The Network expansion of SMEs: 
A case study of VINCIT

Bachelor’s thesis

Mälardalen University; School of Business, Society and Engineering (EST)

International Business Management

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Abstract

Title: The network expansion of SMEs, a case study of VINCIT

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Research Question: How do software SMEs expand their network outside the domestic market?

Purpose of the Research: The purpose of this research paper is to investigate how network expansion in business to business marketing can lead the company to build its network in the host country and especially in the US market.

Method: In this research, the primary and secondary data has been analyzed based on the concepts of the theory that are collected from academic data, such as books and scientific articles. The primary data has been collected through structured and semi-structured interviews. The secondary data has been collected through Vincit’s web page, vlog channel in YouTube, books and scientific articles.

Conclusions: Vincit hasn’t been able to get all the possible value from their relationships and network in its internationalization process. It is committing and maintaining its existing relationships well, and believing in continuous cooperation, but it has been staying too much on the dyadic level, instead of benefitting from the networks that its partners already have.
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ABBREVIATIONS

SMEs Small and Medium-Sized Enterprises
OECD Organization for Economic Co-operation and Development
SECOs Software Ecosystems
B2B Business to Business
FDI Foreign Direct Investment
GDP Gross Domestic Product
EU European Union
1. Introduction

During the recent years, there has been a rapid growth in the software business (OECD, 2002), and the research on such firms has extended the focus of business networks to include, not just formal, but also informal business relationships between customer and supplier companies - and how this effective cooperation can be used to bring value to both parties (Blankenburg Holm, Eriksson & Johanson, 2009). Such relationships are also relating to software businesses that have experienced a rapid growth recently. Internationalization as a strategy in a software business is better to be discussed after understanding how it has been studied in previous research, and how the process has been involved in enhancing business networks. Knowledge on network connectedness helps companies to benefit reduced market restrictions and hence, improve creation of relationships to a wide range of companies. Small and medium-sized Enterprises (SMEs) have had different kinds of challenges but for many years, the main challenge has been the internationalization into foreign markets (Etemad, 2004).

1.1 Problem Formulation

The selected case study, dealing with software SMEs, provides an interesting contrast to the internationalization literature that has mainly been focusing on traditional manufacturing organizations. By investigating high technology firms, allows the authors to get a deeper understanding of a fast-growing and global industry - which is also receiving more and more attention in the literature about international business.

Nowadays, the improvement of factors, such as transportation, communication, and technological advancement, is allowing SMEs to move towards international markets faster than before. Combining those factors with knowledge gained inside firms, software SMEs are able to follow the trend of internationalizing their activities. Depending only on one side of knowledge to expand abroad, will probably inhibit SMEs to survive in the foreign atmosphere. Moreover, the insufficiency of market
knowledge and the lack of international experience prevent SMEs to meet the basic requirements to establish relationships outside the home country. The dependence only on the domination of internal knowledge and the uniqueness of the product, may provoke software firms for an excessive ambition to internationalize - which can lead to tangling the way to establish a network abroad.

Furthermore, the challenge of ignoring the role of establishing relationships in the host country is a result of a short managerial view on the foreign market. According to Johanson and Vahlne (1977), “it’s experiential knowledge that reduces a firm’s perception of market uncertainty or risk, which in turn, impacts on commitment to international market”. The experiential knowledge, which is built through the network, is the key factor for a firm to bridge its internal resources to meet the market advantages.

In addition, the lack of market knowledge restricts the possibilities to benefit from the network connectedness that a dyadic partner in the relationship already has. Through this knowledge, the company is able to expand its dyadic relationship to a wide, multiple companies involving network. Such lack of knowledge also makes it difficult for companies to learn about the networks without any first-hand experience. Also, it is burdensome to understand the new network and what could the firms’ position be. For this reason, it is suggested firms must act as an insider (Forsgren, 2008, p. 104). Building relationships to gain experiential knowledge, and combining it with the internal expertise, can give the firm another dimension for expanding.

1.2 Purpose and research question

The purpose of this research paper is to investigate how network expansion in business to business marketing can lead the company to build its network in the host country and especially in the US market. Through a case study of the Finnish software developing company, Vincit, the authors examined how software SMEs can internationalize their activities by expanding their network abroad. The main focus of this thesis is to explain the internationalization process of a focal company, by applying a suitable internationalization model which is the Network approach of the Uppsala model. Another objective of this empirical study is to help the case company to understand the advantages of building a robust network in the context of internationalization.
The research was based on a case study about the internationalization of Vinci, a Finnish software company, which recently expanded its activities abroad from Finland to the United States. The results of this research are expected to be applicable to different software SMEs who are expanding their business activities in the US market. To reach the objectives for this thesis, the Network approach of the Uppsala model leads the authors to answer the research question: “How do software SMEs expand their network outside the domestic market?”

2. Theoretical Framework

The theoretical framework focused on the Network approach of internationalization in the Uppsala model. First, concepts of cooperation and relationships are introduced to give the reader a better understanding of what is meant by cooperation of companies and the business networks they establish. A glance on the development of the Uppsala model over the years is also presented.

2.1 Cooperation and relationships

During the last decades, there has been a growing interest in cooperation in business markets through good business relationships between separate companies. A common form of international business is the relational exchange in business relationships (Blankenburg Holm, Eriksson & Johanson, 2009). The word “cooperation” is commonly used in a generalized manner with no clear definition. One definition for cooperation is “working together to the same end” (Concise Oxford Dictionary, fifth edition 1964, as cited in Blankenburg Holm, Eriksson & Johanson, 2009). This can be understood as a mutual understanding between the firms in a relationship on how to coordinate their exchange activities (Blankenburg Holm, Eriksson & Johanson, 2009).

Relationships are the core aspect of a business network – they connect operations, resources and actors to other companies.
“A relationship is defined as an interdependent process of continuous interaction and exchange between at least two actors in a business network context.” (Holmlund-Rytkönen & Törnroos, 1997)

A business relationship begins to evolve, when two parties interact and start doing business together (Ford, 1990, as cited in Blankenburg Holm, Eriksson & Johanson, 2009) and is developed and established by investing the resources and time to enhance the interaction between the companies (Forsgren, 2013, p. 108). If the parties keep interacting in their business operations continuously, a business relationship has emerged between them. (Blankenburg Holm, Eriksson & Johanson, 2009)

According to Ford and Håkansson (2002), business relationships are likely to be long and complex. Current form of the relationship that two companies have, is an outcome of previous interactions and operations that they have had. Through these relationships, the companies can cope with their increasing dependence on other parties and make them be able to develop more specific and tailored requirements.

Blankenburg Holm, Eriksson and Johanson (2009), argue that in business relationships, the social exchange has two important characteristics: firstly, it is not deterministic – both parties must consider it profitable and one firm can not make the decision unilaterally, since both parties must be motivated to do business together. Secondly, a business relationship is informal – based on individuals’ relations in the two firms, opportunism and uncertainties are handled according to previous experiences of interactions, rather than are formalized.

2.2 Transition from traditional to modern Uppsala model

The Uppsala internationalization business model has helped many firms to penetrate in international markets. The Uppsala model was developed in 1977 by researchers in the business department in Uppsala University, this has been achieved by conducting empirical observations established in international business literature at that time (Johanson & Vahlne, 2009). According to the researchers, organizations tend to choose an effective mode of market penetration by analyzing their risks and costs based on the characteristics of the market.
The Uppsala model reveals a strategy that organizations use in order to penetrate in international markets. Moreover, these organizations start by formalizing their entries through conducting deals with intermediaries such as agents. As the sales continue to grow, they replace the agents with sales organizations, and if the sales keep on growing, the sales organizations are replaced with manufacturing plants in the foreign countries to overcome trade barriers. (Johanson & Vahlne, 2009)

The prominence evolution of the Uppsala model was introduced by Johanson and Vahlne (1990) and was further developed in 2003, which elaborates the discussion about business relationship learning and commitment in the internationalization process. The first version of the Uppsala model was directed exclusively to the focal firms only. The empirical phenomenon of the model was viewed as a chain from ad hoc exports to establishing subsidiaries (Johanson & Vahlne, 2006). Traditionally, the international decision making has been categorized as unilateral, while the second recapitulation of the Uppsala model acknowledged the need to consider the role of multilateral decision-making influences (Johanson & Vahlne, 1990).

Moreover, the original model encompasses the experiential knowledge as a variable which plays a major role in the model; the authors emphasized that it “provides the framework for perceiving and formulating opportunities” (Johanson & Vahlne, 1977). They declare in the same research that the risk and uncertainty perceived by firms can be reduced through experiential knowledge.

In later work, Johanson and Vahlne (2006) accepted certain limitations in their original model. They declared that the opportunity side of the internationalization process of firms was not developed yet in their earlier works. They have argued that, because of the insufficiency of conceptual tools in the previous times, the development of their model was inhibited. (Johanson & Vahlne, 2006)

The availability of such numbers of conceptual tools became accessible for the founders of the Uppsala model which in turn gave them another vision of how to develop the causal line from commitment over experiential knowledge towards opportunity development. The authors discovered that similar processes end up in the relationship building in the business sphere. They acknowledged that mutual commitment arisen between a focal firm and its partner has the purpose beyond the interval of learning from each other. Firms also generate new knowledge through interaction - which in turn develops new business opportunities. Furthermore, if the willingness of the other partner is to
be committed to new relationships, the focal firm becomes indirectly involved in a broader network of interconnected firms which are committed, and to some degree contributed to share knowledge. The authors believe that building relationships is costly, time-consuming, and generating uncertain processes. In addition to this, it takes time to internationalize with a good long-term performance. (Johanson & Vahlne, 2006).

![Diagram of the basic mechanism of internationalization]

FIGURE 1. The basic mechanism of internationalization- state and change aspects (Johanson & Vahlne, 1977).

2.3 The new Internationalization Model

In 2009, the founders of the Uppsala model added new ingredients to their internationalization model considering the network approach, and it is known as the Revised, or the Network model. The new look of the model reinforces the old theory by emphasizing the role of existing relationships which have a considerable impact on geographical market a firm will penetrate to (Johanson and Vahlne, 2009)

2.3.1 From dyadic business relationships to business networks
Business functions, traditionally done within one firm, have started to change their form. Companies are becoming more deconstructed in a way where they are emerging, doing their own subset of the value-adding functions, and relying on coordinated relationships with each other to receive the remainder of the value-chain activities (Verity, 1992, as cited in Anderson, Håkansson & Johanson, 1994). Accordingly, another development of companies has emerged: the “value-adding partnership”, which allows a set of individual companies to work closely together in order to manage the flow of goods in the value-chain. This makes it possible for smaller firms to compete together favorably against large and integrated companies. (Anderson, Håkansson & Johanson, 1994)

Conceptually and managerially, these developments in business practice can be made by moving from dyadic business relationships to business networks. Anderson, Håkansson and Johanson (1994) argue that if there are advantages in the business networks, beyond the sum of the dyadic relations, it must be because the dyadic relationships have connectedness with other relationships as well.

Dyadic relations between two companies do not operate in isolation in business markets, but are rather in contact to one another, forming connected business networks (Achrol, Reve & Stern 1983, as cited in Blankenburg Holm, Eriksson & Johanson, 2009). This dyadic relationship should rather be considered to work inside a direct exchange network that is surrounding this dyad. Cook and Emerson (1978, as cited in Blankenburg Holm, Eriksson & Johanson, 2009) suggest that the social exchange between two firms in a dyad, can be used when analyzing cooperation in the whole business network.

One way to describe a business network is to refer to it as the "set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors" (Blankenburg Holm, Eriksson & Johanson, 2009). Moreover, these two or more connected relationships can be indirectly or directly in connection with other relationships, as a part of a larger business network (Anderson, Håkansson & Johanson, 1994).

2.4 The Network model

According to Ford and Håkansson (2002), a business network is a complex business market. Different business units – service and manufacturing companies, and the relationships that they have – form a related network to each other. These different parties have knowledge and resources in different forms that lead to complex adaptations and interactions between the companies. Instead of being separated
and individual transactions between two companies, each unique resource is involved with many other parties through relationships that the companies have.

The assumption that suppliers and customers should be engaged in long-lasting relationships - that are considered valuable for their businesses - has been an interesting topic for the last two decades. These long-lasting relationships become important for a company because the largest part of the purchases a company makes, comes from a limited number of suppliers. They form a basis for the competence development of the company, and also ensure effective marketing and sourcing (Forsgren, 2013, p. 107-108)

A company expanding abroad needs to have knowledge about the foreign market because. Not only because the relevant business network is important for the company’s performance, it is also difficult for an outsider to get access to it or imitate how it works. A company must have a sufficient understanding of the foreign business network - that is relevant for their activities - and how it operates. In addition, the expanding company should get to know who the important actors are in the new network and how they are related to each other. (Forsgren, 2013, p. 109)

Empirical studies, conducted by Coviello and Munro (1995, 1997, as cited in Johanson & Vahlne, 2009), have established that business network relationships have great influences on the selection of foreign markets, as well as the mode of entry in the basis of the network processes. In addition, as these relationships develop between firms, experiential knowledge is gathered where the businesses learn more and more about the capabilities and resources of their partners, and this way increase their commitment to the relationship. Moreover, because these networks have great impacts as far as firms’ entry and success in the international market is concerned, there is also the need to develop the original model further. There is a need to establish the approach of how these networks are created, as well as taking into consideration the network structure in the country or countries which an organization decides to enter. (Johanson & Vahlne, 2009)

According to Hadley and Wilson (2003), generally, the experience that a firm gains from the new market can become relevant knowledge for the firm to use for resolving difficulties or changing habits in the internationalization process. To acquire this kind of invaluable knowledge, the firm may use the international experiences and contacts of other companies - and learn from them. Nonaka (1994,
as cited in Hadley & Wilson, 2003) argues that this is a very important qualifier because, in order to transfer knowledge between parties, the experiential knowledge must be transformed into objective knowledge.

Johanson and Vahlne (2009), argue that to succeed in the new market, a firm must establish one or more networks. Firms’ activities are happening in the context of the relationship - a firm that has established itself in a relevant network or networks, is an “insider”. On the other hand, if a firm has not been able to establish a position in a relevant network, becomes an “outsider” - this way suffering from the liability of foreignness which in turn complicates the way to become the insider.

“We argue that insidership is a necessary but insufficient condition for successful business development” (Johanson & Vahlne, 2009).

The research by Coviello and Munro (as cited in Johanson & Vahlne, 2009), and several other studies show that creating a network or relationships between firms in the foreign production has a very important role in the internationalization process. As Hägg, Johanson and Kogut (as cited in Johanson & Vahlne, 2009) state, knowledge exchange is one of the key advantages of firms’ interaction in the foreign market to create relationships with others in the network. In addition, this Internationalization process opens a door for more opportunities in the market to create a good relationship between firms.

In the network approach, organizations manage to establish relationships in the international markets through the numerous interactions that are maintained by managers of different companies. Some of these interactions are not limited to the relationships between managers of the new organization to the suppliers, customers and other organizations that deal with the same line of products with the new firm. On the other hand, the relationships established by a firm that enters in the foreign country or countries, also contributes to the building of trust as well as the accumulation of knowledge - which also contributes to the development of greater commitments. Precisely, through the interaction with suppliers and customers, new firms get an opportunity to learn new insights concerning the business. Opportunity recognition will help the new organization to exploit them, which enhances it to gain extensive foundation in terms of competitive abilities in the international markets. In addition, since the relationship entails two parties, a mutual commitment is also established. (Johanson & Vahlne, 2009)
Observing figure 2, it can be seen that Johanson and Vahlne (2009) relocated the variables from the Uppsala model to the new network approach. The variables are interconnected and affecting each other in the way that each stage influence the others. The dynamic learning process, trust and commitment are the fundamental descriptions of the model. Incrementing the level of knowledge by a firm may have either positive or negative impacts on building trust and commitment. (Johanson & Vahlne, 2009)

2.4.1 Knowledge/opportunities

A basic assumption of the Uppsala model is that the barrier facing the internationalization of firms is the lack of knowledge about the foreign markets. However, this class of knowledge can be obtained. The firm's own operations are key factors of the tacit eccentric of market knowledge. (Johanson & Vahlne, 1977)

The acquisition of knowledge is mainly being operational in the new environment rather than collecting and analyzing information. In the market operations, firms acquire information in order to be closely connected to the market in such way it is hard to use its resources for other determinations. (Forsgren, 2002)
When firms gain knowledge about the new market, they can easily expand abroad. By this approach, they are able to find various opportunities in the external market. In general, market penetration consists of knowledge about the foreign market and opportunities that are the main elements of the process to be successful in the network. However, sometimes it depends on the country or market abroad - if they are not successful or profitable in the market, firms can choose other connections which can create opportunities to make relationships abroad. (Johanson & Vahlne, 2009)

Currently, the development of information technology has experienced significant changes in the operational firms. The obtainability of information and knowledge makes firms more advantageous and easily able to access foreign markets, influence customers, and create new products. The importance of knowledge within the network context is to explain the internationalization phenomenon of firms that has been highlighted in several studies. Identifying opportunities is an essential element together with learning and committing. Creating robust commitment in the network is the key factor to generate opportunities, which leads to access knowledge. This process is more adaptable to insiders of the network. (Johanson & Vahlne, 2009)

Earlier, Johanson and Vahlne introduced the knowledge gained by the firms in two different spheres: the objective knowledge and the experiential knowledge. While the objective knowledge concerns market methods and statistical tools that can be generalized across markets, the experiential knowledge is much more dominant and regards culture, distributive structures and customers’ characteristics. (Johanson and Vahlne, 2009)

A new firm in the market can acquire knowledge by exchanging resources in its network of relationships that are interconnected to each other. The knowledge gained is the outcome of the interaction between the actors in the sense of user knowledge and producer knowledge. Because knowledge does not come only from a firm’s own activities, but also from the operations of its partners - who also have other relationships with whom the activities are coordinated with - the firm can be indirectly involved in a knowledge creation process that it can not even be recognized straight away. (Johanson and Vahlne, 2009)
2.4.2 Relationship/commitment decisions

Internationalization can be observed from the perspective that it’s a process of building commitments to foreign actions. By doing business in a foreign market, a firm is also increasing its commitment to that market. An organization conducting its business internationally is always increasing its commitment to international business, and especially to those country markets it is already operating in. (Johanson & Vahlne, 2003)

The commitment between companies in a network, through an increased level of knowledge, can be influenced both negatively and positively. It is possible that a firm and/or the firm on other side of the relationship can actually reduce the commitment which may lead to the termination of the whole relationship (Johanson & Vahlne, 2009). According to Silva, Pacheco, Meneses and Brito (2012), by having commitment to the partnership, a firm may well increase its knowledge and this way recognize better business opportunities. Due to this reason, the internationalization process is improved through good partner commitment. Moreover, it is very important to have at least a basic level of experience and relationship commitment between the firms to even start the internationalization process.

According to Johanson and Vahlne (2009), this variable of the Network model has a characteristic that the focal firm in the network can both increase and decrease the stage of its commitment towards one or more firms in that network. This change in the level of commitment to the relationships can best be seen through organizational changes, investments, entry mode changes, and in the amount of dependence between the firms. A change in the commitment either weakens the relationship, or makes it stronger. To make business relationships and to discover good market opportunities, firms need to show their commitment to specific business relationships.

Firms can also use different mediators to make relationships abroad, and using them as a representative or a dealer. In addition, in the process of internationalization, if firms have fewer difficulties on language, culture and business application, or psychic distance to the new market, it can make it easier to improve the relationship commitment decisions. (Johanson & Vahlne, 2009)
Firms frequently consider the market knowledge or information before expanding to the market with full commitment - firms believe that the more knowledge is obtained about the market, the more valuable the relationship commitment decisions are, as it is critical to make relations with others in the market. (Daniels and Krug, 2008, p. 140)

2.4.3 Learning, Creating, Trust-building

To develop a market relationship between firms, the opportunity is the main process of improving the operations. The more firms create different opportunities, the more they develop learning, build trust, and show commitment to the market. To create valuable relationships abroad, firms need to learn or experience from the relationships in the market. Moreover, “The speed, intensity and efficiency of the processes of learning, creating knowledge and building trust depends on the existing body of knowledge, trust and commitment, and particularly to the extent to which the partners find given opportunities appealing.” (Johanson & Vahlne, 2009)

Trust plays a significant role in relationship development within business networks. It is an important element for an effective learning and the gaining of new knowledge. Trust can be a suitable replacement for knowledge, especially when firms lack the essential market knowledge and use a trusted intermediary to perform its foreign affairs (Arenius, 2005, as cited in Johanson & Vahlne, 2009). Additionally, trust involves the ability to expect the counterpart behavior which may develop into commitment depending on the willingness and positive intentions. All in all, the reason behind building a relationship priorly, is the trust which leads to commitment, and then converts to willingness to invest in the relationship. (Johanson and Vahlne, 2009)

In order to make a summary of the focal element in this section, the authors presented the trust as a prominent component that encourages people to take the advantages to share the information, support the building of mutual expectations, and that it’s a remedy for uncertainty.

According to Silva, Pacheco, Meneses and Brito (2012), firms create different networks in the internationalization process that should improve their commitment, and through this interaction, firms can learn and create knowledge. Moreover, when firms show their commitment to the market, they
can easily develop trust. These steps create opportunities through time to have more connections, and firms’ relationships towards others start by expanding through subsidiaries.

2.4.4 Network position

In the Network position, internationalization builds upon a firm’s relationships and network. Whenever firms want to expand in the foreign market, and make a relationship with other actors, it is based on the relationships with others who are committed to build the network through internationalization. If the firms, that are located abroad, have a valuable network with a lot of countries, the firm located in the local country also will want to go after those relationships abroad. (Johanson & Vahlne, 2009)

In a preferable situation, learning, trust-building, and commitment can improve a firm’s position in the network. The internationalization process can be understood as a virtuous circle, and it depends on the network position of a firm. Relationships between firms can act as bridges to international opportunities. If a firm has a good network position - so that it’s connected to multiple companies which have more and different experiences and connections - it also possesses an indirect access to its partners’ knowledge. This way combining the knowledge from the firm’s own experiences (first-hand knowledge) with the knowledge that the partners have (second-hand knowledge), a firm can possess the necessary tools to internationalize. (Silva, Pacheco, Meneses & Brito, 2012)

Regarding figure 2, it is clear that opportunities and knowledge share the same section in the model. It denotes that opportunities represent a subcategory of knowledge. Relationships are all different in terms of knowledge, trust, and commitment, and hence, they differ in how they stimulate an effective internationalization. Moreover, the focal firm will enjoy the partnership and the position in the network based on the allocation of the learning, trust, and commitment in its process. The recognizable change in the new model is that “current activities” has been replaced with “learning, creating and trust building.” (Johanson and Vahlne, 2009)

Additionally, on one hand, the opportunity development is an important dimension in the knowledge creation, and on the other hand, the developing opportunities are critical for any relationship.
Moreover, high level of knowledge, trust and commitment in a relationship result in innovative and efficient process outcomes. (Johanson & Vahlne, 2009)

Furthermore, as Forsgren (2008, p. 103), stated: “the business relationships are developed by investing time and resources in promoting interaction between actors. Such relationship-specific investments may include the adaptation of products, processes and routines”. The indicated model measures the adaptation process of firms via learning and sharing of experience among others in the network activities. The co-operations are risky for firms because of different abilities and division of expertise.

2.5 Business networks in the international software industry

The logical combination and the structural data that is grouped and organized, in order to perform a specific task in computer programs, is called “software” (Sousa, 2004). Different from products in other forms, a software product can be defined as an intangible good, that habitually includes the value in untouchable form (Kittlaus & Clough, 2009, p. 5). In the accounting standard, software is legally categorized as intangible asset and resource in a company. The software is also considered as a “knowledge” factor which is different from the traditional production factors, capital, land and labor (Kittlaus & Clough, 2009, p. 5). According to Sousa (2004), the information technology industry produces software, services, and hardware. These three convergent industries are considered as inseparable because neither hardware nor software can operate on its own, and services are without a doubt required to harmonize the software and hardware in order to fulfill the final user’s need. Software and hardware are thus, inevitably linked to one another (Shapiro & Varian, 1999, p. 232).

Coviello and Munro (1997) describe software developers as firms that can be characterized as service-intensive, knowledge-based, high technology companies. The IT sector - and especially the software segment in it - has had fast and sustainable growth year after year, compared to many other industries (OECD, 2002). When observing the international software market, it can clearly be seen that the United State’s participation and the share of the whole world’s software market is remarkable.
The software firms - which are characterized by innovation - aim to exploit the knowledge that has been developed internally. Thus, they favor hybrid structures that enable them to govern transactions while utilizing business and personal networks (Knight & Liesch, 2016). One of the factors that have facilitated the emergence of software firms, includes the possession of unique and specific resources that allow them to compete in international markets (Gulanowski, Plante & Papadopoulos, 2016). The resources allocated have to be rare, valuable or non-substitutable, narrowing them down to include technological advancements and organizational economies of scale. Another factor characterizing software firms, is the quick international penetration (Torkkeli, Saarenketo, Kuivalainen & Puumalainen, 2016). Moreover, the fact that transport and communication costs have declined due to the presence of internet, makes software firms what they are today. Software firms need to be the producers of knowledge-intensive products. In producing any form of knowledge, software firms ensure the customers make the point to find the suitable product by adapting the offer depending on the customers’ need (Mainela, Puhakka & Servais, 2014).

According to Brinkkemper, Finkelstein and Jansen (2009), software vendors nowadays cannot function independently and produce separate products. Instead, these software companies have become dependent on other vendors in the industry when it comes to vital infrastructures and components, for example platforms, operating systems and component stores. As technology develops at a fast pace, software vendors need to integrate with other companies through alliances to be able to establish business networks of interoperability and influence.

Business networks – established between separate software companies – are called Software Ecosystems (SECOs). The relationships between these software development companies have modified the product software landscape into software ecosystems, where the firms inside the network create competitive value (Jansen & Cusumano, 2012). This is a concept that tries to explain the life and death of software companies. Brinkkemper, Finkelstein and Jansen (2009), define SECO as an informal business network between legally independent software companies that have a positive effect on the economic success of a software product, and also get value out of it:

“Software ecosystem is a set of actors functioning as a unit and interacting with a shared market for software and services, together with the relationships among them. These relationships are frequently underpinned by a common technological platform or market and
operate through the exchange of information, resources and artifacts” (Brinkkemper, Finkelstein & Jansen, 2009)

Usually one or more coordinating firms are managing and steering the software ecosystem, and who get profit when the software ecosystem thrives. These firms often have the control on the “underpinning technology” which is the base of the whole ecosystem. Jansen and Cusumano (2012), define these software coordinators as: “beneficiaries of software ecosystem growth who have instruments available to influence the development of the platform or the surrounding ecosystem.”

Similarly to firms in a value chain of physical products, firms in the software value chain are willing to establish and maintain business relationships on a continuous manner. As the software industry is nowadays split up in different activity stages that are connected, and complement each other through interfaces and middleware, it’s likely that two software producing firms are cooperating in one level, but competing on another. (Jansen & Cusumano, 2012)

An external view of a SECO can be the way to look at the ecosystem’s participants – looking from the outside, the viewer will want to know who the key players or organizations are, and how they act and develop themselves. Another point of view an outsider would appreciate to acknowledge, is the connectedness of the SECO to other SECOs. All the value streams and technology within the SECO, will finally define the external view of a SECO. (Brinkkemper, Finkelstein & Jansen, 2009)

However, a SECO is more than the parts aforementioned. When looking at a SECO from an internal perspective, what points out first, is its structure – the type of, and how many organizations exist in the network, how large they are, and what role do they take. This structure tells how well a SECO operates and responds to changes. Another important characteristic of a good SECO, is the stability it has emerged – it convinces the organizations that the network is there to stay, and that it brings business opportunities for them. This stability can be measured by how faithful the companies in the ecosystem are, and not leaving it. (Brinkkemper, Finkelstein & Jansen, 2009)
3. Methodology

The goal of this thesis is to conduct an in-depth research of how software companies can internationalize their operations outside the domestic market and especially from the SME perspective. Due to the fact that the authors wanted to investigate the nature of the internationalization process, and how to establish new networks in the foreign market, a qualitative approach was chosen. The data analysis of this research is a deductive study. According to Bryman and Bell (2015, p. 24) in the deductive study, researchers collect the data from theoretical concepts or investigations which have been made before and have generated individual findings.

3.1 Qualitative research

The research study in this thesis is based on qualitative data collection. As Bryman & Bell (2015, p. 392), describe, qualitative data collection focuses on words rather than quantification or numbers. Myers (1997) mentioned that, qualitative research contains the applicability of qualitative analysis, such as interviews. The qualitative data in this research paper is collected through primary and secondary interviews. The key findings, introduced below, are presented so that the informants’ answers are mixed to match the same area of subject. To separate the interviews from each other in the findings section, each of them are referred to as “interview protocol” pointing out the interview showing that particular answer.

3.2 Choice of company

Vincit is a finnish software development company founded in 2007 in Tampere, Finland. They have spread their business operations domestically in Finland to Helsinki, Turku and Savonlinna, but have just recently expanded their business abroad as well, to Palo Alto and Orange County, US. Some of the main businesses in Vincit’s customer network includes Logitech, Hesburger (a big hamburger chain in Finland), Vercon, Yepzon, Fastems Oy, and Metso. (Not Another Software Company. (n.d.). Retrieved April 22, 2017, from https://www.vincit.fi/en/#vincit)
The services that Vincit offer to the growing network of B2B customers are:

- Web services and information systems – implementing the customer’s service, all the way from an idea to maintenance,
- Mobile applications – Implementing browser-based HTML5 services and mobile applications for all the leading smartphone platforms, designing the user interfaces and graphics,
- Embedded systems – main area of expertise is Linux-based systems, development of measurement and medical equipment software, and

Vincit’s success stems from the facts of satisfied customers and satisfied employees. According to more than two hundred customer satisfaction surveys: “100% of our customers would recommend Vincit to their colleagues”. (Not Another Software Company. (n.d.). Retrieved April 22, 2017, from https://www.vincit.fi/en/#vincit)

A finnish software company, Vincit, was selected - because of its direct business operations in the US market - as the target of this dissertation. Vincit was chosen because they complied to the following criteria: 1) they have their headquarters in Finland, 2) They have direct business operations in the US market, 2) they do business in the software industry, and 4) they have less than 400 employees in total.

Finland was chosen to be the country of origin for this research study because of its small and very limited domestic market (OECD, 1997). Countries, in which the domestic market is fairly small, long-time survival might make it necessary for a company to pursue internationalization as an important growth strategy (Autio, Sapienza, & Zahra, 2006).

### 3.3 Primary data collection

According to Boyce and Neale (2006, p. 3), a qualitative primary interview can be described as “conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program or situation.” By conducting interviews, the authors were able to interact with the informants to get deeper into the subject through perspectives of real actors
in the area, and to get an understanding of their knowledge and experiences, as well as from the case company as a whole.

The authors of this study have used structured and semi-structured questions when conducting the primary interviews. A semi-structured interview has a set of pre-decided questions, and with this approach, the authors were able to ask follow-up questions as the interview was being conducted to make the answers even more clear and get a wider understanding about the subject. As Brewerton and Millward (2001, p. 70) describe, semi-structured interviews as “incorporate elements of both quantifiable, fixed-choice responding and the facility to explore, and probe in more depth, certain areas of interest”. The semi-structured interviews conducted were three face-to-face interviews done in Tampere, Finland - the head office of Vincit and one interview was done via a video conference call to California, United States - due to the physical distance between Sweden and the United States of America.

According to Brewerton Millward (2001, p.69), “structured interviews involve a prescribed set of questions which the researcher asks in a fixed order, and which generally require the interviewee to respond by selection of one or more fixed options”. The structured interviews were done as email interviews to ask additional and more specific questions regarding this research.

All of the interviews were recorded with the consent of the informants. This way, the authors were able to focus on the answers on spot, as the interviews went on. This was very helpful when it came to enhancing the conversation and ask relevant follow-up questions.

The informants for the interviews were chosen from different divisions/sections of the company to get more different perspectives and a wider understanding - to get a clear, big picture. In total, this case study involved nine interviews from the software company Vincit. The informants from Finland were: 1) sales manager (twice), 2) marketing manager (twice), and 3) software developer. From the office in the United States, the interviewees were: 4) head of international operations (three times) and 5) lead technologist. The informants were all contacted via email in order to organize the date and time that the interviews would be conducted. With these emails, the authors first introduced themselves to the informants, as well as told the aim of the research study being conducted. After the
dates were confirmed, the authors formulated a set of pre-decided questions to be asked in the interviews.

One of the interviews done was a video conference between the authors and the informant in California, United States. With this kind of a video interview, the benefits were the facts that the interview could be done in a totally different geographical area, and that way travel expenses could be avoided, as well as a lot of time was saved. In addition to this, the informant could stay in a familiar environment, which might make the quality of the interview even better.

3.4 Secondary data collection

As Bryman and Bell (2015, p 320) describe, secondary data is collected from others previous research made. The theoretical framework in this research paper is conducted by using secondary data in the forms of scientific articles, books, and websites that other scholars and writers have done earlier. These are mostly found in Google Scholar and from the article database of the Mälardalen University in Sweden. The secondary interview the authors of this research study has used, is conducted by a Finnish company called “Monday”. The interview with Vincit California was found in their vlog channel in YouTube.

3.5 Reliability/Validity

Reliability is the degree to which a determination method finds the equivalent or the comparable result in any time and in any condition. When it comes to validity, it’s the degree to which it presents the factual result (Jerome & Marc, 1986). Both, the face-to-face and the video conference interviews were conducted live, and the questions weren’t sent to the respondents beforehand, so they couldn’t have been prepared their answers – this was done to avoid biased answers. Statistical data were analyzed from verifiable and reliable sources.
4. Findings

This section describes the empirical findings of the case study conducted with Vincit’s informants: sales manager, marketing manager, head of international operations, software developer, and lead technologist. The answers from all the informants are put together and combined under the particular topics they are relating to in order understand the case the best way possible, and the whole situation from different perspectives.

According to the marketing manager, the idea to expand to the US market, and reasons to go there specifically, was more or less just a one guy’s personal idea and Vincit didn’t have anything against it.

“His (the head of international operations) motives are a bit unclear. He claimed that he wanted new challenges but I suspect it is just because the biking weather is a lot better”. (Interview protocol 2, p. 1)

The head of Vincit’s international operations stated, that the reason to expand their operations particularly in California, US, was already evident from the beginning of the decision making process.

“When thinking about schools, business opportunities, innovation, etc. it comes to a point where there’s not that many potential places left to think about. I can’t think of any other than California”. (Interview protocol 3, p. 1)

More reasons that made Vincit to go to the United States and especially California were the new clients and projects (e.g. Logitech) that probably would not have been available in Finland. They were also driven to this new market by their employees’ desires. When asked if Logitech - as an important new partner in their network - was the reason expanding their operations to California, the answer was that they started the office in Palo Alto mainly because of this, but the office in Orange County – formed at the same time - was established because it was easier to find and hire local talent,
and also because, in Silicon Valley, there were dozens of Fortune 500 company headquarters that bring new interesting projects to Vincit easily. (Interview protocol 5, p. 1)

The marketing manager continued that for now the south seems more interesting, especially Los Angeles, where for example Snapchat recently got listed. They see more possibilities in that direction and that it is more interesting because there are a lot of companies and doers (good employees). It is an area under development – with an enthusiastic doing, possibilities are good in the area of Los Angeles.

When asked about the challenges they have faced while expanding abroad, the head of international operations stated that the business was primarily started in the Silicon Valley because of its widely known reputation as a big hub - this was challenging because it was so crowded and busy. A lot of customers could be found there but the doers were missing - they could not find people to hire. Because of these reasons they soon moved towards south from that area to explore some new areas that are not that well known. There have not been a lot of Finnish firms going international, so they did not have other cases to compare with. When asked about getting any kind of support, he said no, and added that there are a lot of consultants offering internationalization services but he feels like they will just steal their money – this is why they have not used any outside sources when it comes to that.

“In the whole history of Vincit, we have not used money on marketing, consulting etc. We have made very moderate investments. We have been self-learning here, more or less. As long as it works, you are learning something.” (Interview protocol 3, p. 1)

The marketing manager stated, that Vincit hasn’t actually taken advantage of the Silicon Valley, as their office is quite a long distance away from it.

“What I understand, it might not be useful, at least for a company like us to shove our way – lack of doers, high costs, high turnover. An unknown brand like us doesn’t have that much possibilities in there.” (Interview protocol 2, p. 3)
When it comes to gaining knowledge about the new market to be entered, the head of international operations stated that they got involved to a GAP (Global Access Program) conducted by MBA students at the University of California who were assigned to do an internationalization plan for Vincit. This program lasted for six months, and during this time the head of international operations made a few travels to California from Finland to participate exhibitions and make new good contacts. Unlike many other firms which desire to internationalize, Vincit did not do a lot of market research or put time into developing strategies.

“We did not really have a business plan at all, we came here fast and started small. We did a lot of work – we still do – with the note that if it fails it fails and then we do something differently. We decided to give it a year and see where we are after that – if we are profitable and people are happy we’ll continue doing it. We did not do the traditional market research or a sales plan”. (Interview protocol 3, p. 2)

When asked about the knowledge and information gained about the new market in the US, the marketing manager stated that Vincit has collected information regarding the new market through an agent and the university of California from an internationalization project of students. In addition to this, the head of international operations travelled there three times to see and look for any networks (e.g. LinkedIn), to find new potential parties to meet up with. He also attended different kinds of events. (Interview protocol 2, p. 1)

As the head of international operations mentioned, the knowledge transfer flow between Vincit and the other companies in the network and market, was very active. Almost every night there is a tech meetup where firms can raise their awareness in the area - Vincit started organizing their own as well, called “Vincit dev talks”. He has also been active in the chamber of commerce which improves networking. (Interview protocol 3, p. 2)

According to the sales manager, Vincit does not exactly coordinate its knowledge flow, but the most important way to transfer information is a chat tool called SLACK where there are channels open for everyone in the organization, and some closed channels which can be started by anyone. There are a few general channels where most of the information flow inside the company happens, not being limited in any means.
“Yesterday I was looking in the chat where they were discussing about documenting travel hours, and about the collective labor agreement we are supposed to use. So, it’s pretty much uncoordinated most of the time.” (Interview protocol 1, p.1)

The sales manager continued that Vincit has a tradition called “The afternoon tea” where some specific topics are gone through such as sales and the view of the employees – the CEO usually attends as well to discuss about the matters. They also have a tool called LAAS from where the employees can order more information about e.g. sales concerning matters.

The software developer added to the gathering of new knowledge the fact that, Vincit can also learn something every now and then from the customer. For example some technical and smart practices that Vincit is not using already, can be applied in the future. (Interview protocol 4, p. 1)

Talking about other business partners, for example having to deal with user interface and such knowledge, Vincit did not have the knowhow in the beginning so they had to outsource it.

“Nowadays a lot of companies need business partners. A firm might be very dependent on them. Now, pretty much everything is found inside our firm except business design and customer service in which we use business partners – and who we are very dependent on.” (Interview protocol 2, p. 1).

When discussing about the relationships, the head of international operations mentioned that they are all working really well, and maintained to be continuous - people are honest, and the communication is good. He describes Vincits position in these relationships stronger and bigger.

“We are a lot different to many companies that are here, regarding our culture, and with the almost limitless trust to employees – I haven’t seen that here with other companies. We are able to keep the growth and speed – other companies are following us.” (Interview protocol 3, p. 3)
Vincit has already good relations in Finland, but the setting was different in California since Vincit is not as known in that market compared to the Finnish market. As the Head of International Operations said:

“Basically we are here now building relationships to the community.” (Interview protocol 5, p. 1)

When asked about how Vincit develops new business relationships with other companies, the marketing manager answered that at this time, most of the new customer relationships start when a customer contacts them. Moreover, the CEO is invited to speak about Vincit’s culture and management methods to different kinds of events for companies’ executive board or any kind of event – there someone hears about Vincit and becomes interested and then contacts them. This is now a common way to get people to know about Vincit and become their customers. Also they are somewhat known in this industry, thus some customers contact just because of this fact. The listings about great workplace is an example of how Vincit is known. Minor contacts come from when they have shared something in Facebook or LinkedIn. (Interview protocol 1, p.2)

The sales manager mentioned that Vincit wants to keep its projects and relationships ongoing and continuous. Most projects that Vincit is working with, are continuous – starting as a one project but with the cooperation being continued after the project. The system they make for their customer usually also needs ongoing development and new needs are born. They might have one goal to reach at a certain point in a project but usually there’s a lot more to come after this point as well in the “barrel of wishes” and then the project continues. Communication remains with the customer after the project if new needs appear. (Interview 1, p.2).

According to the marketing manager, Vincit is not highly dependent on anyone, not even Logitech, but of course because the unit in California is smaller than the ones in Finland, the impact of one customer is bigger compared to the activities in Finland.

“If Logitech would now say that they wouldn’t buy from us anymore, we wouldn’t have to close the office there, and I’m sure we wouldn’t.” (Interview protocol 2, p. 1).
The sales manager stated that, maintaining the relationships changes a lot from relationship to another. The project leader handling the project is responsible for the customer and towards what way the relationship is going, is autonomously on his hands.

“There’s a lot of variance on how the situations are handled.” (Interview protocol 1, p.3).

On a project level, the interviewed software developer got deeper in the relationship subject. When asked how the relationships are really maintained and kept good and strong, he said that it comes to the leader inside that specific project group to decide how, and how well the relationship is handled, and also to make sure that the customer stays all and all satisfied.

“There are continuous conversations between Vincit and the customer company. Sometimes the customer might say something that they want which in fact isn’t the thing they really need.” (Interview protocol 4, p. 1)

The software developer continued that Vincit creates the product in small parts – they want to get feedback on the way so they know the customer is getting the best possible product, and so they can enhance their performance all the time. They want to have the customer involved as much as possible. At least once a month, Vincit asks for the customer’s opinion and keeps them “on the map” of what is going on. On a daily level, there is a 15 minute video conference where the progress of the project is discussed, and if there are any questions from each side, they can be asked in this video conference.

When questioned about the kinds of services that Vincit gives on top of the software product, the sales manager was struggling with his answer. He said that the knowledge and knowhow at Vincit is very wide, and that one division knows a lot about the technology and the other division for example about all kinds of systems, Microsoft share point etc. which are used by many companies. This way they can integrate into any system. In need, they offer maintenance and support services however it is very minor.

“I don’t think that it has been a relevant factor for the customer satisfaction. More like it comes from a good service and reacting to problems that occur in these projects.” (Interview protocol 1, p.1)
The marketing manager continued that vincit is always dependent on their customer’s knowhow because they are developing a system for their business model. They do not have the understanding about their business.

“We couldn’t do anything for them if the customer wouldn’t be involved in the process to give the necessary information – that way we are dependent on the information”. (Interview protocol 2, p. 1)

The head of international operations continued speaking about the differences of doing business compared to other firms, and mentioned that a lot of other firms are part of a certain industry that they are working for, e.g. healthcare or media. However, Vincit is not operating like that – it simply wants to work with interesting firms and projects. When asked how independent Vincit is in terms of having the possibility to choose its own customers, he stated that it cannot be a good place to work if you do not choose your customers, and there needs to be passion to create new things, but in the end he also added:

“But I don’t want to be too arrogant because eventually, it’s the customers that pay our existence.” (Interview protocol 3, p. 3)

The marketing manager continued talking about how the US market looks like for vincit.

“We have started there in summer 2016, and it looks like there is a good possibility to succeed, market is certainly bigger than in Finland. I don’t think it’s a goldmine. It’s quite hard to find good doers, the customers have a lot of companies to choose from. How long and how big, no one has thought about it”. (Interview protocol 2, p. 1)
5. Discussion

In this section, the Network model is further discussed to elaborate on the empirical findings relevant to this case study. The analysis of the interviews and other sources of information, such as the literature, interactive videos and other educational materials, that were collected and reviewed during this study, allowed the authors of this paper to make some important conclusions, which are reported in this part. This discussion is divided into four parts that all come from the Network model consisting of 1) knowledge/opportunities, 2) relationship/commitment decisions, 3) learning, creating, trust-building, and 4) network position. The reason for this type of structure is to start discussing the main elements of the Network model that lead to the final part of the firm’s real network position. Presenting some statistical information will add a realistic insight of the situational software business nowadays, especially when it comes to Finnish software firms expanding to the US market.

Software firms are very dynamic and growing at a fast pace across the world, displaying new opportunities for actors in the software market progressively. The software company Vincit has started the initial steps to discover business opportunities in the US market which is a good atmosphere to launch its operations. According to Selectusa (2015), the finnish Foreign Direct Investment (FDI) in United States has reached 13 billion US Dollars in 2014, and supporting directly 25,400 jobs which is the number of US Workers employed by finnish-owned firms. In Addition, and regarding to the finnish FDI in USA, the finnish software industry has been classified the second industry sector in the United States after the Industrial machinery in terms of FDI (Selectusa, 2015).

Regarding the previous statistics, the volume of the software industry, created by finnish firms, is obvious, and the numbers show the positive contribution of the finnish software firms into the US gross domestic product. Moreover, and according to the findings, United States is placed on the top of the most advanced software and information technology (IT) services industry in the world. More than 30 percent of the 3.8 trillion dollars in global software and IT market is in the United States. This sector contributes 7.1 percent of the US GDP and 11.6 percent of the US private job sector. Actually,
there are more than 100,000 software and IT firms in the US, and 99 percent of them are SMEs. (Selectusa, 2015)

All in all, the US software market attracts firms in general, and for Finnish companies especially. The Finnish industry has increased by 20.6 percent. The gaming sector - which belongs to the software industry - has acquired two thirds of the growth. The Finnish software industry has a cluster of firms which are well positioned to exploit the prospects of marketing and delivery channels as well as the opportunities provided in general by the consumers of information technology. (Finnish software Industry Survey, 2015)

The software market in Finland is still small, and the number of large companies there remains limited. Therefore, the software firms in Finland are expanding more to the international markets looking for sales opportunities. (Export.gov, 2016)

5.1 Knowledge/Opportunities

One of the most persistent parts of the case company Vincit is the knowledge which is characterized into two fragments in this segment in order to understand its nature. The difference is made between the knowledge gained through processes within the firm’s walls and the knowledge collected outside its frontiers. The knowledge built inside the firm is considered internal knowledge, and has its origins in practical activities and specific context inside the firm and may be idiosyncratic. The internal knowledge can be developed through the adoption of several factors within the firm as knowledge mastered by well trained and skilled employees. They contribute directly to enrich the firm’s experience by adapting their knowledge to create the intangible product, a software solution. Vincits internal knowledge is illustrated in logical, diagnostic, and systematic scope that is solidly based on the dependence of codified knowledge as a basis for its competitive advantage. In other words, Vincits essential assets are the employees who mainly use their specific knowledge in the software world to perform and exchange intangible product into solutions for its customers.
Another type of knowledge which is considered critical in this case study, is the experiential knowledge. This knowledge is much more dominant because it touches the environment where the focal firm desires to expand both locally and internationally. It deals mainly with culture, learning from the market where the insider firms already exist. Regarding Vincits age - which is still young in the US market, it just established an office a little more than six months before this research was conducted. According to the interviews, the informants mentioned something that could be interpreted as the lack of the experiential knowledge. Thus, the absence of this knowledge overprinted the character of Vincits trajectory in California. Resulting from this situation, the company may suffer the liability of foreignness which can lead to turning them down from other actors who are characterized as insiders in the network. Those actors represents the bundle of customers, local agencies and other competitors.

To overcome this situation, Vincit may create new knowledge through exchanges in its network of interconnected relationships. It could probably use the dyadic relationship with Logitech that has already been enhanced in Finland to bridge its network in US market. Because the knowledge does not occur only on the firm side, but also from the activities of the partner, it will be costless, timeless and beneficial for Vincit to access Logitech’s network in the US rather than to create its own. The reason for this is Logitech being considered a strong and well-known brand in the software-hardware world, and it has already based its activities not only in the US but in most countries in the world. It has built several relationship partners with whom their businesses are interconnected and coordinated. Vincit will be indirectly involved in knowledge creation through Logitech’s network that extends beyond its scope. Thus, the liability of foreignness of Vincit in the host country will be reduced, and probably will soon enjoy the quality of being an insider in the US market.

All in all, the knowledge created inside the company box enhances the capacity of the firm to create value, which is directly related to the quality of the product offered. Establishing a relationship is the key factor to transit the internal knowledge outside its stage, which assists the firm’s product/service to be used or sold internationally. According to the statistical information presented above, it displays the volume of contribution by the Finnish software industry in the United States market. Indeed, this volume can be translated into opportunities which enable Finnish firms to take part of it. Vincit is one of the SMEs that sees opportunities of development in the US. The opportunity can be risky and can somehow influence the commitment decisions and current activities. Other studies show that the role
of firm-specific knowledge about external resources is not required to identify opportunities (Barney, 1986, as cited in Johanson & Vahlne, 2009). For Vincit as a software firm, the risk related to opportunity is very reduced, because the firm does not deal with tangible products which requires heavy physical presence as building a production plant or acquiring great financial assets to strengthen its funds - as other types of firms do. The only physical presence that Vincit needs is the well-trained individuals who represent them in California, and can analyze the opportunities and translate into offers. Thus, the risk to take the opportunity is reduced, and the know-how to combine the internal resources together with experiential knowledge will support the firm to reduce even more the risk and to discover more opportunities.

5.2 Relationship/commitment decisions

When the actors in a network are gaining more knowledge, it can influence the commitment both negatively and positively. The commitment between the firms can be reduced, and might end up terminating the whole relationship. Moreover, the commitment is the key factor for building a good relationship. In the case of Vincit, the employees that are working on specific projects with other firms, are interacting with them in a regular basis through different meetings and communications - their goal is to have the customer involved as much as possible. This makes it easier for Vincit to know exactly what the customer really requires - sometimes the customer does not even know what it wants because it does not possess the knowledge that Vincit does, and therefore, through these meetings, Vincits project group can identify the need, customize, and build the final product that the customer really wants for its use. At least once a month, Vincit asks for the customers’ opinion and keeps them aware of what Vincit is developing. On a daily basis, there is a 15 minute video conference in which the project is discussed, and both parties can ask questions if they have any.

Apart from good communication, and making the customers satisfied, Vincit is not using all the possible resources to enhance the relationships even further - to build commitment between them. The findings of this research paper show that Vincits activities are contradicting with the theory from Silva, Pacheco, Meneses and Brito (2012) which states that by having commitment in the partnerships, a firm may well increase its knowledge and this way recognize better business opportunities. Because of this, the internationalization process is improved through good partner commitment. Moreover, it is very important to have at least some level of experience and relationship
commitment between the firms, in order to even start the internationalization process. Vincit has not been using the benefits of being committed to their relationships. From the interviews conducted, it can be seen that Vincit, as an organization, keeps itself very independent and does not rely on its relationships more than is necessary. Previous studies have shown that by further enhancing the relationship, and committing to it, a firm can have way bigger possibilities by expanding the dyadic relationship to a whole new network that the partner already has.

The focal firm in the network can either increase or decrease the level of its commitment towards the other firms. It can be seen through in the amount of dependence between the firms. Changing the commitment affects the relationship immediately and either makes it weaker or stronger. Vincits commitment to the relationships with their customer firms stems from the interesting projects that the customers have for them. Of course, the customer is dependent on what Vincit is creating for them because they do not possess the resources to develop it themselves. On the other hand, according to the interviews conducted, Vincit does not possess that unique knowledge or resources so that it could not be replaced. However, the dependence grows as the project keeps on developing - this can be seen, for example, on the building costs that the customer has to pay in the end. The findings also agree with this theory in the way that the relationships that Vincit has, are alive and get stronger or weaker over time depending how much joint businesses they have. There can be pauses in business which normally will weaken the relationship eventually ceasing it.

In the process of internationalization, if firms have fewer difficulties on language, culture and business application, or psychic distance to the new market, it can make it easier to improve the relationship commitment decisions (Johanson & Vahlne, 2009). For Vincit, the language was not an issue when expanding to the US. They faced however some cultural obstacles in the practical matters but this cannot be seen as affecting the initial purpose of expanding the networks outside of Finland. Therefore, with only a small amount of difficulties, they have managed to improve their relationship commitment decisions without very big problems.

5.3 Learning, creating, trust-building

As Dahlqvist (1998, as cited in Johanson & Vahlne 2006) describes: "An important part of the interaction in a relationship concerns learning about each other, but more so to identify opportunities
for improving the business of the two partners, that is to create new knowledge.” Our findings suggest that for Vincit, having knowledge about their partners is one of the key elements of developing relationships in the market. Vincits knowledge and learning capabilities come from different working positions and experience in interaction with other organizations, since its customers also have a positive relationship with them. Customers are always involved in the process of exchanging different ideas and information to develop the learning process. In addition, when Vincit planned to expand abroad for the first time to create a relationship, their knowledge was based on their commitment and trust experienced in the relationship they already had.

Before expanding to the US market, Vincits communication to get information started by attending different activities in the US, and by having a local agent. In addition, those steps made things easier for Vincit in the process of learning, creating and trust-building. Moreover, one of the learning steps was the collected data that local MBA students’ thesis project had about how foreign companies should enter the US market and regarding this project, Vincit was involved to be interviewed by them. Moreover, the data collection is useful for the company to have additional information about the US market, which can be seen as learning, or gaining knowledge to successfully penetrate the market. In addition, Vincits success starts from their employee satisfaction by having limitless trust in them and this will lead them to improve or build trust in the market relationship as well as to create different opportunities abroad.

According to Johanson and Vahlne (2009, as cited in Hosseini & Dadfar, 2012) learning, creating knowledge and trust-building are daily activities of companies and a core of current activities - which build up one of the developing conditions in the model. When it comes to Vincit, the company is always dependent to their customers to build up the daily activities and to develop the process of the business model, it also needs its customers to be involved in the developing process to improve the information flow between the company and the customer.

Moreover as the findings showed, a lot of Vincits activities are continuous and their relationship and communication with customers remains even after the projects which shows that the interaction to build trust towards its customers is developing a relationship with them. In addition, the customers willingness to come back and contact the company again increases and they becomea very interested in the work flow and learning processes of the company.
5.4 Network position

According to Johanson and Vahlne (2009), internationalization builds upon a firm’s relationships and network. The Network approach of the Uppsala model has four main elements in it: knowledge/opportunities, relationship/commitment decisions, learning/creating/trust-building, and network position. The first three are a path towards the last one, the network position. Depending on how well the first three variables of the model are conducted, the final position in the network can differ a lot. As the theory suggests, all these variables in the model can improve a firm’s position in the network. The findings about Vincits actions were in conflict with the theory previously presented. They have not focused to do well on any of those three previously mentioned variables. Vincit is operating very independently in the US market and missing a lot of opportunities because of this.

As Silva, Pacheco, Meneses and Brito (2012) argue, the relationships between companies can act as bridges to international opportunities to get to a good network position where the firm is connected to multiple companies who have more and different experiences and connections - this way the firm also possesses an indirect access to its partners’ knowledge as well. This way combining the knowledge from the firm’s own experiences (first-hand knowledge) with the knowledge that the partners have (second-hand knowledge), a firm can possess the necessary tools to internationalize. Unlike this theory is suggesting, Vincit has not really used its partners in a manner where it would expand the network through them. Vincit has many dyadic relationships between different firms, but it should use these connections to go beyond them and gain benefits from a much broader network. Vincit is trusting heavily on its first-hand knowledge through its own experiences, and not using the valuable asset of the knowledge from other firms in its network.

6. Conclusions

To summarize, Vincit has not been able to get all the possible value from their relationships and network. It is committing and maintaining its existing relationships well, and believing in continuous cooperation, but it has been staying excessively on the dyadic level, instead of benefitting from the networks that its partners already have.
Regarding the findings in this case study about the internationalization of SMEs and the nature of the software firms, the authors presented another alternatives for the case company to discover more efficient internationalization process by applying the Network approach. The variables in the Network model - which are knowledge/opportunities, relationship/commitment decisions, learning/creating/trust-building, and network position - are all relevant factors when it comes to internationalization of a firm. By following these steps, a firm can enhance its actions in the internationalization process. As the findings in this case study are showing, Vincit just expanded its operations to the US market without considering the advantages of having a business plan. Vincit has had some actions complying with the Network model but mostly it has been very independent, and neglecting the variables of the model which adds more value into the internationalization process.

Even though Vincit has succeeded to expand its operations from Finland to California, USA, there would have been ways to improve the internationalization process. All of the three variables in the Network model - that lead to the fourth one, the network position - well executed, would have helped Vincit to gain more knowledge and explore more opportunities that are existing, and probably creating new ones. Also, by committing more to its relationships, would definitely open more doors and possibilities for it. Vincits operations domestically, in Finland, have been very successful. The ignorance of the knowledge gained through interactions with the domestic partners has been one factor holding up its internationalization process.

Internationalization in any industry requires the firms to realize the need for building trust and commitment with other businesses that are their partners and hence, gain a strong network position. An Internationalization model that stresses the importance of creating relationships between businesses that depend on each other, is expected to serve the software industry as well. The building of such relationships will make it necessary for companies in the software industry to open up opportunities in the international markets and hence, growth in their business. However, such relationships are built on knowledge about the interaction in the market between different firms. With the example of the Uppsala business model for internationalization, a domestic firm is able to penetrate in foreign markets by establishing networks with other businesses in the market - a path that will lead to successful expansion.
A dyadic business relationship, as the initial step of developing business networks, involves the knowledge that companies in the software industry do not carry out in their activities in operations. The interaction between two firms can be used to build business operations that are more connected, and can act as a bridge for international expansion. The insiders in foreign countries have knowledge about the market that the outsiders need.

6.1 Limitations

Because of a limited time constraint of ten weeks, this research study is limited to one case company. This allowed the authors to conduct an in-depth study of a particular internationalization case in the field of software business. The focus was on the market entry across the domestic borders. A qualitative approach was chosen in this research study. This could involve certain limitations, but in this particular case, it makes it easier concerning the purpose of this research. In addition, the three interviews conducted in Tampere, Finland were held in finnish. The translation of these interviews could be a limitative factor, but in this case it was seen as a better approach, since the language barrier in english could have been a limitation for the answers received from the finnish informants. Another limitation is concerning the theoretical framework and the focus on the work of Johanson and Vahlne in several sections during the elaboration of this paper. The containment and complete materials of the Uppsala model satisfied the need of the authors to explore the case study.

6.2 Future research

In order to generalize the use of the Network approach of the Uppsala model to the software industry, it’s needed to be applied more to companies in this field. This could be done by conducting in-depth studies of the internationalization processes that software firms are pursuing. The Uppsala model was mainly developed for manufacturing firms - but as this research shows, it can well be applied to other industries as well. But this also indicates the need for future research. The information technology and the software industry, and the use of internet are growing all the time and becoming more relevant in research subjects. Good suggestion for future research is to apply the Uppsala model, and especially the revised version, the Network model, to concern, not only physical but also virtual networks.
References


Jerome, K. & Marc, L.M (1986). Reliability and Validity In Qualitative Research.


Appendices

Appendix 1: Questions for the semi-structured interviews with the sales manager and the marketing manager

Date: 2017-4-18

Form of interview: face-to-face interview

Informant: Sales manager, Marketing manager

1. How does Vincit coordinate their activities and knowledge transfer flow inside the company?
2. What resources does Vincit have in its operations? Any firm-specific-advantages compared to competitors?
3. Do you have general products or are they usually customized for each customer?
4. What kind of service does Vincit give to its customers on top of the products and projects?
5. Which one is more important for Vincit at the moment: the products or the customer relationships so far? Has this changed over time?
6. How does Vincit go into new business relationships with other companies? One time deal or a continuous business relationship?
7. What has Vincit learned about other companies through business relationships with them? (E.g. competence and behavior) Has this information affected interdependence from Vincit’s or customer’s side?
8. Are the relationships more formal or informal?
9. How is Vincit maintaining the relationships?
10. Before going to the United States, did Vincit try to expand to Nordic countries or Europe first? Middlemen?
11. Where did the idea to expand to the US come from? Why did Vincit go to that market specifically?
12. Has Vincit taken advantage of the Silicon Valley?
13. How has Vincit tried to enhance their brand name in the US market?
14. How did Vincit collect information about the new market?
15. How does the US market look like for Vincit? (In the sense of growth and new possibilities)
16. Did Vincit have customers in the US before the office was started?
17. Is Vincit an independent actor or dependent on others?
Appendix 2: Questions for the semi-structured interview with the software developer

**Date:** 2017-4-18  
**Form of interview:** face-to-face interview  
**Informant:** Software developer

1. How is a relationship maintained in the project level?  
2. What kind of information/knowledge exchange is there?

Appendix 3: Questions for the semi-structured video interview with the head of international operations  

**Date:** 2017-4-25  
**Form of interview:** face-to-face video interview  
**Informant:** Head of international operations

Where did the idea to start the business in the US come from?  
What were the challenges when going to a new foreign market?  
Before entering, how did Vincit gain knowledge about the new foreign market?  
Was the knowledge gained internal which you have studied yourself or did it come from being in the market and interacting with other actors in the market?  
How was the knowledge transfer flow between Vincit and the other companies during the internationalization process?  
How do you see the possibilities in the US market?  
Is there a specific company that Vincit feels comfortable to work with in the US?  
How many projects has Vincit started with MNEs in the US?  
Has there been evolving relationships with these companies? Continuous work? Relationship building?  
What is Vincit’s position in these relationships? (Strong/weak)  
Is there a focal firm in the software industry in US that Vincit tries to follow?  
What is/was the degree of Vincit’s penetration in the US market compared to competitors in the same area?
Is Vincit independent in terms of taking initiative and having the possibility of choosing its customers?

Appendix 4: Questions for the structured interviews with the sales manager and the head of international operations

Date: 2017-5-12

Form of interview: e-mail interview

Informant: Sales manager, Head of international operations

1. What is the level of commitment between Vincit and other companies in the network? If there’s a lot commitment, does it create some kind of dependency between the parties?
2. Has the commitment changed (decreased, increased) in some of the relationships? How can it be seen? Did the relationship become stronger or weaker?
3. How committed is Vincit about the new operations in California?
4. Has committing into a specific relationship brought Vincit some new knowledge or good opportunities?
5. How is Vincit building trust towards other firms in the network?
6. Has creating trust towards another company opened new possibilities to gain knowledge or learn something new?
7. How is Vincit acquiring new knowledge about the new market?
8. What has Vincit learned about improving knowledge about the software market?
9. How important is the new knowledge gained?