications	Economic performance
No	-	-	No	Competitive disadvantage	Below normal
Yes	No	-		Competitive parity	Normal
Yes	Yes	No		Temporary competitive advantage	Above normal
Yes	Yes	Yes	Yes	Sustained competitive advantage	Above normal

After the resources and capabilities of the firm have been recognized, it is very easy to go through the steps described in the table above to find out the value of each resource. The same process can be used for all types of resources, tangible and intangible. There are also other variations introduced to analyse the resources of a firm, as an example the seven characteristics given by Lynch (2006, 218): are the resources prior or acquired, what is the level of imitability, are the resources durable, the appropriability of the resources for the firm, substitutability of the resources, the real competitiveness of the resources and the innovative capability of the resources.

3.8 Organizational capabilities

In their book Barney and Clark (2009) discuss about some generic possible sources of sustained competitive advantage for a firm. In this chapter I will summarize those four topics.

The culture of an organization can have a strong impact on its competitive advantage as pointed out for example by Peters and Waterman (2015). It is also suggested that firms with a strong set of managerial values are capable in gaining sustained competitive advantage (Barney & Clark 2009, 79). Culture can be defined as "a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business" (Barney & Clark 2009, 80). According to Barney & Clark (2009, 90) a culture can be a source of sustained competitive advantage if it is valuable, rare and imperfectly imitable. One interesting finding is also that culture can be a source of competitive advantage only if it is not possible to manage it in a planned way (Barney & Clark 2009, 91).

Trust can be defined as "the mutual confidence that no party to an exchange will exploit another's vulnerabilities" (Barney & Clark 2009, 95). According to Barney and Clark (2009, 96-117) there are three types of trust: weak, semi-strong and strong. Usually, weak and semi-strong forms of trust are not sources of competitive advantage, but there can be some exceptions. Strong form trust can be a source of competitive advantage and economically valuable if all parties of the particular exchange are trustworthy in the strong from. As soon as one of the parties starts acting in an opportunistic way all parties have to invest in mechanisms that make it possible to keep the trust at semi-strong level and this increases the transaction costs. Since there is a possible advantage in dealing with strong form trustworthy partners, it is often worth to try to find such partners. The following three signals of trustworthiness are identified by Barney and Clark (2009, 114-115): the reputation of a partner to be strong from trustworthy, openness to outside auditing of the particular relationship and as third the willingness to invest in an exchange before it actually has happened. At least these three signals could help a firm when looking for trustworthy partners. One important point is that exchange partners which are strong form trustworthy may find new strong form trustworthy partners more easily and such trustworthy networks could gain competitive advantage when working together (Barney & Clark 2009, 117).

Human resources can possibly also be sources of sustained competitive advantage if they are valuable, rare, hard and costly to imitate and the firm is able to use them effectively. Human capital can be divided into two types: general skills and specific skills (Barney & Clark 2009,

130) where the general skills are valuable and transferable also into other firms in the industry and the firm specific skills are valuable only for a particular firm. The general skills are necessary to be able to stay in the business but the specific skills are those that can bring an advantage for the company. The problem with the firm-specific skills is that they are of no value for the employee if they change their employers, so they might not be willing to gain such skills as eagerly as general skills. Some benefits must be provided by the company, since building firm-specific skills into the organization and exploiting them through teams, could be a very good source of sustained competitive advantage: it is almost impossible to imitate by other firms due to causal ambiguity and social complexity (Barney & Clark 2009, 132).

Information technology as a source of sustained competitive advantage is less studied than the previous three ones (culture, trust, human resources), but there definitely are signs that it could be at least a source of temporary competitive advantage (Barney & Clark 2009, 145). There are several problems with the use of IT: the investment can be very risky and often a big amount of capital is needed. These are often the reasons why smaller companies doesn't have as high-end system as the larger ones. Also, the following characteristics are often true when talking of IT implementation projects (Barney and Clark 2009, 147): the implementation becomes too difficult in the organization, the costs are much higher than anticipated, the implementation time is much longer than anticipated, the technical performance of the final system is not what promised and finally, the new IT-system doesn't communicate with other parts of the system. It is also said, that even complicated IT-systems are easy to copy even by small firms, so the competitive advantage gained by IT is at most temporary (Barney & Clark 2009, 148). On the other hand, if a firm's management possesses skills that enables it to use IT efficiently, it could be a source of competitive advantage. Barney and Clark (2009, 151-153) identify the following characteristics: the IT managers should be able to understand business needs, the IT managers should be able to work and communicate with the other business partners, they should have high skills in coordinating the IT activities in a supportive way and also, they should be able to forecast the future needs of the business. These kind of managerial IT skills are the outcome of a long working career and experience and therefore cannot easily be found by a competitor which is one of the main reasons that such skills often are sources for sustained competitive advantages (Barney & Clark 2009, 153).

3.9 Organizational strategies

Boundary decisions are one of the most critical tasks that the management of a company has to make: which activities should be done within the company and which should be bought from

the market are the main questions to be asked. According to the transaction cost economics theory the following guidelines could be used (Barney & Clark 2009, 162): (1) exchanges with low transaction-specific investments should be managed through market relations, (2) exchanges with moderate level of transaction-specific investments should be managed through strategic alliances and (3) exchanges with high level of transaction-specific investments should be managed within the boundaries of the firm.

According to Barney and Clark (2009, 162-163) the TCE (transaction costs economics) ignores the firm's own resources when making the decisions about vertical integration and the firm boundaries and using the resource based theory a better solution can be found. They suggest, that companies actually often should make the boundary decisions very differently than suggested by the traditional analyses using the TCE. If the following three condition hold it could be very unwise for the management to use only the TCE when making boundary decisions: the firm does not have all the resources it needs, it would be very difficult and costly to generate those resources or to acquire a company that holds those resources (Barney & Clark 2009, 165). The resource based theory suggests a different kind of approach: sometimes it makes sense to cooperate with other firms to get access to resources needed, also in the cases that there is a risk of opportunism, since sometimes the costs of the possible opportunism are less than the benefits of that cooperation (Barney & Clark 2009, 182). According to Barney and Clark (2009, 183) the decisions about the firm's boundaries cannot be made only to reduce the threat of opportunism but also the benefits of getting access to the right resources have to be thought.

Diversification strategy, a company operating multiple businesses within its boundaries, is been criticized as waste of shareholder's money (Barney & Clark 2009, 185). Since one of the reasons for firms to diversify is to get more efficient use of their resources, it is no wonder that the resource-based theorists are also interested in diversifications. According to Barney and Clark (2009, 201), diversification can be used in developing firm-specific human capital investments, which is an important type of core competency (as already mentioned in the earlier chapters) and can be a source of sustained competitive advantage.

Barney and Clark (2009, 187) suggest that transaction cost economics and the resource based theory are in a way complementary and therefore, when combining these two theories, firms will have to bring multiple businesses within their boundaries if they want to fully exploit their core competencies. In other words, they need to implement a diversification strategy. Still, many researchers suggest that companies that use their free cash flow only towards new business creation are destroying their value (Barney & Clark 2009, 189).

If I look at the sources of core competencies that could be exploited in several businesses, I might come to the conclusion that actually diversification could be one reason for the development of such competencies (Barney & Clark 2009, 189). As I already have mentioned, firm specific skills of the employees can be a source of sustained competitive advantage but what makes the employees willing to invest in firm-specific skills? Such investments are always a risk for the employee (Barney & Clark 2009, 190) and one way for the firm is to pay for the employees to take the risk, which increases the less diversified a firm is. Barney & Clark (2009, 200) suggest, that there is a certain optimal point of firm diversification where the benefits of employee's increased investment incentives, the benefits from economics of scope and the costs of diversification are equal.

3.10 Flexibility and dynamic capabilities

There is always some amount of uncertainty involved in the business decisions, which makes it important for companies to be able to deal with these uncertainties. Also, one of the critics against the resource based theory, and the SCP model, was that they lack the ability to take the changes in the environment into consideration. Barney and Clark (2009, 259) suggest that the dynamic resource-based theories could be a topic for further studies since also the dynamic capabilities version suggested by some theorists is in a sense static. In his text Teece (2013) gives a good overview of the theory of dynamic capabilities, which could be thought as an extension for the resource based theory.

The main idea in the framework of the dynamic capabilities is, that a company possessing those capabilities is able to look actively for new opportunities and new business potential from the environment, after that it should have the capabilities to analyse and to assess the different possibilities found, take advantage of those possibilities and transform its business processes to protect the new businesses from other firms and competition. In a fast changing, interconnected world these capabilities are considered to be the necessities for a firm's success in the long run. (Teece 2013). The next figure will show a simplification of the foundations of the dynamic capabilities and business performance. The three dynamic capabilities and their relationships are explained.

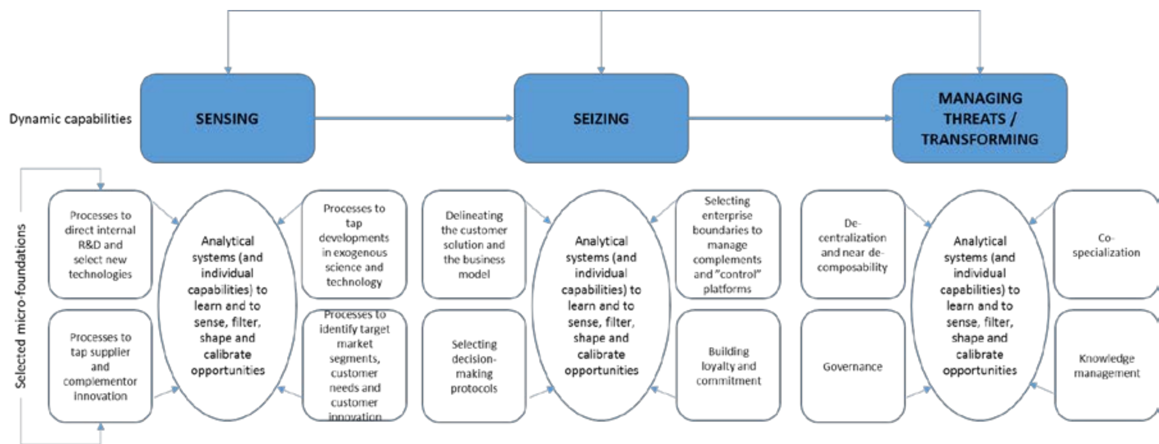

Figure 10. Foundations of dynamic capabilities and business performance (adapted from Teece 2013, 49)

In the international business environment, it is not enough to have access to valuable assets and resources, but also be able to actively search for new opportunities and to develop new resources and capabilities. According to Teece (2013, 7), it is not enough for a firm to use best practices that are already available for all competitors also. Such practices can lead to profits that cover the costs, at most. According to Teece (2013, 16), dynamic capabilities framework is the answer, since there the idea is to select such business models and technologies that can build the competitive advantage by using hard to imitate resources and therefore shaping the competition. This definition is actually very close to the definitions of the resource based theory, so as mentioned already, these two theories are very close to each other.

As shown in figure 8, the idea is to sense opportunities, then seize them, and finally manage the threats and transform the firm processes, when needed. Also, this is not a process done once, but all stages should be going on all the time in the company, as a continuous process. The key element in maintaining dynamic capabilities are the entrepreneurial management skills, which means the ability to find and understand new opportunities in the market, being able to start acting and being able to find better ways to combine the firm's processes while keeping the old customers satisfied (Teece 2013, 58). The role of management and the value of the management skills become very valuable, especially when there are networks of independent firms involved (Teece 2013, 66). Again, I can see the importance of the managerial skills of a company, which really cannot be underestimated, as already mentioned before by several authors, especially in the text by Castanias & Helfat (2001), as they examined the role of managerial skills as a source of competitive advantage. The dependencies between different kind of resources and capabilities is illustrated in the next figure.

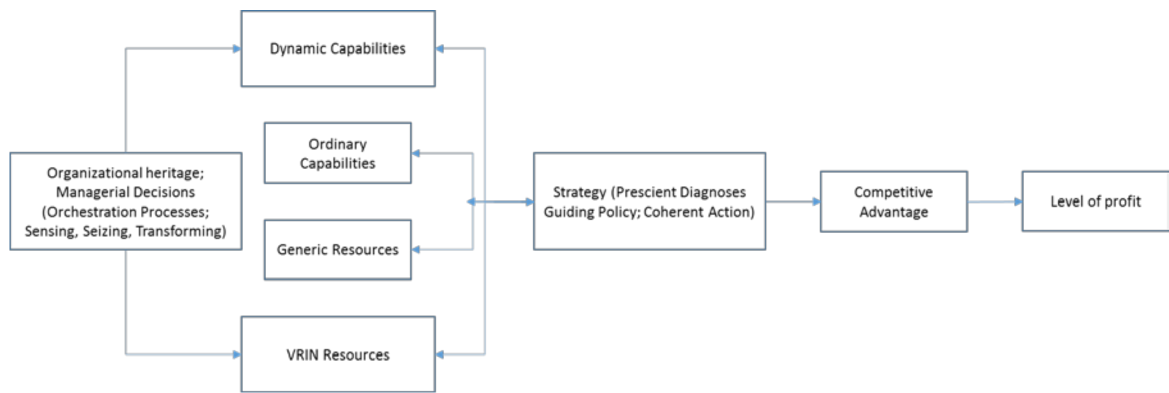

Figure 11. The Logical Structure of the Dynamic Capabilities Framework (Teece 2014, 334)

The figure above shows the two types of capabilities, the two types of resources and their correlation with the company strategy and the level of performance. The ordinary capabilities and the generic resources can be bought from the market (Teece 2014, 334), the VRIN- resources and the dynamic capabilities have to be learned inside the boundaries of the firm.

As a summary, I could say that the dynamic capabilities framework is built much on the same foundations as the resource based theory and the roots are in the thoughts of Penrose, who had the idea of a firm as bundle of resources. The focus, though, is a little bit different: the dynamic capabilities framework focuses on flexibility and the capabilities on building new resources rather than trying to exploit the resources a company already has, as in the resource based theory. I think that a good combination of the different views can be found by combining some aspects of the five forces framework, the resource based theory and the dynamic capabilities framework.

The dynamic resources framework has been criticized and it also does not differ very much from the resource based view. It is argued by Teece (2014, 340) that the resource based view lacks the management or coordination part of the resources, but my opinion is, that it is exactly the "o" in the VRIO-framework. Also, the dynamic capabilities could be thought as resources and therefore the dynamic capabilities framework would be actually one part of the resource based view. Since, on the other hand, flexibility is so important in the business world now and even more in the future, the dynamic capabilities framework is included in this study.

3.11 Networking and partnerships

When I examined the resource based view, often the value of networking and the use of the resources of network-partners was mentioned. The importance of network capital is gaining value

and becoming more and more important, especially for small firms and start-ups. Network capital can be considered to be more calculative in its form than the social capital (Huggins 2010, 336). Also, most business networks are built to gain value for the firm in whereas social networks might have other reasons. Social networks, though, can evolve to another form during the time, and especially for small start-ups these networks might overlap (Huggins 2010, 342). There are several forms of networking and different ways to do it, and the digital ways are gaining importance in the modern, global business world.

Different forms of digital networking will probably play a big role in the future, but the physical way should not be forgotten totally. Face to face contacts are still important, and in some cultures and economies the most important way for a long time from now. Social capital is more place-based than the network capital (Huggins 2010, 344), and in some cultures a social network is needed before a business relationship can be built on that. However, in business environment the term 'closeness' is more and more based on the virtual networks of the firms than the physical space or distance (Huggins 2010, 345). In this sense, the world is becoming flatter.

One interesting point about the importance of networking and the various forms of partnership are the points that the traditional firms could learn from the emerging market SME's. According to Guillen and Garcia-Canal (2008, 18) these points are: building horizontal and vertical networks, the use of different kind of joint ventures and efficient partnership management with all stakeholders and the local community. In building these kind of networks the emerging market SME's are sometimes much better than the traditional western companies. To avoid the affect where a network actually takes more than it gives, for example more knowledge flows from the firm than to the firm, a very effective network management is needed (Huggins 2010).

Since networking is considered to be so valuable, it has to be taken into account also in this study. Resources and capabilities gained through networking can make the difference between success and failure, especially so for a small firm with limited own resources.

3.12 Conceptual framework

In this chapter I draw together the theoretical framework with the literature review and the information provided by Company X. The aim is to link together the information discussed so far with the objectives and the empirical part of the study. This chapter explains how the research question are answered.

The general concepts about internationalization, the resource based view, resources available for Company X and the information about the global markets is used to select the right attributes for the target market analysis. Selected elements from PESTEL and the CAGE framework are used in the analysis of the data.

The resource based view and some complementary theories are used to form the business model based on the analysis of the company resources. Also in this part of the study general information about internationalization and the global markets is used.

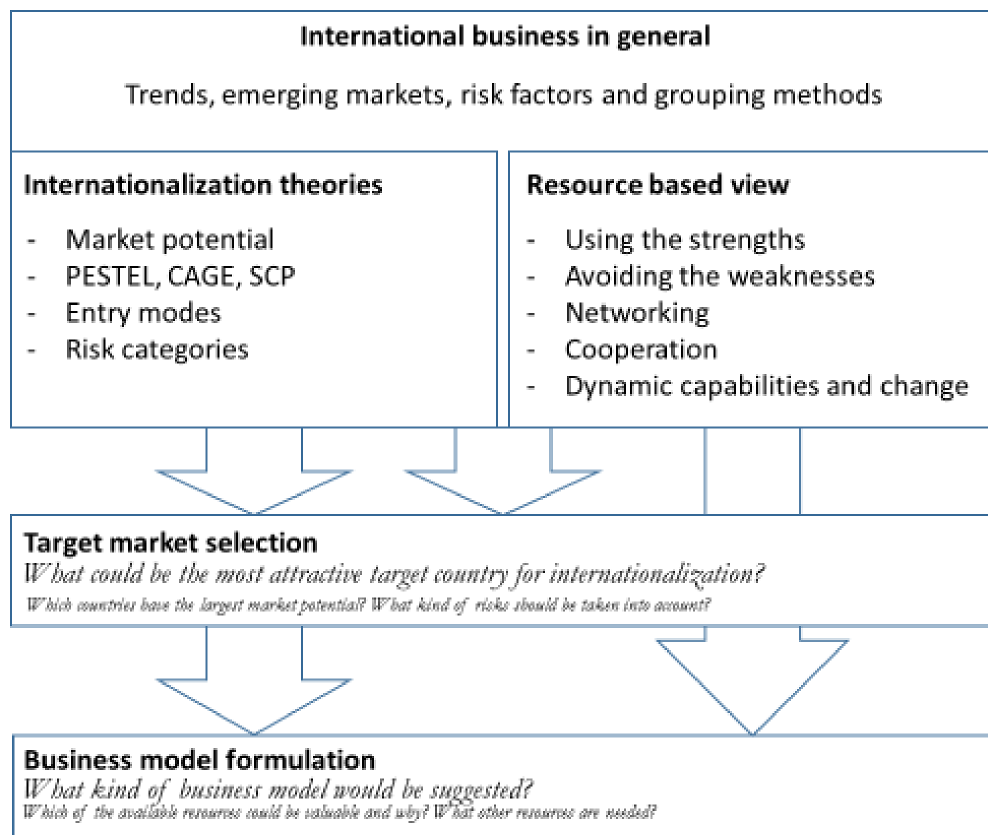

Figure 12. The conceptual framework of the study

The resources available for Company X are used to select the most relevant attributes for the target market selection section. Since the resources are limited, and a diversification process in itself is very risky, the main aspects in assessing the most potential countries are on the different risk levels to avoid any additional risks. This is very close to the SCP-model, where the market structure is dominating.

The business model will be formulated very much on the resources available combined with the discussions about the resource based view in the chapter of the theoretical framework. One main aspect is to find new opportunities, analyse them and finally manage the change and build valuable resources with the help of resources already available, very close to the ideas discussed in the dynamic capabilities section.

4 Methodology and methods in the research

According to Burns and Bush (2014, 34) a marketing strategy can be defined as follows: "A marketing strategy consists of selecting a segment of the market as the company's target market and designing the proper mix of product or service, price, promotion, and distribution system to meet the wants and needs of the consumers within the target market".

In this chapter I will introduce the methodology and methods used in this study. I will cover the research philosophy, the approach of the research, how the research was designed and the methods used in data collection and the analysis.

The research is both exploratory and explanatory from its nature: it tries to give knowledge about a certain situation and to explain the use of a theoretical view in certain decision making situations. There are two main research questions to be answered, and they are:

- *What could be the most attractive target country for internationalization?*
- *What kind of business model would be suggested?*

The purpose of this study was to provide information about the attractiveness of different markets globally and to form a possible business model suggestion based on a theoretical framework, mainly the resource based view. The needs for the study came from the management team of the sponsor company.

4.1 The philosophy and the approach behind the study

I used in the study a view that most likely gives answers to the questions and purposes given by the sponsor company, in a way that is practical and understandable, trying to interpret the results in a meaningful way. I accepted both observable phenomena and subjective meanings as usable data and the main focus was on finding solutions and knowledge that could be used in practice by the sponsor company and others. I observed the research problem from outside, as objective as possible, to make the results more valid, both internally and externally. Based on all this, I would say that the philosophy of this study was a mixture of pragmatism and positivism, perhaps more on the pragmatic side. As said by Saunders, Lewis & Thornhill (2012. 130.), for a pragmatist the practical consequences are what matter.

The research approach was mainly deductive, starting from theories and going through data collection to conclusions in an explorative way. This was the main path in the study, but some

parts were also made in an inductive way, so it can be said that a mixed approach or an abductive approach is used (Saunders et al. 2012, 144). Forming the business model was built on the RBV, so it was done in a deductive way, the country selection process was done in a more abductive way.

The research strategy used is a case-study since there is a client company for whose purposes the study is done. The sponsor company is also my employer, so there are also personal reasons for this study. On the other hand, I made the study as general as possible so that at least parts of the results could be used also by other companies and in different environments.

4.2 Research method and the strategy

In this study I used a qualitative method in two ways: first, the characteristics of the selected countries were discussed and analysed to find out which country or countries would be most attractive for Company X. The data in the first case was mainly in quantitative form, but only basic quantitative methods were used, mostly just to organize the data. The reason to use more qualitative methods, or discussion, was that this keeps the screening part more open and makes it possible to discuss the results more easily also when negotiating the implementation with the possible partners. Second, I formulated a business model for Company X by using the data gathered from the company combined with the findings in the literature review section of this study.

Case study research is used as the research strategy, since the study tries to solve a real-world problem for a case company. The focus of this study is on one single organization. According to Saunders et al. (2012. 179.), a case study explores a topic within its real-life context. The time frame of the study was cross-sectional, concentrating on a certain point of time instead of trying to find out development patterns during a longer period.

4.3 Data collection

First, the existing material about internationalization, global markets and the resource based view was examined. This phase included articles, internet databases and books. Especially the resource based view was examined pretty deeply. Based on this material the theoretical framework of this study was formed. Data about the case company was gathered from written and oral material gained from the personnel of Company X.

The material for the country selection section was secondary data from the databases of two organizations: World Bank and Transparency International. Secondary data is data that has already been collected for some other purpose and analysed further. As said by Waters (2011,84), “if there is reasonable secondary data, you should use it”. Since the amount of data in my study was huge, it was very important to try to find usable secondary data from existing sources. It saved a lot of time and resources and made it possible to analyze much more data in the same time.

Since one of the objectives given by the sponsor company was to find markets that are quick and easy to enter, based on the resources available for it, I made the following judgement about the elements in the CAGE framework: the sponsor company has some experience in doing business with countries that are culturally different and also geographically far away. It has much less or no experience in doing business with countries with a longer political distance or countries that are economically in a different level compared to Finland. This judgement affected on the choice of the attributes that were chosen to assess the attractiveness of the different countries.

In this study I chose the most relevant attributes according to the case and used those to analyse the different countries. These attributes are explained in more detail in the country screening chapter.

4.4 Data analysis

There were two parts in the data analyzing phase, the market selection phase and the business model formulation phase.

The data used in the market selection phase was gathered from different databases which then were combined into one Excel-sheet to make it easier to do the selections and make figures to illustrate the results more visually. As a base, the database of World Bank was used and needed attributes from other sources were combined with the information from that database. The attributes to evaluate the attractiveness of the different countries were chosen based on the resources available for the sponsor company: it should be possible to enter the chosen markets with the resources available for the sponsor company and on the other hand, those countries that need resources which the company does not have, should be avoided.

The following 45 countries of the original 189 were removed from the database because there was not enough usable information available: Angola, Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Brunei Darussalam, Capo Verde, Democratic Republic of Congo, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Hong Kong SAR, Kiribati, Kosovo, Macedonia, Maldives, Marshall Islands, Micronesia, Montenegro, Myanmar, Palau, Puerto Rico, Samoa, San Marino, Seychelles, Solomon Islands, South Sudan, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Swaziland, Syrian Arab Republic, Taiwan, Timor-Leste, Tonga, Trinidad and Tobago, Uganda, Vanuatu, West Bank and Gaza, and Vietnam.

Finland is the home-country of Company X, and it was included in the study material to provide a familiar environment to compare the other countries with. The total amount of countries included in the study was 144 (Appendix 1). From these countries the top 20 were selected according to the number of population and to the GNI per capita. Four countries were in both selections, so in the end there were 36 countries left plus Finland. Theses 36 (+1) countries were analysed through the chosen characteristics.

The attributes that were chosen to analyse the country attractiveness were and the reasons were:

- Population and GNI to provide information about the market size.
- Rule of law, political stability and level of corruption to provide information about the riskiness.
- Documents to import and logistics performance index to provide information about the level of bureaucracy and the easiness of doing business in general.
- Distance to the target country as an indicator for easiness and possible costs.

In the business model formulation, I used the information given by the company combined with the findings of the literature review to build an upper level business model suggestion for the use of the case company. The resource based view was used.

Based on the analysis and the discussion on each of these attributes, final conclusions were made in the summary.

5 Results

This chapter introduces the results of the study with some interpretations. I start with a short summary of the resources available for the case company, then I look at the target market selection process from different angles and after that the business model is formulated. Finally, I make a short summary of the results.

5.1 Resources available and resources needed

Before starting the target market selection process and the formulation of a business model, I will shortly summarize the resources available with some possible weaknesses. The information is based on the information provided by Company X (2016).

The resources that could be valuable in the case given are mainly knowledge based or different kind of skills of the management team. The following resources were found: project management skills, process management skills, retail knowledge, IT-management skills, supply chain management skills, category management skills, change management skills, skills in importing and exporting of products. The management team is able to do business in the following languages: Finnish, Swedish, German and English. The management team has wide networks in several industries and in several countries, but the best contacts are in Europe.

Based on the information given (Company X 2016), possible resources that are not available at the moment, are: working capital, own products, target market information and local distributors abroad. Also, the small size and the location in Finland could be seen as possible weaknesses.

Resources that probably have no value in the new business are the current products and the current customer base. Company X is used to do business with countries with a reasonable political stability and absence of violence, with a strong rule of law. Corruption and bribery are not part of their business.

Although the case company has a strong culture of doing business, a high level of trust between the members of the management team and a good and loyal customer base, these are probably resources that cannot be valuable in the new business, since they are not transferable.

5.2 Target market selection

This sub-chapter will answer the following questions given in the beginning of the study:

- *What could be the most attractive target country for internationalization?*
- *Which countries have the largest market potential?*
- *What kind of risks should be taken into account?*

I will start by selecting the countries with the biggest potential by looking at the question from two angles: the number of population and the GNI per capita. After that I will assess the risk factors and the easiness of doing business in the selected markets with the largest potential. Each indicator is assessed separately.

The risk-level of doing business in each country is assessed with selected indicators based on the PESTEL-framework and the CAGE- model introduced earlier. The indicators are chosen based on the resources and limitations found from the material provided by the case company.

Since this study is made more from a practical than a scientific view, and there is no absolute good or bad value for the different indicators, the analysis is made poorly on the figures. A red line indicates line between an acceptable value and the countries that are not performing as well.

Population

As already mentioned earlier, it is easier and quicker to test the market of the consumer goods if there is a large population. When the number of population is large, there usually is at least a small market for reasonably priced consumer goods. For a firm with limited resources this makes it much easier to make a test marketing and to decide after that, if there is enough demand for profitable business.

According to the literature overview, the size of the population is one of the demand factors mentioned earlier. The cheaper the relative prize of the product or service, the more important the number of population gets when estimating the demand. Again, the sponsor company of this study is looking for markets that could have enough demand for Finnish consumer goods without the need for a too deep market analysis, so the number of population is an important factor.

The next figure shows the countries ranked by their number of population. As can be seen, China and India are in a category of their own. Both countries have a population of over 1,2 billion. United States is ranked third, having a population slightly over 300 million.

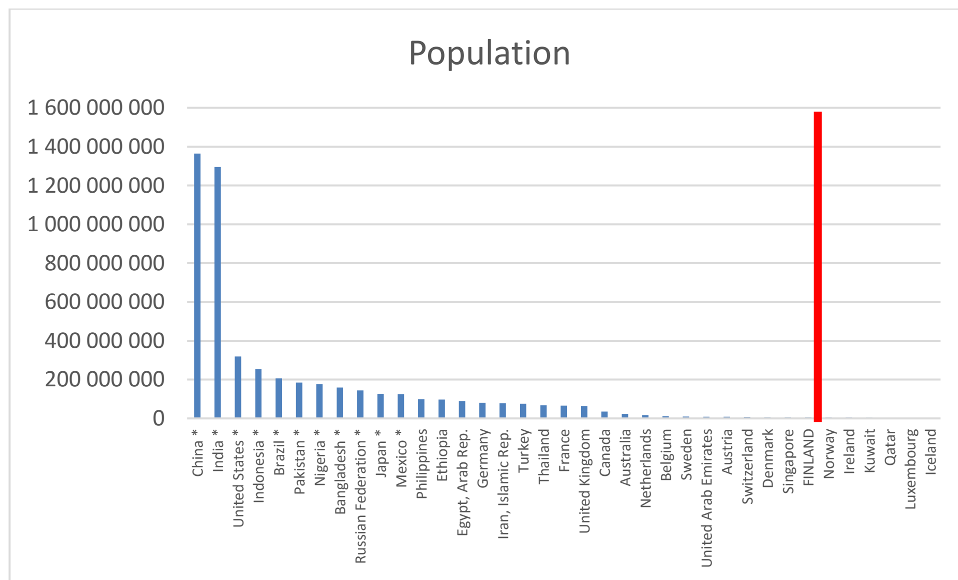

Figure 13. Number of population

As mentioned in the literature review, the number of population in a country is one way to assess the potential market size, especially so for inexpensive consumer goods. The products in this study were limited to fishing gear and related outdoor products. These are consumer goods, but the target segment is more in the middle-class of the population, and they cannot be considered as cheap mass-products, so population alone is not enough to make a prediction of the demand.

The population of the following countries can be considered to be too small for this case: Norway, Ireland, Kuwait, Qatar, Luxembourg and Iceland. These countries have a population smaller than Finland.

GNI per capita ATLAS method

GNI per capita indicates the average buying power of the population and generally, the higher it is, the more potential there is. A high GNI per capita combined with a high number of population makes the market more attractive in general.

The figure below shows the countries in order of their GNI per capita (Atlas method, US$). The countries can be easily divided into two groups: those with a GNI per capita over

US$40000 and those with a GNI per capita under US$20000. The red line is drawn between these two groups to visualize the gap.

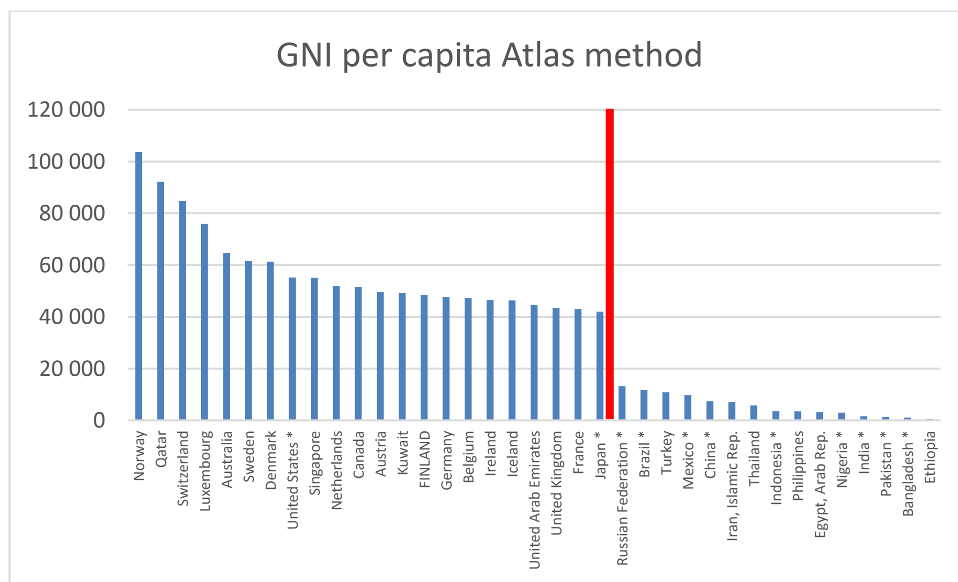

Figure 14. GNI per capita in US$, Atlas method

Although the countries on the right have large populations, theire income per capita is pretty low, and as can be seen the drop between Japan and Russian Federation is big. According to the grouping mentioned in the literature review the countries on the right side of the red line belong to either lower middle-class income countries or low-income countries. Based on the information provided in the the overview of the world economics and the theory chapter, the low-income countries would need different kind of products and very different business skills. The case company does not have the right products or the needed networks to access these countries, so they would not be recommended as the first targets. On the other hand, entering difficult markets could give the company a lot of new knowledge which could be useful in the future, as I have shown in the information provided about the succesful companies based in the emerging markets.

The income per capita is too low in the following countries: Russia, Brazil, Turkey, Mexico, China, Iran, Thailand, Indonesia, Philippines, Egypt, Nigeria, India, Pakistan, Bangladesh and Ethiopia.

Rule of law

The figure below shows the countries in order of their rule of law- ranking, from 0 to 100. Half of the countries from the left have a relative high rule of law, but the decrease when moving to

the right is pretty fast. In this case, the red line is put between countries over 85 and under 85, since at this point the level starts dropping faster, as moving from left to right in the figure.

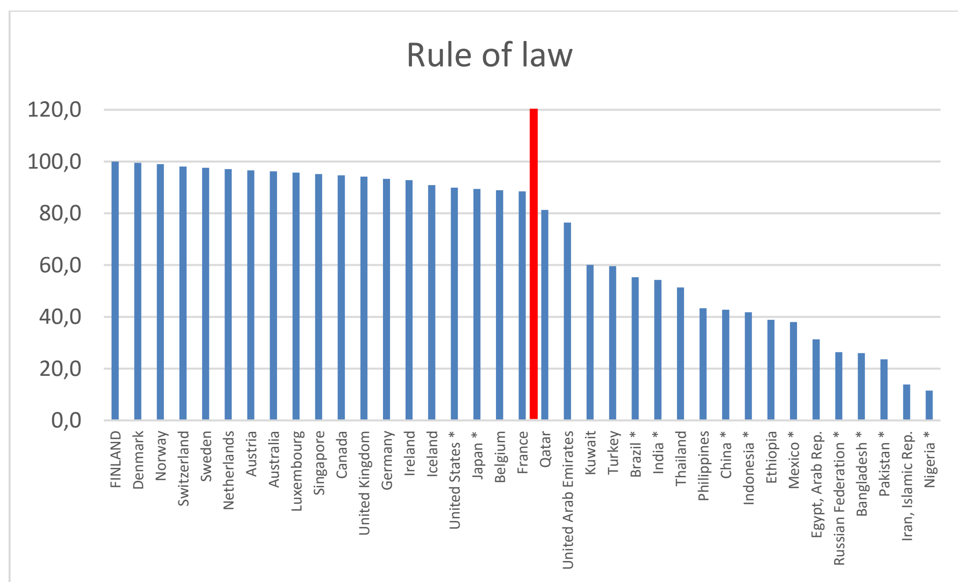

Figure 15. Rule of law

As can be seen, Finland is considered to be a country with a very high level of rule of law, scoring the maximum 100 points, which means that for a company that has used to do business in Finland, and other similar countries, it could be very difficult to do business with countries on right edge of the figure. Rule of law was also mentioned by the case company to be an important factor.

The following countries are too unpredictable and unsafe, and therefore too risky for the case company: Qatar, United Arab Emirates, Kuwait, Turkey, Brazil, India, Thailand, Philippines, China, Indonesia, Ethiopia, Mexico, Egypt, Russia, Bangladesh, Pakistan, Iran and Nigeria.

Political stability and absence of violence

The next figure shows the political situation in the countries, again the most stable country on the left and the least stable on the right. Finland is again close to the top, which sets the critical level pretty high again.

This is a very important indicator, but it is also very dynamic. The situation in a country can change very fast and very dramatically, not least because of the increased risks in terrorism and the rise of some political groups. Also, problems in one area of the world can lead to changes on the other side of the world pretty fast, for example when large groups of population are

forced to move from an unstable country to a more stable one. These things have to be kept in mind when starting to do business abroad.

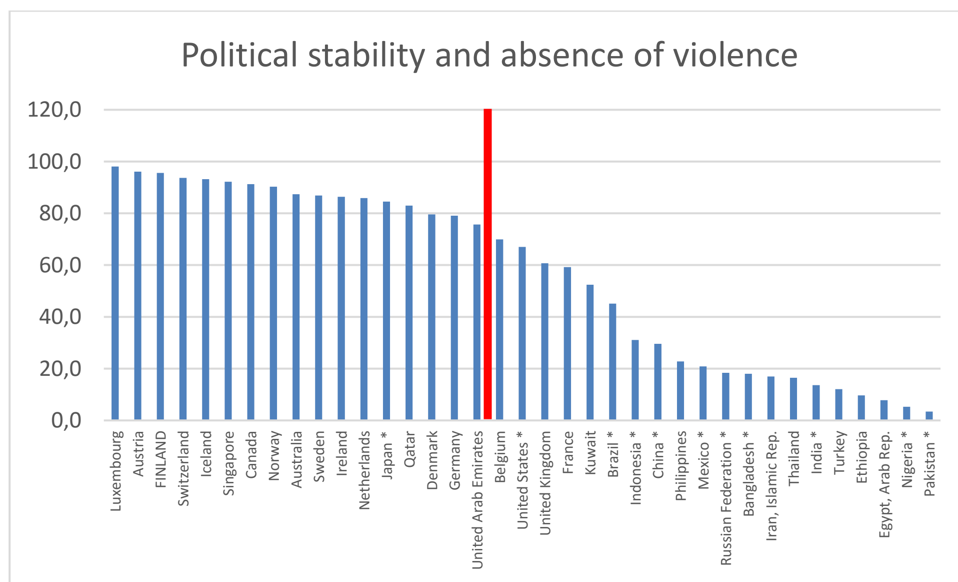

Figure 16. Political stability and absence of violence

I would say that according to this metric, these countries can be divided into three groups: countries with a score over 75, those in the middle and countries scoring under 40. At least those countries scoring under 40 can be considered to be very unstable and special political skills and connections would be very valuable. Because of their unstable situation, though, the environment can change very fast and a high level of adaptability is also needed. For a company it takes normally a very long time to build political connections, so the most unstable countries should not be considered in the starting phase of internationalization. In this case, the line is drawn at 75 points, but it could be drawn elsewhere also. It depends from the situation, and for example if a company can tolerate a high level of political risk, and is not afraid of doing business in violent environments, considerably high profits could be made in more unstable countries.

Based on this indicator, the following countries are too risky and unstable: Belgium, United States, United Kingdom, France, Kuwait, Brazil, Indonesia, China, Philippines, Mexico, Russia, Bangladesh, Iran, Thailand, India, Turkey, Ethiopia, Egypt, Nigeria and Pakistan.

Corruption perceptions index

The figure below shows the corruption level in the selected countries. The higher the number, the less corrupted the country, with a scale going from 0 to 100.

Again, Finland scores very high and can be found from the second place on the left, by Denmark getting the best score. The right side of the figure is dominated mainly by countries from developing and emerging markets. The way of doing business in these kind of countries is often very different to what companies in the industrialized high-income countries are used to, and very different kind of resources and skills are needed.

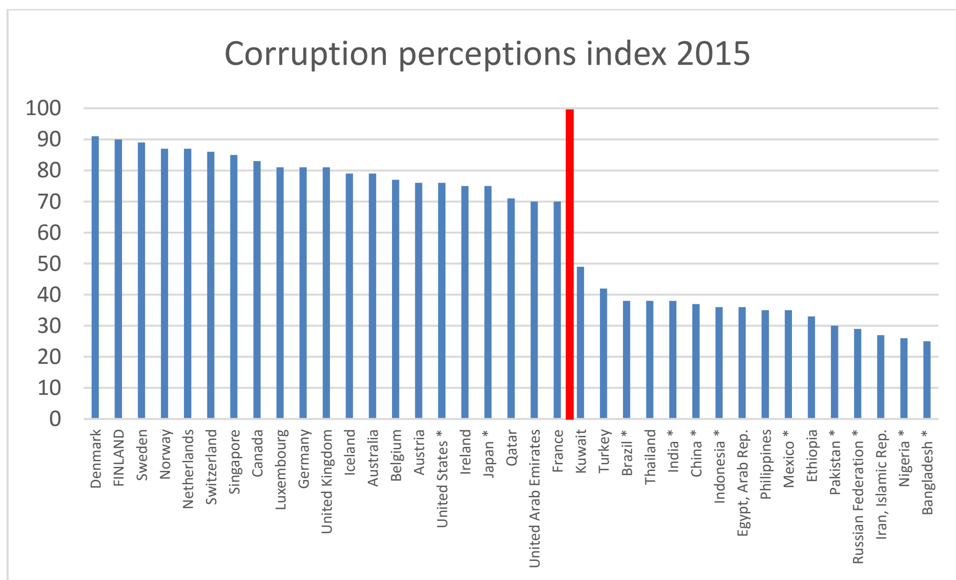

Figure 17. Corruption perceptions index

When I move from left to right, there is a bigger decline in the value of the index after France. Countries that are on the right side of France can be considered to be pretty corrupted, and companies starting business in these countries must remember the different way compared to the highly industrialized countries. The case company was not used to do business in corrupted countries or with companies and governments where bribery is the norm, so the countries on the right side of the red line can be considered to be too corrupted to start from.

The following countries are too corrupted based on this indicator: Kuwait, Turkey, Brazil, Thailand, India, China, Indonesia, Egypt, Philippines, Mexico, Ethiopia, Pakistan, Russia, Iran, Nigeria and Bangladesh.

Documents to import

The next figure shows the number of documents needed to import from one country to another. It indicates also the level of overall bureaucracy and the less documents are needed, the

easier importing is, generally. Countries that are more bureaucratic than Finland, according to this indicator, are in the figure on the right side of the red line.

On the right side of the red line mainly countries from developing markets can be found. Finland can be found pretty much in the middle of the figure, with the number of five documents needed.

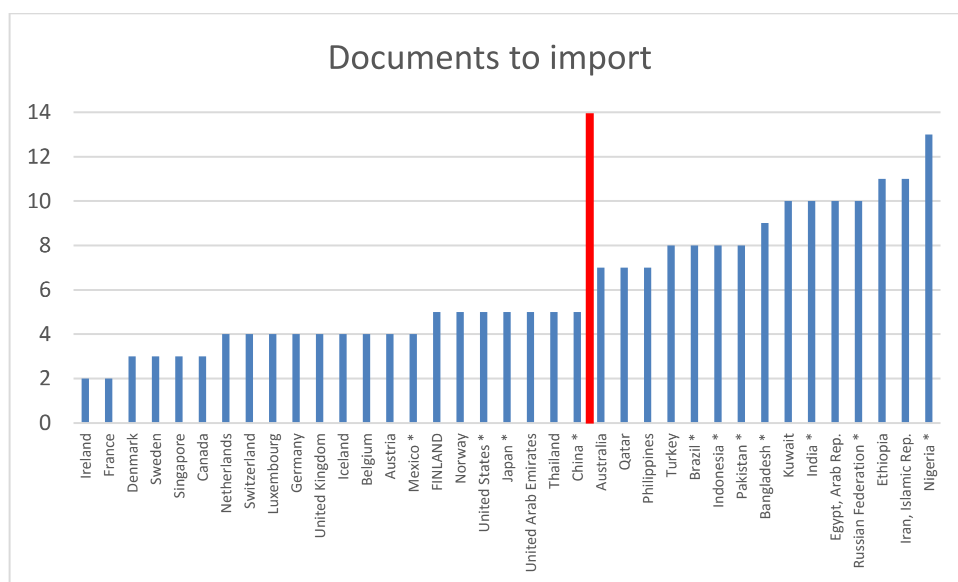

Figure 18. Documents to import

A big difference can be seen in the number of documents needed in the countries on the left side and in the countries on the right side. According to this indicator Ireland and France are the least bureaucratic countries with only two documents needed, compared with Nigeria on the other side, 13 documents needed.

The following countries have the largest amount of bureaucracy based on this indicator: Australia, Qatar, Philippines, Turkey, Brazil, Indonesia, Pakistan, Bangladesh, Kuwait, India, Egypt, Russia, Ethiopia, Iran and Nigeria.

Logistics performance index

The figure below shows the logistics performance index of the countries, which is an indicator of the infrastructure. The scale is from 0 to 5, with 5 being the best. For a company selling physical products a high level of logistics infrastructure is very important, so the products can be moved affordably and efficiently to the country and inside the country. It has an effect on

the cost structure, but it can also make it even impossible to do business, if the logistical infrastructure is at a very low level.

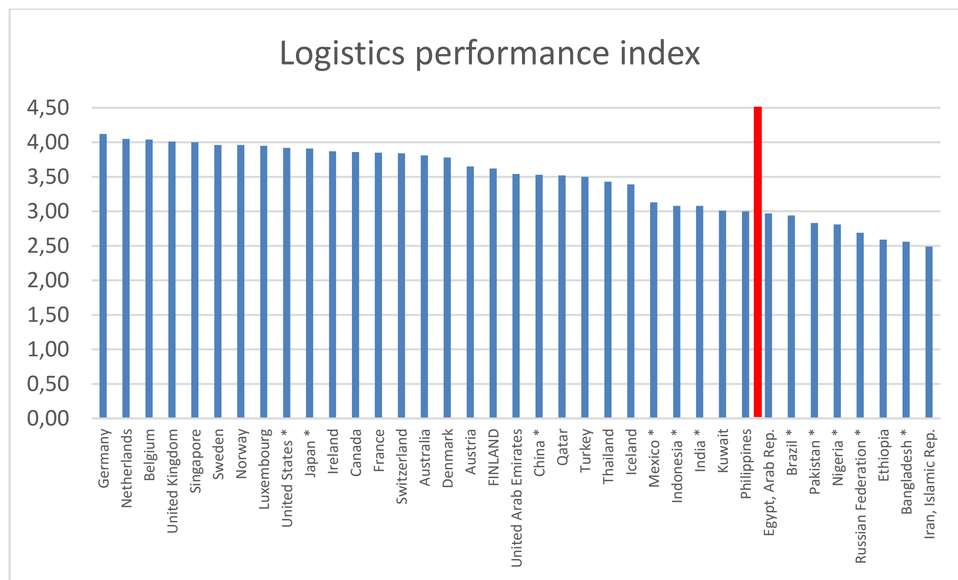

Figure 19. Logistics performance index

Most of these countries score pretty high according to their logistics performance index, but this is such a basic indicator, that the score also has to be very high. For a small company from Finland it is not possible to start a business in a country where the logistics infrastructure doesn't function. It is a different case for the largest multinational enterprises, which sometimes start doing business by investing in the development of the infrastructure of the target country. The worst level in the logistics performance index can be found in Iran, Bangladesh and Ethiopia.

The following countries have probably a too low level of infrastructure: Egypt, Brazil, Pakistan, Nigeria, Russia, Ethiopia, Bangladesh and Iran.

Physical distance

The next figure shows the average distance between Finland and the selected countries. As was shown in the previous chapters, physical distance still matters, especially when the company is selling physical products. It is much more expensive and time consuming to start the business with a country far away, and also the marketing research and visiting the country are more complicated. As also shown in the previous chapters, normally the safest way for a company to start the internationalization process is to start from the closest neighbour countries, and after that, to move into the more distant ones.

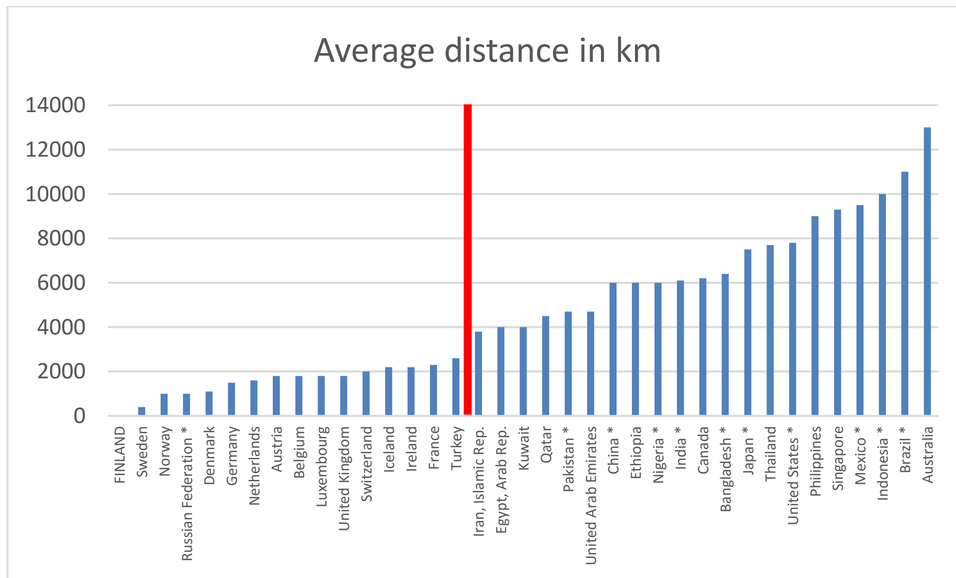

Figure 20. Average distance from Finland

The figure actually shows at one glance one of the problems that Finnish firms have because of the location. From Finland most countries are pretty far away and this has an effect on the cost structure when dealing with physical products. Also, it takes more time to supply countries that are far away. The closest countries are Sweden, Norway, Russian Federation, Denmark, Germany, Netherlands, Austria, Belgium, Luxembourg, United Kingdom, Switzerland, Iceland, Ireland, France and Turkey.

All the 36 countries chosen could have a huge sales potential, but the environments are otherwise very different. Some populations are pretty small, but the biggest differences are in the income-level, the risk-level in the countries, and the easiness of doing business. Based on this study I would make the following suggestions:

The internationalization process should be started from Sweden with some test marketing activities. After that, when the processes have been tested, the next move would be Germany, Netherlands, Austria, Switzerland and Denmark. Also the languages spoken in all these countries are familiar for the management team of Company X: Swedish and German. Although English normally can be used as the business language, it is a big advantage to have the ability to communicate with the official language of the target country.

In the third wave Japan, Canada and Singapore could be entered.

5.3 Strategic choices and the business model

In this sub-chapter I will answer the following questions that were given in the beginning:

- *Which of the available resources could be valuable and why?*
- *What other resources are needed?*
- *What kind of business model would be suggested based on the target markets and the resources?*

The analysis is based on the theoretical framework discussed earlier, mainly on the literature review about the resource based view. The available resources discussed here were given by the sponsor company and they were introduced shortly already in the first chapter of this study and again in the beginning of this chapter.

Business model and the strategy

Now it is time to formulate the final strategy for the case company based on the information provided. According to Collis (2016, 63) one of the main challenges of an entrepreneur or a small firm is to decide what not to do. They all lack resources like money, talent, intellectual property and access to distribution so they have to use their resources perhaps in a more efficient way than their bigger competitors. The opportunity costs of doing something has to be thought of more carefully. One has to be very careful to find the right markets and separate the most promising ones from those that offer only illusion of returns. This is very often the case particularly in markets with low barriers to entry (Collis 2016, 65). Also, sometimes it might be better to try several smaller opportunities with smaller risk.

According to Michael Porter, "winning strategies are either choosing different activities than competitors or different and better execution of the same activities as competitors" (Keegan 2014, 265). Collis (2016, 66) gives the following steps for formulating a strategy: vision, deliberate strategy, objective, scope, competitive advantage and emergent strategy. Markides (2004, 6) highlights, that a strategy should give answer to three main questions: what is the target segment and who are not in that segment, what are the products offered and what products are not offered and finally, how is the company going to achieve its goals and what are the tasks it is not going to do.

The focus of this study was not to go too deeply into the different strategic choices, but instead to give the sponsor company some useful tools to go on with the work and also to make a strategic level business model suggestion, which should be based on the information given by the sponsor company, on the theoretical part of this thesis work and on the empirical findings.

Selecting the form of cooperation

One topic for Company X is to make a decision about the form of cooperation with the future business partners. It has already some resources that could be used in the new business, but it also lacks many important resources, which have to be acquired somehow. The resource based view prefers alliances over other forms of cooperation, since not all resources of the partners usually are valuable in the new business, and therefore, those resources only cause additional costs.

According to Barney (2009, 49) a firm that can use resources and capabilities that it already possesses in implementing its strategies is more likely to gain competitive advantages than those firms that have to acquire those resources on the factor markets. This leads us to one of the most interesting parts of this study: which partners should be chosen to have the best possible bundle of resources already from the beginning? It's more about the company processes and image than about the products they are manufacturing. If companies could be found to start a joint venture with the case company, they would be motivated to put their resources in common use. The products are of course needed, but other resources and competences are more important in the long run (Prahalad & Hamel 1990).

Since Company X does not have any own products, the first thing to do is to find a partner to get access to the selected products. Since Company X lacks also many other resources, and on the other hand, has many resources that are not valuable in the new business, one possible solution could be a form of cooperation. Based on the discussion made on the resource based view, in such cases a joint venture would be the logical solution, because (1) only needed resources would be gathered inside the new firms' boundaries, (2) developing the needed resources would take too long, (3) acquiring a firm with the needed resources would be too expensive. Keeping not valuable resources in the company would not only decrease the ability to implement the chosen strategies, but they would actually make it harder and unefficient.

For the possible partners, a joint venture would give the following advantages: (1) with the combined power they would gain scale economies and scope economies and (2) they could continue their existing business as before. The joint venture could also be considered as one new customer for their products. Based on the targets given by the sponsor company and the discussion made earlier in this study, I would suggest as the form of cooperation a joint venture with the partner companies. The next task is to assess the value of the resources already possessed by Company X and resources that would be needed from outside.

Culture and trust

Culture and trust were mentioned to be among the most important sources of competitive advantage, if they fulfil all four aspects of the VRIO- framework. On the other hand, both resources need a long time to build, so they normally are not transferable to a new firm. In a joint venture it would be possible to build advantages build on culture and trust in the long run, but these kind of resources are not transferable from Company X to the new joint venture.

Value of the management skills and experience

Based on the discussion about the RBV, one mistake managers very often make, is that they overestimate the value and the transferability of the resources and capabilities they possess. Management skills were mentioned as one of the most valuable forms of resources in most cases, and management skills are also very generic. Based on the information given, Company X has access to this kind of skills, and because of their generic nature, they probably are also transferable to the resource base of the new firm.

Value of the existing networks

Networks can be, as mentioned in the theory-chapter, a good source for knowledge and also a possible source of competitive advantage, often sustained competitive advantage. Company X should use its existing networks for (1) gaining deeper market knowledge about the target market, (2) building new networks with the help of the existing network-partners and (3) starting to build a professional network in the selected target markets. As was mentioned earlier, the value of networks is very high, and it probably is even rising in the future. Company X has a very large network both domestically and internationally, which can be of high value. The existing networks are at least partly with partners from a different industry, so they cannot be transferred directly into the new company, but they can be used to build new networks and to gain knowledge about possible partners and about the target markets.

Value of other resources of Company X

The management team has good skills in describing, developing and managing of different kind of business processes. These skills are mostly generic and easily transferable, so they could be very valuable also for the new joint venture. Though, based on the knowledge gained from the discussion about the RBV, these kind of general skills usually are not sources for sustained competitive advantage. Retail knowledge and skills in digital marketing would probably also be valuable and transferable resources. And, as already mentioned, the language skills are valuable

and transferable between companies, and they can be very valuable when connecting with the new foreign partners of the joint venture.

Filling the resource gaps

In the information provided by the case company, the following weaknesses were mentioned: small size, no own products, lack of capital and the location. Based on this information, the partner firm(s) has to have at least the following resources, which must be transferable into the new firm (1) own products in the given category, (2) willingness to put some valuable resources into the new joint venture, and (3) capital in form of investment or inventory. If the partner has existing contacts with distributors in the target country, they would be very valuable. Probably there will be a need for some external funding also, but the need of capital can be dramatically reduced if the new joint venture does not have to keep its own inventory, but instead has access to the inventory of the partner manufacturers.

How to keep the company flexible

The existing resources might not be enough to keep the company competitive in new markets in the long run, so one very important way to use those resources is to build new ones, as mentioned in the literature review. The framework of dynamic capabilities could be used to formulate resource building processes for the new joint venture. Based on this, one thing also to keep in mind when choosing the partners, is to choose firms that are willing and able to change and build new, valuable resources.

Business model canvas

What is a business model? A business model can be defined as follows: "A business model describes the rationale of how an organization creates, delivers and captures value" (Osterwalder & Pigneur 2010, 14; Kaplan 2012, 18).

In his book Kaplan (2012, 3-33) talks about formulating the business model based on the capabilities of the firm and he recommends the business model canvas as a very good tool when formulating the business model. The business model canvas was originally introduced by Alexander Osterwalder and Yves Pigneur (2010). The idea of the canvas is to get a quick view of the different areas and the filling of the canvas can be made as a workshop, so many people of the organization can participate simultaneously. The canvas is easy to use and gives quickly a visual view of the planned business model and what parts need to be thought more carefully. Also, it shows pretty clearly what different areas, at least, must be covered before the plan is in a stage that can be executed.

The planning process can be described as follows: Every organization serves a customer segment, which should be the target of every activity. The firms try to solve some problems of the customer and satisfy its different needs with various value propositions. The value propositions are delivered to the customers through different channels and the customer relationships are maintained by selected tasks. Successfully delivered value propositions generate the revenue streams and key resources are needed to deliver the value propositions successfully by performing of the key activities. Some of the activities performed are outsourced to other firms and some resources are acquired from outside the firm boundaries. The different elements used result the cost structure. (Osterwalder & Pigneur 2010, 16-17.)

The resource based view described earlier works very well together with the business model canvas. The basics of the RBV together with the VRIO-framework and the dynamic capabilities-framework can be used together with the business model canvas to analyse the firms' resources and capabilities and to assess the need for outsourcing and different kind of partnerships. The outcomes can then be visualized together with the other elements by using the business model canvas. This has been done in the next figure for the case of the sponsor company of this study.

<table>
<tr>
<td rowspan="2">Key partners
The brands should be selected by the sponsor company later. Other partners:
- Local retailers
- Local distributors
- Marketing partners
- Logistic partners
- Accounting partners</td>
<td>Key activities
Active use of different digital marketing channels, active use of local advertising possibilities. Active channel marketing for Finish manufacturers.</td>
<td rowspan="2" colspan="2">Value proposition
For partners: possibilities to get the products to new markets with common resources

For customers: quality products from Finland with reasonable prices

For other manufacturers: possibilty to get access abroad with minimum effort</td>
<td>Customer relationships
Handled through digital platforms and by local wholesellers.

Manufacturer customers from Finland handled personally.</td>
<td rowspan="2">Customer segments
Main customer segments (consumer products) differ between the different product categories.

Manufacturers: quality brands with origin in Finland and willingness to grow into new markets.</td>
</tr>
<tr>
<td>Key resources
- Management resources
- Products
- Marketing resources
- Market knowledge
- Network relationships</td>
<td>Channels
E-commerce platforms and local retailers abroad.

Marketing through social media platforms.</td>
</tr>
<tr>
<td colspan="3">Cost structure
Marketing, production, travelling, accounting, logistics. No own storage, deliveries directly from stock of the partners.</td>
<td colspan="3">Revenue streams
Revenue comes through selling of the products for retailers abroad and directly for the end customers.
The second revenue stream comes for selling services for other Finnish companieswho want to get access to foreign markets with low effort.</td>
</tr>
</table>

Figure 21. The Business Model Canvas for the new firm to be established (adapted from Osterwalder & Pigneur 2010, 44)

In figure 25 above a business model canvas for the case described during this study can be seen. It is just a suggestion and more detailed planning is needed, but it gives the sponsor company a good starting point for further analysis and negotiations with the possible partner candidates. It can also be used when demonstrating the business proposition for representatives of the potential funding channels.

However, I would prefer the following simplified drawing:

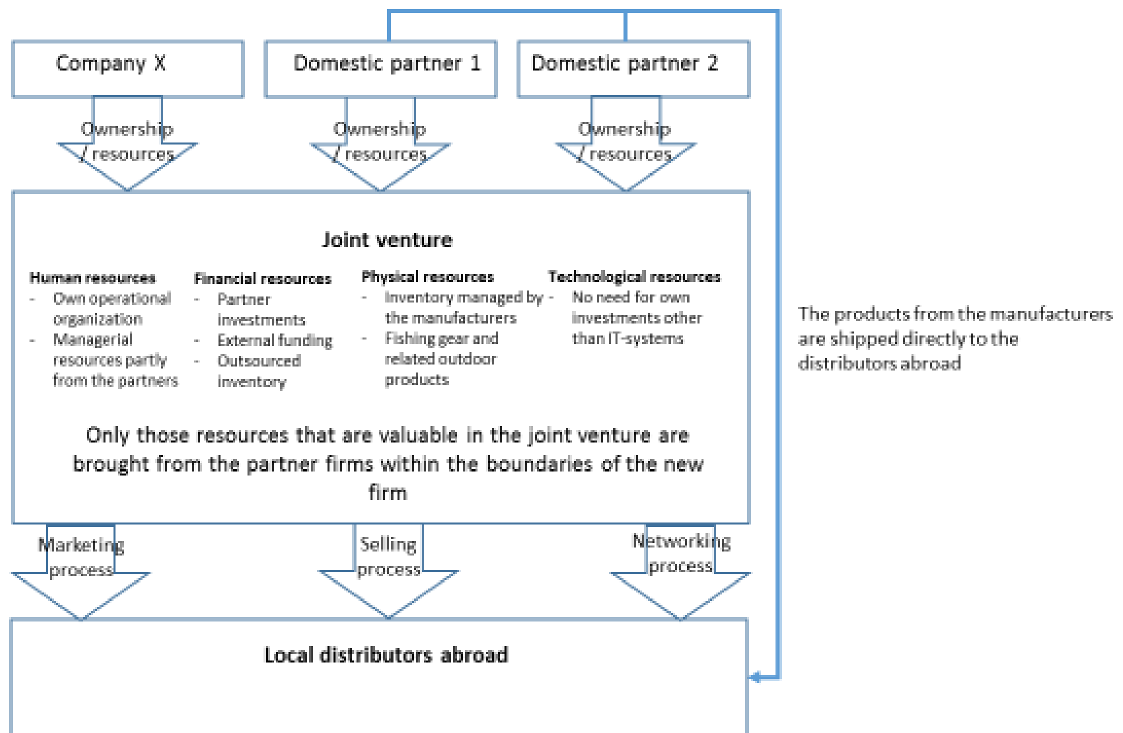

Figure 22. The business model

The figure above summarizes the discussion of this sub-chapter: a joint venture put together by Company X and one or more partners, with at least some of the partners being manufacturers of the products that will be sold. Some of the needed resources will be brought from Company X, and some from the partners. The resources that are not crucial, will be outsourced and bought from the market. The product inventory will be held by the manufacturers to reduce the need of capital, though some funding is needed anyway.

5.4 Summary

In this chapter I took a look at the resources available for the case company and based on those resources and the discussions earlier in this study, the target markets for the new business were chosen, with a suggested order.

After that, based on the resources and the theoretical framework given, I made an upper-level suggestion for the business model. The resource based view was used together with complementary frameworks and tools.

The main outcomes of this chapter are shown below:

- Form of cooperation: joint venture between Company X and manufacturer(s).
- Products: fishing gears and related products.
- Entry mode: through local distributors and digital channels.
- Test market: Sweden.
- Phase two: Sweden + Germany, Netherlands, Austria, Switzerland and Denmark
- Phase three: Japan, Canada and Singapore
- Main resources from Company X: managerial resources, network resources, digital marketing skills, communication skills.
- Main resources from partner(s): sellable products, capital/inventory, networks.
- Domestic networking: use of personal networks to find funding and potential partners.
- Networking abroad: use of Swedish existing networks to find potential distributors.

5.5 Validity, reliability and ethics in the study

Validity and reliability are important topics, when assessing the outcomes of a study. The reliability of a study refers to whether the same results would occur, if the same procedures using the same data would be repeated by another researcher or in a different occasion. The research process should be clear and there should be no logic leaps contained. In other words, each part of the study should be fully transparent. This makes it possible for the reader to make his own judgments about the observations and the outcomes. (Saunders et al. 2012. 192-193.)

Reliability alone doesn't make a good study, also validity matters. The construct quality assesses if the measure used in the study really measure the right things, do they give answers to the questions they are meant to give answers. The external quality of a study measures whether the results of the study are generalizable and if they can be used in other environments. (Saunders et al. 2012. 193-194.)

To make the results of the study reliable, every step was described as clear and transparent as possible. The data sources were chosen carefully and the raw-data was introduced in full detail, to make it possible for the reader to make his own judgements of the data. The data was handled with care to avoid mistakes during the study phase. The chosen metrics were based on the theoretical findings of chapters 2 and 3 and the definitions of the different indicators were given in appendix 2, to make it possible for the reader to make his own judgements. One thing to remember is, that the value of some of the indicators used in this study can change pretty fast, and this could have an effect on the results.

To make the results of the study valid, both internally and externally, the indicators in the market selection phase were chosen very carefully. They were all based on the findings made in the theoretical part and multiple indicators were used for each separate question. For example, to find out the market potential of a country, both population and the income level were used. Based on the findings in chapters 2 and 3, this should answer the question pretty well.

The external quality of the results is lower, since this was a case study and the problem to be solved was strongly related with the sponsor company. The results can be used in other similar situations, but then careful thoughts have to be made for example about the different indicators used in the market selectin section: where should the line between a good and a bad value be drawn and which weight should be given for each individual indicator. Since the methods used

are explained in this study, and since the data can also be accessed, with some modifications the results should be generalizable to some point.

There are some general guidelines for the ethics of a research (Saunders et al. 2012, 231-232; Academy of Management 2005) and during the study I followed these guidelines. All sources that were used during the study were referred as precise as it was possible, both in the text and as a list in the end of the study. All direct citations are marked accordingly and no plagiarism was done on purpose. Confidential information that was received during the study has not been published. The analysis of the data and the reporting of the different findings was made with high responsibility and the conclusions were explained as clear and detailed as possible. There was no discrimination of religions, races or nationalities. As a researcher, I was safe during the whole study and I tried to stay as objective as possible. Also, the ethical principles and guidelines of Haaga-Helia were applied (Haaga-Helia University of Applied Sciences 2016.).

6 Discussion and conclusions

I started this work by introducing the case company, the needs and objectives and the scope of the study. After that I looked and some general points and frameworks in international business and the theoretical framework was built mainly on the findings in the literature review about the resource based view and some complementary frameworks. The conceptual framework of the study was introduced in chapter 4, based on the findings made so far. In the empirical part I tried to give answers to the following questions: (1) What could be the most attractive target country for internationalization, and (2) What kind of business model would be suggested?

There were four sub-questions given to help in the answering process: (1) Which countries have the largest market potential, (2) What kind of risks should be taken into account, (3) Which of the available resources could be valuable and why, and (4) What other resources are needed? The results with the conclusions and answers to all the questions were given already in chapter 6, but I will discuss some of the outcomes again.

6.1 The resource based view

The main idea in the resource based view is to look for the resources owned by the firm instead of the environmental aspects alone. In my opinion, a combination of environmental analysis and resource analysis must be used when planning the internationalization process of a firm. The resource based view is also very helpful when choosing the right indicators to assess the environment, because the indicators and their weight depends on the case company and its resources: with different kind of resources different target markets would be chosen.

As I mentioned in the literature review, successive company should look for business opportunities far beyond the boundaries of its current businesses. In the discussion of the resource based view several reasons for diversification were given, one of those was: through diversification a firm can make it more attractive for the employees to make firm-specific investments. This is not a minor thing, since this makes it possible for the company to gain new resources which very often can be sources of sustained competitive advantage.

It is always very risky to start a new business which is highly diversified. In this case there is a plan to start doing business at the same time in new countries and with new products. Based on the theoretical findings and the empirical part of this study I would say, that it is possible for the sponsor company to achieve its goals, but the steps must be taken carefully, and quickly.

Also, since the company is lacking many of the valuable resources needed, and it wants to get access to those resources fast, the only way to do this is through a joint venture or other kind of deep cooperation with other companies that have access to at least some of those resources. To find the right partners is therefore one of the first things for the sponsor company to do, otherwise it will be too risky for it to start this kind of new business.

The company should use its already existing networks to find more market information and also to find local partners from the new target markets to build new relevant business networks. To be able to start the new company it will need at least some partners and possibly also some outside funding. I would recommend that the internationalization should start from the two closest markets, measured not only by the physical distance, but also by the political and economic distance. A lot of weight should be given for the risk-level of the countries.

Since politics and law skills where not listed among the strengths or resources available for the sponsor company, it is important to remove countries with too low level of rule of law at this point. For a small company, like in this case, it is important that there are laws to be followed, otherwise doing business will become too risky. For companies that have powerful lawyers and possibilities and knowledge to influence the local politics the situation might be different. Also, companies that are used to do business in areas that are not so predictable can have an advantage in this kind of areas.

In the long run, the competitive advantages of a company are built on the core competencies, not on the end products. This is why it is very important for a company to build on competitive resources, that could be sources for sustained competitive advantage in the long run. Learning to use the existing resources and capabilities to build new ones is crucial for success.

6.2 The target countries

Based on the findings in chapter 6, I suggest that the internationalization process should be started from countries that fulfil the following characteristics: (1) enough market potential based on their population and income level, (2) politically stable and a high rule of law, (3) high level of infrastructure and low level of bureaucracy, (4) physically close to Finland.

Based on the results, the following suggestion was made: the test marketing phase should be started from Sweden and after that, as quick as possible, the following countries should be entered: Germany, Netherlands, Austria, Switzerland and Denmark. All these countries have

enough market potential and they have a pretty short distance to Finland in the different elements of the CAGE- model introduced earlier. The case company has existing networks in all these countries, the management team speaks the languages of the countries and many other already available resources can be used when entering these countries.

6.3 The business model

One of the reasons for using alliances is to gain access to other firms' resources which are valuable. Also, since most small companies cannot afford to compete on tangible resources, their only chance is to compete on the intangible resources, doing more with less. One way is through their networking skills and flexibility. The sponsor company should start looking for partners from manufacturers of Finnish outdoor products, fishing gear and other related products. The reputation of this kind of products is globally pretty good and some Finnish companies have already made an international success in these product areas. Also, as I have shown in the theoretical part, to gain competitive advantage the core resources must be available from inside the company. If they must be bought from outside, the cost will be too high and there is also the risk that the competitors have access to the same resources. In such case a small company will always lose because of its smaller amount of capital. This is one of the reasons why the right business model would be a joint venture instead of trying to buy the products from the manufacturers and then try to do the marketing abroad alone. The existing resources of the sponsor company just aren't enough for this kind of operation, and the building process will last too long.

Exploiting resources that are not valuable will only increase costs and decrease revenues. Such resources are actually weaknesses, as was mentioned in the theoretical part of this study. Since Company X has many resources, like its current customer-base, that are not valuable in the new business, a joint venture with the partner companies would be preferred. In this kind of cooperation only valuable resources would be brought inside the boundaries of the new firm. Also, the firm could continue using these resources within its current business, without any limitations brought by the new partners.

6.4 Implementation and suggestions for further study

This was a really interesting topic to study and there are many possibilities also to continue further. Below some suggestions, which kind of further studies could be useful to make from the related topics, but there are many other possibilities also. The world is changing so fast, that new markets and possibilities arise almost every day.

One interesting view would be to concentrate on the emerging markets and their special features. What kind of products and services could be offered and how? Especially the bottom of the pyramid as a target group would be really interesting and also challenging. Since these are the fastest growing markets and already the largest when measured by the number of population, this would be a really interesting topic.

Another possible topic could be the area of B to B products and services. It could be done in a similar way than this study was done, the difference would be in the criteria for selecting the target markets. Also an interesting topic and probably many possibilities for Finnish companies could be found.

Megacities could be one interesting topic: what products and services to offer, what special capabilities and resources are needed and what kind of marketing channels would be most efficient? Since the United States and the Euro-area were dropped from the final list in this study, they could also be a subject for some further studies.

In all the suggestions mentioned, the resource based view could be used as the theoretical framework, but many interesting topics could be found also in testing the resource based view and the VRIO- framework in areas that still have not been studied enough. This would be a more scientific and theoretical perspective.

Some of the recommendations made during this study have been implemented already:

- The sponsor company has made a deeper analysis of its resources using the Resource Based View and the VRIO-framework introduced in this study. They have also set themselves goals to gain some deeper knowledge about the possible markets abroad, and they are using their existing networks to help them.
- The search for the key partners is going on and some part of the funding for the new business is available, but not enough. One problem seems to be, that some of the small manufacturers are interested, but they also lack resources and are not willing to take big

risks in the economic situation of today. Therefore, the sponsor company has to find ways to minimize the risks for the possible partners before the new business can be started.

- The business model has been modified and a more detailed strategy is under work. One of the possible modifications is, that the sponsor company will start the marketing abroad through digital channels only, until there is more knowledge and some evidence that there is enough demand and the suggested model could be profitable for all the partners.

The outcomes of this study were found very helpful and the goal is to start the new business as soon as possible. The market researches and the finding the right partners will take some time, though. For Company X I would suggest the following path, not necessarily in the giving order:

Table 4: Implementation plan

	TASK	**TIMEFRAME**
1	Domestic partner negotiations	10/2016 – 2/2017
2	Search for external funding	10/2016 – 2/2017
3	Putting up the organization	3/2017 – 4/2017
4	Deeper market research	5/2017 – 6/2017
5	Target market partner negotiations	6/2017 – 9/2017
6	Starting to do business !	10/2017 -
7	Go back to one and develop the business	

6.5 Reflections and the main milestones during the study

The first idea for this study was introduced already in the beginning of last semester and after that the work went on as described below:

12/2015: The study plan was returned
01/2016: The study plan was accepted and the instructor named
01/2016: Search for material and reading
02/2016: Writing and reading, search for material
03/2016: Writing and reading, search for material
04/2016: Writing and reading, analysing the market data
05/2016: Returning version 1.0, making corrections
06/2016: Returning version 2.0, finalizing the sources and the chapters
07/2016: Summer holiday
08/2016: Summer holiday
09/2016: Returning version 3.0

The original plan was to return the thesis in the end of summer 2016, so the thesis got ready faster than planned. On the other hand, originally there was an option to do a survey for the potential export partners as part of this study, but it is better led for the sponsor company to do in the future.

All goals that were set for this study were achieved and the company was provided with a lot of new information, in form of theories, frameworks and information about different countries. This study can and will be used in the sponsor company as a starting paper when thinking further about the possible new business areas. Also, the theory part gives a lot of information how a company can and should use its resources to build competitive advantage in the business environment. As mentioned in the previous chapter, some parts are used already

For myself this was an excellent learning journey. In addition to the research methods themselves, I gained a lot of information about the different countries in the world and what kind of special characteristics there can be with some information about the trends going on. I learned about different internationalization frameworks and especially I took a very deep look at the resource based view: its development, the different side-paths of the view and also about the criticism against some of the characteristics of the resource based view.

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Appendices

Appendix 1: The 144 countries

Economy	Population 2014 total, World Bank	Rule of Law 2014 (World Bank)	Political Stability and Absence of Violence/Terrorism 2014 (World Bank)	Corruption perceptions index 2015 (Transparency International)	Documents to import 2014 (number), World Bank	Logistics performance index: overall 2014 (1=low, 5=high), World Bank	GNI per capita, Atlas method US$ (World Bank) 2014
Afghanistan	31 627 506	2,4	2,9	11	10	2,07	680
Albania	2 894 475	40,9	61,7	36	8	2,77	4 450
Algeria	38 934 334	25,5	10,2	36	9	2,65	5 490
Armenia	3 006 154	43,8	37,9	35	8	2,67	4 020
Australia	23 470 118	96,2	87,4	79	7	3,81	64 600
Austria	8 545 908	96,6	96,1	76	4	3,65	49 600
Azerbaijan	9 535 079	30,8	29,1	29	11	2,45	7 600
Bahrain	1 361 930	68,3	14,6	51	8	3,08	21 060
Bangladesh *	159 077 513	26,0	18,0	25	9	2,56	1 080
Belarus	9 470 000	22,6	51,9	32	10	2,64	7 340
Belgium	11 231 213	88,9	69,9	77	4	4,04	47 240
Benin	10 598 482	33,7	47,1	37	7	2,56	860
Bhutan	765 008	67,8	82,5	65	11	2,29	2 370
Bolivia	10 561 887	12,5	31,6	34	6	2,48	2 870
Bosnia and Herzegovina	3 817 554	48,6	43,7	38	8	2,75	4 840
Botswana	2 219 937	74,0	85,4	63	6	2,49	7 240
Brazil *	206 077 898	55,3	45,1	38	8	2,94	11 790
Bulgaria	7 223 938	55,8	50,0	41	5	3,16	7 620
Burkina Faso	17 589 198	35,1	19,4	38	12	2,64	700
Burundi	10 816 860	16,8	17,5	21	9	2,57	270
Cambodia	15 328 136	17,3	44,7	21	9	2,74	1 020
Cameroon	22 773 014	19,2	14,1	27	12	2,30	1 350
Canada	35 543 658	94,7	91,3	83	3	3,86	51 630
Central African Republic	4 804 316	1,4	0,5	24	17	2,36	320
Chad	13 587 053	10,1	8,3	22	11	2,53	980
Chile	17 762 647	88,0	63,1	70	5	3,26	14 910
China *	1 364 270 000	42,8	29,6	37	5	3,53	7 400
Colombia	47 791 393	42,3	10,7	37	6	2,64	7 970
Comoros	769 991	16,3	38,8	26	8	2,40	790
Congo, Rep.	4 504 962	13,0	33,5	23	10	2,08	2 720
Costa Rica	4 757 606	71,2	67,5	55	5	2,70	10 120
Côte d'Ivoire	22 157 107	30,3	12,6	32	13	2,76	1 450

Croatia	4 238 389	65,9	66,0	51	7	3,05	12 980
Cyprus	1 153 656	82,2	68,9	61	7	3,00	26 370
Czech Republic	10 525 347	84,6	82,0	56	6	3,49	18 350
Denmark	5 638 530	99,5	79,6	91	3	3,78	61 330
Dominican Republic	10 405 943	40,4	54,4	33	5	2,86	6 040
Ecuador	15 902 916	13,5	45,6	32	6	2,71	6 090
Egypt, Arab Rep.	89 579 670	31,3	7,8	36	10	2,97	3 210
El Salvador	6 107 706	35,6	40,3	39	7	2,96	3 920
Estonia	1 314 545	86,5	72,3	70	4	3,35	19 010
Ethiopia	96 958 732	38,9	9,7	33	11	2,59	550
Finland	5 461 512	100,0	95,6	90	5	3,62	48 440
France	66 217 509	88,5	59,2	70	2	3,85	42 950
Gabon	1 687 673	36,1	54,9	34	8	2,20	9 720
Gambia, The	1 928 201	29,8	41,7	28	6	2,25	460
Georgia	3 727 000	64,4	35,9	52	4	2,51	4 490
Germany	80 970 732	93,3	79,1	81	4	4,12	47 590
Ghana	26 786 598	59,1	40,8	47	7	2,63	1 590
Greece	10 869 637	67,3	46,6	46	6	3,20	22 810
Guatemala	16 015 494	14,4	24,3	28	6	2,80	3 430
Guinea	12 275 527	5,3	15,5	25	8	2,46	470
Guinea-Bissau	1 800 513	6,3	21,4	17	6	2,43	550
Guyana	763 893	31,7	39,8	29	7	2,46	3 940
Haiti	10 572 029	7,7	25,2	17	9	2,27	820
Honduras	7 961 680	14,9	28,6	31	6	2,61	2 270
Hungary	9 863 183	70,7	69,4	51	6	3,46	13 340
Iceland	327 386	90,9	93,2	79	4	3,39	46 350
India *	1 295 291 543	54,3	13,6	38	10	3,08	1 570
Indonesia *	254 454 778	41,8	31,1	36	8	3,08	3 630
Iran, Islamic Rep.	78 143 644	13,9	17,0	27	11	2,49	7 120
Iraq	34 812 326	5,8	2,4	16	10	2,30	6 530
Ireland	4 615 693	92,8	86,4	75	2	3,87	46 520
Israel	8 215 700	83,2	13,1	61	4	3,26	35 320
Italy	60 789 140	66,8	64,1	44	3	3,69	34 580
Jamaica	2 720 554	44,2	50,5	41	7	2,84	5 150
Japan *	127 131 800	89,4	84,5	75	5	3,91	42 000
Jordan	6 607 000	69,7	26,2	53	7	2,87	5 160
Kazakhstan	17 289 224	34,1	47,6	28	12	2,70	11 850
Kenya	44 863 583	37,5	8,7	25	9	2,81	1 290
Korea, Rep.	50 423 955	80,8	53,9	56	3	3,67	27 090
Kuwait	3 753 121	60,1	52,4	49	10	3,01	49 300
Kyrgyz Republic	5 835 500	15,9	19,9	28	11	2,21	1 250
Lao PDR	6 689 300	26,9	61,2	25	10	2,39	1 660
Latvia	1 993 782	77,9	65,0	55	5	3,40	15 250
Lebanon	4 546 774	24,0	7,3	28	7	2,73	10 030
Lesotho	2 109 197	47,6	34,0	44	7	2,37	1 330
Liberia	4 396 554	20,7	24,8	37	12	2,62	370

Libya	6 258 984	2,9	4,4	16	9	2,50	7 820
Lithuania	2 932 367	78,4	72,8	61	5	3,18	15 410
Luxembourg	556 319	95,7	98,1	81	4	3,95	75 960
Madagascar	23 571 713	25,0	26,7	28	9	2,38	440
Malawi	16 695 253	45,7	51,5	31	12	2,81	250
Malaysia	29 901 997	75,0	58,7	50	4	3,59	11 120
Mali	17 086 022	29,3	6,8	35	11	2,50	650
Malta	427 364	86,1	88,8	56	7	3,11	21 000
Mauritania	3 969 625	22,1	25,7	31	8	2,23	1 270
Mauritius	1 260 934	78,8	71,4	53	5	2,51	9 630
Mexico *	125 385 833	38,0	20,9	35	4	3,13	9 870
Moldova	3 556 397	46,6	42,2	33	11	2,65	2 560
Mongolia	2 909 871	41,3	77,2	39	12	2,36	4 280
Morocco	33 921 203	56,3	30,1	36	6	3,03	3 070
Mozambique	27 216 276	21,6	32,0	31	9	2,23	600
Namibia	2 402 858	63,0	66,5	53	7	2,66	5 630
Nepal	28 174 724	28,4	22,3	27	11	2,59	730
Netherlands	16 865 008	97,1	85,9	87	4	4,05	51 860
New Zealand	4 509 700	98,6	99,0	88	6	3,64	41 070
Nicaragua	6 013 913	28,8	44,2	27	5	2,65	1 870
Niger	19 113 728	27,4	9,2	34	10	2,39	410
Nigeria *	177 475 986	11,5	5,3	26	13	2,81	2 970
Norway	5 136 886	99,0	90,3	87	5	3,96	103 620
Oman	4 236 057	73,1	68,0	45	8	3,00	16 870
Pakistan *	185 044 286	23,6	3,4	30	8	2,83	1 400
Panama	3 867 535	54,8	51,0	39	3	3,19	11 130
Papua New Guinea	7 463 577	21,2	33,0	25	9	2,43	2 240
Paraguay	6 552 518	27,9	38,3	27	9	2,78	4 400
Peru	30 973 148	33,2	27,7	36	7	2,84	6 360
Philippines	99 138 690	43,3	22,8	35	7	3,00	3 500
Poland	38 011 735	77,4	76,7	62	4	3,49	13 680
Portugal	10 401 062	84,1	73,3	63	4	3,56	21 360
Qatar	2 172 065	81,3	83,0	71	7	3,52	92 200
Romania	19 904 360	63,5	49,5	46	6	3,26	9 520
Russian Federation *	143 819 569	26,4	18,4	29	10	2,69	13 220
Rwanda	11 341 544	61,1	42,7	54	9	2,76	700
São Tomé and Príncipe	186 342	19,7	52,9	42	6	2,73	1 670
Saudi Arabia	30 886 545	65,4	35,4	52	8	3,15	25 140
Senegal	14 672 557	53,8	41,3	44	6	2,62	1 050
Serbia	7 129 366	50,5	53,4	40	7	2,96	5 820
Sierra Leone	6 315 627	17,8	36,9	29	8	2,08	700
Singapore	5 469 724	95,2	92,2	85	3	4,00	55 150
Slovak Republic	5 418 649	69,2	85,0	51	5	3,25	17 750
Slovenia	2 061 980	80,3	73,8	60	7	3,38	23 580
South Africa	54 001 953	63,9	43,2	44	6	3,43	6 800
Spain	46 476 032	79,8	58,3	58	4	3,72	29 390

Sri Lanka	20 771 000	51,9	35,0	37	7	2,70	3 440
Sudan	39 350 274	9,6	3,9	12	7	2,16	1 710
Sweden	9 696 110	97,6	86,9	89	3	3,96	61 570
Switzerland	8 188 102	98,1	93,7	86	4	3,84	84 720
Tajikistan	8 295 840	15,4	23,3	26	12	2,53	1 080
Tanzania	51 822 621	39,4	27,2	30	11	2,33	920
Thailand	67 725 979	51,4	16,5	38	5	3,43	5 780
Togo	7 115 163	18,8	39,3	32	7	2,32	570
Tunisia	10 996 600	53,4	15,0	38	6	2,55	4 230
Turkey	75 932 348	59,6	12,1	42	8	3,50	10 830
Ukraine	45 362 900	23,1	6,3	27	9	2,98	3 560
United Arab Emirates	9 086 139	76,4	75,7	70	5	3,54	44 600
United Kingdom	64 559 135	94,2	60,7	81	4	4,01	43 390
United States *	318 857 056	89,9	67,0	76	5	3,92	55 230
Uruguay	3 419 516	76,0	83,5	74	7	2,68	16 350
Uzbekistan	30 757 700	12,0	36,4	19	13	2,39	2 090
Venezuela, RB	30 693 827	0,5	18,9	17	9	2,81	12 500
Yemen, Rep.	26 183 676	8,2	1,5	18	9	2,18	1 300
Zambia	15 721 343	47,1	55,3	38	8	2,46	1 680
Zimbabwe	15 245 855	4,3	23,8	21	8	2,34	840

Appendix 2: The definitions of some indicators (World Bank)

Indicator Name	Population, total (SP.POP.TOTL)
Long definition	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.
Source	(1) United Nations Population Division. World Population Prospects, (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Report (various years), (5) U.S. Census Bureau: International Database, and (6) Secretariat of the Pacific Community: Statistics and Demography Programme.
Topic	Health: Population: Structure
Periodicity	Annual

Indicator Name	GNI per capita, Atlas method (current US$) (NY.GNP.PCAP.CD)
Long definition	GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions. To smooth fluctuations in prices and exchange rates, a special Atlas method of conversion is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country, and through 2000, the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). From 2001, these countries include the Euro area, Japan, the United Kingdom, and the United States.
Source	World Bank national accounts data, and OECD National Accounts data files.
Topic	Economic Policy & Debt: National accounts: Atlas GNI & GNI per capita
Periodicity	Annual
Aggregation method	Weighted average
Statistical concept and methodology	The World Bank uses Atlas method GNI per capita in U.S. dollars to classify countries for analytical purposes and to determine borrowing eligibility. For more information, see the metadata for Atlas method GNI in current U.S. dollars (NY.GNP.ATLS.CD) and total population (SP.POP.TOTL).
License Type	Open

Indicator Name	Rule of Law: Percentile Rank (RL.PER.RNK)
Long definition	Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.
Source	Detailed documentation of the WGI, interactive tools for exploring the data, and full access to the underlying source data available at www.govindicators.org.The WGI are produced by Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank Development Research Group). Please cite Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010). "The Worldwide Governance Indicators: Methodology and Analytical Issues". World Bank Policy Research Working Paper No. 5430 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130). The WGI do not reflect the official views of the Natural Resource Governance Institute, the Brookings Institution, the World Bank, its Executive Directors, or the countries they represent.
Periodicity	Annual

Indicator Name	Political Stability and Absence of Violence/Terrorism: Percentile Rank (PV.PER.RNK)
Long definition	Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.

Source	Detailed documentation of the WGI, interactive tools for exploring the data, and full access to the underlying source data available at www.govindicators.org.The WGI are produced by Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank Development Research Group). Please cite Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010). "The Worldwide Governance Indicators: Methodology and Analytical Issues". World Bank Policy Research Working Paper No. 5430 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130). The WGI do not reflect the official views of the Natural Resource Governance Institute, the Brookings Institution, the World Bank, its Executive Directors, or the countries they represent.
Periodicity	Annual