

CHALLENGES OF
INTERNATIONALIZATION:

Implementing Business Operations across Cultural Borders

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Challenges of Internationalization: Implementing Business Operations across
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ABSTRACT

This thesis is about the challenges of internationalization for a company and the object is to discuss how such challenges are managed. The whole process of internationalization is described and special attention is given to multicultural management. Focus is also on small and medium sized companies who are aiming towards international markets. This thesis is a qualitative research based on general literature and material obtained from the case company Greenenvironment.

Internationalization of a company can be seen as a process that ables the company to operate in foreign markets besides the domestic markets. The first challenge for any company on the path of internationalization is analyzation. The company needs to analyse the attractiveness of the target market and the company itself. The attractiveness of a market depends on the size of the market, growth potential of the market, competition and on the level of operational risk. The political and economical situation of the target market affects the operational risk. Company analyses are needed to find out the weaknesses and strengths of the company, opportunities and threats that the company possess in the target market and also competitive advantages, which play a major part in forming entry and positioning strategies. These strategies have to be thoroughly thought because the success of the whole internationalization process depends on them. The implementation of the business operations in the new market can be seen as the next challenge. The correct entry mode and well thought-out positioning strategy helps in succeeding in this challenge.

Internationalization often means that the whole organisation is in demand of structural change. Change management and building an organisation that suits the new goals and operations the best may be challenging, especially when the new organisation is multicultural.

Basically these challenges are the same for small and medium sized companies as for the big multinationals, but in practice, there are huge differences. In many cases bigger companies are in a better position when it comes to financing internationalization and size also gives the opportunity to benefit from the economies of scale.. Smaller companies can be more flexible in meeting the demands of the foreign target market, and thanks to development of information technology and logistics, it can be fairly easy for a smaller company to engage in international trade.

Key words: internationalization, multi-cultural organisations, biogas

Kansainvälistymisen haasteet: liiketoimintojen implementointi yli kulttuuristen rajojen

Kansainvälinen kauppa
Opinnäytetyö

53 sivua

TIIVISTELMÄ

Tämä opinnäytetyö käsittelee yrityksen kansainvälistymisen haasteita ja työn tavoitteena on selvittää kuinka näistä haasteista voidaan selvitä. Koko yrityksen kansainvälistymisprosessi on käsitelty tässä opinnäytetyössä ja erityistä huomioita on annettu monikulttuurisen organisaation johtamiselle. Työssä käsitellään myös pienten- ja keskisuurten yritysten kansainvälistymisen erityispiirteitä. Tämä opinnäytetyö on kvalitatiivinen tutkimus, joka pohjautuu kirjallisuuteen ja case-yritys Greenenvironmentilta saatuun materiaaliin.

Yrityksen kansainvälistyminen voidaan nähdä prosessina, joka mahdollistaa yrityksen toiminnan useilla eri markkinoilla, kotimarkkinoiden lisäksi. Ensimmäinen haaste yrityksen kansainvälistymisessä on analysoinnit. Kohdemarkkinoiden kiinnostavuus ja yritys itsessään on analysoitava. Kohdemarkkinoiden kiinnostavuus riippuu markkinoiden koosta, kasvuennusteesta, kilpailusta ja toimintaan vaikuttavien riskien tasosta. Yritysanalyysin avulla selviää yrityksen vahvuudet ja heikkoudet, sekä mahdollisuudet ja uhat joita yrityksellä on kohde markkinoilla. Myös mahdolliset kilpailuedut tulee selvittää. Kilpailuedut voivat olla tärkeässä osassa markkinoille sisääntulo- ja positiointistrategiaa suunniteltaessa. Näiden suunnitelmien tulee olla loppuun asti ajateltuja, koska koko kansainvälistymisprosessin menestys riippuu näistä. Liiketoimintojen implementointi kohde markkinoille voidaan nähdä seuraavana haasteena. Juuri hyvin suunnitellut sisääntulo- ja positiointistrategia auttavat tämän vaiheen onnistumisessa.

Kansainvälistyminen aiheuttaa usein koko organisaatiolle on rakenteellisia muutoksia. Muutoksen hallinta ja oikeanlaisen organisaation rakentaminen uusille tavoitteille ja toiminnoille sopivaksi voi olla haastavaa, etenkin kun uusi organisaatio on moni kulttuurinen.

Periaatteessa nämä haasteet ovat samat niin pienille ja keskisuurille, kuin isoille kansainvälisille yrityksille, mutta käytännössä erot ovat suuret. Monissa tapauksissa suurien yhtiöiden on helpompi rahoittaa kansainvälisiä toimintojaan ja myös suuruuden tuomat edut auttavat. Joissain tapauksissa pienemmät yritykset voivat olla isoja joustavampia kohdemarkkinoiden tarpeiden kohtaamisessa ja nykyisen informaatio-tekniikan ja logistiikan kehityksen ansiosta, saattaa kansainvälisiin toimintojen järjestäminen olla suhteellisen helppoa myös pienemmille yrityksille.

Avainsanat: kansainvälistyminen, monikulttuurinen organisaatio, biokaasu

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1. INTRODUCTION

Internationalization is something that most companies must face nowadays at some point, at some level. Global mergers, acquisitions and expanding markets are only some of the situations a company has to be able to adjust its operations from local level to international level to be successful. This is why I want to study the possible challenges that this process may cause. Mainly I will concentrate on strategic decision making, concerning different options of internationalization processes and the managerial challenges of multicultural organisations. Also the economical, financial and political risks as well as challenges of internationalization are covered on a more general level, but not as deeply as the above mentioned subjects. In the theoretical part of the study I will go through the internationalization process of case company, Greenenvironment Oy.

1.1 Objectives of the Study

The main objective of this thesis is to study the challenges that occur when a company begins internationalization and to examine the difficulties in implementing business operations across cultural boundaries. Especially, I am examining the internationalization challenges of a small or medium sized (SME) companies. I also aim to explain the strategic decisions that need to be carried out by the company in order to be able to successfully go through the process of internationalization. To be able to reach the above mentioned objectives I will describe the internationalization process, the challenges and risks of this process, and especially, concentrate on the cultural aspect of implementing a business operations from one country to another, or in other words, from one business culture/environment to another.

In this study I will answer the following key questions: what is internationalization? How can internationalization of a company be managed? What are the possible ways for a company to enter foreign markets? What kind of cultural or managerial challenges can be expected when facing internationalization? How can these challenges of the internationalization process be managed?

1.2 Research Methods

This is a qualitative research. The theoretical part of this thesis is mainly based on literature relating to internationalization and cultural management. The empirical part of the research is based on material collected from Greenenvironment Oy/GmbH and from semi-structured interviews of some key persons at Greenenvironment Oy/GmbH. These people have been managing the internationalization process at the company.

1.3 Structure of the Thesis

The first chapter is the introduction. In the second chapter I will study and define the term internationalization. What it means in general and what it means when discussing about the internationalization of a company. In the third chapter I will explain the planning as well as the different phases of internationalization process and find ways to manage this process. The fourth chapter is about different entry modes, the benefits and drawbacks that these entry modes possess. In the fifth chapter I will discuss about cultural management. I will define organisational culture and provide some tools for analysing cultures. In this chapter I will also explain how to avoid the greatest errors in managing multi-cultural organisations. Cultural managing examples will be drawn from Finnish and German cultures, because these are the cultural backgrounds for the case company Greenenvironment. From chapter six to eight the case company and the branch it is involved in will be introduced. Chapter six is mainly about German energy policy and the business environment of renewable energy sources in Germany. Greenenvironment's

business operations are tightly tied to the energy policy of Germany and this is why it is important to understand the basics of this policy. Chapter seven is the introduction of the company itself; where it has come from and where it is today. In chapter eight I will explain the internationalization process of Greenenvironment, what has been the reason for the internationalization, how it has been managed and what kinds of challenges have been faced. The conclusion is covered in chapter nine. In this chapter I will bring together the theoretical part of the study to the empirical part.

2. INTERNATIONALIZATION

In this chapter I will explain and discuss the term internationalization itself because the term has been used in a wide range of situations lately. After this chapter it should be clear what I mean with internationalization in this thesis.

The terms internationalization and globalization are often used when describing the change that have taken place in global political, social and economical environments in the last few decades. Technological development has led us in to a situation where the world has become a much smaller place. Internet and fast telephone connections across the globe able us to have a direct and quick contact with millions and millions of people all around the world, all the time. So, we can say that information is moving almost light speed. Also, people are moving more often and faster around the globe. This development combined with the rise of new economical powers, like for example, China and India, has led us to a new global situation where information, people, goods, services, work and investments are moving quicker than ever before to where it has the best potential to be successful and profitable. (De Búrca 2004, 557)

This development creates new opportunities, but also challenges and risks for businesses, whether they are only domestic, one market businesses or multi-national businesses. In this thesis I determine internationalization to be a business process that allows a company to grow from a business targeted only to domestic markets to a business also targeting new foreign markets.

“The basic definition of international marketing is simple: international marketing is the marketing of goods, services and information across political boundaries.” (Albaum, Strandkov & Duerr, 2002, 4)

This explanation of international marketing describes well the goal of internationalization process as I see it. Before a company is able to market its goods, services and information globally, or as well, on only one new foreign market there are lots of small and bigger steps to be taken.

“Internationalization may be thought of as (1) a process, (2) an end result, and/or (3) a way of thinking. A firm becomes increasingly internationalized as it becomes more involved in and committed to serving markets outside of its home country. This may be a planned and orderly process, or arise from perceived new opportunities or threats.” (Albaum, Strandskov & Duerr, 2002, 4)

In a nutshell; internationalization is a process that ables a company to do business in foreign markets.

3. INTERNATIONALIZATION PROCESS

One of the biggest challenges of the internationalization process is the planning and decision making concerning the process. This is the basis for the whole process and therefore it is utmost critical for the success of the company's internationalization. The planning and decision making concerning internationalization, demands both human resources and financial resources from the company. Even with adequate resources it may be difficult to start from scratch with the planning. In this chapter I will give some tools for overcoming this challenge.

The planning and decision making in the internationalization process include both strategic and operational issues. Strategic issues are, for example, the choice of the target market, the branch, target customers (segments), entry modes and timing of the entry. Operational decisions concern the operations inside the target market, like for example, the product positioning, implementation of the business model, pricing, promotion and choosing the distribution channel. (Albaum, Strandskov & Duerr, 2002, 17)

To be able to plan a successful strategy for internationalization the company has to know the current situation of the company itself as well as the situation in the target market. This can be done by carefully analysing the company itself and the target market.

3.1 Company Analyses

The company analyses include the evaluation of the company's current competitive position by recognizing the strengths and weaknesses of the company and the opportunities and threats offered by the target market. Also the analysis of the product itself is a part of company analyses. Product policy plays a major part in forming the marketing strategy, and to form a working product policy, the product must be analysed. Basically this means the potential for standardisation and competitive advantages of the product and the company. Also the analyses of

the human resources, company size and organisation are needed when forming a complete picture of the company's competitiveness.

The competitive position can be analysed by evaluating the relative strengths and weaknesses of the company and also the opportunities and threats. Generally this is known as the SWOT analysis. With SWOT analysis the managers are able to form a clear picture of the capabilities and resources of the company. This is crucial for the planning of internationalization. (Grafers & Schlich 2006, 26)

One way of finding the weaknesses and strengths of a company is through benchmarking. This means that several potential customers are interviewed or observed and the information obtained is used to rank the competitors according to the customers demands and wishes and then comparing your own company to these results. The most valuable source of information for the weaknesses and strengths is the customers themselves, but also internal or external databases can be used. The opportunities and threats arise from the target market. For example, the growth potential of the target market or membership of free trade agreement can be seen as opportunities for the exporter. On the other hand, things like restrictive import regulations or different kinds of market-entry barriers represent possible threats for the exporter. (Grafers & Schlich 2006, 26)

To determine the competitiveness in the target market the company must evaluate the whole marketing strategy to find out if it is suitable to achieving success. Critical success factors in the target market can be recognised by using the Delphi method. Experts are recruited from industries, universities, consulting firms, etc, and they are given a specified topic to give their estimation about. These experts are anonymous. The goal of the method is to form a consensus about the topic from these estimations. Topics may be, for example, the political stability of the target country or financial risk for the investment. (Grafers & Schlich 2006, 26)

Product Policy

To evaluate the success potential of the product in the target market and to form a suitable product policy, the company needs to examine the uniqueness or important features of the product and how these features meet the demands of the customers. The portfolio model is one way of evaluating the potential of different markets in strategic business units (SBU). SBUs can be the product, the service, the customers, etc. Two dimensions that can be used in rating the SBU results are the potential for standardisation and relative competitive advantages. (Grafers & Schlich 2006, 27-28)

The potential for standardisation means how well the product meets the demands of the target market; if it does not meet the demands the product needs to be modified. The requirements and the capabilities of the end-users are the main causes for the adaptation of the product or service, but also the cultural factors, legal norms, technical norms, socio-demographic structure and behaviour of the target market may initiate the need to modify the product or service. (De Búrca 2004, 267)

If the products or services that the company is providing are seen as unique or superior and beneficiary by the customers, when compared to competitor's products or services, it is said that the company possesses a product-related relative competitive advantage. This competitive advantage can help entry into the new markets by offering something more or something different to the customers than the existing competitors. This is also known as differentiation strategy, introduced by M. Porter. The relative competitive advantage can be measured by market share or according to some qualitative factors such as customer satisfaction. Also some company-related features, like the size of the company, can be seen as a relative competitive advantage. This is mainly due to the economies of scale. Big companies can out perform smaller ones with cost efficiency. Also human resources, special skills, superior logistics etc. are company-related competitive advantages. The common issue for all these features is that they some how make the product or the company stand out from the competitors. The relative competitive advantages can be formed into competitive

strategies. Company-related advantages can be the basis for lower cost or cost-leadership strategy and product related advantages for differentiation strategy. (Grafers & Schlich 2006, 38; Porter 1985, 24, 83)

Company Size and Organisation

Generally, larger companies have better internal resources. But, in practice, this does not necessarily mean that they would do better in international operations than small and medium sized companies. Of course, the level of economies of scale is higher and risk management is easier for bigger companies. However, small and medium sized (SME) companies may be more flexible in benefiting on opportunities in foreign markets. Many of the SMEs nowadays embark into foreign markets immediately from the start-up, especially in the high-technology sector or companies with new and innovative technology products. Global trends like free trade agreements and the development of the new information technologies decrease the importance of the company size in internationalization. In many cases it is as easy for the smaller companies as it is for the larger companies to gain an access to the resources and knowledge of foreign markets. Also, the small size of domestic markets can be the motivating factor for SMEs to start seeking opportunities from international markets, especially in companies with niche markets. (De Búrca 2004, 225)

Also the structure of the organisation is crucial for the success of international business operations. The organisation needs to be structured according to the business process, so that it is suitable for the process and not the other way around. Flexibility and encouragement of self-learning for the employees are features that the organisation needs to have to be able to operate in many different kinds of markets. Process organisations are much more suitable for international companies than for hierarchical organisations. One popular organisation model is the matrix organisation, "...where the persons and departments are assigned both to functions (product design, production logistics, administration etc.) and to geographical areas..."(Grafers & Schlich 2006, 49).

3.2 Selection of Target Markets and Market Analyses

The selection of target markets begins from data collection concerning different possible target markets. The first level of the information is basic data about the country; political, economical, socio-cultural information, then follows information about the sector and potential customers. The data may be collected by field or desk research. Field research means information collection by questioning, observation, panels and experiments. Field research often requires larger resources from the researcher and therefore the desk research is in many cases the only possibility for SMEs. Desk research means that data is collected from public institutes, chambers of commerce, multinational institutions, market research companies, media and publishing companies, etc. Good sources are, for example, national foreign ministry or any related institution, Finpro in Finland and BfAI in Germany. Also international institutions like IMF (International Monetary Fund) and World Bank publish statistics annually. OECD publishes general country surveys, country risk classifications and many other statistics. (Grafers & Schlich 2006, 62.)

The data gathered is then used with the company's SWOT analysis to evaluate and to rank the possible target markets in the dimensions of market attractiveness and risks and entry barriers.

The objectives of market attractiveness analyses are to evaluate the target market's growth potential, current market potential, sales potential, intensity of the competition and price level. The market potential means the maximum quantity of possible sale units in a specified period of time in the target market. To find out the growth potential one needs to obtain the information over market potential and also the number of units sold already, in other words, the market volume. The difference between these numbers shows the growth potential. The bigger the gap is between the potential sales and the current market volume, easier it is for the new player to enter the markets as there is still room for new products in the sector. Sales potential is the possible sales of the company in the target market. This can be determined from the share of the market potential that one company can cover. To estimate future of sales potential, there are several

mathematical-statistical methods which can be applied. Trend extrapolation and regression analyses are one of the most popular ones.

The intensity of competition not only means the number of rivals, but also the market shares and positioning of the competing companies and products as well. A high market share of competitors gives them a competitive advantage as they are already experienced in the market and can benefit from the scales of economy. The market price level is a very important indicator of the market attractiveness. If the customers are willing to offer high prices for the products there is a good chance for the exporter to position their products into premium brands. The low price acceptance of the customers indicates that all means of cost-cutting need to be used to be able to go under the prices of the competitors. (Grafers & Schlich 2006, 53-54, 65-66)

Market Risks and Entry Barriers

Market risks can be economical, political or operational risks. Unstable economical or political situation in the target market increase risks and decrease the attractiveness of this markets. Economical situations are always dependent on the global trends, as well as on the unemployment rate, GDP (Gross National Product) and other economical indicators can be used for consideration of economical risk. Political instability may be due to the degree of social unrest, frequency of changes in regime, or the level of different religious, ethnical and linguistic groups of the nation, and the relationships between these groups. To estimate the level of such risks the company needs the data concerning the target markets political and socio-cultural situations collected earlier. (De Búrca 2004, 109; Grafers & Schlich 2006, 66)

Especially the OECD risk classification is interesting when evaluating these risks. Different kinds of tariffs and non-tariff trade barriers form market entry barriers. Basically these barriers have a political background and they are used to protect the market from new rivals which could harm domestic companies. Tariffs are usually customs and duties and these are used to increase the cost of foreign

products in the markets to give domestic companies a pricing advantage. Quotas, import embargos and technical norms and standards can be used as non-tariff entry barriers. (Grafers & Schlich 2006, 66)

After all this data is collected from different markets, these markets are positioned into a matrix where one dimension is the market attractiveness and one is for the risk and entry barriers. From this matrix it is possible to find the most attractive possibilities and the most unattractive. Then, the most attractive markets may be chosen and put under further investigations, or, just one market maybe chosen which will then be the target market. When the decision of the target market is made, then begins the planning of entry mode and other marketing strategies planning. (Grafers & Schlich 2006, 67)

3.3 Product Positioning

The product positioning strategy is very crucial for the success of the product in a new market. The positioning strategy is a communications strategy which aims to form a certain image or a brand of the product in the customers' minds. The benefits of the product and other product related attributes that the product offers are positioned against the ones of the rivalling products in the minds of customers. This means that the product itself is seen as a collection of features which offer the customer more than just the basic function that the product is for. (Albaum, Strandskov & Duerr, 2002, 398)

For a successful positioning strategy the company needs to define the customer segment it is targeting. Then the desired product attributes of this particular segment needs to be recognised and the product needs to match these desires. When these attributes are known the company is able to design the product concept to match the customers demands as well as possible. Positioning concerns the whole product concept; product core (the basic function of the product), the package and auxiliary services. (Albaum, Strandskov & Duerr, 2002, 398)

3.4 Financing Internationalization

The challenges concerning the financing of internationalization, depends mainly on the company's resources. Big multi-nationals are, of course, in totally different positions than the SMEs, when trying to finance internationalization. For a SME, the negotiations for export investments and supports may demand quite a lot of hard work and nerves. (Malkamäki, 2007)

The demand for financing of internationalization depends on the entry mode and on the level of commitment to internationalization, meaning, how big part of the company's turnover and profit is made in foreign markets. If the commitment is high, and a subsidiary or other direct investment is the case, then the demand of external financing may be high. On the other hand, if the company's international operations mainly involve direct or indirect exporting, it might only need financing services for single trade deals, like letter of credit or draft.

Banks and different kinds of financing institutions offer, nowadays, a wide range of financing services for companies having different kinds of demands, from financing single trade deals to comprehensive solutions to trade or investment needs. These comprehensive solutions may include combining bank loans and subsidized funds from governmental institutions or international leasing companies or other non-bank financing institutions. Also insurances for political and economic risks are available. Finnvera, which is the official Export Credit Agency of Finland, offers export loans and deposits for SME's or companies that are in the beginning phases of their internationalization. They also have a large data base on different markets and lots of experience on financing international operations. (Shapiro 1999, 400; Finnvera, 2008)

3.5 Managing Internationalization Process

As we have already seen the internationalization process is very complex - first to discover the most attractive target market, then, to form a successful marketing strategy with which to enter this market, and also, to form a well working organisation which supports the marketing strategy. The amount of decisions to be made and activities to be executed are enormous.

Following are some business activities that are crucial for the internationalization process. These are activities that must be carried out with great deal of care and focus to improve the company's possibilities to be successful in different markets. The product, marketing, and company itself, must be modified and adjusted. Some of the issues on the following list have already been mentioned earlier in this thesis and this list works as a summary of the most important issues:

1. the analyses of the company, as well as the analyses of the markets and potential markets
2. the positioning, or in other words, the planning and development of products and services and the features of these in a way that they meet the needs and wishes of the costumers, clearly identifying the product from the rivals
3. the selection of suitable distribution channels that provide the services or conveniences demanded by customers
4. the promotion of products and services which include advertising and personnel selling should be planned and executed in different markets with emphasis on the cultural differences and distinctions and promotion should inform and educate customers about the company's products and services, or persuade customers to try new, improved, or different ways of satisfying their needs and wishes
5. the price setting should be made so that it would reflect both a reasonable value (or utility) of products or services to the customers, as well as satisfactory profit or return of investment for the company
6. also the technical and non-technical support given to the customers should be adjusted to meet the needs of this particular market, the support before

and after sales ensure customer satisfaction, and helps the possible future sales which are necessary for the company's success. (Albaum, Strandskov & Duerr, 2002, 4)

The success in the above mentioned activities is crucial for the company to survive in a new foreign market. This means that lot of effort should be made to properly plan and execute such activities. Planning, researching and development of knowledge are one of the first challenges that a company encounters in the internationalization process.

Internationalization also usually means big changes in the structure of the company's organisation. Especially in the case of SMEs with a small organisation, such changes may be enormous. New organisational levels and branches are introduced to handle the new international operations. Of course, this can be also done by reforming the old organisation. However, in many cases, it is necessary to build up the whole organisational framework again.

In all cases the internationalisation process is a huge change for the company. The change itself is a great challenge. There are different ways of coping and managing organisational change, and, especially in the case of internationalization, it is very important that the change is well managed.

Here is a list of some simple tips for global managers to help in change management:

1. everyone concerned about the change should be included in the planning of the change
2. words and actions related to the change should match each other, or in other words, what is said should also be done
3. time frames of the change should be realistic, neither too long nor short
4. budget and resources should be sufficient
5. overdependence on external specialists should be avoided
6. communication and flow of information should be gapless between top, middle and lower levels of the system

7. old organisational structures may be incapable of handling new ways of working and they should not be forced to change
 8. problems connected with change should be handled individually without one-model-fits-all solutions
 9. identify personnel who are capable of diagnosing the need for change
 10. pressures from both external and internal sources of the system should be capitalized for the change
 11. right timing of individuals or institutions are ready for change should be waited for and used
 12. leadership to effect the change should be found in all levels of the organisation
 13. promote collaborative efforts between line and staff in planning and implementing the change.
 14. strategic risks should be taken to make sure that necessary changes will be made
 15. a realistic, long-term perspective related to the objectives of the change should be maintained
 16. data should be collected continuously to support the change and evaluate it
 17. measurable objectives and targets related to the change should be set and these objectives and targets should be both tangible and immediate.
- (Harris & Moran, 1996, 77-78)

Internationalization is a process that changes the whole structure of a company. The difficulties concerning the management of this change are resource management, cultural management and environment management. To overcome all the difficulties the company is in demand of good change leadership and management.

4. ENTRY MODES

As mentioned earlier, there are numerous ways to enter new foreign markets. For the success in the target market it is important to have the right entry mode. It depends on the resources and the goals set, which entry mode is right for which company. One mode may be profitable for one company, but not for another. In this chapter I will go through all the basic entry modes and discuss the good and bad aspects of these different modes. I will also try to identify the opportunities and threats that these entry modes possess.

4.1 Exporting

Most of the companies begin their international operations with exporting. Exporting may be considered indirect or direct exporting. In many cases, as the company has gained more experience by exporting, it switches to another more demanding form of serving foreign market.

Indirect Exporting

Indirect exporting is the easiest, or at least it demands less effort from a company, when entering a foreign market, because most of the foreign businesses risks are avoided by letting a third party take care of them. The third party takes care of sales canvassing and order processing. The basic form of indirect exporting is that domestic based exporters buy the products or services from the producer and then sells them in foreign markets. It is also possible for the producer to use domestic agencies for exporting. These two forms of exporting are also referred to as cooperative exporting. A third possible form of indirect exporting is called piggybacking. This means that small and inexperienced exporters use the capabilities and facilities of a well experienced exporter to enter international markets. With indirect exporting as an entry mode, the company does not have to have such high knowledge of exporting procedures or about the target markets, as it can count on the experiences and contacts of the third party. But, of course, as

the risks are minimized so are the possible profits. The middleman in the domestic markets will take part of the profit made. This also means that the company will not get the valuable knowledge of internationalization and foreign markets. (De Búrca 2004, 236; Grafers & Schlich 2006, 109)

Direct Exporting

Direct exporting means that the exporting company has its own export capacity or it uses intermediates in the target market. This way the exporting company has a direct channel to the customers in the target market. The intermediates in the target market can be agents or distributors. The difference between agents and distributors is that agents operate on commission basis and distributors sell the products in their own name. (Grafers & Schlich 2006, 110)

It should not be forgotten that direct exporting often generates costs that are not any lower than with indirect export. The demand of export knowledge and resources increase when compared to indirect exporting, but so does the control over the export operations and opportunity to affect the strategy of market development. Direct exporting often leads to establishment of consignment stocks and representative offices and branches in the foreign markets. Direct exporting is a dominant form of exporting for many SMEs. (De Búrca 2004, 237; Grafers & Schlich 2006, 110)

4.2 Cooperative Entry Modes

“Cooperative forms of market entry are based on contractual relationships with partners in the target market” (Grafers & Schlich 2006, 109)

In this subchapter the different forms of cooperative market entry modes are analyzed. The following modes are included: licensing, franchising, contract manufacturing and strategic alliances.

Licensing

Licensing means a contract between two companies, licensor and licensee. In this contract these two parties agree that the licensor will offer the licensee the right to use the intellectual property rights or knowledge of the licensor against a payment called royalty fee. These intellectual properties include technical innovations, brands, corporate image, etc. The benefits for the licensor include the chance for a rapid market entry with limited deployment of capital, a comparatively low risk, and the possibility to navigate around import barriers, if necessary (Grafers & Schlich, 2006, p. 110). The problems of licensing are control issues. The licensor will not have the control over marketing operations or perhaps even over quality issues. This may result in a bad effect to the licensors company image and brands. There is also a possibility that the licensor is creating its own competitor if the licensee continues the production after the contract expires. These issues can be managed to a certain limit when forming the contract, but even with detailed contract clauses there is a possibility of losing control over licensee. (De Búrca 2004, 238)

Franchising

Franchising means that the franchisor, against payment of royalty and commission, passes on his marketing conception to a franchisee in the target market. As the licensing mostly concerns marketing of products, franchising is seen as a more useful form of entry in service marketing. When considering franchising as an entry mode, the marketing concept must be very detailed, thoroughly thought and, in the best case proved to be working and successful. Also, establishment of performance standards and monitoring and controlling mechanisms are most advisable. Franchising may backfire as this form of entering foreign markets is not really flexible. It is not easy, or it might be even possible, in some cases, to adjust the fixed marketing concept to meet the various demands of the target market. (De Búrca 2004, 238; Grafers & Schlich 2006, 111)

“The distinguishing features of the franchise are that it gives the holder (franchisee) the right to carry on certain manufacturing process by which the product is prepared for the market, it delegates to the holder the right to use brand name and trademark of the manufacturer’s product for an unlimited period under stated conditions, and it is designed to be long-term arrangement.” (Albaum, Strandskov & Duerr, 2002, 303)

Contract Manufacturing

Contract manufacturing means that the exporter makes a contract with a company, in the target market with which they agree that the company in the target market is allowed to produce parts of or the whole product. The know-how concerning the productions and product processing is made available for the contract manufacturer by the exporter. Usually contract manufacturing contracts do not include marketing activities and these are still carried out by the exporting company. When there are high entry barriers or some legal or political obstructions for establishing own manufacturing operations in target markets, then this form of entry may be most suitable. (De Búrca 2004, 240; Grafers & Schlich 2006, 111)

Strategic Alliances

Joint ventures, where two or more companies form a new company together for new markets in order to obtain the benefits of all the forming companies’ capabilities and resources to be successful in the new target market, are one form of strategic alliances. Joint ventures are a must in some markets as there may be governmental regulations concerning direct investments. Strategic alliances may be formed also with out forming a new company. The strategic partners can make a contract where they agree to co-operate in some strategically important business areas, such as, logistics, marketing or financing. (Grafers&Schlic, 2005, 111).

Advantages of joint ventures and other forms of strategic alliances are numerous. One is, of course, that the company benefits from local partners' knowledge of the new target market. Also, with joint venture the risk and cost are shared between partners, but so is the generated profit. One disadvantage is the risk of losing control over technology and over other operations on the target market. At worst the partner company may become a new competitor to the exporting company. This disadvantage can be minimized to a certain degree by keeping a majority share of the new company. Joint ventures demand trust between the partners and the goals of the companies should match, because if the goals are completely different it will cause disputes later. The biggest challenge in joint ventures is to find right partner and negotiate a working contract between the partners. (De Búrca 2004, 239; Anghel 2007)

4.3 Subsidiary Operations and Acquisitions

It is, of course, possible for a company to enter new foreign markets also by wholly owned subsidiaries and in some cases this is the best way to enter new market. This can be done by grounding a new company in the target market or by buying an existing company in the target market. Grounding a new wholly owned company in the target market is also referred to as Greenfield venture. A wholly owned subsidiary is often the most costly entry mode and it also means that the company should have a good knowledge of the target markets as well as cross-cultural management. (Hill, 2007, 493)

There are many very clear advantages of wholly owned subsidiaries. Like the control over the whole foreign business operations are in the hands of the exporter and there is nobody sharing the profits. Also, especially when a company's competitive advantage is based on technological competence. Then a wholly owned subsidiary reduces the risk of losing control over that competence. (Hill, 2007, 493)

Acquisitions require good financial resources and are often a preferred entry mode for big multi-nationals who are aiming rapid entry to the target market. In most cases, acquisitions are beyond the reach of SMEs because of the high investment demands. (De Búrca 2004, 239)

5. CULTURAL MANAGEMENT

Cultural management is one of the crucial challenges of the internationalization process. Cultural management means the way a company manages people coming from many different cultures and working together. It also means how the company is able to succeed in this management as the goal is successful and profitable business operations. The difficulty in this is that the different backgrounds affect the way people behave in different situations. People have different expectations on managers, organisational relationships and, all in all, how the business is operated. In this chapter my goal is to give some tools to help grasp the challenge of managing multi-cultural organisations.

After the company has made the research and analyses of the target market and of the resources that the company itself possess, it is able to make the decisions of the correct entry mode. When the strategic decisions are made the next step is the forming of the operational level structure. At this point cultural management steps into the picture. It is a challenge for any managers to be able to lead a multi-cultural teams and people. For this, it is good for the manager to learn about the subordinates cultures, so that he is able to understand what they expect from him as a manager. Of course, this works the other way around as well. The subordinates have to learn about the management culture of their manager, who is coming from a different culture. Analysing the culture is the key factor for understanding the culture.

All organisations, no matter if they are a company, family or a country, have their own culture. This organisational culture is always structured and driven by some basic features. There are several ways to diagnose an organisational culture and how it is structured. One of the diagnosing models uses ten major classifications for organizational culture analysis:

1. Identity or image and mission of the organisation tell the objectives of the organisational culture.
2. Space and scope of the organisation tells how far the organisational culture sees its boundaries are set, how far it affects.

3. Attitudes, beliefs, and myths of the organisation are the basic philosophy of the organisational culture.
4. Values and norms of the organisation tell its priorities and standards.
5. Communication and languages of the organisation define the media and form of messaging in the organisational culture.
6. Process and learnings tells how the organisational culture operates and functions.
7. Personnel and leadership of the organisation and how they relate tells the recognitions and rewards for behaviour models.
8. Rites, rituals and feeding habits of the organisation tell the customs and traditions in the organisational culture.
9. Relationships between the members of the organisation define what are the roles and their interface in the organisational culture.
10. Look, style, and reputation of the organisation define the appearance and public image of the organisational culture. (Harris & Moran, 1996, 85)

In this multicultural situation it is good to try to create a new company culture, the way things are done in this one specific company. It can be a mix of all the different cultures involved in the company, or then, something completely new. The most important thing is that it suits the demand of the company and supports the goals set.

5.1 Hofstede's Model of Cultural Dimensions

Some times it might be difficult to see the small differences between cultures, and to compare them could be even more difficult. Still it is crucial for the success of business to be able to meet the demands of the customer. This has been seen also at the case company Greenenvironment as it is entering the German biogas markets, which are a part of very conservative agricultural markets. Biogas business is an end customer business in German, where farmers are the end customers. Like the production manager of Greenenvironment Radu Anghel said in his interview “the farmers are the most conservative customers” and “without German partners it would have been impossible to reach them”.

To reach the customers in the target market and also to manage successfully a cross cultural organisation you need to know their demands and then try to meet these demands. To get some kind of hold on the cultural differences in a structured matter, there have been several studies and analyzing models created about the differences between cultures and how to structure and compare them. One of them was created by Geert Hofstede, a Dutch writer and culture researcher on cultures. He based his model on the analyses he made about the data collected from the employees' values of IBM between 1967 and 1973. IBM had collected the data from 70 countries and Hofstede analysed first 40 and later 50 countries and created a model consisting of five dimensions. (Hofstede, 2008)

Power Distance Index (PDI) concerns the power distribution of the culture. It tells how far people are willing to accept the inequality between the less powerful members and more powerful members of organizations and institutions, like, for example, the family or a company. This index is defined from below, not from above. The higher the index is the bigger the difference is between people and more widely it is accepted. (Hofstede, 2008)

This dimension can influence on the relationship between a manager and employees. With cultures that have a high score on Power Distance Index you can expect that the manager is seen as an authority and that there are clearly different levels of hierarchy. With a low score you can expect that the boss and the employees are more on the same level and authority is not that evident.

Opposite to individualism's (IDV) is collectivism. The higher the individualism index is more tolerant people are for individualistic features of a person. When the score is low it means the culture is more collectivistic. In collectivistic cultures people are more integrated into groups. In individualistic cultures people are seen more independently than in collectivistic cultures. (Hofstede, 2008)

Individualistic cultures expect every one to take care of them selves and it is seen as a positive aspect of a person if he or she stands out from the “mass”.

Personality is highly respected. Collectivistic cultures emphasise the integrity of the group and an individual is always seen as part of some group and one is always representing also the group. The group can be, for example, team, company, family, school or nationhood. With collectivistic cultures there is often an idea of “keeping ones face”, meaning that if a person lets down his group in some way he looses his face as well as the face of the group. This in-built control by shame is very effective in keeping everybody in the group.

Masculinity’s (MAS) opposite is femininity. This index refers to the distribution of roles between the genders. Generally, more assertive cultures have been called masculine and more modest and caring cultures feminine. Basically, in feminine cultures both genders have more modest and caring values and in masculine cultures people of both genders are very assertive and competitive. (Hofstede, 2008)

Uncertainty Avoidance Index (UAI) tells the cultures’ tolerance for uncertainty and ambiguity. With this index you can tell to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured or surprising situations. (Hofstede, 2008)

At least one part of business that this dimension effects, is the negotiations and contract forming. Cultures with high Uncertainty Avoidance Index want to have more detailed contracts and prefer long relationships between business partners. By going through every small detail of the business transaction in the contract, they want to avoid surprising situations.

The fifth dimension of Hostedes model is Long-Term Orientation (LTO). The opposite is short-term orientation. The fifth dimension was added to the model after study made among students from 23 countries all around the world. The study was designed by Chinese scholars. (Hofstede, 2008)

“Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's “face”. (Hofstede, 2008)

Finnish and German Cultures According to Hofstede

Of course there are some differences also between the German and Finnish cultures. In the Figures 1 and 2 you can see the scores of both countries in the dimensions of Hofstede’s model.

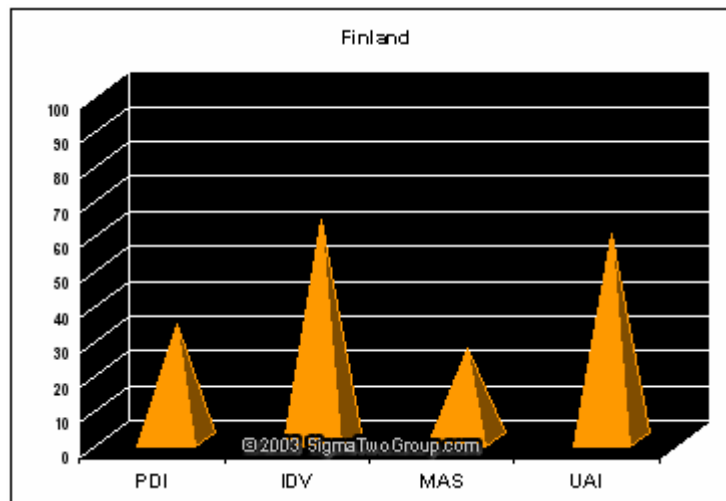


Figure 1. Hofstedes cultural dimensions: scores for Finland. (Hofstede, 2008)

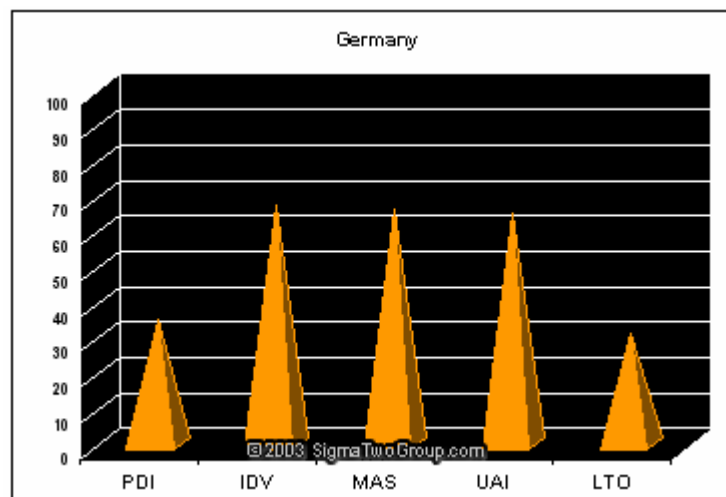


Figure 2. Hofstedes cultural dimensions: scores for Germany. (Hofstede, 2008)

What we can see from the figures is that the differences in these dimensions are not that great. The biggest difference is in Masculinity. The German culture is very much more masculine than Finnish. This means that the values between these cultures are different. Low masculinity means that Finnish people emphasize on caring and modest values, which can be seen also in northern Europe generally. Basically, we can say German people are more competitive and self-assertive than Finnish. Also people give more credit to their status in society.

The dimension of Power Distance is about at the same level in both of cultures. The steps between different levels of hierarchies are not that high, but there still is a gap. Managers are seen as authorities in both cultures, but not as “almighty rulers”, people still expect to be let take part on decision making.

Individuality and Uncertainty Avoidance are also quite close to each other and both cultures score relatively high in these dimensions, Germany a bit higher score in both dimensions. This means that personalities are highly respected and that people want to avoid surprising situations. Also, the risk taking level is similar.

5.2 Business Culture of Germany

For the success of business operations in any foreign target market it is important to understand that people behave differently in different parts of the world. There is no one right way of conducting business or personal relations. It is crucial for a manager or an employee who is taking part in multi-cultural projects or business operations to be open-minded and to learn about the customs of their colleagues, sub-ordinates, counterparts of business deals or managers from different cultures. The worst case is where one considers his/her own culture to be the one and only right culture. This is called ethnocentrism and this can be an expensive error of ones' mind.

“People behave differently for a variety of historical, political, sociological and psychological reasons. If we ignore these differences, we cannot hope to understand what motivates and drives our business counterparts from abroad and we risk making very expensive mistakes as well as not achieving optimal results from those deals that we do pull off.” (Doing business with Germany, 1997, 58)

In this subchapter I will be dealing with German business culture. What are the main characteristics and how to avoid the biggest clashes when dealing with German business counterparts or colleagues.

There are a lot of known stereotypes of German business behaviour, such as, they are seen as aggressive, humourless, strict, stubborn and distant business counterparts. But, as mentioned above, these are stereotypes. Similar kinds of one sighted stereotypes can be found of any culture. Such stereotypes are created, when people' behaviours are measured using incorrect methods. If German business behaviour is judged by, for example, American standards, then these stereotypes may seem correct; but it is a wrong set of standards. (Doing business with Germany, 1997, 58)

In reality we can say that German people appreciate hard work and efficiency. Success of many German companies is based on these two grounding principles. The high standard of quality has made many German products number one in the world. It is wise to recognise that Germans also expect the same level of quality from their foreign business associates. On the organisational level, Germans are well ordered and the relationships between managers and subordinates are based on respect and the fact that everyone has their defined position in the organisation and the borders are clear. Everyone knows what is expected of them. Decision making is thorough and always based on careful analyses in German business culture. This is due to the fact that Germans tend to minimise risks and appreciate security in business as well as in life generally. (Doing business with Germany, 1997, 63)

“Important qualities expected of a manager in Germany include the ability to assert oneself, willingness to work hard, ability to lead, analytical ability and knowledge of business area. A manager will usually have attained his position by rising through the ranks, having displayed these qualities.” (Doing business with Germany, 1997, 60)

German managers feel that their authority is gained by attaining their position. They feel that they have already shown their qualifications for the task, and for this, feel that their decisions should be respected by subordinates automatically. This may be a problem when there are people from different cultural backgrounds in the organisation. People may feel neglected from decision making or a foreign manager may feel frustrated with the fact that German subordinates do not want to make decisions by themselves. Not only do people need to feel financially secure, managers also need to feel secure in the knowledge that tasks they have delegated are carried out appropriately; they are responsible for the success of any project under their leadership (Doing business with Germany, 1997, 61).

6. GERMANY'S ENERGY POLICY

In this chapter my purpose is to introduce the Germany's energy policy and how it influences the case company's internationalization process.

The German energy policy is formed by the political decision makers of the Federal Republic of Germany. The most significant decision maker is the country's bicameral parliament. The German energy policy regulates the production and use of energy. It also aims to combine different demands and needs of international agreements, environmental policy and nuclear security. Three ministries work together in fulfilling the energy policy: Ministry of Finance, Ministry of Education who is responsible for research, and the Ministry of the Environment who is responsible for the nuclear security. There are also plans to form a Ministry of Energy to simplify the execution of the energy policy. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 3)

Half of Germany's energy is imported and because of this Germany's energy policy effects its foreign policy and vice versa. Especially, this has been seen in relations between Germany and Russia, which is the largest energy supplier for Germany. In the era of Chancellor Gerhard Schröder, two important laws, which are still the core of the German energy policy, were introduced: the EEG Act, and the so-called Atomausstiegsgesetz. The EEG Act dictates the use of renewable energy sources in Germany and Atomausstiegsgesetz is the declaration of abandonment of nuclear energy in Germany by 2021. In the EEG Act the State aid and bonus systems for renewable energy sources are introduced and by creating the basis for these energy solutions it also determines their competitiveness in Germany's energy market. These laws were created mainly from ideological purposes, such as environmental protection and nuclear safety. But, during the government of Chancellor Angela Merkel there has been change concerning the security of the country's energy supply and dependency on the foreign energy suppliers and so the aim is now to secure the country's energy supply. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 3)

6.1 Feed-In Law and EEG Act

Feed-in law (StrEG) was introduced by the German political leaders in 1991, when the energy market was built from regional monopoly companies. The Feed-in law included the obligation for the local energy monopolies to buy the electricity created from renewable sources with a fixed price. When the energy markets were liberated in 1998 there became a demand to change the system. With the EEG Act this obligation was changed to concern the local electricity grid companies. (Wüstenhagen & Bilharz, 10-11)

The political purpose of the EEG Act (Erneuerbare-Energien-Gesetz Act) of 2000, and the EEG amendment of 2004, was to increase the share of the renewable energy of the total energy consumption to 20 % by 2024, and to decrease the emission of greenhouse gases. The most important issues for the green energy producers that the EEG Act states are the open access to the transfer networks and the guaranteed purchase price that the electricity network companies must pay. One main feature of the EEG Act is the nation wide cost settlement system aiming to balance regional disparities. (Wüstenhagen & Bilharz, 10-11; Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 5)

The guaranteed price stipulated in EEG Act decreases annually about 1,5 %-2,0 % and slowly approaches normal market price. After the renewable energy plant is established, the guaranteed price stays the same as it is at the time of establishment year for 20 years for this plant. The guaranteed price for green energy varies also depending on generation method, size of the installation and the year of commissioning, from €37 to €574 per megawatt hour. Innovative energy production solutions are given additional price bonuses as well as combined heat and power solutions. The fixed price for electricity generated by biogas is €170 per megawatt hour in the year 2005. The payment scheme for the sales of electricity produced from biogas as of 2005 can be seen in Tables 1. and 2. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 5; Saksan vihreän sähkömarkkinat, 2)

End consumer price of electricity in Germany (Nov 2006)	15-20 Cent/kWh
Biogas subsidy/price	11,16 – 21,16 Cent/kWh
Solar subsidy/price	50 Cent/kWh
Wind subsidy/price	10 Cent/kWh

Table 1. Background information / German market for electricity. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 5)

Electrical Power	Basic Payment	Additional payments for renewable primary products	Combined heat and power bonus	Additional payments for innovative technology
< 150 kW	11,16 Cent/kWh	6 Cent/kWh	2 Cent/kWh	2 Cent/kWh
< 500 kW	9,6 Cent/kWh	6 Cent/kWh	2 Cent/kWh	2 Cent/kWh
< 5 MW	8,6 Cent/kWh	4 Cent/kWh	2 Cent/kWh	2 Cent/kWh
> 5 MW	8,1 Cent/kWh		2 Cent/kWh	

Table 2. Payment scheme (as of the Law Renewable Energies) for the sale of electricity produced from biogas as of 2005. Yearly digression of 1,5 %. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 5)

There are also national support programmes and several regional programmes for the investments in renewable energy sources in Germany. The producers of green energy are able to reduce the investment costs from income taxation up to maximum of 30 % of the total investment of the installation. The producers of green energy are also offered inexpensive loans. (Saksan vihreän sähkömarkkinat, 2)

6.2 Renewable Energy Market in Germany

There are several sources of renewable energy. Wind power, small-scale hydroelectric power, and solar power are the best known renewable energy sources. Also, wave power and different types of bio-fuels are renewable energy sources. Altogether the renewable energy sources are a complex mix of main types and subtypes of different applications possible. (Germany's energy policy

and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 7)

At the moment, about 8 % of the total energy generation of Germany is generated by renewable energy sources. This amount has doubled between the years 1991 to 2002, due to the support of Germany's energy policy (Feed-in Law, EEG Act). At the same time, in other EU countries, the proportion of energy generated by renewable energy sources increased only about 13 %. The most successful renewable energy source in Germany has been wind power. Ninety percent of the increase of energy generation by renewable energy sources between 1991 and 2002 has been made up by wind power. The development of the number of customers buying green energy can be seen in Figure 4. (Saksan vihreän sähkön markkinat, 2)

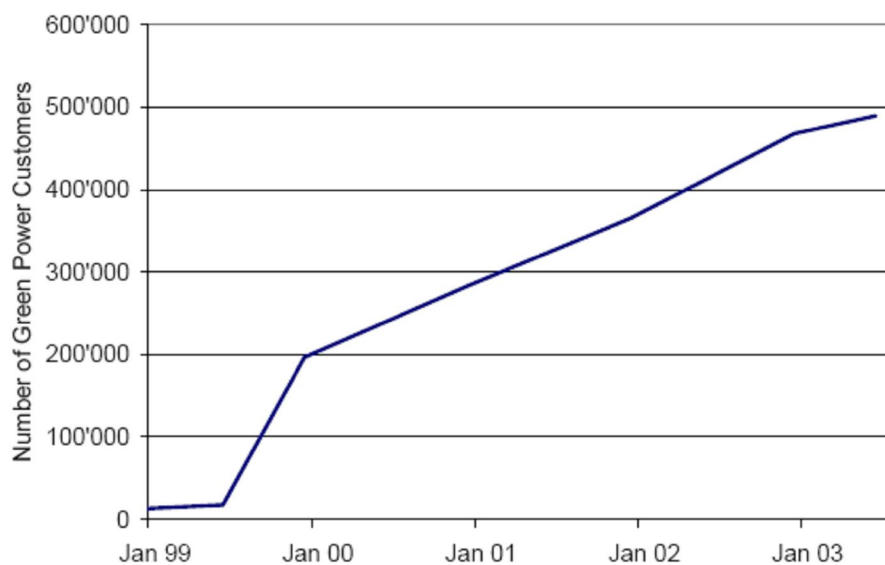


Figure 3. Development of the number of green power customers in Germany. (Saksan vihreän sähkön markkinat, 2)

Biogas Market in Germany

The main problem for the biogas as a renewable energy source in Germany, is that it is still very poorly known and it is basically a no-brand product. It is seen more as a hobby of farmers than a real part of the country's agricultural or energy policy. So to compete, for example, with wind energy, it must become better known. The relative share of different renewable energy sources in Germany 2004-2005 are shown in Figures 5 and 6. Biogas is considered to be biomass in Germany because in practice most of the biogas produced is generated from biomass, like for example, maize fields and animal manure. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 9-11)

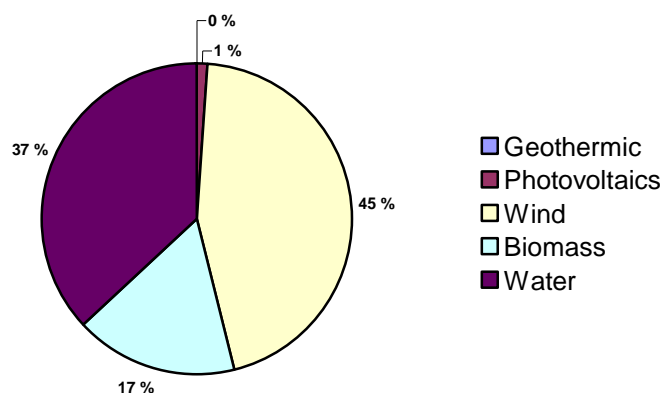


Figure 4. Segmentation of renewable energy in Germany 2004

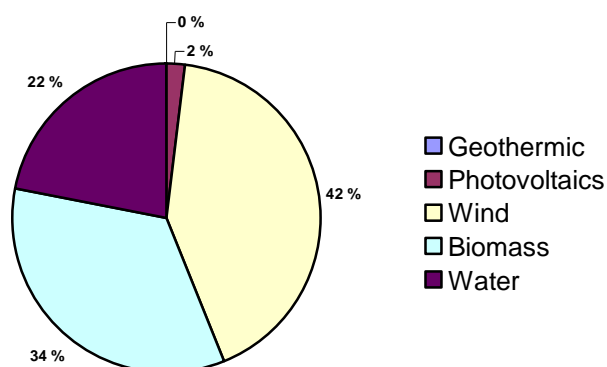


Figure 5. Segmentation of renewable energy in Germany 2005

Biogas could be a considerable rival for other forms of renewable energy, because when it is produced right way it can be highly competitive. When produced in right way the biological balance of biogas obtained from biomass of fields is positive. This means that the amount of energy obtained is greater than the energy used for the production. Biogas production is also almost harmless for the environment. Also, the possibility of efficient simultaneous production of electricity and heat is a great advantage of biogas. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 9-11)

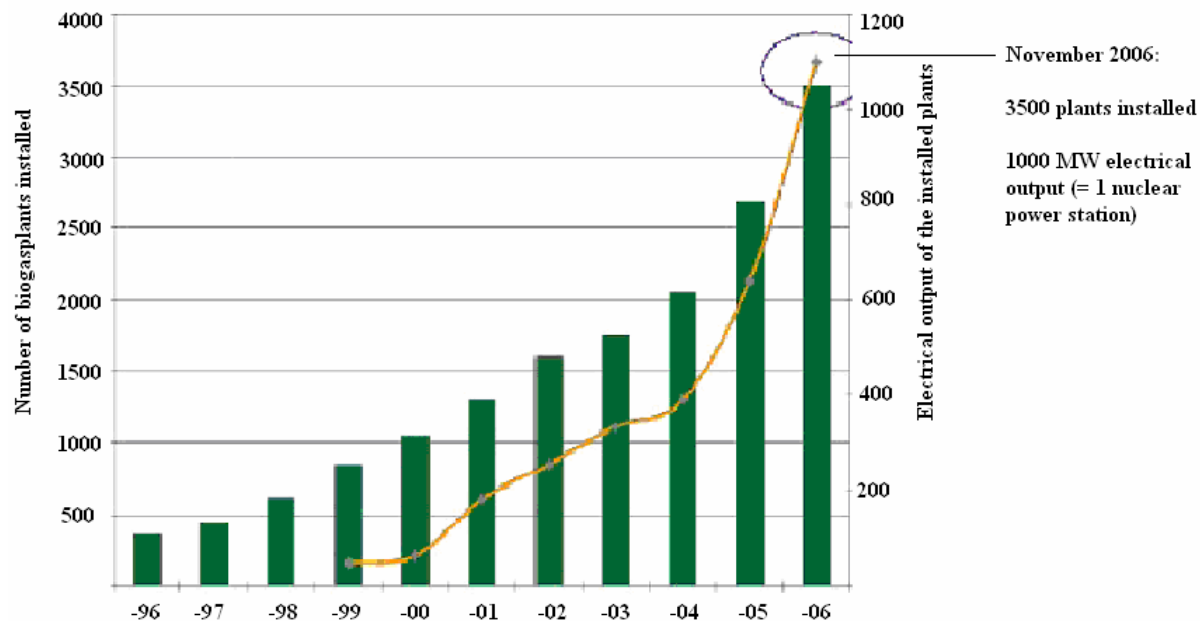


Figure 6. Number of biogas plants in Germany.

Although the biogas production is a growing form of renewable energy in Germany, most installations are small-scale and the structure of biogas production remains very disconnected. In Figure 6 we can see the number of biogas plants and the development in 2006. (Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 9-11)

7. CASE COMPANY - GREENVIRONMENT OY

The company Greenvironment was founded in 2002 in Finland and the main office was located in Lahti. The main products of the company are combined heat and electricity plants, which are using biogas for fuel, although few liquid-fuel plants have been produced also. The biogas used is normally either landfill gases or digester gases. The size of the plants vary between electricity output powers of 30 kWh (kilo watts per hour) to 520 kWh and heat powers of 60 kWh to 1040 kWh. The development of the company's main products had already begun in the late parts of 1990s. Nowadays the company possesses ample experience and skills in researching and developing efficient and innovative methods of energy generation by using biogas. (Greenvironment Oy 2007)

The research was started with the aid of the Finnish Ministry of Economy. Because of the wide knowledge base, its unique capabilities and innovative solutions, Greenvironment has been able to quickly make a name for itself in the market for green technologies. Today the company has become one of the leaders in biogas-fuelled microturbines in the area of combined heat and power production. The Greenvironment GmbH was founded in Germany early 2006. The German subsidiary in Berlin currently has about 20 employees and the number is increasing. The staff consists of planning engineers, technologists, heat engineers, marketing specialists and experienced project managers.(Greenvironment Oy 2007)

7.1 Technology

Figure 7. shows us the basic technology concept of Greenvironment plants. Biogas is first sucked with gas compressor from digester and then pre-treated by Greenvironment's patented process. After pre-treatment the biogas is fed into the Capstone microturbine(s), which generates electricity and heat. Heat can be also used to generate more electricity by steam engines or turbines.

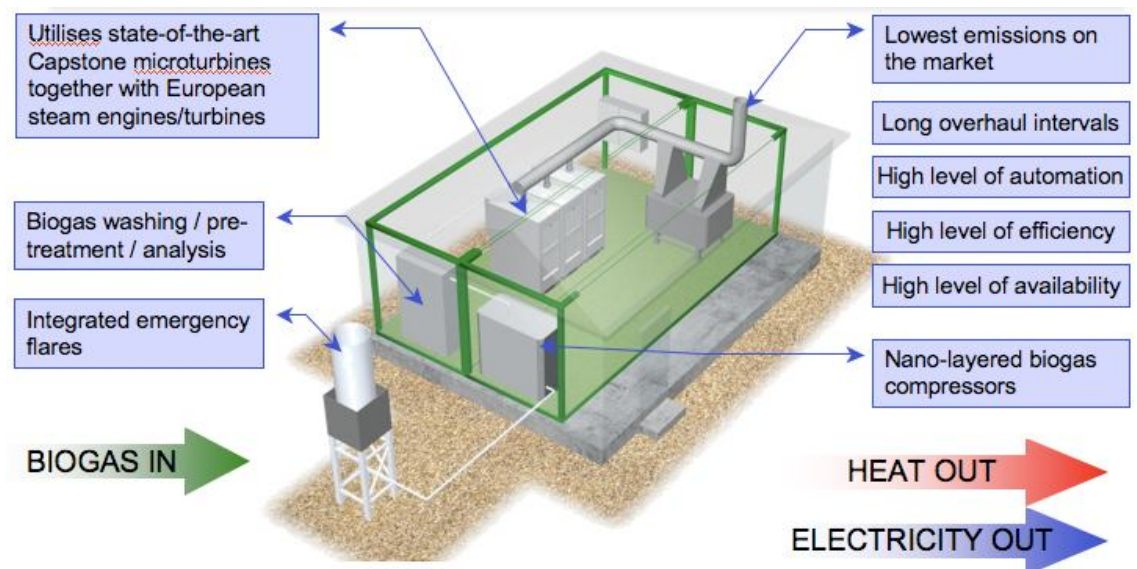


Figure 7. Greenenvironment's technology concept. (Greenenvironment Oy 2007)

Greenenvironment has developed and patented innovative solutions in the field of the pre-treatment and conditioning of different types of biogases, which enables the combustion of biogas, sewage and landfill gas in microturbines.

Greenenvironment uses an innovative operation model called "brennWERT" which guarantees maximum value creation by producing green energy. (Greenenvironment Oy 2007)

Greenenvironment uses the U.S based company called Capstone microturbines, which are the world's leading producer of low-emission microturbine systems, with more than 3.500 turbines installed worldwide. The biggest competitive advantages of the microturbine technology compared to piston engines or other are; lowest emissions and longer service intervals. These features combined with high level of automation and efficiency makes this form of technology highly competitive in the field of small scale combined heat and power plant markets. These features of the Greenenvironments product can be seen as product related competitive advantages, explained more detailed in the chapter 3.1.

(Greenenvironment Oy 2007)

7.2 Business Model of Greenenvironment

In Finland Greenenvironment operated as a biogas plant and equipment producer and distributor. The core of the business model in Finland was to develop, produce and market small scale, maximum of 150 kWh of electricity output, plants fuelled by biogas. The main target groups were farms and landfills. The basic idea was to find a biogas producer, for example, a big enough cow farm which is able to digest the cow manure into biogas, or a landfill, and sell them a plant that meets their electricity and heat demands and also make a maintenance contract. (Greenenvironment Oy 2007)

Due to the lack of governmental support for renewable energy sources like biogas, in Finland, it would have made no sense to operate own plants and then try to sell energy to bigger energy companies. New ways to produce electricity are usually more expensive than the old and conventional ways. And with no fixed prices there would have been no change for profit making by selling electricity and heat. (Krieger 2007)

The New Business Model of Greenenvironment in German Markets

Due to the differences of the biogas markets business environments in Finland and Germany, the company management decided to change the business model to be more suitable for the German markets as the increasing amount of business operations were focused in Germany. (Anghel 2007; Kriger 2007)

In Germany the Greenenvironment GmbH develops, builds and operates its own Combined Heat and Power Solutions (CHP's) for biogas based on microturbine technology. The business model is called "brennWERT" or in English "fuelVALUE". It is based on Germany's energy policy and especially on the EEG Act which guarantees a fixed price for renewably created energy. Because the microturbine technology is seen as innovative technology and there is combined heat and power production, the company benefits even more from the EEG Act.

(Germany's energy policy and renewable sources of energy - Greenenvironment's operating environment in the Federal Republic, 11)

The main customer target group in Germany are farmers or consortiums of several farmers. Because of Germany's environmental policy the landfills are not potential customers as the aim is to close all landfills. Basically, the business model in Germany is as follows; the farmer builds the digester plant where the biogas is generated by an-aerobic fermentation and then the farmer makes a contract with Greenenvironment where they state that they sell the biogas produced to Greenenvironment which builds the energy production plant described earlier and then Greenenvironment sells the electricity to the local grid company. Contract clauses also include sanctions if the farmer is not able to produce enough biogas. (Greenenvironment Oy 2007; Germany's energy policy and renewable sources of energy, 9-11; Anghel 2007; Kriger 2007)

This business model works very well with Germany's energy policy. The most difficult phase has been to position themselves into the German markets, as biogas is not a well-known renewable energy source in Germany and also the whole "brennWERT" business model itself is totally new and unknown in the markets. To reach possible customers and to brand the "brennWERT" business model is an on-going challenge for Greenenvironment. (Anghel 2007; Kriger 2007)

8. INTERNATIONALIZATION OF GREENVIRONMENT

The internationalization process of Greenvironment has been a long and challenging journey. A lot of drawbacks and difficulties have been faced, but always the direction has been onwards and small successes have given more strength and confidence to keep on trying. In this chapter I aim to go through the main stages of this process and to explain the reason behind the decisions made.

Background of the Internationalization Process and Market Analyses

For Greenvironment Oy, like for many SMEs or niche companies in nowadays, internationalization was more of a compulsion rather than a possibility. As the biogas market in Finland was stagnated or at most growing really slowly, there was a definite need to seek opportunities from new markets. Few European markets were analysed, among these United Kingdom and Germany. Market analyses were partly made by the company itself, but also Finpro was used to reach all the important data. From these analyses Germany was found to be the most promising one. The German renewable energy markets function well, mostly because of the clear energy policy stated in EEG Act and Feed-in laws. The relation between EEG Act and Greenvironment's business model is explained in chapters 6. and 7. Also the German biogas markets are bigger than the rest of the world altogether. The importance of these analyses for successful internationalization is explained in the chapter 3.1. (Malkamäki 2007)

After choosing Germany to be the target market, there were negotiations already in 2005 with few German companies about partnerships and co-operation, but after these failed Greenvironment assigned company called Team Venture to seek customers and to estimate possibilities in the German markets. (Anghel 2007; Kriger 2007)

Establishing German Business Operations

After company analyses and market analyses were completed in early parts of 2006 the Greenenvironment GmbH was established, with the main office located in Berlin, and the Team Venture became an investor into the company. The first reference plant, the Hilpert-plant, was designed and engineered in Lahti by Greenenvironment Oy and built by a company called PP-Metalli Oy. It was shipped to Germany at the end of 2006. The first reference plant was delivered successfully, but there were several problems in meeting technical standards and in reaching the demands of the German customers for Greenenvironment. At this point the search for new German engineers and a production location in Germany began. Another reference, Karle-plant was built in Finland in Kaarina and shipped to Germany in the beginning of 2007. This plant was already much better with meeting the standards and demands, but still just a reference plant. (Anghel 2007; Kriger 2007)

The subsidiary entry mode was found to be the most suitable form of market entry for Greenenvironment and for the German market. This was due the big differences of the business environments in the Finnish and German biogas markets. The level of knowledge of the market structures and customers and also control issues over production and marketing demanded a strong Germany based management. Possibilities of co-operative entry modes were analysed, but as the core of the company's business is heavily based on technological innovation and development, the risk of losing this competitive advantage was found to be too great. Biggest challenge for Greenenvironment as an SME company in subsidiary grounding stage was to negotiate the financing for the first reference plants and other early operations in Germany. There were no bigger legal, political or economical difficulties in grounding subsidiary. It also helped a lot that the company had experienced German managers. Also the possibility of joint venture with some German company was considered. Joint venture was not chosen because suitable partner was not found and joint ventures possess some possible difficulties. The advantages and disadvantages of subsidiary operations and joint ventures are explained earlier in this thesis in the chapters 4.2 and 4.3. (Anghel 2007; Kriger 2007; Malkamäki 2007)

Cultural Challenges

The greatest cultural related challenges between the Greenenvironment Oy and Greenenvironment GmbH were communications. The business cultures of Germany and Finland are not that different like we learned earlier from the chapter 5. But still when communicating in English, which is not the mother tongue of either culture several smaller and bigger conflicts were faced. Some messages were completely misinterpreted and this of course caused frustration and negativity. Also the difference in management and decision making was an issue as Germans are used to more manager driven decision making than Finnish colleagues. When these differences and problems were recognised the effects of them decreased. (Anghel 2007; Kriger 2007; Malkamäki 2007)

The Status Quo

The first three plants operating in “brennWERT” business model were built in Hämlich, in the state of Thüringen in Germany by company called Biosonic GmR. The first plant, Remlingen-plant, was commissioned in October 2007 and two others in November and December of 2007. The main reason for the transfer of production to Germany was the issue of control. Also, as the company’s main target was now Germany, it made sense to manufacture the plants in Germany. (Anghel 2007)

The company has had the biggest challenge in Germany with positioning itself successfully in the markets with the new “brennWERT” business model. In the chapter 3.3 in this thesis the product positioning and its importance to the success of the internationalization is explained and described. Greenenvironment’s challenges with positioning were mainly due the lack of knowledge among the customers about biogas and even more so with a new technology like the microturbines in the renewable energy markets of Germany. Fairs like Agri Technica 2007 in Hannover and Tier 2006 have been important marketing places for Greenenvironment and also the positive media coverage has benefited the company. Also all important biogas or renewable energy seminars and assemblies

have been attended by the company employees or managers. (Anghel 2007; Kriger 2007)

By the end of 2008 Greenenvironment GmbH aims to have a firm position in the German biogas markets with several plants installed and operating and eventually to be the leading player in the markets.

9. CONCLUSIONS

The internationalization process is different in every individual company case. It may be a long process and demand a large amount of work and resources, or in other cases, it may be natural growth that just happens as the company is growing. A lot depends on the company itself. For the Greenenvironment and for many SMEs or start-up companies, internationalization may be the only way to overcome the limitations of the size of small domestic markets, like in the case of Finnish biogas markets. What is the product, how it is produced, for who it is aimed for, etc. All these questions and several more should be answered as the company tries to decide the right strategy for their internationalization.

Analysing is the first challenge of internationalization in all cases. It does not matter, if the company is a big multi-national or a SME company, it is still in the same situation. The company and the market analyses need to be done to evaluate the situation and different possibilities carefully. These analyses demand some recourses, either the company should possess personnel capable of thorough and detailed researching including all data collection and data analysing, or the company can hire a consulting company or agency to do the research for them. Of course, it is possible and in many cases most advisable to use both ways, analyse as much as possible by self and for some parts use external resources, like in the case of Greenenvironment. The whole strategy for the internationalization process is created based on these analyses and this is why the execution and evaluation of these analyses are more than important for the success of the whole process.

After the planning and strategic decisions concerning most suitable entry modes and marketing are made, and organisation changes implemented, begins the next challenge; positioning to the markets and implementing the business operations to the new markets. This is very critical step in the internationalization process and basically, everything done before has been done to reach this point; market penetration. For successful positioning strategy the knowledge of the markets including customers, competitors, politics etc. has to be ample. For this reason local partners and employees are in the most important position. Greenenvironment

found that farmers as customers in Germany are most conservative and to reach them it was necessary to have strong German sales and marketing teams.

In many cases, especially with smaller companies, the organisation is in demand of structural changes when it wants to internationalize. The organisational structure needs to be reformed to serve new goals of the organisation in the best possible way. There is no one-fits-all solution for the organisational structure. Managing this organisational change is a challenge for the company.

Managing multicultural organisation is challenging too. The best way to avoid biggest clashes is to be open and not let oneself be irritated by cultural differences. These cultural differences may be bigger or smaller, but they affect all relationships like between manager and employee or between business partners from different cultures. It is good to learn about the culture that the person you are dealing with represents. This helps in understanding the possible culture related differences, for example, in contract negotiation.

In this brief list I have summoned the major challenges discovered in this study:

1. Analysing the market attractiveness – demands resources and knowledge.
2. Analysing the company/product itself – demands resources and knowledge.
3. Strategic decision making/planning – the whole success of the internationalization process depends on this part.
4. Implementing the business operations of the target market – demands good knowledge of the operation of the target market.
5. Product positioning – demands good knowledge of target markets and customers.
6. Managing the organisational change – demands good management and control.
7. Managing the multicultural organisation – cultural management.

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